# ANNUAL REPORT 2018

AUB GROUP

# OUR VALUES

## PARTNERSHIP AND RELATIONSHIP DRIVEN

We are respectful, collaborative and seek to amplify potential.

## GENUINE

We are honest and fair.

## RESOURCEFUL

We are creative and agile in our delivery of the best outcome.

## ASPIRATIONAL

We are progressive, explore opportunities for growth and continually raise the bar.

# CONTENTS

OUR PURPOSE:

# SAFEGUARDING A STRONGER FUTURE


## Since our inception in 1985, we committed ourselves to safeguarding a stronger future for clients, partners, employees and shareholders – and we stand by that commitment today.

We're building our company by placing clients at the heart of everything we do – providing products, services and solutions that help protect them from harm, damage and financial burden. Our partners and advisers provide trusted support and guidance to clients on the optimal combination of physical, people and financial risk solutions.

Our approach is backed by the same commitment to high-quality service that we've had from the start. Our services are designed to help our partners operate safely, manage their businesses better and achieve more valuable outcomes.

Together we're providing a safer and stronger future for all.

**For clients:** We're dedicated to providing advice and options that extend beyond general business insurance into other business and personal protection products. Clients sit at the heart of everything we do and we never forget that we exist to provide a safer future for them, their business and their families.

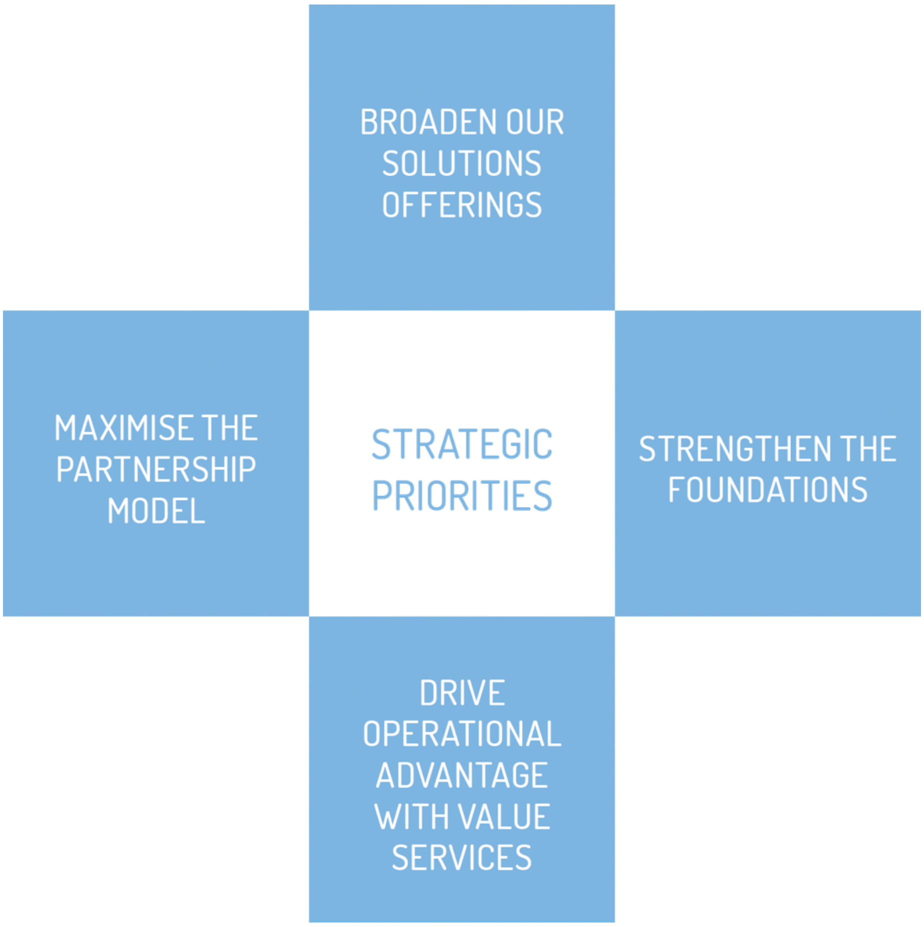
**For our partners:** Hundreds of thousands of client policies are handled by our partners each year. As the trusted advisers for clients, our partners play an important role in providing the best solutions and advice. When they thrive, we thrive so we're committed to working alongside them.

**For our employees**: We employ market-leading individuals. Our people are the driving force of our business, and the reason we make it possible to provide market-leading products, services and solutions to clients. We provide opportunities for them to grow in a nurturing and supportive environment.

**For our shareholders:** We're committed to ensuring growing returns and a growing business to safeguard our shareholders' financial investment.

OUR STATEGIC INTENT:

# HELPING CLIENTS REALISE A STRONGER, MORE PROTECTED FUTURE, THROUGH VALUED ADVICE SOLUTIONS AND SERVICES.




**Maximise the partnership model**

Our partners are one of our biggest competitive advantages. We will continue to invest in delivering unparalleled opportunities for partners to grow and thrive. They have confidence in our group and know that clients will benefit from a trusted advisory experience across all insurance and risk needs – physical, financial and people related.

**Broaden our solutions offerings**

We're committed to better serve clients and help them secure their future. We'll continue to expand our horizons to deliver risk and insurance products and services that are designed to provide a better (more connected) client outcome. Our offerings are genuinely client-centric, comprehensive and relevant.

**Drive operational advantage with value services**

We'll continue to excel at the things we are good at and ensure our services create value. They'll be more efficient, sustainable and profitable – focused on providing a better client outcome and revenue growth. We will drive productivity through simplifying the business.

**Strengthen the foundations**

We know that we will not achieve our strategy unless we have solid foundations. Our people will be supported with enhanced capabilities; we will remain disciplined in our approach to investments; and we will collectively drive our desired outcomes with shared accountabilities.

# PERFORMANCE HIGHLIGHTS

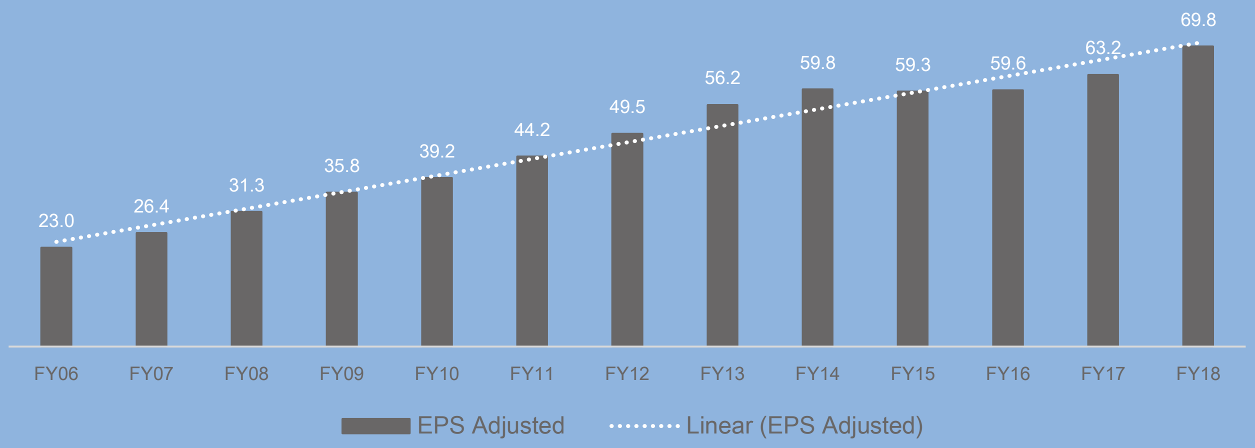
## DELIVERING STRONG PROFIT AND REVENUE GROWTH

Group revenue increased to $278.5M[1] +5.3%

Adjusted NPAT growth to $44.6M[2] +10.3%

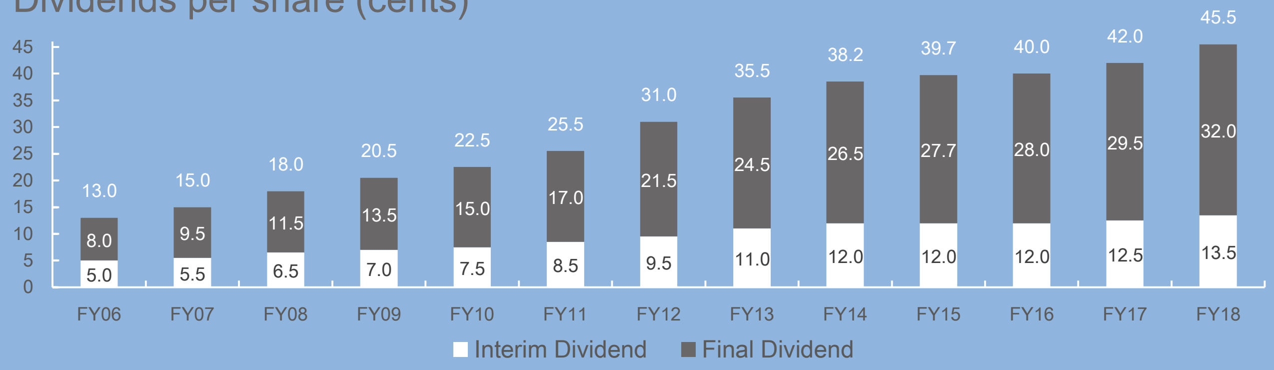
## A TRACK RECORD OF ACHIEVING POSITIVE SHAREHOLDER RETURNS

Adjusted earnings per share




## CONSECUTIVE YEARS OF DIVIDEND INCREASES

Dividends per share (cents)

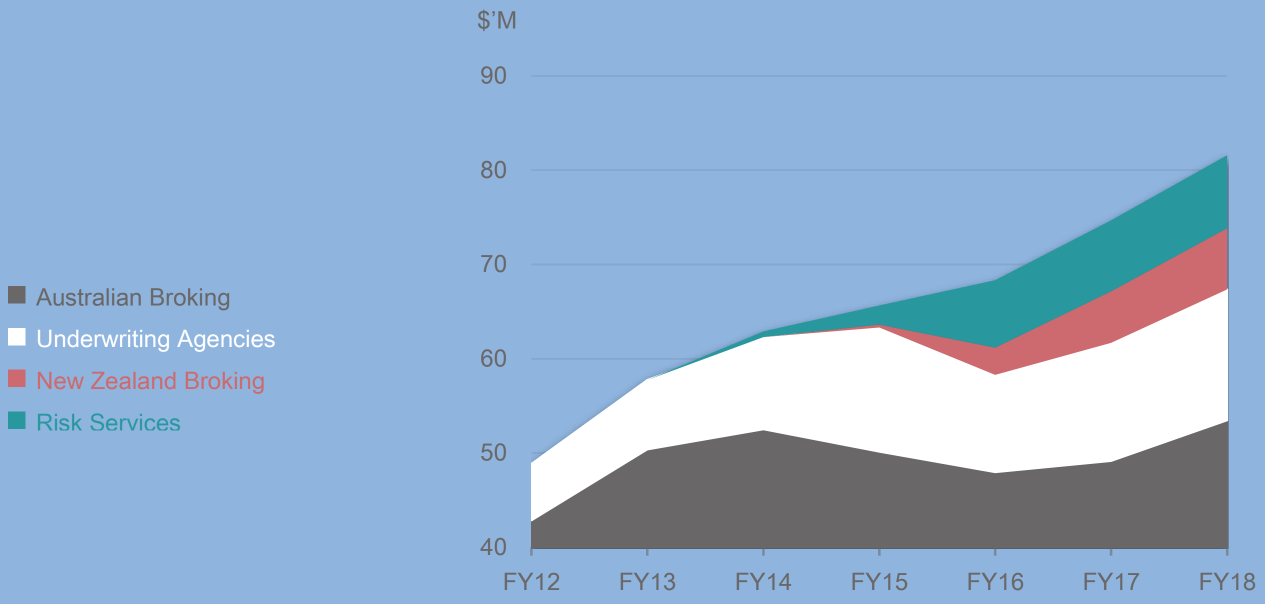



[1] Revenue from ordinary activities include; revenue, other income and profit from associates.

[2] Removes the impact of one-off non-cash adjustments, profit on sales and amortisation.

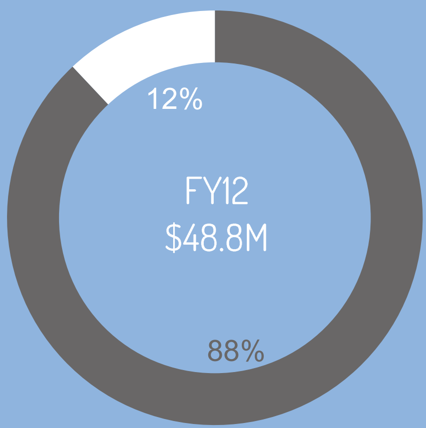
# DIVERSIFICATION DRIVES GROWTH

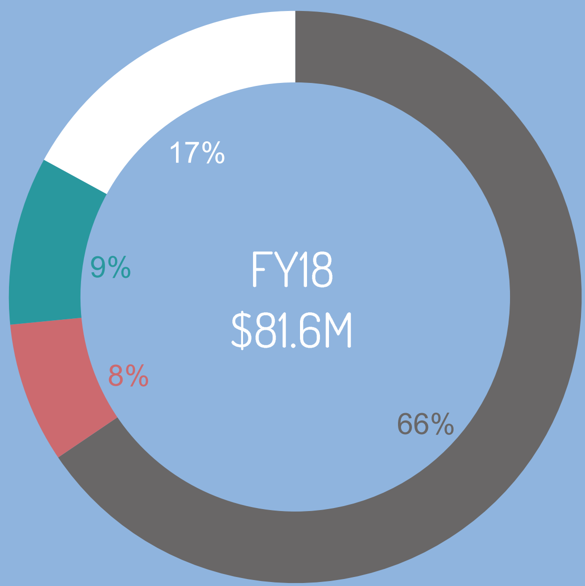
## Profit performance by division since FY12




# REALISING A BREADTH OF SOLUTIONS AND GEOGRAPHIES

## Pre-tax profit contribution by business area[1]




Australian Broking  Underwriting Agencies  New Zealand Broking  Risk Services

[1] Excludes corporate income and expenses

# OUR BUSINESS AREAS

AUB Group represents over 135 partner businesses across more than 600 locations in Australasia. Combined, we have over 4,000 client serving people, and represent over $4.7 billion in policy premium. Through operating in all areas of risk we are helping our clients to safeguard a stronger future across Australia and New Zealand.

