IOOF Holdings Ltd

ABN 49 100 103 722

31 December 2020

Condensed consolidated interim financial report

Contents

Operating and financial review

About IOOF

IOOF Holdings Ltd (the Company or Parent) is listed in the top 200 on the Australian Securities Exchange (ASX: IFL). The IOOF Group consists of the Company and its subsidiaries and the consolidated Group's interest in its associates. The Group has offices in Melbourne, Sydney, Adelaide, Brisbane, Perth, and Hobart.

At 31 December 2020, Funds Under Management, Administration and Advice (FUMA) were $202.4b, consistent with FUMA of $202.3b at 30 June 2020. This reflects strong uplift due to market performance. Market movements were largely offset by one-off negative movements of $10 billion, including $8.1b from advice due to the changes to external platform arrangements with BT, $1.5b from the liquidation of IOOF's Cash Management Fund, and $0.4b one-off transfer from the Cash Management Trust. Outflows of $1.2b relating to the early release of super also impacted FUMA.

In the opinion of the Directors, aside from matters as disclosed in this half year report, there were no significant changes in the state of affairs of the Group that occurred during the half year under review.

Underlying net profit after tax for the half year was up $4.5m or 7.4% to $65.9m relative to the prior corresponding period (pcp).

Key strategic initiatives

Progress in 1H21 against the Group's key strategic priorities is set out below:

1H21 strategic progress

Advice 2.0

The Advice 2.0 project is focussed on the long term sustainability of the Advice division, an initiative redesigning the Group's Advice division to enable Advisers to deliver even better advice outcomes for their clients. It is looking at how IOOF delivers advice to clients through Employed channels, as well as support services to self-employed and self-licensed advisers. The initiative is addressing the service offers and pricing, support from the Advice division, and the relevant technology and processes underlying the offers.

1H21 progress:

- A new operating structure was announced from 1 September 2020 to convert Bridges to a fully owned and operated network, close the Financial Service Providers licence, and reorganise the self - employed aligned advisers. The aim is to have AFSLs that offer compelling discrete value propositions across each channel providing advisers with choice and reflecting value and risk, and to be profitable without the need for cross-subsidisation.
- The acquisition of Wealth Central to augment the Group's integrated digital ecosystem dramatically changes how clients and advisers interact to ensure goals-based advice is delivered meaningfully. This acquisition creates a unique differentiator and advantage for IOOF's adviser network.

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 deliver the integrated platform for IOOF's proprietary retail, advisory and workplace products and services. The project's objective is to consolidate heritage IOOF's proprietary registry administration platforms to a single contemporary platform by the end of the 2021 calendar year.

1H21 progress:

- Further progress towards purpose built functionality that creates efficiencies for advisers and is enhancing client outcomes and the service experience they receive.

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/or overseeing the delivery of these activities.

1H21 progress:

- Progress on achieving synergies has been strong and remains on track to achieve the expected $43m annualised synergies by 30 June 2021.
- Approximately 75% of all P&I staff have been transferred from ANZ to IOOF at 31 December 2020.

MLC acquisition

On 31 August 2020, IOOF announced that it had entered into transaction agreement 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.

1H21 progress:

- In September 2020, the IOOF Group completed a capital raising of $1,043m for the purposes of the acquisition of the MLC wealth management business.
- On 8 October 2020, the Group announced that it had received consent from all lenders in the existing syndicated facility agreement for the acquisition of MLC.
- On 14 December 2020, the Group announced that it had received confirmation from the ACCC that it would not oppose IOOF's proposed acquisition of MLC.

Operating and financial review (continued)

Key strategic initiatives (continued)

The IOOF Group has a long-term strategy of pursuing growth through acquisitions and has completed several acquisitions in recent years. Acquisitions have been pursued where they present a logical strategic fit with existing operations and are priced reasonably for the expected value accretion to shareholders.

Divestments of certain operations have been entered into selectively and opportunistically, chiefly with the aim of simplifying the business to focus on the group's core wealth management capabilities. Proceeds from previous period divestments have been applied to reduce borrowings and fund acquisition integration.

Key performance indicators

Underlying profit

The following table, which has not been audited, 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. UNPAT is a non-GAAP metric that is used by management to monitor the performance of the Group. In calculating UNPAT, the IOOF Group reverses the impact on profit of certain, predominantly 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 6 months to 31 December 2019 is denoted as prior comparative period or pcp. 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

	Note	Six months ended 31 Dec 20 $'000	Six months ended 31 Dec 19 $'000
Profit attributable to Owners of the Company		**54,416**	**114,981**
Discontinued operations		-	(87,176)
Profit from continuing operations attributable to Owners of the Company		**54,416**	**27,805**
Underlying net profit after tax pre-amortisation (UNPAT) adjustments:			
Reverse the impact of:			
Amortisation of intangible assets		28,178	18,287
Unwind of deferred tax liability recorded on intangible assets		(7,665)	(4,858)
Acquisition costs - Acquisition advisory	2-4	3,481	438
Acquisition costs - Integration	2-4	15,092	3,744
Acquisition costs - Finance costs	2-4	3,232	65
BT settlement income	2-3	(59,245)	-
Legal provision	2-4	22,000	-
Advice 2.0 costs	2-4	727	-
Evolve costs	2-4	6,445	5,198
Termination payments	2-4	106	2,677
Profit on divestment of assets	2-2	(1,341)	(297)
Non-recurring professional fees paid	2-4	3,782	4,401
Remediation costs	2-4	-	1,511
Governance uplift costs	2-4	718	3,187
Other	2-4	(72)	719
Income tax attributable		(3,988)	(6,401)
UNPAT from continuing operations		**65,866**	**56,476**
UNPAT from discontinued operations		-	4,878
UNPAT		**65,866**	**61,354**

In accordance with current Australian Accounting Standards, the financial results of the benefit funds 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 six months ended 31 December 2020 (2019: $nil), but results in offsetting pre-tax profit and income tax amounts not available to shareholders.

Operating and financial review (continued)

Key performance indicators (continued)

UNPAT Adjustments:

Amortisation of intangible assets: Non-cash entry reflective of declining intangible asset values over their useful lives. Intangible assets are recognised upon acquisition. Intangible assets (other than goodwill) are amortised over the expected useful life of the asset. The amortisation of software development costs is not reversed in calculating UNPAT.

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. 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 for corporate transactions, such as the acquisition of MLC and the ANZ OnePath pensions and investments (ANZ P&I) business (prior comparative period (pcp)), which were not reflective of conventional recurring operations.

Acquisition costs - Integration: Staff and specialist contractor costs related to integration for the acquisition of the ANZ P&I and MLC businesses. Costs include project labour costs, redundancy and termination costs, IT and other consultancy fees, outsourced hosting services, and Advisor recognition accruals.

Acquisition costs - Finance costs: Upfront costs of securing finance for the acquisition of the MLC transaction and ex-ANZ P&I businesses (pcp).

BT settlement income: One-off settlement income in connection with the termination of the platform relationship with BT Portfolio Services Ltd, net of debtors previously recognised.

Legal provision: Costs in connection with the judgement in the Kerr v Australia Executor Trustees (SA) Ltd proceedings in excess of amounts covered by the Group's insurance**.**

Advice 2.0: One-off costs, including legal fees and consultancy fees in connection with the implementation of Advice 2.0.

Evolve: Project labour costs and IT consultancy fees associated with the Group's proprietary Evolve platform.

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

Remediation costs: Remediation costs that arose predominantly as a result of fees for no service and quality of advice remediation programs, including costs of administering the project.

Governance uplift costs: Costs incurred in undertaking projects that are outside the ordinary course of business. Costs predominantly relate to project labour costs and consultancy fees.

Other: Losses on divestment of non-current assets and impairment of customer related intangibles.

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

Operating and financial review (continued)

Key performance indicators (continued)

Key financial results for the half

The IOOF Group's UNPAT from continuing operations increased $9.4m to $65.9m for the 6 months ended 31 December 2020, compared to $56.5m UNPAT for the 6 months ended 31 December 2019, which is denoted as pcp.

This increase relates to the inclusion of the ex-ANZ P&I business in the results for the 6 months to 31 December 2020 (pcp: interest on debt note coupon only). This has been partially offset by declines in profitability of other segments predominantly driven by the impact of COVID-19 on market based returns throughout the period.

The below analysis compares the 6 months to 31 December 2020 with the 6 months to 31 December 2019, for the continuing operations of the Group. The net profit arising from divesting IOOF New Zealand, Ord Minnett and Perennial Value Management, and their operating performance whilst owned, have been excluded from the review and the impact on particular items of revenue or expense.

