Appendix 4E
Preliminary final report

## 1. COMPANY DETAILS

| | |
|---|---|
| Name of entity: | Sequoia Financial Group Limited |
| ABN: | 90 091 744 884 |
| Reporting period: | For the year ended 30 June 2020 |
| Previous period: | For the year ended 30 June 2019 |

## 2. RESULTS FOR ANNOUNCEMENT TO THE MARKET

The Group has adopted Accounting Standards AASB 16 'Leases' for the year ended 30 June 2020. The Accounting Standard has been applied using the modified retrospective approach and comparatives have not been restated therefore.

| | | | | $ |
|---|---|---|---|---|
| Revenues from ordinary activities | up | 1.8% | to | 84,498,650 |
| Profit from ordinary activities after tax attributable to the owners of Sequoia Financial Group Limited | up | 293.0% | to | 1,932,474 |
| Profit for the year attributable to the owners of Sequoia Financial Group Limited | up | 293.0% | to | 1,932,474 |

## 3. NET TANGIBLE ASSETS

| | Reporting period Cents | Previous period Cents |
|---|---|---|
| Net tangible assets per ordinary security | 7.36 | 8.90 |

## 4. CONTROL GAINED OVER ENTITIES

| | |
|---|---|
| Name of entities (or group of entities) | Libertas Financial Planning Pty Ltd |
| Date control gained | 7 August 2019 |

| | $ |
|---|---|
| Contribution of such entities to the reporting entity's profit/(loss) from ordinary activities before income tax during the period (where material) | 568,948 |
| Profit/(loss) from ordinary activities before income tax of the controlled entity (or group of entities) for the whole of the previous period (where material) | - |

## 5. LOSS OF CONTROL OVER ENTITIES

Not applicable.

## 6. DIVIDENDS

*Current period*

| | Amount per security Cents | Franked amount per security Cents |
|---|---|---|
| Final dividend declared for the year ended 30 June 2020 | 0.40 | 0.40 |

A final fully franked dividend of 0.4 cents per share in respect to the current reporting period has been declared and to be paid on 12 October 2020. The record date for determining entitlements to the dividend is 14 September 2020. The financial effect of these dividends has not been brought to account in the financial statements for the year ended 30 June 2020 and will be recognised in subsequent financial periods.

*Previous period*
There were no dividends paid, recommended or declared during the previous financial period.

## 7. DIVIDEND REINVESTMENT PLANS

The Company has resolved to implement a Dividend Reinvestment Plan ('DRP'), which will be active for the 2020 Final Dividend. The Directors have determined that a 2.5% discount will apply to the 2020 Final Dividend. Shares allocated to shareholders under the DRP for the 2020 Final Dividend will be allocated at an amount equal to 97.5% of the average of the daily volume weighted average market price of ordinary shares of the Company traded on the ASX over the period of 5 trading days prior to Friday, 2 October 2020. The last date for receipt of election notices for the dividend or distribution plans is Friday, 2 October 2020.

## 8. DETAILS OF ASSOCIATES AND JOINT VENTURE ENTITIES

Not applicable.

## 9. FOREIGN ENTITIES

*Details of origin of accounting standards used in compiling the report:*
Not applicable.

## 10. AUDIT QUALIFICATION OR REVIEW

*Details of audit/review dispute or qualification (if any):*
The financial statements have been audited and an unqualified opinion has been issued.

## 11. ATTACHMENTS

*Details of attachments (if any):*
The Annual Report of Sequoia Financial Group Limited for the year ended 30 June 2020 is attached.

## 12. SIGNED

Date: 20 August 2020

John Larsen
Chairman

# Sequoia Financial Group Limited

ABN 90 091 744 884

# Annual Report

30 JUNE 2020

sequoia FINANCIAL GROUP

# CONTENTS

Chief Executive Officer and Chairman's report ..........3

Directors' report ..........6

Auditor's independence declaration ..........21

Consolidated statement of profit or loss and other comprehensive income ..........22

Consolidated statement of financial position ..........23

Consolidated statement of changes in equity ..........25

Consolidated statement of cash flows ..........26

Notes to the consolidated financial statements ..........27

Directors' declaration ..........75

Independent auditor's report to the members of Sequoia Financial Group Limited ..........76

Shareholder information ..........82

Corporate directory ..........84

Dear Shareholders,

We are pleased to report that, despite the most challenging operating environment of our lives, Sequoia has continued to refine its business model and significantly improve its financial performance throughout the financial year ended 30 June 2020 ('FY2020'). In doing so we have established a strong platform for future growth and are cautiously optimistic about the future outlook.

**Business Improvement Program**

In late 2018, we commenced a Business Improvement Program across our entire business. This involved multiple approaches:

- Investing in our stronger businesses, to support and promote future growth.
- Remediating under-performing businesses by reducing costs and aligning initiatives with our broader Group objectives.
- Divesting or closing businesses which were unlikely to achieve our 15% operating return on shareholder equity hurdle in the near future.

We are pleased to report that our Business Improvement Program has successfully re-positioned our Group as one of the leading wealth advisory groups in Australia, with over 400 advisers (from July 2020) benefiting from the synergies of a larger group that has a wider offering and greater focus on putting the customer first.

**FY2020 Milestones**

We have made significant progress towards our strategic Group priorities during FY2020 as follows;

*1. Accurate Expense Platform*
Our first objective was to establish an expense base platform which accurately allocated shared services costs across the four operating Divisions, allowing management to objectively review the operating profit contribution from each. This was completed, enabling our Executive team to implement the Business Improvement Program with confidence.

*2. 15% Return on Equity Hurdle*
Our second objective was to generate a 15% return on the non-cash equity of each operating Division. Two of our four Divisions are now exceeding this target, and the other two are making good progress towards this significant milestone.

*3. Cross-selling*
Our third objective was to maximize the cross-selling of services between Divisions. We are making good progress in this area and expect to continue this growth momentum over the coming years.

*4. Debt reduction and cash flow improvement*
Our fourth objective was to reduce debt and use operating cash flow to fund acquisitions. Our FY2020 financial results speak to our successful achievement of this strategy throughout 2020.

*5. Dividend return*
Our fifth objective was to recommence paying dividends to shareholders, with a dividend payout ratio range of 20-50% of NPAT as the business matured. We are delighted to report that FY2020 NPAT increased by 293%, allowing the Directors to declare a dividend payment at 0.4 cents per share. This dividend payout ratio is initially at the lower end of the payout

ratio range because we intend to reinvest further capital into promising growth opportunities. (Note that shareholders will also be offered the opportunity to participate in a dividend reinvestment plan).

Shareholder equity at the commencement of the period was $31.2 million.

**FY2020 Key Financials**

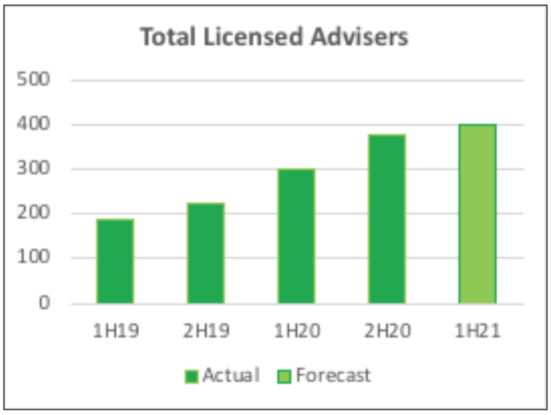
FY2020 was a transformational year for the Group.

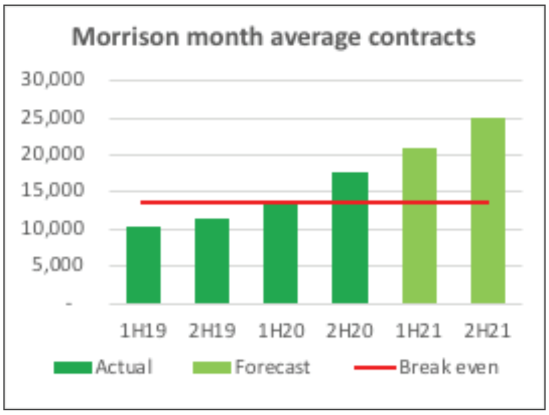
*Stable Revenues*
Total Revenue remained stable throughout FY2020, despite the challenging operating environment presented by the COVID19 pandemic and our divestment or closure of some business units as part our Business Improvement Program.

*Strong Revenue Growth Outlook*
The underlying revenue growth story at an operating business unit level is strong. Our two largest business units, Wealth Management and Morrison Securities both achieved in excess of 30% annualized revenue growth. We expect both of these businesses to continue this double-digit growth trend over the foreseeable future.

*Strong Underlying Profit*
The Underlying Profit of $4.8 million equates to a 15% return on shareholder equity, a significant improvement over FY2019. Key drivers of this result were:

- Growth in licensed adviser numbers within the Wealth division (up 68%)
- Growth in Morrison Securities' monthly value of trading transactions (up 329%).
- Reduction of shared Head Office operating costs (down 45%).
- Reduction in total staff numbers (down 11%).
- Significant reduction in debt (down 54%).




**Outlook**

We have a cautiously optimistic future outlook. Whilst pleased with our FY2020 financial performance, we are carefully monitoring and responding to the impact of the COVID-19 pandemic and any associated volatility in financial markets.

***Financial Services Sector Transformation***

Changes occurring in the financial services sector are profound and ripe for us to selectively grow our adviser numbers, whether they be accountancy firms or AFSL holders. The current number of advisers in Australia is expected to reduce to approximately 20,000 over the next 24 months and our ambition is to interface with 10% of this marketplace in some capacity over the next 5 years.

***Purpose and Mission***

Sequoia exists to support the financial services advice community (i.e. our licensees and their clients) and our support services include continuous education and training, research, compliance and share trading using fast and efficient systems. We currently manage in excess of $4 billion of client funds held in SMSFs, equity accounts and managed funds through our network of 405 advisers.

In conclusion, the Board would like to personally thank our staff, licensees, customers and our other key stakeholders for helping us make such significant progress through FY2020. Through a turbulent period, our dedicated staff have showed great resilience and loyalty in professionally supporting our businesses and customers. Their job satisfaction is reflected in our strong customer retention and growth in new business. On behalf of the Board, we would like to thank all shareholders for your patience over the past 18 months and we now look forward to delivering consistently strong results over the coming years.

Garry Crole
Managing Director/CEO

John Larsen
Chairman

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'Group') consisting of Sequoia Financial Group Limited (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 30 June 2020.

## DIRECTORS

The following persons were directors of Sequoia Financial Group Limited during the whole of the financial year and up to the date of this report, unless otherwise stated:

| | |
|---|---|
| Garry Crole | Executive Director and Chief Executive Officer |
| John Larsen | Non-Executive Director and Chairman |
| Kevin Pattison | Non-Executive Director |
| Charles Sweeney | Non-Executive Director |

## PRINCIPAL ACTIVITIES

The Group's principal activity is to offer financial planners, stock brokers, self-directed investors, superannuation funds and accountants a range of services that include but is not limited to licensing services, business support and advice, coaching, compliance, education, wholesale clearing and execution, legal document establishments, investments, media and administration services.

There was no change in the principal activities during the financial year.

## DIVIDENDS

Dividends paid during the financial year were as follows:

| | Consolidated | |
|---|---|---|
| | 2020<br>$ | 2019<br>$ |
| Final dividend for the year ended 30 June 2018 of 0.5 cents per ordinary share* | - | 589,777 |

* The dividend comprised of a cash dividend paid of $286,302 and dividend reinvestment allotment of $303,475 that occurred during the year ended 30 June 2019.

*Dividend declared*

The Company declared a final dividend for the year ended 30 June 2020 of 0.4 cents per share, fully franked. The record date for determining entitlements to the dividend is 14 September 2020 and is to be paid on 12 October 2020. The financial effect of these dividends has not been brought to account in the financial statements for the year ended 30 June 2020 and will be recognised in subsequent financial periods.

## REVIEW OF OPERATIONS

The profit for the Group after providing for income tax amounted to $1,932,474 (30 June 2019: loss of $1,001,368).

Operating revenue from ordinary operating activities of the Group increased to $84,498,650, up from $83,018,040 in the previous year, an increase of 1.8%.

***Underlying Profitability***

The Directors are of the view that the best guide to your Company performance is the underlying normalised EBITDA or Profit which is defined as earnings before interest, tax, depreciation and amortisation ('EBITDA') excluding the impact of:

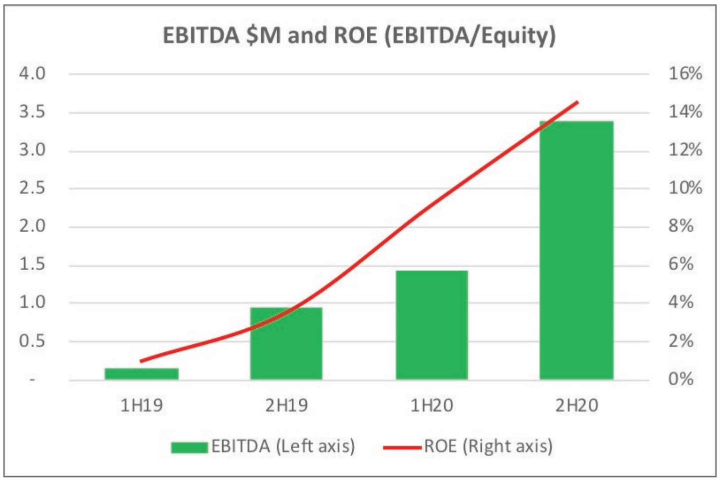
- Non-operational items (i.e. acquisition-related costs, redundancy costs, impairment charges, fair value adjustments and gains/losses on the sale of investments); and
- Non-cash amortisation charges relating to separately identifiable intangible assets acquired under business combinations and other intangible assets.

The underlying profit over the financial year ended 30 June 2020 increased by 341.6% from $1,092,882 to $4,825,701. This was in line with the commentary provided by the Group at the 2019 annual general meeting of shareholders where directors outlined 5 key focuses for the businesses for a 3-year period to 2022.

These 5 initiatives remain the core focus of your board and management teams:

(1) To generate strong cash flow from all 4 operating divisions;
(2) To provide a ROE** on non-cash equity of 15% or above;
(3) To rebuild investor confidence in the company's ability to generate ROE of 15%;
(4) To have the share price trading at or above equity per share; and
(5) To recommence shareholder dividend payments at 20-50% of NPAT.*

* The Company recommenced the dividend policy at 26% of NPAT.
** Return on Equity ('ROE') is Underlying profit over Total equity.



While the Company is yet to meet all of these five milestones, significant progress has been made on each. Operating revenue and Underlying Profit compared to the prior year are presented in the following table:

*Financial Performance*

| | 2020<br>$ | 2019<br>$ | Change<br>$ | Change<br>$ |
|---|---|---|---|---|
| Operating revenue from ordinary activities | 84,498,650 | 83,018,040 | 1,480,610 | 1.8% |
| Statutory net profit/(loss) after tax | 1,932,474 | (1,001,368) | 2,933,842 | 293.0% |
| Underlying Profit* | 4,825,701 | 1,092,882 | 3,732,819 | 341.6% |

* Underlying Profit or EBITDA is a measure that the Group uses to assess performance as it excludes certain non-cash and one-off or non-operational items. See table in the next section for reconciliation of Underlying Profit to Statutory Profit.

Normalised adjustments have been applied as set out in the following reconciliation between the Group's Underlying Profit and the statutory net profit for the current and previous years:

| | Consolidated | |
|---|---|---|
| | 2020<br>$ | 2019<br>$ |
| Normalised EBITDA for the year | 4,825,701 | 1,092,882 |
| *Add/(deduct) normalisation adjustments:*<br>Restructure and acquisition costs | (74,648) | - |
| Statutory EBITDA for the year | 4,751,053 | 1,092,882 |
| *Deduct:* | | |
| Interest revenue calculated using the effective interest method | 109,837 | 220,170 |
| Depreciation and amortisation | (1,812,709) | (1,563,159) |
| Impairment of assets | - | (530,832) |
| Finance costs | (166,944) | (323,215) |
| Statutory net profit/(loss) before income tax for the year | 2,881,237 | (1,104,154) |
| Income tax (expense)/benefit | (948,763) | 102,786 |
| Statutory net profit/(loss) after income tax for the year | 1,932,474 | (1,001,368) |

## SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

*Libertas Financial Planning Pty Ltd*
On 7 August 2019, the Company announced the acquisition of Libertas Financial Planning Pty Ltd ('Libertas'). Libertas is a successful financial advice dealer group with approximately 70 authorised representatives. The acquisition provides Sequoia with further scale in the advice marketplace and based on the latest Money Management dealer group survey makes Sequoia one of the largest non-bank owned financial adviser groups in the country.

As part of the consideration the Company issued 1,500,000 fully paid ordinary shares at 22 cents per share to the seller. $1,052,039 cash was paid upfront with an additional issue of 3,810,000 fully paid ordinary shares at 21 cents per share as final settlement in July 2020.

*Share buy-back*
The Company is currently conducting an on-market buy-back. It was announced on the market on 15 June 2020 and covers the period 1 July 2020 to 30 June 2021. The maximum number of shares the Company proposes to acquire under the on-market buy-back is up to approximately 11,900,899, or up to 10% of the lowest number of ordinary shares on issue during the previous 12 months. Accordingly, the on-market buy-back will not require shareholder approval. To date, no shares have been brought back under the buy-back.

*Morrison Securities ASX market participant status update*
Morrison Securities Pty Ltd, a wholly owned subsidiary, has been granted material amendments to the conditions associated with its ASX market participant status. The amendments allow for a reduction in the core capital requirements from $12.0 million to $7.5 million from 21 November 2019.

*Yellow Brick Road Wealth Division*
On 27 December 2019, the Company's subsidiary, Interprac Pty Ltd, entered into an agreement to purchase the Yellow Brick Road Wealth Division business from Yellow Brick Road Holdings Limited (ASX: YBR). From 1 April 2020, Advisers were transferred to Sequoia. Payment of $468,294 has been paid as part consideration with future payments of $1,438,051 subject to contingencies being met.

