Colonial First State Investments Limited

ABN 98 002 348 352

Annual Report

for the year ended 30 June 2021

Contents

The Directors of Colonial First State Investments Limited (the "Company") submit their report together with the general purpose financial statements (the "Financial Statements") for the financial year ended 30 June 2021.

Directors

The names of the Directors of the Company holding office during the financial year ended 30 June 2021 and up to the date of this report, unless otherwise stated were as follows:

Jo-Anne G Bloch (appointed 1 October 2021)
Gregory Cooper
Edward J Eason (resigned 30 June 2021)
Kelly Ghaleb (née Power) (appointed 17 September 2021)
Benjamin A Heap
Penelope James
Anne D F Ward (resigned 31 December 2020)

Secretaries

The names of the Secretaries of the Company holding office during the financial year ended 30 June 2021 and up to the date of this report were as follows:

Lisa M B Beatty (resigned 02 February 2021)
Caterina N Cavallaro (appointed 23 December 2020 and resigned 6 May 2021)
Larissa Cibas (appointed 23 September 2021)
Dhawal G Gadani (resigned 23 December 2020)
Hugh R Loughrey (appointed 6 May 2021 and resigned 17 September 2021)
Sejil Mistry (appointed 19 July 2021)

Principal activities

The Company's principal activities during the financial year were the management and investment of funds on behalf of retail and wholesale superannuation and non-superannuation investors, and the provision of trustee services. There were no significant changes in the nature of the activities of the Company during the financial year.

Review of operations

The Company recorded a net profit after tax for the financial year ended 30 June 2021 of $157,504,000 (2020: $174,246,000).

The major factors affecting the lower net profit were:

- Reduced investment management fee income as a result of platform pricing changes in response to the regulatory and market environment, and a decline in average Funds Under Administration ("FUA"), driven by net outflows primarily from product offering simplification to align with the longer term strategy, partly offset by improved market performance; partly offset by
- Decrease in expenses driven by the cessation of commission expenses and lower claim and remediation expenses.

In March 2020, the World Health Organisation declared COVID-19 as a pandemic. Governments in Australia and around the world have introduced significant restrictions to business in order to curb the spread of the virus. These include travel restrictions and quarantines which have disrupted supply chains and resulted in lower consumer demand and general market uncertainty. As a result, the effects of COVID-19 have impacted the global economy, the economies of certain nations and individual issuers, all of which have potentially impacted the Company's performance. The pandemic has had, and continues to have, an impact on the general business environment and financial markets, which the Company is monitoring.

Dividends

No dividends were determined and paid during the financial year ended 30 June 2021 (2020: $120,000,000).

Significant changes in the state of affairs

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

Likely developments and expected results of operations

On 13 May 2020, Commonwealth Bank of Australia ("CBA" or "the Bank") announced it had entered into an agreement to sell a 55% interest in the Colonial First State ("CFS") business including the Company to KKR. Completion of the transaction is subject to the Australian Prudential Regulation Authority ("APRA") and Foreign Investment Review Board ("FIRB") regulatory approvals and is expected to occur in the second half of calendar year 2021.

The Company is progressing with its implementation of the law reform arising from the recommendations of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry as they apply to superannuation trustees. Accordingly, it is expected that the nature of the Company's operations will change to meet these requirements, expected to be in the latter half of FY22.

Other information as to likely developments in the operations of the Company and the expected results of those operations in subsequent financial years have not been included in this report because, in the opinion of the Directors, they would prejudice the interests of the Company.

Environmental regulation

The Company's operations are not subject to any particular or significant environmental regulations under Australian Commonwealth, State or Territory law.

Directors' and officers' insurance

During the financial year, CBA, as the ultimate parent entity, has paid an insurance premium in respect of an insurance policy for the benefit of the Bank and the Directors, Secretaries, Officers, certain Employees of the Bank and related bodies corporate as defined in the insurance policy, which includes the Company. The insurance is appropriate pursuant to Section 199B of the *Corporations Act 2001*. In accordance with commercial practice, the insurance policy prohibits disclosure of the terms of the policy including the nature of the liabilities insured against and the amount of the premium.

Directors' and officers' indemnity

The Constitution of the Company provides for the Company to indemnify each Officer on a full indemnity basis and to the full extent permitted by law against all losses, liabilities, costs, charges and expenses ("Liabilities") incurred by the Officer as an Officer of the Company. The Officers of the Company to whom the indemnity presently applies are any person who is, or has been, a Director or Secretary or Senior Manager of the Company. The indemnity is enforceable without the Officer having to first incur any expense or make any payment, is a continuing obligation and is enforceable by the Officer even though the Officer may have ceased to be an Officer of the Company. The indemnity also applies to liabilities incurred by the Officer both before and after the adoption of the Constitution.

The Officers of the Company also have the benefit of an indemnity, in similar terms to the indemnity in the Constitution of the Company, under a deed poll executed by the Bank.

Interest in shares of the Company

As at balance sheet date, no Director has any interests in the shares of the Company.

Events subsequent to the balance sheet date

On 19 October 2021, the Federal Court approved an agreement between the Company and ASIC to resolve proceedings relating to non-compliant communications with members. On 1 November 2021, the Company paid a civil penalty of $20 million. It also agreed to pay ASIC's costs of the investigation and publish an Adverse Publicity Order (refer note 15).

The Directors are not aware of any other matter or circumstance that has occurred since the end of the financial year that has significantly affected or may significantly affect the operations of the Company, the results of those operations or the state of affairs of the Company in subsequent financial years.

Rounding of amounts

The amounts contained in this report and in the Financial Statements have been rounded to the nearest thousand dollars (where rounding is applicable) under the option available to the Company under Australian Securities and Investments Commission ("ASIC") Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191. The Company is an entity to which the Instrument applies.

Auditor's Independence Declaration

A copy of the Auditor's Independence Declaration as required under section 307C of the *Corporations Act 2001* is set out on page 5.

This report is signed in accordance with a resolution of the Board of Directors.