706k POLICIES

429 LOCATIONS

321 CLAIMS/DAY

**Australian broking**

## BROKING NETWORKS

AUB Group's insurance broking networks (Austbrokers and NZbrokers) are represented by over 100 businesses across Australia and New Zealand.

424k POLICIES

138 LOCATIONS

324 CLAIMS/DAY

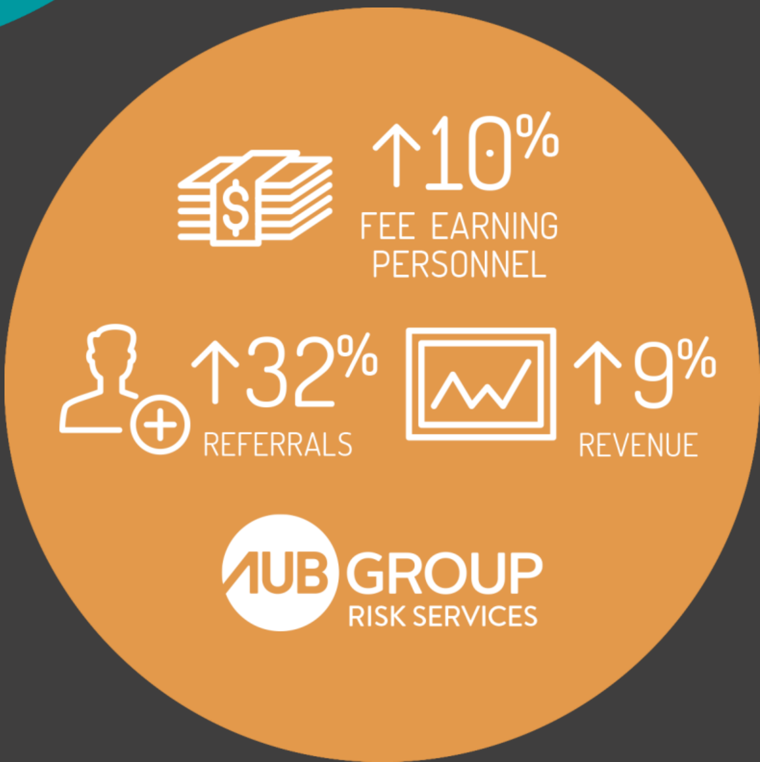
**New Zealand broking**


## UNDERWRITING

SURA is a group of specialised underwriting agencies that underwrite, distribute and manage specific niche insurance products and portfolios on behalf of locally licensed insurance companies, including Lloyd's. With expert underwriters at each agency, SURA is able to provide purpose-built insurance cover, a comprehensive understanding of the risks associated and offer tailored and competitive insurance solutions specific to client industry and need.

## RISK SERVICES

Our Risk Services partners specialise in providing specialist risk solutions primarily in the people/workplace risk arena. This area provides comprehensive risk-related service and management solutions for clients, insurance brokers and insurance companies.



# THE BOARD

## MARK SEARLES

CEO & Managing Director

Mark has been in the role since 2013. He has over 25 years' experience in senior executive roles, including Chief Commercial Officer at CGU, a division of IAG. Managing Director, Direct & Partnerships and Chief Marketing Officer with Zurich Financial Services in the UK, and Marketing and Group Brands Director with Lloyds TSB Group. Mark serves on the Boards of a number of Group companies including undertaking the role of Chair of Austagencies, AUB Group NZ and AIMS amongst others.

## ROBIN LOW

Non-Executive Director

Robin was a partner at PWC with over 30 years' experience in financial services, particularly insurance, assurance and risk management. Robin is a member of the Audit and Assurance Standards Board and on the board of a number of not-for-profit organisations. Robin serves a Director of CSG, Appen, IPH, the Australian Reinsurance Pool Corporation and Gordian Runoff. She Chairs the Audit & Risk Management Committee and is a member of the Nomination and Remuneration & People Committees.

## RAY CARLESS

Non-Executive Director

Ray has over 40 years' experience in the insurance industry based in Australia but with management responsibilities throughout the Pacific Rim. He previously held the positions of Managing Director of reinsurance brokers Benfield Greig in Australia, and has also been a director of the worldwide holding company located in London for 10 years. He has been a director of a number of companies involved in the Australian insurance industry. Ray is on the Audit & Risk Management, Nomination and Remuneration & People Committees.

## PAUL LAHIFF

Non-Executive Director

Paul was previously Chief Executive of Mortgage Choice. Prior to that he was Executive Director of Heritage Bank and Permanent Trustee and held senior roles in Westpac in Sydney and London. Paul is also Chairman of NPP Australia and a Director of Endometriosis Australia, LIXI Australia and is Chair of Retail Finance Intelligence. Paul holds a BSc from Sydney University. He is on the Audit & Risk Management, Nomination and Remuneration & People Committees. He was elected Chair of the Remuneration & People Committee commencing 1 July 2018.

## CATH ROGERS

Non-Executive Director

Cath is a Director and co-founder of Digital Receipt Exchange Limited and a Non-Executive Director of the Heart Research Institute. She was previously a Director of McGrath Limited (2016 – 2018) and has senior experience in organisations including AirTree Ventures, Anchorage Capital Partners, Masdar Capital and Credit Suisse. Cath holds a Bachelor of Commerce from the University of New South Wales, an MBA from INSEAD, is a CFA Charterholder and a graduate of the Australian Institute of Company Directors. Cath is a member of the Audit & Risk Management, Nomination and Remuneration & People Committees.

## DAVID CLARKE

Chair

David has 35 years' experience in investment banking, funds management, property and retail banking. He has formerly held roles as CEO of Investec Bank, Allco Finance Group, MLC and Westpac's Wealth Management Business, BT Financial Group. He was also Director of AMP. David is Chairman of Charter Hall Group and Fisher Funds Management Limited. He is on the Audit & Risk Management and Remuneration & People Committees (which he Chaired until 30 June 2018) and Chairs the Nomination Committee.

# CHAIR'S MESSAGE

Since our beginnings in 1985, our commitment has been to safeguard a stronger future for our clients – small and medium businesses, and individuals across Australia and New Zealand. Today, we remain as focused as ever on this intent as AUB Group continues to grow and diversify its business.

It has been another improving year for the Group, with growth bolstered by the insurance premium environment. We as an organisation continue to maintain focus on our strategy with a particular emphasis on building a strong culture of collaboration across our partner network and employees.

The Royal Commission into Misconduct in the Banking and Financial Services Industry has sent a strong message of accountability to the financial services sector. General insurance broking and underwriting agency businesses have not been the focus of the Commission to date, however we closely watch developments, understanding that being focused on the best interests of our clients is the purpose of the Group.

**Improving premium rate environment:** Our diversified business model is built to withstand changes in the premium cycle and the improving rate environment has allowed the Group to leverage growth across each of our operating divisions. The Board continue to have confidence in our business model, and are pleased to see it result in increased value for our clients, partners, employees and shareholders.

All our divisions are growing, primarily driven by organic growth and with good growth evidenced in our newest operational areas – New Zealand and Risk Services.

**Continued focus on our business model, operating model and strategy:** We have remained true to our strategy and purpose throughout the year, which is leading to better outcomes for our clients and the creation of shared value across all our operational divisions.

Our owner-driver 'skin in the game' business model helps ensure that our partners can deliver exceptional client experiences and growth within their businesses, while being supported at the group level with relevant services and capabilities.

We've improved our proposition to partners through upgrades to technology, facilitation of underwriting arrangements, leadership training and people management. In particular we are seeing increasing need for support as a shareholder in partners' businesses to assist with succession planning and client connection in a digital world.

**Collaboration, culture and values:** Our values are the foundation of everything we do and these, along with our purpose, are being emphasised across our organisation from our Board and executive team through to our partners' businesses.

We have continued to invest in the capability of our people; the AUB Group Academy has expanded with the addition of the Diploma of Leadership and Development now being offered across the Group. The Leading with Purpose program aims to build transformational leadership skills at a senior leader level, supporting the Group's pipeline of future talent. The Academy partnerships grow with additional courses being supported by the Australian Institute of Marketing.

We're pleased to see that our commitment to culture has been rewarded with a 25 percent improvement in employee engagement since FY16.

**Board update:** With the growth in AUB Group, we have expanded the Board with the appointment of Cath Rogers as a Non-Executive Director. Cath brings experience from a background in investment management and private equity, with particular experience in the role of digital technology. Cath will be standing for election to the board at the Annual General Meeting in November.

We have also appointed three Non-Executive Directors to three divisional Boards, which has helped strengthen decision-making and risk management across our partner network.

On behalf of the Board, I would like to thank our partners, employees, shareholders and clients for another positive year.

**David Clarke**
Chair

# CEO'S MESSAGE

I am pleased to report another strong set of financial results from AUB Group.

The Group continued to build on our strategic intent, 'to be the leading provider of risk management, advice and solutions to clients' with each operating division growing. In parallel, we have successfully managed our corporate costs, reducing the cost-to-income ratio as a result of disciplined cost control. This was achieved by the outsourcing of our strategic partners' technology capabilities to a provider with a core competence in technology provision, allowing the Group to focus on our strength of provision of insurance and risk services to clients via partner shareholdings.

The Group's growth in adjusted NPAT of 10.3 percent was driven primarily by organic growth as a result of focused execution of our strategy. Continuing on from last year, client numbers, policy count and margins all improved again with new services and capabilities introduced for the benefit of our partners, our staff and our clients.

I am particularly pleased with the heightened levels of collaboration demonstrated between our various shareholder partners which is resulting in improved outcomes for clients and partners alike and is resulting in improved returns for the Group. The improving connectivity between our various business areas, our 'ecosystem', bodes well for future organic growth and will enable the Group to drive increased product/service density at a client level which in turn helps create increased client retention, longevity and ultimately, profitability.

Our focus on our three core disciplines: adherence to our business model (the skin in the game 'owner-driver' model whereby partners share in the mutuality of success); our operating model (whereby we leverage our scale/size to confer scale benefits on our partner businesses) and our strategy (to be the leading provider of risk management, advice and solutions to clients') continues to provide clarity as to our intent and our operational execution. We will continue to drive these three disciplines moving forward.

**Business area performance:** As previously mentioned all areas exhibited good growth in the face of relatively difficult market conditions.

**Australian broking (Austbrokers):** While industry commentators were calling the end of the soft premium rate cycle, the reality was somewhat mixed with some classes demonstrating reasonable premium rate growth whilst others remained flat. Our estimate for commercial lines premium rate growth across the year being in the low single digits. Notwithstanding, good organic growth helped deliver an 8.7 percent improvement in the division's profit contribution.

**Underwriting agencies (SURA):** Strong competition in various segments did not dent the ongoing growth of our agencies group with profit contribution at a Group level increased by 11.0 percent supported by increased policy count and an improving rate environment.

**Risk Services:** Having flagged the short-term effect of the NSW workers compensation market changes, the division performed ahead of expectation with good increases in panel share and geographic spread driving the better-than-planned performance of 3.1 percent growth versus prior year.

**New Zealand:** This division continues to power ahead with growth in all core KPIs delivering an 18.5 percent increase in profit contribution at a Group level. Our broking footprint ensures we continue to be the largest risk broking network in NZ and have firmly established ourselves in the top three broking entities in the market.

**Outlook:** Given our strong performance and adherence to our disciplines, I am happy to repeat the statements made last year with respect to our Group outlook. We have a clear purpose and strategy, focused on our aspiration to drive long-term growth. We are excited about the opportunities to continue to enhance our solutions and services offered to partner and clients, and build AUB Group's position in the industry. What is good for partners and clients, will be good for our business and long-term shareholder value.

I am extremely grateful to the AUB Group team and its partners for their dedication and willingness to embrace change as we continue to grow and evolve. We are committed to making AUB Group not just a great company and a great place to work, but one that safeguards a stronger future for all.

**Mark Searles**
Chief Executive Officer & Managing Director

# FINANCIAL REPORT

Your Directors submit their report for the year ended 30 June 2018.

# DIRECTORS

The names and details of the Company's Directors in office during the financial year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

### Names, qualifications, experience and special responsibilities

*D. C. Clarke LLB (Non-Executive Chair), MAICD*

David Clarke was Chief Executive Officer of Investec Bank (Australia) Limited from 2009 to 2013. Prior to joining Investec Bank, David was the CEO of Allco Finance Group and a Director of AMP Limited, following five years at Westpac Banking Corporation where he held a number of senior roles, including Chief Executive of the Wealth Management Business, BT Financial Group. David has 35 years' experience in investment banking, funds management, property and retail banking. He was previously employed at Lend Lease Corporation Limited where he was an Executive Director and Chief Executive of MLC Limited. David is Chairman of Charter Hall Group and Fisher Funds Management Limited. Mr Clarke joined the Board on 3 February 2014 and was elected Group Chairman on 26 November 2015. He is on the Audit & Risk Management and Remuneration & People Committees (which he Chaired until 30 June 2018) and Chairs the Nomination Committee.

*M. P. L. Searles GAICD, DipM, Grad Dip Mktg (Chief Executive Officer and Managing Director)*

In addition to his role as Group CEO, Mark serves on the Boards of a number of Group companies including undertaking the role of Chairman of Austagencies, AUB Group NZ and AIMS amongst others. Prior to joining AUB Group and being appointed to the Board on 1 January 2013, he was previously General Manager, Broker & Agent and Chief Commercial Officer at CGU, a division of IAG. From 2005-09, Mr Searles was with Zurich Financial Services in the UK where he was Managing Director, Direct & Partnerships and Chief Marketing Officer. From 2001-05 he worked for Lloyds TSB Group holding the positions of Marketing and Group Brands Director and prior to that was Managing Director, CSL/ Goldfish/Goldfish Bank, the UK's leading direct-to-customer financial services group. During the 1990s he held roles as Managing Director at MyBusiness Ltd, UK Managing Director/ Marketing Director the Sage Group Plc, Head of Marketing at HSBC Plc. During the 1980s he held a number of senior roles in marketing led organisations, including five years at American Express Europe.

