Appendix 4D
Interim Financial Report
IOOF HOLDINGS LTD

ABN 49 100 103 722

1. Reporting Period — 31 December 2019

Previous reporting period — 30 June 2019

2. Results for announcement to the market

	$'000	% change from prior comparative period
Revenue from continuing Shareholder activities [1]	527,198	up 4%
Profit from ordinary activities after tax attributable to owners of the Company	114,981	down 15%
Underlying Net Profit After Tax (UNPAT) [2]	61,354	down 39%

		Amount per share (cents)	Franked amount per share (cents)
Final dividend for the year ended 30 June 2019			
Paid:	27 September 2019	12.0	12.0
Special dividend for the year ended 30 June 2020			
Paid:	27 September 2019	7.0	7.0
Interim dividend for the year ended 30 June 2020			
Record date:	26 February 2020	16.0	16.0
To be paid:	16 March 2020		

[1] Revenue from Shareholder activities excludes those revenues attributable to the activities of the consolidated benefit funds of IOOF Ltd.

[2] UNPAT excludes the impact of certain non-operational financial items. An UNPAT reconciliation is provided on the following page.

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	31 Dec 19 $'000	31 Dec 18 * $'000
Profit attributable to Owners of the Company	**114,981**	**135,429**
Discontinued operations	(87,034)	(65,312)
Profit from continuing operations attributable to Owners of the Company	**27,947**	**70,117**
Underlying net profit after tax (UNPAT) adjustments:		
Reverse the impact of:		
Amortisation of intangible assets	18,287	18,965
Acquisition costs - Acquisition advisory	438	1,733
Acquisition costs - Integration preparation	8,942	6,515
Acquisition costs - Finance costs	65	416
Termination payments	2,677	254
Profit on divestment of assets	(297)	(365)
Non-recurring professional fees paid	4,401	230
Unwind of deferred tax liability recorded on intangible assets	(4,858)	(4,979)
Remediation costs	1,511	3,805
Governance uplift costs	3,187	-
Other	719	61
Income tax attributable	(6,401)	(3,694)
UNPAT from continuing operations	**56,618**	**93,058**
UNPAT from discontinued operations	4,736	6,884
UNPAT	**61,354**	**99,942**

* 31 December 2018 has been restated. Refer Note 2-2 for details.

UNPAT Adjustments:

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 corporate transactions, such as the acquisition of the ANZ OnePath pensions and investments (ANZ P&I) business (prior comparative period (pcp): ANZ Aligned Dealer Groups (ANZ ADGs)), 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 assets: Divestments of non-core businesses, client lists and associates.

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

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UNPAT Adjustments (continued)

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.

Remediation costs: Remediation costs that arose outside the ordinary course of business.

Governance uplift costs: Costs incurred in undertaking projects that are outside the ordinary course of business.

Other: Losses on divestment of non-current assets.

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

Review of Strategy

The IOOF Group services the needs of financial advisers and their clients through appropriately licensed and regulated entities. The pool of investable funds emanates predominantly from superannuation which has been supported by Australia's mandatory contributions regime since the early 1990s. Competition for service offerings to superannuants and investors (fund members) in the Australian market place is currently drawn from five main fund types with the following differentiating features:

Retail - privately operated trusts and other schemes. The majority of funds are channelled to administration services and investment management products through financial advisers. However, technological development is enabling an increasing range of offerings direct to fund members.
Industry Funds - superannuation entities which historically have provided for employees working in the same union, industry or group of related industries. Many industry funds now offer membership to members of the public. Industry funds generally administer these funds, but may outsource the management of investments.
Self-Managed - the fund member acts as Trustee for his or her pool of funds, which may include funds from a limited number of other family members and associates. These funds are predominantly utilised where the Trustee perceives they have the requisite time and expertise to manage their own investment strategy and a sufficient scale of funds to make the fixed administration costs economically justifiable.
Corporate - funds established for the benefit of employees of a particular entity or a group of related entities, with joint member and employer control.
Public Sector - funds which provide benefits largely for government employees or employees of statutory authorities, or are schemes established by a Commonwealth, State or Territory law.