	31 Dec 20	31 Dec 19	Movement	
	$'000	$'000	$'000	%
Gross margin	349,310	248,334	100,976	40.7%
Other net operating revenue	1,113	1,017	96	9.4%
Other revenue (incl share of net profits of associates)	(24)	4,049	(4,073)	(100.6%)
Operating expenditure	(239,754)	(163,664)	(76,090)	(46.5%)
Net financing	(3,163)	1,755	(4,918)	(280.2%)
Net non-cash items	(14,855)	(11,797)	(3,058)	(25.9%)
Income tax expense and non-controlling interest	(26,761)	(23,218)	(3,543)	(15.3%)
Underlying Profit after Tax - continuing operations	**65,866**	**56,476**	**9,390**	**16.6%**

Gross margin increased by $101.0m

The gross margin increase related to the inclusion of the ex-ANZ P&I business for the full 6 month period, which contributed $145.3m to gross margin for the half year (pcp: nil). This was partially offset by declines in profitability of other segments, predominantly driven by the cessation of grandfathered commissions and the impact of COVID-19 on market based returns compared to pre COVID-19 returns of pcp.

Other revenue decreased by $4.1m

Other revenue largely related to conference and other professional development income in pcp which did not recur in 2020 due to the impacts of COVID-19.

Operating expenditure increased by $76.1m

Operating expenditure has been held steady year on year with the exception of the inclusion of the ex-ANZ P&I business which accounts for the significant increase in operating expenditure ($76.1m).

Net financing income decreased by $4.9m

Financing income decreased as a debt note issued to ANZ was redeemed on 31 January 2020 to fund the acquisition of the ex-ANZ P&I businesses. In pcp, interest income of $8.1m was recognised in connection with the debt note. Financing costs also reduced with the repayment of debt under the SFA.

Other non-cash item impacts decreased by $3.1m

Depreciation expense increased $3.1m, largely attributable to depreciation of right-of-use assets recognised upon acquisition of the ex-ANZ P&I businesses. Share-based payments expense was $0.6m lower as a staff incentive plan was not offered with a share-based option in the current half year. Profit attributable to non-controlling interest reduced by $0.6m due to decreased profitability of subsidiaries with non-controlling interests.

Income tax expense increased by $3.5m

The increase in income tax expense reflects higher profitability. IOOF's effective tax rate is 21.7%, lower than the 30% corporate tax rate in the current period due to a capital loss triggered on the deregistration of a subsidiary.

Financial Position

The IOOF Group held cash and cash equivalents of $899.4m at 31 December 2020 (30 June 2020: $374.7m), plus a certificate of deposit of $100.0m. 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. The increase in cash is as a result of the equity raising undertaken and the Share Purchase Plan offered to fund the MLC acquisition, which is expected to complete in the second half of the financial year, net of the repayment of borrowings. The revolving cash advance facility outstanding at 31 December 2020 was nil, compared with $457.9m at 30 June 2020.

Operating and financial review (continued)

Key performance indicators (continued)

Shareholder returns

The IOOF Group dividend is determined based on company financial performance, and seeks to offer an attractive yield when assessed against other 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, in relation to ordinary dividends.

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 in the 5 year period from 1 January 2016 was -40.2% in total and -8.7% on a compounding annualised basis. The TSR for the 12 months to 31 December 2020 was -52.2% with a share price decline of 55.2% partially offset by a dividend yield of 3.0%. Dividend yield has been negatively impacted by reduced revenue from market volatility as a result of COVID-19, and additionally, in the current period, by the issue of additional shares in advance of the MLC acquisition.

	Six months ended 31 December		
	2020	2019	% change
Profit attributable to owners of the Company ($'000s) (1)	54,416	114,981	(52.7%)
Basic EPS (cents per share) (2)	10.2	33.3	(69.2%)
Diluted EPS (cents per share) (2)	10.2	33.2	(69.2%)
UNPAT ($'000s)	65,866	61,354	7.4%
UNPAT EPS (cents per share) (2)	12.4	17.5	(29.3%)
Dividends declared ($'000s) (3)	74,672	80,747	(7.5%)
Dividends per share (cents per share) (3)	11.5	23.0	(50.0%)
Opening share price	$ 4.92	$ 5.17	(4.8%)
Closing share price at 31 December	$ 3.52	$ 7.86	(55.2%)
Return on equity (4)	5.7%	7.2%	(21.4%)

(1) Profit attributable to owners of the Company has been calculated in accordance with Australian Accounting Standards, and includes discontinued operations of $88.8m in the pcp.

(2) Earnings per share has been impacted by the issue of 298,248,329 shares during the period.

(3) Dividends comprise both interim and special dividends, and are fully franked.

(4) Return on equity is calculated by dividing UNPAT by average equity during the period.

Capital and liquidity management

In September 2020, the IOOF Group completed a capital raising for the purposes of the acquisition of the MLC wealth management business. The capital raising consisted of a $1,040 million fully underwritten institutional placement and accelerated non-renounceable entitlement offer, and a non-underwritten share purchase plan. Under these offers, the Group raised additional capital of $1,043 million, representing 298,248,329 ordinary shares, and incurred transaction costs of $20.5 million.

On 27 November 2020, the IOOF group entered into an additional accommodation agreement to provide an additional $250m cash advance under the syndicated facility agreement (SFA) on acquisition of MLC. This facility has a 5 year repayment term from the SFA effective date. The amended SFA consists of the following facilities:

- $240m revolving cash advance facility with a 4 year repayment term from the SFA effective date.
- $625m 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 overall debt to equity ratio stood at nil at 31 December 2020 (30 June 2020: 25%) with facilities temporarily repaid until they are required to be drawndown to complete the MLC transaction.

Cash flow forecasting is conducted monthly, principally to ensure sufficient liquidity for future needs and to monitor adherence to licence conditions, and stress testing of lending covenants is conducted when assessing funding options for acquisition opportunities.

Operating and financial review (continued)

Segment analysis

Financial advice

	31 Dec 20	31 Dec 19	Movement	
	$'000	$'000	$'000	%
Net operating revenue	83,336	93,519	(10,183)	(10.9%)
Other revenue (incl share of net profits of associates)	(628)	2,415	(3,043)	(126.0%)
Operating expenditure	(52,240)	(52,489)	249	0.5%
Net financing	(221)	(252)	31	(12.3%)
Net non-cash items	(4,311)	(4,957)	646	13.0%
Income tax expense and non-controlling interest	(8,062)	(11,570)	3,508	30.3%
Underlying Profit after Tax	**17,874**	**26,666**	**(8,792)**	**(33.0%)**

- Net operating revenue has been adversely impacted due to a combination of lower financial planning revenue, an end to grandfathered commissions and repricing of 3rd party administrator fees.

Ex-ANZ Wealth management

	31 Dec 20	31 Dec 19	Movement	
	$'000	$'000	$'000	%
Net operating revenue	8,216	9,449	(1,233)	(13.0%)
Other revenue (incl share of net profits of associates)	436	1,146	(710)	(62.0%)
Operating expenditure	(22,014)	(26,107)	4,093	15.7%
Net financing	10	104	(94)	(90.4%)
Net non-cash items	(784)	(588)	(196)	(33.3%)
Income tax expense and non-controlling interest	4,247	5,325	(1,078)	20.2%
Underlying Profit after Tax	**(9,889)**	**(10,671)**	**782**	**(7.3%)**

- Net operating revenue has been adversely impacted by lower financial planning revenue and the ending of grandfathered commissions.
- Lower operating expenses driven by Advice 2.0 synergy benefits relating to Elders divestment and commencement of Financial Services Partners closure.

Portfolio & estate administration

	31 Dec 20	31 Dec 19	Movement	
	$'000	$'000	$'000	%
Net operating revenue	102,121	111,462	(9,341)	(8.4%)
Operating expenditure	(60,911)	(58,883)	(2,028)	(3.4%)
Net financing	(16)	(15)	(1)	6.7%
Net non-cash items	(5,451)	(5,773)	322	5.6%
Income tax expense and non-controlling interest	(10,972)	(14,559)	3,587	24.6%
Underlying Profit after Tax	**24,771**	**32,232**	**(7,461)**	**(23.1%)**

- Net operating revenue reflected market movements impacted by COVID-19, including the Early Release of Super scheme, further compounded by the impact of basis points margin reduction. Basis point margin outcomes are largely the result of client preference for contemporary lower priced services.

Investment management

	31 Dec 20	31 Dec 19	Movement	
	$'000	$'000	$'000	%
Net operating revenue	30,798	34,551	(3,753)	(10.9%)
Operating expenditure	(6,999)	(5,198)	(1,801)	(34.6%)
Net non-cash items	(779)	(1,104)	325	29.4%
Income tax expense and non-controlling interest	(6,950)	(8,617)	1,667	19.3%
Underlying Profit after Tax	**16,070**	**19,632**	**(3,562)**	**(18.1%)**

- Net operating revenue declined due to lower margins achieved on cash products, and the repricing of legacy products.