Director

Sydney

9 November 2021

Auditor's Independence Declaration

As lead auditor for the audit of Colonial First State Investments Limited for the year ended 30 June 2021, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

A S Wood
Partner
PricewaterhouseCoopers

Sydney
9 November 2021

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	Notes	2021 $'000	2020 $'000
Revenue			
Investment management fee income	2(a)	**1,026,895**	1,115,141
Interest income	2(a)	**290**	4,917
Other income	2(a)	**36,429**	41,095
Total revenue		**1,063,614**	1,161,153
Expenses			
Investment management fee expenses	2(b)	**397,715**	382,891
Commission expenses	2(b)	**4,923**	62,492
Administrative expenses	2(b)	**329,801**	339,850
Claims and remediation expenses	2(b)	**104,612**	120,566
Total expenses		**837,051**	905,799
Net profit before income tax		**226,563**	255,354
Income tax expense	3(a)	**69,059**	81,108
Net profit after tax		**157,504**	174,246
Other comprehensive income, net of tax		**-**	-
Total comprehensive income attributable to owner of the Company		**157,504**	174,246

The above Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes

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	Notes	2021 $'000	2020 $'000
Assets			
Current assets			
Cash and cash equivalents	10	**600,436**	521,128
Receivables	4	**149,757**	92,165
Financial assets at fair value through profit or loss	5	**259,036**	213,318
Total current assets		**1,009,229**	826,611
Non-current assets			
Deferred tax asset	3(c)	**42,263**	35,480
Total non-current assets		**42,263**	35,480
Total assets		**1,051,492**	862,091
Liabilities			
Current liabilities			
Payables	6	**179,901**	186,573
Provisions	7	**204,728**	132,748
Current tax liability	3	**74,468**	107,879
Total current liabilities		**459,097**	427,200
Total liabilities		**459,097**	427,200
Net assets		**592,395**	434,891
Equity			
Share capital	8	**5,000**	5,000
Retained earnings		**587,395**	429,891
Total equity attributable to owner of the Company		**592,395**	434,891

The above Balance Sheet should be read in conjunction with the accompanying notes.

	Notes	Share capital $'000	Retained earnings $'000	Total equity $'000
Balance at 1 July 2019		5,000	375,645	380,645
Net profit after tax for the year		-	174,246	174,246
Other comprehensive income, net of tax		-	-	-
Total comprehensive income for the year		-	174,246	174,246
Transactions with owner in their capacity as owner:				
Dividends provided for or paid	9	-	(120,000)	(120,000)
Balance at 30 June 2020	8	**5,000**	**429,891**	**434,891**
Balance at 1 July 2020		5,000	429,891	434,891
Net profit after tax for the year		-	157,504	157,504
Other comprehensive income, net of tax		-	-	-
Total comprehensive income for the year		-	157,504	157,504
Transactions with owner in their capacity as owner:				
Dividends provided for or paid	9	-	-	-
Balance at 30 June 2021	8	**5,000**	**587,395**	**592,395**

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

	Notes	2021 $'000	2020 $'000
Cash flows from operating activities			
Fees and other income received		**1,048,424**	1,178,152
Interest income received		**405**	5,291
Payments to suppliers		**(732,346)**	(754,672)
Payments for claims and remediation costs		**(83,397)**	(17,165)
Income taxes paid		**(109,253)**	(146,012)
Net cash inflow from operating activities	10	**123,833**	265,594
Cash flows from investing activities			
Distributions received from financial assets	2	**1,075**	2,920
Sale of financial assets		**11,400**	-
Purchase of financial assets	5	**(57,000)**	(9,000)
Net cash outflow from investing activities		**(44,525)**	(6,080)
Cash flows from financing activities			
Dividends paid	9	**-**	(120,000)
Net cash outflow from financing activities		**-**	(120,000)
Net increase in cash and cash equivalents		**79,308**	139,514
Cash and cash equivalents at the beginning of the financial year		**521,128**	381,614
Cash and cash equivalents at the end of the financial year		**600,436**	521,128

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

1 Summary of significant accounting policies

(a) General information

The Financial Statements of the Company for the year ended 30 June 2021 were approved and authorised for issue by the Board of Directors on 9 November 2021. The Directors have the power to amend and reissue the Financial Statements.

The Company is incorporated and domiciled in Australia. It is a company limited by shares. The address of its registered office is Ground Floor, Tower 1, 201 Sussex Street, Sydney New South Wales 2000, Australia.

The immediate parent entity is Capital 121 Pty Limited and the ultimate parent entity is the Bank (ACN 123 123 124).

The principal accounting policies applied 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. The Financial Statements cover the Company as an individual entity.

As a trustee of registrable superannuation entities ("RSEs"), the Company holds an RSE licence (licence no. L0002196). The Company acts as a responsible entity ("RE") for funds under its management. The Company also holds an Australian Financial Services licence ("AFSL") (licence no. 232468).

(b) Basis of preparation

These general purpose Financial Statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by Australian Accounting Standards Board ("AASB") and the *Corporations Act 2001.* The Company is a for-profit entity for the purposes of preparing Financial Statements.

The Financial Statements of the Company also comply with the International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

The amounts contained in the Financial Statements have been rounded to the nearest thousand dollars (where rounding is applicable) under the option available to the Company under ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191. The Company is an entity to which the Instrument applies.

The functional and presentation currency of the Company has been determined to be Australian Dollars ("AUD") as this currency best reflects the economic substance of the underlying events and circumstances relevant to the Company.

These Financial Statements have been prepared on a going concern basis. The Financial Statements have been prepared under the historical cost convention except for financial assets at fair value through profit or loss which are carried at fair value.

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 estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Areas involving a higher degree of judgement or complexity, or areas using significant assumptions and estimates are discussed further in Note 1(q).

(c) New accounting standards and future accounting developments

There were no new or amended standards adopted by the Company during the financial year.

Additionally, there are no other standards or amendments that are effective subsequent to the end of the current financial year that would have a material impact on the results or financial position of the Company.

1 Summary of significant accounting policies (continued)

(d) Revenue recognition

Revenue is measured based on the consideration to which the Company expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties.

The Company recognised revenue as follows:

(i) Base investment management fee income
As trustee and RE, the Company provides investment management services to funds for which it receives compensation in the form of investment management fees. Fund management services are a single performance obligation and fees are recognised over the service period. Investment management fees are accrued and received monthly in accordance with the rates specified in the fund constitutions, trust deeds and product disclosure statements of the funds the Company manages. Investment management fee income is recognised in the Statement of Profit or Loss and Other Comprehensive Income net of fee rebates where applicable.

(ii) Investment performance fee income
When providing management services to funds, where the Company outperforms an agreed upon benchmark, income is earned in the form of a performance fee. This applies to some funds only. Performance fees are deemed to be a variable component of the fund management service and only recognised when it is highly probable that a significant reversal of the fees will not occur. These fees are received monthly or quarterly in accordance with the rates specified in the constitutions, trust deeds and product disclosure statements of the funds that the Company operates.

(iii) Fees from administration services
Fees earned from the Bank for the performance of administration services on deposit products on behalf of the Bank are recognised in the Statement of Profit or Loss and Other Comprehensive Income as earned.

(iv) Interest income
Interest income is recognised on an accrual basis using the effective interest rate method.

(v) Administration fee income
Administration fee income includes, but is not limited to, administration fees received from back office services provided to Commonwealth Bank Group Superannuation products, administration fees from the issue and management of insurance premiums for the Company's Superannuation products where the Company is the trustee. This income is accrued monthly and recognised as revenue when the amounts can be established.

