

# IOOF 2019 first half results

Renato Mota, Acting CEO

David Coulter, CFO





# Business update

Renato Mota, Acting CEO







## Committed to restoring trust

- › Critically assess how IOOF responds to Royal Commission insights
- › Building trust through organisational values and capabilities
- › Setting higher standards and expectations in governance
- › Opportunity to set the industry tone and leadership position

## Key business priorities

### Restoring trust

- Accelerating governance investment
- Reset of relationships with stakeholders

### Accelerating governance

- Completion of APRA MAP
- Advice review
- Adoption of Royal Commission recommendations

### Building long-term scale benefits

- Working towards completion of ANZ Pensions and Investments business acquisition

### Build client-centric business model

- Continuation of advice-led wealth management strategy
- Embedding ClientFirst throughout the business
- Deliver key Project Evolve milestones

## Solid result in challenging environment

Half year  
UNPAT  
+ 6%

**\$100.1 m**

Total funds under  
management,  
administration  
and advice

**\$137.8 b**

Platform  
net inflows

**\$688 m**

Interim fully franked  
dividend

**25.5¢** per share

Supporting financial  
prosperity for  
Australians

**~ 500,000** clients

Top performing Retail  
MySuper fund over five  
years per SuperRatings\*

**#1**

Platform rating  
per Wealth  
Insights

**5<sup>th</sup> / 17**

Building high-quality  
adviser network:  
from 30 June 2018,  
up 86%

**1,906** advisers

\* Performance per SuperRatings to 31 December 2018

# Financial highlights

	1H19	1H18	Change on PCP	
Statutory NPAT	\$135.4m	\$45.2m	<b>\$90.2m</b>	<b>200%</b>
Underlying NPAT from continuing operations	\$100.1m	\$94.6m	<b>\$5.5m</b>	<b>6%</b>
Underlying EPS (cents)	28.5cps	29.8cps	-1.3cps	-4%
Cost to Income %*	52.4%	53.5%	-1.1%	-2%
FUMA	\$137.8b	\$120.0b	\$17.8b	15%
Net Operating Margin %	0.17%	0.23%	-0.06%	-24%
Dividend per share (cents)	25.5cps	27.0cps	<b>-1.5cps</b>	<b>-6%</b>

\* From continuing operations. 1H19 includes coupon interest from ANZ debt note

## Statutory NPAT includes:

- › profit from sale of corporate trust business; \$34m
- › recovery of legal costs; \$25m
- › prior period impairment of Perennial (\$28m)

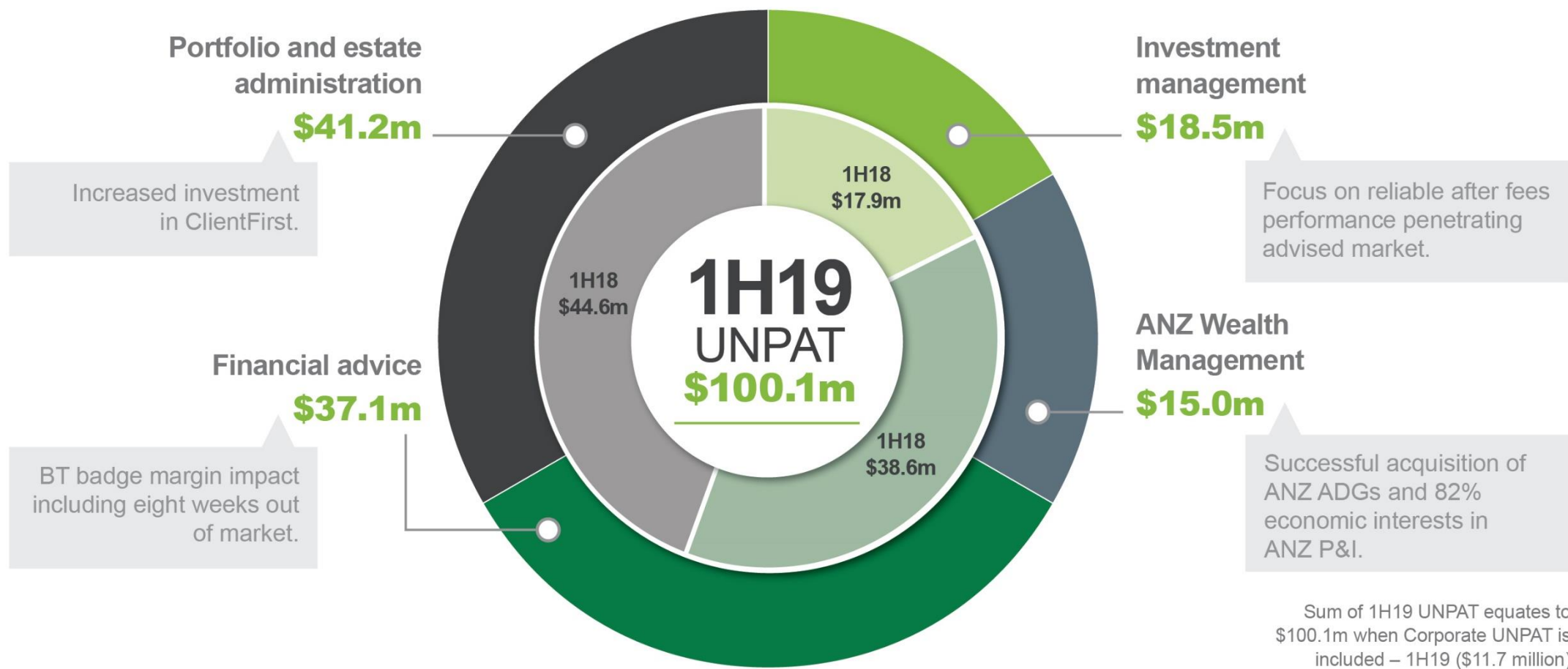
## Underlying NPAT includes:

- › after tax loss from 3 months ownership of ANZ ADGs; (\$5m)
- › 3 months of ANZ P&I economic interest via 14.4% coupon rate; \$20m

**Payout of 90% is a return to the higher end of stated dividend payout ratio of 60-90%**

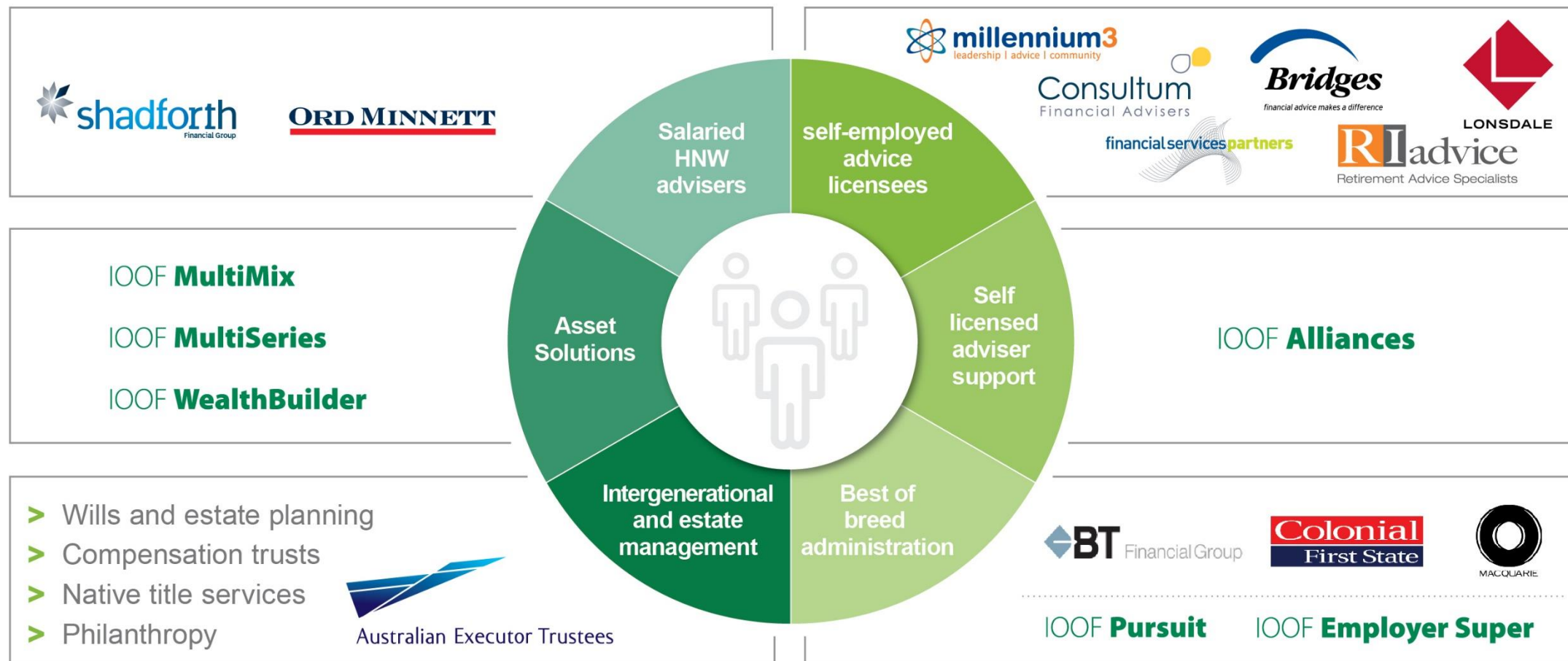
# Diversified business model delivers solid result