There were no other significant changes in the state of affairs of the Group during the financial year.

## MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

*Phillip Capital Limited*
On 1 June 2020, Sequoia announced the acquisition of the customer base from Phillip Capital Limited (ASX: PCL). On 5 June 2020, a deposit of $411,000 was paid in escrow. The Agreement was completed on 1 July 2020, with employees and Corporate Authorised Representatives ('CARs') transferring to Sequoia. The next consideration payment is due within two months post completion.

*Total Cover Australia*
In July 2020, Sequoia announced its intention to acquire the customer base from Total Cover Australia ('TCA'). Consideration will be 1,500,000 fully paid ordinary shares at 22 cents per share, with further cash payments totalling $945,000 to be paid over two years.

*Impact of Covid-19*
COVID-19 restrictions have impacted all businesses and we are no different. The pandemic has had a material impact on the financial affairs of many Australians and the need for advice at a reasonable cost has increased. The Government initiatives such as Job Keeper, Job Seeker and Early Superannuation Release all provided a need for interaction between advisers and the community, and has also seen a rise in equity market turnover with a new wave of 'Robin Hood' type traders entering the market. Sales in 2H20 in some of the operating business units slowed, but growth in other parts of our business has offset those reductions and Profit was not significantly impacted. We will continue to monitor the pandemic and if it continues longer than anticipated there may be a need for further reductions in aspects of our business.

Apart from the dividend declared as discussed above, no other matter or circumstance has arisen since 30 June 2020 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

## LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

The Group does not expect any major developments or variation to results if the Group continues to operate as normal. However major variations would occur if the Group undertook a key strategic initiative such as a material acquisition. Currently nothing of this nature is expected to take place in the foreseeable future but the Group remains open to look at opportunities in this space whenever they are presented.

## ENVIRONMENTAL REGULATION

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

## INFORMATION ON DIRECTORS

**Name:** Garry Peter Crole

**Title:** Executive Director and Chief Executive Officer

**Experience and expertise:** Garry is a highly experienced and well-regarded Financial Services Executive. He founded Deakin Financial Planning, an ASX listed company that was later acquired by IOOF. In more recent years, Garry started Interprac Financial Planning Pty Ltd, which is a leading independently owned Australian Financial Services Licensee.

**Other current directorships:** None

**Former directorships (last 3 years):** Non-Executive Director of Diversa Ltd (ASX: DVA) and Non-Executive Director of Glennon Small Companies Limited (ASX: GC1)

**Special responsibilities:** Member of Risk and Compliance Committee, Audit Committee and Remuneration and Nomination Committee

**Interests in shares:** 10,850,977 ordinary shares (directly held) and 896,309 ordinary shares (indirectly held)

**Interests in options:** None

**Interests in rights:** None

**Name:** John Larsen

**Title:** Non-Executive Director and Chairman

**Experience and expertise:** John brings in excess of 30 years' experience in financial services to the Company, including senior management positions and directorships across various businesses licensed to provide financial services including funds management and stock broking. John has significant experience in the management of private portfolios and individually managed accounts. He was also the Chairman of Odyssey Funds Management between 2002 and 2009, part of the investment committee responsible for ASX listed, Huntley Investment Company Limited, between 2006 and 2008 and previously held the position of Group Investment Manager at ING (then Mercantile Mutual Group) retaining responsibility for the entire Australian investments portfolio with over $500 million of funds under management.

**Other current directorships:** Non-Executive Director of Glennon Small Companies Limited (ASX: GC1)

**Former directorships (last 3 years):** None

**Special responsibilities:** Chair of Audit Committee and member of Remuneration and Nomination Committee

**Interests in shares:** 101,549 ordinary shares (directly held) and 1,450,000 ordinary shares (indirectly held)

**Interests in options:** None

**Interests in rights:** None

**Name:** Kevin Pattison

**Title:** Non-Executive Director

**Experience and expertise:** Kevin has over 40 years' experience in financial services, specialising in distribution, strategic planning and business remediation. He has been a Non-Executive Director for the past 4 years on private companies and prior to that he was the CEO of various large national businesses in the financial services sector. He is currently the Chairman of Master Builders Insurance Brokers.

**Other current directorships:** None

**Former directorships (last 3 years):** None

**Special responsibilities:** Chair of Remuneration and Nomination Committee and member of Risk and Compliance Committee

**Interests in shares:** 542,166 ordinary shares (indirectly held)

**Interests in options:** None

**Interests in rights:** None

**Name:** Charles Sweeney

**Title:** Non-Executive Director

**Qualifications:** B.Comm, LL.B (Melb), Partner of Cooper Grace Ward Lawyers

**Experience and expertise:** Charles is a partner in Cooper Grace Ward's corporate and commercial group. Charles provides wide-ranging general commercial advice to clients, with particular areas of focus including corporate advisory and intellectual property / information technology. Acting for listed and unlisted public and private clients, Charles advises across a broad range of industries, including agribusiness, financial services, technology and mining. Charles has served as a non-executive director of an ASX listed company (including during its ASX listing) and has practical experience of the issues faced by boards in relation to corporate governance, dealings with regulators (especially ASX and ASIC), major transactions and capital raisings. Charles is also a regular presenter on such topics.

**Other current directorships:** None

**Former directorships (last 3 years):** None

**Special responsibilities:** Chair of Risk and Compliance Committee and member of Audit Committee

**Interests in shares:** 300,000 ordinary shares (indirectly held)

**Interests in options:** None

**Interests in rights:** None

'Other current directorships' quoted above are current directorships for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

'Former directorships (last 3 years)' quoted above are directorships held in the last 3 years for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

## COMPANY SECRETARY

Mr Hasaka Martin was appointed Company Secretary on 7 August 2018. He is employed by Boardroom Pty Ltd in their Corporate Secretarial Services Division in Melbourne. He holds a Masters of Commercial Law, a Graduate Diploma of Corporate and Securities Law, Banking, Corporate, Finance and Securities Law, a Graduate Diploma in Applied Corporate Governance, a PhD in Biochemistry and Molecular Biology and a B.Ag.Sc (hons) in Molecular Biology and Biochemistry.

## MEETINGS OF DIRECTORS

The number of meetings of the Company's Board of Directors ('the Board') and of each Board committee held during the year ended 30 June 2020, and the number of meetings attended by each director were:

| | Full Board | | Audit Committee | |
|---|---|---|---|---|
| | Attended | Held | Attended | Held |
| G Crole | 7 | 7 | 2 | 2 |
| J Larsen | 7 | 7 | 2 | 2 |
| K Pattison | 7 | 7 | 2 | 2 |
| C Sweeney | 7 | 7 | 2 | 2 |

| | Risk and Compliance Committee | | Remuneration and Nomination Committee | |
|---|---|---|---|---|
| | Attended | Held | Attended | Held |
| G Crole | 2 | 2 | 2 | 2 |
| J Larsen | - | - | 2 | 2 |
| K Pattison | 2 | 2 | 2 | 2 |
| C Sweeney | 2 | 2 | - | - |

Held: represents the number of meetings held during the time the director held office or was a member of the relevant committee.

## REMUNERATION REPORT (AUDITED)

The remuneration report details the key management personnel remuneration arrangements for the Group, in accordance with the requirements of the Corporations Act 2001 and its Regulations.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including all directors.

The key management personnel of the Group consisted of the following directors of Sequoia Financial Group Limited:

- Garry Crole - Executive Director and Chief Executive Officer
- John Larsen - Chairman and Non-Executive Director
- Kevin Pattison - Non-Executive Director
- Charles Sweeney - Non-Executive Director

And the following persons:

- Lizzie Tan - Chief Financial Officer (appointed 23 April 2020)
- Renee Louise Minchin - Former Chief Financial Officer (resigned 11 November 2019)

The remuneration report is set out under the following main headings:

- Principles used to determine the nature and amount of remuneration
- Details of remuneration
- Service agreements
- Share-based compensation
- Additional disclosures relating to key management personnel

***Principles used to determine the nature and amount of remuneration***
The objective of the Group's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with the achievement of strategic objectives and the creation of value for shareholders, and it is considered to conform to the market best practice for the delivery of reward. The Board of Directors ('the Board') ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness;
- acceptability to shareholders;
- performance linkage / alignment of executive compensation; and
- transparency.

The Board of Directors, through its Remuneration and Nomination Committee, accepts responsibility for determining and reviewing remuneration arrangements for the directors and the senior management team. The Remuneration and Nomination Committee assesses the appropriateness of the nature and amount of remuneration of directors and senior managers on a periodic basis by reference to relevant employment market conditions, giving due consideration to the overall profitability and financial resources of the Group, with the objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executive team.

In accordance with best practice corporate governance, the structure of non-executive director and executive director remuneration is separate.

*Non-executive directors' remuneration*
Fees and payments to non-executive directors reflect the demands which are made of the directors in fulfilling their responsibilities. Non-executive director fees are reviewed annually by the Board. The constitution of the Company provides that the non-executive directors of the Company are entitled to such remuneration, as determined by the Board, which must not exceed in aggregate the maximum amount determined by the Company in general meeting. The most recent determination was at the Annual General Meeting held on 15 December 2006 where the shareholders approved an aggregate remuneration of $200,000.

*Senior management and executive director remuneration*
Executive remuneration comprises:

- Fixed remuneration component;
- Variable remuneration component including short-term incentive (STI) and long-term incentive (LTI); and
- An Employee Share Option Plan that was approved at a meeting of shareholders on the 27 November 2015 (LTI).

*Fixed remuneration*
Fixed remuneration consists of base remuneration as well as employer contributions to superannuation. Remuneration levels are reviewed annually through a process that considers individual performance and that of the overall Group.

*Variable remuneration – short-term incentive (STI)*
STIs are available to executives who achieve performance criteria including compliance. The Board is responsible for determining who is eligible to participate in STI arrangements as well as the structure of those arrangements.

*Variable remuneration – long-term incentive (LTI)*

The objective of the LTI plan is to reward senior managers in a manner which aligns this element of remuneration with the creation of shareholder wealth. As such, LTI grants are only made to executives who are able to influence the generation of shareholder wealth and thus have a direct impact on the Group's performance against relevant long term performance hurdles. LTI grants to executives are delivered in the form of options or shares.

*Sequoia Employee Incentive Plan ('SEIP')*

On 1 February 2017, the Company established an employee equity scheme, called the Sequoia Employee Incentive Plan ('SEIP') to offer options and performance rights to certain employees employed in the Company.

Performance rights

All performance rights offered under the October 2018 grant were granted for nil consideration and had a nil exercise price.

Performance rights vest in three tranches:

| Tranche | October 2018 Vesting date |
|---|---|
| Tranche 1 | 30 June 2019 |
| Tranche 2 | 30 June 2020 |
| Tranche 3 | 30 June 2021 |

The vesting conditions of the performance rights granted are:

- 50% of each tranche where the employee meets the service condition; and
- 50% of each tranche where the employee meets the service condition and the Company meets the performance conditions.

All performance rights tranches related to the October 2018 grant expire on 30 June 2023.

The service conditions are that Tranche 1, Tranche 2 and Tranche 3 will vest if continuous employment is maintained with the Company from the date the performance rights are granted until their respective vesting dates.

The performance conditions relating to the October 2018 grant are related to share price hurdles as follows:

- Tranche 1 will vest if the Company's 90 Day VWAP up to and including 30 June 2019 is at least $0.36.
- Tranche 2 will vest if the Company's 90 Day VWAP up to and including 30 June 2020 is at least $0.45.
- Tranche 3 will vest if the Company's 90 Day VWAP up to and including 30 June 2021 is at least $0.55.

Any performance rights which meet the vesting conditions above will be available for exercise up until the expiry date. On exercise of vested performance rights Company shares may be acquired and held by an Employee Share Trust ('EST') to be established for the purpose of settlement. Shares may be held subject to the EST and the Company's Securities Trading Policy.

If the Company provide an EST, the employee can apply to the Trustee to have their shares transferred or sold from the EST, subject to compliance with the Company's Securities Trading Policy.

*Use of remuneration consultants*
During the financial year ended 30 June 2020, the Group did not engage remuneration consultants, to review its existing remuneration policies and provide recommendations.

*Voting and comments made at the Company's 2019 Annual General Meeting ('AGM')*
At the 30 October 2019 AGM, 99.68% of the votes received supported the adoption of the remuneration report for the year ended 30 June 2019. The Company did not receive any specific feedback at the AGM regarding its remuneration practices.

***Details of remuneration***

*Amounts of remuneration*
Details of the remuneration of key management personnel of the Group are set out in the following tables.

| | Short-term benefits | | | | Post-employment benefits | Share-based payments | |
|---|---|---|---|---|---|---|---|
| **2020** | **Cash salary and fees $** | **Cash bonus $** | **Directors' fees $** | **Movement in leave entitlements $** | **Super-annuation $** | **Equity-settled $** | **Total $** |
| *Non-Executive Directors:* | | | | | | | |
| J Larsen | 73,059 | - | - | - | 6,941 | - | 80,000 |
| K Pattison** | - | - | 55,000 | - | - | - | 55,000 |
| C Sweeney** | - | - | 55,000 | - | - | - | 55,000 |
| *Executive Directors:* | | | | | | | |
| G Crole | 340,558 | 50,000 | - | 31,726 | 21,003 | - | 443,287 |
| *Other Key Management Personnel:* | | | | | | | |
| L Tan* | 30,942 | 5,769 | - | 3,952 | 2,939 | - | 43,602 |
| | 444,559 | 55,769 | 110,000 | 35,678 | 30,883 | - | 676,889 |

* Remuneration is for the period from date of appointment as a key management personnel to 30 June 2020.

R Minchin (former Chief Financial Officer) was on leave of absence and received no remuneration from 1 July 2019 to date of resignation.

| 2019 | Short-term benefits: Cash salary and fees $ | Short-term benefits: Cash bonus $ | Short-term benefits: Directors' fees $ | Short-term benefits: Movement in leave entitlements $ | Post-employment benefits: Super-annuation $ | Share-based payments: Equity-settled $ | Total $ |
|---|---|---|---|---|---|---|---|
| *Non-Executive Directors:* | | | | | | | |
| J Larsen | 39,059 | - | - | - | 3,711 | - | 42,770 |
| K Pattison** | - | - | 21,250 | - | - | - | 21,250 |
| C Sweeney** | - | - | 18,250 | - | - | - | 18,250 |
| T Martin* | - | - | 15,000 | - | - | - | 15,000 |
| *Executive Directors:* | | | | | | | |
| G Crole | 326,920 | 10,000 | - | 21,317 | 20,531 | - | 378,768 |
| S Beeton* | 420,245 | 60,000 | - | (114,105) | 15,399 | - | 381,539 |
| *Other Key Management Personnel:* | | | | | | | |
| R Minchin*** | 180,057 | 13,699 | - | (8,025) | 14,817 | 8,775 | 209,323 |
| | 966,281 | 83,699 | 54,500 | (100,813) | 54,458 | 8,775 | 1,066,900 |

* Remuneration is for the period from 1 July 2018 to date of resignation as a key management personnel.

** Remuneration is for the period from date of appointment as a key management personnel to 30 June 2019.

*** Remuneration is for the period from 1 July 2018 to date of leave of absence as a key management personnel.

The proportion of remuneration linked to performance and the fixed proportion are as follows:

| Name | Fixed remuneration 2020 | Fixed remuneration 2019 | At risk - STI 2020 | At risk - STI 2019 | At risk - LTI 2020 | At risk - LTI 2019 |
|---|---|---|---|---|---|---|
| *Non-Executive Directors:* | | | | | | |
| J Larsen | 100% | 100% | - | - | - | - |
| K Pattison | 100% | 100% | - | - | - | - |
| C Sweeney | 100% | 100% | - | - | - | - |
| T Martin | 100% | 100% | - | - | - | - |
| *Executive Directors:* | | | | | | |
| G Crole | 89% | 97% | 11% | 3% | - | - |
| S Beeton | - | 84% | - | 16% | - | - |
| *Other Key Management Personnel:* | | | | | | |
| L Tan | 87% | - | 13% | - | - | - |
| R Minchin | - | 89% | - | 7% | - | 4% |

***Service agreements***
Where contracts have been established, employment terms and conditions of key management personnel and Group executives are formalised in standard contracts of employment. All contracts are for no fixed term with one to three months' notice required for termination by either party.

***Share-based compensation***

*Issue of shares, options and performance rights*
There were no shares, options or performance rights issued or granted to directors and other key management personnel as part of compensation during the year ended 30 June 2020.

***Additional disclosures relating to key management personnel***

*Shareholding*
The number of shares in the Company held during the financial year by each director and other members of key management personnel of the Group, including their personally related parties, is set out below:

| | Balance at the start of the year | Received as part of remuneration | Additions | Disposals/ other | Balance at the end of the year |
|---|---|---|---|---|---|
| *Ordinary shares* | | | | | |
| GP Crole** | 11,674,243 | - | 73,043 | - | 11,747,286 |
| J Larsen** | 304,647 | - | 1,246,902 | - | 1,551,549 |
| K Pattison** | 367,500 | - | 174,666 | - | 542,166 |
| C Sweeney** | 195,000 | - | 105,000 | - | 300,000 |
| R Minchin* | 336,397 | - | - | (336,397) | - |
| | 12,877,787 | - | 1,599,611 | (336,397) | 14,141,001 |

* Disposals/other represents no longer a key management personnel, not necessarily a disposal of holding. R Minchin resigned on 11 November 2019.
** Shares acquired via on-market trade.

Subsequent to 30 June 2020, the current Chief Financial Officer, L Tan, was awarded 52,500 fully paid ordinary shares in the Company on 9 July 2020.

*Performance rights holding*
The number of performance rights over ordinary shares in the Company held during the financial year by each director and other members of key management personnel of the Group, including their personally related parties, is set out below:

| | Balance at the start of the year | Granted | Exercised | Expired/ forfeited/ other | Balance at the end of the year |
|---|---|---|---|---|---|
| *Performance rights over ordinary shares* | | | | | |
| R Minchin | 156,250 | - | - | (156,250) | - |
| | 156,250 | - | - | (156,250) | - |

* Expired/forfeited/other represents no longer a key management personnel, not necessarily a disposal of holding. R Minchin resigned on 11 November 2019.