*R. J. Carless BEc, MAICD*

Ray Carless was appointed to the Board on 1 October 2010 and has over 40 years' experience in the insurance industry based in Australia but with management responsibilities throughout the Pacific Rim. Until 2000 he was Managing Director of reinsurance brokers Benfield Greig in Australia, a position he had held for over 14 years, and he had also been a director of the worldwide holding company located in London for 10 years. He has been a director of a number of companies involved in the Australian insurance industry since 2000. Mr Carless is a member of the Audit & Risk Management, Nomination and Remuneration & People Committees.

*R. J. Low B Com, FCA, GAICD*

Robin Low was a partner at PricewaterhouseCoopers with over 30 years' experience in financial services, particularly insurance, and in assurance and risk management. Robin was appointed to the Board on 3 February 2014, is a member of the Audit and Assurance Standards Board and on the board of a number of not-for-profit organisations including Sydney Medical School Foundation, Public Education Foundation and Primary Ethics. Ms Low Chairs the Audit & Risk Management Committee and is a member of the Nomination and Remuneration & People Committees. During the past three years Ms. Low served and continues to serve as a Director of CSG Limited, Appen Limited and IPH Limited. More recently, Ms. Low has been appointed to the board of the Australian Reinsurance Pool Corporation and Gordian Runoff Limited.

*P. A. Lahiff BSc Agr, GAICD*

Paul joined the Board on 1 October 2015. Paul was previously Chief Executive of Mortgage Choice Limited (2003 - 2009) and prior to that was an Executive Director of Heritage Bank and Permanent Trustee and held senior roles in Westpac in Sydney and London. Paul is also Chairman of NPP Australia Limited and a Director of Endometriosis Australia, LIXI Australia and is Chair of Retail Finance Intelligence. Paul holds a BSc from Sydney University and is a Fellow of the Australian Institute of Company Directors. He is on the Audit & Risk Management, Nomination and Remuneration & People Committees. He was elected Chair of the Remuneration & People Committee commencing 1 July 2018.

*C. L. Rogers, CFA, B Com, MBA, GAICD*

Cath was appointed to the Board on 3 May 2018. Cath is a Director and co-founder of Digital Receipt Exchange Limited and a Non-Executive Director of the Heart Research Institute. Cath holds a Bachelor of Commerce from the University of New South Wales, an MBA from INSEAD, is a CFA Charterholder and a graduate of the Australian Institute of Company Directors. She was previously a Director of McGrath Limited (2016-2018) Cath has held Senior roles in leading investment and financial services organisations in Sydney and overseas including AirTree Ventures, Anchorage Capital Partners, Masdar Capital and Credit Suisse. Cath is a member of the Audit & Risk Management, Nomination and Remuneration & People Committees.

### Company Secretary

*J. L Coss, BA, LLB, Dip CII, ANZIIF (Fellow) CIP, FGIA, FCIS, Adv Dip (Management)*

Justin joined AUB Group Ltd on 1 October 2015 and was appointed Company Secretary on 30 November 2015. A solicitor with over 20 years' experience, he is admitted to practice in New South Wales and England & Wales, he was previously General Counsel & Company Secretary of InterRISK Australia Pty Ltd and prior to that was in private practice with Allens Arthur Robinson. Justin is a member of the National Insurance Brokers Association Regulatory Affairs Committee and is a Director of the Association of Corporate Counsel Australia.

### Company Secretary

*H. T. Elderman, JD, BA*

Howard joined AUB Group Ltd in October 2017 as Group Legal Counsel and was appointed Company Secretary alongside J Coss in December 2017. Howard brings over 25 years' corporate and commercial experience across a variety of industries, including healthcare, technology and investment banking. He was previously General Counsel and Company Secretary of iSOFT Group Limited and CIMB Australia and worked at ASIC in developing company reforms. Howard was also in private practice with Allens Arthur Robinson, New York cased Skadden and Arps, and was partner at the US firm Pillsbury Winthrop. Howard is admitted to practice law in NSW and New York, USA.

**Interests in the shares and options of the Company and related bodies corporate**

As at the date of this report, the interests of the Directors in the shares and options of AUB Group Limited were:

| | Number of Ordinary Shares | Number of Options over Ordinary Shares |
|---|---|---|
| M. P. L. Searles | 74,049 | 250,000 |
| R. J. Carless | 19,973 | – |
| D. C. Clarke | 10,143 | – |
| R. J. Low | 9,710 | – |
| C. L. Rogers | – | – |
| P. A. Lahiff | 9,000 | – |

## PRINCIPAL ACTIVITIES

AUB Group Limited (AUB Group or Group) is a leading provider of risk management, advice and risk solutions in Australasia. The Group represents over 1.2 million client policies, via some 135 partner businesses that span 600 locations throughout Australia and New Zealand. Combined, we employ over 4,000 people who help our clients realise a stronger, more protected future.

Our business model means that we have equity stakes in our partner businesses, who in turn provide trusted support and guidance to clients relating to physical, people and financial risks. This is backed by services that help our partners operate safely, manage their businesses more profitably and ultimately achieve better client outcomes. These services include technology support via a centralised data centre capability; common platforms to enable efficiency and effectiveness; marketing, human resources, risk, compliance and other operational support services.

Additionally, the Group manages/co-manages networks of individual brokers (Cluster Groups) leveraging the benefits of its services where appropriate. In total, the Group represents around $4.7 billion of policy premium.

The AUB Group primarily operates through two key business segments:

**1. Insurance intermediaries**: We make investments in businesses that provide insurance and risk related services to clients. These businesses include:

- Broking networks operating in Australia and New Zealand, which provide risk and insurance broking and advisory services primarily to small -to medium- sized business clients.
- Underwriting agencies that underwrite, distribute and manage specialist insurance products and portfolios on behalf of licensed insurance companies. These services are available via risk advisers, in and outside the Group's broking networks.

**2. Risk Services:** We invest in organisations that provide people-related risk management solutions for clients, insurance brokers and insurance companies

There has been no significant change in the nature of these activities during the year other than the continued expansion of all areas of the business in Australia and New Zealand including via acquisitions.

The Group's insurance intermediary revenue is largely derived from commissions and fees earned on arranging insurance policies and for other related products and services. The amount of commissions earned is determined by the volume of premiums placed which in turn is affected by premium rates, sums insured and the general level of economic activity.

Other revenue sources relate to interest earned on funds held to pay insurers, income on insurance premium funding and revenue derived from underwriters reflecting the profitability and/or growth in the business placed, which will fluctuate depending on results.

The Risk Services businesses earn fees for services such as occupational health and safety consulting, injured worker rehabilitation services, corporate health and wellness initiatives, investigations, training, risk advice and claims management to insurers and clients. Fees are negotiated with state-based scheme agents and insurers or directly with clients.

## OPERATING AND FINANCIAL REVIEW

**Operating results for the year**

In the year ended 30 June 2018 (FY18) net profit after tax (Reported NPAT) attributable to equity holders of the parent was $46.5 million (FY17: $33.0 million), an increase over the prior year due mainly to prior year impact of contingent consideration adjustments, fair value movements on investments and consolidated non-cash accounting adjustments relating to mergers and acquisitions.

Reported NPAT includes fair value adjustments to the carrying value of associates, profits on sale and deconsolidation of controlled entities, contingent consideration adjustments and impairment charges. If these items, together with the amortisation of intangibles are excluded (as shown in the table below), the net profit after tax (Adjusted NPAT) was $44.6 million in FY18 up 10.3% on prior year (FY17: $40.4 million), reflecting the underlying performance of the business.

Adjusted NPAT is a key measure used by management and the board to assess and review business performance.

## OPERATING AND FINANCIAL REVIEW (CONTINUED)

| RECONCILIATION OF ADJUSTED NPAT TO REPORTED NPAT [1] | FY18 $'000 | FY17 $'000 | Variance % |
|---|---|---|---|
| Net Profit after tax attributable to equity holders of the parent | 46,520 | 32,988 | 41.0% |
| Reconciling items net of tax and non-controlling interest adjustments for: | | | |
| Adjustments to contingent consideration for acquisitions of controlled entities and associates [2] | (114) | 5,811 | |
| Add back offsetting impairment charge to the carrying value of associates & goodwill, related to above [2] | 153 | 2,623 | |
| Add back impairment charge to the carrying value of controlled entity - net of non-controlling interests [3] | 1,725 | - | |
| Net adjustment | 1,764 | 8,434 | |
| Less/plus profit on sale or deconsolidation of controlled entities net of tax [4] | 157 | - | |
| Plus movement in put option liability [5] | 527 | - | |
| Less profit on sale of associates/insurance broking portfolios net of tax [4] | (861) | (661) | |
| Adjustment to carrying value of entities (to fair value) on date they became controlled or deconsolidated [4] | (7,753) | (4,334) | |
| Net Profit from operations | 40,354 | 36,427 | 10.8% |
| Add back amortisation of intangibles net of tax [6] | 4,200 | 3,955 | 6.2% |
| **Adjusted NPAT** | **44,554** | **40,382** | **10.3%** |

[1] The financial information in this table has been derived from the audited financial statements. The adjusted NPAT is non-IFRS financial information and as such has not been audited in accordance with Australian Accounting Standards.

[2] The Group's acquisition policy is to defer a component of the purchase price, which is determined by future financial results. An estimate of the contingent consideration is made at the time of acquisition and is reviewed and varied at balance date if estimates change, or payments are made. This adjustment can be a loss (if increased) or a profit (if reduced). Where an estimate or payment is reduced, an offsetting adjustment (impairment) may be made to the carrying value.

[3] Where the carrying value of a controlled entity exceeds the fair value an impairment expense is recognized during the period.

[4] The adjustments to carrying values of associates or controlled entities arise where the Group increases its equity in associates whereupon they became controlled entities or decreases its equity in a controlled entity and it becomes an associate (deconsolidated). As required by accounting standards the carrying values for the existing investments have been adjusted to fair value and the increase included in net profit. Such adjustments will only occur in future if further acquisitions or sales of this type are made.

[5] Movement in value of the put option liability mainly due to the interest unwind of finance charges.

[6] Amortisation expense is a non-cash item.

The 10.3% increase in Adjusted NPAT continues the trend of year on year growth since listing. This result demonstrates the strength of execution of the Group's strategy, with strong and growing contributions from all divisions, in the context of a favourable insurance market. The premium rate environment for commercial insurance have been positive year on year. Low single digit increases in premium rates were experienced over the financial year, and this bodes well for an ongoing increasing price environment in FY19.

The Group has benefited from the acquisition of a standalone business by our underwriting agencies and a number of smaller acquisitions by business partners in Australia and New Zealand.

There has been an impairment charge of $2.3 million ($1.725m net of non-controlling interests) in the current financial year relating to a financial services business.

**Results by operating segment**

Insurance intermediaries:

Australian Broking – profit increased by 8.7% to $53.5 million in FY18, in the context of a hardening premium rate environment, after several years of reducing premium rates on renewal business. The interest rate environment has also been stable over the last year after a period of year on year reductions. The current year result includes the profit contribution from a broking business, LEA Insurance Brokers Pty Ltd acquired on 1 May 2017 and several smaller acquisitions and mergers by partner businesses. Increased collaboration between Broking and Risk Services partners providing services to end clients is pleasing to see.

New Zealand Broking – profit increased by 18.5% to $6.5 million in FY18 in the context of hardening premium rates, strong client and NZbrokers member growth. This result includes the impact of a 5% sell down of Runacres & Associates Ltd to management in the first half. Our associate BWRS acquired an additional business in the period.

# DIRECTORS' REPORT
## YEAR ENDED 30 JUNE 2018

## OPERATING AND FINANCIAL REVIEW (CONTINUED)

Underwriting Agencies:

Profit increased by 11% to $13.9 million in FY18, in the context of hardening premium rates. Increasing policy count (up 4.2%) and premium rate increases largely in property and motor classes, has offset the revenue loss from the divested businesses. During the year, the business divested of its majority ownership of Asia Mideast Reinsurance Pty Ltd and the SURA Commercial book of business. Significant investment in a new underwriting agency system will bring efficiencies to the business over the next two years.

Risk Services:

Profit increased by 3.1% to $7.8 million with better than expected adaptation to changes in the NSW workers' compensation market. The businesses continue to grow through channels to market, revenue growth across states and new product offerings.

Overall:

The implementation of the AUB Group strategy has led to the diversification of earnings, with Australian broking businesses contributing 65% to profit before corporate expenses in FY18, down from 88% in FY12.

Corporate costs were flat year on year with the cost of increased short term incentives paid in FY17 offset by the technology outsourcing project costs in FY18.