## Segment contribution to 1H19 UNPAT





## Diversified business model focused on client outcomes



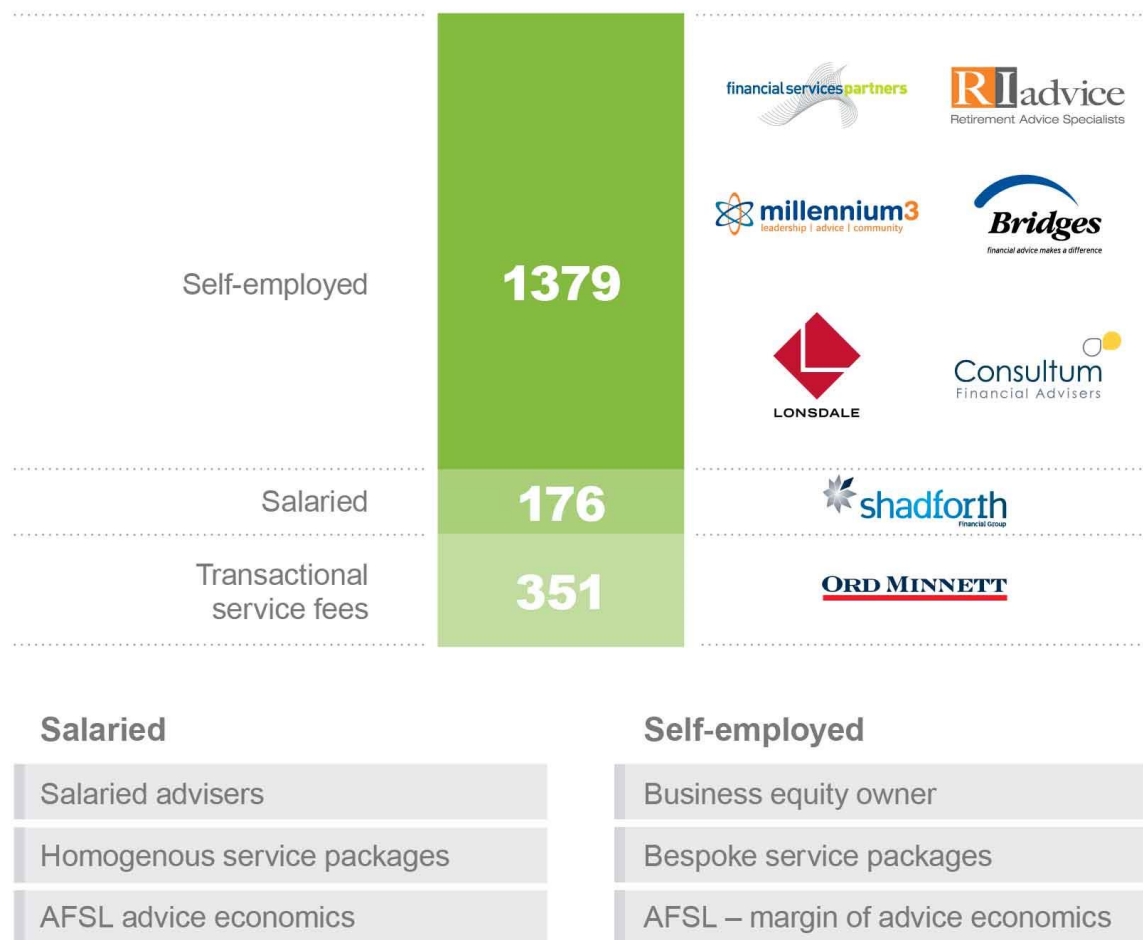


# Accelerating investment in governance

- › Established the IOOF Royal Commission Working Group to focus on issues arising from the hearings
- › Prioritising areas of focus in order to work through swiftly and diligently
- › Protecting Your Super package - ~\$3m in exit fees per annum
- › Prudent estimate of product exposure based on non-systemic issues of \$5-10m
- › Cost to implement full advice review program - \$20-\$30m

Areas of focus	Description	Review status	Estimated financial impact
<b>Deceased estates</b>	<ul style="list-style-type: none"> <li>Reviewed over 2,000 client files based on fee streams post mortality - no material loss or systemic issues identified</li> <li>Adviser-based where identified (i.e. non IOOF revenue)</li> <li>Process improvements implemented as at July 2018 to ensure no reoccurrence</li> </ul>	<b>Completing with reference to RC final report</b>	<b>\$5m - \$10m</b>
<b>Product</b>	<ul style="list-style-type: none"> <li>Corporate super focus as deemed highest risk following NAB/MLC focus on plan service fees</li> <li>Relatively low component of IOOF FUA</li> <li>Investigated files, fee disclosures and contracts on a sample basis</li> <li>No material issues identified to date</li> </ul>		
<b>Advice</b>	<ul style="list-style-type: none"> <li>Working to quantify potential exposure by undertaking a comprehensive review</li> <li>Enhancing the audit program - IOOF applying ASIC Report 515 audit standards and remediation protocols across all IOOF licensees</li> <li>Existing review process with ~5,000 files reviewed per year has not highlighted any systemic issues</li> </ul>	<b>To be completed by 30 September 2019</b>	<b>No material systemic issues identified to date</b>

# Understanding the self-employed advice model



- › IOOF applying ASIC Report 515 audit standards and remediation protocols across all IOOF licensees
- › Advice review frameworks developed with input from Deloitte and independent assurance to be provided by PwC

Source: ASIC adviser numbers at 1 February 2019. Analysis includes largest IOOF advice groups.



# Accelerating advice assurance and governance work streams

## Governance

- Complaints and incidents Management
- Consequence management framework
- Governance forums
- Key control testing
- Breach reporting and regulator notice management

## Monitoring and supervision

- Onboarding and offboarding procedures
- People, capabilities and resourcing
- Target reviews

## Professional standards

- Review and update Licensee standards, guides and policies
- Prepare advice coaching/technical materials

## Advice systems

- Changes to Adviser Hub, and XPLAN
- Electronic storage of advice documents

## Advice tools and process

- Review and update advice templates (fact find, SOA, ROA, risk profile, cash flow analysis)

## Ongoing service review

- Workshops to determine position
- Build framework, standards, tools and controls
- Rollout – change management, training and communications

## Independent review

- Independent expert to provide guidance on industry standard and regulator expectations

## People and culture

- Impact on current training requirements for advisers based on changes
- Change management for key stakeholders (AAO, vetting, para-planning, coaches, advisers)
- Communications plan
- Advisory Board Engagement

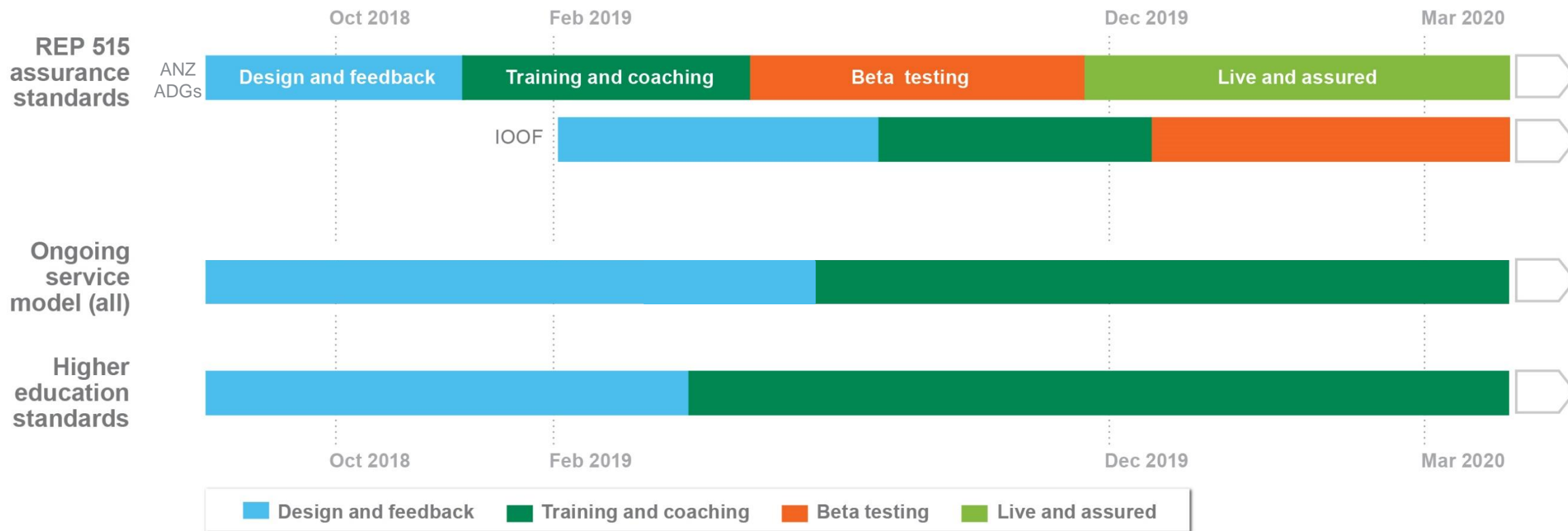
## Remediation

- 515 Remediation on files where client detriment has occurred (PwC Audit)
- Consideration of the need for a remediation centre of excellence

## Key risk indicators

- Develop automated key risk indicators

## Setting industry best practice in adviser compliance



- Developed with input from Deloitte.
- Independent assurance to be provided by PwC.

- IOOF to increase focus on high risk investigations in addition to ~5,000 files reviewed per annum.