Self Managed Funds are regulated by the Australian Taxation Office (ATO) whereas all others above are regulated by the Australian Prudential Regulation Authority (APRA).

The IOOF Group administers and manages Retail funds. Australian Superannuation assets totalled $2.9 trillion as at 30 September 2019. Over the 12 months to September 2019 there was an 7.1% increase in total superannuation assets and retail providers had a market share of approximately 21.6% (30 September 2018: 22.8%). The IOOF Group's market share of that sub-set was 7.1% (30 September 2018: 6.4%) when measured by portfolio and estate administration segment Funds Under Administration (FUAdmin). There is a high degree of competition between the five fund types and fragmentation and competition among the participants within each fund type.

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Review of Strategy (continued)

The IOOF Group operates in the Wealth Management sector. The sector has a substantial and growing pool of funds underpinned by legislation which has longstanding bi-partisan political support in an affluent advanced economy. The attraction of the sector is further enhanced by high regulatory and technological barriers to entry from new competitors. As a participant, we seek to grow our Funds Under Management, Administration and Advice (FUMA) faster than our competitors. In doing so, the portion of our revenue net of direct costs (gross margin) which is levied on asset balances may reasonably be expected to rise proportionately with FUMA. This proportionate rise may be affected by the impact of differentiated product pricing and competitive pressure on management fee rates. In conjunction, we seek to leverage a cost base which is largely fixed relative to the scale of our FUMA.

The IOOF Group's future FUMA growth will be underpinned by asset revaluation, flows of funds from new and existing clients and acquisition initiatives. Funds flow will be advanced through:

● a focus on advice as the service which investors and superannuants truly value. This focus will include, inter-alia: increasing adviser numbers; a relatively higher number of salaried advisers within that growing total; a better share of advice revenues for offering licensee services; and increased returns from services to self-licensed advisers;

● increasing brand and product awareness to increase revenue;

● enhancing the adviser and fund client experience through continued technology development and experienced knowledgeable support staff;

● operating an open architecture environment which allows our advisers and clients to utilise the administration service which best meets their objectives irrespective of whether it is an IOOF Group proprietary service or a competitor's service. All options, however, generate a favourable economic return for the IOOF Group;

● enhanced training initiatives and leading minimum qualification standards to give our staff and advisers every opportunity to optimise the experience of our clients;

● establishing skilled teams and robust analytical processes to enhance the prospect of achieving above benchmark performance in investment management; and

● continuous improvement in process efficiency to minimise operating costs.

The IOOF Group has a long-term strategy of pursuing growth through acquisitions and has completed several acquisitions in previous years. The IOOF Group will continue to pursue acquisitions within the Wealth Management sector on an opportunistic basis. However acquisitions will only be considered where they present a logical strategic fit with existing operations and are priced reasonably for the expected value accretion to shareholders. The funding of acquisitions will be considered on a case by case basis taking into account the relative cost of available funding sources and the impact on balance sheet structure overall.

Divestments of certain operations have been entered into selectively and opportunistically, chiefly with the aim of recalibrating the business overall to focus on the group's core wealth management capabilities, in addition to generating divestment profits. Proceeds from those divestments have been applied to reduce borrowings and fund acquisition integration.

Acquisitions and divestments

ANZ P&I acquisition
Final completion of the acquisition of the ANZ P&I business occurred on 31 January 2020. A renegotiated sale price of $850m, down $125m (14.7%) from the original $975m, was announced on 17 October 2019. This reflected the parties to the transaction having reached the point in time where either could legally break the sale and purchase agreement with no adverse legal consequences.

The financial, cultural and operational impact of this transaction will be transformative. It will also have a material impact on profitability in the second-half of the year to 30 June 2020. Assuming stable economic conditions more generally, the acquisition is expected to deliver Earnings Per Share accretion in excess of forecasts previously disclosed in the initial announcement of the transaction. Relevant material inputs to EPS accretion estimates are as follows:
- Estimates of cost synergies revised to $68m pre-tax per annum (from $65m pre-tax per annum), with $13m of those savings having been achieved prior to completion;
- On a full year basis, the combined financial performance of the former ANZ businesses now owned by IOOF is currently broadly equivalent to what was announced in October 2017; and
- The antecedent IOOF Group's underlying profitability has been impacted by divestment of certain operations, notably Ord Minnett and AET Corporate Trust, in addition to legislative, competitive and pricing impacts on revenue.