*Transactions with key management personnel and their related parties*
During the financial year, $142,866 was paid or payable for services provided by Cooper Grace Ward Lawyers, a related party entity of director, Charles Sweeney.

***This concludes the remuneration report, which has been audited.***

## SHARES UNDER OPTION

There were no unissued ordinary shares of Sequoia Financial Group Limited under option outstanding at the date of this report.

## SHARES UNDER PERFORMANCE RIGHTS

Unissued ordinary shares of Sequoia Financial Group Limited under performance rights at the date of this report are as follows:

| Grant date | Expiry date | Number under rights |
|---|---|---|
| 26 October 2018 | 30 June 2023 | 390,000 |

No person entitled to exercise the performance rights had or has any right by virtue of the performance right to participate in any share issue of the Company or of any other body corporate.

## SHARES ISSUED ON THE EXERCISE OF OPTIONS

There were no ordinary shares of Sequoia Financial Group Limited issued on the exercise of options during the year ended 30 June 2020 and up to the date of this report.

## SHARES ISSUED ON THE EXERCISE OF PERFORMANCE RIGHTS

The following ordinary shares of Sequoia Financial Group Limited were issued during the year ended 30 June 2020 and up to the date of this report on the exercise of performance rights granted:

| Date performance rights granted | Share price as at date of exercise | Number of shares issued |
|---|---|---|
| 24 July 2019 | $0.165 | 185,000 |
| 5 February 2020 | $0.200 | 37,500 |
| | | 222,500 |

## INDEMNITY AND INSURANCE OF OFFICERS

The Company has indemnified the directors and executives of the Company for costs incurred, in their capacity as a director or executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, the Company paid a premium in respect of a contract to insure the directors and executives of the Company against a liability to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

## INDEMNITY AND INSURANCE OF AUDITOR

The Company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the Company or any related entity against a liability incurred by the auditor.

During the financial year, the Company has not paid a premium in respect of a contract to insure the auditor of the Company or any related entity.

## PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

## NON-AUDIT SERVICES

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 27 to the financial statements.

The directors are satisfied that the provision of non-audit services during the financial year, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are of the opinion that the services as disclosed in note 27 to the financial statements do not compromise the external auditor's independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants (including Independence Standards) issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risks and rewards.

## 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 immediately after this directors' report.

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

On behalf of the directors

John Larsen
Chairman

20 August 2020
Sydney

**AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001 TO THE DIRECTORS OF SEQUOIA FINANCIAL GROUP LIMITED**

I declare that, to the best of my knowledge and belief during the year ended 30 June 2020 there have been:

— no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and

— no contraventions of any applicable code of professional conduct in relation to the audit.

William Buck

**William Buck Audit (Vic) Pty Ltd**
ABN 59 116 151 136

**N. S. Benbow**
Director

Dated this 20th day of August, 2020

ACCOUNTANTS & ADVISORS
Level 20, 181 William Street
Melbourne VIC 3000
Telephone: +61 3 9824 8555
williambuck.com

| | Note | Consolidated 2020 $ | Consolidated 2019 $ |
|---|---|---|---|
| **Revenue** | 5 | 84,498,650 | 83,018,040 |
| **Expenses** | | | |
| Data fees | | (1,643,769) | (1,161,134) |
| Dealing and settlement | | (10,834,498) | (8,349,140) |
| Commission and hedging | | (50,151,379) | (54,375,311) |
| Employee benefits | 6 | (11,573,780) | (11,734,219) |
| Occupancy | | (316,390) | (1,127,414) |
| Telecommunications | | (1,408,483) | (1,137,711) |
| Marketing | | (331,463) | (393,591) |
| General and administrative | | (3,413,187) | (3,646,638) |
| **Operating profit** | | 4,825,701 | 1,092,882 |
| Interest revenue calculated using the effective interest method | | 109,837 | 220,170 |
| Depreciation and amortisation | 6 | (1,812,709) | (1,563,159) |
| Impairment of assets | 15 | - | (530,832) |
| Acquisition costs for Libertas Financial Planning | | (74,648) | - |
| Finance costs | 6 | (166,944) | (323,215) |
| **Profit/(loss) before income tax (expense)/benefit** | | 2,881,237 | (1,104,154) |
| Income tax (expense)/benefit | 7 | (948,763) | 102,786 |
| **Profit/(loss) after income tax (expense)/benefit for the year attributable to the owners of Sequoia Financial Group Limited** | | 1,932,474 | (1,001,368) |
| **Other comprehensive income** | | | |
| *Items that will not be reclassified subsequently to profit or loss* | | | |
| Loss on the revaluation of financial assets at fair value through other comprehensive income, net of tax | | (35,801) | (157,173) |
| Other comprehensive income for the year, net of tax | | (35,801) | (157,173) |
| **Total comprehensive income for the year attributable to the owners of Sequoia Financial Group Limited** | | 1,896,673 | (1,158,541) |
| | | Cents | Cents |
| Basic earnings per share | 34 | 1.607 | (0.851) |
| Diluted earnings per share | 34 | 1.591 | (0.851) |

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

| | Note | Consolidated 2020 $ | 2019 $ |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | | 22,961,750 | 18,852,029 |
| Trade and other receivables | 8 | 12,250,064 | 11,675,680 |
| Contract assets and deferred costs | 9 | 8,989,093 | 7,510,057 |
| Inventories | | 6,875 | 6,386 |
| Other financial assets | 10 | 443,759 | 675,614 |
| Derivative financial instruments | 11 | 2,928,246 | 5,042,611 |
| Deposits | | 455,854 | 138,452 |
| Prepayments | | 877,740 | 706,591 |
| Total current assets | | 48,913,381 | 44,607,420 |
| **Non-current assets** | | | |
| Contract assets and deferred costs | 9 | 5,820,757 | 8,078,679 |
| Derivative financial instruments | 11 | 9,695,887 | 13,719,935 |
| Other financial assets | 12 | 110,546 | 40,000 |
| Plant and equipment | 13 | 1,712,799 | 1,654,060 |
| Right-of-use assets | 14 | 2,764,559 | - |
| Intangibles | 15 | 24,317,249 | 20,621,472 |
| Deferred tax | 7 | 7,267,653 | 7,775,014 |
| Deposits | | 678,448 | 392,950 |
| Total non-current assets | | 52,367,898 | 52,282,110 |
| **Total assets** | | 101,281,279 | 96,889,530 |

The above consolidated statement of financial position should be read in conjunction with the accompanying notes

| | Note | Consolidated 2020 $ | Consolidated 2019 $ |
|---|---|---|---|
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 16 | 22,380,247 | 15,551,526 |
| Contract liabilities and deferred revenue | 17 | 12,637,235 | 10,585,148 |
| Borrowings | 18 | 662,414 | 1,431,658 |
| Lease liabilities | 19 | 682,415 | - |
| Derivative financial instruments | 11 | 2,928,246 | 5,042,610 |
| Income tax payable | | 961,932 | 1,759,066 |
| Employee benefits | | 727,467 | 555,206 |
| Lease incentives | | - | 624,563 |
| Contingent consideration | 20 | 957,701 | - |
| Total current liabilities | | 41,937,657 | 35,549,777 |
| **Non-current liabilities** | | | |
| Contract liabilities and deferred revenue | 17 | 7,977,273 | 11,394,362 |
| Lease liabilities | 19 | 2,949,872 | - |
| Derivative financial instruments | 11 | 9,695,887 | 13,719,936 |
| Deferred tax | 7 | 4,903,818 | 4,928,398 |
| Employee benefits | | 98,840 | 124,369 |
| Contingent consideration | 20 | 479,350 | - |
| Total non-current liabilities | | 26,105,040 | 30,167,065 |
| **Total liabilities** | | 68,042,697 | 65,716,842 |
| **Net assets** | | 33,238,582 | 31,172,688 |
| **Equity** | | | |
| Issued capital | 21 | 48,497,215 | 48,025,034 |
| Reserves | 22 | 434,571 | 579,708 |
| Accumulated losses | | (15,693,204) | (17,432,054) |
| **Total equity** | | 33,238,582 | 31,172,688 |

The above consolidated statement of financial position should be read in conjunction with the accompanying notes

| Consolidated | Issued capital $ | Financial assets at fair value reserve $ | Share-based payments reserve $ | Accumulated losses $ | Total equity $ |
|---|---|---|---|---|---|
| Balance at 1 July 2018 | 42,788,182 | 587,481 | 229,418 | (15,840,909) | 27,764,172 |
| Loss after income tax benefit for the year | - | - | - | (1,001,368) | (1,001,368) |
| Other comprehensive income for the year, net of tax | - | (157,173) | - | - | (157,173) |
| Total comprehensive income for the year | - | (157,173) | - | (1,001,368) | (1,158,541) |
| *Transactions with owners in their capacity as owners:* | | | | | |
| Contributions of equity, net of transaction costs (note 21) | 5,236,852 | - | - | - | 5,236,852 |
| Share-based payments forfeited | - | - | (80,018) | - | (80,018) |
| Dividends paid (note 23) | - | - | - | (589,777) | (589,777) |
| Balance at 30 June 2019 | 48,025,034 | 430,308 | 149,400 | (17,432,054) | 31,172,688 |

| Consolidated | Issued capital $ | Financial assets at fair value reserve $ | Share-based payments reserve $ | Accumulated losses $ | Total equity $ |
|---|---|---|---|---|---|
| Balance at 1 July 2019 | 48,025,034 | 430,308 | 149,400 | (17,432,054) | 31,172,688 |
| Adjustment for change in accounting policy (note 2) | - | - | - | (193,624) | (193,624) |
| Balance at 1 July 2019 - restated | 48,025,034 | 430,308 | 149,400 | (17,625,678) | 30,979,064 |
| Profit after income tax expense for the year | - | - | - | 1,932,474 | 1,932,474 |
| Other comprehensive income for the year, net of tax | - | (35,801) | - | - | (35,801) |
| Total comprehensive income for the year | - | (35,801) | - | 1,932,474 | 1,896,673 |
| *Transactions with owners in their capacity as owners:* | | | | | |
| Contributions of equity, net of transaction costs (note 21) | 472,181 | - | - | - | 472,181 |
| Share-based payments | - | - | (38,025) | - | (38,025) |
| Share-based payments forfeited | - | - | (71,311) | - | (71,311) |
| Balance at 30 June 2020 | 48,497,215 | 394,507 | 40,064 | (15,693,204) | 33,238,582 |

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes

| | Note | Consolidated 2020 $ | 2019 $ |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers (inclusive of GST) | | 83,519,279 | 78,370,946 |
| Payments to suppliers and employees (inclusive of GST) | | (73,956,777) | (77,910,306) |
| | | 9,562,502 | 460,640 |
| Interest received | | 109,837 | 220,170 |
| Interest and other finance costs paid | | (166,944) | (323,215) |
| Income taxes paid | | (1,509,427) | (171,213) |
| Net cash from operating activities* | 33 | 7,995,968 | 186,382 |
| **Cash flows from investing activities** | | | |
| Payment for purchase of business, net of cash acquired | 31 | (1,031,350) | - |
| Payments for investments | | (70,546) | - |
| Payments for plant and equipment | 13 | (546,893) | (754,364) |
| Payments for intangibles | 15 | (855,950) | (4,877) |
| Proceeds from disposal of investments | | 89,649 | 1,709,973 |
| Proceeds from disposal of property, plant and equipment | | - | 4,418 |
| Net cash from/(used in) investing activities | | (2,415,090) | 955,150 |
| **Cash flows from financing activities** | | | |
| Proceeds from issue of shares | | - | 5,236,852 |
| Repayment of convertible notes | | - | (200,000) |
| Repayment of borrowings | | (860,469) | (5,768,565) |
| Repayment of lease liabilities | | (610,688) | - |
| Dividends paid | 23 | - | (589,777) |
| Net cash used in financing activities | | (1,471,157) | (1,321,490) |
| Net increase/(decrease) in cash and cash equivalents | | 4,109,721 | (179,958) |
| Cash and cash equivalents at the beginning of the financial year | | 18,852,029 | 19,031,987 |
| Cash and cash equivalents at the end of the financial year | | 22,961,750 | 18,852,029 |

The Group holds cash reserves which are required to meet its broker licensing commitments. The conditions of the license, amongst other requirements, mandate that its wholly owned subsidiary, Morrison Securities Pty Ltd must maintain at all times core capital greater than $7,500,000 (2019: $12,000,000), where at least 90% of this core capital is cash at bank.

* For the current financial year, Net cash from operating activities includes net cash in of $6,357,053 from client trust funds (2019: net cash out of $443,087). Refer to note 33.

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes

## NOTE 1. GENERAL INFORMATION

The financial statements cover Sequoia Financial Group Limited as a Group consisting of Sequoia Financial Group Limited ('Company' or 'parent entity') and the entities it controlled at the end of, or during, the year (referred to in these financial statements as the 'Group'). The financial statements are presented in Australian dollars, which is Sequoia Financial Group Limited's functional and presentation currency.

Sequoia Financial Group Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business are:

| Registered office | Principal place of business |
|---|---|
| Level 7 | Level 8 |
| 7 Macquarie Place | 525 Flinders Street |
| Sydney NSW 2000 | Melbourne VIC 3000 |

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

The financial statements were authorised for issue, in accordance with a resolution of directors, on 20 August 2020. The directors have the power to amend and reissue the financial statements.

## NOTE 2. SIGNIFICANT 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.

### New or amended Accounting Standards and Interpretations adopted

The Group has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

The following Accounting Standards and Interpretations are most relevant to the Group:

*AASB 2020-4 Amendment to Australian Accounting Standards - Covid-19-Related Rent Concessions*

The Group has early adopted the amendment to AASB 16 from 1 July 2019. The amendment provides a practical expedient for lessees to account for COVID-19-related rent concessions that: result in lease payments that are substantially the same as, or less than, the consideration for the lease immediately prior to the change; where any reduction in the lease payments affects only payments originally due on or before 30 June 2021; and where there is no substantive change to other terms and conditions of the lease. The practical expedient allows an entity not to assess rent concessions meeting the criteria as a lease modification. As a result, to the extent that lease concessions represent a forgiveness or waiver of lease payments, such concessions are treated as variable lease payments recognised in profit or loss with a corresponding adjustment to the lease liability. To the extent that the lease concession in substance represents a delay in lease repayments such that lease consideration is not changed, the lease liability is not extinguished. Interest continues to accrue for that period. The Group has applied the practical expedient to all rent concessions that meet the abovementioned criteria and as the Group received no rent concessions, there was no profit or loss impact from the adoption of this amendment.

## NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

*AASB 16 Leases*

The Group has adopted AASB 16 from 1 July 2019. The standard replaces AASB 117 'Leases' and for lessees eliminates the classifications of operating leases and finance leases. Except for short-term leases and leases of low-value assets, right-of-use assets and corresponding lease liabilities are recognised in the statement of financial position. Straight-line operating lease expense recognition is replaced with a depreciation charge for the right-of-use assets (included in operating costs) and an interest expense on the recognised lease liabilities (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However, EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results improve as the operating expense is now replaced by interest expense and depreciation in profit or loss. For classification within the statement of cash flows, the interest portion is disclosed in operating activities and the principal portion of the lease payments are separately disclosed in financing activities. For lessor accounting, the standard does not substantially change how a lessor accounts for leases.

*Impact of adoption of AASB 16*

AASB 16 was adopted using the modified retrospective approach and as such the comparatives have not been restated. The impact of adoption on opening accumulated losses as at 1 July 2019 was as follows:

| | 1 July 2019<br>$ |
|---|---|
| Operating lease commitments as at 1 July 2019 (AASB 117) | 3,824,368 |
| Other disclosed commitments | (366,427) |
| Short-term leases not recognised as a right-of-use asset | (41,565) |
| Low value leases not recognised as a right-of-use asset | (82,389) |
| Operating lease commitments as at 1 July 2019 | 3,333,987 |
| Discount based on weighted average incremental borrowing rate of 4.0% | (418,822) |
| Extension and termination options reasonably certain to be exercised | 1,141,974 |
| Lease liabilities - recognised as at 1 July 2019 | 4,057,139 |

The operating leases consisted of two office tenancies.

| | |
|---|---|
| Right-of-use assets | 3,424,788 |
| Lease liabilities - current | (624,853) |
| Lease liabilities - non-current | (3,432,286) |
| Make good provision | (200,000) |
| Adjustment to treatment lease incentive | 638,727 |
| Increase in opening accumulated losses as at 1 July 2019 | (193,624) |

## NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

*AASB Interpretation 23 Uncertainty over Income Tax Treatments*
This interpretation is applicable to annual reporting periods beginning on or after 1 January 2019. The interpretation clarifies how to apply the recognition and measurement requirements of AASB 112 'Income Taxes' in circumstances where uncertain tax treatments exist which will address the accounting diversity which currently exists in practice. An uncertain tax treatment is one where there is uncertainty over whether the relevant taxation authority will accept the entity's tax treatment (i.e. as submitted in the entity's income tax return) under tax law thereby potentially affecting an entity's tax accounting which is based upon the derivation of taxable profits and losses, tax bases, unused tax losses, unused tax credits and tax rates ('tax accounting elements'). The 'unit of account' to be adopted is determined based on the approach which better predicts the anticipated resolution of the uncertainties with the tax authority. The entity shall consider all issues that the tax authority might consider in making such assessment and must make a presumption that the tax authority will examine amounts that it has a right to examine and has obtained full knowledge of all facts as a consequence. If the entity concludes that it is probable that the taxation authority will accept its adopted position representing an uncertain tax treatment, then the entity determines its respective tax accounting elements consistently with the tax treatment included in its tax filings. If, however, the entity concludes that it is not probable that the taxation authority will accept an uncertain tax treatment, the entity shall reflect the effect of uncertainty in determining the related tax accounting elements. The Group adopted this interpretation from 1 July 2019 and there was no significant impact on adoption.

