



IOOF

IOOF Holdings Ltd

ABN 49 100 103 722

30 June 2020

Annual Financial Report

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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
Mr Allan Griffiths B.Bus, DipLI. Independent Non-Executive Director and Chairman Director since 2014	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. 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.
Mr Renato Mota BComm(Hons), B.Bus Chief Executive Officer and Managing Director	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.
Mr Andrew Bloore Independent Non-Executive Director Director since 2 September 2019	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. Mr Bloore is a Board Member and a Member of the Group Risk and Compliance, Group Audit, and Group Remuneration Committees.
Name, qualifications and independence status	Experience, special responsibilities, listed and other significant directorships

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Ms Elizabeth Flynn LLB, Grad Dip App Corp Gov, FAICD, FFin, FGIA, FCIS. Independent Non-Executive Director Director since 2015	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. Ms Flynn is Chair of the Group Risk and Compliance Committee, and member of the Group Audit and Group Remuneration and Nomination Committees.
Ms Jane Harvey B.Com, MBA, FCAANZ, FAICD Independent Non-Executive Director Director since 2005 Resigned effective 18 February 2020	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&NZ entities. 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.
Mr John Selak Dip Acc, FCA, FAICD Independent Non-Executive Director Director since 2016	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 Chair of Corsair Capital, a non-executive director of Turosi Food Solutions and the IOOF Foundation. Mr Selak is Chair of the Group Remuneration Committee and a member of Group Nominations, Group Audit and Group Risk and Compliance Committees.
Ms Michelle Somerville B Bus (Accounting), FCA, GAICD, Master Applied Finance Independent Non-Executive Director Director since 1 October 2019	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). Ms Somerville is the Chair of the Group Audit Committee and a member of Group Risk and Compliance Committee.
Mr George Venardos BComm, FCA, FGIA, FAICD, FCIS. Independent Non-Executive Director Director since 2009 Resigned effective 28 November 2019	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. Chair of the Nominations Committee and member of the Group Audit and Remuneration Committees until 10 December 2018.

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

Directors' Report

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.

Operating and financial review

In accordance with current Australian Accounting Standards, the audited financial results of the benefit funds¹ 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

¹ 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.

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	Note	2020	2019
		\$'000	\$'000
Profit attributable to Owners of the Company		146,964	28,560
Discontinued operations	2-2	(88,166)	(58,374)
Profit/(Loss) from continuing operations attributable to Owners of the Company		58,798	(29,814)
<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)
UNPAT from continuing operations		124,046	183,301
UNPAT from discontinued operations		4,788	14,688
UNPAT		128,834	197,989

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

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.

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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:

- Acquisitions of advice businesses to seed the expansion of the employed channel, such as Buyer of Last Resort 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.

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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.

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.

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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 SPS515.

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.

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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.

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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%)
Underlying Profit after Tax	124,046	183,301	(59,255)	(32.3%)

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

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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%)
Underlying Profit after Tax	48,427	59,361	(10,934)	(18.4%)

- 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.

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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%)
Underlying Profit after Tax	58,088	79,388	(21,300)	(26.8%)

- 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.

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%
Underlying Profit after Tax	37,655	35,109	2,546	7.3%

- 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.

Directors' Report

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.

Directors' 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.

Directors' Report

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.

(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.

Directors' Report

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.

Directors' Report

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

	2020	2019	2018	2017	2016
Profit attributable to owners of the Company (\$'000s) ⁽¹⁾	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) ⁽²⁾	121,121	131,653	189,582	159,071	163,573
Dividends per share (cents per share) ⁽²⁾	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) ⁽³⁾	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:

Directors' Report

- \$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.

Directors' Report

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 50 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

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 ⁽¹⁾	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		
	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; Chair from 18 Feb 2020	2	2
A Bloore	Member from 16 Oct 2019	2	2
G Venardos ⁽¹⁾	Member to 28 Nov 2019	0	2

Director	Committee Meetings		
	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 ⁽¹⁾	Member to 28 Nov 2019	0	3

Director	Committee Meetings		
	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

Director	Committee Meetings		
	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; Chair from 30 Apr 2020	5	5
G Venardos ⁽¹⁾	Member to 28 Nov 2019	0	5

⁽¹⁾ Leave of absence from 10 December 2018 until resignation on 28 November 2019.

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

Directors' Report

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
	719,374

Deferred shares	
Vesting date	Number of shares
24-Apr-19	42,020
8-Apr-20	57,592
	99,612

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

Directors' Report

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.

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- 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

Directors' Report

management or decision-making capacity for the IOOF Group, acting as advocate for the IOOF Group or jointly sharing economic risks and rewards.

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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

Remuneration report

(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

Remuneration report

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Remuneration report

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.

Remuneration 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.

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

The following ceased to be KMP during 2020:

D Coulter	Chief Financial Officer Ceased 28 February 2020 ⁽¹⁾
G Riordan	Group General Counsel 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.

Remuneration 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.

	Financial year	Total Fixed Remuneration	Variable		Total value of remuneration received
Name		TFR	STI ⁽¹⁾	LTI ⁽²⁾	
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⁽³⁾	2020	550,000	-	102,502	652,502
	2019	295,192	-	-	295,192
KMP appointed during 2020					
D Chalmers⁽⁴⁾	2020	215,385	-	-	215,385
D Whereat⁽⁵⁾	2020	211,541	-	-	211,541
M Oliver⁽⁵⁾	2020	219,286	-	-	219,286
A Noble⁽⁶⁾	2020	143,147	-	-	143,147
L Stewart⁽⁷⁾	2020	23,846	-	-	23,846
Former KMP					
D Coulter⁽⁸⁾	2020	320,773	-	185,636	506,409
	2019	474,868	-	68,475	543,343
G Riordan⁽⁸⁾	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

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
NEDs		
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.