# Progress made on key APRA licence conditions

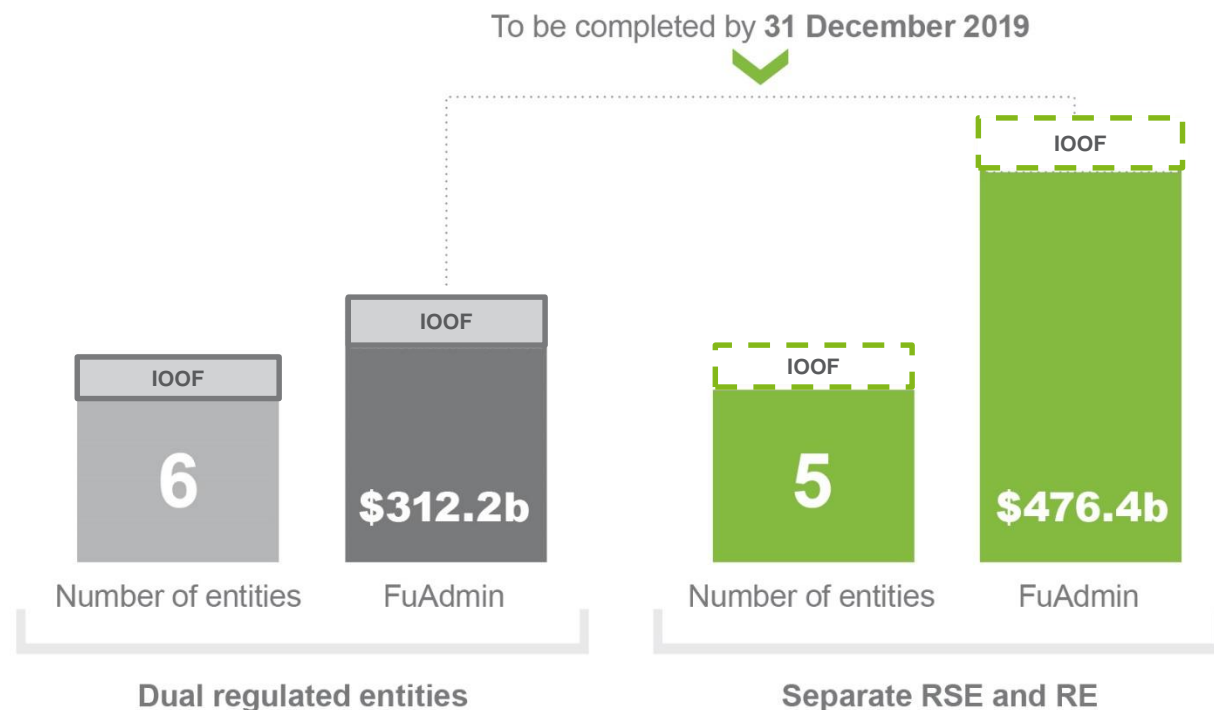
	Summary description	Due date required by a licence condition
1	Split RSE Licence (RSEL) and RE Licence functions into distinct legal entities	
	- AET / IIML	30 June 2019 / 31 December 2019
	- Hold separate board meetings to consider the interests of RSELs, separate from board meetings held for RE functions	Implemented, to be maintained*
2	Implement and maintain a dedicated business function to support the AREs	31 March 2019
3	Move to majority independent directors and Chair of the AREs	Implemented, to be maintained*
4	Appoint an independent expert to prepare an analysis in relation to the possible consolidation of RSEs	30 June 2019
5	Amend the structure and composition of the ARE Board committees to comply with Prudential Standards	Implemented, to be maintained*
6	Clear action plan arising from the EY Independent Review into conflicts of interest and risk culture	Implemented*
	- Complete actions with 31 December 2018 due dates	Implemented*
	- Complete actions with 31 March 2019 due dates	31 March 2019
	- Complete actions with 30 June 2019 due dates	30 June 2019
7	Provide regular reporting to APRA and meet monthly	Ongoing
8	Appoint an Independent Reviewer to report to APRA quarterly	Appointed and ongoing

\* Subject to satisfactory review by the Independent Reviewer and acceptance by APRA

- › Reset relationship with APRA, working constructively
- › Managed Action Plan progressing well and on track
- › 7 of 12 key line items implemented\*

# Bolstering the Mandatory Action Plan

## Industry structural analysis



- › Accelerating change – competitive advantage
- › Building fit for purpose governance framework beyond APRA's licence conditions
- › Focusing on conduct culture
- › Supporting the long-term prosperity of members and investors

Analysis covers **92%** of entities in Strategic Insights marketshare reports by FuAdmin

Source: Strategic Insights September 2018 quarterly FUM marketshare, IOOF Analysis. 11 entities included in analysis are AMP, BTFG, CBA, MLC, MCQ, NWL, Mercer, ANZ, Stateplus, Hub24, IOOF.



# Hayne Royal Commission – Key IOOF considerations

## Financial Advice

Ref	Recommendation	IOOF considerations
2.2	Disclosure of lack of independence	Further information required
2.4	Grandfathered commissions	Total net impact of grandfathered commissions received in 1H19 - \$3.4m
2.8	Reporting compliance concerns	IFL committed to industry best practice in quality of advice provided

## Superannuation

Ref	Recommendation	IOOF considerations
3.1	No other role or office	Separation of RSE and RE already underway
3.2	Advice fees deducted from MySuper accounts	Not financially material. Currently less than 50 MySuper accounts totalling \$30k in advice fees
3.3	Advice fees from choice accounts	Some build to support functionality requirements. Further information required

Full list of Financial Advice and Superannuation recommendations in Appendix A.

# Financial results

David Coulter, CFO



## Profit and loss breakdown

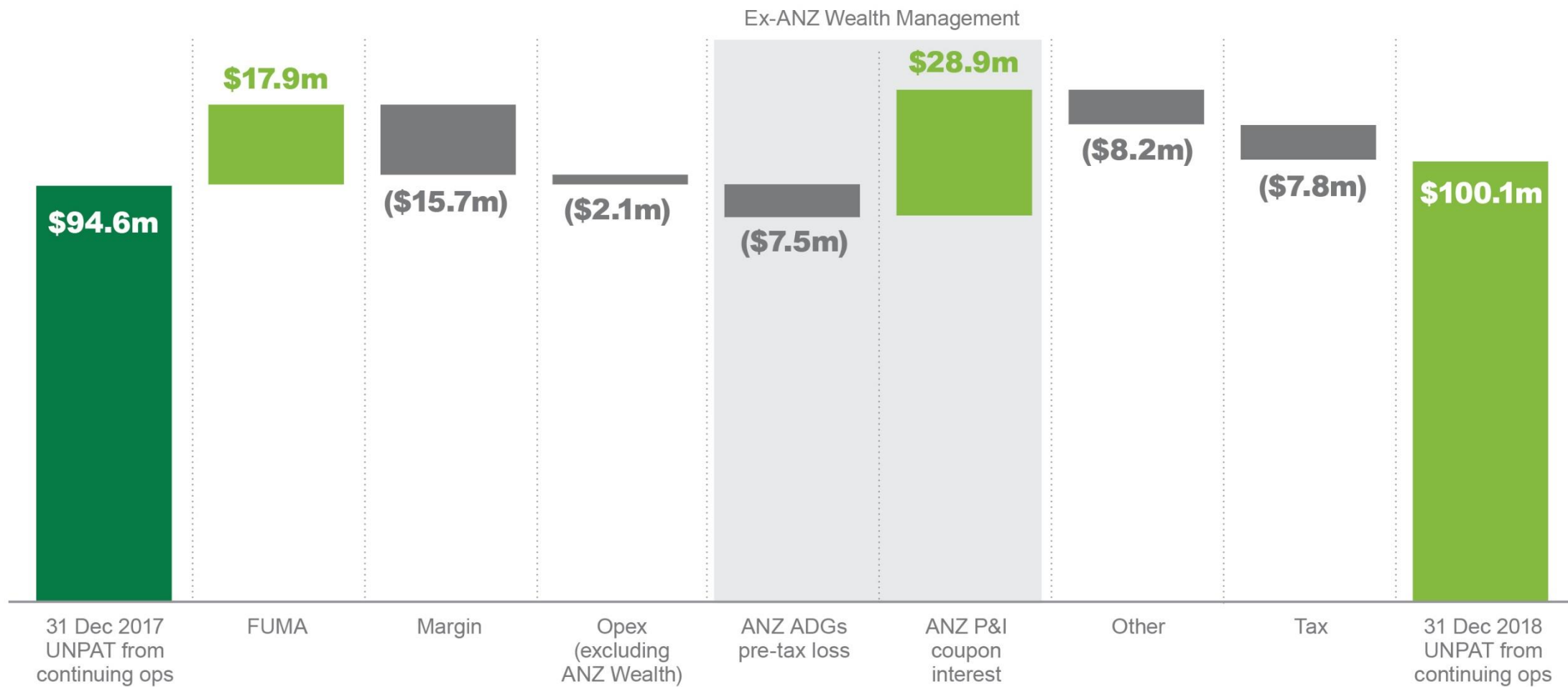
(\$m)	1H19 excluding ANZ Wealth Mgmt	1H19 ANZ Wealth Mgmt from 2 October 2018	1H19	1H18	Change on prior comparative period (+ / -) (%)	
Gross margin	266.3	4.1	270.5	264.2	▲ +6.3	2%
Other revenue	22.4	1.5	23.9	23.8	▲ +0.1	0%
Operating expenditure	(156.1)	(13.1)	(169.2)	(154.0)	▼ (15.2)	-10%
Equity accounted profits	0.4	—	0.4	1.3	▼ (0.9)	-68%
Net non cash	(9.2)	(0.0)	(9.2)	(5.3)	▼ (3.8)	72%
<b>Underlying EBITA*</b>	<b>124.0</b>	<b>(7.5)</b>	<b>116.5</b>	<b>130.0</b>	▼ (13.5)	-10%
Net interest	(0.9)	28.9	27.9	1.2	▲ +26.8	Large
<b>Income tax and NCI**</b>	<b>(37.9)</b>	<b>(6.4)</b>	<b>(44.3)</b>	<b>(36.6)</b>	▼ (7.8)	21%
Underlying NPAT excluding discontinued operations	<b>85.2</b>	<b>15.0</b>	<b>100.1</b>	<b>94.6</b>	▲ +5.5	6%
Discontinued operations			(0.2)	0.2	▼ (0.4)	-174%
<b>Underlying NPAT***</b>			<b>99.9</b>	<b>94.8</b>	▲ +5.1	5%
Significant items / amortisation			35.5	(49.6)	▲ +85.1	-172%
<b>Statutory NPAT</b>			<b>135.4</b>	<b>45.2</b>	▲ +90.2	200%

\* Earnings before interest taxes and amortisation    \*\* Non-controlling interest    \*\*\* Net operating profit after tax

1H19 and 1H18 financial information presented on a continuing basis unless otherwise stated.



