

OnePath Custodians Pty Limited

ABN 12 008 508 496

Annual Report - 30 June 2024

OnePath Custodians Pty Limited
Contents
30 June 2024

	Page
Directors' report	1
Lead auditor's independence declaration	4
Statement of comprehensive income	5
Statement of financial position	6
Statement of changes in equity	7
Statement of cash flows	8
Notes to financial statements	9
Directors' declaration	22
Independent auditor's report	23

OnePath Custodians Pty Limited
Directors' Report
30 June 2024

The Directors present their report, together with the financial statements of OnePath Custodians Pty Limited ("the Company") for the year ended 30 June 2024 and the auditor's report thereon. The ultimate parent entity is Insignia Financial Ltd and the Company is a member of the Insignia Financial Group ("IFL Group").

Directors

The following persons were Directors of the Company during the entire financial year and up to the date of this report, unless otherwise stated:

Mr Lindsay Smartt*
Ms Karen Gibson
Ms Jane Harvey (resigned 15 December 2023)
Ms Beth McConnell
Ms Marianne Perkovic (appointed 3 October 2023)
Mr Mario Pirone (appointed 3 October 2023)
Mr Steven Schubert

* Mr Lindsay Smartt, Chair and Non-Executive Director will depart the board before the end of 2024. Danielle Press has been announced as Non-Executive Director from 19 September 2024 and Chair from November 2024.

Principal activity

The Company is a for-profit entity and its principal activity during the year was acting as the trustee for the Retirement Portfolio Service fund, a Registrable Superannuation Entity ("RSE") under an instrument of approval granted by the Australian Prudential Regulation Authority ("APRA").

There were no significant changes in the nature of the activities of the Company during the year.

Dividends

A dividend of \$13,200,000 was paid for the year ended 30 June 2024 (2023: \$41,600,000).

Review of operations

The loss after income tax of the Company was \$20,839,635 (2023: profit of \$36,137,000).

An operating loss was generated during the year. This was primarily driven from increases in operating expenditure and remediation expense.

State of affairs

There have been no significant changes in the state of affairs of the Company during the year.

Matters subsequent to the end of the reporting year

Due to an incident previously notified to the Australian Prudential Regulation Authority ("APRA"), the Company paid a fine on 20 July 2024 of \$10,704,600 under infringement notices issued by APRA for alleged breaches of the Superannuation Industry (Supervision) Act 1993 (SIS Act) for failing to invest members' default superannuation contributions in MySuper products.

Additionally, APRA agreed to accept a court enforceable undertaking (CEU) from the Company. The Company has committed to:

- identify, rectify, and remediate all members adversely affected by the breaches with assurance from an independent expert;
- allocate additional resources to replenish the Operational Risk Financial Requirement resources to 100% of the target balance of 0.25% of funds under management; and
- hold \$40m of its existing Operational Risk Financial Requirement assets as an overlay until the Company has satisfied the terms of the CEU.

The Company must comply with the CEU, failing which APRA may seek a court order to require compliance or take further enforcement steps.

The Company has recognised a provision of \$26.3m in its financial accounts to cover the costs of both the fine and remediation activities required under the CEU.

On 16 September 2024, the applicants, the Company (and two other respondents outside the IFL Group) reached "in-principle" settlement on a "no admissions" basis in relation to the legal proceedings *Ian Edo Janssen & Anor v OnePath Custodians Pty Ltd & Ors* in relation to alleged breaches of trustee obligations regarding the investment of cash investment option funds and the charging of fees relating to commissions. A settlement deed is being negotiated which, when signed, will allow for the disclosure of the settlement amount. The settlement is subject to Court approval. The Company's proposed contribution to the settlement has been recognised as a provision in its financial statements at 30 June 2024.

There have been no other significant events from 30 June 2024 to the date of signing this report.

Future developments

Information about likely developments in the operations of the Company and the expected results of those operations in future financial years have not been included in this report because disclosures of the information would be likely to result in unreasonable prejudice to the Company.

Environmental regulation

The Company is not subject to any significant environmental regulation under Australian Commonwealth or State law.

Environmental, social and governance ("ESG") risks can have a material impact on the Company's ability to deliver sustainable long-term outcomes for the clients, investors and the community.

To ensure the Company fulfils its purpose, the IFL Group (of which the Company is a subsidiary) considers a broad range of ESG considerations. To help guide its responsible investment practice, the IFL Group has become a member of the Investor Group on Climate Change (IGCC). The IFL Group's ESG activities are discussed in the ESG section of its annual report.

Impact of macro-economic factors and other macroeconomic conditions

The Company's management fee revenue is directly driven by the Company's Funds under Management and Administration ("FUMA") balance at any given point of time. Market movements along with net flows are a significant contributor to FUMA and are therefore impacted by current and future macroeconomic conditions.

In preparing the financial report, the Company has considered the impact of geopolitical tensions and other macroeconomic conditions in its adoption of significant assumptions and market inputs used in:

- valuing the Company's financial instruments; and
- preparing disclosures for the fair value of financial assets and liabilities and financial risk management.