Remuneration report

3. Year to 30 June 2021 Key Management Personnel remuneration

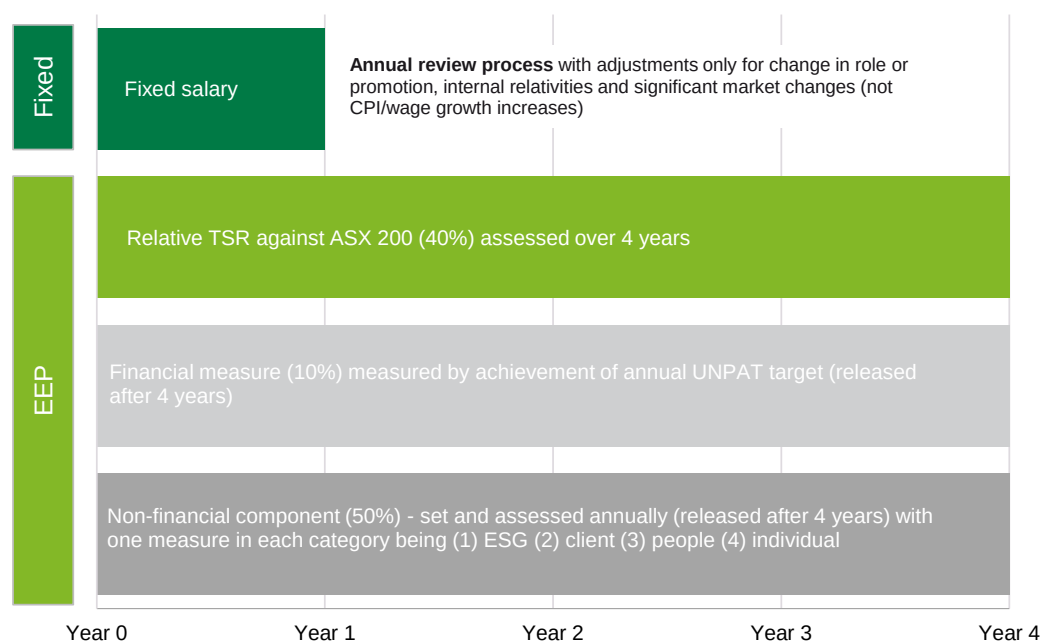
In determining the key objectives of the KMP and Executive reward framework, the Remuneration Committee gave consideration to the following objectives:

Attraction and retention of the best talent	Attract, motivate and retain world-class talent to drive the performance of the Company
Strategy-led and supporting IOOF's purpose	Support our advice-led approach to delivering customer outcomes Emphasis on delivering quality advice Support IOOF's ClientFirst philosophy to deliver a sustainable competitive advantage
Promote a sound risk management culture	Sound management of non-financial and financial risk and individual and collective accountability Meet the expectations of stakeholders in a fast-paced regulatory environment and upholding the highest governance standards
Shareholder alignment	Align outcomes with the shareholder experience through allocation of equity and delivery of shareholder returns Facilitate an 'ownership mindset' and long-term focus among participants
Meeting regulatory and governance expectations and impacts on remuneration	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

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

Remuneration report

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
Variable		
STI		
50% cash. 50% deferred shares, vesting over 2 years, subject to 'look back'. Maximum is 100% of TFR.	STIs are discretionary and determined for each individual KMP based on a balanced scorecard which includes: Customer: Net Promoter Score, Wealth Insights rankings Financial: Total Shareholder Return (TSR), Return on Equity (RoE), underlying profitability Business Excellence: Balance sheet and liquidity initiatives, expense management Strategy: Regulatory adherence, acquisitions, divestment of non-core assets Governance: Risk management, regulatory compliance People and Culture: Action plans from employee Engagement and Alignment survey. Chief Investment Officer - D Farmer only 50% determined based on investment performance relative to relevant composite benchmarks 50% discretionary based on balanced scorecard	Support the financial and strategic direction of the Group, and in turn, translate to shareholder return. Targets for each measure are set by the Board to provide a challenging but purposeful incentive. Individual performance measures are specific to the KMP's role.
LTI		
100% share-based arrangements. 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 50% tenure-based - 3 year vesting period subject to an additional 1 year holding lock	TSR focuses on the delivery of shareholder value. The tenure based LTI element assists the Group to attract and retain quality people and aligns future performance with shareholders' expectations. Incentives to remain with the Group to enhance sustainable performance over the long term.

Remuneration report

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.

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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.

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	15,000	-	50.0%	50.0%
F Lombardo	2018 LTI performance	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	15,000	-	50.0%	50.0%
G Riordan	2018 LTI performance	10,000	-	50.0%	50.0%

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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.

Remuneration report

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

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.

Remuneration report

IOOF Holdings Ltd Board

Group Remuneration Committee

Reviews and makes recommendations to the Board on remuneration policies, to ensure that they support the Group's objectives and comply with regulatory requirements.

Establishment and maintenance of the IOOF Group's Remuneration Framework, including determination of KMP remuneration arrangements, ongoing review of incentive schemes, and assessment of performance against key performance indicators.

Ensuring remuneration policies are appropriate for NEDs, and the ongoing review of the composition, skill base and performance of NEDs.

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

Remuneration report

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	2019/20
(no change to 2019)	IOOF Holdings Board Chair fee \$285,000
	IOOF Holdings Board NED fee \$170,000
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 ⁽⁵⁾	Superannuation	
		\$	\$	\$
A Griffiths ⁽¹⁾	2020	274,499	10,501	285,000
	2019	216,272	17,863	234,135
G Venardos ⁽¹⁾	2020	65,086	7,597	72,683
	2019	239,265	20,531	259,796
J Harvey ⁽²⁾	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 ⁽³⁾	2020	152,185	14,458	166,643
M Somerville ⁽⁴⁾	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.

Remuneration report

Equity holdings of NEDs

Name	Balance as at 1 July 2019 ⁽¹⁾	Changes during the year	Balance as at 30 June 2020 ⁽²⁾	Balance as at report sign-off date ⁽²⁾
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.

Remuneration report

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.