# Group UNPAT analysis



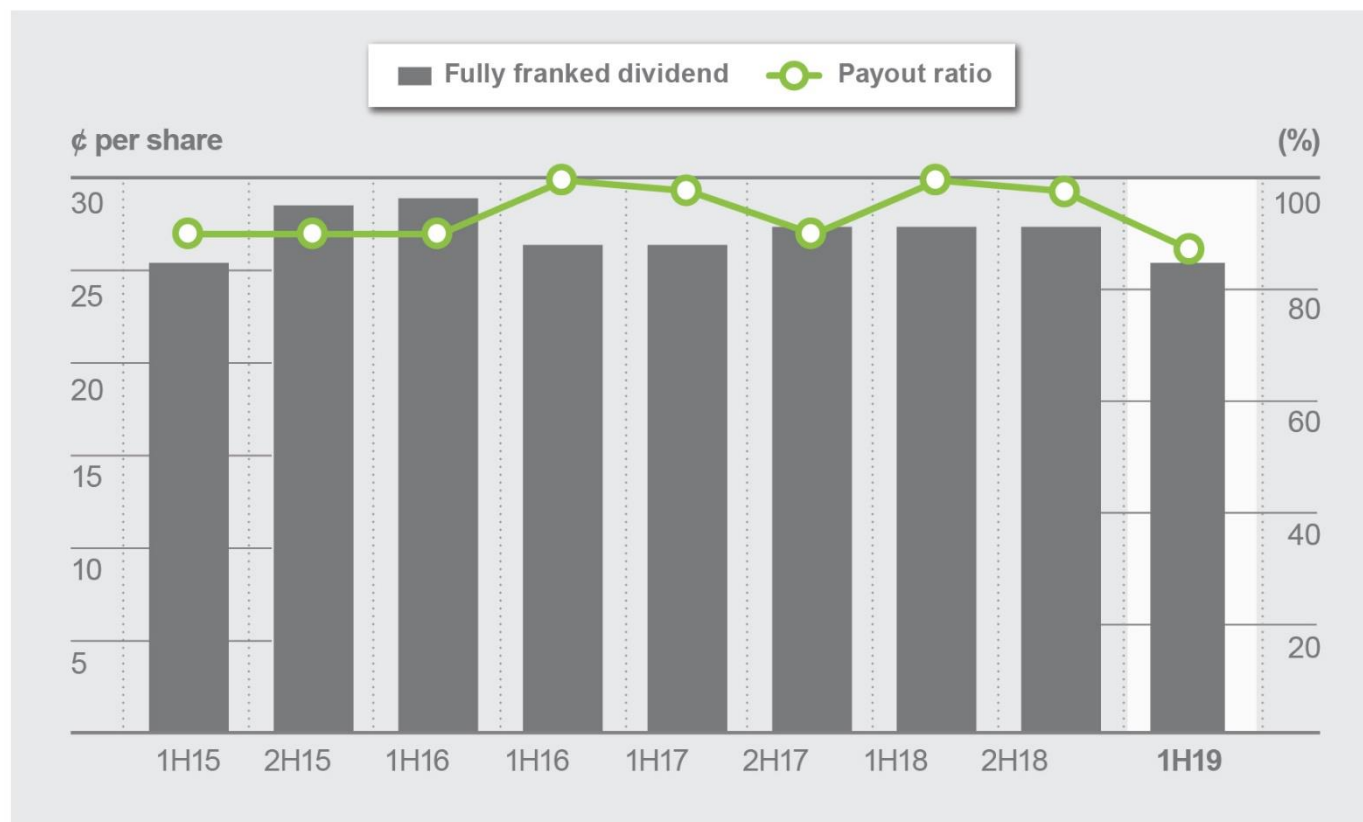
## Organic growth continues in challenging competitive environment

	1H19	1H18
<b>Opening FUMA</b>	<b>\$125,933m</b>	\$114,628m
Portfolio & Estate Administration net flows	\$688m	\$617m
Financial Advice net flows	(\$176m)	\$1,208m
Investment Management net flows	(\$320m)	(\$261m)
<b>Total net flows</b>	<b>\$193m</b>	\$1,564m
Pension payments	(\$773m)	(\$731m)
Acquired FUMA – ANZ ADGs	\$17,256m	-
Investment returns / Other	(\$4,768m)	\$4,576m
<b>Closing FUMA</b>	<b>\$137,840m</b>	\$120,037m

- › Platform net inflows **up 12%** to **\$688m** in a highly competitive environment
- › No significant outflows to industry super funds
- › Advice flows impacted by a third party product reprice - which has since been matched by an equivalent offer

# Delivering for our shareholders

## Dividend analysis



- › 1H19 interim dividend of **25.5cps** fully franked
- › Dividend **payout ratio of 90%** in 1H19 – Return to upper end of stated payout ratio of 60-90%
- › Payment date **15 March** 2019

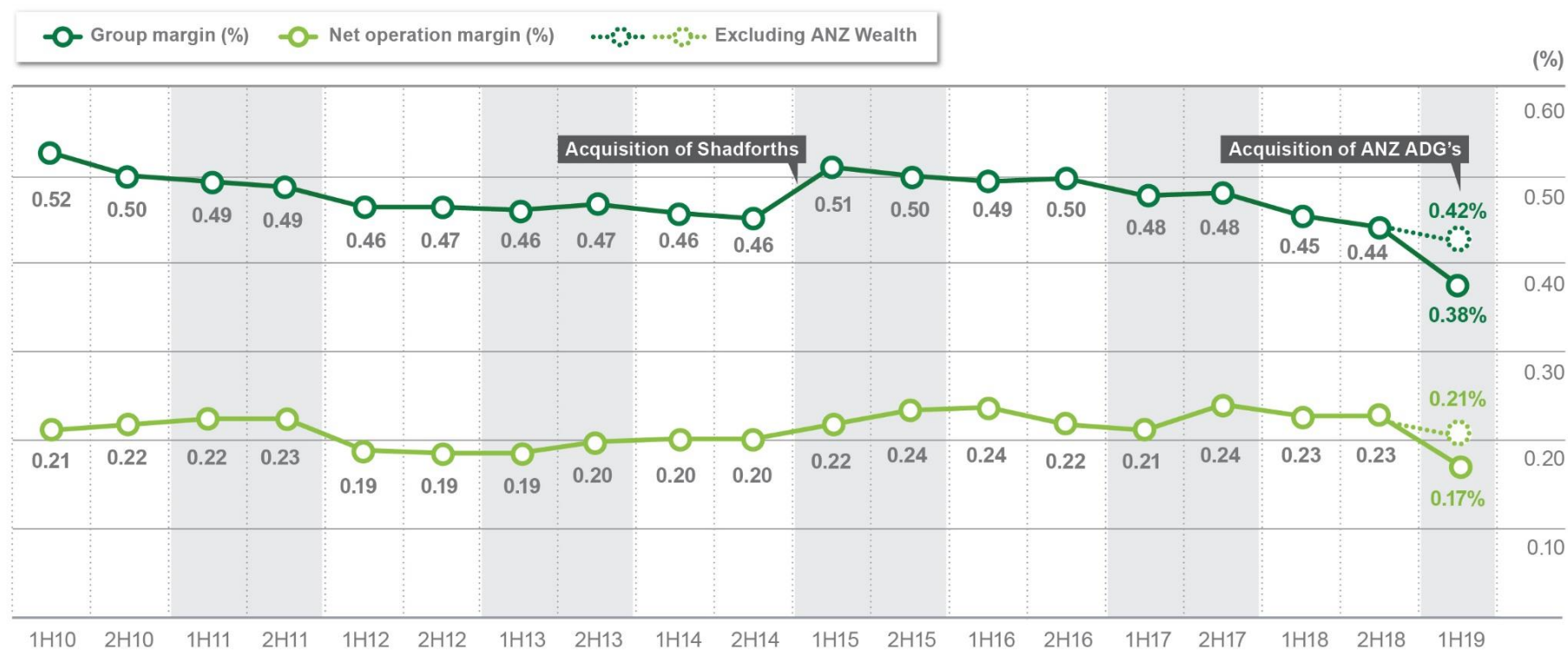


# Group Margins – longer time series analysis

## Gross margin impacted by:

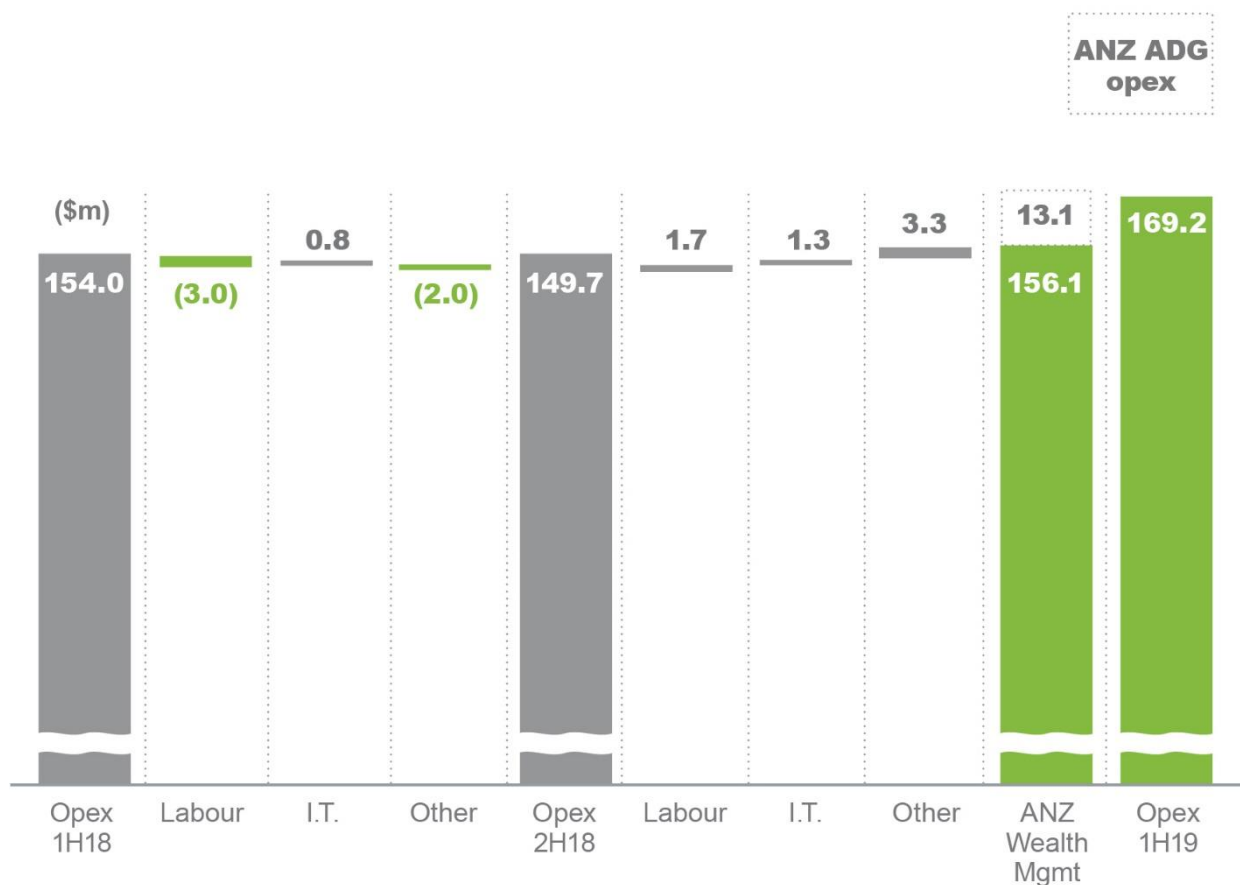
- › long-term transition to contemporary products and services; and
- › competitive pricing from a third party administrator which has since been matched by an equivalent offer