The Company has reviewed the appropriateness of inputs to the valuation of financial instruments and the disclosures for the fair value of financial instruments which may have been impacted by a variety of factors arising from changed business conditions as a result of geopolitical tensions and other macroeconomic conditions. The Company's financial instruments are valued using directly observable inputs whenever possible as these are considered to be the most reliable and appropriate evidence of fair value.

Non-financial risks emerging from global inflation hikes, tightening monetary policies, global geopolitical tensions have been identified, assessed, managed and governed through timely application of the Company's risk management policies.

Management continues to monitor the impact of global economic uncertainty to the business environment including ongoing assessment of market risk, credit risk and liquidity risk associated with the business.

Company secretaries

The following persons were Company Secretaries during the entire financial year and up to the date of this report, unless otherwise stated:

Ms Sharyn Cowley
Mr Christopher Tay

Indemnification and insurance of officers

During the financial year, Insignia Financial Ltd and its controlled entities paid a premium to insure the Directors, secretaries and general officers of the Company.

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

Rounding of amounts

The Company is of a kind referred to in ASIC Corporations Instrument 2016/191, and in accordance with that, amounts in the financial statements and Directors' report have been rounded to the nearest thousand dollars unless otherwise indicated.

Auditor's independence declaration

The lead auditor's independence declaration is set out on page 4 of the annual report and forms part of the Directors' report.

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



Lindsay Smartt
Director

18 September 2024



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

To the Directors of OnePath Custodians Pty Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of OnePath Custodians Pty Limited for the financial year ended 30 June 2024 there have been:

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

KPMG

Dean Waters

Partner

Melbourne

18 September 2024

OnePath Custodians Pty Limited
Statement of comprehensive income
For the year ended 30 June 2024

	Note	30 June 2024 \$'000	30 June 2023 \$'000
Revenue			
Management fee income	4	242,850	239,309
Interest income		4,399	3,195
Other revenue		3,775	1,825
Expenses			
Service fees and other direct costs	5	(21,078)	(20,910)
Operating expenses	6	(197,853)	(175,011)
Remediation releases / (expenses)		(57,258)	6,504
Other expenses		(17)	(517)
(Loss) / profit before income tax expense		(25,182)	54,395
Income tax (expense) / benefit	7	4,343	(18,258)
(Loss) / profit after income tax for the year		(20,839)	36,137
Other comprehensive income		-	-
Total comprehensive (loss) / profit for the year		(20,839)	36,137

The above Statement of comprehensive income should be read in conjunction with the accompanying notes to the financial statements

OnePath Custodians Pty Limited
Statement of financial position
As at 30 June 2024

	Note	30 June 2024 \$'000	30 June 2023 \$'000
Assets			
Cash and cash equivalents		94,472	98,995
Trade and other receivables		32,798	33,630
Prepayments		-	233
Receivables from related parties		16,271	27,618
Deferred tax assets	8	<u>12,062</u>	<u>7,065</u>
Total assets		<u>155,603</u>	<u>167,541</u>
Liabilities			
Fees payable		8,129	12,472
Unearned income		-	136
Provisions	10	49,314	18,669
Payables to related parties		<u>-</u>	<u>4,065</u>
Total liabilities		<u>57,443</u>	<u>35,342</u>
Net assets		<u>98,160</u>	<u>132,199</u>
Equity			
Share capital	11	173,200	173,200
Accumulated loss		<u>(75,040)</u>	<u>(41,001)</u>
Total equity		<u>98,160</u>	<u>132,199</u>

The above Statement of financial position should be read in conjunction with the accompanying notes to the financial statements

OnePath Custodians Pty Limited
Statement of changes in equity
For the year ended 30 June 2024

	Note	Share Capital \$'000	Accumulated loss \$'000	Total Equity \$'000
Balance at 1 July 2022		198,200	(35,538)	162,662
Profit after income tax for the year		-	36,137	36,137
Other comprehensive income		-	-	-
Total comprehensive income		-	36,137	36,137
Dividend paid	12	-	(41,600)	(41,600)
Capital return	11	(25,000)	-	(25,000)
Total capital transactions		(25,000)	(41,600)	(66,600)
Balance at 30 June 2023		173,200	(41,001)	132,199
		Share Capital \$'000	Accumulated loss \$'000	Total Equity \$'000
Balance at 1 July 2023		173,200	(41,001)	132,199
Profit / (loss) after income tax for the year		-	(20,839)	(20,839)
Other comprehensive income		-	-	-
Total comprehensive income		-	(20,839)	(20,839)
Dividend paid	12	-	(13,200)	(13,200)
Total capital transactions		-	(13,200)	(13,200)
Balance at 30 June 2024		173,200	(75,040)	98,160

The above Statement of changes in equity should be read in conjunction with the accompanying notes to the financial statements

OnePath Custodians Pty Limited
Statement of cash flows
For the year ended 30 June 2024