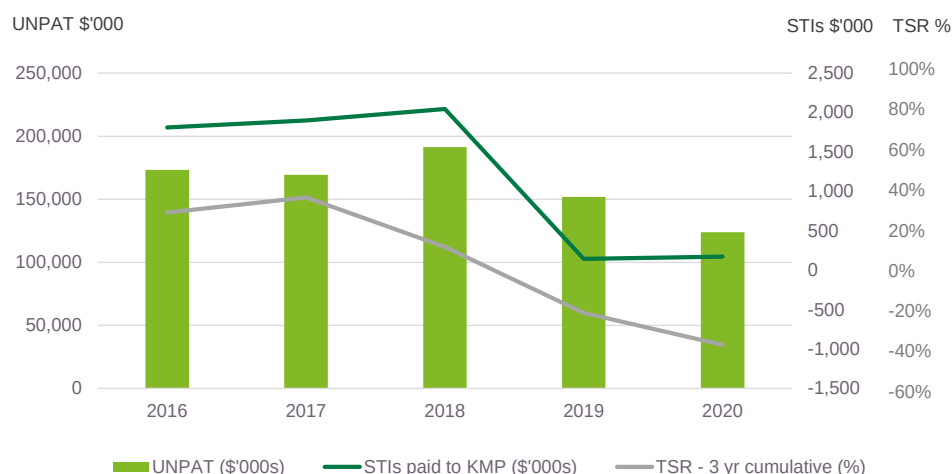
5 year Group performance

	2020	2019	2018	2017	2016
Profitability measures					
Profit attributable to owners of the Company (\$'000s)	146,964	28,560	88,301	115,990	196,846
UNPAT (\$'000s) ⁽¹⁾	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
Share information					
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
Ratios					
Return on equity (non-statutory measure) ⁽²⁾	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%
STIs paid to KMP					
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 6 of the Directors' Report.

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

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.

Remuneration report

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 ⁽²⁾		Termination benefits	Total	Component as a % of total remuneration	
		Salary	Bonus - cash	Non-monetary ⁽¹⁾		Performance rights	Bonus - deferred shares			Fixed	Variable ⁽³⁾
Component of Remuneration		Fixed \$	Variable \$	Fixed \$	Fixed \$	Variable \$	Variable \$	Fixed \$		Fixed %	Variable ⁽³⁾ %
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⁽⁴⁾	2020	528,997	-	-	21,003	227,484	-	-	777,484	71	29
	2019	283,347	-	-	11,845	104,331	-	-	399,523	74	26
KMP appointed during 2020											
D Chalmers⁽⁴⁾	2020	209,730	-	-	5,655	-	-	-	215,385	100	-
D Whereat⁽⁴⁾	2020	203,461	-	2	8,078	17,936	-	-	229,477	92	8
M Oliver⁽⁴⁾	2020	209,392	-	1,008	8,886	17,936	-	-	237,222	92	8
A Noble⁽⁴⁾	2020	132,076	-	-	11,071	-	-	57,212	200,359	100	-
L Stewart⁽⁴⁾	2020	23,038	-	-	808	-	-	-	23,846	100	-
Former KMP											
D Coulter⁽⁴⁾	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⁽⁴⁾	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⁽⁵⁾	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

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 ⁽¹⁾	Balance at 1 July 2019	Granted as compensation	Exercised/ Vested	Forfeited/ Lapsed	Balance at 30 June 2020	Financial year of vesting
KMP										
R Mota	2018 deferred shares ⁽²⁾	30-Jun-18	\$8.58	13,112	13,112	-	-	-	13,112	2021
	2018 deferred shares ⁽²⁾	30-Jun-18	\$8.58	13,112	13,112	-	(13,112)	-	-	2020
	2020 LTI performance rights	17-Dec-19	\$5.90	75,000	-	75,000	-	-	75,000	2022
	2019 LTI performance rights	26-Sep-18	\$4.93	50,000	50,000	-	-	-	50,000	2021
	2018 LTI performance rights	1-Sep-17	\$8.32	30,000	30,000	-	(15,000)	(15,000)	-	2020
Total R Mota					106,224	75,000	(28,112)	(15,000)	138,112	
D Farmer	2018 deferred shares ⁽²⁾	30-Jun-18	\$8.58	6,761	6,761	-	-	-	6,761	2021
	2018 deferred shares ⁽²⁾	30-Jun-18	\$8.58	6,761	6,761	-	(6,761)	-	-	2020
	2020 LTI performance rights	17-Dec-19	\$5.90	25,000	-	25,000	-	-	25,000	2022
	2019 LTI performance rights	26-Sep-18	\$4.93	25,000	25,000	-	-	-	25,000	2021
	2017 LTI performance rights	1-Mar-17	\$5.72	15,000	15,000	-	(7,500)	(7,500)	-	2020
Total D Farmer					53,522	25,000	(14,261)	(7,500)	56,761	
F Lombardo	2018 deferred shares ⁽²⁾⁽⁴⁾	30-Jun-18	\$8.58	11,538	11,538	-	-	-	11,538	2021
	2018 deferred shares ⁽²⁾⁽⁴⁾	30-Jun-18	\$8.58	11,538	11,538	-	(11,538)	-	-	2020
	2020 LTI performance rights	17-Dec-19	\$5.90	44,000	-	44,000	-	-	44,000	2022
	2019 LTI performance rights ⁽⁴⁾	26-Sep-18	\$4.93	44,000	44,000	-	-	-	44,000	2021
	2018 LTI performance rights	1-Sep-17	\$8.32	30,000	30,000	-	(15,000)	(15,000)	-	2020
Total F Lombardo					97,076	44,000	(26,538)	(15,000)	99,538	
D Whereat	2020 LTI performance rights ⁽⁴⁾	17-Dec-19	\$5.90	10,000	-	10,000	-	-	10,000	2022
	2019 LTI performance rights ⁽⁴⁾	26-Sep-18	\$4.93	10,000	10,000	-	-	-	10,000	2021
Total D Whereat					10,000	10,000	-	-	20,000	
M Oliver	2020 LTI performance rights ⁽⁴⁾	17-Dec-19	\$5.90	10,000	-	10,000	-	-	10,000	2022
	2019 LTI performance rights ⁽⁴⁾	26-Sep-18	\$4.93	10,000	10,000	-	-	-	10,000	2021
Total M Oliver					10,000	10,000	-	-	20,000	

Continued on next page.