**Net operating margin excluding loss making ANZ ADGs remains in line despite adverse equity market conditions**



**Note:** Presented including discontinued operations to show a like for like comparison over a longer time series. Perennial Value Management FUM has been excluded as equity accounted profits excluded from Gross and Net Operating Margin calculation

## Disciplined management of costs

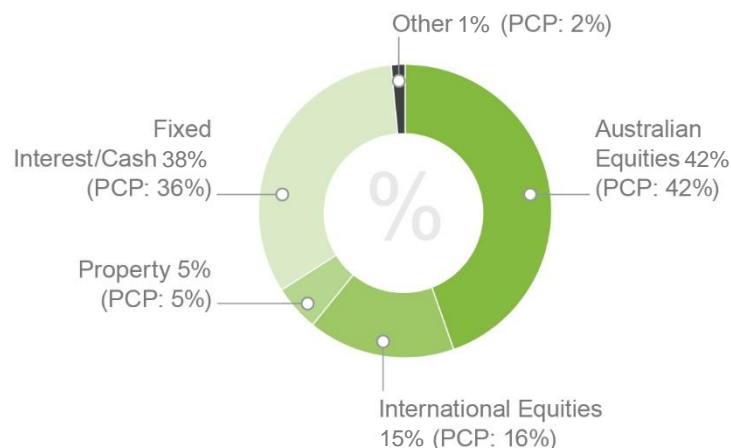


- › Labour increase is in line with CPI. Higher weight to equity based compensation due to discretionary staff salary sacrifice
- › IT spend shows a continuous long-term focus on incremental improvement
- › Other – slight increase in professional fees and administration expenses

## Financial Advice | Open architecture

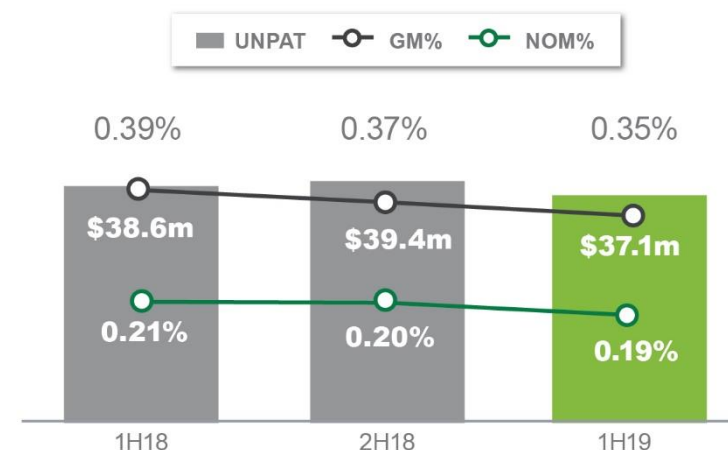
- › Gross margin has been adversely impacted by competitive pricing from a third party administrator which has since been matched by an equivalent offer
- › Open architecture allows IOOF to capture significant additional FUAdvice
- › Reduced operating expenditure to pcip reflects lower labour costs

### Asset allocation



\$m	1H19	2H18	1H18
Revenue	195.9	192.3	188.0
Direct Costs	(83.2)	(79.3)	(73.8)
<b>Gross Margin (GM)</b>	<b>112.7</b>	113.0	114.1
<b>GM %</b>	<b>0.35%</b>	0.37%	0.39%
Other Revenue	21.7	21.7	22.8
Share of equity profit/loss	0.0	0.4	0.4
Operating Expenditure	(74.9)	(73.1)	(76.5)
Net Non Cash	(2.8)	(2.3)	(2.0)
Net Interest	0.3	0.4	0.3
Income Tax Expense/N.C.I	(19.9)	(20.8)	(20.5)
<b>UNPAT</b>	<b>37.1</b>	39.4	38.6
Average FUAdv (\$b)	63.3	61.0	58.0
<b>NOM %</b>	<b>0.19%</b>	0.20%	0.21%

### Margin analysis

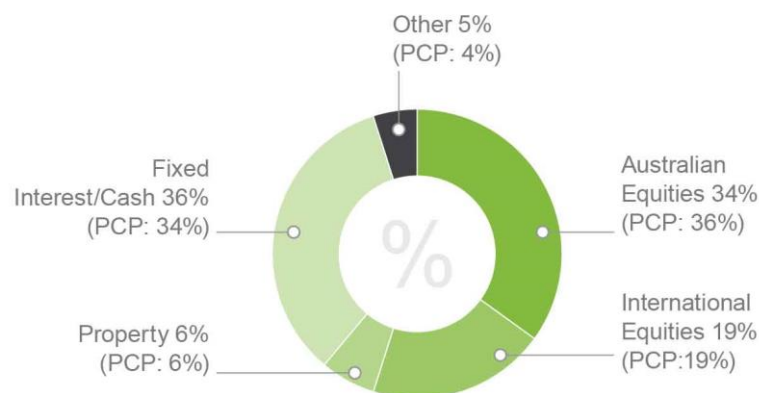




## Portfolio and Estate Administration | Embedding ClientFirst

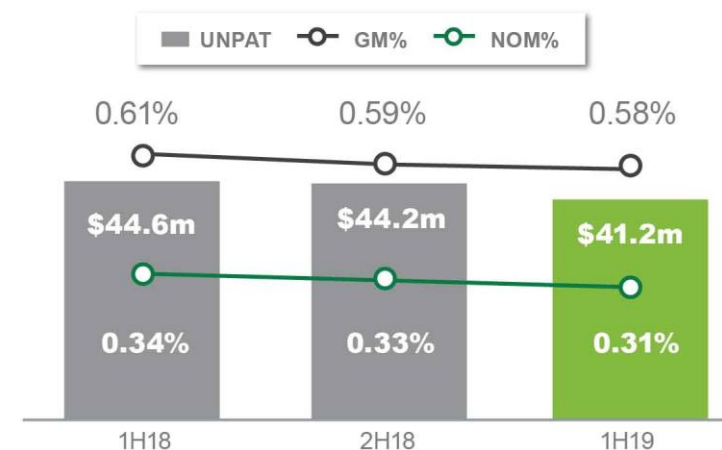
- › Segment now incorporates AET private client, Small Apra Fund, compensation, charitable and Native Title trust administration businesses
- › Basis point margins holding up reasonably compared to 2H18
- › Operating expenditure matches wide spread embedding of ClientFirst service levels to support sustainable long term organic growth
- › Non cash items impacted profitability due to some employees taking up of incentive payments as shares

Asset allocation



\$m	1H19	2H18	1H18
Revenue	211.2	209.1	211.6
Direct Costs	(90.8)	(90.9)	(92.6)
<b>Gross Margin (GM)</b>	<b>120.4</b>	118.2	119.0
<b>GM %</b>	<b>0.58%</b>	0.59%	0.61%
Other Revenue	-	-	0.1
Operating Expenditure	(56.6)	(52.2)	(52.7)
Net Non Cash	(4.3)	(2.6)	(2.5)
Net Interest	0.0	0.0	0.0
Income Tax Expense/N.C.I	(18.3)	(19.1)	(19.3)
<b>UNPAT</b>	<b>41.2</b>	44.2	44.6
Average FUAdmin (\$b)	40.8	40.1	38.4
<b>NOM %</b>	<b>0.31%</b>	0.33%	0.34%

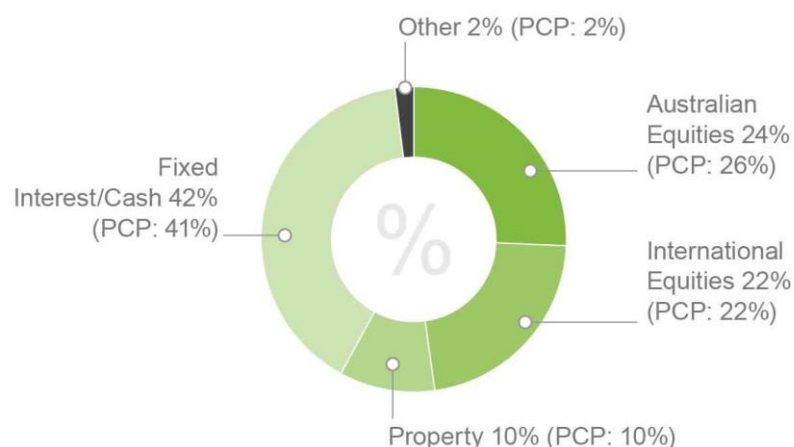
Margin analysis



# Investment Management | Consistent complementary business

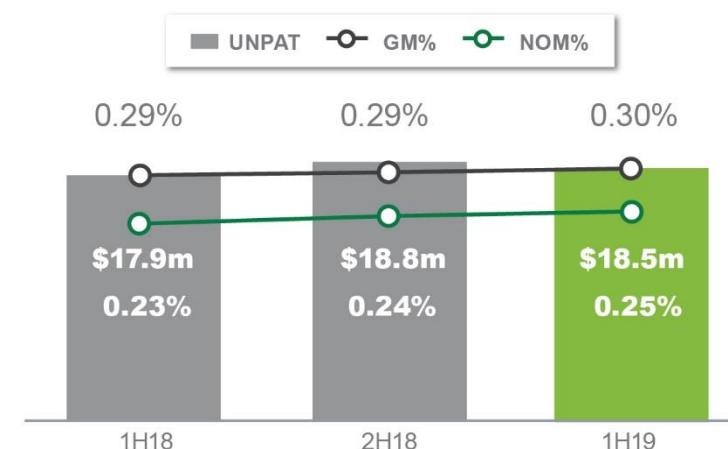
- › Overall outcome improved in line with market based growth in average funds
- › Multi-manager business model is unaffected by trends on active to passive
- › Lower operating expenditure resulted from reconfiguration following the retirement of the former CIO