	Note	30 June 2024 \$'000	30 June 2023 \$'000
Cash flows from operating activities			
Receipts from customers and related parties		327,396	338,498
Payments to suppliers and related parties		<u>(322,464)</u>	<u>(289,653)</u>
		4,932	48,845
Interest income received		4,399	3,195
Income tax paid		<u>(654)</u>	<u>(12,190)</u>
Net cash from operating activities	16	<u>8,677</u>	<u>39,850</u>
Cash flow from financing activities			
Dividend paid	12	(13,200)	(41,600)
Share capital returned	11	<u>-</u>	<u>(25,000)</u>
Net cash from financing activities		<u>(13,200)</u>	<u>(66,600)</u>
Net decrease in cash and cash equivalents		(4,523)	(26,750)
Cash and cash equivalents at the beginning of the year		<u>98,995</u>	<u>125,745</u>
Cash and cash equivalents at the end of the year		<u>94,472</u>	<u>98,995</u>

The above Statement of cash flows should be read in conjunction with the accompanying notes to the financial statements

Note 1. General information

The financial statements cover OnePath Custodians Pty Limited ("the Company") as an individual entity. The ultimate parent entity is Insignia Financial Ltd ("IFL").

OnePath Custodians Pty Limited is a company limited by shares, incorporated and domiciled in Australia. The address of the Company's registered office and principal place of business are:

Registered office	Principal place of business
Level 1 800 Bourke Street Docklands VIC 3008	Level 1 800 Bourke Street Docklands VIC 3008

A description of the nature of the Company's operations and its principal activities are included in the Directors' report, which is not a part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of the Directors, on 18 September 2024.

Note 2. Material accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. Certain comparative amounts have been reclassified to conform with the current year's presentation.

Basis of preparation

These general purpose tier one financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the *Corporations Act 2001*, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

Basis of measurement

The financial information has been prepared in accordance with the historical cost convention except for certain assets and liabilities as described in the accounting policies below.

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

Changes in accounting policies

The accounting policies adopted in the preparation and presentation of these financial statements are materially consistent with those adopted and disclosed in the Company's Financial Report for the year ended 30 June 2023.

New accounting standards and amendments to accounting standards issued but not yet effective

A number of new standards and amendments to accounting standards have been issued but are not yet effective, have not been early adopted by the Company. These standards and amendments to accounting standards, when applied in future periods, are not expected to have a material impact on the financial position or financial performance of the Company other than discussed below:

AASB 18 Presentation and Disclosure in Financial Statements

AASB 18 Presentation and Disclosure in Financial Statements will be applicable to the Company for the 30 June 2028 financial year. The standard will replace AASB 101 Presentation of Financial Statements. The standard establishes key presentation and disclosure requirements including newly defined subtotals in the statement of profit or loss, the disclosure of management-defined performance measures and enhanced requirements for grouping information.

Rounding

The Company is of a kind referred to in ASIC Corporations Instrument 2016/191 and in accordance with that instrument, amounts in the financial report have been rounded to the nearest thousand dollars, unless otherwise indicated.

Note 2. Material accounting policies (continued)

Functional and presentation currency

The financial statements are presented in Australian dollars ("AUD"), which is the Company's functional and presentation currency.

Revenue recognition

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

Management fee income

The Company provides trustee and management services to a superannuation fund, for which fees are charged. These fees are calculated based on an agreed percentage of the respective funds under management, as disclosed in the respective product disclosure statements. The provision of these services is typically a single performance obligation and fees are earned on a daily basis and generally collected monthly.

Management fee income is recognised in the profit and loss over the period in which the service is provided, net of any rebates.

Management fee income is recognised in the Statement of comprehensive income over the period in which the service is provided, net of any fees rebated.

Other fees principally comprise revenues for other services and are recognised as the relevant service is provided and it is probable that the fee will be collected.

There are no judgements that significantly affects the determination of the amount and timing of revenue from contracts with customers.

Interest income

Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Other revenue

Other revenue is recognised when it is received or when the right to receive payment is established.

Expense recognition

Service fees and other operating expenses are recognised in profit and loss on an accrual basis.

Income tax

The income tax expense or benefit for the year is the tax payable on that year's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior years, where applicable.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

Note 2. Material accounting policies (continued)

Income tax (continued)

The Company is a member of a tax consolidated group with the head entity of the tax consolidated group being Insignia Financial Ltd. The head entity and each subsidiary in the tax consolidated group continue to account for their own current and deferred tax amounts. The tax consolidated group has applied the 'separate taxpayer within group' approach in determining the appropriate amount of taxes to allocate to members of the tax consolidated group.

In addition to its own current and deferred tax amounts, the head entity also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from each subsidiary in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the tax consolidated group. The tax funding arrangement ensures that the intercompany charge equals the current tax liability or benefit of each tax consolidated group member, resulting in neither a contribution by the head entity to the subsidiaries nor a distribution by the subsidiaries to the head entity.

Assets

Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with other financial institutions, other short-term, highly liquid investments with original terms to maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Receivables

Trade and other receivables and receivables from related parties are measured at amortised cost less impairment losses.

Prepayments

Prepayments are payments made in advance of the amount being due and are recognised at amortised cost less any impairment losses.

Liabilities

Fees payable

These amounts represent liabilities for services provided to the Company prior to the end of the financial year and which are unpaid. They are short term in nature and are measured at amortised cost and are not discounted. The amounts are unsecured and are paid within commercial terms.

Payables to related parties

These amounts represent liabilities to entities within the wholly owned group. These are short term in nature and are measured at amortised cost and are not discounted.