A reconciliation of the operating results to the Annual Report operating segments is set out below.

| RECONCILIATION OF OPERATING SEGMENTS | Consolidated FY18 | | | Consolidated FY17 | | |
|---|---|---|---|---|---|---|
| | Insurance Intermediary $000 | Risk Services $000 | Total $000 | Insurance Intermediary $000 | Risk Services $000 | Total $000 |
| Profit before tax and after non-controlling interests from: | | | | | | |
| - Insurance broking - Australia | 53,458 | - | 53,458 | 49,166 | - | 49,166 |
| - Insurance broking - New Zealand | 6,474 | - | 6,474 | 5,465 | - | 5,465 |
| - Underwriting agencies | 13,903 | - | 13,903 | 12,529 | - | 12,529 |
| - Risk Services | - | 7,753 | 7,753 | - | 7,520 | 7,520 |
| Profit after tax and after non-controlling interests | 73,835 | 7,753 | 81,588 | 67,160 | 7,520 | 74,680 |
| Corporate income | 2,187 | - | 2,187 | 2,248 | - | 2,248 |
| Corporate expenses | (17,070) | - | (17,070) | (17,055) | - | (17,055) |
| Corporate interest expense and borrowing costs | (2,353) | - | (2,353) | (1,762) | - | (1,762) |
| | 56,599 | 7,753 | 64,352 | 50,591 | 7,520 | 58,111 |
| Tax | (17,396) | (2,402) | (19,798) | (15,372) | (2,357) | (17,729) |
| **Adjusted NPAT** | **39,203** | **5,351** | **44,554** | **35,219** | **5,163** | **40,382** |
| Less amortisation expense (net of tax and non-controlling interests) | (4,200) | - | (4,200) | (3,955) | - | (3,955) |
| Plus impairment of controlled entity (net of non-controlling entity interest) | (1,725) | - | (1,725) | - | - | - |
| Plus non-controlling interests in relation to contingent consideration adjustments [1] | (76) | (30) | (106) | 221 | (15) | 206 |
| Less capital gains tax adjustments relating to sales of portfolios by controlled entities and associates (net of tax)[1] | 799 | - | 799 | 631 | - | 631 |
| **Profit after income tax and non-controlling interests** (refer Annual Report note 23 Operating Segments) | **34,001** | **5,321** | **39,322** | **32,116** | **5,148** | **37,264** |

Overall:

[1] This includes adjustments to non-controlling interests and tax expense relating to contingent consideration payments and profit on sale (see Annual Report note 4 (vi), (vii))

## OPERATING AND FINANCIAL REVIEW (CONTINUED)

**Shareholder returns**

On an Adjusted NPAT basis, earnings per share increased by 10.3% over the prior year. Reported EPS increased from 51.7 cents to 72.9 cents due to non-recurring reductions in profit during FY17 arising from increases in contingent consideration provisions which were charged directly to profit. During the current year, further fair value adjustments on acquisitions and divestments of controlled entities and non cash accounting adjustments in relation to mergers and acquisitions contributed $6.2m to the current year profit resulting in an overall increase in reported EPS over the previous year of 41%.

Compound annual growth rate in earnings per share over the five years to 30 June 2018 on an adjusted basis was 4.5%. Dividends per share declared for FY18 are 45.5 cents, an increase of 8.33% on prior year and continuing a 13 year trend of year on year dividend growth.

## FINANCIAL CONDITION

Shareholders' equity increased to $357.2 million from $345.8 million at 30 June 2017. The increase is due to underlying profit growth less dividends offset by a reduction in retained earnings resulting from transactions with owners in their capacity as owners (see Consolidated Statement of Changes in Equity).

A financial liability has been recognised at 30 June 2017, totalling $25.9 million representing the estimate of the value the Group could be required to pay on the future exercise by holders of put options (see note 2.3 in the Notes to the Financial Statements). The Group re-estimates put options financial liability at the reporting date, taking into account the estimated future outcomes for income or profit, on which the purchase price will be determined.

The Group generated positive cash flow from operating activities before customer trust account movements of $46.2 million compared to the prior year (2017: $56.4 million). Although a reduction on the previous year, this was predominantly due to timing differences on 2017 supplier payments.

Cash flows used in investing activities increased in FY18 due to an acquisition of an underwriting agency business and increases in shareholdings in controlled entities across the Group.

Cash flows used in financing activities decreased from the previous year due to lower contingent consideration payments and due to drawdowns on the syndicated borrowing facility to enable further acquisitions.

Cash held at the end of the period totalled $58.7 million (excluding $99.9 million of monies held in trust).

The parent entity negotiated a new syndicated, multi-currency finance facility comprising ANZ Banking Group and St George Bank for $150 million (30 June 2017 $79.5 million facility with St George Bank). This facility includes an advance to the New Zealand sub-group in $NZ totalling $34 million. The new finance facility expires on 6 December 2020 with a mechanism for two one year extensions on agreement with both parties.

Interest-bearing loans and borrowings increased by $26.1 million to $121.2 million as a result of acquisitions by the Group. Borrowings by associates of $73.4 million (2017 $74.7 million)[1] are not included in the Group balance sheet as these entities are not consolidated. The borrowings by associates relate largely to funding of acquisitions, premium funding and other financing activities.

Gearing increased to 25.3% in the year, as funds were drawn down to acquire new businesses and to settle contingent consideration payments relating to previous years acquisitions.

| Dividends | Cents | $'000 |
|---|---|---|
| Final dividend recommended: | | |
| • on ordinary shares | 32.0 | 20,431 |
| Dividends paid in the year: | | |
| • on ordinary shares - interim | 13.5 | 8,619 |
| • on ordinary shares - final | 29.5 | 18,835 |
| | | 27,454 |

[1] Total debt of associates, before considering AUB Group's percentage shareholding.

## BUSINESS STRATEGIES

The Group's strategic intent is to grow by 'helping clients realise a stronger, more protected future, through valued advice, solutions and services'.

Our approach to achieving our strategic goal, balances the immediate needs and profitability of the business today, developing future growth areas, and ensuring the enduring sustainability of the business through:

- Maximising the partnership model, by delivering opportunities for our partners to be more efficient and profitable;
- Broadening our solutions offerings to deliver a better outcome for clients;
- Driving operational advantage via valued services; and
- Strengthening our foundations, by ensuring we remain disciplined in our approach to investments, and by supporting our people.

Our strategy remains focused on supporting and growing our core client-facing partner businesses of insurance broking, underwriting agencies and risk services, organically and via acquisition.

## PROSPECTS FOR FUTURE FINANCIAL YEARS

Good strategic execution will result in increased collaboration between our partners for the benefit of the client and in turn improving the level of organic growth for the Group.

Furthermore, insurance premium rates in Australia and New Zealand have hardened over the FY18 financial year as a result of steps taken by insurers to address poor underwriting returns. The rate environment over FY18 saw low-mid single digit percentage increase in commercial lines premium rates. While we do not control the setting of prices for insurance products, the outlook for premium rates into FY19 appears to be positive with an expectation of continued increases in premium rates with an average of mid single digit percentages.

Increased premium rates are expected to enhance broker commission revenues and support improved business margins, with some of the increase supporting investment in future growth. The Broking businesses continue to focus on the levers of profit they can control, including other sources of income such as premium funding, life insurance, and services income. Similarly, Underwriting agencies will continue to focus on expense management and new business development. Profit commissions paid by underwriters, which depend on the growth and profitability of business written cannot be reliably predicted for future years.

Risk Services revenue growth will likely continue to be impacted by scheme agent changes in NSW workers' compensation under iCare with variable referral flows continuing throughout FY19. Prospects remain positive with uplift expected towards the latter part of FY19 and beyond supported by growth initiatives in new markets and geographies.

The Group continues to invest in corporate infrastructure for long term growth as we expand into new areas and geographies. In this context, organic growth, bolstered by acquisitions should again provide growth in FY19. The extent of that growth will be impacted by the level of future acquisitions, premium rates and interest rates.

Changes in interest rates will impact interest earnings on cash and trust accounts and interest expense on debt facilities. On a net basis and at current gearing rates, the Group generally benefits from increasing interest rates and is negatively impacted by decreasing interest rates.

## RISK MANAGEMENT

The Group recognises that appropriate risk management is required to ensure the effective delivery of strategy and achievement of its objectives. The oversight of material risks is the responsibility of the Board. The Audit & Risk Committee has been established to provide support to the Board in reviewing the risk management framework including the identification, assessment, management and monitoring of material risks.

The activities of the Board, and the Audit & Risk Committee specifically include:

- Board approval of the strategy, which encompasses the Group's vision, purpose and strategy statements designed to meet stakeholders' needs and manage risk.
- Implementation of Board approved operating plans and budgets and monitoring of progress against these budgets, including the establishment and monitoring of key performance indicators of both a financial and non-financial nature.
- Approval of the Risk Management Framework and consideration of the adequacy of risk treatments to achieve the Board's defined risk appetite.
- Oversight of policies, procedures and activities to support the effective management of regulatory risk across the Group.

## KEY BUSINESS RISKS

The Group is exposed to various material risks in the course of its operations and achievement of its strategic objectives.

Key risks which may impact the Group's business strategy and prospects for the future financial year include:

- Compliance and regulatory risk – Financial services within Australasia has been subject to considerable regulatory focus in recent years. In particular, the Royal Commission may result in increased regulation in the insurance industry which could adversely affect the business model or compliance costs across the Australian Broking and Underwriting businesses. In Risk Services the changes to the iCare NSW workers compensation model continues to be implemented and refined. The reduction in managing agents and a new segmented claims model are expected to benefit our businesses over the long term due to increased focus on client service standards and return to work outcomes. However impacts in the short term from the extended period of change were anticipated and are expected to continue to be felt over parts of FY19. AUB Group is continuing to enhance its group risk and compliance capability. Changes in the regulatory environment are monitored closely to ensure that the controls remain appropriate to manage regulatory risk.
- Investment risk – the Group as part of its strategy invests in partner businesses which may be subject to impairment or decreases in value over time. The 'owner-driver' model incentivises businesses to continue to grow after joining the AUB network and the Group service offering is designed to support partner business growth. The Group strategy also relies upon access to funding to capitalise on opportunities and recognises that performance can be impacted by the macroeconomic environment including interest rate changes and premium fluctuations. The Group closely monitors the macroeconomic environment and regularly reviews its capital and debt facilities to ensure adequate funding is available.
- People, conduct and culture risk – employees or partners may act in a way which is inconsistent with the expected behaviours, culture and values of the Group. Misconduct can result in financial loss and reputational damage which impacts the relationship with clients, partners, regulators and stakeholders. The Group has policies, procedures and controls in place to manage and monitor these risks.

## KEY BUSINESS RISKS (CONTINUED)

- Technology and cyber risk - the Group relies upon internally and externally provided technology and services in order to conduct its operations. AUB Group is continuing to enhance its information technology environment to ensure that it meets future needs. Malicious cyber activity may impact on privacy or data security. This has been an area of focus for the Group and controls include strong account management, cyber-resilience audits, security testing, cyber insurance, and a security education program.
- Dependence on key suppliers – AUB Group and partners rely on external third party suppliers and outsourcing arrangements to provide certain services. These include insurance underwriting and binder arrangements in the Broking and Underwriting businesses. AUB Group actively manages key relationships and monitors contracts, service level agreements and performance targets to ensure required deliverables and standards are met.

Please note this section does not include all risks and that the risks are not in any particular order. In addition to the Key Risks, further information about material risks which could impact the performance of the Group are detailed in the Operating and Financial Review.

## SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There were no significant changes in the state of affairs of the consolidated entity during the financial year, other than acquisitions and disposals disclosed above.

## SIGNIFICANT EVENTS AFTER THE BALANCE DATE

On 27 August 2018 the Directors of AUB Group Limited declared a final fully franked dividend on ordinary shares of 32.0 cents per share in respect of the 2018 financial year. Based on the current number of ordinary shares on issue, the total amount of the dividend is $20.431 million.

## ENVIRONMENTAL REGULATION AND PERFORMANCE

The Company is not subject to any particular or significant environmental regulation under laws of the Commonwealth or of a State or Territory or in New Zealand.

## INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

During or since the end of the financial year, the Company has paid premiums in respect of a contract insuring all the Directors and Officers of AUB Group Limited against liabilities, past, present and future.

In accordance with normal commercial practice, the disclosure of the total amount of premiums under and the nature of the liabilities covered by the insurance contract is prohibited by a confidentiality clause in the contract.

## INDEMNIFICATION OF AUDITORS

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young Australia, as part of the terms of its audit engagement agreement, against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young during or since the financial year.

# REMUNERATION REPORT

Dear Shareholders,

AUB Group is pleased to present its Remuneration Report for the year ended 30 June 2018. The report outlines the Group's remuneration philosophy, framework and outcomes.

The AUB Group remuneration framework is designed to support sustainable value for shareholders, partners and our people. The FY18 period reflects a business strategy that has continued to evolve and deliver positive results.

Short Term Incentives (STI) and Long Term Incentives (LTI) for staff and senior management have been allocated in accordance with the company and individual objectives and are detailed further throughout the report.

Key people and culture highlights over the year ended 30 June 2018 have included the following:

### Culture

The Remuneration & People Committee this year has continued to focus on building a culture of shared accountability, embedding the AUB Group purpose and values across the business and determining how we measure success. The AUB Board acknowledges its role in establishing and maintaining an effective culture and allocated a full day workshop to this end in May. An additional gateway requiring ethical leadership and living the AUB Group values will be added to the balanced scorecard and STI program.

### AUB Group Academy

The Academy has continued to deliver leadership and soft skills programs during FY18 with the addition of a Senior Leadership Program "Leading with Purpose". The program is comprised of Senior Managers reporting into the Senior Executive team and is aimed at leadership of business strategy.

The Diploma of Leadership and Management has continued to receive strong support across AUB Group and Partner businesses with an additional 11 leaders gaining the qualification. The Academy has partnered with the Australian Marketing Institute to deliver a strategic marketing module as part of the Diploma. This provides participants with the opportunity to add a marketing certificate to the Diploma of Leadership and Management.

The Academy will continue to support the development of leadership capability linking to succession planning activities.

### Review of Remuneration Structure

In recognising that the current remuneration framework is supportive of AUB Group's remuneration philosophy, we believe that it is the right time to review the remuneration mix and structure to ensure alignment with the Group's strategy, operating model and sustainable returns to shareholders over the longer term. The review will take place over the next three to four months and will be implemented for the 2020 financial year.

### Remuneration & People Committee

Finally, I have pleasure in advising that Mr Paul Lahiff has assumed the role of Chair of this Committee effective 1 July 2018. Paul was appointed to the Company's Board on 1 October 2015 and has served as a member of this Committee, in addition to the Nomination Committee and Audit & Risk Management Committee since that time.

David Clarke
Chair
Remuneration & People Committee

## REMUNERATION REPORT (CONTINUED)

The Directors of AUB Group Ltd (the Company) present the Remuneration Report (the Report) for the Company for the financial year ended 30 June 2018 (FY18). This report forms part of the Directors' Report and has been audited in accordance with section 300A of the Corporations Act 2001. The Report details the remuneration arrangements for the Company's Key Management Personnel (KMPs) comprising the Company's Non-Executive Directors, the Executive Director and certain employees.