(vi) Distribution income
Distribution income from financial assets at fair value through profit or loss is recognised as revenue when the right to receive payment is established.

(e) Expense recognition

(i) Investment management fee expense
The Company outsources investment management services to third party fund managers. Investment management fees are accrued monthly and paid in accordance with the terms and rates specified in the investment management agreements.

(ii) Investment performance fee expense
The Company outsources investment management services to third party fund managers. Investment performance fees are accrued monthly and paid quarterly in accordance with the rates specified in the investment management agreements. A performance fee expense applies to the management of some funds only.

1 Summary of significant accounting policies (continued)

(e) Expense recognition (continued)

(iii) Commission expenses

The Company pays trail commission fees to intermediaries for advising clients to invest into the funds the Company manages. These costs were accrued on a monthly basis in accordance with the agreements until the Company ceased paying them by December 2020.

(iv) Administrative expenses

The Bank, as part of its operating model, provides a range of resources and services to its subsidiary operations (including the Company) on a day to day basis. Included in these are staff, property management and associated rent expenses, information technology, accounts payable and other administration services. These costs, as they relate to the Company, are accrued monthly.

(v) Claims and remediation expenses

The Company recognises claims and remediation expenses as and when they occur and has made provisions for claims expenses when they can be reliably measured. When such claims expenses are expected to be reimbursed by another party, a receivable is recognised when it is virtually certain that the reimbursement would be received. In the Statement of Profit or Loss and Other Comprehensive Income the reimbursement is netted against the related expense.

(f) Income tax

The income tax expense for the year is the tax payable on the current year's taxable income based on the applicable income tax rate for Australia adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Income tax is recognised in the Statement of Profit or Loss and Other Comprehensive Income, except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax liability is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date and which are expected to apply when the deferred tax asset is realised or the deferred tax liability is settled.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the Company has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Tax consolidation

The Bank elected to be taxed as a single entity under the tax consolidation system with effect from 1 July 2002. The Bank has formally notified the Australian Taxation Office of its adoption of the tax consolidation regime. The members of the tax-consolidated group (which this Company is a member of) have entered into a tax funding arrangement which sets out the funding obligations of members of the tax-consolidated group in respect of tax amounts.

1 Summary of significant accounting policies (continued)

(f) Income tax (continued)

In addition to the Bank electing to be taxed as a single entity under the tax consolidation regime, the measurement and disclosure of deferred tax assets and liabilities has been performed in a systematic manner which is consistent with the principles in AASB 112 *Income Taxes*. The Bank has applied a modified stand-alone approach in determining the appropriate amount of current taxes and deferred taxes to allocate to members of the tax consolidated group.

Any current tax liabilities/assets (after the elimination of intra-group transactions) and deferred tax assets arising from unused tax losses assumed by the Bank from the subsidiaries in the tax consolidated group are recognised in conjunction with any tax funding arrangement amounts. Any difference between these amounts is recognised by the Bank as an equity contribution to, or distribution from, the subsidiary.

The Bank and its members recognise deferred tax assets arising from unused tax losses of the tax consolidated group to the extent that it is probable that future taxable profits of the tax consolidated group will be available against which the asset can be utilised.

Any subsequent period adjustments to deferred tax assets arising from unused tax losses assumed from subsidiaries are recognised by the Bank only.

(g) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included within receivables or payables in the Balance Sheet.

Commitments and contingencies are disclosed net of any amount of GST recoverable from, or payable to, the taxation authority.

(h) Foreign currency translation

Transactions and balances

Foreign currency transactions are translated into the functional currency, using the exchange rates prevailing at the date of each transaction. Amounts receivable or payable in foreign currencies during the financial year are translated at the rates of exchange on that date.

Monetary assets and liabilities denominated in foreign currencies are translated using the spot rates as at the reporting date. Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Exchange differences relating to amounts measured at fair value in foreign currencies are recognised as other income in the Statement of Profit and Loss and Other Comprehensive Income.

(i) Cash and cash equivalents

Cash and cash equivalents include cash at bank and money at short call. They are measured at face value, or the gross value of the outstanding balance. Cash at bank earns interest at a floating rate based on daily bank deposit rates.

1 Summary of significant accounting policies (continued)

(j) Receivables

Receivables are non-derivative financial assets with fixed and determinable payments that are not quoted in an active market.

Receivables are recognised initially at the amount of consideration that is unconditional (at the original invoice amount) unless they contain significant financing components, when they are recognised at fair value. The Company holds the receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method.

Provisions for impairment
The Company applies the AASB 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all receivables. To measure the expected credit losses, receivables have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of sales and historical credit loss rates. The historical loss rates are adjusted to reflect current and forward looking information on macroeconomic factors affecting the ability of the clients to settle the receivables.

(k) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss held by the Company relate to a non-controlling interest in the Colonial First State FirstChoice Wholesale Cash Fund (the “Fund”), a related trust managed by the Company. This is a non-derivative financial asset that is designated into this category and not classified in any of the other financial asset categories (i.e. fair value through other comprehensive income and amortised cost).

At initial recognition the Company measures the financial asset at fair value, with transaction costs recognised in the Statement of Profit and Loss and Other Comprehensive Income as incurred. Subsequently, it is measured at fair value and any gains or losses are recognised in other income as they arise.

(l) Payables

Payables are carried at amortised cost and represent liabilities for services provided to the Company prior to the end of the financial year and arise when the Company becomes obliged to make future payments in respect of the purchase of these services.

(m) Provisions

A provision is recognised in the Balance Sheet when the Company has a present obligation (legal or constructive) as a result of a past event, and where it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably measured.

When a cost in relation to a provision is expected to be reimbursed by another party, a receivable is recognised when it is virtually certain that the reimbursement would be received. In the Statement of Profit or Loss and Other Comprehensive Income the reimbursement is netted against the related expense.

(n) Share capital

Ordinary shares are classified as equity. Ordinary share capital is recognised at the fair value of the consideration received by the Company. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction, net of tax, of the share proceeds received.

(o) Dividends

A provision for dividends payable is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the financial year but not distributed at the end of the financial year.

1 Summary of significant accounting policies (continued)

(p) Reclassifications

Where applicable, certain prior year amounts in the Financial Statements have been reclassified to conform to the current year presentation. The reclassifications have nil effect on previously reported total assets, total liabilities, net profit or net assets.

(q) Critical accounting estimates and judgements

The application of the Company's accounting policies requires the use of judgement, estimates and assumptions. The estimates and associated assumptions are based on historical experience and other factors, including expectations of future events, which are considered to be relevant, and are reviewed on an ongoing basis. Actual results may differ from these estimates, which could impact the Company's net assets and profit.

The Company has made provisions for a number of litigation and customer remediation matters. Judgement is required as any potential settlements will not be known until individual cases have been reviewed and compensation offers accepted. The carrying amount of the provisions held are disclosed in Note 7.