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Acquisitions and divestments (continued)

Perennial Value Management divestment

On 10 October 2019, the IOOF Group divested its equity accounted investment in Perennial Value Management Limited. This divestment was not material.

Ord Minnett divestment

On 24 September 2019, IOOF completed the divestment of its 70% holding in Ord Minnett business for a total purchase consideration of $115.0m, $10.0m of which was received in the previous financial year as a non-refundable deposit. The Group's $88.6m profit on divestment of discontinued operations was virtually all attributable to the divestment of Ord Minnett.

AET Corporate Trust divestment

On 1 November 2018, IOOF completed the divestment of the AET Corporate Trust business to Sargon Capital Pty Ltd (Sargon) for a purchase consideration of $41.3m. The profit on this divestment was recognised in pcp.

Further detail on these divestments is provided at Note 2-2.

Analysis of financial results - IOOF Group

The IOOF Group's UNPAT from continuing operations decreased $36.4m to $56.6m for the 6 months ended 31 December 2019, compared to $93.1m UNPAT in the 6 months ended 31 December 2018.

The majority of this decrease was due to a step down in coupon rate on a debt note issued to ANZ (the original coupon having been calibrated to reflect the economic opportunity cost of ANZ's delays in separating its life insurance and P&I businesses through successor funds transfer); legislative, competitive and pricing impacts on revenue; and a full 6 months ownership of the ex-ANZ ADGs (pcp: 3 months).

The below analysis compares the 6 months to 31 December 2019 with the 6 months to 31 December 2018 and are denoted as pcp. The net profit arising from divesting Corporate Trust, 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.

Gross margin decreased by $6.2m

The gross margin decrease was partly offset by $5.3m additional net revenue attributable to having owned ex-ANZ ADGs for the full six months to 31 December 2019 (pcp: 3 months).

At 31 December 2019, Funds Under Management, Administration and Advice (FUMA), excluding ex-ANZ acquisition related Funds Under Advice (FUAdvice), were $145.7b, an increase of 5.2% for the 6 months ended 31 December 2019. This increase was derived largely from equity market performance over that period. Financial advice net inflows of $985m were bolstered by 11 new advice practices onboarded by ex-ANZ ADGs in the quarter to 31 December 2019. Portfolio flows of $756m were up 9.9% on $688m achieved in pcp. This segment benefited from enhanced capture of funds from other IOOF Group segments, principally Shadforth and Bridges in advice, and better penetration of the IOOF Group's existing client base.

The level of average FUMA, ex ANZ acquisition related, compared to pcp rose by $10.0b. This in turn increased gross margin by $18.8m. This was more than offset by a $30.5m impact from lower earning rates on certain services, principally advice and portfolio and estate administration. In the case of advice, significant price competition had an adverse impact whereas portfolio and estate administration earning rates reflected the continuing trend for a higher proportion of funds to be directed towards more contemporary platforms with lower fee scales. Investment management margins were relatively stable which is reflective of the steady state maturity and complementary nature of that segment.

Other revenue decreased by $0.9m

Brokerage revenue for Shadforth clients has been allocated to a bundled service offering and recognised as service revenue. Underlying brokerage activity is broadly equivalent to pcp.

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Analysis of financial results - IOOF Group (continued)

Operating expenditure increased by $14.3m
($1.3m excluding additional months' ex-ANZ ADG ownership)

The modest increase in operating expenditure excludes the impact of expenditure items reversed when calculating UNPAT. The introduction of AASB 16 meant there was a $7.6m favourable reclassification of occupancy expenses to interest ($1.2m) and depreciation ($6.4m) charges. Occupancy overall, irrespective of lease reclassification was a $1.2m lower impost on pre-tax profitability when compared to pcp. See Note 6 for further details. Increased operating expenditure more broadly was due to an increased number of high salary employees required to uplift our governance activity in the Office of the Superannuation Trustee as well as a higher cohort of risk, compliance and governance professionals added. IT expenditure increased due to the implementation of new systems in preparation for the acquisition of ANZ P&I and enhanced governance monitoring. Marketing expenditure had a conventional first half seasonal increase as adviser conferences are predominantly held in that period.