## Asset allocation



\$m	1H19	2H18	1H18
Revenue	50.0	37.0	36.3
Direct Costs	(17.2)	(5.6)	(5.9)
<b>Gross Margin (GM)</b>	<b>32.7</b>	31.5	30.4
<b>GM %</b>	<b>0.30%</b>	0.29%	0.29%
Other Revenue	-	-	-
Share of equity profit/loss	0.4	0.8	1.0
Operating Expenditure	(5.2)	(5.5)	(5.9)
Net Non Cash	(1.4)	(0.3)	(0.3)
Net Interest	-	-	-
Income Tax Expense/N.C.I	(8.2)	(7.7)	(7.3)
<b>UNPAT</b>	<b>18.5</b>	18.8	17.9
Average FUM (\$b)	21.8	21.5	20.8
<b>NOM %</b>	<b>0.25%</b>	0.24%	0.23%

## Margin analysis

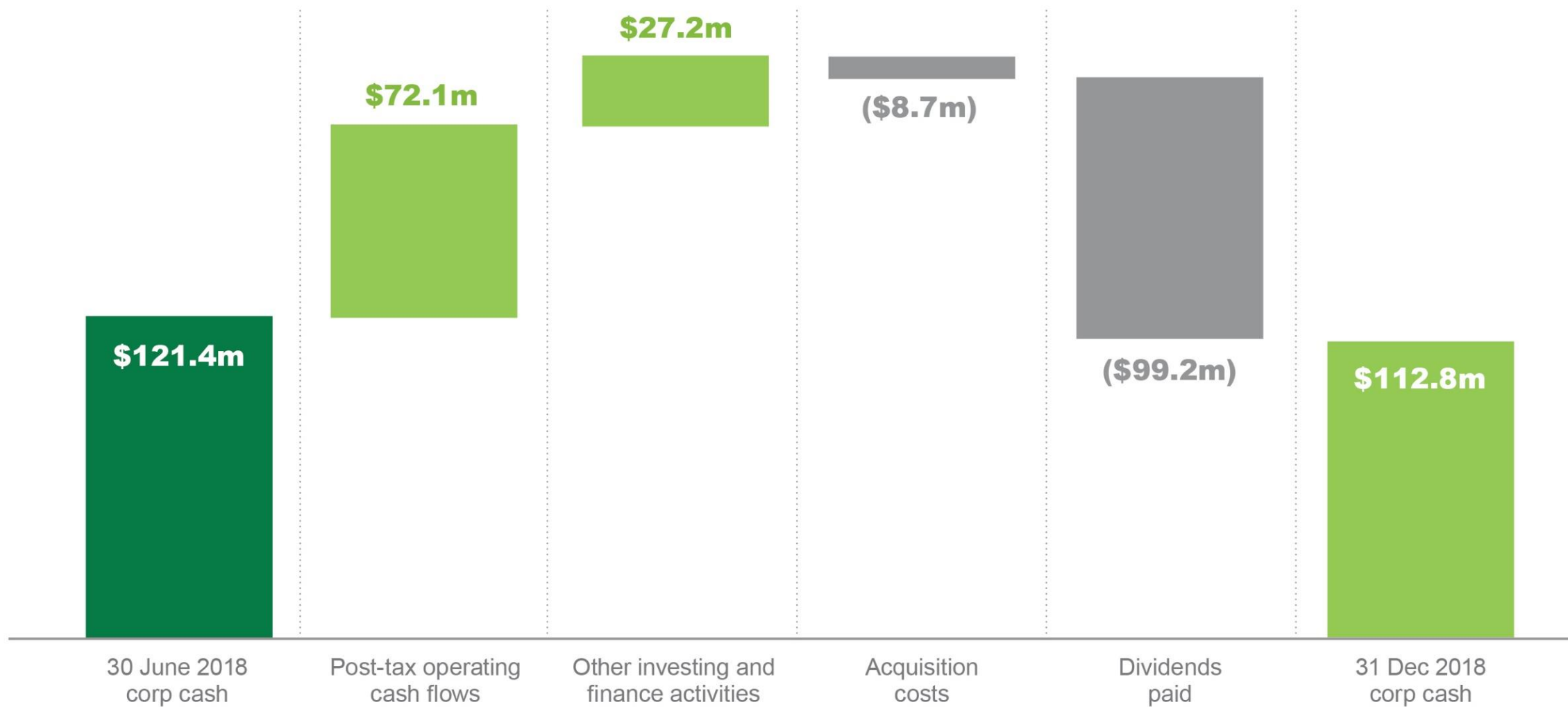


## Ex-ANZ Wealth Management | Successful acquisition bolsters growth

- › Substantial opportunity to streamline the businesses and adopt best of breed solutions irrespective of origin
- › 82% economic interest in the P&I interest received and will continue to be received until P&I acquisition completed
- › Margin impact of loss making acquisition flows through to Group, but will be offset in FY20 by synergies and business mix upon acquisition of ANZ Wealth Management P&I

\$m	1H19
Revenue	49.9
Direct Costs	(45.7)
<b>Gross Margin (GM)</b>	<b>4.1</b>
<b>GM %</b>	<b>0.10%</b>
Other Revenue	1.5
Share of equity profit/loss	-
Operating Expenditure	(13.1)
Net Non Cash	(0.0)
Net Interest	28.9
Income Tax Expense/N.C.I	(6.4)
<b>UNPAT</b>	<b>15.0</b>
Average FUM (\$b)	17.0
<b>NOM %</b>	<b>-0.17%</b>

## Strong operating cash flow and prudent capital management





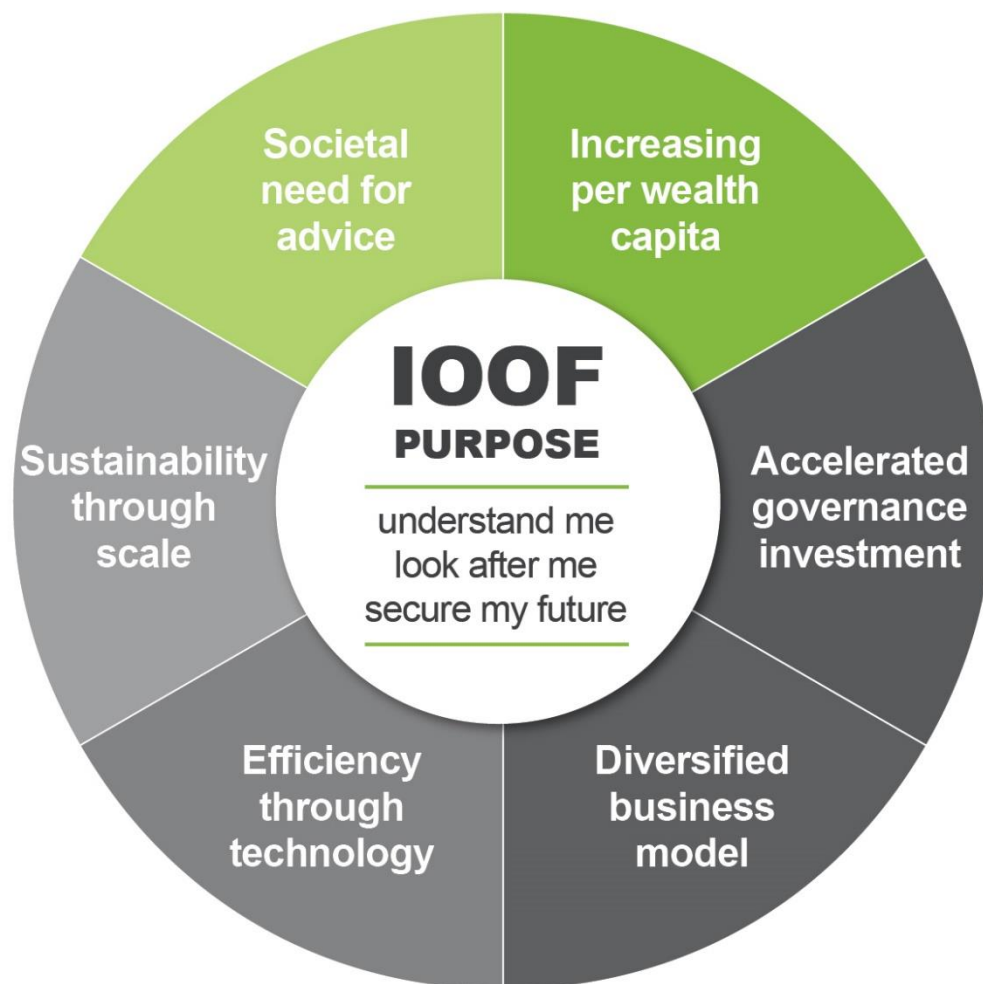
# Priorities and outlook

Renato Mota, Acting CEO





# Accelerating advice-led transformation



<b>Societal need for advice</b>	Approx. 10% of Australians obtain ongoing financial advice Ageing population with complex needs Significant contributor to wellbeing – ‘Advice alpha’
<b>Increasing per capita wealth</b>	SG growth to 12% Assets expected to double in next 10 years* Intergenerational wealth transfer
<b>Accelerated governance investment</b>	Investing in fit for purpose governance frameworks Investment in conduct culture Technology enabled monitoring and controls
<b>Diversified business model</b>	Economic resilience through diversification Leverage vertical integration for the benefit of clients Diversification caters to uniqueness of client needs
<b>Efficiency through technology</b>	~\$30m in technology development in 1H19 ClientFirst delivering enhancements and efficiencies
<b>Sustainability through scale</b>	Reducing per unit cost allows for further reinvestment Strategic resilience through economic cycle

\* Rice Warner 2017 superannuation projections

# ANZ Wealth Management P&I completion

## ClientFirst measure

## IOOF

Roy Morgan Customer Satisfaction March 2018

No. **3**

Wealth Insights Adviser service satisfaction

No. **5**

SuperRatings MySuper Investment performance

1<sup>st</sup> quartile over 1,3 & 5 years<sup>^</sup>

Governance structure

Majority independent Trustee Board

## Member benefit through scale IOOF including ANZ Wealth Management P&I

Number of advisers

**1,906**

2nd largest advice network in Australia

FuAdmin\*

**\$83.8b**

5th largest platform operator in Australia

FuMgt\*

**\$44.3b**

Governance structure

Retention of ANZ Independent Trustee Board structure

<sup>^</sup> Performance per SuperRatings to 31 December 2018 for Master Trust MySuper products

\* As per ANZ Wealth Management acquisition investor presentation at 17 October 2017



## Clear set of priorities for 2019

### Restoring trust

- Accelerating governance investment
- Reset of relationships with stakeholders

### Accelerating governance

- Completion of APRA MAP
- Advice review
- Adoption of Royal Commission recommendations