Details on the accounting estimates and judgements with regard to the provisions for legal proceedings have not been disclosed on the basis that disclosure of such information can be expected to seriously prejudice the Company, as permitted by accounting standards. The potential settlements paid subsequent to 30 June 2021 may differ from the amounts set aside in the provisions. Any differences will be recognised in future accounting periods.

The following remediation provision required judgement as at 30 June 2021.

Communications with members

In 2012, the Australian Government passed legislation requiring trustees, such as the Company, to allocate member contributions to a default MySuper superannuation product in certain circumstances. The Company established a program to remediate instances of non-compliance in relation to communications with members of the Colonial First State FirstChoice Superannuation Trust ("FirstChoice Fund") in relation to MySuper transition.

The communications with members were via phone calls and/or letters. Accordingly the remediation program consists of these two components.

Phone calls

During the year ended 30 June 2021, the Company made a full assessment of all impacted cases and calculated remediation for all those cases, including an interest component in accordance with ASIC Regulatory Guide 256 (RG256). Those cases assessed but not paid as at balance date were provided for at 30 June 2021 (note 7).

During the year ended 30 June 2021, remediation payments were made to 12,489 members amounting to \$66.0m (excluding tax gross up). Subsequent to year end, payments have been made to 1,209 members amounting to \$44.2 m in addition to payments made in respect of tax.

Letters

A provision has also been recognised at 30 June 2021 for the remediation program in connection with the letters sent to members. The provision is derived using a number of different assumptions, the most significant of which are the number of affected accounts and the estimated gross average loss per account (including interest in accordance with RG256 and tax gross up). The key assumptions adopted in this provision at 30 June 2021 are that 3,675 accounts incurred a loss (out of the full population of 12,911 letters identified) and gross compensation of \$12,028 (including interest and tax gross up) for each affected account.

1 Summary of significant accounting policies (continued)

(q) Critical accounting estimates and judgements (continued)

An increase/(decrease) in both the number of accounts which may incur loss and the average compensation amount (including interest and tax gross up) by 10% would result in an increase/(decrease) in the provision of approximately $9,283,000 and 8,399,000 respectively. However, there would be no ($nil) corresponding impact to net assets and/or net profit as a result of this 10% increase/(decrease) on the basis that there is an agreement between the Company and the Bank (refer to note 4).

Potential settlements will not be known until individual cases have been reviewed and compensation calculated.

2 Revenue and expenses

a) Revenue

	2021 $'000	2020 $'000
Investment management fee income		
Base investment management fees	**944,808**	1,039,805
Investment performance fees	**39,295**	23,506
Fees for administration services	**42,792**	51,830
Total investment management fee income	**1,026,895**	1,115,141
Interest income		
Interest income	**290**	4,917
Total interest income	**290**	4,917
Other income		
Administration fee income	**35,241**	38,151
Distribution income	**1,075**	2,920
Fair value gains / (losses) on financial assets	**118**	(68)
Other (losses) / income	**(5)**	92
Total other income	**36,429**	41,095
Total revenue	**1,063,614**	1,161,153

All revenue from contracts with customers, being investment management and administration fee income, is recognised over time in accordance with AASB 15.

2 Revenue and expenses (continued)

b) Expenses

	2021 $'000	2020 $'000
Investment management fee expenses		
Investment management fees	**360,195**	361,460
Investment performance fees	**37,520**	21,431
Total investment management fee expenses	**397,715**	382,891
Commission expenses		
Commission expenses	**4,923**	62,492
Total commission expenses	**4,923**	62,492
Administrative and other expenses		
Administrative expenses	**321,847**	330,723
Other expenses	**7,954**	9,127
Total administrative expenses	**329,801**	339,850
Claims and remediation expenses		
Claims and remediation expenses	**104,612**	120,566
Total claims and remediation expenses	**104,612**	120,566
Total expenses	**837,051**	905,799

3 Income tax expense

(a) Income tax expense

	2021	2020
	$'000	$'000
Current income tax expense	**74,468**	107,879
Deferred income tax benefit	**(4,888)**	(26,774)
Adjustments to prior period tax	**(521)**	3
Total income tax expense	**69,059**	81,108

(b) Reconciliation of income tax expense to prima facie tax payable

	2021	2020
	$'000	$'000
Net profit before income tax	**226,563**	255,354
Tax at the Australian tax rate of 30%	**67,969**	76,606
Non-deductible expense	**1,501**	4,499
Adjustment to deferred tax from financial assets	**110**	-
Adjustments to current tax for prior periods	**(521)**	3
Income tax expense	**69,059**	81,108

(c) Net deferred income tax asset

	2021	2020
	$'000	$'000
Deferred tax asset from provisions	**55,463**	35,370
Deferred tax asset from financial assets	**-**	110
Deferred tax liability relating to receivables	**(13,200)**	-
Total net deferred income tax asset	**42,263**	35,480

Franking credit balance

The Company forms part of the tax consolidated group of the Bank. As a result, franking credits and franking debits are not attributable to the Company. All franking credits and franking debits are recognised in the ultimate parent entity, the Bank.

4 Receivables

	2021	2020
	$'000	$'000
Investment management and performance fees receivable	**100,582**	88,501
Reimbursement receivable[1]	**44,000**	-
Other receivables	**5,175**	3,549
Interest receivable	**-**	115
Total receivables	**149,757**	92,165

The credit loss provision for the current year of $149,335 (2020: $150,979) has been netted off against the gross balances above.

[1] The Bank has agreed that it will provide funds to the Company to cover remediation costs incurred for communications with members in relation to letters (as described in Note 7). As a result, a reimbursement receivable has been recognised.

5 Financial assets at fair value through profit or loss

	2021	2020
	$'000	$'000
Colonial First State FirstChoice Wholesale Cash Fund (the "Fund")	**259,036**	213,318
Total financial assets at fair value through profit or loss	**259,036**	213,318

	2021	2020
	$'000	$'000
Reconciliation of movement during the year:		
Opening balance	**213,318**	204,386
Additions	**57,000**	9,000
Withdrawals	**(11,400)**	-
Fair value gains / (losses)	**118**	(68)
Closing balance	**259,036**	213,318

The Company's investment in the Fund is partly held for the purposes of meeting its Operational Risk Financial Requirement ("ORFR") (Note 8(c)). In the event of drawing down on this investment to fund relevant operational losses, withdrawals from the Fund can be received as cash on a trade date plus one day basis, that is, withdrawals are received as cash one day after the redemption request is submitted.

In addition, in May 2021, the Company invested an additional $57 million into the Fund with the intention of holding a management target of 50% of its ASIC RG166 NTA requirement in the Fund (Note 8(c)).