Ex-ANZ pensions and investments

	31 Dec 20	31 Dec 19	Movement	
	$'000	$'000	$'000	%
Gross margin	145,293	-	145,293	100.0%
Other net operating revenue	(19,950)	-	(19,950)	100.0%
Operating expenditure	(76,104)	-	(76,104)	100.0%
Net financing	498	8,066	(7,568)	93.8%
Net non-cash items	(3,302)	-	(3,302)	100.0%
Income tax expense and non-controlling interest	(13,934)	(2,420)	(11,514)	(475.8%)
Underlying Profit after Tax	**32,501**	**5,646**	**26,855**	**475.6%**

- The IOOF Group completed of the acquisition of the ex-ANZ P&I business on 31 January 2020. Accordingly, there are no operational results for the pcp. Financing income and related tax expense in the pcp relate to a debt note issued to ANZ which was redeemed on 31 January 2020 to fund the acquisition.

Operating and financial review (continued)

Risk management

The IOOF Group manages a number of risks in conducting its operations and implementing its strategy. Material risks faced by the IOOF Group include, but may not be limited to, the following:

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. The future product strategy and integration of IOOF, ex-ANZ P&I, and MLC products will need to take into account changes such as the 'design and distribution' obligations and proposed changes to the way members are allocated to superannuation funds.

(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) Advice relationships

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. In addition, a Chief Transformation Officer role has recently been created as a direct report of the CEO with appropriate governance structures to manage integrations.

(v) Environmental, social and governance (ESG)

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

Governance

(vi) Governance

IOOF applies the Three Lines of Defence governance model to govern risk management and compliance activities across the Group. All IOOF entities 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 Office of the Superannuation Trustee and the Office of the Responsible Entity. 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.

Operating and financial review (continued)

Risk management (continued)

Conduct (continued)

(ix) Inappropriate 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 reviewed by an external independent expert.

Financial and Liquidity

(x) Credit	Credit risk refers to the risk that a counterparty will fail to meet its contractual obligations, resulting in financial loss that arises from loans and other receivables. Our counterparties generally do not have an independent credit rating. 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.

Operating and financial review (continued)

Risk management (continued)

Operational

(xvi) Operational

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

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

(xvii) Unit pricing errors

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

(xviii) Information technology

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

(xix) Cyber security

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

(xx) COVID-19

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

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

Insurance

(xxi) Insurance

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

Legal and Compliance

(xxi) 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.

Operating and financial review (continued)

Impact of COVID-19 pandemic

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 over calendar year 2020. While the IOOF Group has experienced 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 initial share market decline in March 2020 as a result of COVID-19 largely recovered by 31 December 2020. Market returns have been largely positive throughout first half 2021, however there may be ongoing market volatility as the global market recovers from the virus.

Dividends

In respect of the six months ended 31 December 2020, the Directors declared the payment of an interim dividend of 8.0 cents per ordinary share and a special dividend of 3.5 cents per ordinary share franked to 100% at 30% corporate income tax rate to the holders of fully paid ordinary shares to be paid on 18 March 2021. This dividend will be paid to all shareholders recorded on the Register of Members on 4 March 2021.

In respect of the financial year ended 30 June 2020, a final dividend of 11.5 cents per share franked to 100% at 30% corporate income tax rate was paid to the holders of fully paid ordinary shares on 22 September 2020.

In respect of the financial year ended 30 June 2020, a special dividend of 7.0 cents per share franked to 100% at 30% corporate income tax rate was paid to the holders of fully paid ordinary shares on 27 September 2019.

Directors' Report

Directors

The names and details of the Directors of IOOF Holdings Ltd holding office during the six months to 31 December 2020 and as at the date of this report are listed below. Directors were in office for this entire period unless otherwise stated.

Mr Allan Griffiths	Independent Chair
Mr Renato Mota	Managing Director and Chief Executive Officer
Ms Elizabeth Flynn	Independent Non-Executive Director
Mr John Selak	Independent Non-Executive Director
Mr Andrew Bloore	Independent Non-Executive Director
Ms Michelle Somerville	Independent Non-Executive Director

Events occurring after balance date

The Directors have declared the payment of an interim dividend of 8.0 cents per ordinary share and a special dividend of 3.5 cents per ordinary share franked to 100% based on tax paid at 30%, to be paid on 18 March 2021.

On 5 February 2021, IOOF announced that the Court of Appeal dismissed Australian Executor Trustees (SA) Ltd (AET) appeal in relation to the AET v Kerr case. After this decision, IOOF has taken up an additional provision of $22m as at 31 December 2020 to cover potential exposure.

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 31 December 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.

Lead auditor's independence declaration

The lead auditor's independence declaration is included on page 13 of the interim financial report and forms part of the Directors' Report for the six months ended 31 December 2020.

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.

Authorisation

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

Allan Griffiths
Chairman
24 February 2021

Directors' Declaration

In the opinion of the Directors of the Company:

(a) the condensed consolidated financial statements and notes set out on pages 17 to 40, are in accordance with the Corporations Act 2001 including:

(i) giving a true and fair view of the Group's financial position as at 31 December 2020 and of its performance for the six months ended on that date; and

(ii) complying with Australian Accounting Standard AASB 134 Interim Financial Reporting 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.

Signed in accordance with a resolution of the Directors:

Allan Griffiths
Chairman
Melbourne
24 February 2021

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 review of IOOF Holdings Ltd for the half-year ended 31 December 2020 there have been:

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

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

KPMG

KPMG

Chris Wooden
Partner

Melbourne

24 February 2021

KPMG

Independent Auditor's Review Report

To the shareholders of IOOF Holdings Ltd

Report on the review of the Interim Financial Report

Conclusion

We have reviewed the accompanying ***Interim Financial Report*** of IOOF Holdings Ltd.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the Interim Financial Report of IOOF Holdings Ltd does not comply with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Group's*** financial position as at 31 December 2020 and of its performance for the ***Interim Period*** ended on that date; and
- complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

The ***Interim Financial Report*** comprises:

- Condensed consolidated statement of financial position as at 31 December 2020;
- Condensed consolidated statement of profit or loss and other comprehensive income, Condensed consolidated statement of changes in equity and Condensed consolidated statement of cash flows for the Interim Period ended on that date;
- Notes 1-1 to 6-6 comprising a summary of significant accounting policies and other explanatory information; and
- The Directors' Declaration.

The ***Group*** comprises IOOF Holdings Ltd (the Company) and the entities it controlled at the Interim Period's end or from time to time during the Interim Period.

The ***Interim Period*** is the 6 months ended on 31 December 2020.

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report.

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

KPMG

Responsibilities of the Directors for the Interim Financial Report

The Directors of the Company are responsible for:

- the preparation of the Interim Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001;* and
- such internal control as the Directors determine is necessary to enable the preparation of the Interim Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Review of the Interim Financial Report

Our responsibility is to express a conclusion on the Interim Financial Report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the Interim Financial Report does not comply with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2020 and its performance for the Interim Period ended on that date, and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

A review of an Interim Period Financial Report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with *Australian Auditing Standards* and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

KPMG   KPMG

KPMG   KPMG

Chris Wooden   Maria Trinci
Partner   *Partner*

Melbourne   Melbourne

24 February 2021   24 February 2021

Contents

Condensed consolidated statement of profit or loss and other comprehensive income

For the six months ended	Note	31 Dec 20 $'000	31 Dec 19 $'000
Continuing operations			
Revenue	2-3	709,173	524,979
Expenses	2-4	(633,540)	(477,855)
Share of losses of associates accounted for using the equity method		(674)	(109)
Finance costs		(5,449)	(7,806)
Profit before tax		69,510	39,209
Income tax expense	2-5	(15,108)	(11,958)
Statutory fund			
Statutory fund revenue*	5-1	37,700	26,668
Statutory fund expenses*	5-1	(14,594)	(17,558)
Income tax (expense)/benefit - statutory*	5-1	(23,106)	(9,110)
Statutory fund contribution to profit, net of tax		-	-
Profit for the period from continuing operations		**54,402**	**27,251**
Discontinued operation			
Profit for the period from discontinued operation	2-2	-	88,786
Profit for the period		54,402	116,037
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Net change in fair value of financial assets at fair value through other comprehensive income		(27,702)	41,380
Exchange differences on translating foreign operations		-	10
Income tax on other comprehensive income		8,311	(12,412)
Total items that may be reclassified subsequently to profit or loss		(19,391)	28,978
Other comprehensive income/(expense) for the period, net of income tax		(19,391)	28,978
Total comprehensive income for the period		35,011	145,015
Profit attributable to:			
Owners of the Company		**54,416**	**114,981**
Non-controlling interest		(14)	1,056
Profit for the period		54,402	116,037
Total comprehensive income attributable to:			
Owners of the Company		35,025	143,959
Non-controlling interest		(14)	1,056
Total comprehensive income for the period		35,011	145,015
Earnings per share:			
Basic earnings per share (cents per share)	2-7	10.2	33.3
Diluted earnings per share (cents per share)	2-7	10.2	33.2
Earnings per share - continuing operations:			
Basic earnings per share (cents per share)		10.2	7.9
Diluted earnings per share (cents per share)		10.2	7.9

Notes to the consolidated financial statements are included on pages 22 to 40.