Net financing income decreased by $26.6m

Net financing income decreased largely in line with 11 May 2019 12.4% step down in coupon rate on a debt note issued to ANZ and an additional $1.2m in interest charges under AASB 16.

Other profit impacts decreased by $3.3m

Depreciation expense increased $6.2m, reflecting the impact of adoption of AASB 16. Share-based payments expense was $2.6m lower due to non-vesting of previously expensed grants.

Income tax expense decreased by $14.8m

The decrease in income tax expense relative to pcp reflected lower profitability. Overall, tax expense was broadly in line with a 30% corporate tax rate on underlying profit before tax adjusted for share based payments and non-controlling interest. The shortfall to 30% is largely attributable to R&D concessions on software development costs.

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

	31 Dec 19	31 Dec 18 *	Movement	
Financial advice	$'000	$'000	$'000	%
Net operating revenue	93,699	99,427	(5,728)	(5.8%)
Other revenue (incl share of net profits of associates)	2,415	2,661	(246)	(9.2%)
Operating expenditure	(52,763)	(55,627)	2,864	5.1%
Net financing	(253)	64	(317)	(495.3%)
Net non-cash items	(5,046)	(2,486)	(2,560)	(103.0%)
Income tax expense and non-controlling interest	(11,626)	(13,534)	1,908	14.1%
Underlying Profit after Tax	**26,426**	**30,505**	**(4,079)**	**(13.4%)**

● Net operating revenue has been adversely impacted by competitive pricing from a third party administrator which has since been matched in an equivalent offer. In addition, Shadforth advisers have increased their clients' weighting to IOOF administration. This results in the portfolio administration fee being increasingly apportioned to that segment whereas third party administration margin was previously recognised in advice.

● Operating expenditure has reduced in line with an increasing share of managerial and compliance oversight occurring within the ex-ANZ segment.

● Non cash items adversely impacted profitability due to imposition of AASB 16.

	31 Dec 19	31 Dec 18 *	Movement	
Portfolio & estate administration	$'000	$'000	$'000	%
Net operating revenue	112,190	120,351	(8,161)	(6.8%)
Operating expenditure	(58,885)	(56,593)	(2,292)	(4.0%)
Net financing	(15)	2	(17)	(850.0%)
Net non-cash items	(5,771)	(4,317)	(1,454)	(33.7%)
Income tax expense and non-controlling interest	(14,560)	(18,286)	3,726	20.4%
Underlying Profit after Tax	**32,959**	**41,157**	**(8,198)**	**(19.9%)**

● Net operating revenue reflected growth in average FUA tempered by the impact of basis points margin reduction. Basis point margin outcomes are largely the result of client preference for contemporary lower priced services.
● Increased operating expenditure resulted primarily from increased governance via implementation of the Office of the Superannuation Trustee and additional Risk and Compliance FTE.
● Non cash items adversely impacted profitability due to imposition of AASB 16.

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

Investment management	31 Dec 19 $'000	31 Dec 18 * $'000	Movement $'000	Movement %
Net operating revenue	34,551	32,730	1,821	5.6%
Operating expenditure	(5,198)	(5,120)	(78)	(1.5%)
Net non-cash items	(1,104)	(1,351)	247	18.3%
Income tax expense and non-controlling interest	(8,617)	(8,159)	(458)	(5.6%)
Underlying Profit after Tax	**19,632**	**18,100**	**1,532**	**8.5%**

● Net operating revenue improved in line with market based growth in average funds flowing largely from improved platform FUMA.

Financial Position

The IOOF Group held cash and cash equivalents of $68.8m at 31 December 2019 (30 June 2019: $97.4m). Cash is held to satisfy regulatory net asset requirements and also to ensure adequate liquidity given management fee receipts are less frequent than payroll and service fee cash outflows.