6 Payables

	2021	2020
	$'000	$'000
Administrative expenses payable and other payables	**56,060**	54,990
Investment management and performance fees payable	**123,761**	131,525
Other payables	**80**	58
Total payables	**179,901**	186,573

7 Provisions

	2021	2020
	$'000	$'000
Customer remediation	**92,783**	37,748
Legal proceedings	**106,945**	95,000
Other	**5,000**	-
Total Provisions	**204,728**	132,748

As the nature of the estimates and assumptions are uncertain, actual results may differ from these estimates, which could impact the Company's net assets and profit. The Company considers that provisions held are adequate and represent its best estimate of the anticipated future costs to settle the present obligations. The Company will re-evaluate the assumptions underpinning the provision at each reporting date as more information becomes available (refer to Note 1(q)).

7 Provisions (continued)

(a) Customer remediation provisions

	2021	2020
	$'000	$'000
Opening balance	**37,748**	29,347
Additional provisions recognised	**143,716**	42,489
Provisions released	**(5,284)**	(17,772)
Amounts used during the year	**(83,397)**	(16,316)
Closing balance	**92,783**	37,748

The Company has recognised provisions for remediation in relation to communications with members, in relation to both phone calls and letters, of $89,188,000 (2020: $20,226,000) and other incidents of non-compliance identified. The provisions include an estimate of compensation and interest and are based on a number of different assumptions. Key assumptions for provisions with significant judgement are outlined in Note 1(q). $44,240,000 was paid post year end in relation to phone calls with minimal variance to the recorded provision.

The Bank has agreed that it will provide funds to the Company to cover remediation costs incurred for communications with members in relation to letters. As a result, a reimbursement receivable has been recognised (refer to note 4).

(b) Provisions for legal proceedings

	2021	2020
	$'000	$'000
Opening balance	**95,000**	-
Additional provisions recognised	**11,945**	95,000
Closing balance	**106,945**	95,000

The Company is party to a number of legal proceedings as detailed in Note 15. Provisions have been recognised in accordance with the principles outlined in Note 1(m).

(c) Other provisions

	2021	2020
	$'000	$'000
Opening balance	**-**	-
Additional provisions recognised	**5,000**	-
Closing balance	**5,000**	-

8 Share capital

	2021	2020	**2021**	2020
	No. of shares	No. of shares	**$'000**	$'000
Ordinary shares - issued and fully paid	**5,000,000**	5,000,000	**5,000**	5,000

(a) Movements in share capital

There were no movements in share capital during the year.

8 Share capital (continued)

(b) Entitlement of shareholders

All shares are held by the Company's immediate parent, Capital 121 Pty Limited. Ordinary shareholders have the right to receive dividends and, in the event of winding up the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amount paid up on shares held. Ordinary shares have no par value and the Company does not have a limited amount of authorised capital. Ordinary shares carry one vote per share.

(c) Capital risk management

The Company's objective when managing its capital is to safeguard its ability to continue as a going concern and to maintain an optimal capital structure. Capital levels are regulated by external monitoring authorities (Australian Securities and Investments Commission ("ASIC") and Australian Prudential Regulation Authority ("APRA")) in accordance with the requirements of its AFSL. The Bank and the Company monitor capital levels in accordance with minimum regulatory requirements as well as what is deemed to be an optimally efficient level of capital for the Company.

In order to maintain or adjust the capital requirements, the Company may adjust the amount of dividend paid to its shareholders, return capital or issue new shares.

The Company holds Common Equity Tier 1 capital to meet its ORFR as part of APRA's requirement for RSE Licensees. Capital is retained to cover any losses that may result from operational failures both internal and external that will affect the superannuation entities within its business. The target ORFR balance is determined as 25 basis points of the total applicable RSE FUA. The ORFR strategy and its target amount has been approved by the Company's Board of Directors. As at 30 June 2021, the target ORFR balance was $201,900,000 (2020: $213,300,000).

The Company is also required to comply with ASIC's RG166 under its AFSL requirements which imposes a Net Tangible Assets ("NTA") requirement of 10% of average revenue of the RE. The Company has retained sufficient NTA throughout the current financial year to meet its RG166 requirements and has set a target of holding 50% of the NTA requirement in the Fund.

9 Dividends

No dividend was declared during the year ended 30 June 2021.

2020

Type	Dividend per share	Total amount ($'000)	Date of payment
Interim - ordinary	$24.00	**$120,000**	06-Dec-2019
Total		**$120,000**	

10 Notes to the statement of cash flows

(a) Reconciliation of cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents include cash, money at short call and call deposits with other financial institutions.

	2021	2020
	$'000	$'000
Cash at bank - ultimate parent entity	**591,839**	512,536
Deposits at call - ultimate parent entity	**8,553**	8,545
Cash at bank - third parties	**44**	47
Total cash and cash equivalents at year end	**600,436**	521,128

10 Notes to the statement of cash flows (continued)

(b) Reconciliation of net profit after tax to net cash inflow from operating activities

	2021	2020
	$'000	$'000
Net profit after tax	**157,504**	174,246
Distribution income from financial assets	**(1,075)**	(2,920)
Fair value (gains) / losses on financial assets	**(118)**	68
Changes in assets and liabilities		
Decrease in tax liability	**(33,411)**	(38,130)
Increase in deferred tax asset	**(6,783)**	(26,774)
(Increase) / decrease in receivables	**(57,592)**	25,142
(Decrease) / increase in payables	**(6,672)**	30,561
Increase in provisions	**71,980**	103,401
Net cash inflow from operating activities	**123,833**	265,594

11 Financial risk management

The Company's activities expose it to a variety of financial risk, market risk, credit risk and liquidity risk. The Company's overall risk management program focuses on unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Company.

Exposure to credit, interest rate and currency risks arises in the normal course of the Company's business. The Company uses sensitivity analysis and aging analysis to measure the different types of risks to which it is exposed.

The Company's principal financial assets and liabilities comprise cash and cash equivalents, receivables, payables and financial assets at fair value through profit or loss, which arise directly from its operations.

(a) Market risk

Market risk is the risk that the future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and other prices. The Company's source of income comes from investment management fees, investment performance fees, application fees, other fee income, interest income and distribution income.

(i) Foreign exchange risk
Foreign exchange risk is the risk of an asset's or a liability's value changing due to changes in currency exchange rates. The Company predominantly operates within Australia and hence has very limited exposure to foreign exchange risk. The Company's exposure to foreign currency revenue arises from transactions that are denominated in a currency other than AUD. The currencies giving rise to this risk are primarily U.S. Dollars and Euros. The exposure to foreign currency risk is not material. The carrying amount of the Company's financial assets and liabilities are denominated in AUD.