### Building long-term scale benefits

- Working towards completion of ANZ Pensions and Investments business acquisition

### Build client-centric business model

- Continuation of advice-led wealth management strategy
- Embedding ClientFirst throughout the business
- Deliver key Project Evolve milestones



## Summary

### Restoring trust and accelerating advice-led strategy

- › Lifting governance, accountability and culture
- › Enhancing client-centricity through investment
- › Delivering economic growth in a challenging environment
- › Solid funds flows, diversified economics and growing adviser base
- › Disciplined cost management
- › ANZ P&I completion transforms the scale of IOOF for the benefit of all stakeholders

**IOOF's  
purpose**

**understand me  
look after me  
secure my future**



clients



employees



community



shareholders

# Questions







# Appendices





# APPENDIX A | The Royal Commission – IOOF considerations

## Financial advice

	Recommendation	Description	Estimated financial impact
2.1	<b>Annual renewal and payment</b>	This means forward-looking fee disclosure statements with opt-in fee arrangements each year and with no grandfathering. Ongoing service agreements need to be clear and measurable and systems will be required to track what was actually delivered and to compare it to what was promised. The obligation on providers to not pay fees unless specifically authorised each year will require system changes to automatically turn off fees from products if they are not re-authorised. Legislation will specify what constitutes 'express written authority'.	Further information required
2.2	<b>Disclosure of lack of independence</b>	This means an additional separate disclosure to the FSG, is likely to be required before entering into any advisory agreement.	Not financially material
2.3	<b>Review of measures to improve the quality of advice</b>	There will be a greater focus by licensees on the quality of advice prior to the review. A poor outcome could result in reputational risk for both the entity and the industry. The review in three years' time will likely reveal that more change is required to increase the quality of advice.	IFL committed to industry best practice in quality of advice provided
2.4	<b>Grandfathered commissions</b>	Advisers will need to consider the impact on their business including its remuneration structure and valuations, if not done so already. There is a potential contention around the date to end grandfathered commissions if Labor is elected – it's unlikely to be brought forward to any earlier than 1 July 2020.	Total net impact of grandfathered commissions received in 1H19 - \$3.4m
2.5	<b>Life risk insurance commissions</b>	Advisers need to consider their value proposition for insurance advice and how this would fit into a fee-only world in three years' time. This will also affect advice business valuations.	Not financially material

## APPENDIX A | The Royal Commission – IOOF considerations

	Recommendation	Description	Estimated financial impact
2.6	<b>General insurance commissions</b>	This does not raise any immediate concern. However, it will be interesting to see how services such as technical support would fit in a world where non-monetary benefits are considered conflicted remuneration.	Not financially material
2.7	<b>Reference checking of financial advisers</b>	The protocol contains a series of questions a licensee should ask prospective advisers to assist with 'weeding out' those advisers who are moving between licensees in order to avoid negative compliance outcomes.	Not financially material
2.8	<b>Reporting compliance concerns</b>	There will be a greater focus by licensees and advisers regarding compliance and reporting. Advisers may seek greater assistance and protection from their licensees to ensure compliance.	IFL committed to industry best practice in quality of advice provided
2.9	<b>Misconduct by financial advisers</b>	This recommendation places additional requirements on dealer groups to not only monitor advisers, but to also identify and fully investigate issues.	Ref page 9 – IFL committed to industry best practice in quality of advice provided
2.10	<b>A new disciplinary system</b>	This will place more individual responsibility on advisers. Dealer groups will also now have a new stakeholder to inform regarding individual adviser actions separate to any AFSL concerns. This has the potential to increase costs to dealer groups and advisers depending on the funding model. No timeframe has been proposed at this time.	Not financially material

# APPENDIX A | The Royal Commission – IOOF considerations

## Superannuation

	Recommendation	Description	Estimated financial impact
3.1	<b>No other role or office</b>	This recommendation will assist with the transparency of complying with the best interests duty. Super funds will need to review their trustee structures and functions.	Separation of RSE and RE already underway
3.2	<b>Advice fees deducted from MySuper accounts</b>	This will mean a total prohibition of all types of advice fees deducted from MySuper accounts which will simplify the arrangements for MySuper members. This includes a prohibition on limited advice on particular, actual or intended superannuation investments. Advice to MySuper members will need to be charged to and paid by the member directly.	Not financially material. Currently less than 50 MySuper accounts totalling \$30k in advice fees
3.3	<b>Limitations on deducting advice fees from choice accounts</b>	Rather than a total prohibition, ongoing advice fees should be tightly controlled by limiting advice to particular, actual or intended superannuation investments (a sole purpose test restriction) and the new requirement for annual renewal of ongoing advice arrangements.	Some build to support functionality requirements. Further information required
3.4	<b>No hawking</b>	Superannuation products should not be offered to clients who initiate contact for the purposes of discussing another type of product. Superannuation and insurance products should be treated as distinct product types. A question arises as to whether a superannuation product may be offered to a client who initiates contact for the purpose of an insurance product on the basis that both products are related.	Not financially material
3.5	<b>One default account</b>	This recommendation will reduce the instance of multiple default super accounts and has the potential to assist members engage more with their super. The implementation of this recommendation could be included as an extension of the 'Protecting Your Super' package.	Not financially material
3.6	<b>No treating of employers</b>	It will be interesting to see how this is policed and if there is any extension to the ongoing supply of goods or services that are intended to encourage an employer to retain a trustee's default fund.	Not financially material
3.7	<b>Civil penalties for breach of covenants and like obligations</b>	This recommendation is another example of ensuring trustees are accountable to members. We expect a greater emphasis will be placed on compliance, risks and controls.	Not financially material

## APPENDIX B | Statutory NPAT reconciliation

	31 Dec 2018 \$'m	31 Dec 2017 \$'m
<b>Profit attributable to Owners of the Company</b>	135.4	45.2
Discontinued operations	-59.0	-0.2
<b>Profit from continuing operations attributable to Owners of the Company</b>	76.5	45.0
Underlying net profit after tax (UNPAT) adjustments:		
Reverse the impact of:		
Amortisation of intangible assets	19.7	19.6
Acquisition costs - Acquisition advisory	1.7	3.7
Acquisition costs - Integration preparation	6.5	1.2
Acquisition costs - Finance costs	0.4	0.5
Termination payments	0.3	1.2
Profit on divestment of subsidiaries	-	-0.1
Profit on divestment of assets	-0.4	-0.3
Non-recurring professional fees paid/(recovered)	0.2	-0.9
Impairment of goodwill	-	28.3
Onerous contracts	-	1.8
Unwind of deferred tax liability recorded on intangible assets	-5.1	-5.1
One off remediation costs	3.8	-
Other	0.1	1.3
Income tax attributable	-3.6	-1.6
<b>UNPAT from continuing operations</b>	100.1	94.6
UNPAT from discontinued operations	-0.2	0.2
<b>UNPAT</b>	99.9	94.8



## APPENDIX C | Portfolio and Estate Administration reconciliation

\$'m	Platform 1H19	Retail Trustee 1H19	Portfolio & Estate Admin 1H19
Revenue	195.0	16.1	211.2
Direct Costs	(90.7)	(0.1)	(90.8)
<b>Gross Margin (GM)</b>	104.3	16.0	120.4
Other Revenue	-	-	-
Share of equity profit/loss	-	-	-
Operating Expenditure	(47.6)	(8.9)	(56.6)
Net Non Cash	(3.8)	(0.5)	(4.3)
Net Interest	0.0	-	0.0
Income Tax Expense/N.C.I	(16.4)	(1.9)	(18.3)
<b>UNPAT</b>	36.5	4.7	41.2

Platform 1H18	Retail Trustee 1H18	Portfolio & Estate Admin 1H18
198.8	12.8	211.6
(92.5)	(0.1)	(92.6)
106.3	12.7	119.0
0.1	-	0.1
-	-	-
(45.1)	(7.7)	(52.7)
(2.2)	(0.3)	(2.5)
0.0	-	0.0
(17.9)	(1.4)	(19.3)
41.2	3.3	44.6

## APPENDIX D | Segment performance – Corporate and Other

\$M	1H19	2H18	1H18
Revenue	0.2	0.3	0.3
Direct Costs	0.2	0.1	0.2
<b>Gross Margin (GM)</b>	<b>0.4</b>	<b>0.4</b>	<b>0.5</b>
Other Revenue	0.8	0.9	1.0
Share of equity profit/loss	-	-	-
Operating Expenditure	(19.5)	(19.0)	(18.9)
Net Non Cash	(0.7)	(0.4)	(0.6)
Net Interest	(1.2)	5.7	0.9
Income Tax Expense/N.C.I	8.5	5.5	10.6
<b>UNPAT</b>	<b>(11.7)</b>	<b>(6.8)</b>	<b>(6.5)</b>

### DETAILED HALF ON HALF BREAKDOWN

**Gross Margin**  
Management and Service fees revenue  
Other Fee Revenue  
Service and Marketing fees expense  
Other Direct Costs  
Amortisation of deferred acquisition costs

**Total Gross Margin**

**Other Revenue**  
Stockbroking revenue  
Stockbroking service fees  
Dividends and distributions received  
Net fair value gains/(losses) on other financial assets at fair value through profit or loss  
Profit on sale of financial assets  
Other revenue  
Other Revenue adjustments

**Total Other Revenue**

**Equity Accounted Profits**  
Share of profits of associates and jointly controlled entities accounted for using the equity method

**Total Equity Accounted Profits**

**Operating Expenditure**  
Salaries and related employee expenses  
Employee defined contribution plan expense  
Information technology costs  
Professional fees  
Marketing  
Office support and administration  
Occupancy related expenses  
Travel and entertainment  
Corporate recharge  
Other

**Total Operating Expenditure**  
Loss on disposal of non-current assets

**Total Operating Expenditure**

**Net non cash (Ex. Amortisation from acquisitions)**  
Share based payments expense  
Depreciation of property, plant and equipment  
Amortisation of intangible assets - IT development

**Total Net non cash (Ex. Amortisation from acquisitions)**

**Net Interest**  
Interest income on loans to directors of controlled and associated entities  
Interest income from non-related entities  
Finance Costs