### Basis of preparation
These general purpose 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').

*Historical cost convention*
The financial statements have been prepared under the historical cost convention, except for, where applicable, the revaluation of financial assets at fair value through other comprehensive income, financial assets and liabilities at fair value through profit or loss and derivative financial instruments.

*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 Group'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.

### Parent entity information
In accordance with the Corporations Act 2001, these financial statements present the results of the Group only. Supplementary information about the parent entity is disclosed in note 30.

### Principles of consolidation
The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Sequoia Financial Group Limited as at 30 June 2020 and the results of all subsidiaries for the year then ended.

## NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsidiaries are all those entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the Group are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Where the Group loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The Group recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

### Operating segments

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

### Revenue recognition

The Group recognises revenue as follows:

*Revenue from contracts with customers*

Revenue is recognised at an amount that reflects the consideration to which the Group is expected to be entitled in exchange for transferring goods or services to a customer. For each contract with a customer, the Group: identifies the contract with a customer; identifies the performance obligations in the contract; determines the transaction price which takes into account estimates of variable consideration and the time value of money; allocates the transaction price to the separate performance obligations on the basis of the relative stand-alone selling price of each distinct good or service to be delivered; and recognises revenue when or as each performance obligation is satisfied in a manner that depicts the transfer to the customer of the goods or services promised.

Variable consideration within the transaction price, if any, reflects concessions provided to the customer such as discounts, rebates and refunds, any potential bonuses receivable from the customer and any other contingent events. Such estimates are determined using either the 'expected value' or 'most likely amount' method. The measurement of variable consideration is subject to a constraining principle whereby revenue will only be recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. The measurement constraint continues until the uncertainty associated with the variable consideration is subsequently resolved. Amounts received that are subject to the constraining principle are recognised as a refund liability.

## NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

*Timing of revenue recognition*
Sequoia Equity Markets Group: The Group offers structured products to investors seeking exposure to investment opportunities. Management determined after lengthy evaluation that there are different types of structured product revenue. Each revenue type has numerous and distinct performance obligations, which allows for a different treatment to each of these revenue streams.

The different revenue streams include:

- application fee revenue is recognised up-front (upon execution of delivery of product to the customer) and is non-refundable;
- structured product revenue is released over the duration of the contract as it is earned over a period of time (duration of the contract); and
- coupon premium revenue is earned upon completion of the contract, as it is earned upon concluding the contract (conclusion of contract).

The costs of entering into the contract with wholesale counter parties are matched to the revenue streams.

*Interest*
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*
Revenues from other services, including brokerage, financial planning, superannuation and corporate advisory services are performed as they are rendered to the customer, net of any commissions. For brokerage, this occurs upon the date of settlement of clearing the underlying transaction on behalf of the client. For corporate advisory income relating to a transaction, this occurs upon the execution of the transaction. Where corporate advisory services relate to fees earned under a retainer agreement, revenue is accrued pro-rata according to the servicing of that retainer.

*Contract assets and contract liabilities*
Contract assets relate to hedging costs and contract liabilities relate primarily to structured product revenues. The contract assets represents costs deferred and contract liabilities represent revenue deferred due to recognition requirements where the revenue and cost are spread over the product life.

### Income tax
The income tax expense or benefit for the period is the tax payable on that period'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 periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

## NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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.

### Current and non-current classification

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the Group's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the Group's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

### Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities 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.

### Trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance for expected credit losses. Trade receivables are generally due for settlement within 30 days.

## NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Group has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue.

Other receivables are recognised at amortised cost, less any allowance for expected credit losses.

### Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

Derivatives are classified as current or non-current depending on the expected period of realisation, based upon the maturity date set in the underlying derivative agreement.

### Investments and other financial assets

Investments and other financial assets are initially measured at fair value. Transaction costs are included as part of the initial measurement, except for financial assets at fair value through profit or loss. Such assets are subsequently measured at either amortised cost or fair value depending on their classification. Classification is determined based on both the business model within which such assets are held and the contractual cash flow characteristics of the financial asset unless an accounting mismatch is being avoided.

Financial assets are derecognised when the rights to receive cash flows have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership. When there is no reasonable expectation of recovering part or all of a financial asset, its carrying value is written off.

*Financial assets at amortised cost*
A financial asset is measured at amortised cost only if both of the following conditions are met: (i) it is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and (ii) the contractual terms of the financial asset represent contractual cash flows that are solely payments of principal and interest.

*Financial assets at fair value through profit or loss*
Financial assets not measured at amortised cost or at fair value through other comprehensive income are classified as financial assets at fair value through profit or loss. Typically, such financial assets will be either: (i) held for trading, where they are acquired for the purpose of selling in the short-term with an intention of making a profit, or a derivative; or (ii) designated as such upon initial recognition where permitted. Fair value movements are recognised in profit or loss.

*Impairment of financial assets*
The Group recognises a loss allowance for expected credit losses on financial assets which are either measured at amortised cost or fair value through other comprehensive income. The measurement of the loss allowance depends upon the Group's assessment at the end of each reporting period as to whether the financial instrument's credit risk has increased significantly since initial recognition, based on reasonable and supportable information that is available, without undue cost or effort to obtain.

## NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Where there has not been a significant increase in exposure to credit risk since initial recognition, a 12-month expected credit loss allowance is estimated. This represents a portion of the asset's lifetime expected credit losses that is attributable to a default event that is possible within the next 12 months. Where a financial asset has become credit impaired or where it is determined that credit risk has increased significantly, the loss allowance is based on the asset's lifetime expected credit losses. The amount of expected credit loss recognised is measured on the basis of the probability weighted present value of anticipated cash shortfalls over the life of the instrument discounted at the original effective interest rate.

For financial assets mandatorily measured at fair value through other comprehensive income, the loss allowance is recognised in other comprehensive income with a corresponding expense through profit or loss. In all other cases, the loss allowance reduces the asset's carrying value with a corresponding expense through profit or loss.

### Plant and equipment

Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a straight-line basis to write off the net cost of each item of plant and equipment (excluding land) over their expected useful lives as follows:

| | |
|---|---|
| Leasehold improvements | Over the term of the lease |
| Plant and equipment | 3 years |

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

An item of plant and equipment is derecognised upon disposal or when there is no future economic benefit to the Group. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss.

### Leases (to 30 June 2019)

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to the ownership of leased assets, and operating leases, under which the lessor effectively retains substantially all such risks and benefits.

Finance leases are capitalised. A lease asset and liability are established at the fair value of the leased assets, or if lower, the present value of minimum lease payments. Lease payments are allocated between the principal component of the lease liability and the finance costs, so as to achieve a constant rate of interest on the remaining balance of the liability.

Leased assets acquired under a finance lease are depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

## NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Operating lease payments, net of any incentives received from the lessor, are charged to profit or loss on a straight-line basis over the term of the lease.

### Right-of-use assets (from 1 July 2019)

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the Group expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

The Group has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

### Intangible assets

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

*Goodwill*

Goodwill arises on the acquisition of a business. Goodwill is not amortised. Instead, goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are taken to profit or loss and are not subsequently reversed.

*Customer list*

Customer lists are amortised on a straight-line basis over their finite life. The finite life is the period of expected benefit, which ranges from 5 to 20 years depending on factors such as, their significance to the Group and acquisition consideration.

*Regulatory memberships and licences*

Costs in relation to regulatory memberships and licences are capitalised as an asset. These costs are not subsequently amortised but reviewed annually for impairment.

### Impairment of non-financial assets

Goodwill is not subject to amortisation and is tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial assets are reviewed for impairment whenever events or changes in

## NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

### Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

### Borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

The component of the convertible notes that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs.

On the issue of the convertible notes the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond and this amount is carried as a non-current liability on the amortised cost basis until extinguished on conversion or redemption. The increase in the liability due to the passage of time is recognised as a finance cost. The remainder of the proceeds are allocated to the conversion option that is recognised and included in shareholders equity as a convertible note reserve, net of transaction costs. The carrying amount of the conversion option is not remeasured in the subsequent years. The corresponding interest on convertible notes is expensed to profit or loss.

### Lease liabilities (from 1 July 2019)

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

## NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Employee benefits

*Short-term employee benefits*

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled wholly within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

*Other long-term employee benefits*

The liability for annual leave and long service leave not expected to be settled within 12 months of the reporting date are measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on high-quality corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

### Fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Assets and liabilities measured at fair value are classified into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

### Issued capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

### Dividends

Dividends are recognised when declared during the financial year and no longer at the discretion of the Company.

## NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Earnings per share

*Basic earnings per share*

Basic earnings per share is calculated by dividing the profit attributable to the owners of Sequoia Financial Group Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

*Diluted earnings per share*

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

### Goods and Services Tax ('GST') and other similar taxes

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the 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 tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

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

### New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Group for the annual reporting period ended 30 June 2020. The Group's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the Group, are set out below.

*New Conceptual Framework for Financial Reporting*

The revised Conceptual Framework is applicable to annual reporting periods beginning on or after 1 January 2020 and early adoption is permitted. The Conceptual Framework contains new definition and recognition criteria as well as new guidance on measurement that affects several Accounting Standards. Where the Group has relied on the existing framework in determining its accounting policies for transactions, events or conditions that are not otherwise dealt with under the Australian Accounting Standards, the Group may need to review such policies under the revised framework. At this time, the application of the Conceptual Framework is not expected to have a material impact on the Group's financial statements.

## NOTE 3. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

*Coronavirus (COVID-19) pandemic*
Judgement has been exercised in considering the impacts that the Coronavirus (COVID-19) pandemic has had, or may have, on the Group based on known information. This consideration extends to the nature of the products and services offered, customers, supply chain, staffing and geographic regions in which the Group operates. Other than as addressed in specific notes, there does not currently appear to be either any significant impact upon the financial statements or any significant uncertainties with respect to events or conditions which may impact the Group unfavourably as at the reporting date or subsequently as a result of the Coronavirus (COVID-19) pandemic.

*Determination of acquisitions as business combinations or asset acquisitions*
During the financial year, the Group completed the acquisition of Libertas Financial Planning Pty Ltd share capital and the purchase of the customer list from the Yellow Brick Road Wealth Division. Subsequent to 30 June 2020, the Group completed purchases of the customer lists from Phillip Capital Limited and Total Cover Australia. In accounting for these purchases, the Directors formed a view as to which of these were business combinations and which were asset acquisitions based on the characteristics of the targets, such as, the customer, workforce and supplier relationships.

*Goodwill*
The Group tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 2. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows.

*Impairment of non-financial assets other than goodwill and other indefinite life intangible assets*
The Group assesses impairment of non-financial assets other than goodwill and other indefinite life intangible assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs of disposal or value-in-use calculations, which incorporate a number of key estimates and assumptions.

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

## NOTE 3. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (CONTINUED)

*Lease term*
The lease term is a significant component in the measurement of both the right-of-use asset and lease liability. Judgement is exercised in determining whether there is reasonable certainty that an option to extend the lease or purchase the underlying asset will be exercised, or an option to terminate the lease will not be exercised, when ascertaining the periods to be included in the lease term. In determining the lease term, all facts and circumstances that create an economical incentive to exercise an extension option, or not to exercise a termination option, are considered at the lease commencement date. Factors considered may include the importance of the asset to the Group's operations; comparison of terms and conditions to prevailing market rates; incurrence of significant penalties; existence of significant leasehold improvements; and the costs and disruption to replace the asset. The Group reassesses whether it is reasonably certain to exercise an extension option, or not exercise a termination option, if there is a significant event or significant change in circumstances.

*Incremental borrowing rate*
Where the interest rate implicit in a lease cannot be readily determined, an incremental borrowing rate is estimated to discount future lease payments to measure the present value of the lease liability at the lease commencement date. Such a rate is based on what the Group estimates it would have to pay a third party to borrow the funds necessary to obtain an asset of a similar value to the right-of-use asset, with similar terms, security and economic environment.

## NOTE 4. OPERATING SEGMENTS

*Identification of reportable operating segments*

The Group is organised into five operating segments, which are based on the internal reports that are reviewed and used by the Board of Directors (who are identified as the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources.

The information reported to the CODM is on a monthly basis. The CODM reviews operating profit, which is earnings before interest, taxation, depreciation and amortisation adjusted for impairment (adjusted 'EBITDA').

*Types of products and services*
The principal products and services of each of these operating segments are as follows:

| | |
|---|---|
| Sequoia Wealth Group | The Wealth division is the core driver of the company business thematic.<br><br>The Wealth Group is the area of the business where we provide licensee services to Financial Planners, Wealth Managers, Equity advisers and a Corporate advisory business unit.<br><br>In Australia this market size is just above 23,000 advisers and the Sequoia owned licenses have just over 400 advisers, which is an increase of 100% in the last 24 months but a long way from our goal to provide licensee services to 10% of the adviser market by 2025.<br><br>We specialise in providing the adviser market a full service licensing and support service so they need can operate as an adviser in a market that is heavily legislated. Our role is to charge a fee for service and assist with a range of value propositions including compliance, marketing, coaching, education, research, and technical support.<br><br>The advisers are primarily accountants, financial planners, mortgage brokers, insurance advisers, equity market advisers and investment professionals with their AFS licensing, merger and acquisitions corporate advice. |
| Sequoia Professional Services Group | The Professional Services Group provides services to our own licensed advisers as well as other licensee holders and the industry. This includes the provision of SMSF solutions, general insurance broking and legal document establishment services to Financial Planners, Stock Brokers, Mortgage Brokers and Accountants Australia wide. This division currently has relationships and provides one of its services to in excess of 3,000 accountants and financial planners across Australia. |
| Sequoia Equity Markets Group | Sequoia Equity Markets Group provides services to our own licensed advisers as well as other licensee holders their advisers, self directed investors, superannuation funds. The companies fully owned subsidiary Morrison Securities delivers white label Australian Stockbroking and Specialised Investment solutions to third party institutional and adviser networks that operate their own AFSL. |
| Sequoia Direct Investment Group | Sequoia Direct Investment Group provides general advice to self directed investors who elect not to have a personal adviser and wish to undertake their own portfolio management, SMSF management share trading, superannuation, and select their own products and insurance. In addition this division provides market data, robo advice and trading tools via various mediums including an independent news organisation specialising in finance and business news updates, events and investor communication for ASX listed companies. |
| Head Office | Head Office relates to the corporate running costs of the Group. |

All products and services are provided predominantly to customers in Australia.

## NOTE 4. OPERATING SEGMENTS (CONTINUED)

*Intersegment transactions*
Intersegment transactions were made at cost. Intersegment transactions are eliminated on consolidation.

*Intersegment receivables, payables and loans*
Intersegment loans are initially recognised at the consideration received. Intersegment loans receivable and loans payable that earn or incur non-market interest are not adjusted to fair value based on market interest rates. Intersegment loans are eliminated on consolidation.

*Operating segment information*

| Consolidated - 2020 | Sequoia Wealth Group $ | Sequoia Professional Services Group $ | Sequoia Equity Markets Group $ | Sequoia Direct Investment Group $ | Head Office $ | Total $ |
|---|---|---|---|---|---|---|
| **Revenue** | | | | | | |
| Revenue | 40,661,203 | 4,668,453 | 36,994,395 | 2,224,429 | 56,575 | 84,605,055 |
| Losses on portfolio investments | (96,586) | - | (9,819) | - | - | (106,405) |
| **Total revenue** | 40,564,617 | 4,668,453 | 36,984,576 | 2,224,429 | 56,575 | 84,498,650 |
| **Adjusted EBITDA** | 2,927,624 | 1,540,968 | 3,618,514 | 314,727 | (3,576,132) | 4,825,701 |
| Depreciation and amortisation | | | | | | (1,812,709) |
| Acquisition costs of Libertas Financial Planning | | | | | | (74,648) |
| Interest revenue | | | | | | 109,837 |
| Finance costs | | | | | | (166,944) |
| **Profit before income tax expense** | | | | | | 2,881,237 |
| Income tax expense | | | | | | (948,763) |
| **Profit after income tax expense** | | | | | | 1,932,474 |
| **Assets** | | | | | | |
| Segment assets | 9,122,564 | 7,658,785 | 64,474,529 | 970,143 | 19,055,258 | 101,281,279 |
| **Total assets** | | | | | | 101,281,279 |
| **Liabilities** | | | | | | |
| Segment liabilities | 2,669,399 | 251,567 | 51,546,226 | 222,653 | 13,352,852 | 68,042,697 |
| **Total liabilities** | | | | | | 68,042,697 |

## NOTE 4. OPERATING SEGMENTS (CONTINUED)

| Consolidated - 2019 | Sequoia Wealth Group $ | Sequoia Professional Services Group $ | Sequoia Equity Markets Group $ | Sequoia Direct Investment Group $ | Head Office $ | Total $ |
|---|---|---|---|---|---|---|
| **Revenue** | | | | | | |
| Revenue | 28,891,875 | 4,974,170 | 44,825,786 | 4,271,980 | 513,536 | 83,477,347 |
| Losses on portfolio investments | (438,307) | - | (21,000) | - | - | (459,307) |
| **Total revenue** | 28,453,568 | 4,974,170 | 44,804,786 | 4,271,980 | 513,536 | 83,018,040 |
| **Adjusted EBITDA** | 1,939,362 | 1,842,443 | 2,714,199 | 878,496 | (6,281,618) | 1,092,882 |
| Depreciation and amortisation | | | | | | (1,563,159) |
| Impairment of assets | | | | | | (530,832) |
| Interest revenue | | | | | | 220,170 |
| Finance costs | | | | | | (323,215) |
| **Loss before income tax benefit** | | | | | | (1,104,154) |
| Income tax benefit | | | | | | 102,786 |
| **Loss after income tax benefit** | | | | | | (1,001,368) |
| **Assets** | | | | | | |
| Segment assets | 12,017,913 | 11,284,769 | 82,057,184 | (2,231,243) | (6,239,093) | 96,889,530 |
| **Total assets** | | | | | | 96,889,530 |
| **Liabilities** | | | | | | |
| Segment liabilities | 1,800,007 | 431,121 | 53,409,040 | 977,006 | 9,099,668 | 65,716,842 |
| **Total liabilities** | | | | | | 65,716,842 |

## NOTE 5. REVENUE

| | Consolidated 2020 $ | Consolidated 2019 $ |
|---|---|---|
| *Sales revenue* | | |
| Data subscriptions fees | 712,453 | 997,199 |
| Brokerage and commissions revenue | 52,914,957 | 37,784,656 |
| Superannuation product revenue | 2,414,279 | 2,450,510 |
| Structured product revenue | 22,944,283 | 37,433,497 |
| Corporate advisory fees | 2,980,337 | 2,967,596 |
| Media revenue | 1,086,477 | 1,384,560 |
| Leasing | 620 | 39,500 |
| Other income | 1,551,649 | 205,274 |
| | 84,605,055 | 83,262,792 |
| *Other revenue* | | |
| Losses on portfolio investments | (106,405) | (244,752) |
| Revenue | 84,498,650 | 83,018,040 |

Other revenue includes general service revenue and held for trading revenue.