(ii) Price risk
Price risk is the risk of a decline in the value of an asset. The Company is directly exposed to price risk for its financial assets and indirectly for the fee revenues that it generates from the funds under administration that are impacted by changes in underlying equity markets. Management fees will move in line with the funds under administration which can fluctuate depending on market conditions and the strategy of the discretionary accounts and funds. Changes in market conditions also impact the investment choices of investors and can result in movements between asset classes as well as withdrawals and new investments depending on the market. The Company mitigates the risk exposure by offering a broad spectrum of investment choices across all major asset classes to stem potential outflows from the business.

11 Financial risk management (continued)

(a) Market risk (continued)

(iii) Interest rate risk
All financial assets are non-interest bearing except for cash and cash equivalents balance of $600,436,000 (2020: $521,128,000) which earn interest on a floating rate basis. In respect of interest-earning financial assets, the following table indicates their weighted average interest rates.

	Weighted average interest rate	**2021 Balance $'000**	Weighted average interest rate	2020 Balance $'000
Cash at bank	0.06%	**591,883**	0.82%	512,583
Deposits at call	0.08%	**8,553**	0.60%	8,545
Total		**600,436**		521,128

Based on management's best estimate, having regard to a number of factors, including historical levels of changes in interest rates, the impact on the Company's profit and equity of a reasonably possible upwards or downwards movement in interest rates assuming that all other variables remain constant is summarised in the sensitivity analysis table below.

Only cash and cash equivalents have interest rate risk. All receivables and payables are non-interest bearing and therefore do not have interest rate risk.

	Impact on net profit		**Impact on net assets**	
	2021 $'000	2020 $'000	**2021 $'000**	2020 $'000
Interest rates - increase by 25 bps (2020: 25 bps)	**1,051**	912	**1,051**	912
Interest rates - decrease by 0 bps^ (2020: 25 bps)	**-**	(912)	**-**	(912)

Due to unexpected market conditions, these movements may be greater than anticipated and therefore should not be used as a definitive indicator of future movements in the stated risk variables.

^ As the weighted average interest rate received in the year was 0.06%, the possibility of a reduction in interest rates below zero is not considered likely.

(b) Credit risk

Credit risk exposure
Credit risk represents the financial loss that would be recognised if counterparties failed to perform as contracted. Credit risk arises from cash and cash equivalents, the Fund and receivables.

The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets on the Balance Sheet. The majority of the Company's receivables are from funds for which it acts as the RE and Registerable Superannuation Entities for which the Company acts as RSE. Therefore, the credit risk on receivables is highly correlated with the risk management policies and practices of the funds for which the Company is the RE and RSE.

Exposures to external parties are monitored with an ageing analysis and follow up procedures with clients are implemented on a needs basis. The Company mitigates its risk by holding its cash and cash equivalents predominately with its ultimate parent entity, which is a reputable financial institution in Australia.

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historic information about counterparty default rates.

11 Financial risk management (continued)

(b) Credit risk (continued)

The following table provides information regarding the credit risk exposure at the end of the financial year in respect of the Company's major classes of financial assets. The analysis classifies the assets according to Standard & Poor's counterparty credit ratings.

30 June 2021	**AA-** **$'000**	**A+** **$'000**	**Not rated** **$'000**	**Total** **$'000**
Cash and cash equivalents	**600,392**	**44**	**-**	**600,436**
Financial assets at fair value through profit or loss	**-**	**-**	**259,036**	**259,036**
Receivables	**44,000**	**-**	**105,757**	**149,757**
Total financial assets	**644,392**	**44**	**364,793**	**1,009,229**

30 June 2020				
Cash and cash equivalents	521,081	47	-	521,128
Financial assets at fair value through profit or loss	-	-	213,318	213,318
Receivables	115	-	92,050	92,165
Total financial assets	521,196	47	305,368	826,611

At the end of financial year all financial assets are neither past due nor impaired.

Financial assets amounting to $1,009,185,000 (2020: $826,564,000) are concentrated within Australia of which $644,392,000 (2020: $521,196,000) are held with the ultimate parent entity.

The credit loss provisions for the current year of $149,335 (2020: $150,979) has been netted off against the gross balances above.

(c) Liquidity risk

Liquidity risk refers to the risk that the Company will not have sufficient cash resources to settle transactions in full as they fall due. The Company manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities where necessary. The Company ensures that sufficient liquidity is maintained to meet its operating and regulatory requirements (both ORFR and RG166).

Surplus funds are held in a bank account with the ultimate parent entity until dividends are paid to the Company's immediate parent entity in line with the Bank's capital management policy.

11 Financial risk management (continued)

(c) Liquidity risk (continued)

The table below analyses the Company's maturity profile of financial liabilities. The amounts disclosed are undiscounted cash flows.

30 June 2021	Carrying value	Less than 6 months	6-12 months
	$'000	$'000	$'000
Payables	**179,901**	**179,901**	**-**
Current tax liability	**74,468**	**74,468**	**-**
Total financial liabilities	**254,369**	**254,369**	**-**

30 June 2020	Carrying value	Less than 6 months	6-12 months
	$'000	$'000	$'000
Payables	186,573	186,573	-
Current tax liability	107,879	-	107,879
Total financial liabilities	**294,452**	**186,573**	**107,879**

(d) Fair value estimation

The Company discloses fair value measurements by level of the following fair value measurement hierarchy in accordance with AASB 13 'Fair Value Measurement'. The Company uses various methods in estimating fair value. The methods comprise:

Level 1: The fair value is calculated using quoted prices unadjusted in active markets.

Level 2: The fair value is estimated using inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).

Level 3: The fair value is estimated using inputs for the asset or liability that are not based on observable market data.

As at 30 June 2021, the Company owns one financial asset measured at fair value through profit or loss, being an investment in the Fund (refer Note 5). As at the reporting date fair value was calculated as the unit price of the Fund as at 30 June 2021 multiplied by the Company's unit holding.

All financial assets measured at fair value are assessed as level 2. No transfers took place between fair value hierarchies during the year. The Company has no assets or liabilities measured at fair value on a non-recurring basis in the current period. The fair value of all financial assets and liabilities not carried at fair value approximates their carrying value at the balance sheet date due to their short term nature.

12 Key management personnel

The Directors of the Company have been determined to be the Key Management Personnel ("KMP") within the scope of AASB124 'Related Party Disclosures'.

The names of persons who were Directors of the Company at any time during the financial year are as follows:

Gregory Cooper
Edward J Eason (resigned 30 June 2021)
Benjamin A Heap
Penelope James
Anne D F Ward (resigned 31 December 2020)

Directors were in office for the full period unless otherwise stated.