Remuneration report

Name	Type of instrument	Grant date	Fair value per right at grant date	Number granted ⁽¹⁾	Balance at 1 July 2019	Granted as compensation	Exercised/ Vested	Forfeited/ Lapsed	Balance at 30 June 2020	Financial year of vesting
Former KMP										
D Coulter	2018 deferred shares ⁽²⁾	30-Jun-18	\$8.58	13,112	13,112	-	-	-	13,112	2021
	2018 deferred shares ⁽²⁾	30-Jun-18	\$8.58	13,112	13,112	-	(13,112)	-	-	2020
	2019 LTI performance rights	26-Sep-18	\$4.93	50,000	50,000	-	-	(50,000)	-	2021
	2018 LTI performance rights	1-Sep-17	\$8.32	30,000	30,000	-	(15,000)	(15,000)	-	2020
Total D Coulter					106,224	-	(28,112)	(65,000)	13,112	
G Riordan	2018 deferred shares ⁽²⁾	30-Jun-18	\$8.58	8,324	8,324	-	-	-	8,324	2021
	2018 deferred shares ⁽²⁾	30-Jun-18	\$8.58	8,324	8,324	-	(8,324)	-	-	2020
	2019 LTI performance rights	26-Sep-18	\$4.93	30,000	30,000	-	-	-	30,000	2021
	2018 LTI performance rights	1-Sep-17	\$8.32	20,000	20,000	-	(10,000)	(10,000)	-	2020
Total G Riordan					66,648	-	(18,324)	(10,000)	38,324	
Total KMP					449,694	164,000	(115,347)	(112,500)	385,847	

⁽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.

Remuneration report

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

Ordinary shares ⁽¹⁾		Balance at 1 July 2019 No.	Received on vesting of performance rights ⁽⁴⁾ No.	Net other change No.	Balance at 30 June 2020 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⁽²⁾	2020	-	19,038	-	19,038
	2019	-	-	-	-
KMP appointed during 2020					
D Chalmers⁽²⁾	2020	-	-	-	-
D Whereat⁽²⁾	2020	-	-	-	-
M Oliver⁽²⁾	2020	-	-	-	-
A Noble⁽²⁾⁽³⁾	2020	-	-	-	-
L Stewart⁽²⁾	2020	-	-	-	-
Former KMP					
D Coulter⁽³⁾	2020	300,971	28,112	-	329,083
	2019	293,471	7,500	-	300,971
G Riordan⁽³⁾	2020	72,500	23,324	-	95,824
	2019	65,000	7,500	-	72,500
C Kelaher⁽³⁾	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.

Remuneration report

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 57 to 132 and the Remuneration Report, set out on pages 26 to 48 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.

A small, stylized blue KPMG logo.

KPMG

A handwritten signature in blue ink, appearing to read 'Chris Wooden'.

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
A key audit matter for us was the Group's testing of goodwill and intangible assets for impairment, given the: • Size of the balance (being 38% and 8% of total assets respectively); and • 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. We focussed on the significant forward-looking assumptions the Group applied in their value in use models, including: • 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. • 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.	Working with our valuation specialists, our procedures included: • 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. • We assessed the integrity of the value in use models used, including the accuracy of the underlying calculation formulas. • We met with management to understand the impact of COVID-19 on the Group's FY20 results and related forecasts. • 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. • 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. • We assessed the accuracy of previous Group forecasts to inform our evaluation of forecasts incorporated in the models. • 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

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. We involved valuation specialists to supplement our senior audit team members in assessing this key audit matter.	impairment and to focus our further procedures. • 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.
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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
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: • The existence of a present legal or constructive obligation as a basis for recognition of a provision against the criteria in the accounting standards. • 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. • The potential for legal proceedings and external reviews leading to a wider range of estimation outcomes for us to consider. 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	Working with our regulatory specialists, our procedures included: • We obtained an understanding of the Group's process for identifying and assessing the potential impact of the ongoing reviews into client remediation activities. • We assessed the integrity of the model used, including the accuracy of the underlying calculation formulas • We inquired with the Group regarding ongoing reviews into other remediation activities. • 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. • We inspected correspondence with regulatory bodies and reports from external consultants provided to the Group. • 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

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. We involved regulatory specialists to supplement our senior audit team members in assessing this key audit matter.	assumptions including expected average remediation payments and related costs. • We tested a sample of customer files to assess the accuracy of the Group's expected number of affected customers included in the provisions. • 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. • 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.
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Information Technology related controls	
The key audit matter	How the matter was addressed in our audit
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. We involved IT specialists to supplement our senior audit team members in assessing this key audit matter.	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: • 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. • Segregation of duties control operation: Sample tested key automated controls designed to enforce segregation of duties. • 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.

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. 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
Statutory fund			
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		-	-
Profit/(Loss) for the year from continuing operations		58,629	(29,993)
Discontinued operations			
Profit/(Loss) for the year from discontinued operations	2-2	89,776	63,400
Profit for the year		148,405	33,407
Other comprehensive income			
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
Total comprehensive income for the year		215,321	38,915
Profit attributable to:			
Owners of the Company		146,964	28,560
Non-controlling interest		1,441	4,847
Profit for the year		148,405	33,407
Total comprehensive income attributable to:			
Owners of the Company		213,880	34,068
Non-controlling interest		1,441	4,847
Total comprehensive income for the year		215,321	38,915
Earnings per share - continuing and discontinued operations:			
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
Earnings per share - continuing operations:			
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 62 to 132.

*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
Assets			
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
Total assets		4,258,666	3,705,247
Liabilities			
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
Total liabilities		2,515,403	2,048,390
Net assets		1,743,263	1,656,857
Equity			
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
Total equity		1,743,263	1,656,857

Notes to the consolidated financial statements are included on pages 62 to 132.

*Restated – refer to note 2-2.