*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.

Condensed consolidated statement of financial position

	Note	31 Dec 20 $'000	30 Jun 20 $'000
Assets			
Cash	1-1	899,428	374,730
Certificates of deposit	1-1	100,000	-
Receivables	1-1	619,131	579,903
Other financial assets	1-1	1,072,492	1,116,773
Current tax assets		5,693	23,574
Prepayments		12,000	16,265
Deferred acquisition costs		977	994
Associates		12,144	12,946
Property and equipment	4-4	124,030	134,443
Deferred tax assets		13,347	-
Intangible assets	4-2	498,625	525,054
Goodwill	4-3	1,506,265	1,465,404
Total assets		**4,864,132**	**4,250,086**
Liabilities			
Payables	1-1	116,452	120,566
Other financial liabilities	1-1	1,151,969	1,065,340
Loans and borrowings	1-1, 3-1	102,626	572,252
Provisions	4-1	729,128	733,138
Deferred tax liabilities		-	20,261
Deferred revenue liability		931	931
Total liabilities		**2,101,106**	**2,512,488**
Net assets		**2,763,026**	**1,737,598**
Equity			
Share capital	3-2	2,996,001	1,965,824
Reserves	3-4	2,631	91,272
Accumulated losses		(235,356)	(319,269)
Total equity attributable to equity holders of the Company		**2,763,276**	**1,737,827**
Non-controlling interest		(250)	(229)
Total equity		**2,763,026**	**1,737,598**

Notes to the consolidated financial statements are included on pages 22 to 40.

Condensed consolidated statement of changes in equity

For the six months ended 31 December 2020	Note	Ordinary shares $'000	Treasury shares $'000	Reserves $'000	Accumulated losses $'000	Total $'000	Non-controlling interest $'000	Total equity $'000
Balance at 1 July 2020		1,970,847	(5,023)	91,272	(319,269)	**1,737,827**	(229)	**1,737,598**
Total comprehensive income for the period								
Profit for the period attributable to owners of the Company		-	-	-	54,416	**54,416**	(14)	**54,402**
Other comprehensive income for the period, net of income tax		-	-	(19,391)	-	**(19,391)**	-	**(19,391)**
Total comprehensive income for the period		-	-	(19,391)	54,416	**35,025**	(14)	**35,011**
Transactions with owners, recorded directly in equity								
Contributions by and (distributions to) owners								
Issue of shares		1,043,871	-	-	-	**1,043,871**	-	**1,043,871**
Transaction costs of issuing new shares		(14,331)	-	-	-	**(14,331)**	-	**(14,331)**
Dividends paid		-	-	-	(40,283)	**(40,283)**	(7)	**(40,290)**
Share-based payment expense	2-4	-	-	1,167	-	**1,167**	-	**1,167**
Transfer from employee equity-settled benefits reserve on exercise of performance rights	3-2	637	-	(637)	-	**-**	-	**-**
Treasury shares transferred to recipients during the period	3-2	(405)	405	-	-	**-**	-	**-**
Transfer of lapsed performance rights to retained earnings		-	-	(407)	407	**-**	-	**-**
Transfer from revaluation of financial asset at fair value through other comprehensive income reserve to retained earnings, net of tax		-	-	(69,373)	69,373	**-**	-	**-**
Total transactions with owners		1,029,772	405	(69,250)	29,497	**990,424**	(7)	**990,417**
Balance at 31 December 2020		3,000,619	(4,618)	2,631	(235,356)	**2,763,276**	(250)	**2,763,026**

Notes to the consolidated financial statements are included on pages 22 to 40.

Condensed consolidated statement of changes in equity

For the six months ended 31 December 2019	Ordinary shares $'000	Treasury shares $'000	Reserves $'000	Accumulated losses $'000	Total $'000	Non-controlling interest $'000	Total equity $'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 period							
Profit for the period attributable to owners of the Company	-	-	-	114,981	**114,981**	1,056	**116,037**
Other comprehensive income for the period, net of income tax	-	-	28,978	-	**28,978**	-	**28,978**
Total comprehensive income for the period	-	-	28,978	114,981	**143,959**	1,056	**145,015**
Transactions with owners, recorded directly in equity							
Contributions by and (distributions to) owners							
Dividends paid	-	-	-	(66,489)	**(66,489)**	(10)	**(66,499)**
Disposal of non-controlling interest	-	-	-	-	**-**	(9,305)	**(9,305)**
Share-based payment expense	-	-	1,773	-	**1,773**	-	**1,773**
Transfer from employee equity-settled benefits reserve on exercise of performance rights	2,268	-	(2,268)	-	**-**	-	**-**
Treasury shares transferred to recipients during the period	(2,172)	2,863	-	-	**691**	-	**691**
Shares returned from recipients during the period	-	(691)	-	-	**(691)**	-	**(691)**
Transfer of lapsed performance rights to retained earnings	-	-	(1,026)	1,026	**-**	-	**-**
Total transactions with owners	96	2,172	(1,521)	(65,463)	**(64,716)**	(9,315)	**(74,031)**
Balance at 31 December 2019	1,971,095	(5,718)	52,682	(289,622)	**1,728,437**	(596)	**1,727,841**

Notes to the consolidated financial statements are included on pages 22 to 40.

Condensed consolidated statement of cash flows

For the six months ended	Note	31 Dec 20 $'000	31 Dec 19 $'000
Cash flows from operating activities			
Receipts from customers		678,967	601,406
Payments to suppliers and employees		(589,126)	(535,304)
Dividends from associates		128	119
Net legal settlements		-	943
Remediation costs		(23,616)	(9,552)
Coupon interest received on debt note		-	8,066
Income taxes paid - corporate		(35,455)	(38,734)
Contributions received - statutory		64,546	55,943
Withdrawal payments - statutory		(74,867)	(56,711)
Dividends and distributions received - statutory		970	905
Proceeds from divestment of financial instruments - statutory		83,380	72,167
Payments for financial instruments - statutory		(63,531)	(54,561)
Amounts (advanced to)/borrowed from other entities - statutory		(6,841)	(6,701)
Income taxes paid - statutory		(3,929)	(9,326)
Net cash provided by operating activities		30,626	28,660
Cash flows from investing activities			
Dividends and distributions received		214	788
Interest received		1,736	1,178
Acquisition and transformation costs		(27,908)	(7,369)
Interest and other costs of finance paid		(3,822)	(5,627)
Proceeds from divestment of/(payments for) financial assets		100,703	(2,100)
Net proceeds on divestment of subsidiaries		-	90,024
Acquisition of subsidiary, net of cash acquired		15,070	-
Payment for treasury investments		(100,000)	-
Payments for property and equipment		(3,037)	(3,209)
Net payments for intangible assets		(1,768)	(5,359)
Repayment of loan principal (related parties)		-	7,298
Net cash provided by/(used in) investing activities		(18,812)	75,624
Cash flows from financing activities			
Drawdown of borrowings		25	30
Repayment of borrowings		(460,000)	(75,000)
Proceeds from issue of shares		1,043,871	-
Transaction costs of issuing new shares		(20,472)	-
Net repayment of leasing liabilities		(10,250)	(6,426)
Dividends paid:			
- members of the Company		(40,283)	(66,489)
- non-controlling members of subsidiary entities		(7)	(10)
Net cash provided by/(used in) financing activities		512,884	(147,895)
Net increase/(decrease) in cash and cash equivalents		524,698	(43,611)
Cash and cash equivalents at the beginning of period		374,730	97,442
Cash classified in assets held for sale at the beginning of the period		-	14,963
Effects of exchange rate changes on cash and cash equivalents		-	2
Cash and cash equivalents at the end of period	1-1	899,428	68,796

Notes to the consolidated financial statements are included on pages 22 to 40.

Section 1 - 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 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 unchanged from the year ended 30 June 2020.

1-1 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.

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 entities in the IOOF Group.

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 policyholder 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 policyholder liabilities have been designated at fair value through profit or loss as the assets are managed on a fair value basis.

Policyholder liabilities have been determined in accordance with applicable accounting standards. Policyholder 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.

The table below analyses financial instruments carried at fair value, by valuation method.