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

● $240m revolving cash advance facility with a 3 year repayment term from the SFA effective date.
● $375m revolving cash advance facility with a 5 year repayment term from the SFA effective date.
● $60m multi-option facility with a 3 year repayment term from the SFA effective date.

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

The overall debt to equity ratio stood at 21% at 31 December 2019 (30 June 2019: 21%) reflecting a net $443m in borrowings (including lease liabilities), principally $355m under the SFA, as at period end.

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.

Risks

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:

(i) Changes in investment markets
The IOOF Group derives a significant proportion of its earnings from fees and charges based on the level of FUMA. The level of FUMA will reflect (in addition to other factors such as the funds flowing into and out of FUMA) the investment performance of those funds. Therefore, changes in domestic and/or global investment market conditions could lead to a decline in FUMA, adversely impacting the amount the IOOF Group earn in fees and charges. Deterioration in investment market conditions could also lead to reduced consumer interest in the IOOF Group's financial products and services. The principal response to this risk has been to establish comprehensive investment governance committees, policies and procedures which are subject to continuous monitoring and oversight.

(ii) Competition
There is substantial competition for the provision of financial services in the markets in which the IOOF Group operates. A variety of market participants in specialised investment fund management, wealth advice and corporate trustee services compete vigorously for customer investments and the provision of wealth management services. These competitive market conditions may adversely impact earnings and assets. The IOOF Group manages this risk by continuously investing in product design, stakeholder relationships, implementation of the Client First initiative, and continuous improvement initiatives.

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Risks (continued)

(iii) Information technology

The IOOF Group relies heavily on information technology. Therefore, any significant or sustained failure in the IOOF Group's core technology systems could have a materially adverse effect on operations in the short term, which in turn could undermine longer term confidence and impact the future profitability and financial position of the IOOF Group. The IOOF Group has implemented a next-generation firewall, pursues continuous improvements to protect user devices and imposes segregation of duties between technology environments. More broadly, the IOOF Group uses policies and procedures which are subject to continuous monitoring and oversight, maintains a significant complement of experienced staff and employs specialist information technology security advisers. Information technology controls are highly complementary to those employed to minimise cyber security risks.

(iv) Cyber security

There is a risk of significant failure in the IOOF Group's operations and/or material financial loss as a result of cyber attacks. To manage this risk, the IOOF Group has followed the recommendation of ASIC and adopted the United States government's National Institute of Standards and Technology cybersecurity framework. In doing so, the IOOF Group has implemented measures and controls that cover identification, detection, monitoring and response in relation to cyber threats. More broadly, the IOOF Group has developed and tested its disaster recovery capability and procedures, implemented high availability infrastructure and architectures, conducted mandatory staff training which is focused on cyber risk and continually monitor systems for signs of poor performance, intrusion or interruption. Cyber security controls are highly complementary to those employed to minimise information technology risks.

(v) Brands and reputation

The IOOF Group's capacity to attract and retain financial advisers, employees, clients and FUMA depends to a certain extent upon the brands and reputation of its businesses. A significant and prolonged decline in key brand value or IOOF Group reputation could contribute to lower new business sales, reduced inflows of investment funds and assets, damage to client strategies and may impact adversely upon the IOOF Group's future profitability and financial position. The IOOF Group actively monitors media and other public domain commentary on its affairs as well as proactively promoting the value of its services, products and community initiatives and building a customer centric culture.

(vi) Provision of investment advice

The IOOF Group's financial advisers and authorised representatives provide advice to clients and may be exposed to litigation if this advice is judged to be incorrect or if the authorised representative otherwise becomes liable for client losses. This risk is managed by having high educational, compliance and training standards for the IOOF Group's advisers whilst its potential financial impact is generally mitigated by taking out appropriate insurance cover.

(vii) Operational risks

Operational risk is the risk arising from the daily functioning of the IOOF Group's businesses. The IOOF Group has specific operational exposures relevant to the industry in which we operate including exposures in connection with product disclosure statements, investment management, tax and financial advice, legal and regulatory compliance, product commitments, process error, fraud, system failure, failure of security and physical protection systems and unit pricing errors. This risk is minimised via policies and procedures which are subject to continuous monitoring and oversight. The IOOF Group maintains a significant complement of experienced staff, builds a positive culture and utilises specialist external advisers where appropriate to carry out such monitoring.