Consolidated statement of changes in equity

For the year ended 30 June 2020

For the year ended 30 June 2020	Ordinary shares	Treasury shares	Reserves	Accumulated losses	Total	Non-controlling interest	Total 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
Total comprehensive income for the year							
Profit for the year attributable to owners of the Company	-	-	-	146,964	146,964	1,441	148,405
Other comprehensive income for the year, net of income tax	-	-	66,916	-	66,916	-	66,916
Total comprehensive income for the year	-	-	66,916	146,964	213,880	1,441	215,321
Transactions with owners, recorded directly in equity							
<i>Contributions by and (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-settled benefits reserve on exercise of performance rights	2,715	-	(2,715)	-	-	-	-
Treasury shares transferred to recipients during the year	(2,867)	2,867	-	-	-	-	-
Transfer of lapsed performance rights to retained earnings	-	-	(1,086)	1,086	-	-	-
Divestment of non-controlling interest	-	-	-	-	-	(9,317)	(9,317)
Total transactions with owners	(152)	2,867	(869)	(121,428)	(119,582)	(9,333)	(128,915)
Balance at 30 June 2020	1,970,847	(5,023)	91,272	(313,604)	1,743,492	(229)	1,743,263

Notes to the consolidated financial statements are included on pages 62 to 132.

Consolidated statement of changes in equity

For the year ended 30 June 2020

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

Notes to the consolidated financial statements are included on pages 62 to 132.

Consolidated statement of cash flows

For the year ended 30 June 2020

		2020	2019
	Note	\$'000	\$'000
Cash flows from operating activities			
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
Cash flows from investing activities			
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)
Cash flows from financing activities			
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
Net increase/(decrease) in cash and cash equivalents		262,390	(13,245)
Cash and cash equivalents at the beginning of year		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)
Cash and cash equivalents at the end of year		374,730	97,442

Notes to the consolidated financial statements are included on pages 62 to 132.

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.

Notes to the financial statements

For the year ended 30 June 2020

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.

Notes to the financial statements

For the year ended 30 June 2020

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)
Carrying value at 30 June	420	585
Ageing of trade receivables that were not impaired at 30 June		
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
	79,234	48,823
Trade receivables past due but not impaired	9,786	2,873

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.

Notes to the financial statements

For the year ended 30 June 2020

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.

Notes to the financial statements

For the year ended 30 June 2020

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
Financial liabilities							
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 ⁽¹⁾	139,427	76,347	215,774	139,427	76,347	-	215,774
IOOF adviser remediation provision - corporate ⁽¹⁾	81,492	135,408	216,900	81,492	135,408	-	216,900
Ex-ANZ P&I remediation provision - corporate ⁽¹⁾	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
	1,388,535	687,903	2,076,438	1,388,535	687,903	-	2,076,438
Financial assets available to meet the above financial liabilities							
Financial assets at amortised cost							
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
Fair value through profit or loss							
Unlisted unit trusts - corporate	-	902	902	-	902	-	902
Unlisted unit trusts - statutory	925,257	-	925,257	925,257	-	-	925,257
Equity investments at FVOCI - corporate	-	139,406	139,406	-	-	139,406	139,406
Loans and other receivables							
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
	1,866,643	237,637	2,104,280	1,866,643	97,981	139,656	2,104,280
Net financial assets/(liabilities)	478,108	(450,266)	27,842	478,108	(589,922)	139,656	27,842

⁽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
Financial liabilities							
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
	1,171,912	774,919	1,946,831	1,171,912	658,780	116,139	1,946,831
Financial assets available to meet the above financial liabilities							
Financial assets at amortised cost							
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
Fair value through profit or loss							
Debt note - corporate	800,000	-	800,000	800,000	-	-	800,000
Other financial assets							
Fair value through profit or loss							
Unlisted unit trusts - corporate	-	641	641	-	641	-	641
Unlisted unit trusts - statutory	963,373	-	963,373	963,373	-	-	963,373
Equity investments at FVOCI - corporate	-	41,627	41,627	-	-	41,627	41,627
Loans and other receivables							
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
	2,065,642	207,628	2,273,270	2,065,642	106,076	101,552	2,273,270
Net financial assets/(liabilities)	893,729	(567,290)	326,439	893,729	(552,704)	(14,586)	326,439

Notes to the financial statements

For the year ended 30 June 2020

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.

Notes to the financial statements

For the year ended 30 June 2020

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.

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.

Notes to the financial statements

For the year ended 30 June 2020

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 an 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

Notes to the financial statements

For the year ended 30 June 2020

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

Notes to the financial statements

For the year ended 30 June 2020

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.

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
Financial assets measured at fair value				
FVOCI - corporate	139,406	-	-	139,406
Unlisted unit trusts - corporate	-	902	-	902
Unlisted unit trusts - statutory	-	925,257	-	925,257
	139,406	926,159	-	1,065,565
Financial liabilities measured at fair value				
Contingent consideration - corporate	-	-	6,824	6,824
	-	-	6,824	6,824
30 June 2019				
Financial assets measured at fair value				
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
	41,627	964,014	800,000	1,805,641
Financial liabilities measured at fair value				
Contingent consideration - corporate	-	-	837	837
	-	-	837	837

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.

Notes to the financial statements

For the year ended 30 June 2020

Reconciliation of movements in level 3 financial instruments	Debt note		Contingent consideration	
	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'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)
Closing balance as at 30 June	-	800,000	6,824	837

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.

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.