**Total Net Interest**

**Income Tax & NCI**  
Non-controlling Interest  
Income tax expense  
NCI adjustments  
Income tax expense adjustments

**Total Income Tax & NCI**

**Underlying NPAT excluding Discontinued Operations**  
Discontinued Operations

**Underlying NPAT (pre-amortisation of intangible assets)**

Portfolio and estate administration	Investment Management	Financial Advice	ANZ Wealth	Corporate
1H19	1H19	1H19	1H 19	1H19
P&EA \$'m	IM \$'m	FAD \$'m	ANZ \$'m	Corp \$'m
206.6	49.4	187.9	47.7	-
4.6	0.5	8.0	2.2	0.2
(88.1)	(15.1)	(78.6)	(45.6)	0.2
(2.6)	(2.1)	(4.6)	(0.2)	(0.0)
(0.1)	-	(0.0)	-	-
120.4	32.7	112.7	4.1	0.4
-	-	-	-	-
-	-	44.7	0.0	-
-	-	(25.7)	-	-
-	-	0.0	-	0.7
-	-	-	-	(0.0)
49.0	-	-	-	-
-	-	2.7	1.5	0.2
(49.0)	-	-	-	-
-	-	21.7	1.5	0.8
-	-	-	-	-
-	0.4	0.0	-	-
-	0.4	0.0	-	-
-	-	-	-	-
(16.7)	(1.8)	(42.9)	(7.4)	(36.6)
(1.2)	(0.1)	(3.1)	(0.5)	(3.1)
(0.6)	(0.3)	(6.9)	(1.9)	(10.9)
(0.1)	(0.2)	(1.7)	(0.6)	(2.4)
(0.6)	(0.0)	(3.8)	(0.5)	(1.2)
(0.2)	(0.1)	(3.6)	(1.1)	(4.0)
(0.1)	(0.0)	(4.9)	(0.6)	(6.0)
(0.7)	(0.1)	(1.2)	(0.4)	(1.3)
(36.4)	(2.7)	(6.8)	-	46.3
-	-	-	(0.0)	-
(56.6)	(5.2)	(74.9)	(13.1)	(19.4)
-	-	-	-	(0.1)
(56.6)	(5.2)	(74.9)	(13.1)	(19.5)
-	-	-	-	-
(1.5)	(1.0)	(1.2)	-	(0.7)
(2.5)	(0.3)	(1.6)	(0.0)	-
(0.4)	-	-	-	-
(4.3)	(1.4)	(2.8)	(0.0)	(0.7)
-	-	-	-	-
-	-	-	-	0.1
0.0	-	0.3	28.9	3.5
-	-	(0.0)	-	(4.8)
0.0	-	0.3	28.9	(1.2)
-	-	-	-	-
-	-	(2.5)	0.1	-
(33.2)	(8.2)	(16.2)	(6.7)	5.8
-	-	-	-	-
14.9	-	(1.2)	0.1	2.7
(18.3)	(8.2)	(19.9)	(6.4)	8.5
41.2	18.5	37.1	15.0	(11.7)

Group Total Continuing	Discontinued Operations	Group Total Continuing	Discontinued Operations
1H19 Continuing Group TOTAL \$'m	1H19 Disc ops \$'m	1H18 Continuing Group TOTAL \$'m	1H18 Disc ops \$'m
451.9	4.0	382.9	4.3
15.5	0.4	13.6	0.5
(187.4)	-	(122.1)	-
(9.5)	(2.8)	(10.0)	(2.1)
(0.0)	-	(0.2)	-
<b>270.5</b>	<b>1.5</b>	<b>264.1</b>	<b>2.7</b>
-	-	-	-
44.6	-	47.8	-
(25.7)	-	(27.4)	-
0.7	-	0.6	-
(0.0)	-	0.1	-
49.0	-	0.6	-
4.4	-	2.7	-
(49.0)	-	(0.6)	-
<b>24.1</b>	<b>-</b>	<b>23.8</b>	<b>-</b>
-	-	-	-
0.4	-	1.3	-
<b>0.4</b>	<b>-</b>	<b>1.3</b>	<b>-</b>
-	-	-	-
(105.4)	(1.0)	(99.9)	(1.5)
(8.1)	(0.1)	(7.1)	(0.1)
(20.6)	(0.0)	(16.6)	(0.1)
(5.0)	(0.0)	(4.4)	(0.0)
(6.1)	(0.0)	(5.0)	(0.1)
(9.0)	(0.1)	(6.5)	(0.1)
(11.6)	-	(12.4)	-
(3.7)	(0.0)	(2.8)	(0.0)
0.4	(0.4)	0.6	(0.6)
(0.0)	-	-	-
<b>(169.1)</b>	<b>(1.7)</b>	<b>(154.0)</b>	<b>(2.4)</b>
(0.1)	-	(0.0)	-
<b>(169.2)</b>	<b>(1.7)</b>	<b>(154.0)</b>	<b>(2.4)</b>
-	-	-	-
(4.4)	(0.0)	(1.3)	-
(4.4)	-	(3.6)	-
(0.4)	-	(0.4)	-
<b>(9.2)</b>	<b>(0.0)</b>	<b>(5.3)</b>	<b>-</b>
-	-	-	-
0.1	-	0.1	-
32.6	0.0	3.1	0.0
(4.8)	-	(2.0)	(0.0)
<b>27.9</b>	<b>0.0</b>	<b>1.2</b>	<b>0.0</b>
-	-	-	-
(2.3)	-	(2.7)	-
(51.3)	0.0	(27.2)	(0.1)
-	-	-	-
9.3	(0.0)	(6.7)	(0.0)
<b>(44.3)</b>	<b>0.0</b>	<b>(36.6)</b>	<b>(0.1)</b>
<b>100.1</b>	<b>(0.2)</b>	<b>94.6</b>	<b>0.2</b>
(0.2)	-	0.2	-
<b>99.9</b>	<b>94.8</b>	<b>94.8</b>	<b>94.8</b>

## APPENDIX F | EPS

### IFL - Averaged Weighted Number of Shares on Issue EARNINGS PER SHARE CALCULATION Half-Year ended 31 December 2018

Ordinary Shares Weighted Average - Opening Balance 351,076,027

From	To	Days	Share Issue	Shares on Issue
01-Jul-18	31-Dec-18	183	-	351,076,027
				351,076,027

Weighted average treasury shares on issue 386,749

Ordinary Shares - Closing Balance 351,076,027

Weighted Average 350,687,165 UNPAT

Net Profit Attributable to Members of the parent entity \$ 135.4m \$ 99.9m

Basic Earnings Per Share (cps) 38.62 28.50

## APPENDIX G | Explanation of items removed from UNPAT

In calculating its Underlying Net Profit After Tax pre-amortisation (UNPAT), the Group reverses the impact on profit of certain, predominantly non-cash, items to enable a better understanding of its operational result. A detailed explanation for all significant items is provided below.

**Amortisation of intangible assets:** Non-cash entry reflective of declining intangible asset values over their useful lives. Intangible assets are continuously generated within the IOOF Group, but are only able to be recognised when acquired. The absence of a corresponding entry for intangible asset creation results in a conservative one sided decrement to profit only. It is reversed to ensure the operational result is not impacted. The reversal of amortisation of intangibles is routinely employed when performing company valuations. However, the amortisation of software development costs is not reversed in this manner.

**Acquisition costs - Acquisition advisory:** One off payments to external advisers for significant corporate transactions which were not reflective of conventional recurring operations.

**Acquisition costs - Integration preparation:** Staff and specialist contractor costs related to integration preparation for the acquisition of the ANZ ADGs and planned acquisition of the ANZ P&I business.

**Acquisition costs - Finance costs:** Costs of securing finance for the acquisition of the ANZ ADGs and substantial economic completion of the ANZ P&I business.

**Termination payments:** Facilitation of restructuring to ensure long term efficiency gains which are not reflective of conventional recurring operations.

**Profit on divestment of subsidiaries:** The IOOF Group divested the AET Corporate Trust business (pcp: partial divestment of a subsidiary).

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



## APPENDIX G | Explanation of items removed from UNPAT (cont'd)

**Non-recurring professional fees paid:** Payment of certain legal costs that are not reflective of conventional recurring operations.

**Impairment of goodwill:** A pcip non-cash impairment recognised in relation to goodwill allocated to Perennial Investment Partners Limited.

**Onerous contracts:** A pcip non-cash entry to record the estimated present value of expected costs of meeting the obligations under contracts where the costs exceed the economic benefits expected to be received pursuant to the contracts.

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

**Recovery of legal claims:** Recoveries as a result of agreed settlements with PwC, HLB Mann Judd, IOOF's insurers and insurance broker, in respect of the cross-claims brought by Australian Executor Trustees Limited against those parties as part of the proceedings related to Provident Capital Limited. Settlement of legal claims expenditure of \$44.3m was recognised in June 2018 in relation to the Provident proceedings and was also excluded when deriving UNPAT for that financial year.

**One off remediation costs:** Remediation costs that arose outside the ordinary course of business.

**Other:** Deferred consideration devaluation relating to prior periods' divestment of Perennial and other businesses.

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

## APPENDIX H | Definitions

TERM	DEFINITION
ADG	Aligned Dealer Group
Cost to Income Ratio	Ratio of underlying expenses relative to underlying operating revenues exclusive of the benefit funds and discontinued operations
Flagship Platforms	IOOF Employer Super, IOOF Pursuit.
FUMA	Funds Under Management, Administration and Advice
FUMAS	FUMA plus Funds Under Supervision, primarily Corporate Trust clients
Net Operating Margin	Ratio of underlying revenues excluding net interest less underlying operating expenses relative to FUMA
PCP	Prior Comparative Period – Twelve months to 30 June 2017
Return on Equity	Calculated by dividing annualised UNPAT by average equity during the period
TSR	Total Shareholder Return – change in share price plus dividends paid per share in a given period
UNPAT	Underlying Net Profit After Tax Pre Amortisation, see Appendix G for a detailed explanation of reconciling line items
Underlying EBITA	Underlying Earnings Before Interest, Tax and Amortisation
Underlying EPS	Calculated with the same average number of shares on issues as the statutory EPS calculation utilising UNPAT as the numerator, a detailed calculation is provided in Appendix F
VWAP	Volume Weighted Average Price



## Important disclaimer

Forward-looking statements in this presentation are based on IOOF's current views and assumptions and involve known and unknown risks and uncertainties, many of which are beyond IOOF's control and could cause actual results, performance or events to differ materially from those expressed or implied. These forward-looking statements are not guarantees or representations of future performance and should not be relied upon as such.

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