Provisions

Provisions arise when there is a present obligation (legal or constructive) as a result of a past event and a probable outflow of resources will be required to settle the obligation. Provisions are recognised when a reliable estimate can be made on the amount of the obligation. The expense relating to a provision is presented in the Statement of comprehensive income net of any reimbursements.

Contingent liabilities

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefits is not probable or cannot be reliably measured. Contingent liabilities are not recognised in the Statement of financial position.

Equity

Ordinary Shares

Ordinary shares in the Company are recognised at the amount paid per ordinary share net of directly attributable issue costs.

Note 2. Material accounting policies (continued)

Presentation

Offsetting of income and expenses

Income and expenses are not offset unless required or permitted by an accounting standard. This generally arises in the following circumstances:

- where income and expense arise from a group of similar transactions, such as rebates on management fee income;
- where amounts are collected on behalf of third parties, where the Company is, in substance, acting as an agent only; or
- where costs are incurred on behalf of customers from whom the Company is reimbursed.

Offsetting assets and liabilities

Assets and liabilities are offset and the net amount presented in the Statement of financial position only where there is:

- a current enforceable legal right to offset the asset and liability; and
- an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Goods and services tax

Income, expenses and assets are recognised net of the amount of goods and services tax ("GST"), except where the amount of GST incurred is not recoverable from the Australian Taxation Office ("ATO"). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from or payable to the ATO is paid by a related entity within the wholly owned group with a corresponding intercompany balance recognised by the Company.

Cash flows are included in the Statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from or payable to the ATO are classified as operating cash flows.

Note 3. Critical estimates, judgements and assumptions used in applying accounting policies

The Company prepares its financial statements in accordance with policies which are based on Australian Accounting Standards, other authoritative accounting pronouncements of the Australian Accounting Standards Board, Australian Accounting Interpretations and the *Corporations Act 2001*. This involves the Company making estimates and assumptions that affect the reported amounts within the financial statements. Estimates and judgements are continually evaluated and are based on historical factors, including expectations of future events that are believed to be reasonable under the circumstances.

Other than those disclosed elsewhere in the financial statements, management have not made any significant accounting judgements, estimates or assumptions in preparing these financial statements.

Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences only if the Company considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Provisions

In relation to customer remediation, determining the amount of the provisions which represent management's best estimate of the cost 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 customers, the average refund per customer, the associated remediation project costs, and the implications of regulatory exposures and customer claims having regard to their specific facts and circumstances. Consequently, the appropriateness of the underlying assumptions is reviewed on a regular basis against actual experience and other relevant evidence including expert legal advice and adjustments are made to the provisions where appropriate.

OnePath Custodians Pty Limited
Notes to the financial statements
30 June 2024

Note 4. Management fee revenue

	30 June 2024	30 June 2023
	\$'000	\$'000
Management fees	179,699	180,651
Administration fees	62,639	58,113
Other fee income	512	545
Total management fee revenue	<u>242,850</u>	<u>239,309</u>

Note 5. Service fees and other direct costs

	30 June 2024	30 June 2023
	\$'000	\$'000
Investment management service expense	(17,162)	(17,665)
Custody fees	(3,916)	(3,245)
Total service fees and other direct costs	<u>(21,078)</u>	<u>(20,910)</u>

Note 6. Operating expenses

	30 June 2024	30 June 2023
	\$'000	\$'000
Administration expense	(3,086)	(3,104)
Service fees paid to related parties	(164,388)	(154,509)
Shareholder capital charge*	(17,500)	(8,650)
Fund related expenses	(2,174)	(2,284)
Other operating expense	(10,705)	(6,464)
Total operating expense	<u>(197,853)</u>	<u>(175,011)</u>

*Refer to Note 18 for further details.

Note 7. Income tax expense

	30 June 2024	30 June 2023
	\$'000	\$'000
Recognised in Statement of comprehensive income		
Current tax	(654)	(17,370)
Deferred tax – original and reversal of temporary differences	4,997	(888)
Income tax (expense) / benefit	<u>4,343</u>	<u>(18,258)</u>

Numerical reconciliation of income tax expense and tax at the statutory rate

(Loss) / Profit before income tax	(25,182)	54,395
Tax at the statutory tax rate of 30% (2023: 30%)	7,555	(16,319)

Tax effect amounts which are not deductible/(taxable) in calculating taxable income:

Non-deductible expenses	(3,212)	(1,939)
Income tax (expense) / benefit	<u>4,343</u>	<u>(18,258)</u>

OnePath Custodians Pty Limited
Notes to the financial statements
30 June 2024

Note 8. Deferred tax assets

	30 June 2024	30 June 2023
	\$'000	\$'000
Deferred tax assets comprise temporary differences attributable to:		
Provision	11,583	5,601
Unearned income	-	41
Accrued expenses	479	945
Adjustment recognised for prior periods	-	478
Total deferred tax assets	12,062	7,065

	30 June 2024	30 June 2023
	\$'000	\$'000
Reconciliation of movements		
Net carrying amounts at the beginning of the year	7,065	7,953
Recognised in profit or loss	4,779	(888)
Recognised in other comprehensive income	-	-
Carrying amount at the end of the year	12,062	7,065

Note 9. Investment in Subsidiaries

ACN 099 995 187 was a 100% owned subsidiary of the Company and was deregistered on 28 May 2024.