(viii) Conduct risk

Conduct risk is the risk of intentionally or unintentionally delivering poor outcomes for clients as a result of improper conduct or inadequate systems.

-Improper conduct is conduct that is illegal, dishonest, unacceptable or undesirable (or the concealment of such conduct) by IOOF staff or officers and is a breach of IOOF values; the IOOF Code of Conduct; and IOOF's ClientFirst philosophy.

-Inadequate systems are the frameworks, technologies, systems and programs that our people use to do their jobs and may be caused by operational or design flaws (including complexity).

Conduct risk goes beyond legal and regulatory obligations. It is about how IOOF clients are treated (includes fairness of outcomes) and whether IOOF products and services meet the needs and expectations of stakeholders.

Conduct risk is recognised as a stand-alone, material risk.

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Risks (continued)

(viii) Conduct risk (continued)
The IOOF Group's culture of honest and ethical behaviour is supported by the IOOF Code of Conduct and its Compliance Manual for Authorised Representatives, which set out the tenets of professional and personal conduct with which directors, employees, contractors, Authorised Representatives, agents and consultants are required to comply. These include promoting a healthy and safe environment, protecting private and confidential information, acting at all times within the law and acting in the best interests of the IOOF Group, its shareholders, clients and investors. As an additional safeguard, the IOOF Group's Whistleblower Policy protects eligible whistleblowers who make protected disclosures to eligible recipients in accordance with the IOOF Whistleblower Policy.

(ix) Credit risk
Credit risk refers to the risk that a counterparty will fail to meet its contractual obligations resulting in financial loss that arises from receivables, loans and other receivables. With the exception of ANZ, who was the counterparty to the Debt Note until it was redeemed on 31 January 2020, the IOOF Group's counterparties generally do not have an independent credit rating. The IOOF Group assesses the credit quality of the debtor taking into account its financial position, past experience with the debtor, and other available credit risk information.

(x) Cash flow and interest rate risk
Interest rate risk is the risk to the IOOF Group's earnings and capital arising from changes in market interest rates. The financial instruments held that will 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 will expose the IOOF Group to cash flow interest rate risk.

(xi) Liquidity risk
Liquidity risk relates to the IOOF Group having insufficient liquid assets to cover current liabilities and unforeseen expenses. The IOOF Group manages liquidity risk exposure by maintaining sufficient liquid assets and an ability to access a committed line of credit via a syndicated facility agreement with lenders. The liquidity requirements for licensed entities in the IOOF Group are also regularly reviewed and carefully monitored in accordance with those licence requirements.

(xii) Reliance on Australian Financial Services Licence, Registrable Superannuation Entity and other licences
In order to provide the majority of its services in Australia, 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. If any of those entities fails to comply with the general obligations and conditions of its licence, this could result in the suspension or cancellation of the licence. A breach or loss of licences could have a material adverse effect on 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. Ongoing compliance with the general obligations and conditions of licences is carefully monitored by dedicated and experienced risk and compliance professionals.

(xiii) Insurance
The IOOF Group holds insurance policies, including errors and omissions (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 the IOOF Group's assets, liabilities, officers and employees. However, no assurance can be given that any insurance that the IOOF Group currently maintains will:

- be available in the future on a commercially reasonable basis; or
- provide adequate cover against claims made against or by the IOOF Group, noting that there are some risks that are uninsurable (e.g. nuclear, chemical or biological incidents) or risks where the insurance coverage is reduced (e.g. cyclone, earthquake, flood, fire).

The IOOF Group also faces risks associated with the financial strength of its insurers to meet indemnity obligations when called upon which could have an adverse effect on earnings. If the IOOF Group incurs uninsured losses or liabilities, its assets, profits and prospects may be adversely affected.