### Details of Key Management Personnel

KMPs are those persons with, directly or indirectly, the greatest authority and responsibility for planning, directing and controlling the activities of the business units that can materially affect the performance of the consolidated entity during the financial year.

The table below outlines the KMPs of the Company in FY18.

| Name | Position |
|---|---|
| **Non-Executive Directors** | |
| David Clarke | Non-Executive Chair |
| Ray Carless | Non-Executive Director |
| Robin Low | Non-Executive Director |
| Paul Lahiff | Non-Executive Director |
| Cath Rogers | Non-Executive Director (from 3 May 2018) |
| **Executive Director** | |
| Mark Searles | Managing Director and Chief Executive Officer |
| **Senior Executives** | |
| Jodie Blackledge | Chief Financial Officer (ceased 11 May 2018) |
| Mark Shanahan | Chief Financial Officer (from 12 April 2018) |
| Elyse Henderson | Chief Operating Officer (from 2 January 2018) |
| Fabian Pasquini | Divisional Chief Executive - National Partners and Group Acquisitions |
| Sunil Vohra | Divisional Chief Executive - Risk Services |
| Keith McIvor | Managing Director, AUB Group NZ and Head of Group Development |
| Nigel Thomas | Divisional Chief Executive - Austbrokers Network |
| Angie Zissis | Managing Director - SURA |

### Governance

The Chief Executive Officer (CEO) has responsibility for implementation of the Company's Remuneration Policies and making recommendations to the Remuneration & People Committee of the Board of Directors of the Company on remuneration outcomes for the Company's senior executives and other employees.

The Remuneration & People Committee is responsible for reviewing compensation arrangements for the Directors, the CEO and Senior Executives, including the Company's Key Management Personnel and making recommendations in that regard for determination by the Board. The Remuneration & People Committee comprises all Non-Executive Directors of the Board.

### Remuneration philosophy

The performance of the Company depends upon the quality of its Directors and Executives. To prosper, the Company must attract, motivate and retain highly skilled Directors and Executives. To this end, the Company embodies the following principles in its remuneration framework:

- Provide competitive rewards to attract high calibre individuals;
- Link executive rewards to shareholder value;
- Have a significant portion of executive remuneration 'at risk', dependent upon meeting pre-determined performance benchmarks; and
- Establish appropriate, demanding performance hurdles for variable executive remuneration.

### Non-Executive Director remuneration

*Objective*

The Board seeks to set aggregate remuneration at a level that provides the Company with the ability to attract and retain Directors of the highest calibre, whilst incurring a cost that is acceptable to shareholders.

*Structure*

The Constitution and the ASX Listing Rules specify that the aggregate remuneration of Non-Executive Directors shall be determined from time to time by a general meeting. The latest determination was approved by shareholders at the 2013 Annual General Meeting to increase the aggregate available remuneration to $750,000 per year. Given the expansion of the Board during FY18 with the appointment of an additional Non-Executive Director and the increase in Non-Executive Director remuneration detailed below, it is the Board's intention at the company's Annual General Meeting to be held on 13th November 2018 to seek an increase to the total available pool for Non-Executive Director remuneration to $850,000.

The manner in which remuneration is paid to Non-Executive Directors is reviewed by the Remuneration & People Committee and determined by the Board every second year. This review was carried out in FY18 by Guerdon & Associates, resulting in no increase in the normal remuneration payable to Non-Executive Directors. The review concluded however that the Chair's remuneration was less than that of comparable peer organisations and low relative to the base fee for the Non-Executive Directors. Accordingly, the Board accepted the recommendation of an increase in the Chair's fee from $178,500, to $210,000 effective from 1 July 2018.

In addition, the Board determined that the Chair of the Remuneration & People Committee (if different from the Chair of the Board) would receive a fee of $10,000 per annum effective from 1 July 2018.

During FY18, the Board determined that the divisional governing bodies for the Company's underwriting agency business, risk services business and New Zealand business would benefit from the participation of a Non-Executive Director from the Board. Accordingly, a different Non-Executive Director has participated on the each of those Subsidiary Boards since 1 July 2017, and receives an additional fee of $10,000 per annum in recognition of the additional workload associated with those roles.

## REMUNERATION REPORT (CONTINUED)

These changes translate to a total amount payable to the Non-Executive Directors from 1 July 2018 of $691,000 compared to an amount of $649,500 during FY18 from the maximum available pool of $750,000.

Each Non-Executive Director receives a fee for serving as a Director of the Company which includes a fee for each Board Committee on which the Director serves. The Chair of the Board receives an all-inclusive fee irrespective of the Committees on which he serves as Chair. The Chairs of the Audit & Risk Management Committee and the Remuneration & People Committees receive an additional fee recognising the additional workload that these positions entail. Non-Executive Directors do not receive retirement benefits other than amounts paid by way of the superannuation guarantee charge, nor do they participate in any incentive programs but they may be reimbursed for expenses reasonably incurred in the course of carrying out their duties as a Non-Executive Director of the Company.

From 1 July 2017 to 30 June 2018 each Non-Executive Director received annual fees as set out in the table below:

| Name | Board | Audit & Risk Management Committee | Remuneration & People Committee | Nomination Committee | Subsidiary Boards |
|---|---|---|---|---|---|
| Chair | $178,500 | $21,000 | - | - | - |
| Member | $105,000 | - | - | - | $10,000 |

The remuneration of Non-Executive Directors for the year ended 30 June 2018 is detailed in Tables 3 and 4 of this report.

Non-Executive Directors have been encouraged by the Board to hold shares in the Company. It is considered good governance for Non-Executive Directors to have a stake in the companies on whose Boards they sit.

The shares held in the Company by each Director are detailed in Table 1 of this report.

### Senior Manager and Executive Director remuneration

*Objective*

The Company aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the Company and so as to:

- Reward executives for company, business unit and individual performance against targets set by reference to appropriate benchmarks;
- Align the interest of executives with those of shareholders;
- Link rewards with the strategic goals and performance of the Company; and
- Ensure total remuneration is competitive by market standards.

*Structure*

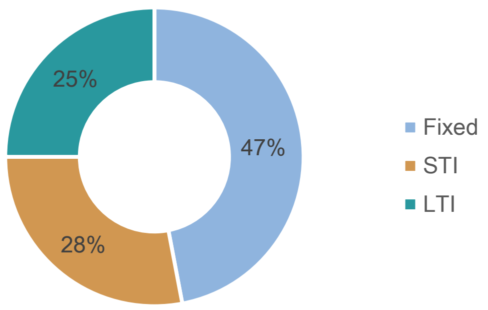
Remuneration consists of the following key elements:

- Fixed Remuneration
- Variable Remuneration – Short Term Incentive (STI)
- Variable Remuneration – Long Term Incentive (LTI)

It is the Remuneration & People Committee's practice that a fixed term employment contract is entered into with the Chief Executive Officer.

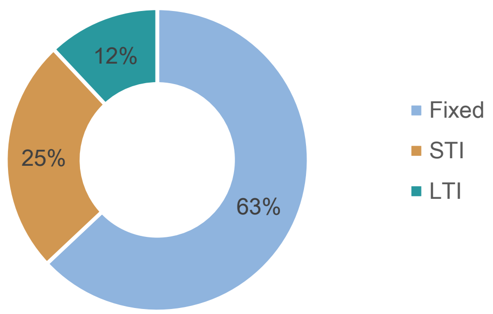
The CEO's target remuneration mix comprises 47% fixed remuneration, 28% target STI opportunity and 25% LTI. The CEO's Key Performance Indicators (KPIs) together with the relevant weighting of each KPI to achieve the target STI opportunity are set out in the graph below:

CEO Remuneration Mix




Senior executives target remuneration mix ranges from 60-70% fixed remuneration, 20-25% target STI opportunity and 10-15% LTI as set out in the graph below:

Senior Executive Remuneration Mix




It is the Company's practice to have fixed remuneration at market median and total remuneration at the upper quartile.

To ensure the Remuneration & People Committee is fully informed when making remuneration decisions it seeks external remuneration advice as needed. The most recent review was conducted with the assistance of Guerdon & Associates in FY18. The review concluded that the total remuneration at the maximum payout is comparable to market, however there is a large difference between target and stretch outcomes with stretch being double target. This will be addressed in the FY19 STI plan.

The Committee approved the engagement of Guerdon & Associates to provide remuneration recommendations regarding the remuneration mix and quantum for executives.
Both Guerdon & Associates and the Committee are satisfied the advice received from Guerdon & Associates is free from undue influence from the KMP to whom the remuneration recommendations apply.
The remuneration recommendations were provided to the Committee as an input into decision making only. The Committee considered the recommendations, along with other factors, in making its remuneration decisions. The fees paid to Guerdon Associates for the remuneration recommendations were $42,845. Guerdon & Associates also provided advice on other aspects of the remuneration of the Group's employees and various other advisory services and was paid a total of $31,323 for these services.

## REMUNERATION REPORT (CONTINUED)

**remuneration**

*Objective*

Fixed remuneration is reviewed annually by the Remuneration & People Committee (Committee). The process consists of a review of company-wide, business unit and individual performance, relevant comparative remuneration in the market and internally and, where appropriate, external advice on policies and practices.

*Structure*

Senior executives are given the opportunity to receive their fixed remuneration in a variety of forms including cash and fringe benefits such as motor vehicles.

The fixed remuneration component of the executive KMPs of the Group is detailed in Tables 3 and 4.

**Variable remuneration**

*Objective*

The objective of the STI program is to link the achievement of the Group's operational targets with the remuneration received by the executives charged with meeting those targets. The total potential STI is available at a set level so as to provide sufficient incentive to the senior manager to achieve the operational targets and such that the cost to the Group is reasonable in the circumstances.

*Structure*

The Group sets financial targets and each executive has set personal objectives against which their performance is evaluated.

The table below provides a summary of key balanced scorecard objectives and outcomes for the Group for the year ended 30 June 2018:

| Measure | Objective |
|---|---|
| Financial | Deliver Group Adjusted NPAT at or above budget |
| Partner | Drive Group Strategy to improve client opportunities |
| Governance | Ensure Group governance frameworks are implemented across all entities |
| People | Deliver a continued improvement on employee engagement |

On an annual basis, a rating is determined for each executive based on an evaluation of each executive's performance against predetermined objectives. This rating is then applied to an allocated STI opportunity determined as a percentage of fixed remuneration. This amount is then scaled up or down to reflect the Group's performance against its financial target for growth in Adjusted NPAT over the prior year to a maximum of two times. The financial targets for growth are reviewed annually to ensure they align with current expectations. As a result, the level of incentive reflects the performance of the Company and the executive, therefore ensuring it is aligned with shareholders' interests. An incentive pool is set aside annually based on company performance and amounts are allocated to individual executives as set out above.

The aggregate of annual STI payments available for executives across the Group is subject to the review by the Remuneration & People Committee and approval of the Board. Payments made are delivered as a cash bonus in the following reporting period.

For the 2017 financial year, the STI cash bonus of $2.861 million provided in the financial statements was paid in the 2018 financial year. The Remuneration & People Committee considered the STI payments for the 2018 financial year and has allocated a pool in the sum of $2.176 million for STI cash bonuses for employees and senior management. This amount has been provided for in the 2018 financial year.

**Variable remuneration – long term incentive**

*Objective*

The objective of the long term incentive plan (LTIP) is to reward senior executives in a manner that 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 the relevant long term performance hurdle.

*Structure*

LTI grants to executives are delivered in the form of options. The following were selected as the measures for the LTIP in 2016 onwards:

a) Total Shareholder Return including share price appreciation and the amount of any dividends or capital returns (TSR) measured against the S&P/ASX Small Ordinaries Index (the Target Group) determined by the relevant VWAP in the 60 day period leading up to the relevant date in respect of the testing period; and

b) Compound annual growth rate (CAGR) of the adjusted earnings per share for the measurement period calculated based on the adjusted NPAT divided by weighted average number of ordinary shares in the Company on issue during the relevant financial year.

It is believed the differing measures of TSR and CAGR provide improved alignment between comparative shareholder return and reward for executives.

**Option exercise conditions**

Exercise conditions for options granted in FY16 onwards

a) Subject to satisfaction of the performance hurdles referred to in paragraphs below, options will vest and become capable of exercise on the date on which the Company's audited financial statements for the third financial year ending after the grant are lodged with the Australian Securities Exchange (the First Test Date) and on the date on which the Company's audited financial statements for the fourth financial year ending after the grant are lodged with the Australian Securities Exchange (the Second Test Date);

b) Options comprised 60% EPS options and 40% TSR options and will vest and may be exercised at the First Test Date and the Second Test Date, subject to the Participant being an employee of the Company or a subsidiary of the Company at the time of exercise, (except where his or her employment has been terminated by the Company without cause or has terminated as a result of the Participant being unable to perform his or her duties due to illness, injury, incapacity or death) and the performance hurdles as follows:

## REMUNERATION REPORT (CONTINUED)

*The EPS Options*

| CAGR over period | Percentage Vesting |
|---|---|
| Less than 4% | 0% |
| Equal to 4% | 25% |
| Between 4% and 7% | Straight line vesting between 25% and 50% |
| Equal to 7% | 50% |
| Between 7% and 10% | Straight line vesting between 50% and 100% |
| Equal to or greater than 10% | 100% |

*The TSR Options*

| Total Shareholder Return | Percentage Vesting |
|---|---|
| Less than target group | 0% |
| Equal to target group | 50% |
| Greater than target group | Straight line vesting between 50% and 100% |
| Greater than 150% of target | 100% |

c) If all of the options do not become exercisable on the First Test Date and the performance criteria on the Second Test Date are higher than on the First Test Date an additional number of options will become exercisable as is equal to the difference between the number of options which became exercisable on the First Test Date and the number of options which are exercisable on the Second Test Date;

d) Any options which have not become exercisable by the Second Test Date lapse and are of no further force or effect.

e) All options have further restrictions on their disposal or the disposal of any shares acquired on their exercise for a further two years from vesting of these options.