Note 10. Provisions

	30 June 2024	30 June 2023
	\$'000	\$'000
Balance at the beginning of the year	18,669	26,371
Net Increase during the year*	67,415	(2,841)
Utilised during the year	(36,770)	(4,861)
Balance at the end of the year	49,314	18,669
Current	49,314	18,669
Non-current	-	-
Total	49,314	18,669

*Provisions recognised during the period are recognised as remediation expense in the Statement of comprehensive income, along with any other remediation related costs not provisioned for. The current year figure includes a \$10.7m fine from APRA (recorded in the Statement of comprehensive income as Other operating expenses – refer to Note 6)

The Company entered into a court enforceable undertaking (CEU) and subsequently paid a fine to APRA in July 2024. A provision has been recognised for the anticipated costs of both the fine and remediation activities required under the CEU. Additionally, the Company has conducted several reviews into historical issues which have resulted in other remediation provisions being recognised. As issues are investigated and resolved, payments are made and updated assessments on the remaining provisions are performed. Additional detail on provisions recognised is included in Note 22. The impact of these changes are shown in the table above.

OnePath Custodians Pty Limited
Notes to the financial statements
30 June 2024

Note 11. Share capital

	30 June 2024 Shares	30 June 2023 Shares	30 June 2024 \$	30 June 2023 \$
Ordinary shares - fully paid	<u>173,200,003</u>	<u>173,200,003</u>	<u>173,200,003</u>	<u>173,200,003</u>

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the Company in proportion to the number of shares held. The fully paid ordinary shares have no par value.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

No capital returns were made in the current financial year to the immediate parent entity (2023: \$25,000,000).

Note 12. Dividends paid and proposed

	30 June 2024 \$'000	30 June 2023 \$'000
Dividend on ordinary and non-redeemable preference shares:		
Final dividend for 2023: 4.2 cents (2022: 7.1 cents) per share	7,200	14,000
Interim dividend for 2024: 3.5 cents (2023: 5.6 cents) per share	6,000	11,000
Interim dividend for 2024: nil (2023: 4.6 cents) per share	-	9,200
Interim dividend for 2024: nil (2023: 4.3 cents) per share	-	7,400
Total dividends paid by the Company during the year	<u>13,200</u>	<u>41,600</u>

Note 13. Capital management

The Company is capitalised with share capital and retained earnings. This capital is held to meet regulatory and operational requirements that reflect the risk of the Company. The level of capital is actively managed to maintain capital adequacy and efficiency with reference to these requirements.

The Company must remain solvent at all times in accordance with the *Corporations Act 2001*.

The Company is also regulated by APRA and has been issued a Registrable Superannuation Entity ("RSE") Licence and therefore must comply with APRA's prudential standards and practice guides associated with an RSE Licence.

In complying with APRA's Prudential Standard SPS 114 "Operational Risk Financial Requirement" (ORFR), the Company has continued to operate within its Board approved ORFR Target and tolerances. As at 30 June 2024, the ORFR requirement had been met through Company ORFR trustee capital of \$83.8m (30 June 2023: \$87.8m) and RSE trustee reserve of \$3.3m within the Retirement Portfolio Service ("RPS") (30 June 2023: \$3.2m).

There were no changes in the Company's approach to capital management since the prior financial year. The Company has met APRA's capital requirements at all times during the current and prior financial years.

Note 14. Risk management policies and procedures

The Company is a wholly owned subsidiary of Insignia Financial Ltd and operates in accordance with the Insignia Financial Group's Risk Management Policy. Risk management processes and activities are integrated with strategic planning, appetite, policies, reporting and governance to ensure that risk is managed effectively throughout Insignia Financial Ltd and its subsidiaries (collectively referred to as the "IFL Group").

The Board is responsible for establishing and overseeing the Company's Risk Management Framework ("RMF") and has delegated authority for the oversight and monitoring of the RMF to the Company Risk and Compliance Committee and the Chief Executive Officer (or their delegate). The RMF embeds a robust, clearly defined framework of proactive risk identification, continuous risk assessment and targeted management of risk across all Insignia Financial's business operations in managing material risks. The key pillars of the RMF include:

- The Company Risk Management Strategy ("RMS") which articulates the Company's approach to the implementation of its strategic objectives and the key elements of the RMF that give effect to the strategy. It also includes a description of each material risk, including key roles and responsibilities for managing the risk, and outlines the risk governance structure;
- The Company Risk Appetite Statement ("RAS"), which sets out the Board's expectations regarding the degree of risk that the Company is prepared to accept in pursuit of strategic and business objectives, giving consideration to the interests of clients and shareholders;
- The Company Risk Management Policy ("RMP") which sets out the methodology to identify, assess, manage, analyse, monitor and report on those risks that could impact the achievement of strategic objectives, impact core processes and/or result in non-compliance with obligations;
- A Three Lines of Accountability ("3LoA") model to govern risk management and compliance activities across the Group. The 3LoA model represents the three levels of risk management that facilitate the effective operation of the RMF. The overarching principle is that risk management capability must be embedded into the business to be effective.