(xiv) Unit pricing errors
Systems failures or errors in unit pricing of investments are issues affecting the broader funds management industry that may result in significant financial losses and brand damage to a number of financial services organisations. A unit pricing error made by the IOOF Group or its service providers could cause financial or reputation loss. This risk is minimised via policies, procedures and contractual enforcement which are subject to continuous monitoring and oversight. The IOOF Group maintains a significant complement of experienced staff and utilises specialist unit pricing service providers to maintain robust systems and accurate inputs.

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Risks (continued)

(xv) Dependence on key personnel

The IOOF Group's performance is dependent on the talents and efforts of key personnel. The IOOF Group's continued ability to compete effectively depends on our capacity to retain and motivate existing employees as well as attract new employees. The loss of key executives or advisers could cause material disruption to operations in the short to medium term. While equity incentives of key personnel align their interests with the IOOF Group's future performance, they do not provide a guarantee of their continued employment. The IOOF Group utilises succession planning to manage this risk.

(xvi) Dependence on financial advisers

The success of the IOOF Group's advice and platform business is highly dependent on the quality of the relationships with its financial advisers and the quality of their relationships with their clients. The IOOF Group's ability to retain productive advisers is managed by monitoring and, where necessary, improving service levels, technological capability, suitability of product offerings and the quality and relevance of professional training.

(xvii) Acquisitions and integration

Acquisition transactions involve inherent risks, including:

• accurately assessing the value, strengths, weaknesses, contingent and other liabilities and potential profitability of acquired businesses;
• integration risks including the risk that integration could take longer or cost more than expected or that the anticipated benefits and synergies of the integration may be less than estimated;
• diversion of management attention from existing business;
• potential loss of key personnel and key clients;
• potential for litigation risk in acquired businesses not being adequately indemnified;
• unanticipated changes in the industry or general economic conditions that affect the assumptions underlying the acquisition; and
• decline in the value of, and unanticipated costs, problems or liabilities associated with, the acquired business.

Any of these risks could result in a failure to realise the benefits anticipated to result from any acquisition of new business and could have a material adverse impact on the IOOF Group's financial position. The IOOF Group maintains a significant complement of experienced staff and holds relationships with specialist merger and acquisition advisers to assess acquisition opportunities. This is designed to ensure the Board is fully informed of the risks and opportunities associated with any potential individual acquisition.

(xviii) 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 examination of relevant factors and circumstances prevailing at that time.

(xix) Regulatory and legislative risk and reform

The financial services sectors in which the IOOF Group operates are subject to extensive legislation, regulation and supervision by a number of regulatory bodies in multiple jurisdictions. The regulatory regimes governing the IOOF Group's business activities are complex and subject to change. The impact of future regulatory and legislative change upon the IOOF Group cannot be predicted. In addition, if the amount and complexity of new regulation increases, so too may the cost of compliance and the risk of non-compliance. The IOOF Group maintains a significant complement of experienced staff and holds relationships with specialist legal and technical advisers to minimise this risk.

(xx) Financing risk

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 the IOOF Group's financial performance and prospects. To the extent that additional equity or debt funding is not available from time to time on acceptable terms, or at all, the IOOF Group may not be able to take advantage of acquisition and other growth opportunities, develop new ideas or respond to competitive pressures. If at any time the IOOF Group requires an extension to a facility but is unable to obtain it and is unable to repay the relevant facility, this will constitute a default under the other existing facilities and enable the financiers to demand immediate repayment and cancel the facilities. Cancellation of the debt financing arrangements would have an adverse impact on the IOOF Group's financial position and performance. This risk is minimised via a dedicated Treasury function with established policies and procedures which are subject to continuous monitoring and oversight.

IOOF Holdings Ltd - Appendix 4D for the six months ended 31 December 2019

Risks (continued)

(xxi) Environmental, social, and governance risk

Environment, social, and governance (ESG) risk relates to the consideration of non-financial risks, as they arise from environmental, reputational, legal, technological, operational, cultural and strategic considerations. The IOOF Group considers the impacts of its operations on the natural environment - actively working to reduce the Group's ecological footprint. The IOOF Group also maintains a number of policies dedicated to diversity, inclusion and engagement to ensure that its interactions with clients, staff and other key external parties are conducted in a compliant manner which also meets community expectations.