Section 1 - Risk management

1-1 Financial Instruments (continued)

	Carrying amount			Fair value			
	Current	Non-Current	Total	Level 1	Level 2	Level 3	Total
31 December 2020	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Financial assets measured at amortised cost							
Cash - corporate	783,130	-	783,130				
Cash restricted ORFR - corporate[(1)]	112,830	-	112,830				
Cash - statutory	3,468	-	3,468				
Total cash	899,428	-	899,428				
Certificates of deposit	100,000	-	100,000				
Receivables - corporate							
Trade receivables	77,675	-	77,675				
Other receivables	244,719	3,242	247,961				
Ex-ANZ AL remediation indemnity	161,882	115,476	277,358				
Security bonds	-	250	250				
Receivables - statutory							
Trade receivables	324	-	324				
Other receivables	11,718	-	11,718				
Dividends and distributions receivable	3,845	-	3,845				
Total receivables	500,163	118,968	619,131				
Other financial assets							
Fair value through profit or loss							
Unlisted unit trusts - corporate	-	975	975	-	975	-	975
Unlisted unit trusts - statutory	1,003,896	-	1,003,896	-	1,003,896	-	1,003,896
Fair value through OCI	-	9,572	9,572	9,572	-	-	9,572
Loans and other receivables							
Loans to policyholders - statutory	58,049	-	58,049	58,049	-	-	58,049
Total other financial assets	1,061,945	10,547	1,072,492				
Total financial assets	**2,461,536**	**129,515**	**2,591,051**				
Financial liabilities							
Payables - corporate	113,887	1,257	115,144				
Payables - statutory	1,308	-	1,308				
Total payables	115,195	1,257	116,452				
Ex-ANZ AL remediation provision - corporate	130,904	76,347	207,251				
IOOF AL remediation provision - corporate	202,278	-	202,278				
Ex-ANZ P&I remediation provision - corporate	75,266	90,417	165,683				
Other provisions	77,926	-	77,926				
Other financial liabilities - corporate							
Ex-ANZ AL remediation settlements liability	30,978	39,154	70,132				
Contingent consideration	16,011	9,320	25,331	-	-	25,331	25,331
Other financial liabilities - statutory							
Insurance contract liabilities	178,773	-	178,773				
Investment contract liabilities	877,733	-	877,733				
Total other financial liabilities	1,103,495	48,474	1,151,969				
Borrowings - corporate[(2)]	(1,994)	-	(1,994)				
Lease liabilities - corporate	19,675	84,945	104,620				
Total loans and borrowings	17,681	84,945	102,626				
Total financial liabilities	**1,722,745**	**301,440**	**2,024,185**				
Net financial assets/(liabilities)	**738,791**	**(171,925)**	**566,866**				

(1) Relates to the ORFR cash reserve acquired as part of the net assets of the ex-ANZ P&I acquisition, and is not available to shareholders.

(2) Borrowings were repaid during the year, however the facility remains in place to be drawn down for the purposes of the MLC acquisition. Capitalised borrowing costs which are ordinarily presented against the gross borrowings value remain on the balance sheet at 31 December 2020.

Section 1 - Risk management

1-1 Financial Instruments (continued)

	Carrying amount			Fair value			
	Current	Non-Current	Total	Level 1	Level 2	Level 3	Total
30 June 2020	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Financial assets measured at amortised cost							
Cash - corporate	225,360	-	225,360				
Cash restricted ORFR - corporate	145,630	-	145,630				
Cash - statutory	3,740	-	3,740				
Total cash	374,730	-	374,730				
Receivables - corporate							
Trade receivables	78,508	-	78,508				
Other receivables	201,148	3,778	204,926				
Ex-ANZ AL remediation indemnity	170,389	93,301	263,690				
Security bonds	-	250	250				
Receivables - statutory			-				
Trade receivables	306	-	306				
Other receivables	8,880	-	8,880				
Dividends and distributions receivable	23,343	-	23,343				
Total receivables	482,574	97,329	579,903				
Other financial assets							
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
Fair value through OCI	-	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				
Total financial assets	**1,833,769**	**237,637**	**2,071,406**				
Financial liabilities							
Payables - corporate	118,689	129	118,818				
Payables - statutory	1,748	-	1,748				
Total payables	120,437	129	120,566				
Ex-ANZ AL remediation provision - corporate	139,427	76,347	215,774				
IOOF AL remediation provision - corporate	81,492	135,408	216,900				
Ex-ANZ P&I remediation provision - corporate	84,283	90,417	174,700				
Other provisions	56,273	-	56,273				
Other financial liabilities - corporate							
Ex-ANZ AL remediation settlements liability	30,978	16,963	47,941				
Contingent consideration	5,626	1,198	6,824	-	-	6,824	6,824
Other financial liabilities - statutory							
Insurance contract liabilities	187,079	-	187,079				
Investment contract liabilities	823,496	-	823,496				
Total other financial liabilities	1,047,179	18,161	1,065,340				
Borrowings - corporate	-	457,858	457,858				
Lease liabilities - corporate	18,746	95,648	114,394				
Total loans and borrowings	18,746	553,506	572,252				
Total financial liabilities	**1,547,837**	**873,968**	**2,421,805**				
Net financial assets/(liabilities)	**285,932**	**(636,331)**	**(350,399)**				

Section 1 - Risk management

1-1 Financial Instruments (continued)

Financial instruments valuation

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 (i.e. as prices) or indirectly (i.e. derived from prices). Level 2 fair values for the over-the-counter foreign exchange and index swaps 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 period during which the transfer has occurred. There were no transfers between Level 1 to Level 2 of the fair value hierarchy during the six months ended 31 December 2020. (2019: nil).

Reconciliation of movements in level 3 financial instruments	Debt Note		Contingent consideration	
	31 Dec 20 $'000	30 Jun 20 $'000	31 Dec 20 $'000	30 Jun 20 $'000
Opening balance	-	800,000	6,824	837
Redemption of debt note	-	(800,000)	-	-
Take up of deferred consideration liability	-	-	20,507	6,802
Contingent consideration paid	-	-	(2,000)	(815)
Closing balance	-	-	25,331	6,824

Level 3 financial assets consist of a debt note carried at fair value. The debt note is valued via a discounted cash flow, which incorporates unobservable inputs such as discount rates 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.

Level 3 financial liabilities consist of deferred purchase consideration in respect of client lists purchased by the IOOF Group, which is valued at management's best estimate of amounts 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.

Section 2 - Results for the period

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 period, segment information, taxation and earnings per share.

2-1 Operating segments

The IOOF Group has the following five 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.

<u>Financial advice and distribution</u>
The provision of financial planning advice and stockbroking services supported by services such as investment research, training, compliance support and access to financial products.

<u>Portfolio and estate administration</u>
The provision of administration and management services through master trust platforms, which offer a single access point to a range of investment products.

<u>Investment management</u>
The management and investment of monies on behalf of corporate, superannuation, institutional clients and private individual investor clients.

<u>Ex-ANZ wealth management advice licensees</u>
Advice Licensees (ALs) acquired from ANZ during 2018, which provide financial planning advice services.

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

<u>Corporate and other</u>
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.

Section 2 - Results for the period

2-1 Operating segments (continued)

	Financial advice		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	115,246	137,132	183,445	198,325	46,980	51,282	77,639	99,423	194,431	-	-	-	617,741	486,162
External other fee revenue	9,014	7,743	4,372	4,459	2,575	3,604	5,630	7,017	4,042	-	121	301	25,754	23,124
Service fees and other direct costs	(88,592)	(99,305)	(38,721)	(45,614)	(17,356)	(18,985)	(96,306)	(97,010)	(53,180)	-	-	-	(294,155)	(260,914)
Deferred acquisition costs	-	-	(30)	(38)	-	-	-	-	-	-	-	-	(30)	(38)
Gross Margin	**35,668**	**45,570**	**149,066**	**157,132**	**32,199**	**35,901**	**(13,037)**	**9,430**	**145,293**	**-**	**121**	**301**	**349,310**	**248,334**
Stockbroking revenue	1,656	1,658	-	-	-	-	-	19	-	-	-	-	1,656	1,677
Stockbroking service fees expense	(543)	(660)	-	-	-	-	-	-	-	-	-	-	(543)	(660)
Stockbroking net contribution	**1,113**	**998**	**-**	**-**	**-**	**-**	**-**	**19**	**-**	**-**	**-**	**-**	**1,113**	**1,017**
Inter-segment revenue(i)	48,586	48,194	3,300	3,868	-	-	21,253	-	1,743	-	488	69	75,370	52,131
Inter-segment expenses(i)	(2,031)	(1,243)	(50,245)	(49,538)	(1,401)	(1,350)	-	-	(21,693)	-	-	-	(75,370)	(52,131)
Net Operating Revenue	**83,336**	**93,519**	**102,121**	**111,462**	**30,798**	**34,551**	**8,216**	**9,449**	**125,343**	**-**	**609**	**370**	**350,423**	**249,351**
Other external revenue	61	2,527	-	-	-	-	421	1,143	-	-	168	488	650	4,158
Finance income	30	70	-	2	-	-	14	119	759	8,066	1,483	1,304	2,286	9,561
Share of profits/(losses) of associates	(689)	(112)	-	-	-	-	15	3	-	-	-	-	(674)	(109)
Operating expenditure	(52,240)	(52,489)	(60,911)	(58,883)	(6,999)	(5,198)	(22,014)	(26,107)	(76,104)	-	(21,486)	(20,987)	(239,754)	(163,664)
Share-based payments expense	(230)	(635)	(462)	(644)	(145)	(474)	(62)	(91)	(9)	-	(242)	71	(1,150)	(1,773)
Finance costs	(251)	(322)	(16)	(17)	-	-	(4)	(15)	(261)	-	(4,917)	(7,452)	(5,449)	(7,806)
Depreciation of property & equipment	(4,081)	(4,322)	(4,620)	(4,760)	(634)	(630)	(722)	(497)	(3,293)	-	-	-	(13,350)	(10,209)
Amortisation of intangible assets - IT Development	-	-	(369)	(369)	-	-	-	-	-	-	-	-	(369)	(369)
Non-controlling interest	(6)	1	-	-	-	-	20	553	-	-	-	-	14	554
Income tax expense	(8,056)	(11,571)	(10,972)	(14,559)	(6,950)	(8,617)	4,227	4,772	(13,934)	(2,420)	8,924	9,177	(26,761)	(23,218)
UNPAT from continuing operations	**17,874**	**26,666**	**24,771**	**32,232**	**16,070**	**19,632**	**(9,889)**	**(10,671)**	**32,501**	**5,646**	**(15,461)**	**(17,029)**	**65,866**	**56,476**
Discontinued operations													-	4,878
UNPAT													**65,866**	**61,354**