Compensation of key management personnel

The compensation of four (2020: five) KMP paid by the Bank on behalf of the Company is outlined as follows:

	2021	2020
	$	$
Short-term employee benefits	**441,166**	513,689
Post-employment benefits	**33,442**	34,048
Long-term benefits	**-**	177
Termination benefits	**-**	342,133
Share-based payments	**-**	54,068
Total compensation	**474,608**	944,115

All other KMP are employees of the Bank. The Company receives management services from the Bank, which includes the provision of KMP. The Company does not remunerate these KMP or directly reimburse the Bank for this cost, rather an administrative fee is paid to the Bank. This is explained within Note 1(e) (iv). It is also the practice of the Bank that its employees are not remunerated for director appointments as their role as KMP is incidental to their role as an employee of the Bank.

None of the Directors hold any shares, options or other interests in the Company.

Loans and other transactions

There were no loans provided to any KMP by the Company for the year ended 30 June 2021 (2020: $nil). Any loans to Directors or other related parties during the financial year would have been made by the Bank, a provider of finance, on terms and conditions that apply to similar lending to other directors or employees of the Bank.

There were no other transactions between the Company and KMP during the financial year (2020: $nil).

13 Related party transactions

The immediate parent entity is Capital 121 Pty Limited and the ultimate parent entity is Commonwealth Bank of Australia.

Key Management Personnel

Disclosures relating to KMP are set out in Note 12.

13 Related party transactions (continued)

Related party transactions

Related party transactions principally involve the provision of banking, introduction of investment monies, investment management and other support services.

The Company conducts predominantly all of its banking with the Bank. The Company receives interest on monies deposited with the Bank and is charged bank account fees for the provision of services to the Company at commercial rates.

The Company has determined that the funds that it manages are structured entities, as a result of the investing and operating power conveyed through the relevant investment management and other fund agreements. The Company's interest in these funds includes the investment management and investment performance fees that it earns from them. The structured entities are financed by capital contributed by investors. Other than the non-controlling interest in the Fund, the Company did not have ownership interests in any other funds that it managed during the year. As at 30 June 2021, the Company's ownership of the Fund was 4.11% (2020: 3.74%).

The Company earns an investment management fee from its structured entities, which is typically based on a percentage of the relevant net asset value and, where contractually agreed, an investment performance fee, based on the outperformance of the returns relative to an agreed benchmark. The objective of the structured entities is to generate capital appreciation and/or investment income, for the benefit of its investors.

Invoices for services provided by third party suppliers may be processed and paid by the Bank on behalf of the Company. The costs of these services are then recharged to the Company.

The following transactions occurred with related parties:	**2021** **$**	2020 $
Transactional		
Revenue		
Interest income – ultimate parent entity	**290,446**	4,917,171
Distributions from the Fund – other related parties*	**1,074,602**	2,920,416
Administration fee income – other related parties*	**9,283,541**	24,942,860
Base investment management fee income – other related parties*	**939,378,300**	1,004,454,435
Investment performance fee income – other related parties*	**39,295,432**	23,505,564
Fees for administration services – ultimate parent entity	**42,792,420**	51,829,928
Other income - related party	**82,138**	172,396
Total revenue – related parties	**1,032,196,879**	1,112,742,770
Expenses		
Investment management fee expenses – other related parties*	**-**	13,033,801
Trailing commission fee expenses – other related parties*	**584,927**	9,133,263
Other commission expenses – other related parties*	**-**	9,632
Administrative and other expenses – ultimate parent entity	**323,428,470**	330,723,226
Total expenses – related parties	**324,013,397**	352,899,922

13 Related party transactions (continued)

	2021	2020
Balances as at year end:	**$**	$
Receivables		
Receivables – ultimate parent entity	**44,000,000**	114,827
Receivables – other related parties*	**105,320,494**	91,489,999
Total receivables – related parties	**149,320,494**	91,604,826
Cash and cash equivalents - ultimate parent entity	**600,392,225**	521,080,669
Financial assets at fair value through profit or loss – other related parties*	**259,035,974**	213,318,327
Total assets – related parties	**1,008,748,693**	826,003,822
Liabilities		
Current tax liability – ultimate parent entity	**74,468,115**	107,879,327
Payables – ultimate parent entity	**56,059,934**	54,989,579
Payables – other related parties*	**-**	99,309
Total payables – related parties	**130,528,049**	162,968,215

*Other related parties includes members of the Bank's Group and related trusts/funds

14 Interest in unconsolidated structured entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual agreements. A structured entity often has some or all of the following features or attributes: (a) restricted activities; (b) a narrow and well defined objective, such as to provide investment opportunities for investors by passing on risks and rewards associated with the assets of the structured entity to investors; (c) insufficient equity to permit the structured entity to finance its activities without subordinated financial support; and (d) financing in the form of multiple contractually linked instruments to investors that create concentrations of credit or other risks.

Interest in funds managed by the Company

The nature and extent of the Company's exposure are summarised below:

	2021	2020
	$'000	$'000
Fees and other receivables	**102,014**	89,796
Total on balance sheet exposures	**102,014**	89,796
Size of the entities (FUA)	**120,020,914**	105,679,462

The Company's income from these entities comprises investment management and investment performance fees received as RE of the trusts and funds, as reflected in Note 13.

14 Interest in unconsolidated structured entities (continued)

The Company's total FUA are shown the tables below:

FUA (by product)	2021	2020
	$'000	$'000
Stand-Alone Retail	**6,614,838**	8,086,116
FirstChoice Retail	**13,643,070**	12,381,251
FirstChoice Employer	**14,594,574**	12,178,846
FirstChoice Wholesale	**76,747,236**	65,128,944
Essential Super	**3,924,071**	3,275,255
Stand-Alone Wholesale	**3,478,776**	3,547,120
FirstChoice Annuities	**1,018,349**	1,081,930
Total FUA (by product)	**120,020,914**	105,679,462

15 Legal proceedings

The Company is party to a number of legal proceedings. The Company continually assesses whether ongoing investigations into regulatory and remediation matters may result in an outflow other than the amounts that have already been recognised as at 30 June 2021 by way of provisions. Provisions have been recognised where the criteria outlined in the accounting policy are satisfied (Note 7). Contingent liabilities exist with respect to these matters where it is not possible to determine either the extent of any obligation or the potential liability cannot be reliably estimated. Where it is determined that the disclosure of information in relation to a provision or contingent liability can be expected to seriously prejudice the Company, accounting standards permit the Company not to disclose such information.

Class actions

The Company is defending four class action claims in relation to its products.

(i) On 9 October 2018, a class action was filed against the Bank and the Company in the Federal Court of Australia. The claim initially related to investment in cash and deposit options (which are cash and deposit products offered by the Bank) in the Colonial First State Choice Superannuation Trust ("FirstChoice Fund") and Commonwealth Essential Super. A second further amended statement of claim and amended application was filed on 2 June 2020, joining Avanteos Investments Limited (AIL) – a related party – as a party in respect of claims regarding the FirstWrap Pooled Cash Account and expanding the existing claims against the Bank and the Company. The main claims are that members invested in these cash and deposit options received lower interest rates than they could have received had the Company offered similar products made available in the market by another bank with comparable risk and that the Company retained the margin that arises through the internal transfer pricing process in respect of deposits made with the Bank, for its own benefit. It is claimed the Company breached its duties as a trustee of the funds and breached its duties as a Responsible Entity of the underlying managed investment schemes and that the Bank was involved in the Company's breaches. Both the Bank and the Company deny the allegations and are defending the proceedings. The Company holds a provision for this matter.