Shareholder returns

The IOOF Group dividend is calibrated to provide shareholders with a benefit which reflects performance and offers an attractive yield when assessed against a range of other external economic factors and investment options. The Board also understands that dividend payments should not hinder future organisational plans. The Board has therefore determined that a pay-out ratio range of 60% - 90% of UNPAT is generally appropriate, but not binding.

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 2015 was 16.4% in total and 3.1% on a compounding annualised basis. The TSR for the 12 months to 31 December 2019 was 58.8% with a dividend yield of 6.8% combined with a share price increase of 52.0%.

	Six months ended 31 December		
	2019	2018	% change
Profit attributable to owners of the Company ($'000s)[1]	114,981	135,429	(15.1%)
Basic EPS (cents per share)	32.8	38.6	(14.9%)
Diluted EPS (cents per share)	32.8	38.5	(14.9%)
UNPAT ($'000s)	61,354	99,942	(38.6%)
UNPAT EPS (cents per share)	17.5	28.5	(38.6%)
Dividends declared ($'000s)	56,172	89,425	(37.2%)
Dividends per share (cents per share)	16.0	25.5	(37.3%)
Opening share price	$ 5.17	$ 8.99	(42.5%)
Closing share price at 31 December	$ 7.86	$ 5.17	52.0%
Return on equity [2]	7.2%	10.9%	(33.6%)

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

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

Returns to shareholders increase / decrease through both dividends and capital growth/decline. Dividends, including the special dividend for 2020, and interim and final dividends for 2019 and prior years were fully franked.

3. Net tangible assets

	31 Dec 2019 (cents)	30 Jun 2019 (cents)
Net tangible assets/(liabilities) per share *	151.3	160.0

* Net tangible assets equate to net assets excluding goodwill, intangible assets and deferred tax liabilities arising from acquisitions.

4. Entities over which control has been gained or lost

On 24 September 2019, IOOF completed the divestment of its shareholding in Ord Minnett Holdings Pty Ltd. The Group held 70% of the shares on issue as at 30 June 2019, and nil as at 31 December 2019.

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5. Dividends

	Amount $'000	Cents per share	% Franked
Final dividend for the year ended 30 June 2019	42,129	12.0	100%
Special dividend for the year ended 30 June 2020	24,575	7.0	100%
Interim dividend for the year ended 30 June 2020	56,172	16.0	100%
Record date for determining entitlement to dividend	26 February 2020		
Date for payment of interim dividend	16 March 2020		

6. Dividend reinvestment plans

The Company does not operate a dividend reinvestment plan.

7. Details of associates and joint venture entities

	Ownership interest held at the end of period		Contribution to net profit	
	Current period %	Prior comparative period %	Current period $'000	Prior comparative period $'000
Equity accounted associates				
Perennial Value Management Ltd *	-	52.4	1,043	416
Thornton Group (SA) Pty Ltd **	56.7	43.1	220	(12)
Grow Super	12.1	7.1	(425)	(74)
Other associates			96	101
			934	431

* Due to voting rights associated with different classes of shares in Perennial Value Management Ltd, 52.4% ownership interest does not result in control as defined by AASB 10 *Consolidated Financial Statements.* This investment is included within discontinued operations within the 31 December 2019 financial report.
** The Group has determined that it does not have control of Thornton Group (SA) Pty Ltd as it has no representation on the Board and does not have power over the investee to direct its operations.

8. Earnings per share

	31 Dec 2019 (cents)	31 Dec 2018 (cents)
Basic earnings per share	32.8	38.6
Diluted earnings per share	32.8	38.5
UNPAT earnings per share	17.5	28.5

Weighted average number of ordinary shares	31 Dec 2019 No. '000	31 Dec 2018 No. '000
Basic and UNPAT earnings per share	350,062	317,738
Diluted earnings per share	350,753	318,429

9. Other

The information contained in this Appendix 4D is based on the 31 December 2019 condensed consolidated interim financial report of IOOF Holdings Ltd and its subsidiaries, which has been subject to review by KPMG. The financial report is not subject to modification. A copy of the financial report is attached.

Further information regarding the IOOF Group and its business activities can be obtained at www.ioof.com.au