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

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

Section 2 - Results for the period

2-1 Operating segments (continued)

Reconciliation of reportable segment revenues and expenses

	Note	31 Dec 20 $'000	31 Dec 19 $'000
Profit attributable to Owners of the Company		**54,416**	**114,981**
Discontinued operations		-	(87,176)
Profit from continuing operations attributable to Owners of the Company		**54,416**	**27,805**
Underlying net profit after tax pre-amortisation (UNPAT) adjustments:			
Amortisation of intangible assets	2-4	28,178	18,287
Unwind of deferred tax liability recorded on intangible assets		(7,665)	(4,858)
Acquisition costs - Acquisition advisory	2-4	3,481	438
Acquisition costs - Integration	2-4	15,092	3,744
Acquisition costs - Finance costs	2-4	3,232	65
BT settlement income	2-3	(59,245)	-
Legal provision	2-4	22,000	-
Advice 2.0 costs	2-4	727	-
Evolve costs	2-4	6,445	5,198
Termination payments	2-4	106	2,677
Profit on divestment of assets	2-3	(1,341)	(297)
Non-recurring professional fees paid	2-4	3,782	4,401
Remediation costs	2-4	-	1,511
Governance uplift costs	2-4	718	3,187
Other	2-4	(72)	719
Income tax attributable		(3,988)	(6,401)
UNPAT from continuing operations		**65,866**	**56,476**
UNPAT from discontinued operations		-	4,878
UNPAT		**65,866**	**61,354**

The significant accounting policies are consistent with those adopted for the last annual consolidated financial statements as at and for the year ended 30 June 2020.

2-2 Discontinued operations

(a) 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. Completion of the sale occurred on 24 September 2019.

(b) Investment in Perennial Value Management
On 10 October 2019, the IOOF Group divested its equity accounted investment in Perennial Value Management Limited.

(c) 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.

Section 2 - Results for the period

2-2 Discontinued operations (continued)

(d) 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.

	31 Dec 20 $'000	31 Dec 19 $'000
Results of discontinued operations		
Revenue	-	47,561
Expenses	-	(40,129)
Share of profits of associate	-	1,043
Results from operating activities	-	8,475
Income tax	-	(2,273)
Results from operating activities, net of tax	-	6,202
Gain on sale of discontinued operation	-	81,874
Income tax on gain on sale of discontinued operation	-	710
Gain on disposal of discontinued operation, net of tax	-	82,584
Profit for the period	-	88,786
Attributable to:		
Owners of the entity	-	87,176
Non-controlling interest	-	1,610
Profit for the period	-	88,786
Basic earnings per share (cents per share)	-	25.4
Diluted earnings per share (cents per share)	-	25.3
Cash flows from the discontinued operation		
Net cash (used in)/provided by operating activities	-	60,355
Net cash provided by investing activities	-	(1,169)
Net cash flow for the period	-	59,186
Profit for the period from discontinued operations	**-**	**87,176**
Underlying net profit after tax pre-amortisation (UNPAT) adjustments:		
Amortisation of intangible assets	-	358
Termination payments	-	3
Profit on divestment of assets	-	(81,874)
Unwind of deferred tax liability recorded on intangible assets	-	(74)
Income tax attributable	-	(711)
UNPAT from discontinued operations	-	4,878

Section 2 - Results for the period

2-3 Revenue

	31 Dec 20 $'000	31 Dec 19 $'000
Management and service fees revenue		
Financial planning revenue	282,765	277,638
Management fees	299,675	180,788
Other management and service fees revenue	35,301	27,736
	617,741	486,162
Stockbroking revenue	1,656	1,677
External other fee revenue	25,754	23,124
Finance income		
Interest income on loans to Directors of controlled and associated entities	5	78
Interest income from non-related entities	1,997	8,676
Dividends and distributions received	253	788
Net fair value gains/(losses) on other financial assets at fair value through profit or loss	31	19
	2,286	9,561
Other revenue		
Profit on divestment of assets	1,341	297
BT settlement income	59,245	-
Sundry income	650	4,158
Other	500	-
	61,736	4,455
Total revenue	709,173	524,979

2-4 Expenses

	Note	31 Dec 20 $'000	31 Dec 19 $'000
Service Fees and other direct costs			
Service and marketing fees expense		272,317	246,925
Stockbroking service fees expense		543	660
Other direct costs		21,838	13,989
		294,698	261,574
Operating expenditure			
Salaries and related employee expenses		188,891	117,150
Information technology costs		21,063	19,869
Professional fees		9,590	4,430
Marketing		2,160	6,570
Office support and administration		13,438	9,020
Occupancy related expenses		4,140	3,023
Travel and entertainment		472	3,586
Other		-	16
		239,754	163,664
Other expenses			
Share-based payments expense		1,150	1,773
Acquisition costs - Acquisition advisory		3,481	438
Acquisition costs - Integration		15,092	3,744
Acquisition costs - Finance costs		3,232	65
Legal provision		22,000	-
Advice 2.0 costs		727	-
Evolve costs		6,445	5,198
Termination payments		106	2,677
Depreciation of property and equipment		13,350	10,209
Amortisation of intangible assets	4-2	28,178	18,284
Amortisation of intangible assets - IT development	4-2	369	369
Remediation costs		-	1,511
Governance uplift costs		718	3,187
Deferred acquisition costs		30	38
Non-recurring professional fees paid		3,782	4,401
Other		428	723
		99,088	52,617
Total expenses		633,540	477,855

Section 2 - Results for the period

2-5 Income taxes

Reconciliation of effective tax rate	31 Dec 20 %	31 Dec 20 $'000	31 Dec 19 %	31 Dec 19 $'000
Profit before tax from continuing operations		69,510		39,209
Tax using the IOOF Group's domestic tax rate	30.0%	20,853	30.0%	11,762
Tax effect of amounts impacting taxable income:				
Share of tax credits with statutory funds	1.1%	741	2.0%	786
(Non assessable income)/Non-deductible expenses	0.6%	427	(0.5%)	(185)
Capital loss not previously recognised	(9.7%)	(6,715)	- %	-
Share of net profits of associates	0.3%	202	0.1%	33
Assessable associate dividends	0.1%	73	0.3%	107
Revenue loss not recognised	0.1%	52	0.8%	331
Imputation credits	(0.2%)	(127)	(0.8%)	(322)
Other	(0.6%)	(425)	(0.8%)	(305)
Under/(over) provided in prior periods	0.0%	27	(0.6%)	(249)
Income tax expense from continuing operations	**21.7%**	15,108	**30.5%**	11,958

For statutory reporting purposes, the Group had an effective tax rate (ETR) of 21.7% on its continuing operations for the period ended 31 December 2020 (2019: 30.5%) compared to a statutory corporate tax rate of 30%. This rate difference is primarily due to the tax benefit on prior year capital losses not previously recognised and the transfer of deductions to the statutory funds in accordance with the Taxation of Insurance Companies. For the period ended 31 December 2019, this rate difference is primarily due to similar differences with the exception of prior year capital losses. Excluding these items IOOF's effective tax rate would be 30.3% and 28.5% respectively.

Tax contribution analysis
The IOOF Group contributes taxes directly and indirectly to Australia through both taxes paid and collected. For the year ended 30 June 2020 the IOOF Group contributed a total of $120.2m in taxes to Australian, New Zealand and Hong Kong governments (state and federal) with $119.9m or 99.75% of this amount attributable to the Australian Government. Further taxes paid by the IOOF Group on behalf of others, including employees and members, are not directly borne by the Group. These include income tax, GST, pay-as-you-earn withholding taxes, and local duties, which total a further $95m for the same period.