*Disaggregation of revenue*
The disaggregation of revenue from contracts with customers is as follows:

| Consolidated - 2020 | Sequoia Wealth Group $ | Sequoia Professional Services Group $ | Sequoia Equity Markets Group $ | Sequoia Direct Investment Group $ | Head Office $ | Total $ |
|---|---|---|---|---|---|---|
| *Timing of revenue recognition* | | | | | | |
| Services transferred at a point in time | 40,564,617 | 4,668,453 | 13,991,179 | 588,295 | 56,575 | 59,869,119 |
| Services transferred over time | - | - | 22,993,397 | 1,636,134 | - | 24,629,531 |
| | 40,564,617 | 4,668,453 | 36,984,576 | 2,224,429 | 56,575 | 84,498,650 |

| Consolidated - 2019 | Sequoia Wealth Group $ | Sequoia Professional Services Group $ | Sequoia Equity Markets Group $ | Sequoia Direct Investment Group $ | Head Office $ | Total $ |
|---|---|---|---|---|---|---|
| *Timing of revenue recognition* | | | | | | |
| Services transferred at a point in time | 26,367,930 | 4,644,997 | 11,725,198 | 819,467 | 308,540 | 43,866,132 |
| Services transferred over time | - | - | 36,825,914 | 2,325,994 | - | 39,151,908 |
| | 26,367,930 | 4,644,997 | 48,551,112 | 3,145,461 | 308,540 | 83,018,040 |

## NOTE 6. EXPENSES

| | Consolidated | |
|---|---|---|
| | 2020 $ | 2019 $ |
| Profit/(loss) before income tax includes the following specific expenses: | | |
| *Depreciation* | | |
| Leasehold improvements | 109,963 | 118,155 |
| Plant and equipment | 378,191 | 1,274,146 |
| Land and buildings - right-of-use assets | 660,229 | - |
| Total depreciation | 1,148,383 | 1,392,301 |
| *Amortisation* | | |
| Customer list | 473,960 | 81,884 |
| Other intangibles | 190,366 | 88,974 |
| Total amortisation | 664,326 | 170,858 |
| Total depreciation and amortisation | 1,812,709 | 1,563,159 |
| *Finance costs* | | |
| Interest and finance charges paid/payable on borrowings | 15,887 | 581,438 |
| Interest and finance charges paid/payable on lease liabilities | 151,057 | - |
| Finance costs expensed | 166,944 | 581,438 |
| *Leases* | | |
| Minimum lease payments | - | 1,046,956 |
| Short-term lease payments | 268,472 | - |
| Total leases | 268,472 | 1,046,956 |
| *Employee benefits* | | |
| Wages and salaries | 7,574,999 | 8,629,407 |
| Redundancies and terminations | 296,646 | 23,885 |
| Defined contribution superannuation expense | 771,598 | 751,810 |
| Other employment costs | 2,930,537 | 2,329,117 |
| Total employee benefits | 11,573,780 | 11,734,219 |

## NOTE 7. INCOME TAX

| | Consolidated 2020 $ | Consolidated 2019 $ |
|---|---|---|
| *Income tax expense/(benefit)* | | |
| Current tax | 961,429 | 500,152 |
| Deferred tax - origination and reversal of temporary differences | 236,470 | (606,428) |
| Adjustment recognised for prior periods | (249,136) | 3,490 |
| Aggregate income tax expense/(benefit) | 948,763 | (102,786) |
| Deferred tax included in income tax expense/(benefit) comprises: | | |
| Decrease in deferred tax assets | 507,361 | 606,885 |
| Decrease in deferred tax liabilities | (270,891) | (1,213,313) |
| Deferred tax - origination and reversal of temporary differences | 236,470 | (606,428) |
| *Numerical reconciliation of income tax expense/(benefit) and tax at the statutory rate* | | |
| Profit/(loss) before income tax (expense)/benefit | 2,881,237 | (1,104,154) |
| Tax at the statutory tax rate of 30% | 864,371 | (331,246) |
| Tax effect amounts which are not deductible/(taxable) in calculating taxable income: | | |
| Amortisation of intangibles | 143,513 | - |
| Impairment of goodwill | - | 159,250 |
| Sundry items | 190,015 | 65,720 |
| | 1,197,899 | (106,276) |
| Adjustment recognised for prior periods | (249,136) | 3,490 |
| Income tax expense/(benefit) | 948,763 | (102,786) |

| | Consolidated 2020 $ | Consolidated 2019 $ |
|---|---|---|
| *Amounts charged directly to equity* | | |
| Deferred tax assets | - | 12,968 |

## NOTE 7. INCOME TAX (CONTINUED)

| | Consolidated 2020 $ | Consolidated 2019 $ |
|---|---|---|
| *Deferred tax asset* | | |
| Deferred tax asset comprises temporary differences attributable to: | | |
| Allowance for expected credit losses | 17,100 | 63,153 |
| Employee benefits | 267,620 | 225,664 |
| Accrued expenses | 238,404 | 390,875 |
| Deferred income | 6,183,158 | 6,593,853 |
| Share issue expenses | - | 37,226 |
| Net fair value loss on investment | 166,646 | 138,712 |
| Deferred tax assets attributable to business combinations | 151,687 | 109,976 |
| Lease incentives | 243,038 | 215,555 |
| Deferred tax asset | 7,267,653 | 7,775,014 |
| Movements: | | |
| Opening balance | 7,775,014 | 8,394,867 |
| Charged to profit or loss | (507,361) | (606,885) |
| Charged to equity | - | (12,968) |
| Closing balance | 7,267,653 | 7,775,014 |

| | Consolidated 2020 $ | Consolidated 2019 $ |
|---|---|---|
| *Deferred tax liability* | | |
| Deferred tax liability comprises temporary differences attributable to: | | |
| Financial assets at fair value through other comprehensive income | 214,552 | 251,778 |
| Deferred expenses | 4,442,955 | 4,676,620 |
| Intangibles | 246,311 | - |
| Deferred tax liability | 4,903,818 | 4,928,398 |
| Movements: | | |
| Opening balance | 4,928,398 | 6,141,711 |
| Credited to profit or loss | (270,891) | (1,213,313) |
| Additions through business combinations (note 31) | 246,311 | - |
| Closing balance | 4,903,818 | 4,928,398 |

## NOTE 8. TRADE AND OTHER RECEIVABLES

| | Consolidated 2020 $ | Consolidated 2019 $ |
|---|---|---|
| *Current assets* | | |
| Trade receivables | 808,305 | 766,543 |
| Less: Allowance for expected credit losses | (57,000) | (210,510) |
| | 751,305 | 556,033 |
| Trade settlement receivables for Morrison Securities Pty Ltd | 9,428,581 | 9,782,441 |
| Other receivables | 2,070,178 | 1,337,206 |
| | 11,498,759 | 11,119,647 |
| | 12,250,064 | 11,675,680 |

The Group has increased its monitoring of debt recovery as there is an increased probability of customers delaying payment or being unable to pay, due to the Coronavirus (COVID-19) pandemic.

*Allowance for expected credit losses*

The ageing of the receivables and allowance for expected credit losses provided for above are as follows:

| Consolidated | Expected credit loss rate 2020 % | Expected credit loss rate 2019 % | Carrying amount 2020 $ | Carrying amount 2019 $ | Allowance for expected credit losses 2020 $ | Allowance for expected credit losses 2019 $ |
|---|---|---|---|---|---|---|
| Not overdue | - | - | 11,498,759 | 10,909,150 | - | - |
| 1 to 30 days overdue | - | 3.27% | 450,687 | 437,146 | - | 14,300 |
| 31 to 60 days overdue | - | 12.21% | 75,139 | 117,087 | - | 14,300 |
| Over 60 days overdue | 20.18% | 43.03% | 282,479 | 422,807 | 57,000 | 181,910 |
| | | | 12,307,064 | 11,886,190 | 57,000 | 210,510 |

Movements in the allowance for expected credit losses are as follows:

| | Consolidated 2020 $ | Consolidated 2019 $ |
|---|---|---|
| Opening balance | 210,510 | 120,174 |
| Additional provisions recognised | 57,000 | 90,336 |
| Receivables written off during the year | (199,810) | - |
| Unused amounts reversed | (10,700) | - |
| Closing balance | 57,000 | 210,510 |

## NOTE 9. CONTRACT ASSETS AND DEFERRED COSTS

| | Consolidated 2020 $ | Consolidated 2019 $ |
|---|---|---|
| *Current assets* | | |
| Contract assets - deferred costs | 8,989,093 | 7,510,057 |
| *Non-current assets* | | |
| Contract assets - deferred costs | 5,820,757 | 8,078,679 |

Contract assets - deferred costs relates to hedging costs. The costs are deferred due to recognition requirements where the revenue and cost is spread over the product life.

Changes in contract assets and liabilities reflect both:

(a) the release of deferred revenues and costs to the profit and loss through the performance of a contract; and

(b) new receipts and prepayments for contracts that are yet to be performed.

## NOTE 10. OTHER FINANCIAL ASSETS

| | Consolidated 2020 $ | Consolidated 2019 $ |
|---|---|---|
| *Current assets* | | |
| Investment in shares | 443,759 | 675,614 |
| *Reconciliation* | | |
| Reconciliation of the fair values at the beginning and end of the current and previous financial year are set out below: | | |
| Opening fair value | 675,614 | 1,494,444 |
| Net disposals | (21,267) | (307,447) |
| Revaluation decrements | (210,588) | (511,383) |
| Closing fair value | 443,759 | 675,614 |

Refer to note 25 for further information on fair value measurement.

Ordinary shares are held in ASX listed companies and are actively traded.

## NOTE 11. DERIVATIVE FINANCIAL INSTRUMENTS

| | Consolidated | |
|---|---|---|
| | 2020<br>$ | 2019<br>$ |
| *Current assets* | | |
| Derivatives - financial assets | 2,928,246 | 5,042,611 |
| *Non-current assets* | | |
| Derivatives - financial assets | 9,695,887 | 13,719,935 |
| *Current liabilities* | | |
| Derivatives - financial liabilities | (2,928,246) | (5,042,610) |
| *Non-current liabilities* | | |
| Derivatives - financial liabilities | (9,695,887) | (13,719,936) |

Refer to note 24 for further information on financial instruments.

Refer to note 25 for further information on fair value measurement.

The Group is party to derivative financial instruments in the normal course of business in order to hedge exposure to fluctuations in the value of its investment products issued to the Group's investors in accordance with the Group's financial risk management policies (refer to note 24).

The Group offers its clients investment products structured legally as loans, which provide clients a derivative exposure to underlying market movements to those products. These exact market risks are in-turn hedged with exact like-for-like products offered by commercial institutions, leaving the Group with no exposure to the underlying market risks.

Information about the Group's exposure to market risk, liquidity risk, and credit risk is disclosed in note 24. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of derivative financial assets outlined above.

Sequoia has an obligation to its clients to pay the value of the investment at expiry. The current asset amount and the non-current asset amount equals that of the investment obligation described as a current liability and a non-current liability. The carrying amount equals the amount of the investment obligation. The rise or fall offset each other.

## NOTE 12. OTHER FINANCIAL ASSETS

| | Consolidated 2020 $ | Consolidated 2019 $ |
|---|---|---|
| *Non-current assets* | | |
| Investment in other non-listed entities | 110,546 | 40,000 |
| *Reconciliation* | | |
| Reconciliation of the carrying amounts at the beginning and end of the current and previous financial year are set out below: | | |
| Opening carrying amount | 40,000 | 1,944,646 |
| Additions | 70,546 | - |
| Disposals | - | (1,797,850) |
| Revaluation decrements | - | (69,296) |
| Write off of assets | - | (37,500) |
| Closing carrying amount | 110,546 | 40,000 |

## NOTE 13. PLANT AND EQUIPMENT

| | Consolidated 2020 $ | Consolidated 2019 $ |
|---|---|---|
| *Non-current assets* | | |
| Leasehold improvements - at cost | 921,060 | 921,060 |
| Opening carrying amount | (449,250) | (339,287) |
| | 471,810 | 581,773 |
| Plant and equipment - at cost | 5,264,550 | 4,700,949 |
| Less: Accumulated depreciation | (4,023,561) | (3,628,662) |
| | 1,240,989 | 1,072,287 |
| | 1,712,799 | 1,654,060 |

## NOTE 13. PLANT AND EQUIPMENT (CONTINUED)

*Reconciliations*

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

| Consolidated | Leasehold improvements $ | Plant and equipment $ | Total $ |
|---|---|---|---|
| Balance at 1 July 2018 | 698,988 | 1,593,009 | 2,291,997 |
| Additions | 5,768 | 759,846 | 765,614 |
| Depreciation expense | (122,983) | (1,280,568) | (1,403,551) |
| Balance at 30 June 2019 | 581,773 | 1,072,287 | 1,654,060 |
| Additions | - | 546,893 | 546,893 |
| Depreciation expense | (109,963) | (378,191) | (488,154) |
| Balance at 30 June 2020 | 471,810 | 1,240,989 | 1,712,799 |

## NOTE 14. RIGHT-OF-USE ASSETS

| | Consolidated | |
|---|---|---|
| | 2020 $ | 2019 $ |
| *Non-current assets* | 3,424,788 | - |
| Buildings - right-of-use | (660,229) | - |
| Less: Accumulated depreciation | 2,764,559 | - |

The Group leases buildings for its offices under agreements of between three to seven years with, in some cases, options to extend. The leases have various escalation clauses. On renewal, the terms of the leases are renegotiated.

*Reconciliations*

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

| Consolidated | Buildings - right-of-use $ |
|---|---|
| Balance at 1 July 2018 | - |
| Balance at 30 June 2019 | - |
| Recognised on adoption of AASB 16 (note 2) | 3,424,788 |
| Depreciation expense | (660,229) |
| Balance at 30 June 2020 | 2,764,559 |

## NOTE 15. INTANGIBLES

| | Consolidated 2020 $ | Consolidated 2019 $ |
|---|---|---|
| *Non-current assets* | | |
| Goodwill | 11,842,072 | 11,304,708 |
| Less: Impairment | (1,019,547) | (530,832) |
| | 10,822,525 | 10,773,876 |
| Customer list - at cost | 8,896,030 | 5,872,704 |
| Less: Accumulated amortisation | (896,433) | (508,306) |
| | 7,999,597 | 5,364,398 |
| Regulatory memberships and licences - at cost | 3,840,703 | 3,845,121 |
| Brand name - at cost | 1,200,832 | - |
| Other intangibles - at cost | 779,059 | 774,809 |
| Less: Accumulated amortisation | (325,467) | (136,732) |
| | 453,592 | 638,077 |
| | 24,317,249 | 20,621,472 |

*Reconciliations*

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

| Consolidated | Goodwill $ | Customer list $ | Regulatory memberships and licences $ | Brand name $ | Other intangibles $ | Total $ |
|---|---|---|---|---|---|---|
| Balance at 1 July 2018 | 11,304,708 | 5,446,282 | 3,849,539 | - | 722,174 | 21,322,703 |
| Additions | - | - | - | - | 4,877 | 4,877 |
| Disposals | - | - | (4,418) | - | - | (4,418) |
| Impairment of assets | (530,832) | - | - | - | - | (530,832) |
| Amortisation expense | - | (81,884) | - | - | (88,974) | (170,858) |
| Balance at 30 June 2019 | 10,773,876 | 5,364,398 | 3,845,121 | - | 638,077 | 20,621,472 |
| Additions | - | 2,288,120 | - | - | 5,881 | 2,294,001 |
| Additions through business combinations (note 31) | 841,255 | 821,039 | - | 1,200,832 | - | 2,863,126 |
| Impairment from adjustment to Deferred consideration (note 31) | (488,715) | - | - | - | - | (488,715) |
| Disposals | - | - | (4,418) | - | - | (4,418) |
| Disposal of non-operating company | (303,891) | - | - | - | - | (303,891) |
| Amortisation expense | - | (473,960) | - | - | (190,366) | (664,326) |
| Balance at 30 June 2020 | 10,822,525 | 7,999,597 | 3,840,703 | 1,200,832 | 453,592 | 24,317,249 |

## NOTE 15. INTANGIBLES (CONTINUED)

*Impairment testing*
Goodwill acquired through business combinations has been allocated to the following cash generating units:

| | Consolidated 2020 $ | Consolidated 2019 $ |
|---|---|---|
| Cash generating units ('CGUs'): | | |
| Sequoia Wealth Group | 1,023,335 | 674,686 |
| Sequoia Professional Services Group | 4,386,020 | 4,386,020 |
| Sequoia Equity Markets Group | 4,862,392 | 5,162,392 |
| Sequoia Direct Investment Group | 550,778 | 550,778 |
| | 10,822,525 | 10,773,876 |

The recoverable amount of the Group's goodwill has been determined by a value-in-use calculation using a discounted cash flow model, based on a 12-month projection period approved by management and extrapolated for a further 4 years by using key assumptions.

Key assumptions are those to which the recoverable amount of an asset or cash-generating units is most sensitive.