Exercise conditions for options granted prior to FY16:

f) Option exercise conditions for options granted in the 2014 and 2015 financial years have the performance hurdles set out in the table below:

*The EPS Options*

| CACG over the period | Percentage Vesting |
|---|---|
| Less than 8.5% | 0% |
| Equal to 8.5% | 20% |
| Between 8.5% and 10% | Straight line vesting between 20% and 50% |
| Equal to 10% | 50% |
| Between 10% and 15% | Straight line vesting between 50% and 100% |
| Equal to or greater than 15% | 100% |

Exercise conditions for options granted to the CEO:

g) The exercise conditions for 200,000 of the options granted to the CEO on 1 January 2013 (of which 160,000 did not vest and were lapsed on 23 November 2017) were the same as set out above for FY15 except that 20% vest below 8.5% CAGR for FY15 and FY17

h) The exercise conditions for the 250,000 options granted to the CEO in 2016 are the same as set out above in paragraphs (a)-(e).

i) Where in the opinion of the Board:
   i. a participant in the Company's LTIP has acted fraudulently or dishonestly, has engaged in serious misconduct or has materially breached his or her duties or obligations to the Company or any of its subsidiaries;
   ii. the participant has been involved in a material misstatement, error or omission in the financial statements of the Company or any of its subsidiaries; or
   iii. the Company is required or entitled by law to reclaim remuneration from the participant,

   then the Board may determine all or any of the following:
   i. that any options (whether or not capable of exercise) held by the participant will lapse;
   ii. any shares held by the participant as a result of exercise of the options will be deemed to be forfeited; or
   iii. where the participant has sold, encumbered or otherwise transferred shares it received as a result of exercise of the options, the participant must repay to the Company as a debt all or part of the proceeds or benefit received from the sale, encumbrance or transfer of those Shares.

### Company performance and the link to remuneration

Long term incentives are based on Adjusted EPS Growth and Total Shareholder Returns. Short term incentives are based on Adjusted NPAT growth and balanced scorecard outcomes.

The table below provides a summary of the Company's earnings performance for the current and prior years:

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| Group Revenue ($m) | 278 | 265 | 234 | 217 | 199 |
| Adjusted NPAT ($m)[1] | 44.6 | 40.4 | 37.6 | 36.3 | 35.5 |
| Share price ($) | 13.58 | 12.99 | 10.10 | 9.00 | 10.79 |
| Change in share price ($) | 0.59 | 2.89 | 1.10 | -1.79 | -0.11 |
| Dividends paid (cents) | 45 | 42 | 40 | 40 | 39 |
| TSR (%)[2] | 14.9 | 39.3 | 8.7 | -8.7 | 2.1 |
| Adjusted EPS (cents) | 70 | 63 | 60 | 59 | 60 |

[1] The financial information in this table has been derived from the audited financial statements. The Adjusted NPAT and Adjusted EPS are non-IFRS financial information and as such have not been audited in accordance with Australian Accounting Standards.
[2] TSR for the 12 month period to 30 June.

*STI Outcomes*

The cash bonus pool for FY18 of $2.176 million has been determined under AUB's STI plan by reference to the Company exceeding the Adjusted NPAT target for FY18.

| ($m) | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| Cash bonuses | 2.176 | 2.861 | 1.417 | 0.200 | 0.879 |

## REMUNERATION REPORT (CONTINUED)

*LTI Outcomes*

The LTI outcomes for FY18 are tested at the date that the Company lodges its audited financial statements with the Australian Securities Exchange. On this basis, it is possible that based on the Company's Adjusted EPS and TSR for the relevant measurement period comprising FY16, FY17 and FY18, a portion of the EPS options and TSR options granted to senior executives under the 2015 LTIP will vest and become exercisable after this date. The Remuneration & People Committee will meet and determine whether vesting conditions have been met and will make a recommendation in this respect for the Board's determination at its meeting scheduled to take place on 23rd October 2018. LTIP grants for FY19 will also be determined at this meeting.

The movement in LTI outcomes for FY18 for Senior Employees and the CEO are summarised in the LTIP tables below:

**Options**

SENIOR EMPLOYEES (including KMP's)

| LTIP Calendar Year (tranche) | Opening | Issued | Lapsed | Exercised | Remaining | Earliest vesting date | Lapse date |
|---|---|---|---|---|---|---|---|
| 2013 (9th) | 24,246 | - | 24,246 | - | - | 30-Oct-16 | 5-Oct-20 |
| 2014 (10th) | 27,861 | - | - | - | 27,861 | 31-Oct-18 | 31-Oct-21 |
| 2015 (11th) | 94,396 | - | 16,714 | - | 77,682 | 31-Oct-19 | 31-Oct-22 |
| 2016 (12th) | 115,702 | - | 22,192 | - | 93,510 | 31-Oct-20 | 31-Oct-23 |
| 2017 (13th) | - | 80,217 | 2,962 | - | 77,255 | 31-Oct-21 | 31-Oct-24 |
| Total | 262,205 | 80,217 | 66,114 | - | 276,308 | | |

CEO

| LTIP Calendar Year (tranche) | Opening | Issued | Lapsed | Exercised | Remaining | Earliest vesting date | Lapse date |
|---|---|---|---|---|---|---|---|
| 2012 (1st) | 160,000 | - | 160,000 | - | - | 1-Jan-16 | 1-Jan-20 |
| 2015 (2nd) | 250,000 | - | - | - | 250,000 | 1-Jan-19 | 1-Jan-23 |
| Total | 410,000 | - | 160,000 | - | 250,000 | | |

**Shares issued as a result of the exercise of options**

During the financial year, no options were exercised to acquire shares in AUB Group Limited under the LTIP.

All options are granted over shares in the ultimate controlling entity AUB Group Limited.

**Unissued shares**

As at the date of this report, there were 526,308 unissued ordinary shares under options as part of the Long Term Incentive Plan that have not vested. Refer to note 16 of the financial statements for further details of the options outstanding.

Option holders do not have any right, by virtue of the option, to participate in any share issue of the Company or any related body corporate.

**Employment contracts**

**Chief Executive Officer**

The CEO, Mr Searles, is employed under contract terminating on 31 December 2018, subject to twelve months' notice by either party.

**CEO Remuneration**

From 1 July 2017, Mr Searles received fixed remuneration of $656,737 per annum.

Mr Searles was granted 233,000 options on 1 January 2013 to subscribe for ordinary shares under the Senior Executive Option Plan.

73,000 of these options vested under this grant on 1 January 2016 and, the remaining 160,000 options did not meet the performance hurdles and accordingly were lapsed on 23 November 2017.

Mr Searles was granted 250,000 additional options on 7 April 2016 to subscribe for ordinary shares under the Senior Executive Option Plan. The options are subject to performance conditions tested at the First Test Date and vest on 1 January 2019. Unvested options are retested at the Second Test Date and may vest at 1 January 2020 subject to performance hurdles being met.

The exercise price for each option was zero for all of the options.

**CEO Termination Provisions**

Mr Searles or the company may terminate his contract by giving twelve months written notice. If Mr Searles terminates the contract prior to 31 December 2018, any unvested options held will be forfeited.

The Company may terminate the contract at any time without notice if serious misconduct has occurred. Where termination with cause occurs, Mr Searles is only entitled to that portion of remuneration that is fixed, and only up to the date of termination. On termination with cause any unvested options will immediately be forfeited.

**Other Key Management Personnel**

Other KMPs have letters of offer of employment or employment contracts with no fixed term, and varying periods up to six months for either party to terminate. Details of remuneration are contained in Tables 3 and 4.

## REMUNERATION REPORT (CONTINUED)

### Table 1: Shareholdings of Key Management Personnel

| Shares held in AUB Group Limited at 30 June 2018 | Balance at 30-Jun-17 | Shares acquired during year | Shares disposed during year | Balance at 30-Jun-18 |
|---|---|---|---|---|
| Directors | | | | |
| R. J. Carless | 19,973 | - | - | 19,973 |
| D. C. Clarke | 10,143 | - | - | 10,143 |
| R. J. Low | 9,710 | - | - | 9,710 |
| P. A. Lahiff | 5,000 | 4,000 | - | 9,000 |
| C. L. Rogers (appointed 3 May 2018) | - | - | - | - |
| M. P. L. Searles | 74,049 | - | - | 74,049 |
| Executives | | | | |
| J. Blackledge | - | - | - | - |
| M. Shanahan | - | - | - | - |
| E. Henderson | - | - | - | - |
| F. Pasquini | 77,039 | - | - | 77,039 |
| K. McIvor | - | - | - | - |
| N. Thomas | 989 | - | - | 989 |
| S. Vohra | - | - | - | - |
| A. Zissis | - | - | - | - |
| Total | 196,903 | 4,000 | - | 200,903 |

### Table 2: Option holdings of Key Management Personnel

| Options held at 30 June 2018 | Balance at beginning of period 01-Jul-17 | Granted as remuneration | Options exercised | Options lapsed/ forfeited | Balance at end of period 30-Jun-18 | Total options at year end: Vested/ exercisable | Total options at year end: Not vested/not exercisable |
|---|---|---|---|---|---|---|---|
| Director | | | | | | | |
| M. P. L. Searles | 410,000 | - | - | 160,000 | 250,000 | - | 250,000 |
| Executives | | | | | | | |
| J. Blackledge | 30,452 | - | - | 30,452 | - | - | - |
| F. Pasquini | 39,365 | 10,591 | - | 4,366 | 45,590 | - | 45,590 |
| N. Thomas | 37,228 | 10,599 | - | 3,923 | 43,904 | - | 43,904 |
| S. Vohra | 40,020 | 10,600 | - | 4,994 | 45,626 | - | 45,626 |
| A. Zissis | 11,628 | 9,946 | - | - | 21,574 | - | 21,574 |
| Total | 568,693 | 41,736 | - | 203,735 | 406,694 | - | 406,694 |

The outstanding options have an exercise price of $NIL.

During the current year a total of 80,217 zero priced options were issued (41,736 to KMP).

There are no loans outstanding owing by Key Management Personnel at 30 June 2018.

## REMUNERATION REPORT (CONTINUED)

**Compensation of Directors and other Key Management Personnel**

**Table 3: Statutory Reporting Basis – period ending 30 June 2018**

The table below outlines senior management team remuneration as calculated in accordance with accounting standards and the Corporations Act 2001 requirements. The amounts shown are equal to the amount expensed in the Company's financial statements for the particular year.

| | | Short-term | | | Post employment | Share- based payment | | |
|---|---|---|---|---|---|---|---|---|
| 30-Jun-18 | Year | Salary & fees $ | Cash short term incentive* $ | Non monetary benefits $ | Super-annuation $ | Equity options** $ | Total Remuneration $ | Total per-formance related $ |
| **Non Executive Directors** | | | | | | | | |
| D. C. Clarke | 2018 | 163,014 | - | - | 15,486 | - | 178,500 | - |
| | 2017 | 163,014 | - | - | 15,486 | - | 178,500 | - |
| R. J. Carless | 2018 | 90,000 | - | - | 25,000 | - | 115,000 | - |
| | 2017 | 75,000 | - | - | 30,000 | - | 105,000 | - |
| P. A. Lahiff | 2018 | 105,023 | - | - | 9,977 | - | 115,000 | - |
| | 2017 | 95,890 | - | - | 9,110 | - | 105,000 | - |
| R. J. Low | 2018 | 124,201 | - | - | 11,799 | - | 136,000 | - |
| | 2017 | 115,068 | - | - | 10,932 | - | 126,000 | - |
| C. L. Rogers | 2018 | 15,466 | - | - | 1,469 | - | 16,935 | - |
| | 2017 | - | - | - | - | - | - | - |
| **Executive Director** | | | | | | | | |
| M. P. L. Searles | 2018 | 618,556 | 438,766 | 15,037 | 25,000 | 289,835 | 1,387,194 | 52.52% |
| | 2017 | 616,096 | 558,106 | 14,377 | 34,992 | 289,835 | 1,513,406 | 56.03% |
| **Executives** | | | | | | | | |
| J. Blackledge | 2018 | 307,055 | 50,000 | - | 25,000 | - | 382,055 | 13.09% |
| | 2017 | 323,840 | 205,224 | 366 | 30,000 | 41,017 | 600,447 | 41.01% |
| M. Shanahan | 2018 | 104,083 | - | 336 | 9,888 | - | 114,307 | 0.00% |
| | 2017 | - | - | - | - | - | - | - |
| E. Henderson | 2018 | 135,353 | - | 805 | 10,577 | - | 146,735 | 0.00% |
| | 2017 | - | - | - | - | - | - | - |
| F. Pasquini | 2018 | 274,725 | 155,805 | 52,256 | 25,000 | 66,698 | 574,484 | 38.73% |
| | 2017 | 279,567 | 198,182 | 38,882 | 32,307 | 39,612 | 588,550 | 40.40% |
| K. McIvor*** | 2018 | 669,008 | 50,000 | - | - | - | 719,008 | 6.95% |
| | 2017 | 190,682 | 68,757 | - | - | - | 259,439 | 26.50% |
| S. Vohra | 2018 | 324,299 | 155,932 | 1,992 | 25,000 | 66,750 | 573,973 | 38.80% |
| | 2017 | 318,956 | 198,344 | 1,992 | 30,000 | 39,641 | 588,933 | 40.41% |
| N. Thomas | 2018 | 304,655 | 155,928 | 21,627 | 25,000 | 66,110 | 573,320 | 38.73% |
| | 2017 | 278,721 | 198,339 | 37,555 | 34,147 | 39,003 | 587,765 | 40.38% |
| A. Zissis | 2018 | 303,713 | 139,613 | 2,050 | 25,000 | 41,739 | 512,115 | 35.41% |
| | 2017 | 272,526 | 150,000 | 1,584 | 25,890 | 17,423 | 467,423 | 35.82% |
| Total Remuneration | 2018 | 3,539,151 | 1,146,044 | 94,103 | 234,197 | 531,132 | 5,544,627 | |
| Total Remuneration | 2017 | 2,729,360 | 1,576,952 | 94,756 | 252,864 | 466,531 | 5,120,463 | |

Statutory remuneration represents the accounting expense of remuneration in the financial year. It includes salary remuneration, annual and long service leave payments, the amortisation expense of deferred share awards previously granted and an accrual for short term incentives (STI).