Notes to the financial statements

For the year ended 30 June 2020

	Financial advice and distribution		Portfolio and estate administration		Investment management		Ex-ANZ wealth management		Ex-ANZ pensions and investments		Corporate and other		Total	
	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000	2020 \$'000	2019* \$'000	2020** \$'000	2019 \$'000	2020 \$'000	2019 \$'000	2020 \$'000	2019 \$'000
Management and service fees revenue	261,893	285,737	382,740	399,260	98,327	95,694	184,148	145,861	165,119	-	-	-	1,092,227	926,552
External other fee revenue	17,278	15,690	8,714	8,427	7,337	7,049	14,837	6,290	2,929	-	242	353	51,337	37,809
Service fees and other direct costs	(192,837)	(195,442)	(88,843)	(96,014)	(36,601)	(36,696)	(198,040)	(139,650)	(49,573)	-	-	401	(565,894)	(467,401)
Deferred acquisition costs	-	(18)	(73)	(155)	-	-	-	-	-	-	-	-	(73)	(173)
Gross Margin	86,334	105,967	302,538	311,518	69,063	66,047	945	12,501	118,475	-	242	754	577,597	496,787
Stockbroking revenue	3,304	4,508	-	-	-	-	-	38	-	-	-	-	3,304	4,546
Stockbroking service fees expense	(1,241)	(1,285)	-	-	-	-	-	-	-	-	-	-	(1,241)	(1,285)
Stockbroking net contribution	2,063	3,223	-	-	-	-	-	38	-	-	-	-	2,063	3,261
Inter-segment revenue ⁽ⁱ⁾	94,142	84,455	7,135	2,689	-	-	19,547	-	167	-	657	137	121,648	87,281
Inter-segment expenses ⁽ⁱ⁾	(3,025)	(2,123)	(98,243)	(82,255)	(2,612)	(2,903)	-	-	(17,768)	-	-	-	(121,648)	(87,281)
Net Operating Revenue	179,514	191,522	211,430	231,952	66,451	63,144	20,492	12,539	100,874	-	899	891	579,660	500,048
Other revenue	3,383	3,978	-	-	-	-	2,899	6,204	600	-	1,014	867	7,896	11,049
Finance income	101	145	-	-	-	-	170	390	10,223	71,987	2,144	5,917	12,638	78,439
Share of profits of associates	(499)	31	-	-	-	-	20	(1)	-	-	-	-	(479)	30
Operating expenditure	(103,572)	(106,863)	(115,005)	(108,932)	(10,537)	(10,698)	(49,875)	(41,725)	(64,031)	-	(41,362)	(39,005)	(384,382)	(307,223)
Share-based payments expense	(998)	(1,749)	(1,085)	(1,903)	(601)	(1,146)	(119)	(14)	-	-	(129)	15	(2,932)	(4,797)
Finance costs	(635)	(15)	(34)	-	-	-	(19)	(49)	(242)	-	(13,329)	(12,817)	(14,259)	(12,881)
Depreciation of property & equipment	(8,692)	(2,571)	(9,488)	(5,082)	(1,262)	(653)	(1,025)	(56)	(2,720)	-	-	-	(23,187)	(8,362)
Amortisation of intangible assets - IT Development	-	-	(812)	(715)	-	-	-	-	-	-	-	-	(812)	(715)
Non-controlling interest	(3)	45	-	-	-	-	172	134	-	-	-	-	169	179
Income tax expense	(20,172)	(25,162)	(26,918)	(35,932)	(16,396)	(15,538)	8,207	7,776	(13,411)	(21,596)	18,424	17,986	(50,266)	(72,466)
UNPAT from continuing operations	48,427	59,361	58,088	79,388	37,655	35,109	(19,078)	(14,802)	31,293	50,391	(32,339)	(26,146)	124,046	183,301
Discontinued operations													4,788	14,688
UNPAT													128,834	197,989

⁽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.

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
Profit attributable to Owners of the Company		146,964	28,560
Discontinued operations	2-2	(88,166)	(58,374)
Profit/(Loss) from continuing operations attributable to Owners of the Company		58,798	(29,814)
<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)
UNPAT from continuing operations		124,046	183,301
UNPAT from discontinued operations		4,788	14,688
UNPAT		128,834	197,989

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*.

Notes to the financial statements

For the year ended 30 June 2020

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.

Notes to the financial statements

For the year ended 30 June 2020

	Year ended 30 June 2020	Year ended 30 June 2019
	\$'000	\$'000
Results of discontinued operations		
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
Profit for the period	89,776	63,400
Profit for the period attributable to:		
Owners of the entity	88,166	58,374
Non-controlling interest	1,610	5,026
Profit for the period	89,776	63,400
Basic earnings per share (cents per share)	25.2	16.5
Diluted earnings per share (cents per share)	25.1	16.5
Cash flows from discontinued operations		
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)
Net cash flow for the period	58,619	(4,974)
Profit for the period from discontinued operations	88,166	58,374
<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
UNPAT from discontinued operations	4,788	14,688

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.

Notes to the financial statements

For the year ended 30 June 2020

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

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
Assets	
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
Total assets	52,474
Liabilities	
Trade payables	7,546
Provisions	19,573
Other liabilities	315
Total liabilities	27,434
Net assets of Ord Minnett business attributable to non-controlling interests	(7,512)
Net assets of Ord Minnett business classified as held for sale	17,528

Notes to the financial statements

For the year ended 30 June 2020

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
<i>Finance income</i>	(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
<i>Other revenue</i>			
Profit on divestment of assets		1,528	368
Other		7,896	11,049
		9,424	11,417
Total revenue		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
Service fees and other direct costs	(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
Operating expenditure			
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
Other expenses			
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
Total expenses		1,067,351	1,091,494

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.

Notes to the financial statements

For the year ended 30 June 2020

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.

Notes to the financial statements

For the year ended 30 June 2020

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.

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.

Notes to the financial statements

For the year ended 30 June 2020

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)
Net cash provided by operating activities	145,432	172,183

Notes to the financial statements

For the year ended 30 June 2020

2-6 Income taxes

	2020	2019
	\$'000	\$'000
Current tax expense		
Current year	42,887	65,058
Adjustment for prior years	(668)	(93)
Taxable losses not recognised	126	47
	42,345	65,012
Deferred tax expense		
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)
Total income tax (benefit)/expense	28,212	(15,589)

Income tax recognised in other comprehensive income	2020 \$'000			2019 \$'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
Reconciliation of effective tax rate				
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)
Tax effect of:				
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)
	32.5%	28,212	34.5%	(15,589)

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

Notes to the financial statements

For the year ended 30 June 2020

	2020	2019
	\$'000	\$'000
Deferred tax assets and liabilities		
Deferred tax asset balance comprises temporary differences attributable to:		
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)
Net deferred tax asset balance as at 30 June	49,738	-
Deferred tax liability balance comprises temporary differences attributable		
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)
Net deferred tax liability balance as at 30 June	-	5,895
Reconciliation of movements		
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)
Carrying amount at the end of the year	49,738	(5,895)
Unrecognised deferred tax assets		
Tax losses	5,325	4,905
Potential tax benefit at the Australian tax rate of 30%	1,598	1,472

*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.