Tax transparency
The ATO publish tax information in respect of large public taxpayers in its annual tax transparency report. For the IOOF tax group, the latest ATO published report disclosed payments of $92.6m in income tax relating to the financial year ended 30 June 2019. IOOF is committed to tax transparency and is a signatory to the Board of Taxation's Voluntary Tax Transparency Code (the Code). 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.

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.

Section 2 - Results for the period

2-6 Dividends

The following dividends were declared by the IOOF Group:	Six months ended 31 December 2020		Six months ended 31 December 2019	
	Cents per share	Total '000	Cents per share	Total '000
Fully paid ordinary shares				
Interim dividend	8.0	51,946	16.0	56,172
Special dividend	3.5	22,726	7.0	24,575

In respect of the six months ended 31 December 2020, the Directors declared the payment of an interim dividend of 8.0 cents per share and a special dividend of 3.5 cents per share, both franked to 100% at 30% corporate income tax rate to the holders of fully paid ordinary shares to be paid on 18 March 2021. This dividend will be paid to all shareholders recorded on the Register of Members on 4 March 2021.

2-7 Earnings per share

	31 Dec 20 Cents per share	31 Dec 19 Cents per share
Basic earnings per share	10.2	33.3
Diluted earnings per share	10.2	33.2

Basic earnings per share

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

	31 Dec 20 $'000	31 Dec 19 $'000
Profit for the period attributable to owners of the Company	54,416	114,981
Earnings used in the calculation of basic and diluted EPS	54,416	114,981

Weighted average number of ordinary shares	No. '000	No. '000
Weighted average number of ordinary shares (basic)	531,050	350,062
Effect of unvested performance rights	841	691
Weighted average number of ordinary shares (diluted)	531,891	350,752

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 Loans and borrowings

IOOF Group's interest-bearing borrowings are measured at amortised cost.

On 27 November 2020, the IOOF group entered into an additional accommodation agreement to provide an additional $250m cash advance under the syndicated facility agreement (SFA) on acquisition of MLC. This facility has a 5 year repayment term from the SFA effective date. The amended SFA consists of the following facilities:

- $240m revolving cash advance facility with a 4 year repayment term from the SFA effective date.
- $625m 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.

	Loans and borrowings	
	31 Dec 20 $'000	30 Jun 20 $'000
Revolving Cash Advance Facility	(1,994)	457,858
Lease liabilities	104,620	114,394
Total	102,626	572,252

(a) Revolving Cash Advance 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:

	31 Dec 20 $'000	30 Jun 20 $'000
Total revolving cash advance facility limit under the SFA	865,000	615,000
Less drawn	-	460,000
Available revolving cash advance facility limit under the SFA	865,000	155,000

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

Revolving Cash Advance Facility	31 Dec 20 $'000
Opening balance 1 July 2020	457,858
Net borrowings drawn/(repaid)	(460,000)
Amortised capitalised establishment fees	148
Closing balance 31 December 2020*	(1,994)

*Borrowings were repaid during the year, however the facility remains in place to be drawn down for the purposes of the MLC acquisition. Capitalised borrowing costs which are ordinarily presented against the gross borrowings value remain on the balance sheet at 31 December 2020.

(b) Lease liabilities

The Group initially adopted AASB 16 Leases from 1 July 2019. AASB 16 introduced significant changes to the lessee accounting by 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.

Lease liabilities	31 Dec 20 $'000
Current	19,675
Non-current	84,945
Total lease liabilities at 31 December 2020	104,620

(c) Other bank facilities

In addition to the revolving cash advance facilities, the IOOF Group has contingent liability facilities. The aggregate of the contingent liability facilities is $55m (30 June 20: $55m) of which $51.9m was used at 31 December 2020 (30 June 2020: $51.9m).

Section 3 - Capital management and financing

3-2 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.

	31 Dec 20 $'000	30 Jun 20 $'000
649,324,356 fully paid ordinary shares (30 June 2020: 351,076,027)	3,000,619	1,970,847
792,719 treasury shares (30 June 2020: 861,715)	(4,618)	(5,023)
	2,996,001	1,965,824

	Six months ended 31 Dec 20		Year ended 30 Jun 20	
Ordinary shares	No. '000	$'000	No. '000	$'000
On issue at 1 July	351,076	1,970,847	351,076	1,970,999
Issue of shares	298,248	1,043,871	-	-
Transaction costs of issuing new shares, net of tax	-	(14,331)	-	-
Transfer from employee equity-settled benefits reserve on exercise of performance rights	-	637	-	2,715
Treasury shares transferred to recipients during the period	-	(405)	-	(2,867)
On issue at the end of the period	649,324	3,000,619	351,076	1,970,847
Treasury shares				
On issue at 1 July	(862)	(5,023)	(1,237)	(7,890)
Treasury shares transferred to recipients during the period	69	405	447	3,558
Shares returned from recipients during the period	-	-	(72)	(691)
On issue at the end of the period	(793)	(4,618)	(862)	(5,023)
Total share capital	648,532	2,996,001	350,214	1,965,824

Capital raise

In September 2020, the IOOF Group completed a capital raising for the purposes of the acquisition of the MLC wealth management business. The capital raising consisted of a $1,040 million fully underwritten institutional placement and accelerated non-renounceable entitlement offer, and a non-underwritten share purchase plan. Under these offers, the Group raised additional capital of $1,043 million, representing 298,248,329 ordinary shares, and incurred transaction costs of $20.5 million.

Issue of performance rights

During the six months to 31 December 2020, the Company issued the following performance rights to employees and executives:

Recipients	No. of Rights	Fair Value $
Managing Director	239,597	2.16
Senior Management	386,452	2.16
Other Key Stakeholders	260,463	2.16
Other Key Stakeholders	283,781	2.43
Other Key Stakeholders	69,517	3.18
	1,239,810	

3-3 Commitments and contingent liabilities

Buyer of Last Resort Facility

Two subsidiaries of the Group have contractual agreements with their 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 31 December 2020, the 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 Group. Where confirmation notices have been received, the Group has a fixed obligation to purchase the businesses at market value, the aggregate value of this fixed obligation is $6.1m (30 June 2020: $5.32m).

Other claims

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. 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.

Section 3 - Capital management and financing

3-3 Commitments and contingent liabilities (contined)

Acquisition of MLC

On 31 August 2020 the Group announced that it had 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.

On 14 December 2020, the Group announced that it had received confirmation from the ACCC that it would not oppose IOOF's proposed acquisition of MLC.

The purchase consideration and acquisition and integration costs will be funded via the share capital raise which was completed in September 2020, additional debt under the Group's syndicated debt facility, a subordinated loan note to be issued to NAB, and existing IOOF cash.

3-4 Reserves

	31 Dec 20 $'000	30 Jun 20 $'000
Available-for-sale investment revaluation reserve	2,536	91,300
Business combinations reserve	(326)	(326)
Foreign currency translation reserve	(27)	(27)
Operating Risk Financial Reserve*	2,655	2,655
Share-based payments reserve	(2,207)	(2,330)
	2,631	91,272

* This reserve is held for certain AET Superannuation products. Other similar reserves exist within the IOOF Group, however these are generally held by the relevant funds.

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 Group's financing activities are addressed in Section 3.

4-1 Provisions

	31 Dec 20 $'000	30 Jun 20 $'000
Employee entitlements	75,990	69,491
Ex-ANZ AL remediation provision	207,251	215,774
IOOF AL remediation provision	202,278	216,900
Ex-ANZ P&I remediation provision	165,683	174,700
Other provisions	77,926	56,273
	729,128	733,138

As of 31 December 2020, the Group has recognised provisions of $575.2m (30 June 2020: $607.4m) in respect of client remediation and related costs. Of this amount, $207.3m is indemnified by the ANZ Banking Group and an offsetting receivable has also been recognised. There is no material cash flow impact arising from that component of the provision. 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.

Movements in the remediation provisions in the current half year reflect payments made in remediating clients and payments for the cost of administering the remediation program.

The purchase price allocation relating to the ex-ANZ Pensions and Investments business was finalised during the period. This resulted in a downwards adjustment to remediation provisions of $23.2m. This adjustment has been recognised as if the accounting had been completed at the acquisition date, and therefore the amount presented in the prior period has been revised. Refer to note 6-2(d) for further detail.

Other provisions includes $76.5m in relation to the judgement in the Kerr v Australian Executor Trustees (SA) Ltd proceedings. Of this amount, $54.5m is held in escrow. 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 that component of the provision. The remaining $22m is the Group's best estimate of the potential costs, and has been provided for at 31 December 2020 as a result of the unfavourable appeal outcome.