The following key assumptions were used in the discounted cash flow model in relation to the goodwill associated to various cash generating units:

| Key assumptions | Revenue growth rate % | Cost of sales growth rate % | Pre-tax discount rate % |
|---|---|---|---|
| Sequoia Wealth Group | 3.0% | 2.5% | 15.0% |
| Sequoia Professional Services Group | 3.0% | 2.5% | 15.0% |
| Sequoia Equity Markets Group | 3.0% | 2.5% | 15.0% |
| Sequoia Direct Investment Group | 1.0% | 2.5% | 15.0% |

The goodwill is considered to be sensitive to these assumptions and is carried in the statement of financial position at a written-down value.

*Sensitivity*
The directors have made judgements and estimates in respect of impairment testing of goodwill. Should these judgements and estimates not occur the resulting goodwill carrying amount may decrease. The sensitivities are as follows:

(a) Revenue growth would need to decrease by 1% before goodwill would need to be impaired, with all other assumptions remaining constant.

(b) The discount rate would be required to increase by 11% before goodwill would need to be impaired, with all other assumptions remaining constant.

Management believes that other reasonable changes in the key assumptions on which the recoverable amount of goodwill is based would not cause the cash-generating unit's carrying amount to exceed its recoverable amount.

If there are any negative changes in the key assumptions on which the recoverable amount of goodwill is based, this would result in a further impairment charge for goodwill.

## NOTE 16. TRADE AND OTHER PAYABLES

| | Consolidated | |
|---|---|---|
| | 2020 $ | 2019 $ |
| *Current liabilities* | | |
| Trade payables | 690,757 | 2,170,863 |
| Trade settlement payables for Morrison Securities Pty Ltd | 15,715,866 | 8,819,916 |
| Deferred consideration* | 800,100 | - |
| Accrued expenses | 4,247,240 | 3,391,747 |
| Client trading and security bond | 819,108 | 1,169,000 |
| Other payables | 107,176 | - |
| | 22,380,247 | 15,551,526 |

* The Deferred consideration relates to the acquisition of Libertas Financial Planning Pty Ltd (refer to note 31).

Refer to note 24 for further information on financial instruments.

## NOTE 17. CONTRACT LIABILITIES AND DEFERRED REVENUE

| | Consolidated | |
|---|---|---|
| | 2020 $ | 2019 $ |
| *Current liabilities* | | |
| Contract liabilities - deferred revenue | 12,637,235 | 10,585,148 |
| *Non-current liabilities* | | |
| Contract liabilities - deferred revenue | 7,977,273 | 11,394,362 |

Contract liabilities - deferred revenue relate primarily to structured product revenues. The revenue is deferred due to recognition requirements where the revenue and cost are spread over the product life.

Changes in contract assets and liabilities reflect both:

(a) the release of deferred revenues and costs to the profit and loss through the performance of a contract; and

(b) new receipts and prepayments for contracts that are yet to be performed.

## NOTE 18. BORROWINGS

| | Consolidated | |
|---|---|---|
| | 2020 $ | 2019 $ |
| *Current liabilities* | | |
| Bank loans | - | 785,225 |
| Capital finance | - | 400,000 |
| Other unsecured loans | 462,414 | 100 |
| Convertible notes payable | 200,000 | 200,000 |
| Lease chattel mortgage | - | 46,333 |
| | 662,414 | 1,431,658 |

Refer to note 24 for further information on financial instruments.

Interest on borrowings is payable at rates between 2.5% and 7% (30 June 2019: 4% and 12%).

As at 30 June 2020, the Company had no secured liabilities, which were repaid during the financial year.

*Bank loans*
The bank loan balance from 30 June 2019 was fully repaid during the financial year.

*Capital finance*
During the financial year to 30 June 2020, the Group settled its capital finance from working capital.

*Other unsecured loans*
Other unsecured loans relates to funding for Professional Indemnity Insurance Premium.

*Convertible notes payable*
Convertible notes payable comprised a number of convertible loans to the value of $200,000 (30 June 2019: $200,000). Interest is payable at a rate of 7% per annum (30 June 2019: 7% per annum).

*Lease chattel mortgage*
The lease chattel mortgage was fully repaid during the financial year.

*Financing arrangements*
Unrestricted access was available at the reporting date to the following lines of credit:

| | Consolidated | |
|---|---|---|
| | 2020 $ | 2019 $ |
| Total facilities | | |
| Bank loans | - | 861,063 |
| Used at the reporting date | | |
| Bank loans | - | 785,225 |
| Unused at the reporting date | | |
| Bank loans | - | 75,838 |

## NOTE 19. LEASE LIABILITIES

| | Consolidated 2020 $ | Consolidated 2019 $ |
|---|---|---|
| *Current liabilities* | | |
| Lease liability | 682,415 | - |
| *Non-current liabilities* | | |
| Lease liability | 2,949,872 | - |

The following table details the Group's remaining contractual maturity for its lease liabilities:

| 2020 | 1 year or less $ | Between 1 and 2 years $ | Between 2 and 3 years $ | Between 3 and 4 years $ | Between 4 and 5 years $ | Over 5 years $ | Remaining contractual maturities $ |
|---|---|---|---|---|---|---|---|
| Lease liability | 682,415 | 756,033 | 846,914 | 835,332 | 511,593 | - | 3,632,287 |

The cash flow in the maturity analysis above are present values of future payments and are not expected to occur significantly earlier than contractually disclosed.

## NOTE 20. CONTINGENT CONSIDERATION

| | Consolidated 2020 $ | Consolidated 2019 $ |
|---|---|---|
| *Current liabilities* | | |
| Contingent consideration | 957,701 | - |
| *Non-current liabilities* | | |
| Contingent consideration | 479,350 | - |

Contingent considerations relate to future instalment payments for acquisition of the Yellow Brick Road Wealth Division and are subject to the number of Advisers remaining with Sequoia.

## NOTE 21. ISSUED CAPITAL

| | Consolidated | | | |
|---|---|---|---|---|
| | 2020 Shares | 2019 Shares | 2020 $ | 2019 $ |
| Ordinary shares - fully paid | 121,216,770 | 119,009,824 | 48,497,215 | 48,025,034 |

*Movements in ordinary share capital*

| Details | Date | Shares | Issue price | $ |
|---|---|---|---|---|
| Balance | 1 July 2018 | 102,805,456 | | 42,788,182 |
| Issue of shares | 24 July 2018 | 15,151,515 | $0.330 | 5,000,000 |
| Issue of shares on Dividend Reinvestment Plan | 25 October 2018 | 940,353 | $0.330 | 303,475 |
| Issue of shares on exercise of performance rights under the Long Term Incentive Plan | 19 February 2019 | 112,500 | $0.260 | 29,250 |
| Share issue transaction costs | | | | (95,873) |
| Balance | 30 June 2019 | 119,009,824 | | 48,025,034 |
| Issue of shares on exercise of performance rights | 24 July 2019 | 185,000 | $0.165 | 30,525 |
| Issue of shares on acquisition of Libertas Financial Planning Pty Ltd | 9 December 2019 | 1,500,000 | $0.220 | 330,000 |
| Issue of shares as final payment for an asset acquisition | 27 December 2019 | 484,446 | $0.215 | 104,156 |
| Issue of shares on exercise of performance rights | 5 February 2020 | 37,500 | $0.200 | 7,500 |
| Balance | 30 June 2020 | 121,216,770 | | 48,497,215 |

*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 and amounts paid on the shares held. The fully paid ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

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

*Share buy-back*
The Company is currently conducting an on-market buy-back. It was announced on the market on 15 June 2020 and covers the period 1 July 2020 to 30 June 2021. The maximum number of shares the Company proposes to acquire under the on-market buy-back is up to approximately 11,900,899, or up to 10% of the lowest number of ordinary shares on issue during the previous 12 months. Accordingly, the on-market buy-back will not require shareholder approval. To date, no shares have been brought back under the buy-back.

*Capital risk management*
The Group's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

Capital is regarded as total equity, as recognised in the statement of financial position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

## NOTE 21. ISSUED CAPITAL (CONTINUED)

The Group would look to raise capital when an opportunity to invest in a business or company was seen as value adding relative to the current Company's share price at the time of the investment. The Group is not actively pursuing additional investments in the short term as it continues to integrate and grow its existing businesses in order to maximise synergies.

The Group is subject to certain financing arrangements covenants and meeting these is given priority in all capital risk management decisions. There have been no events of default on the financing arrangements during the financial year.

The capital risk management policy remains unchanged from prior years.

## NOTE 22. RESERVES

| | Consolidated | |
|---|---|---|
| | 2020<br>$ | 2019<br>$ |
| Financial assets at fair value through other comprehensive income reserve | 394,507 | 430,308 |
| Share-based payments reserve | 40,064 | 149,400 |
| | 434,571 | 579,708 |

*Financial assets at fair value through other comprehensive income reserve*
The reserve is used to recognise increments and decrements in the fair value of financial assets at fair value through other comprehensive income.

*Share-based payments reserve*
The reserve is used to recognise the value of equity benefits provided to employees and directors as part of their remuneration, and other parties as part of their compensation for services.

## NOTE 23. DIVIDENDS

*Dividends*
Dividends paid during the financial year were as follows:

| | Consolidated | |
|---|---|---|
| | 2020<br>$ | 2019<br>$ |
| Final dividend for the year ended 30 June 2018 of 0.5 cents per ordinary share* | - | 589,777 |

* The dividend comprised of a cash dividend paid of $286,302 and dividend reinvestment allotment of $303,475 that occurred during the year ended 30 June 2019.

*Dividend declared*
The Company declared a final dividend for the year ended 30 June 2020 of 0.4 cents per share, fully franked. The record date for determining entitlements to the dividend is 14 September 2020 and is to be paid on 12 October 2020. The financial effect of these dividends has not been brought to account in the financial statements for the year ended 30 June 2020 and will be recognised in subsequent financial periods.

## NOTE 23. DIVIDENDS (CONTINUED)

*Franking credits*

| | Consolidated | |
|---|---|---|
| | 2020 $ | 2019 $ |
| Franking credits available for subsequent financial years based on a tax rate of 30% | 7,660,474 | 6,160,369 |

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:

- franking credits that will arise from the payment of the amount of the provision for income tax at the reporting date
- franking debits that will arise from the payment of dividends recognised as a liability at the reporting date
- franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date

## NOTE 24. FINANCIAL INSTRUMENTS

***Financial risk management objectives***

The Group's financial instruments consist mainly of deposits with banks, accounts receivable and payable, derivative assets and liabilities, convertible notes and loans receivable and payable.

This note provides details of the Group's financial risk management objectives and policies and describes the methods used by management to control risk. In addition, this note includes a discussion of the extent to which financial instruments are used, the associated risks and the business purpose served.

One of the Group's main activities is to issue investments to its product holders which provide returns based on the performance of an underlying reference asset, typically a single index or a single listed equity. Different underlying reference assets, with varying features are issued in separate series. The series are exposed to securities listed on global or local exchanges. The products issued to the product holders have a maturity of between 18 months and 48 months from the date of issue. On maturity, if the investment has performed sufficiently, the product holder has the option to contribute in cash the notional value of the investment on issue date to receive a delivery asset (a liquid security on the ASX) equal to the value of the underlying reference asset or the value in cash of the financial liability. The Group enters into a financial instrument with an investment bank, which hedges each series that is offered to its product holders. The Group ensures that the notional exposure across all its products are covered via the arrangement, and as such mitigates its risk in this fashion.

The Group's activities expose it to a variety of financial risks: market risk (including interest rate risk), credit risk and liquidity risk.

The Board of Directors monitor and manage financial risk exposures of the Group. The Board of Directors monitors the Group's financial risk management policies and exposures and approves financial transactions within the scope of its authority. It also reviews the effectiveness of internal controls relating to financing risk and interest rate risk.

## NOTE 24. FINANCIAL INSTRUMENTS (CONTINUED)

| | Consolidated 2020 $ | Consolidated 2019 $ |
|---|---|---|
| *Financial assets* | | |
| Cash and cash equivalents | 22,961,750 | 18,852,029 |
| Trade and other receivables | 12,327,654 | 11,675,680 |
| Derivative assets | 12,624,133 | 18,762,546 |
| Financial assets | 554,305 | 715,614 |
| Total financial assets | 48,467,842 | 50,005,869 |
| *Financial liabilities* | | |
| Trade and other payables | 22,380,247 | 13,680,088 |
| Derivative liabilities | 12,624,133 | 18,762,546 |
| Lease liabilities | 3,632,287 | - |
| Bank loans and capital finance | - | 831,558 |
| Convertible notes | 200,000 | 200,000 |
| Other loans | 462,414 | 400,100 |
| Total financial liabilities | 39,299,081 | 33,874,292 |

### *Market risk*

Market risk is the risk that changes in market prices, such as interest rates and foreign exchange rates will affect the Group's income or value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

The Group issues a structured product to the product holder that is hedged with the financial instrument that it purchases from an investment bank. The details of the financial instruments are such that the future cash flows from the financial assets offset the cash flows needed to settle the financial liabilities. The Group uses this arrangement to mitigate the market risks below, except for credit risk.

*Price risk*
Price risk arises from changes in underlying investments designated in the financial instruments held by the Group for which values in the future are uncertain.

The Group mitigates the above price risk by ensuring that price risk in the financial instruments is offset with one another. The difference in fair value between the financial asset and liability held through profit and loss is as a result of the premium associated with the financial liability arising from being issued in the retail market. The Group does not monitor the price risk associated with the premium, as price risk would only result if the Group were to transfer the liability, and since the Group has no intention of transferring the financial liability, no disclosures regarding the sensitivity to price risk have been made.

The Group is, therefore, not exposed to any significant price risk.

*Interest rate risk*
Interest rate risk is the risk that the value of the Group's financial instruments will fluctuate due to changes in market interest rates.

The Group's cash and cash equivalents are exposed to interest rate risk, however the Directors of the Group manage financial instruments to ensure that interest rate risk remains hedged and is therefore offsetting.

## NOTE 24. FINANCIAL INSTRUMENTS (CONTINUED)

The Group is also exposed to interest rate risk arising from long-term borrowings. Borrowings obtained at variable rates expose the Group to interest rate risk. Borrowings obtained at fixed rates expose the Group to fair value interest rate risk.

The Group is not exposed to any significant interest rate risk.

***Credit risk***

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements.

The Group has adopted a lifetime expected loss allowance in estimating expected credit losses to trade receivables through the use of a provisions matrix using fixed rates of credit loss provisioning. These provisions are considered representative across all customers of the Group based on recent sales experience, historical collection rates and forward-looking information that is available.

Credit risk is managed through the maintenance of procedures (such procedures include the utilisation of systems for the approval, granting and renewal of credit limits, regular monitoring of exposures against such limits and monitoring of the financial stability of significant customers and counterparties), ensuring to the extent possible, that customers and counterparties to transactions are of sound credit worthiness. Such monitoring is used in assessing receivables for impairment.

Generally, trade receivables are written off when there is no reasonable expectation of recovery. Indicators of this include the failure of a debtor to engage in a repayment plan, no active enforcement activity and a failure to make contractual payments for a period greater than 1 year.

Risk is also minimised through investing surplus funds in financial institutions that maintain a high credit rating, or in entities that the Board of Directors has otherwise cleared as being financially sound. Where the Group is unable to ascertain a satisfactory credit risk profile in relation to a customer or counterparty, the risk may be further managed by obtaining security by way of personal or commercial guarantees over assets of sufficient value which can be claimed against in the event of any default.

The financial products issued by Sequoia Specialist Investments Pty Ltd ('Issuer') are secured obligations of the Issuer. Investors are granted a charge which is held on trust by the security trustee. If the Issuer fails to (i) make a payment or delivery on its due date; or (ii) meet any other obligation and in the Security Trustee's opinion, the failure is materially adverse to the investors and cannot be remedied (or has not been remedied within 5 business days of written notice), the Security Trustee may enforce the charge. In this case the investors are unsecured creditors of the provider of the hedge assets. Investors' rights of recourse against the Issuer on a default are limited to the assets subject to the charge. This structure has the effect of passing through the credit rating of the provider of the hedge asset and protecting different financial product series from cross-liability issues (other than on an insolvency of either the Issuer or the provider of the hedge asset). The Issuer will only deal with an investment-grade (or better) bank or a subsidiary of an investment-grade (or better) bank.

Investments grades are a rating or indicator of particular debt obligations which have a low risk of default. Various rating agencies rate an investment bank's creditworthiness. Different rating firms use different designations. Sequoia Specialist Investments Pty Ltd hedge providers are considered "investment grade" and the credit worthiness of our investment bank hedge contracts providers are between high credit quality ('AAA' and 'AA' ) and medium credit quality ('A' and 'BBB'). Therefore, the risk of default of the selected hedge providers are considered low. In addition, if the investment bank were to unexpectedly default the resulting financial risk would be ultimately borne by the end investor, due to the pass through of the credit risk of the hedge provider to the end investor.

## NOTE 24. FINANCIAL INSTRUMENTS (CONTINUED)

The following tables detail the Group's potential exposure, should the counterparties be unable to meet their obligations:

| 2020 | Fair value $ | Notional value $ |
|---|---|---|
| Derivative liabilities | 12,624,133 | 333,502,357 |

| 2019 | Fair value $ | Notional value $ |
|---|---|---|
| Derivative assets | 18,762,546 | 289,458,434 |

### *Liquidity risk*

Vigilant liquidity risk management requires the Group to maintain sufficient liquid assets (mainly cash and cash equivalents) and available borrowing facilities to be able to pay debts as and when they become due and payable.

The Group manages liquidity risk by maintaining adequate cash reserves and available borrowing facilities by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.