Notes to the financial statements

For the year ended 30 June 2020

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.

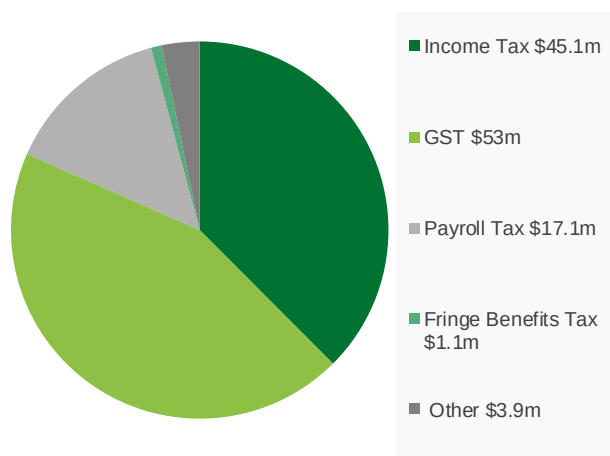
Approach to tax strategy and governance

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.

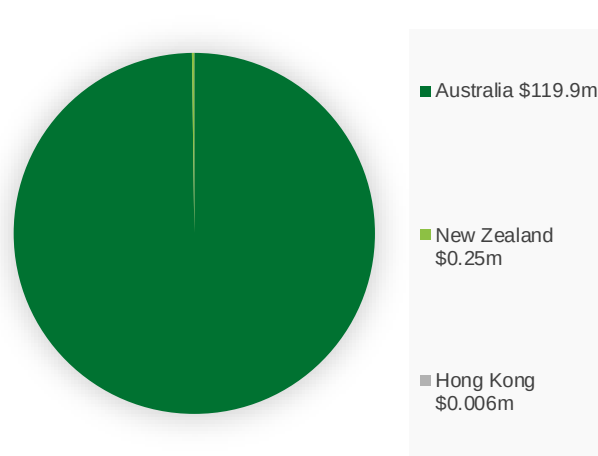
Tax contribution analysis

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.

2020 tax contribution by type (total \$120.2m)



2020 tax contribution by country (\$120.2m)



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).

Notes to the financial statements

For the year ended 30 June 2020

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		
30 per cent franking credits available to shareholders of IOOF Holdings Ltd for subsequent financial years	73,263	93,032

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

- a franking credits that will arise from the payment of the current tax liabilities; and
- b 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		
2020				
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
	35.0	122,876		
2019				
Interim 2019 dividend	25.5	89,524	15-Mar-19	Franked
Final 2018 dividend	27.0	94,791	4-Sep-18	Franked
	52.5	184,315		

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
Basic earnings per share		
From continuing operations	16.8	(8.5)
From discontinued operations	25.2	16.7
Total basic earnings per share	42.0	8.1
Diluted earnings per share		
From continuing operations	16.8	(8.5)
From discontinued operations	25.1	16.6
Total diluted earnings per share	41.9	8.1

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
Earnings used in the calculation of basic and diluted EPS from continuing operations	58,798	(29,814)

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

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.

Notes to the financial statements

For the year ended 30 June 2020

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.

Notes to the financial statements

For the year ended 30 June 2020

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).

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	-
Total 30 June	572,252	426,503

(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
Unused at 30 June	155,000	340,000

Notes to the financial statements

For the year ended 30 June 2020

The financial liability under the facility has a fair value equal to its carrying amount.

	2020	2019
	\$'000	\$'000
Revolving Cash Advance Facility		
Opening balance 1 July	426,503	-
Net borrowings drawn/(repaid)	30,000	430,000
Amortised capitalised establishment fees	1,355	(3,497)
Closing balance 30 June	457,858	426,503

(b) Lease liabilities

	2020	2019
	\$'000	\$'000
Lease liabilities		
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)	-
Closing balance 30 June	114,394	-

(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.

Notes to the financial statements

For the year ended 30 June 2020

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)
	1,965,824	1,963,109

	2020		2019	
	No. '000	\$'000	No. '000	\$'000
Ordinary shares				
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
Treasury shares				
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)
	350,214	1,965,824	349,839	1,963,109

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
Guarantees and underwriting commitments		
Rental bond guarantees	18,267	10,773
ASX settlement bond guarantee	-	500
ASIC bond guarantees	-	40
Other guarantees	382	454
	18,649	11,767

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.

Notes to the financial statements

For the year ended 30 June 2020

3-5 Reserves

	2020	2019
	\$'000	\$'000
Equity investment revaluation reserve ⁽ⁱ⁾	91,300	24,326
Business combinations reserve ⁽ⁱⁱ⁾	(326)	(326)
Foreign currency translation reserve ⁽ⁱⁱⁱ⁾	(27)	30
Operating risk financial reserve ^(iv)	2,655	2,655
Share-based payments reserve ^(v)	(2,330)	(1,460)
	91,272	25,225

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.

Notes to the financial statements

For the year ended 30 June 2020

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
				12,946	21,509	(479)	30

*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
Beneficial ownership interest	0.0%	42.4%
Current assets	-	19,477
Non-current assets	-	8,219
Current liabilities	-	(7,050)
Non-current liabilities	-	(361)
Net assets (100%)	-	20,285
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	-	-
Carrying value of interest in associate	-	6,800
Revenue (100%)	-	24,787
Profit and total comprehensive income (100%)	-	2,258
Profit and total comprehensive income (42.4%)	-	956
Total profit and total comprehensive income (42.4%)	-	956
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.

Notes to the financial statements

For the year ended 30 June 2020

4-2 Intangible assets (other than goodwill)

	2020	2019
	\$'000	\$'000
Cost	667,577	652,248
Accumulated amortisation	(323,619)	(287,541)
	343,958	364,707

	IT develop-ment	Computer software	Customer relationships	Brand names	Other intangibles	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Carrying value at 1 July 2018	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)
Carrying value at 30 June 2019	2,223	3,282	294,284	59,371	5,547	364,707
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)
Carrying value at 30 June 2020	2,901	2,371	265,237	58,570	14,879	343,958

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
	51,500	51,500

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.