4-2 Intangible assets (other than goodwill)

	31 Dec 20 $'000	30 Jun 20 $'000
Cost	858,798	856,677
Accumulated amortisation	(360,173)	(331,623)
	498,625	525,054

	IT Development $'000	Computer software $'000	Customer relationship $'000	Brand names $'000	Other Intangibles $'000	Total $'000
Carrying value at 1 July 2020	2,901	2,371	446,333	58,570	14,879	525,054
Acquisition through business combination	-	-	7	-	-	7
Additions	747	-	-	-	1,364	2,111
Disposals	-	-	-	-	-	-
Amortisation expense	(369)	(709)	(26,037)	(400)	(1,032)	(28,547)
Carrying value at 31 December 2020	3,279	1,662	420,303	58,170	15,211	498,625

Intangible assets (other than goodwill) are amortised over the expected useful life of the asset.

The purchase price allocation relating to the ex-ANZ Pensions and Investments business was finalised during the period. This resulted in an upwards adjustment to customer relationship assets of $189.1m. This adjustment has been recognised as if the accounting had been completed at the acquisition date, and therefore the amount presented in the prior period has been revised. Refer to note 6-2(d) for further detail.

Section 4 - Operating assets and liabilities

4-3 Goodwill

	31 Dec 20 $'000	30 Jun 20 $'000
Cost	1,604,039	1,563,179
Accumulated impairment	(97,774)	(97,775)
Net carrying value of goodwill	1,506,265	1,465,404
Opening carrying value	1,465,404	936,891
Acquisition through business combination	40,861	532,857
Impairment of goodwill	-	(4,344)
Closing carrying value	1,506,265	1,465,404

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. The recoverable amounts for goodwill allocated to all CGUs have been determined based on value-in-use calculations using FY2021 actual balances to forecast 2022 and beyond cash flows. No impairment was identified.

The purchase price allocation relating to the ex-ANZ Pensions and Investments business was finalised during the period. This resulted in an upwards adjustment to goodwill of $2.3m. In addition, $189.1m of the preliminary goodwill value was reallocated to identified intangibles. These adjustments have been recognised as if the accounting had been completed at the acquisition date, and therefore the amount presented in the prior period has been revised. Refer to note 6-2(d) for further detail.

4-4 Property and equipment

	31 Dec 20 $'000	30 Jun 20 $'000
Cost	220,226	217,443
Accumulated depreciation	(96,196)	(83,000)
Net carrying value of property and equipment	124,030	134,443

	Office equipment $'000	Leasehold improve-ments $'000	IT assets $'000	Land and buildings $'000	Right-of-use assets $'000	Total $'000
Carrying value at 1 July 2020	3,026	11,186	20,819	1,529	97,883	134,443
Additions	115	5	2,922	-	1,231	4,273
Disposals	-	-	-	-	(1,336)	(1,336)
Depreciation expense	(377)	(1,050)	(2,126)	(8)	(9,789)	(13,350)
Carrying value at 31 December 2020	2,764	10,141	21,615	1,521	87,989	124,030

Section 5 - Statutory funds

A subsidiary of the Company, IOOF Ltd, is a friendly society in accordance with the Life Insurance Act 1995. 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	
	31 Dec 20 $'000	31 Dec 19 $'000
Statutory fund revenue		
Interest income	337	463
Dividends and distributions received	8,300	11,220
Net fair value gains/(losses) on other financial assets designated as fair value through profit or loss	71,167	22,287
Investment contracts with DPF:		
Contributions received - investment contracts with DPF	796	536
DPF policyholder liability decrease	8,305	11,411
Non - DPF policyholder liability (increase)	(52,444)	(20,632)
Other fee revenue	1,239	1,383
	37,700	**26,668**
Statutory fund expenses		
Service and marketing fees expense	4,361	5,304
Direct operating expenses	2	2
Investment contracts with DPF:		
Benefits and withdrawals paid	10,175	12,208
Termination bonuses	1	14
Interest expense	55	30
	14,594	**17,558**
Income tax expense	**23,106**	**9,110**
Statutory fund contribution to profit or loss, net of tax	-	-

Section 6 - Basis of preparation

This section sets out the IOOF Group's accounting policies that relate to the financial statements as a whole. This section also shows new accounting standards, amendments and interpretations, and whether they are effective for the year ended 30 June 2021 or later years.

6-1 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 six months ended 31 December 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 consolidated financial statements of the IOOF Group as at and for the year ended 30 June 2020 are available upon request from the Company's registered office or at www.ioof.com.au
The Company's registered office and its principal place of business are Level 6, 161 Collins Street, Melbourne.

6-2 Basis of preparation

(a) Statement of compliance

This condensed consolidated interim financial report has been prepared in accordance with AASB 134 Interim Financial Reporting, Corporations Act 2001 and with IAS 34 Interim Financial Reporting. Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the IOOF Group since the last annual consolidated financial statements as at and for the year ended 30 June 2020. This condensed consolidated interim financial report does not include all of the information required for full annual financial reports and should be read in conjunction with the most recent annual financial report.

This condensed consolidated interim financial report was approved by the Board of Directors on 24 February 2021.

(b) Use of estimates and judgements

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this condensed consolidated interim financial report the significant judgements made by management in applying the IOOF Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 30 June 2020.

(c) 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 Directors' report and the half-year financial report are rounded off to the nearest thousand dollars, narrative disclosures are expressed in whole dollars or as otherwise indicated.

(d) Finalisation of acquisition accounting

In the current period, the Group has finalised the purchase price allocation relating to its acquisition of the ex-ANZ P&I businesses. The result of this was a net decrease in receivables, an increase in identified intangibles acquired, the reallocation of goodwill to identified intangibles, recognition of amortisation on identified intangibles, and a reduction in remediation provisions and related interest charges. Related income tax balances have also been adjusted. In accordance with relevant accounting standards, the adjustments required have been recognised retrospectively, with adjustments made to provisional amounts recognised at the acquisition date.

The table below shows the impact of the adjustments on the 30 June 2020 statement of financial position.

Statement of Financial Position	30-Jun-20 previously reported $'000	30-Jun-20 adjustment $'000	30-Jun-20 revised $'000
Assets			
Cash	374,730	-	374,730
Receivables*	612,777	(32,874)	579,903
Other financial assets	1,116,773	-	1,116,773
Current tax assets*	-	23,574	23,574
Prepayments	16,265	-	16,265
Deferred acquisition costs	994	-	994
Associates	12,946	-	12,946
Property and equipment	134,443	-	134,443
Deferred tax assets	49,738	(49,738)	-
Intangible assets	343,958	181,096	525,054
Goodwill	1,596,042	(130,638)	1,465,404
Total assets	4,258,666	(8,580)	4,250,086

*Current tax assets were included within other receivables at 30 June 2020. They have been split out and presented separately in the 30 June 2020 column of the 31 December 2020 balance sheet. This does not relate to an acquisition accounting adjustment.

Section 6 - Basis of preparation

6-2 Basis of preparation (continued)

(d) Finalisation of acquisition accounting (continued)

Statement of Financial Position	**30-Jun-20 previously reported $'000**	**30-Jun-20 adjustment $'000**	**30-Jun-20 revised $'000**
Liabilities			
Payables	120,566	-	120,566
Other financial liabilities	1,065,340	-	1,065,340
Loans and borrowings	572,252	-	572,252
Provisions	756,314	(23,176)	733,138
Deferred tax liabilities	-	20,261	20,261
Deferred revenue liability	931	-	931
Total liabilities	2,515,403	(2,915)	2,512,488
Net assets	1,743,263	(5,665)	1,737,598
Equity			
Share capital	1,965,824	-	1,965,824
Reserves	91,272	-	91,272
Accumulated losses	(313,604)	(5,665)	(319,269)
Total equity attributable to equity holders of the Company	1,743,492	(5,665)	1,737,827
Non-controlling interest	(229)	-	(229)
Total equity	1,743,263	(5,665)	1,737,598

The IOOF Group has consistently applied the accounting policies to all years presented in these consolidated financial statements.

6-3 Other significant accounting policies

Except as described below, the accounting policies applied in these interim financial statements are the same as those applied in the IOOF Group's consolidated financial statements as at and for the year ended 30 June 2020.

6-4 New standards and interpretations not yet adopted

A number of new standards and amendments to standards are effective for annual years beginning after 1 July 2021 and earlier application is permitted; however the IOOF Group has not early adopted the following new or amended standards in preparing these consolidated financial statements. They are not expected to have a significant impact on the Group's consolidated financial statements.

New standards or amendments	**Effective date**
IFRS 17 *Insurance Contracts*	1 January 2023
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (amendments to AASB 10 and AASB 128)	Available for optional adoption Effective date deferred indefinitely

6-5 Subsequent events

The Directors have declared the payment of an interim dividend of 8.0 cents per ordinary share and a special dividend of 3.5 cents per ordinary share franked to 100% based on tax paid at 30%, to be paid on 18 March 2021.

On 5 February 2021, IOOF announced that the Court of Appeal dismissed Australian Executor Trustees (SA) Ltd (AET) appeal in relation to the AET v Kerr case. After this decision, IOOF has taken up an additional provision of $22m as at 31 December 2020 to cover potential exposure.

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 31 December 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.