*Remaining contractual maturities*
The following tables detail the Group's maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid.

| Consolidated - 2020 | 1 year or less $ | Between 1 and 5 years $ | Remaining contractual maturities $ |
|---|---|---|---|
| **Non-derivatives** | | | |
| *Non-interest bearing* | | | |
| Trade payables | 16,406,623 | - | 16,406,623 |
| Other payables | 107,176 | - | 107,176 |
| Client trading and security bond | 819,108 | - | 819,108 |
| Contingent consideration | 957,701 | 479,350 | 1,437,051 |
| *Interest-bearing - variable* | | | |
| Other loans | 462,414 | - | 462,414 |
| *Interest-bearing - fixed rate* | | | |
| Convertible notes payable | 200,000 | - | 200,000 |
| Total non-derivatives | 18,953,022 | 479,350 | 19,432,372 |
| **Derivatives** | | | |
| Value hedges, net settled | 2,928,246 | 9,695,887 | 12,624,133 |
| Total derivatives | 2,928,246 | 9,695,887 | 12,624,133 |

## NOTE 24. FINANCIAL INSTRUMENTS (CONTINUED)

| Consolidated - 2019 | 1 year or less $ | Between 1 and 5 years $ | Remaining contractual maturities $ |
|---|---|---|---|
| **Non-derivatives** | | | |
| *Non-interest bearing* | | | |
| Trade payables | 10,990,779 | - | 10,990,779 |
| Client trading and security bond | 1,169,000 | - | 1,169,000 |
| *Interest-bearing - variable* | | | |
| Bank loans | 831,558 | - | 831,558 |
| Other loans | 400,100 | - | 400,100 |
| *Interest-bearing - fixed rate* | | | |
| Convertible notes payable | 200,000 | - | 200,000 |
| Total non-derivatives | 13,591,437 | - | 13,591,437 |
| **Derivatives** | | | |
| Value hedges, net settled | 5,042,610 | 13,719,936 | 18,762,546 |
| Total derivatives | 5,042,610 | 13,719,936 | 18,762,546 |

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above.

## NOTE 25. FAIR VALUE MEASUREMENT

*Fair value hierarchy*
The following tables detail the Group's assets and liabilities, measured or disclosed at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: Unobservable inputs for the asset or liability

## NOTE 25. FAIR VALUE MEASUREMENT (CONTINUED)

| Consolidated - 2020 | Level 1 $ | Level 2 $ | Level 3 $ | Total $ |
|---|---|---|---|---|
| *Assets* | | | | |
| Listed ordinary shares | 443,759 | - | - | 443,759 |
| Unlisted ordinary shares | - | - | 110,546 | 110,546 |
| Derivative financial instruments | - | 12,624,133 | - | 12,624,133 |
| Total assets | 443,759 | 12,624,133 | 110,546 | 13,178,438 |
| *Liabilities* | | | | |
| Derivative financial instruments | - | 12,624,133 | - | 12,624,133 |
| Contingent consideration | - | 1,437,051 | - | 1,437,051 |
| Total liabilities | - | 14,061,184 | - | 14,061,184 |

| Consolidated - 2019 | Level 1 $ | Level 2 $ | Level 3 $ | Total $ |
|---|---|---|---|---|
| *Assets* | | | | |
| Listed ordinary shares | 675,614 | - | - | 675,614 |
| Unlisted ordinary shares | - | - | 40,000 | 40,000 |
| Derivative financial instruments | - | 18,762,546 | - | 18,762,546 |
| Total assets | 675,614 | 18,762,546 | 40,000 | 19,478,160 |
| *Liabilities* | | | | |
| Derivative financial instruments | - | 18,762,546 | - | 18,762,546 |
| Total liabilities | - | 18,762,546 | - | 18,762,546 |

There were no transfers between levels during the financial year.

Convertible notes are held at amortised cost so are excluded from the fair value tables above.

The carrying amounts of trade and other receivables, trade and other payables and other financial liabilities approximate their fair values due to their short-term nature.

The fair value of financial liabilities is estimated by discounting the remaining contractual maturities at the current market interest rate that is available for similar financial liabilities.

*Valuation techniques for fair value measurements categorised within level 2 and level 3*
Financial instruments that are not traded in an active market are determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and relies as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Unquoted investments have been valued using prices evident in recent third party transactions.

The valuation process is managed by the Chief Operating Decision Makers ('CODM') of the Group who perform and validate valuations of non-property assets required for financial reporting purposes (including level 3 fair values). Discussion on valuation processes and outcomes are held between the CODM, CFO and audit committee every six months.

## NOTE 25. FAIR VALUE MEASUREMENT (CONTINUED)

*Level 3 assets and liabilities*

Movements in level 3 assets and liabilities during the current and previous financial year are set out below:

| Consolidated | Unlisted ordinary shares $ |
|---|---|
| Balance at 1 July 2018 | 125,796 |
| Disposals | (85,796) |
| Balance at 30 June 2019 | 40,000 |
| Additions | 70,546 |
| Amounts paid | - |
| Balance at 30 June 2020 | 110,546 |

## NOTE 26. KEY MANAGEMENT PERSONNEL DISCLOSURES

*Compensation*

The aggregate compensation made to directors and other members of key management personnel of the Group is set out below:

| | Consolidated | |
|---|---|---|
| | 2020 $ | 2019 $ |
| Short-term employee benefits | 646,006 | 1,003,667 |
| Post-employment benefits | 30,883 | 54,458 |
| Share-based payments | - | 8,775 |
| | 676,889 | 1,066,900 |

Refer to the 'Remuneration report (audited)' section of the Directors' report.

## NOTE 27. REMUNERATION OF AUDITORS

During the financial year the following fees were paid or payable for services provided by William Buck, the auditor of the Company:

| | Consolidated | |
|---|---|---|
| | 2020 $ | 2019 $ |
| *Audit services - William Buck Audit (Vic) Pty Limited* | | |
| Audit or review of the financial statements | 165,959 | 154,410 |
| *Other services - William Buck (Vic) Pty Limited* | | |
| Tax services | 26,755 | 81,627 |
| Other services | 14,994 | 23,118 |
| | 41,749 | 104,745 |
| | 207,708 | 259,155 |

## NOTE 28. CONTINGENT LIABILITIES

The Group has given a bank guarantee as at 30 June 2020 of $677,238 (30 June 2019: $677,238) in relation to rental bonds. These are held in term deposit accounts with Westpac Banking Corporation.

The Group's legal counsel is currently acting on several matters referred to the Australian Financial Complaints Authority ('AFCA') relating to the provision of financial services to its retail clients. The Group has assessed any potential obligations relating to these complaints after pursuing a recourse from the advisers in the following manner:

- Those complaints for which there is a probable likelihood of restitution being paid, have been accrued in these financial statements, together with any associated legal costs and net of any available insurance cover; and
- The Directors have assessed complaints for which there is less than a probable likelihood of restitution (including the impact of legal costs and insurance), and have chosen not to disclose the likely amount as they are still subject to proceedings with AFCA and potential recourse from the advisers, and the disclosure of such amounts is likely to prejudice those proceedings.

## NOTE 29. RELATED PARTY TRANSACTIONS

*Parent entity*
Sequoia Financial Group Limited is the parent entity.

*Subsidiaries*
Interests in subsidiaries are set out in note 32.

*Key management personnel*

Disclosures relating to key management personnel are set out in note 26 and the remuneration report included in the directors' report.

*Transactions with related parties*
During the financial year, $142,866 was paid or payable for services provided by Cooper Grace Ward Lawyers, a related party entity of director, Charles Sweeney.

*Terms and conditions*
All transactions were made on normal commercial terms and conditions and at market rates.

## NOTE 30. PARENT ENTITY INFORMATION

Set out below is the supplementary information about the parent entity.

*Statement of profit or loss and other comprehensive income*

| | Parent | |
|---|---|---|
| | 2020 $ | 2019 $ |
| Profit after income tax | 378,203 | 292,688 |
| Total comprehensive income | 378,203 | 292,688 |

## NOTE 30. PARENT ENTITY INFORMATION (CONTINUED)

| | Parent | |
|---|---|---|
| | 2020<br>$ | 2019<br>$ |
| Total current assets | 115,366 | 165,317 |
| Total assets | 63,154,128 | 63,285,327 |
| Total current liabilities | 3,201,009 | 3,115,729 |
| Total liabilities | 34,613,806 | 34,436,861 |
| Equity | | |
| Issued capital | 84,430,344 | 83,958,163 |
| Financial assets at fair value through other comprehensive income reserve | 46,070 | 46,070 |
| Share-based payments reserve | 40,064 | 149,400 |
| Accumulated losses | (55,976,156) | (55,305,167) |
| Total equity | 28,540,322 | 28,848,466 |

*Contingent liabilities*
The parent entity had contingent liabilities of $800,100 for the acquisition of Libertas Financial Planning and $1,438,051 for the acquisition of Yellow Brick Road Wealth Division as at 30 June 2020. The parent entity had no contingent liabilities as at 30 June 2019.

*Capital commitments - Property, plant and equipment*
The parent entity had no capital commitments for property, plant and equipment as at 30 June 2020 and 30 June 2019.

*Significant accounting policies*
The accounting policies of the parent entity are consistent with those of the Group, as disclosed in note 2, except for the following:

- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.
- Dividends received from subsidiaries are recognised as other income by the parent entity and its receipt may be an indicator of an impairment of the investment.

## NOTE 31. BUSINESS COMBINATIONS

**Year ended 30 June 2020**

*Libertas Financial Planning Pty Ltd*
On 7 August 2019, the Company announced the 100% equity acquisition of Libertas Financial Planning Pty Ltd ('Libertas'). Libertas is a successful financial advice dealer group with approximately 70 authorised representatives. The acquisition provides Sequoia with further scale in the advice marketplace and based on the latest Money Management dealer group survey, makes Sequoia one of the largest non-bank owned financial adviser groups in the country.

As part of the consideration the Company issued 1,500,000 fully paid ordinary shares at 22 cents per share to the seller. $1,052,039 cash was paid upfront with an additional issue of 3,810,000 fully paid ordinary shares at 21 cents per share as final settlement in July 2020.

## NOTE 31. BUSINESS COMBINATIONS (CONTINUED)

Since acquisition, Libertas has contributed revenue of $8,135,810 and operating profit of $568,948. If the acquisition had happened at the beginning of the financial year, the contribution would have been revenue of $9,330,631 and operating profit of $611,181.

Details of the acquisition are as follows:

| | Libertas Financial Planning Pty Ltd Fair value $ |
|---|---|
| Cash and cash equivalents | 20,689 |
| Trade and other receivables | 57,684 |
| Other receivables | 6,726 |
| Accrued revenue | 10,314 |
| Prepayments | 104,458 |
| Customer list | 821,039 |
| Brand name | 1,200,832 |
| Trade and other payables | (26,819) |
| Other payables | (23,855) |
| Deferred tax liability | (246,311) |
| Bank loans | (91,225) |
| Other liabilities | (3,933) |
| Net assets acquired* | 1,829,599 |
| Goodwill** | 841,255 |
| Acquisition-date fair value of the total consideration transferred | 2,670,854 |
| Representing: | |
| Cash paid or payable to vendor | 1,052,039 |
| Sequoia Financial Group Limited shares issued to vendor | 330,000 |
| Deferred consideration** | 1,288,815 |
| | 2,670,854 |
| Acquisition costs expensed to profit or loss | 74,648 |
| Cash used to acquire business, net of cash acquired: | |
| Fair value of the total consideration* | 2,182,139 |
| Less: cash and cash equivalents | (20,689) |
| Less: shares issued by Company as part of consideration | (330,000) |
| Less: shares issued by Company as part of consideration July 2020 | (800,100) |
| Net cash used | 1,031,350 |

* Fair values assigned to assets and liabilities by an independent valuer.

## NOTE 31. BUSINESS COMBINATIONS (CONTINUED)

** The Directors reassessed the deferred consideration payable in light of the performance criteria, and agreed with the vendor on the final settlement, payable in July 2020. As a consequence, the deferred consideration payable was reduced by $488,715, and goodwill impaired by the same amount.

**Year ended 30 June 2019**
There were no business combinations during the year ended 30 June 2019.

## NOTE 32. INTERESTS IN SUBSIDIARIES

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries with non-controlling interests in accordance with the accounting policy described in note 2:

| | | | Parent | |
|---|---|---|---|---|
| Name | Note | Principal place of business / Country of incorporation | Ownership interest 2020 % | Ownership interest 2019 % |
| Sequoia Financial Group Limited | | Australia | 100.00% | 100.00% |
| Sequoia Group Holdings Pty Ltd | | Australia | 100.00% | 100.00% |
| Sequoia Financial Australia Ltd | (a) | Australia | 100.00% | 100.00% |
| Sequoia Wealth Group Pty Ltd | (a) | Australia | 100.00% | 100.00% |
| My Own Super Fund Pty Ltd | (a) | Australia | 100.00% | 100.00% |
| Bourse Data Pty Ltd | (a) | Australia | 100.00% | 100.00% |
| The Cube Financial Group Ltd | (a) | Australia | 100.00% | 100.00% |
| Trader Dealer Online Pty Ltd | (a) | Australia | 100.00% | 100.00% |
| MDSnews.com Pty Ltd | (a) | Australia | 100.00% | 100.00% |
| Interprac Pty Ltd | (a) | Australia | 100.00% | 100.00% |
| Libertas Financial Planning Pty Ltd | (a) | Australia | 100.00% | - |
| Sequoia Direct Pty Ltd | (b) | Australia | 100.00% | 100.00% |
| Finance TV Pty Ltd | (b) | Australia | 100.00% | 100.00% |
| Morrison Securities Pty Ltd | (b) | Australia | 100.00% | 100.00% |
| Sequoia Superannuation Pty Ltd | (b) | Australia | 100.00% | 100.00% |
| Sequoia Specialist Investments Pty Ltd | (b) | Australia | 100.00% | 100.00% |
| Sequoia Asset Management Pty Ltd | (b) | Australia | 100.00% | 100.00% |
| Sequoia Lending Pty Ltd | (b) | Australia | 100.00% | 100.00% |
| Sequoia Funds Management Pty Ltd**** | (b) | Australia | - | 100.00% |
| Sequoia Investment Management Pty Ltd**** | (b) | Australia | - | 100.00% |
| Sequoia Brisbane Pty Ltd**** | (b) | Australia | - | 100.00% |
| Acacia Administrative Services Pty Ltd* | (b) | Australia | 100.00% | 100.00% |
| Sequoia Nominees No.1 Pty Ltd | (c) | Australia | 100.00% | 100.00% |
| Sequoia Wealth Management Pty Ltd | (d) | Australia | 100.00% | 100.00% |
| Sequoia Corporate Finance Pty Ltd | (d) | Australia | 100.00% | 100.00% |
| Centreboard Super Pty Ltd ** | (b) (e) | Australia | 100.00% | 100.00% |
| Australian Practical Superannuation Fund Pty Ltd (formerly Property Engine Pty Ltd) | (e) | Australia | 100.00% | 100.00% |
| Investor1st Pty Ltd | (e) | Australia | 100.00% | 100.00% |
| InterPrac Financial Planning Pty Ltd*** | (e) | Australia | 100.00% | 100.00% |

## NOTE 32. INTERESTS IN SUBSIDIARIES (CONTINUED)

| | | | | |
|---|---|---|---|---|
| Sage Capital Group Pty Ltd | (e) | Australia | 100.00% | 100.00% |
| Interprac Securities Pty Ltd | (e) | Australia | 100.00% | 100.00% |
| Interprac General Insurance Pty Ltd | (e) | Australia | 100.00% | 100.00% |
| InterPrac Mortgage Management Pty Ltd | (e) | Australia | 100.00% | 100.00% |
| InterPrac Finance Services Pty Ltd | (e) | Australia | 100.00% | 100.00% |
| SMSF Engine Pty Ltd | (e) | Australia | 100.00% | 100.00% |
| Tax Engine Pty Ltd | (e) | Australia | 100.00% | 100.00% |
| Sequoia Private Clients Pty Ltd | (e) | Australia | 100.00% | 100.00% |
| Morsec Nominees Pty Ltd | (f) | Australia | 100.00% | 100.00% |

(a) Subsidiary of Sequoia Financial Group Limited

(b) Subsidiary of Sequoia Group Holdings Pty Ltd

(c) Subsidiary of Sequoia Specialist Investments Pty Ltd

(d) Subsidiary of Sequoia Wealth Group Pty Ltd

(e) Subsidiary of Interprac Pty Ltd

(f) Subsidiary of Morrison Securities Pty Ltd

* Acacia Administrative Services Pty Ltd acts as a service entity for the Group with all employees engaged under this entity.

** 50% owned by Sequoia Group Holdings Pty Ltd and 50% owned by Interprac Pty Ltd.

*** 50% owned by Interprac Pty Ltd and 50% owned by Sage Capital Group Pty Ltd.

**** Entities were deregistered during the financial year.

## NOTE 33. CASH FLOW INFORMATION

*Reconciliation of profit/(loss) after income tax to net cash from operating activities*

| | Consolidated | |
|---|---|---|
| | 2020 $ | 2019 $ |
| Profit/(loss) after income tax (expense)/benefit for the year | 1,932,474 | (1,001,368) |
| | | |
| Adjustments for: | | |
| Depreciation and amortisation | 1,812,709 | 1,563,159 |
| Impairment of non-current assets | - | 530,832 |
| Impairment of investments | - | 37,500 |
| Net loss on disposal of non-current assets | 106,405 | - |
| Share-based payments forfeited | (71,311) | (80,018) |
| | | |
| Change in operating assets and liabilities: | | |
| Increase in trade and other receivables | (509,974) | (4,587,074) |
| Decrease in contract assets and deferred costs | 789,200 | 3,330,397 |
| Decrease/(increase) in inventories | (489) | 12,161 |
| Decrease in deferred tax assets | 507,361 | 619,853 |
| Increase in prepayments | (66,691) | (119,633) |
| Decrease/(increase) in other operating assets | (190,435) | 2,372,868 |
| Increase in trade and other payables | 5,819,346 | 1,878,372 |
| Decrease in contract liabilities and deferred revenue | (1,365,002) | (3,414,999) |
| Increase/(decrease) in provision for income tax | (797,134) | 319,461 |
| Decrease in deferred tax liabilities | (270,891) | (1,213,313) |
| Increase/(decrease) in employee benefits | 146,732 | (42,797) |
| Decrease in other provisions | - | (19,019) |
| Increase in other operating liabilities | 153,668 | - |
| | | |
| Net cash from operating activities | 7,995,968 | 186,382 |

## NOTE 33. CASH FLOW INFORMATION (CONTINUED)

*Changes in liabilities arising from financing activities*

| Consolidated | Bank loans and lease chattel mortgage $ | Capital finance and other loans $ | Convertible notes $ | Lease liability $ | Total $ |
|---|---|---|---|---|---|
| Balance at 1 July 2018 | 1,083,514 | 5,826,311 | 400,000 | 90,398 | 7,400,223 |
| Net cash used in financing activities | (251,956) | (5,426,211) | (200,000) | (90,398) | (5,968,565) |
| Balance at 30 June 2019 | 831,558 | 400,100 | 200,000 | - | 1,431,658 |
| Net cash used in financing activities | (831,558) | (28,911) | - | (610,688) | (1,471,157) |
| Leases recognised on the adoption of AASB 16 | - | - | - | 4,057,139 | 4,057,139 |
| Make good provision | - | - | - | 200,000 | 200,000 |
| Adjustment to treatment lease incentive | - | - | - | (638,727) | (638,727) |
| Changes through business combinations (note 31) | - | 91,225 | - | - | 91,225 |
| Other changes | - | - | - | 624,563 | 624,563 |
| Balance at 30 June 2020 | - | 462,414 | 200,000 | 3,632,287 | 4,294,701 |

Note: The cash balance at the end of the financial year of $22,961,750 (2019: $18,852,029) includes Trust bank balances of $8,798,987 (2019: $2,441,934) held by Morrison Securities Pty Ltd. The Trust bank balances are client funds and are not available for general use by the Group. A corresponding liability is recognised within Trade and other payables (note 16).