In November 2022, APRA imposed additional licence conditions on the Insignia Financial Registrable Superannuation Entity Licensees (RSEs), including this company. These conditions included:

- Enhancement of the RSEs' governance in relation to member outcomes, oversight of service providers, risk, compliance and managing conflicts of interest;
- Appointment of an independent expert to examine the operational effectiveness of the RSEs' governance, accountability and risk management frameworks and practices; and
- Rectification of areas of concern with input from the independent expert.

The Company is working with the IFL Group to satisfactorily address all the Licence Conditions. The Company has appointed an independent expert who is overseeing the execution of additional license conditions. Regular quarterly status have been provided to APRA from the independent expert on the Company's activities to rectify any and all areas of concern identified by them.

Note 15. Financial risk management

Financial Risk Management as discussed below considers the significant financial risks borne by the Company.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market variables such as interest rates, equity prices and foreign currency exchange rates.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising returns.

Measurement

The following provides an analysis of the exposures of the different types of market risks.

Interest rate risk

Interest rate risk is the risk of loss arising from adverse changes in interest rates and the impact on future cash flows or the fair value of financial instruments.

OnePath Custodians Pty Limited
Notes to the financial statements
30 June 2024

Note 15. Financial risk management (continued)

Market risk (continued)

The Company's exposure to interest rate risk is as follows:

	30 June 2024	30 June 2023
	\$'000	\$'000
Financial assets		
Cash and cash equivalents*	94,472	98,995
Total financial assets	94,472	98,995

*APRA's Prudential Standard SPS 114 requires that the ORFR be held within the trustee entity as capital or the RSE as reserves. The amount is quarantined for the sole purpose of meeting the ORFR, with the \$83.8m (30 June 2023: \$87.8m) supporting the ORFR being held in a separate bank account.

Interest rate sensitivity analysis

An increase or decrease in variable interest rates of 100 basis points (2023: 100 basis points) in interest rates would have a direct impact, net of tax, on the profit or loss and equity position as shown below.

	Profit or Loss		Equity	
	Increase	Decrease	Increase	Decrease
	\$'000	\$'000	\$'000	\$'000
30 June 2024 (100 bps)	661	(661)	661	(661)
30 June 2023 (100 bps)	693	(693)	693	(693)

Other market risk

The Company has no material exposure to foreign exchange risk or other price risks.

Credit risk

Credit risk refers to the risk that a counterparty will fail to meet its contractual obligations resulting in financial loss to the Company. Credit risk arises for the Company from cash and cash equivalents, term deposits and trade and other receivables.

The Company mitigates its credit risk by ensuring cash deposits and term deposits are held with high quality financial institutions with credit ratings of A+ to AA.

Receivables consist of management fees receivable, service fees receivable and other amounts receivable from related parties. These counterparties generally do not have an independent credit rating, and the Company assesses the credit quality of the debtor taking into account its financial position, past experience with the debtor, and other available credit risk information.

The maximum exposure to credit risk at the reporting date is the carrying value of the financial assets. No financial assets are considered past due and management does not expect any counterparty to fail to meet its obligations. The Company does not hold any collateral as security over its receivables.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting commitments associated with financial liabilities.

Demands for funds can usually be met through ongoing normal operations and the sale of assets or borrowing. Expected liquidity demands within the Company are managed through a combination of treasury, investment and asset-liability management guidelines, which are monitored on an ongoing basis. The Company regularly assesses and monitors the liquidity risk profile through analysis of liabilities that increase liquidity risk, reviews the investment portfolio to ensure adequate liquidity, and performs analysis of the expected asset and liability cash flows in regards to the ability of the business to meet cash demands.

Note 15. Financial risk management (continued)

Liquidity risk (continued)

All financial assets and liabilities are expected to be received and settled within one year.

The Company is one of the guarantors for Insignia Financial Ltd in relation to a Syndicated Facility Agreement (“SFA”) between IFL and a group of syndicated lenders. Each guarantor jointly and severally guarantees to meet the syndicated lenders the financial obligations of IFL under the SFA. The Company’s ORFR is segregated and held outside of the security net set out in the SFA. The fund assets which are held on behalf of members are unavailable to the syndicated lenders. As IFL is the ultimate parent of the Company, Management considers the possibility of an outflow of resources embodying economic benefits as a result of the Company providing the guarantee as remote.

Note 16. Notes to the Statement of cash flows

	30 June 2024	30 June 2023
	\$'000	\$'000
Reconciliation of cash flows from operating activities		
(Loss) / profit after tax for the year	(20,839)	36,137
Non-cash items		
- Provisions released during the year	(2,748)	(9,092)
Changes in operating assets and liabilities		
- Change in trade and other receivables	832	(9,394)
- Change in prepayments	233	(33)
- Change in receivables from related parties	11,347	19,811
- Change in unearned income	(136)	(2)
- Change in fees payable	(4,343)	173
- Change in payables to related parties	(4,065)	(28)
- Change in provisions	33,393	1,390
- Change in deferred tax	(4,997)	888
Net cash from operating activities	8,677	39,850

Note 17. Remuneration of auditors

	30 June 2024	30 June 2023
	\$	\$
<i>Audit services - KPMG Australia</i>		
Audit and review of financial reports	46,125	46,125
Audit and review of financial reports – managed superannuation funds	307,500	307,500
<i>Other services - KPMG Australia</i>		
Regulatory assurance services	172,200	192,700

KPMG auditor’s remuneration for the Company is allocated and paid by a related entity in the IFL Group.