(ii) On 18 October 2019, another class action was commenced against the Company in the Federal Court of Australia. The claim relates to certain fees charged to members of the Colonial First State First Choice Superannuation Trust. It is alleged that the Company breached its duties as trustee and acted unconscionably because it failed, between 2013 and 2019, to take steps to avoid the payment of grandfathered commissions to financial advisers, which would have resulted in a reduction of the fees paid by members in respect of whom those commissions were paid. The Company denies the allegations and is defending the proceedings. A mediation on this matter is likely in the first half of 2022.

15 Legal proceedings (continued)

Class actions (continued)

(iii) On 24 October 2019, a third class action was filed against the Company and a former executive director of the Company in the Federal Court of Australia, relating to alleged contraventions of statutory obligations under superannuation law and trustee breaches in the period 2013 to 2017. The class action relates to the transfer of certain default balances held by members of FirstChoice Employer Super to a MySuper product. The key allegation is that members should have been transferred to a MySuper product earlier than they were, and that the alleged failure to effect the transfer as soon as reasonably practical caused affected members to pay higher fees and receive lower investment returns during the period of delay. The allegations are denied and the Company and its former director are defending the proceedings. A hearing and mediation on this matter is likely in the first half of 2022.

(iv) On 22 January 2020, a fourth class action was filed against the Company and The Colonial Mutual Life Assurance Society Limited (CMLA) in the Federal Court of Australia. The class action alleges that the Company did not act in the best interests of members and breached its trustee duties when taking out group insurance policies obtained from CMLA. The key allegation is that the Company entered into and maintained insurance policies with CMLA on terms that were less favourable to members than would have reasonably been available in the market. It is alleged that CMLA was knowingly involved in the Company's contraventions as trustee and profited from those contraventions. The allegations are denied and the Company is defending the proceedings. The Company holds a provision for legal costs in relation to this matter.

Unless otherwise stated, it is currently not possible to reliably determine the ultimate impact of all of these claims, if any, on the Company. Legal costs expected to be incurred in the defence of the claims in relation to (i), (ii) and (iii) above have been provided for by the Bank.

ASIC regulatory enforcement proceedings

(i) On 17 March 2020 ASIC commenced civil penalty proceedings against the Company in the Federal Court of Australia for alleged breaches of The Australian Securities and Investments Commission Act 2001 (Cth) and *Corporations Act 2001* (Cth) arising from communications with members of the FirstChoice Fund. In 2012, the Australian government passed legislation requiring trustees, such as the Company, to allocate member contributions to a default MySuper superannuation product in certain circumstances including where a written investment direction had not been provided by the member. ASIC alleges, amongst other things, that the Company communicated with members both in template letters and on telephone calls, in a misleading or deceptive manner regarding the provision of investment directions to stay with the FirstChoice Fund rather than transitioning to the Company's MySuper product.

On 19 October 2021, the Federal Court approved an agreement between the Company and ASIC to resolve these proceedings. On 1 November 2021, the Company paid a civil penalty of $20 million. It also agreed to pay ASIC's costs of the investigation and publish an Adverse Publicity Order.

The Company holds a provision for this matter, including ASIC's costs. CBA has provided for legal costs expected to be incurred in the defence of this claim.

(ii) On 22 June 2020 ASIC commenced civil penalty proceedings against the Company and CBA in the Federal Court of Australia for alleged contraventions of the conflicted remuneration provisions in the Corporations Act 2001 (Cth) relating to the arrangements between the Company and CBA for the distribution of Commonwealth Essential Super (CES). CES is a superannuation product issued by the Company.

The Company filed its defence to the proceedings on 25 August 2020. CBA and the Company deny the allegations and are defending the proceedings. A hearing on the question of liability has been listed on 26 April 2022. It is currently not possible to determine the ultimate impact of this claim, if any, on the Company. CBA has provided for legal costs expected to be incurred in the defence of this claim.

16 Remuneration of auditors

The Company's auditor, PricewaterhouseCoopers, is remunerated by the ultimate parent entity.

17 Events subsequent to the balance sheet date

On 19 October 2021, the Federal Court approved an agreement between the Company and ASIC to resolve proceedings relating to non-compliant communications with members. On 1 November 2021, the Company paid a civil penalty of $20 million. It also agreed to pay ASIC's costs of the investigation and publish an Adverse Publicity Order (refer note 15).

The Directors are not aware of any other matter or circumstance that has occurred since the end of the financial year that has significantly affected or may significantly affect the operations of the Company, the results of those operations or the state of affairs of the Company in subsequent financial years.

Directors' Declaration

In accordance with a resolution of the Directors of Colonial First State Investments Limited ("the Company"), the Directors declare that:

(a) the Financial Statements for the financial year ended 30 June 2021 in relation to the Company and Notes to the Financial Statements, are in accordance with the *Corporations Act 2001*, including:

  (i) s 296 (which requires the financial report, including the Financial Statements and the Financial Statements, to comply with the accounting standards and any further requirements in the *Corporations Regulations 2001)*; and

  (ii) s 297 (which requires the Financial Statements, and the Notes to the Financial Statements, to give a true and fair view of the financial position and performance of the Company); and

(b) in compliance with the accounting standards, the Notes to the Financial Statements include an explicit and unreserved statement of compliance with the International Financial Reporting Standards (see Note 1(b)); and

(c) in the opinion of the Directors, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of Directors.

Director

Sydney
9 November 2021

Independent auditor's report

To the members of Colonial First State Investments Limited

Our opinion

In our opinion:

The accompanying financial report of Colonial First State Investments Limited (the Company) is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Company's financial position as at 30 June 2021 and of its financial performance for the year then ended

(b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The financial report comprises:

- the balance sheet as at 30 June 2021
- the statement of profit or loss and other comprehensive income for the year then ended
- the statement of changes in equity for the year then ended
- the statement of cash flows for the year then ended
- the notes to the financial statements, which include significant accounting policies and other explanatory information
- the directors' declaration.

Basis for opinion

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

Independence

We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional & 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 also fulfilled our other ethical responsibilities in accordance with the Code.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Directors' Report for the year ended 30 June 2021, but does not include the financial report and our auditor's report thereon.

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Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, 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.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Company to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors 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 objectives are 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 the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and 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.

PricewaterhouseCoopers

PricewaterhouseCoopers

Ashley Wood

A S Wood
Partner

Sydney
9 November 2021