## NOTE 34. EARNINGS PER SHARE

| | Consolidated 2020 $ | Consolidated 2019 $ |
|---|---|---|
| Profit/(loss) after income tax attributable to the owners of Sequoia Financial Group Limited | 1,932,474 | (1,001,368) |
| | **Number** | **Number** |
| Weighted average number of ordinary shares used in calculating basic earnings per share | 120,282,464 | 117,643,751 |
| Adjustments for calculation of diluted earnings per share: | | |
| Options over ordinary shares | 1,000,000 | - |
| Performance rights | 195,000 | - |
| Weighted average number of ordinary shares used in calculating diluted earnings per share | 121,477,464 | 117,643,751 |
| | **Cents** | **Cents** |
| Basic earnings per share | 1.607 | (0.851) |
| Diluted earnings per share | 1.591 | (0.851) |

## NOTE 35. EVENTS AFTER THE REPORTING PERIOD

*Phillip Capital Limited*

On 1 June 2020, Sequoia announced the acquisition of the customer base from Phillip Capital Limited (ASX: PCL). On 5 June 2020, a deposit of $411,000 was paid in escrow. The Agreement was completed on 1 July 2020, with employees and Corporate Authorised Representatives ('CARs') transferring to Sequoia. The next consideration payment is due within two months post completion.

*Total Cover Australia*

In July 2020, Sequoia announced its intention to acquire the customer base from Total Cover Australia ('TCA'). Consideration will be 1,500,000 fully paid ordinary shares at 22 cents per share, with further cash payments totalling $945,000 to be paid over two years.

*Impact of Covid-19*

COVID-19 restrictions have impacted all businesses and we are no different. The pandemic has had a material impact on the financial affairs of many Australians and the need for advice at a reasonable cost has increased. The Government initiatives such as Job Keeper, Job Seeker and Early Superannuation Release all provided a need for interaction between advisers and the community, and has also seen a rise in equity market turnover with a new wave of 'Robin Hood' type traders entering the market. Sales in 2H20 in some of the operating business units slowed, but growth in other parts of our business has offset those reductions and Profit was not significantly impacted. We will continue to monitor the pandemic and if it continues longer than anticipated there may be a need for further reductions in aspects of our business.

Apart from the dividend declared as disclosed in note 23, no other matter or circumstance has arisen since 30 June 2020 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 2 to the financial statements;
- the attached financial statements and notes give a true and fair view of the Group's financial position as at 30 June 2020 and of its performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

On behalf of the directors

John Larsen
Chairman

20 August 2020
Sydney

# Sequoia Financial Group Limited

## Independent auditor's report to members

## Report on the Audit of the Financial Report

### Opinion

We have audited the financial report of Sequoia Financial Group Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2020, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, and the directors' declaration.

In our opinion, the accompanying financial report of the Group, is in accordance with the *Corporations Act 2001*, including:
(i) giving a true and fair view of the Group's financial position as at 30 June 2020 and of its financial performance for the year ended on that date; and
(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

ACCOUNTANTS & ADVISORS
Level 20, 181 William Street
Melbourne VIC 3000
Telephone: +61 3 9824 8555
williambuck.com

## Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| ASSESSMENT OF CARRYING VALUE OF INTANGIBLE ASSETS | |
|---|---|
| **Area of focus** | **How our audit addressed it** |
| The Group's net assets include a significant amount of intangible assets, the majority of which have originated from acquisitions in prior years.<br><br>There is a risk that the entities in the Group may not trade in line with initial expectations and forecasts, resulting in the carrying amount of intangible assets exceeding the recoverable amount and therefore requiring impairment.<br><br>The recoverable amounts of the four cash generating units (CGUs) have been calculated based upon on their value-in-use. These recoverable amounts use discounted cash flow forecasts in which the Directors make judgements over certain key inputs, for example but not limited to revenue growth, discount rates applied, long term growth rates and inflation rates.<br><br>Overall due to the high level of judgement involved, and the significant carrying amounts involved, we have determined that this is a key judgemental area that our audit concentrated on. | Our audit procedures included:<br>— Evaluation of the Group's determination of CGUs. This includes reviewing internal management reporting, comparison to our knowledge and understanding of Group's operations and ensuring CGUs are no larger than operating segments;<br>— A detailed evaluation of the Group's budgeting procedures upon which the forecasts are based and testing the principles and integrity of the discounted future cash flow models;<br>— Testing the accuracy of the calculation derived from each forecast model and we assessed key inputs in the calculations such as revenue growth, discount rates and working capital assumptions, by reference to the Board approved forecasts, data external to the Group and our own views.<br>— We reviewed the historical accuracy by comparing actual results with the original forecasts.<br><br>We also considered the adequacy of the Group's disclosures in relation to the impairment testing. |

<table>
<tr><th colspan="2">REVENUE RECOGNITION FOR SPECIALIST SOLUTIONS INVESTMENTS PRODUCTS</th></tr>
<tr><th>Area of focus</th><th>How our audit addressed it</th></tr>
<tr><td>The Specialist Solutions Investments business segment (SSI) represents a significant portion of the revenues and profitability of the Group. SSI earns revenue by providing a counter-party solution for its clients in their trading of market risks (principally foreign exchange and equities) in medium to long-term derivative products.<br><br>Sequoia effectively on-sells the derivative exposure it has with its clients to Tier 1 investment banks with contracts that completely match that derivative exposure.<br><br>The margin it earns from this arrangement is priced separately and is deferred (together with direct costs) on a straight-line over the course of each contract on a gross basis in the financial statements (deferred costs and deferred revenue). The derivative positions, which are held at fair value with changes in fair value through the profit or loss, are also reflected at their unhedged values on the statement of financial position.<br><br>From our perspective, the key risks for this arrangement include the following matters:<br><br>- The risk that client-driven derivative exposures are not matched 1-for-1 with wholesale contracts;<br>- The risk of default by the investment banks providing wholesale derivative hedge positions; and<br>- The potential for revenue to be recognised in-advance of the services provided to the client, including other revenues related with SSI including non-refundable application fees, which are earned up-front and at-risk coupon fees, which are earned at the close of each contract.</td><td>— For a sample of structured products, we agreed the terms and conditions, including but not limited to, interest rates, notional hedged units, product maturity, trade dates and hedge premiums paid to supporting documents, including Product Disclosure Statements, Market-to-Market (MTM) valuations, Market registry allotment reports and bank statements.<br>— We confirmed the valuations of the derivative financial instruments at year end through to supporting valuations obtained from various investment banks.<br>— We re-calculated the model for deferral and subsequent release of revenue and costs relating to the structured products and reconciled closing positions to the statement of financial position and statement of financial performance;<br>— An assessment of the credit worthiness of the investment banks;<br>— We examined application fees and coupon fees and ensured that they were accrued to the appropriate accounting period; and<br>— We reviewed the accuracy of the current and non-current classification of deferred revenue and deferred costs.<br><br>We also considered the adequacy of the Group's disclosures in relation to revenue recognition.<br><br>We also reviewed the Group's accounting policies for its revenue and cost streams attached to the SSI segment, to ensure compliance with AASB 15.</td></tr>
</table>

<table>
<tr><th colspan="2">BUSINESS COMBINATIONS – LIBERTAS FINANCIAL PLANNING</th></tr>
<tr><th>Area of focus</th><th>How our audit addressed it</th></tr>
<tr><td>The Group acquired Libertas Financial Planning on 7 August 2019. This business combination was considered a significant purchase for the Group. Areas of complexity for this transaction were around the following:<br>— Accounting and appropriately fair valuing deferred consideration and consideration paid for the transaction, including amounts paid through cash and scrip;<br>— Verifying completion accounting adjustments to the purchase price paid;<br>— Allocating the intangible assets acquired to the appropriate CGU;<br>— Appropriately measuring and classifying in the profit or loss transaction costs relating to the acquisition;<br>— Determination of deferred tax assets arising from the purchase price allocation; and<br>— Amortisation of identifiable intangible assets arising from the purchase.<br><br>We note that at reporting date the fair value attribution accounting is complete (which under Accounting Standards they are afforded 12 months from the date of acquisition), including:<br>a) the attribution of provisional goodwill calculations to identifiable intangible assets;<br>b) the setting of tax cost bases for calculating deferred tax assets and liabilities; and<br>c) identifying any vendor guarantees or contingent liabilities that may be separately fair valued as part of the business purchase.<br><br>As a result of the completion of attribution accounting and an adjustment to the earn out consideration which required an estimate of revenues, management has impaired a portion of goodwill identified on the business combination from Libertas.</td><td>Our audit procedures included:<br>— Reviewing the acquisition agreements to understand the key terms and conditions of the acquisition;<br>— Reviewed the accounting treatment adopted by the Group to ensure it meets the requirements of AASB 3 Business Combinations;<br>— Comparing the completion accounting to independent purchase price allocation reports;<br>— Obtained a list of transaction costs related to the purchase and on a sample ensured appropriate treatment in being expensed when incurred;<br>— Discussed with management their program for ensuring that they complete their analysis of fair values of assets and liabilities acquired by the anniversary of the acquisition date;<br>— Obtained the intangible asset allocation journals processed and reviewed for appropriateness and assessed the independent specialist;<br>— Verified and reviewed deferred tax bases to tax calculations; and<br>— Assessment of the impairment calculations of the business combination.<br><br>We also considered the adequacy of the Group's disclosures in relation to the business combination.</td></tr>
</table>

### Other Information

The directors are responsible for the other information. The other information comprises the information in the Group's annual report for the year ended 30 June 2020, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and 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, 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.

### Directors' Responsibilities

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 Group 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 Group or to cease operations, or has 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 this financial report.

A further description of our responsibilities for the audit of these financial statements is located at the Auditing and Assurance Standards Board website at:
http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf

This description forms part of our independent auditor's report.

## Report on the Remuneration Report

### Opinion on the Remuneration Report

We have audited the Remuneration Report included in the Directors' Report for the year ended 30 June 2020.

In our opinion, the Remuneration Report of Sequoia Financial Group Limited, for the year ended 30 June 2020, complies with section 300A of the *Corporations Act 2001*.

### Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

William Buck

**William Buck Audit (Vic) Pty Limited**
ABN 59 116 151 136

**N. S. Benbow**
Director

Dated this 20th day of August, 2020

The shareholder information set out below was applicable as at 12 August 2020.

## Distribution of equitable securities

Analysis of number of equitable security holders by size of holding:

| | Number of holders of ordinary shares |
|---|---|
| 1 to 1,000 | 156 |
| 1,001 to 5,000 | 50 |
| 5,001 to 10,000 | 28 |
| 10,001 to 100,000 | 114 |
| 100,001 and over | 104 |
| | 452 |
| Holding less than a marketable parcel | 167 |

*Voting rights*

The only class of equity securities on issue in the Company that carries voting rights is ordinary shares.

## Equity security holders

*Twenty largest quoted equity security holders*

The names of the twenty largest security holders of quoted equity securities are listed below:

| | Ordinary shares | |
|---|---|---|
| | Number held | % of total shares issued |
| MR GARRY CROLE | 10,850,977 | 8.56 |
| UNRANDOM PTY LTD (UNRANDOM A/C) | 10,781,500 | 8.51 |
| EXLDATA PTY LTD | 9,000,000 | 7.10 |
| COJONES PTY LTD (THE JONES FAMILY TRUST NO 2) | 6,394,052 | 5.05 |
| STRATEGIC VALUE PTY LTD (TAL SUPER A/C) | 6,037,329 | 4.76 |
| LIBERTAS SOLUTIONS PTY LTD (MARK EUVRARD FAMILY TRUST) | 5,310,000 | 4.19 |
| HUNTLEY GROUP INVESTMENTS PTY LTD (HUNTLEY GRP INVESTMENT A/C) | 4,210,000 | 3.32 |
| BNP PARIBAS NOMS PTY LTD (DRP) | 4,075,727 | 3.22 |
| J P MORGAN NOMINEES AUSTRALIA PTY LIMITED | 3,445,247 | 2.72 |
| TOCLO INVESTMENTS PTY LTD (THE TLC INVESTMENT TRUST) | 3,433,381 | 2.71 |
| BEETON ENTERPRISES PTY LTD (THE SCOTT & SALLY BEETON A/C) | 2,899,000 | 2.29 |
| EXLDATA PTY LTD | 2,829,878 | 2.23 |
| MR NEIL CLIFFORD DUNCAN | 2,638,635 | 2.08 |
| PAMELA BEETON INVESTMENTS PTY LTD | 2,372,066 | 1.87 |
| MR PETER STIRLING + MRS ROS STIRLING | 2,237,500 | 1.77 |
| RUFFY STEEDEN LEGACY PTY LTD (RUFFY STEEDEN LEGACY SUPERANNUATION FUND) | 1,886,500 | 1.49 |
| VONETTA PTY LTD (TRBC S/F A/C) | 1,643,389 | 1.30 |
| NATIONAL NOMINEES LIMITED | 1,602,979 | 1.26 |
| MR ANTHONY CHRISTOPHER JONES | 1,492,773 | 1.18 |
| TRIFERN PTY LTD (SUPER FUND A/C) | 1,450,000 | 1.14 |
| | 84,590,933 | 66.75 |

*Unquoted equity securities*

| | Number on issue | Number of holders |
|---|---|---|
| Options over ordinary shares issued* | 1,000,000 | 1 |
| Performance rights | 195,000 | 14 |

* On 13 March 2020, the Company granted 1,000,000 options to a Contractor with an exercise price of 30 cents.

## Substantial holders

Notices of substantial holdings in the Company are set out below:

| | | Ordinary shares | |
|---|---|---|---|
| | Date of lodgement | Number held | % of total shares issued at lodgement |
| Anthony and Ryan Young | 2 June 2020 | 17,746,680 | 14.60 |
| Cojones Pty Ltd | 26 July 2018 | 13,817,804 | 11.71 |
| Unrandom Pty Ltd | 26 July 2018 | 11,974,738 | 10.15 |
| Mr Garry Crole | 26 July 2018 | 11,401,500 | 9.66 |

## Restricted securities

There are no restricted securities on issue.

## Securities subject to voluntary escrow

There are no securities subject to voluntary escrow.

Corporate directory

| | |
|---|---|
| Directors | Garry Crole<br>John Larsen<br>Kevin Pattison<br>Charles Sweeney |
| Company secretary | Hasaka Martin |
| Notice of annual general meeting | The Company advises that its Annual General Meeting is expected on Wednesday 28 October 2020. The time and other details relating to the meeting will be advised in the Notice of Meeting. In accordance with the ASX Listing Rules and the constitution, valid nominations for the position of Director are required to be lodged at the registered office of the Company, 35 Business days before the meeting - being 5:00pm (Melbourne) on Tuesday 15 September 2020. |
| Registered office | Level 7<br>7 Macquarie Place<br>Sydney NSW 2000<br>Telephone: + 61 2 8114 2222<br>Facsimile: + 61 2 8114 2200 |
| Principal place of business | Level 8<br>525 Flinders Street<br>Melbourne VIC 3000 |
| Share register | Registry Direct<br>Level 6<br>2 Russell Street<br>Melbourne VIC 3000<br>Telephone: 1300 556 635<br>Facsimile: +61 3 9111 5652 |
| Auditor | William Buck<br>Level 20<br>181 William Street<br>Melbourne VIC 3000 |

| | |
|---|---|
| Bankers | National Australia Bank<br>330 Collins Street<br>Melbourne VIC 3000 |
| | Westpac Australia Bank<br>Royal Exchange, Cnr Pitt & Bridge Streets<br>Sydney NSW 2000 |
| | Maldon & District Community Bank® Branch of Bendigo Bank<br>81 High Street<br>Maldon VIC 3463 |
| | Commonwealth Bank of Australia<br>Level 20, Tower 1 Collins Square<br>727 Collins Street<br>Melbourne VIC 3008 |
| | Australia and New Zealand Banking Group Limited<br>388 Collins Street<br>Melbourne VIC 3000 |
| Stock exchange listing | Sequoia Financial Group Limited shares are listed on the Australian Securities Exchange (ASX code: SEQ) |
| Website | www.sequoia.com.au |
| Corporate Governance Statement | The Board of Directors of Sequoia Financial Group Limited is committed to maintaining high standards of Corporate Governance. This Corporate Governance Statement discloses the extent to which the Company has followed the 4th Edition of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations ('ASX Principles and Recommendations').<br>The Corporate Governance Statement has been adopted by the Board and is current as at 30 June 2020. The Statement can be found in the Company's Corporate Governance section:<br>www.sequoia.com.au/about-sequoia/corporate-governance/ |