Note 18. Related party disclosures

(a) Immediate and ultimate controlling entity

The immediate parent entity and ultimate parent entity is Insignia Financial Ltd. Insignia Financial Ltd produces consolidated financial statements available for public use and is incorporated in Australia.

(b) Related party transactions that occurred during the year

(i) Transactions with related parties in the wholly owned group

Transactions and balances between the entities within the IFL Group are made up of non-interest bearing funds and have no fixed terms of maturity. Management services were provided by a commonly controlled entity, IOOF Service Co Pty Ltd, on a cost recovery basis. Management expenses incurred during the year amounted to \$4,390,730 (2023: \$2,366,682). All other transactions were made on normal commercial terms and conditions and at market rates. No receivable from a related party was impaired during the year.

The Company does not pay external investment management and custody fees directly, rather expenses are paid by another IFL Group entity which is then subsequently reimbursed by the Company. The reimbursed investment management fees during the year amounted to \$17,162,112 (2023: \$17,664,373) and the reimbursed custody fees during the year amounted to \$3,915,675 (2023: \$3,244,949).

The Company paid administration service expenses to another IFL Group entity for administration services provided in its capacity as the administrator of RPS. The administration expense is calculated based on a set rate applied to funds under administration ("FUA"). Administration expense incurred during the year amounted to \$159,996,677 (2023: \$152,142,502).

At the balance date, the transactions with IFL Group subsidiaries comprised of the amounts below:

	30 June 2024	30 June 2023
	\$	\$
Receivables from entities within the IFL Group	16,270,953	27,617,854
Payables to entities within the IFL Group	-	4,065,287

Transactions with related parties include net GST payables and tax expenses, which are payable under the tax-consolidated group agreement.

There have been no guarantees given or received. No outstanding amounts have been written down or recorded as allowances as they are considered fully collectible. All transactions were made on commercial terms and conditions and at market rates. No receivable from a related party was impaired during the year or prior year.

(ii) Transactions with the immediate and ultimate parent

During the year, the Company paid \$17,500,000 (2023: \$8,650,000) Shareholder Capital Charge to IFL in relation to the IFL Group's Shareholder Capital Charge arrangement effective 1 January 2023.

(iii) Other transactions with key management personnel

Key management personnel ("KMP") and their related parties held investments in related underlying managed investment schemes and superannuation funds.

Note 19. Key management personnel disclosures

Directors

The following persons were Directors of OnePath Custodians Pty Limited during the whole financial year and up to the date of this report unless otherwise stated:

Mr Lindsay Smartt*
 Ms Karen Gibson
 Ms Jane Harvey (resigned 15 December 2023)
 Ms Beth McConnell
 Ms Marianne Perkovic (appointed 3 October 2023)
 Mr Mario Pirone (appointed 3 October 2023)
 Mr Steven Schubert

Note 19. Key management personnel disclosures (continued)

* Mr Lindsay Smartt, Chair and Non-Executive Director will depart the board before the end of 2024. Danielle Press has been announced as Non-Executive Director from 19 September 2024 and Chair from November 2024.

Other key management personnel

The following persons also had the authority and responsibility for planning, directing and controlling the major activities of the Company, directly or indirectly, during the financial year:

Mr Scott Hartley (Chief Executive Officer) (commenced 1 March 2024)
 Mr Renato Mota (Chief Executive Officer) (ceased KMP duties effective 29 February 2024)
 Mr David Chalmers (Chief Financial Officer)
 Ms Anne Coyne (Chief Member Officer) (ceased KMP duties effective 23 February 2024)
 Mr Daniel Farmer (Chief Investment Officer)
 Ms Sally Hopwood (Acting Chief Member Officer) (commenced 26 February 2024, ceased KMP duties effective 26 July 2024)
 Mr Frank Lombardo (Chief Operating & Technology Officer) (ceased KMP duties effective 26 July 2024)
 Mr Mark Oliver (Chief Distribution Officer) (ceased KMP duties effective 26 July 2024)
 Mr Anvij Saxena (Chief Risk Officer)
 Ms Mel Walls (Chief People Officer) (commenced 1 July 2023)
 Mr Christopher Weldon (Chief Transformation Officer/ Chief Client Officer) (ceased KMP duties effective 26 July 2024)

The compensation of key management personnel (“KMP”), comprising of the Directors and senior management of the business, is provided by a related entity of the Group. The total of this compensation is as follows:

	30 June 2024	30 June 2023
	\$	\$
Short term employment benefits	1,119,660	860,937
Post-employment benefits	54,162	48,787
Share based payments	84,335	136,347
Termination benefits	231,438	24,952
Total	<u>1,489,595</u>	<u>1,071,023</u>

The compensation of KMP has been disclosed in accordance with their roles within the IFL Group as employee service contracts do not include any compensation, including bonuses, specifically related to the role of KMP of the Company. The roles of the KMPs within the IFL Group include activities relating to the Company as well as other entities within the IFL Group. The KMP compensation disclosed above relates only to the portion of compensation allocated to the Company's activities. The prior year comparative amounts have been restated to conform to the current year's presentation.