Notes to the financial statements

For the year ended 30 June 2020

4-3 Goodwill

	2020	2019
	\$'000	\$'000
Cost	1,693,817	1,030,321
Accumulated impairment	(97,775)	(93,430)
Net carrying value of goodwill	1,596,042	936,891
Carrying value at 1 July	936,891	940,226
Acquisition through business combination	663,495	6,155
Impairment of goodwill	(4,344)	(9,490)
Carrying value at 30 June	1,596,042	936,891

*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
	1,596,042	936,891			

*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 rate²

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 2019³

E Blended rate of the underlying Australian forecast inflation levels and the applicable Reserve Bank of Australia GDP growth rate⁴

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.

² source - RBA Statement of Monetary Policy

³ source - ABS 5655.0 Managed Funds Australia

⁴ source - RBA Statement of Monetary Policy

Notes to the financial statements

For the year ended 30 June 2020

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
	756,314	453,332

	Employee entitlements	Ex-ANZ AL remediation ¹	IOOF AL remediation	Ex-ANZ P&I remediation	Other ²	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)
Balance at 30 June 2020	69,491	215,774	216,900	197,876	56,273	756,314

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,

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For the year ended 30 June 2020

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.

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.

Notes to the financial statements

For the year ended 30 June 2020

4-5 Property and equipment

	2020	2019
	\$'000	\$'000
Cost	217,443	96,142
Accumulated depreciation	(83,000)	(60,132)
	134,443	36,010

	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)
Balance at 30 June 2020	3,026	11,186	20,819	1,529	97,883	134,443

(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.

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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
Right of use assets - premises ¹	97,883	75,998
Lease liabilities - current ²	18,746	8,786
Lease liabilities - non-current ²	95,648	72,964
	114,394	81,750

¹Right of use assets are presented within Property and Equipment in the statement of financial position.

²Lease 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

Notes to the financial statements

For the year ended 30 June 2020

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.

Notes to the financial statements

For the year ended 30 June 2020

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.

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.

Notes to the financial statements

For the year ended 30 June 2020

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:

- Exemption for certain lease arrangements with a short-remaining-term from the date of initial application;
- Discount rates applied to a portfolio of leases with similar characteristics; and
- The exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application.

Notes to the financial statements

For the year ended 30 June 2020

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
Statutory fund revenue		
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
Investment contracts with DPF:		
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
Statutory fund expenses		
Service and marketing fees expense	10,352	9,917
Direct operating expenses	5	5
Investment contracts with DPF:		
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
Statutory fund contribution to profit or loss, net of tax	-	-

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.

Notes to the financial statements

For the year ended 30 June 2020

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
Capital adequacy multiple (%) (a) / (b)	226%	221%
Capital Base comprises:		
Net Assets	15,083	16,027
Regulatory adjustment applied in calculation of Tier 1 capital	-	-
(A) Common Equity Tier 1 Capital	15,083	16,027
(B) Total Additional Tier 1 Capital	-	-
Tier 2 Capital	-	-
Regulatory adjustment applied in calculation of Tier 2 capital	-	-
(C) Total Tier 2 Capital	-	-
Total capital base	15,083	16,027

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
Result of the parent entity		
Profit for the year	160,795	165,610
Total comprehensive income for the year	160,795	165,610
Financial position of parent entity at year end		
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
Total equity of the parent entity comprising of:		
Share capital	1,970,847	1,970,999
Share-based payments reserve	1,908	2,777
Retained earnings	40,298	1,294
Total equity	2,013,053	1,975,070

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
Guarantees and underwriting commitments		
Rental bond guarantees	1,621	3,977

Notes to the financial statements

For the year ended 30 June 2020

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
Exercisable at 30 June 2020	-	-	-

Notes to the financial statements

For the year ended 30 June 2020

Disclosure of share-based payment plans

Series - Recipient	Exercise price	Opening balance 1 July 2019	Granted	Forfeited or lapsed	Exercised	Closing balance 30 June 2020
Performance rights						
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
Deferred shares						
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
		1,197,707	755,714	(303,242)	(629,728)	1,020,451

*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%

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For the year ended 30 June 2020

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.

Notes to the financial statements

For the year ended 30 June 2020

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.

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.

Notes to the financial statements

For the year ended 30 June 2020

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
		%	%
Parent entity			
IOOF Holdings Ltd	Australia		
Material subsidiaries			
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	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.

Notes to the financial statements

For the year ended 30 June 2020

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
Consideration transferred		
Cash	810,209	23,000
Deferred consideration	-	2,128
Total consideration	810,209	25,128
Cash balances acquired	(214,048)	(24,240)
Consideration, net of cash acquired	596,161	888

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)
Total identifiable net assets acquired	150,467	25,048

*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)
Goodwill and intangibles acquired	659,742*	80

*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.

Notes to the financial statements

For the year ended 30 June 2020

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
	\$	\$
Audit services		
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
Other services		
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
	7,695,948	4,842,779

*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
	6,677,789	7,410,687

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
Total	6,677,789	7,410,687

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 1 July 2019	Closing balance 30 June 2020	Interest paid/ payable during year	Highest balance during year
		\$	\$	\$	\$
Interest free loans					
Perennial Value Management Limited	2020	1,944,381	-	-	1,944,381
	2019	2,286,717	1,944,381	-	2,286,717
Interest bearing loans					
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.

Notes to the financial statements

For the year ended 30 June 2020

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.

Notes to the financial statements

For the year ended 30 June 2020

(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.

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

Notes to the financial statements

For the year ended 30 June 2020

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

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For the year ended 30 June 2020

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.

Notes to the financial statements

For the year ended 30 June 2020

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.

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.

Notes to the financial statements

For the year ended 30 June 2020

(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.

Notes to the financial statements

For the year ended 30 June 2020

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	<i>Insurance Contracts</i>
Annual Improvements to IFRS Standards 2015–2017 Cycle	<i>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.

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For the year ended 30 June 2020

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.

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.

Notes to the financial statements

For the year ended 30 June 2020

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.