Note 20. Contingent liability

The Company may from time to time be exposed to contingent liabilities and potential claims in respect of the activities of the underlying trusts for which it acts as the RSE Trustee. As at the date of this report, there are no contingent liabilities where the underlying fund is not expected to have sufficient assets to indemnify the RSE Trustee as appropriate.

As part of the operations of the business, the Company has been subject to various legal actions and claims. Outcomes in relation to these actions and claims are uncertain and no provisions are required at balance sheet date.

As identified in Note 15, the Company is one of the guarantors in relation to the Insignia Financial Group Syndicate Facility Agreement. At the date of this report, there is no financial liability for the Company under this agreement.

Class Actions

The Company is party to a class action against OPC (and two companies external to the Insignia Group) in the Federal Court in relation to alleged breaches of trustee obligations regarding the investment of cash investment option funds and the charging of fees relating to commissions.

Note 20. Contingent liability (continued)

Remediation matters

There are several remediation matters under investigation, the potential outcomes and total costs associated with these matters remain uncertain and any provisions raised in relation to these matters have been recognised by either the Company's related party administrator or the ultimate parent entity where appropriate.

Note 21. Commitments

There were no capital or lease expenditure commitments as at 30 June 2024 (2023: \$Nil).

Note 22. Events since the end of the reporting period

Due to an incident previously notified to the Australian Prudential Regulation Authority ("APRA"), the Company paid a fine on 20 July 2024 of \$10,704,600 under infringement notices issued by APRA for alleged breaches of the Superannuation Industry (Supervision) Act 1993 (SIS Act) for failing to invest members' default superannuation contributions in MySuper products.

Additionally, APRA agreed to accept a court enforceable undertaking (CEU) from the Company. The Company has committed to:

- identify, rectify, and remediate all members adversely affected by the breaches with assurance from an independent expert;
- allocate additional resources to replenish the Operational Risk Financial Requirement resources to 100% of the target balance of 0.25% of funds under management; and
- hold \$40m of its existing Operational Risk Financial Requirement assets as an overlay until the Company has satisfied the terms of the CEU.

The Company must comply with the CEU, failing which APRA may seek a court order to require compliance or take further enforcement steps.

The Company has recognised a provision of \$26.3m in its financial accounts to cover the costs of both the fine and remediation activities required under the CEU.

On 16 September 2024, the applicants, the Company (and two other respondents outside the IFL Group) reached "in-principle" settlement on a "no admissions" basis in relation to the legal proceedings *Ian Edo Janssen & Anor v OnePath Custodians Pty Ltd & Ors* in relation to alleged breaches of trustee obligations regarding the investment of cash investment option funds and the charging of fees relating to commissions. A settlement deed is being negotiated which, when signed, will allow for the disclosure of the settlement amount. The settlement is subject to Court approval. The Company's proposed contribution to the settlement has been recognised as a provision in its financial statements at 30 June 2024.

There have been no other significant events from 30 June 2024 to the date of signing this report.

Directors' Declaration

The Directors of OnePath Custodians Pty Limited (the "Company") declare that:

- a) in the Directors' opinion, the financial statements of the Company and the notes thereto, have been prepared in accordance with the *Corporations Act 2001*, including that:
 - i. they comply with applicable Australian Accounting Standards and the *Corporations Regulations 2001*;
 - ii. they give a true and fair view of the Company's financial position as at 30 June 2024 and of its performance as represented by the results of its operations and its cash flows, for the year ended on that date; and
 - iii. the financial statements and notes to the financial statements of the Company comply with International Financial Reporting Standards as described in Note 2; and
- b) in the Directors' opinion, 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, made pursuant to section 295(5)(a) of the *Corporations Act 2001* for the year ended 30 June 2024.



Lindsay Smartt
Director

18 September 2024



Independent Auditor's Report

To the shareholders of OnePath Custodians Pty Limited

Report on the audit of the Financial Report

Opinion

We have audited the **Financial Report** of OnePath Custodians Pty Limited (the Company).

In our opinion, the accompanying Financial Report of the Company gives a true and fair view, including of the Company's financial position as at 30 June 2024 and of its financial performance for the year then ended, in accordance with the *Corporations Act 2001*, in compliance with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The **Financial Report** comprises:

- Statement of financial position as at 30 June 2024;
- Statement of comprehensive income, Statement of changes in equity, and Statement of cash flows for the year then ended;
- Notes, including material accounting policies
- Directors' Declaration.

Basis for opinion

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

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

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

Other Information

Other Information is financial and non-financial information in OnePath Custodians Pty Limited's annual report which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

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

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

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

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

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

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

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

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



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

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf This description forms part of our Auditor's Report.

KPMG

Dean Waters

Partner

Melbourne

18 September 2024