* STI amounts included above relate to the accrued provision in respect of years performance that will be paid during the following financial year if each KMP achieves at least 85% of their personal objectives for the performance to 30 June 2018. The 2018 amounts are yet to be approved by the Remuneration and Nominations Committee and are subject to each KMP achieving their personal objectives for the year.

** Share based payments are calculated on the accrued cost to the company recognising that options issued to KMP will vest over 3 years after taking into account a 40 -50% probability that the Group will achieve the performance hurdles required for those options to vest.

*** 2018 remuneration for K McIvor is the total received in respect to his role as a member of the Group Executive including any amounts paid in New Zealand.

*** 2017 remuneration for K McIvor is in respect to his role as a member of the Group Executive and does not include other remuneration received for his role as Managing Director of New Zealand operations totalling $367,973, which were paid to K McIvor in New Zealand.

## REMUNERATION REPORT (CONTINUED)

**Compensation of Directors and other Key Management Personnel (continued)**

**Table 4 – Cash and vesting basis - period ending 30 June 2018**

The table below outlines remuneration received individually during the year including the prior year STI paid in cash in the reporting year and the benefit received from vesting of shares granted under the Employee Share Option Scheme.

| | | Short-term | | | Post employment | Share-based payment | | |
|---|---|---|---|---|---|---|---|---|
| | Year | Salary & fees | Cash short term incentive* | Non monetary benefits | Super-annuation | Equity options** | Total Remuneration | Total per-formance related |
| 30-Jun-18 | | $ | $ | $ | $ | $ | $ | $ |
| **Non Executive Directors** | | | | | | | | |
| D. C. Clarke | 2018 | 163,014 | - | - | 15,486 | - | 178,500 | - |
| | 2017 | 163,014 | - | - | 15,486 | - | 178,500 | - |
| R. J. Carless | 2018 | 90,000 | - | - | 25,000 | - | 115,000 | - |
| | 2017 | 75,000 | - | - | 30,000 | - | 105,000 | - |
| P. A. Lahiff | 2018 | 105,023 | - | - | 9,977 | - | 115,000 | - |
| | 2017 | 95,890 | - | - | 9,110 | - | 105,000 | - |
| R. J. Low | 2018 | 124,201 | - | - | 11,799 | - | 136,000 | - |
| | 2017 | 115,068 | - | - | 10,932 | - | 126,000 | - |
| C. L. Rogers | 2018 | 15,466 | - | - | 1,469 | - | 16,935 | - |
| | 2017 | - | - | - | - | - | - | - |
| **Executive Director** | | | | | | | | |
| M. P. L. Searles | 2018 | 618,556 | 638,796 | 15,037 | 25,000 | - | 1,297,389 | 49.24% |
| | 2017 | 616,096 | 235,933 | 14,377 | 34,992 | - | 901,398 | 26.17% |
| **Executives** | | | | | | | | |
| J. Blackledge | 2018 | 307,055 | 272,120 | - | 25,000 | - | 604,175 | 45.04% |
| | 2017 | 323,840 | 87,508 | 366 | 30,000 | - | 441,714 | 19.81% |
| M. Shanahan | 2018 | 104,083 | - | 336 | 9,888 | - | 114,307 | 0.00% |
| | 2017 | - | - | - | - | - | - | - |
| E. Henderson | 2018 | 135,353 | - | 805 | 10,577 | - | 146,735 | 0.00% |
| | 2017 | - | - | - | - | - | - | - |
| F. Pasquini | 2018 | 274,725 | 191,019 | 52,256 | 25,000 | - | 543,000 | 35.18% |
| | 2017 | 279,567 | 99,353 | 38,882 | 32,307 | - | 450,109 | 22.07% |
| K. McIvor*** | 2018 | 669,008 | 92,140 | - | - | - | 761,148 | 12.11% |
| | 2017 | 190,682 | 94,055 | - | - | - | 284,737 | 33.03% |
| S. Vohra | 2018 | 324,299 | 145,771 | 1,992 | 25,000 | - | 497,062 | 29.33% |
| | 2017 | 318,956 | 84,617 | 1,992 | 30,000 | - | 435,565 | 19.43% |
| N. Thomas | 2018 | 304,655 | 222,235 | 21,627 | 25,000 | - | 573,517 | 38.75% |
| | 2017 | 278,721 | 81,924 | 37,555 | 34,147 | - | 432,347 | 18.95% |
| A. Zissis | 2018 | 303,713 | 150,000 | 2,050 | 25,000 | - | 480,763 | 31.20% |
| | 2017 | 272,526 | 997 | 1,584 | 25,890 | - | 300,997 | 0.33% |
| Total Remuneration | 2018 | 3,539,151 | 1,712,081 | 94,103 | 234,197 | - | 5,579,532 | |
| Total Remuneration | 2017 | 2,729,360 | 684,387 | 94,756 | 252,864 | - | 3,761,367 | |

*STI amounts above is what was paid during each financial year for performance during the prior financial year using agreed KPI's.

** The actual remuneration relating to share based payments is $NIL for all KMP's. No options vested during the year that gave rise to a benefit (cash or deferred) that would entitle any KMP to a payment.

*** 2018 Remuneration for K McIvor is the total received in respect to his role as a member of the Group Executive including any amounts paid in New Zealand.

*** 2017 remuneration for K McIvor is in respect to his role as a member of the Group Executive and does not include other remuneration received for his role as Managing Director of New Zealand operations totalling $367,973, which were paid to K McIvor in New Zealand.

## REMUNERATION REPORT (CONTINUED)

**Table 5: Number of options granted as part of remuneration**

| Options held at 30 June 2018 | Granted no. | Grant date | Fair value per option at grant date ($) (note 16) | Exercise price per option ($) (note 16) | Expiry date | First exercise date | Last exercise date |
|---|---|---|---|---|---|---|---|
| **Executives** | | | | | | | |
| F. Pasquini | 10,591 | 23-Nov-17 | 11.83 | 0.00 | 23-Nov-22 | 23-Nov-20 | 23-Nov-22 |
| S. Vohra | 10,600 | 23-Nov-17 | 11.83 | 0.00 | 23-Nov-22 | 23-Nov-20 | 23-Nov-22 |
| N. Thomas | 10,599 | 23-Nov-17 | 11.83 | 0.00 | 23-Nov-22 | 23-Nov-20 | 23-Nov-22 |
| A. Zissis | 9,946 | 23-Nov-17 | 11.83 | 0.00 | 23-Nov-22 | 23-Nov-20 | 23-Nov-22 |
| Total | 41,736 | | | | | | |

Where options are exercised within two years after the date the options vest, the resulting shares issued cannot be disposed of prior to the expiry of the two year period from the date the options originally vested, except if employment is terminated or the employee resign s.

**Table 6: Value of options granted as part of remuneration to Key Management Personnel (Consolidated)**

| 30 June 2018 | * Value of options granted during the year $ | Value of options exercised during the year $ | | ** Percentage of remuneration consisting of value share based payments incurred during the year % | Shares issued on exercise of options: Number of shares issued on exercise of options No. | Shares issued on exercise of options: Paid per share on shares issued on exercise of options $ | Options fully vested during the year No. |
|---|---|---|---|---|---|---|---|
| **Directors** | | | | | | | |
| M. P. L. Searles | - | - | - | 20.89% | - | - | - |
| **Executives** | | | | | | | |
| J. Blackledge | - | - | - | 0.00% | - | - | - |
| F. Pasquini | 125,292 | - | - | 11.61% | - | - | - |
| S. Vohra | 125,398 | - | - | 11.63% | - | - | - |
| N. Thomas | 125,386 | - | - | 11.53% | - | - | - |
| A. Zissis | 117,661 | - | - | 8.15% | - | - | - |
| Total | 493,737 | - | - | | - | - | - |

* Total gross value of options granted during the year which will vest over three years if all performance hurdles required for options to vest, are met.

** Share based payments as a percentage of remuneration is calculated on the accrued cost to the company recognising that options issued to KMP will vest over 3 years after taking into account a 40 - 50% probability that the Group will achieve the performance hurdles required for those options to vest.

## REMUNERATION REPORT (CONTINUED)

**Table 7: Options granted, vested or lapsed during the year**

| 30 June 2018 | Grant year (FY) | Granted during current year | Award date | vesting date | Fair value of options at grant date | Number lapsed during year | Number vested during year |
|---|---|---|---|---|---|---|---|
| M. P. L. Searles | 2013 | - | 15-Jan-13 | 1-Jan-16 | $7.38 | 160,000 | - |
| J. Blackledge | 2016 | - | 23-Nov-15 | 23-Nov-18 | $7.31 | 8,357 | - |
| | 2017 | - | 8-Dec-16 | 23-Nov-18 | $9.36 | 8,357 | - |
| | 2017 | - | 24-Jan-17 | 24-Jan-20 | $8.99 | 13,738 | - |
| F. Pasquini | 2014 | - | 30-Oct-13 | 30-Oct-16 | $10.06 | 4,366 | - |
| | 2018 | 10,591 | 23-Nov-17 | 23-Nov-20 | $11.83 | - | - |
| S. Vohra | 2014 | - | 30-Oct-13 | 30-Oct-16 | $10.06 | 4,994 | - |
| | 2018 | 10,600 | 23-Nov-17 | 23-Nov-20 | $11.83 | - | - |
| N. Thomas | 2014 | - | 30-Oct-13 | 30-Oct-16 | $10.06 | 3,923 | - |
| | 2018 | 10,599 | 23-Nov-17 | 23-Nov-20 | $11.83 | - | - |
| A. Zissis | 2018 | 9,946 | 23-Nov-17 | 23-Nov-20 | $11.83 | - | - |
| | | 41,736 | | | | 203,735 | - |

All options were issued with an exercise price of $NIL and the expiry date of the options is 4 years after the vesting date.

## DIRECTORS' MEETINGS

The number of Directors' meetings (including meetings of committees of Directors) held during the year and the numbers of meetings attended by each Director were as follows:

| | | Meetings of Committees | | |
|---|---|---|---|---|
| | Directors' Meetings | Audit & Risk Management | Nomination | Remuneration & People |
| No. of meetings held: | 7 | 6 | 7 | 5 |
| No. of meetings attended: | | | | |
| R. J. Carless | 6 | 6 | 7 | 5 |
| D. C. Clarke | 7 | 6 | 7 | 5 |
| P. A. Lahiff | 7 | 6 | 7 | 5 |
| R. J. Low | 7 | 6 | 7 | 5 |
| C. L. Rogers* | 1 | 1 | 1 | 1 |
| M. P. L. Searles* | 7 | 6 | 6 | 5 |

*Mr Searles was not a member of any Committee but attended committee meetings as an invitee. Ms Rogers was appointed as a Director on 3 May 2018 and has attended all meetings that she was eligible to attend in FY18.

### Committee membership

As at the date of this report, the Company had an Audit & Risk Management Committee, Remuneration & People Committee and a Nomination Committee of the Board of Directors. Members acting on the committees of the Board during the year were:

| Audit & Risk Management | Remuneration & People | Nomination |
|---|---|---|
| R. J. Low (Chair) | D. C. Clarke (Chair) | D. C. Clarke (Chair) |
| R. J. Carless | R. J. Carless | R. J. Carless |
| D. C. Clarke | R. J. Low | R. J. Low |
| P. A. Lahiff | P. A. Lahiff | P. A. Lahiff |
| C. L. Rogers | C. L. Rogers | C. L. Rogers |

## ROUNDING

The amounts contained in this report and in the financial report have been rounded to the nearest $1,000 (where rounding is applicable) under the option available to the Company under ASIC instrument "Rounding in Financial/Directors' Reports" 2016/191. The Company is an entity to which this legislative instrument applies.

## AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

The Directors received an independence declaration from the auditors of AUB Group Limited. Refer to page 32 of the Directors' Report.

Non-audit services provided to the AUB Group by the entity's auditor, Ernst & Young, in the financial year ended 30 June 2018 were predominantly in relation to tax matters. Other services included independent investigation and reviews. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The nature and scope of each of the non-audit services provided means that auditor independence was not compromised. The amounts received or due to be received are detailed in Note 24 of the Financial Report.

Signed in accordance with a resolution of the Directors.

| | |
|---|---|
| D.C. Clarke | M.P.L. Searles |
| Chair | Chief Executive Officer and Managing Director |
| Sydney, 27 August 2018 | |

# AUDITOR'S INDEPENDENCE DECLARATION

Ernst & Young
200 George Street
Sydney NSW 2000 Australia
GPO Box 2646 Sydney NSW 2001

Tel: +61 2 9248 5555
Fax: +61 2 9248 5959
ey.com/au

As lead auditor for the audit of AUB Group Limited for the financial year ended 30 June 2018, I declare to the best of my knowledge and belief, there have been:

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

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

This declaration is in respect of AUB Group Limited and the entities it controlled during the financial year.

Ernst & Young

David Jewell
Partner
27 August 2018

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS

## YEAR ENDED 30 JUNE 2018

| | | Consolidated | |
|---|---|---|---|
| | | 2018 | 2017* |
| | Notes | $'000 | $'000 |
| Revenue | 4 (i) | 240,646 | 234,225 |
| Other income | 4 (ii) | 7,842 | 5,614 |
| Share of profit of associates | 4 (iii) | 29,991 | 24,670 |
| Expenses | 4 (iv) | (210,467) | (201,723) |
| Finance costs | 4 (v) | (5,320) | (4,644) |
| | | 62,692 | 58,142 |
| Income/(Expenses) arising from adjustments to carrying values of associates, sale of interests in associates, controlled entities and broking portfolios | | | |
| – Adjustments to carrying value of associates and estimates for contingent consideration and movements in put option liability | 4(vi) | 5,551 | (3,795) |
| – Profit/(loss) from sale of interests in controlled entities, associates and insurance portfolios | 4(vii) | (95) | 30 |
| Profit before income tax | | 68,148 | 54,377 |
| Income tax expense | 5 | 13,177 | 11,276 |
| Net Profit after tax for the period | | 54,971 | 43,101 |
| *Net Profit after tax for the period attributable to:* | | | |
| Equity holders of the parent | | 46,520 | 32,988 |
| Non-controlling interests | | 8,451 | 10,113 |
| | | 54,971 | 43,101 |
| Basic earnings per share (cents per share) | 8 | 72.86 | 51.67 |
| Diluted earnings per share (cents per share) | 8 | 72.59 | 51.50 |

(*) Prior period comparatives have been revised. Refer to note 2.3 for details.

# CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME
## YEAR ENDED 30 JUNE 2018

| | Consolidated | |
|---|---|---|
| | 2018 | 2017* |
| | $'000 | $'000 |
| **Net Profit after tax for the period** | 54,971 | 43,101 |
| Other comprehensive income | | |
| *Other comprehensive income to be reclassified to profit or loss in subsequent periods:* | | |
| Net movement in foreign currency translation reserve | (789) | (42) |
| Income tax benefit relating to currency translation | - | - |
| Other comprehensive income after income tax for the period | (789) | (42) |
| Total comprehensive income after tax for the period | 54,182 | 43,059 |
| | | |
| *Total comprehensive income after tax for the period attributable to:* | | |
| Equity holders of the parent | 45,849 | 32,952 |
| Non-controlling interests | 8,333 | 10,107 |
| | 54,182 | 43,059 |

(*) Prior period comparatives have been revised. Refer to note 2.3 for details.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION
## YEAR ENDED 30 JUNE 2018

| | | Consolidated | |
|---|---|---|---|
| | | 2018 | 2017* |
| | Notes | $'000 | $'000 |
| **Assets** | | | |
| *Current Assets* | | | |
| Cash and cash equivalents | 6 | 58,688 | 60,231 |
| Cash and cash equivalents – Trust | 6 | 99,969 | 93,087 |
| Trade and other receivables | 9 | 179,704 | 175,979 |
| Other financial assets | 10 | 9 | 108 |
| Total Current Assets | | 338,370 | 329,405 |
| *Non-current Assets* | | | |
| Trade and other receivables | 9 | 429 | 476 |
| Other financial assets | 10 | 18 | 51 |
| Investment in associates | 11 | 155,888 | 141,713 |
| Property, plant and equipment | 13 | 11,996 | 11,648 |
| Intangible assets and goodwill | 14 | 267,097 | 263,859 |
| Deferred income tax asset | 5 | 7,343 | 7,210 |
| Total Non-current Assets | | 442,771 | 424,957 |
| Total Assets | | 781,141 | 754,362 |
| **Liabilities** | | | |
| *Current Liabilities* | | | |
| Trade and other payables | 17 | 244,637 | 253,412 |
| Income tax payable | 5 | 5,140 | 4,706 |
| Provisions | 18 | 14,568 | 15,244 |
| Interest-bearing loans and borrowings | 19 | 8,917 | 6,169 |
| Total Current Liabilities | | 273,262 | 279,531 |
| *Non-current Liabilities* | | | |
| Trade and other payables | 17 | 26,403 | 26,845 |
| Provisions | 18 | 3,165 | 3,606 |
| Deferred tax liabilities | 5 | 8,796 | 9,672 |
| Interest-bearing loans and borrowings | 19 | 112,285 | 88,927 |
| Total Non-current Liabilities | | 150,649 | 129,050 |
| Total Liabilities | | 423,911 | 408,581 |
| Net Assets | | **357,230** | **345,781** |
| **Equity** | | | |
| Issued capital | 20 | 141,708 | 141,708 |
| Retained earnings | | 169,022 | 154,579 |
| Share based payments reserve | 21 | 6,861 | 6,090 |
| Put option reserve | 21 | (26,403) | (25,875) |
| Foreign currency translation reserve | 21 | (459) | 212 |
| Asset revaluation reserve | 21 | - | 199 |
| **Equity attributable to equity holders of the parent** | | **290,729** | **276,913** |
| Non-controlling interests | 21 | 66,501 | 68,868 |
| **Total Equity** | | **357,230** | **345,781** |

(*) Prior period comparatives have been revised. Refer to note 2.3 for details.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

## YEAR ENDED 30 JUNE 2018

| | Attributable to equity holders of the parent | | | | | | | Non-controlling interest | Total equity |
|---|---|---|---|---|---|---|---|---|---|
| | Issued capital | Retained earnings | Asset revaluation reserve | Foreign currency translation reserve | Put option reserve | Share based payment reserve | Total | | |
| Consolidated | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| At 1 July 2017 | 141,708 | 154,579 | 199 | 212 | (25,875) | 6,090 | 276,913 | 68,868 | 345,781 |
| Profit for the year | - | 46,520 | - | - | - | - | 46,520 | 8,451 | 54,971 |
| Other comprehensive income | - | - | - | (671) | - | - | (671) | (118) | (789) |
| Total comprehensive income for the year | - | 46,520 | - | (671) | - | - | 45,849 | 8,333 | 54,182 |
| Transactions with owners in their capacity as owners: | | | | | | | | | |
| Adjustment relating to movements in the voting shares in controlled entities. (see note 7 (a)) | - | (5,350) | - | - | - | - | (5,350) | (2,963) | (8,313) |
| Reduction to non-controlling interests relating to deconsolidated entities (see note 7(e)) | - | - | - | - | - | - | - | (2,120) | (2,120) |
| Transfer from asset revaluation reserve | - | 199 | (199) | - | - | - | - | - | - |
| Transfer to put option reserve | - | 528 | - | - | (528) | - | - | - | - |
| Cost of share-based payment | - | - | - | - | - | 652 | 652 | - | 652 |
| Tax benefit related to employee share trust transactions. | - | - | - | - | - | 119 | 119 | - | 119 |
| Exchange rate movements | - | - | - | - | - | - | - | (126) | (126) |
| Share issue expenses | - | - | - | - | - | - | - | - | - |
| Equity dividends | - | (27,454) | - | - | - | - | (27,454) | (5,491) | (32,945) |
| At 30 June 2018 | 141,708 | 169,022 | - | (459) | (26,403) | 6,861 | 290,729 | 66,501 | 357,230 |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
## YEAR ENDED 30 JUNE 2018

| | Attributable to equity holders of the parent | | | | | | | Non-controlling interest | Total equity |
|---|---|---|---|---|---|---|---|---|---|
| | Issued capital | Retained earnings | Asset revaluation reserve | Foreign currency translation reserve | Put option reserve* | Share based payment reserve | Total | | |
| Consolidated | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| At 1 July 2016 | 141,708 | 146,533 | 370 | 248 | (25,875) | 5,384 | 268,368 | 56,992 | 325,360 |
| Profit for the year | - | 32,988 | - | - | | - | 32,988 | 10,113 | 43,101 |
| Other comprehensive income | - | - | - | (36) | | - | (36) | (6) | (42) |
| Total comprehensive income for the year | - | 32,988 | - | (36) | - | - | 32,952 | 10,107 | 43,059 |
| Transactions with owners in their capacity as owners: | | | | | | | | | |
| Adjustment relating to movements in the voting shares in controlled entities. (see note 7(b)) | - | 745 | - | - | | - | 745 | 5,387 | 6,132 |
| Non-controlling interests relating to new acquisitions (see notes 7(d)) | - | - | - | - | | - | - | 4,886 | 4,886 |
| Transfer from asset revaluation reserve | - | 171 | (171) | - | | - | - | - | - |
| Cost of share-based payment | - | - | - | - | | 580 | 580 | - | 580 |
| Tax benefit related to employee share trust transactions. | - | - | - | - | | 126 | 126 | - | 126 |
| Equity dividends | - | (25,858) | - | - | | - | (25,858) | (8,504) | (34,362) |
| At 30 June 2017 | 141,708 | 154,579 | 199 | 212 | (25,875) | 6,090 | 276,913 | 68,868 | 345,781 |

(*) Prior period comparatives have been revised. Refer to note 2.3 for details.

# CONSOLIDATED STATEMENT OF CASH FLOWS
## YEAR ENDED 30 JUNE 2018

| | Notes | Consolidated 2018 $'000 | 2017 $'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers | | 232,837 | 226,691 |
| Dividends received from others | | 1 | 1 |
| Dividends/trust distributions received from associates | | 22,620 | 21,839 |
| Interest received | | 2,376 | 2,784 |
| Management fees received from associates/related entities | | 12,390 | 10,661 |
| Payments to suppliers and employees | | (205,095) | (186,858) |
| Income tax paid | | (14,204) | (14,976) |
| Interest paid | | (4,679) | (3,730) |
| Net cash from operating activities before customer trust account movements | | 46,246 | 56,412 |
| Net increase/(decrease) in cash held in customer trust accounts | | 11,261 | (883) |
| Net cash flows from operating activities | 6(a) | 57,507 | 55,529 |
| **Cash flows from investing activities** | | | |
| Proceeds from reduction in interests in controlled entities | 7(a),(b) | 1,639 | 6,624 |
| Payment for increase in interests in controlled entities | 7(a),(b) | (10,327) | (165) |
| Payments for new consolidated entities, net of cash acquired | 7(c),(d),(e) | (8,656) | (1,001) |
| Cash outflow from sale/deconsolidation of controlled entities | 7(e) | (2,760) | - |
| Payment for new associates | 11 | (3,031) | (8,477) |
| Payment for new broking portfolios purchased by members of the economic entity | | (460) | - |
| Proceeds from sale of broking portfolios by member of the economic entity | | - | 60 |
| Proceeds from sale of associates | | 38 | - |
| Proceeds from sale of other financial assets | | (4) | 2 |
| Proceeds from new shares issued to non-controlling interests | 7(a) | 368 | - |
| Proceeds from sale of plant and equipment | | 659 | 326 |
| Payment for plant and equipment and capitalised projects | | (5,733) | (6,457) |
| Repayment/(advances) of loans to associates/related entities | | 103 | 123 |
| Proceeds from loan repayments from associates/related entities | | - | - |
| Net cash flows (used in) investing activities | | (28,164) | (8,965) |
| **Cash flows from financing activities** | | | |
| Dividends paid to shareholders | | (27,454) | (25,858) |
| Dividends paid to shareholders of non-controlling interests | | (5,491) | (8,504) |
| Payment for contingent consideration on prior year acquisitions | 6(b) | (18,411) | (23,555) |
| Increase in borrowings and lease liabilities | 6(b) | 27,428 | 6,610 |
| Advances to related entities | | (76) | (385) |
| Net cash flows (used in)/from financing activities | | (24,004) | (51,692) |
| **Net increase in cash and cash equivalents** | | 5,339 | (5,128) |
| Cash and cash equivalents at beginning of the period | | 153,318 | 158,446 |
| Cash and cash equivalents at end of period | 6(a) | 158,657 | 153,318 |

## 1. CORPORATE INFORMATION

The financial report of AUB Group Limited for the year ended 30 June 2018 was authorised for issue in accordance with a resolution of the directors on 27 August 2018.

AUB Group Limited is a for profit company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange.

The principal activities during the year of entities within the consolidated Group were the provision of insurance broking services, distribution of ancillary products, risk services and conducting underwriting agency businesses.

## 2.1 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies and methods of computation are the same as those adopted in prior years except for those detailed in note 2.3.

## 2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (a) Basis of preparation of the financial report

The financial report is a general purpose financial report which has been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report has been prepared on a historical cost basis, except where otherwise stated.

The financial report is presented in Australian dollars ($) and all values are rounded to the nearest $1,000 (where rounding is applicable), unless otherwise stated, under the option available to the Company under ASIC instrument "Rounding in Financial / Directors' Reports" 2016/191. The Company is an entity to which this legislative instrument applies.

Certain previous period comparative information has been revised in this financial report to conform with the current period's presentation.

### (b) Statement of compliance

The financial report complies with Australian Accounting Standards as issued by the Australian Accounting Standards Board and International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board.

### (c) Basis of consolidation

The consolidated financial statements are those of the consolidated entity, comprising AUB Group Limited (the parent company) and all entities that AUB Group Limited (the Group) controlled from time to time during the year and at the reporting date.

Information from the financial statements of controlled entities is included from the date the parent entity obtains control until such time as control ceases. Where there is a loss of control of a controlled entity, the consolidated financial statements include the results for the part of the reporting period during which the parent entity had control.

The financial information in respect of controlled entities is prepared for the same reporting period as the parent company using consistent accounting policies. Adjustments are made to bring into line dissimilar accounting policies that may exist.

All intercompany balances and transactions, including unrealised profits arising from intra-Group transactions, have been eliminated in the consolidated accounts. Unrealised losses are eliminated unless costs cannot be recovered.

Non-controlling interests represent the portion of profit or loss and net assets in subsidiaries which are not 100% owned by the AUB Group. These are presented separately in the Consolidated Statement of Profit or Loss and within equity in the Consolidated Statement of Financial Position. When the Group acquires a non-controlling interest in a subsidiary, the transaction is accounted for as a transaction between owners in their capacities as owners and the difference between purchase price and recorded value of non-controlling interest is accounted for as an equity transaction.

**Transactions with owners in their capacity as owners**

A change in ownership interest without loss of control is accounted for as an equity transaction. The difference between the consideration transferred and the book value of the share of the non-controlling interest acquired or disposed is recognised directly in equity attributable to the parent entity.

Where the parent entity loses control over a controlled entity, it derecognises the assets including goodwill, liabilities and non-controlling interests in the controlled entity together with any cumulated translation differences previously recognised in equity. The Group recognises the fair value of the consideration received and the fair value of the investment retained together with any gain or loss in the Consolidated Statement of Profit or Loss.

## 2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**(d) Earnings per share**

Basic earnings per share is calculated as net profit attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends), divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share is calculated as net profit attributable to members of the parent, adjusted for:

- costs of servicing equity (other than dividends)
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares;

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

**(e) Significant 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 and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances, the result of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions.

Management has identified the following critical accounting policies for which significant judgements, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

Further details of the nature of these assumptions and conditions may be found in the relevant notes to the financial statements.

*(i) Significant accounting judgements*

Deferred tax assets are recognised for deductible temporary differences as management considers that it is probable that future tax profits will be available to utilise those temporary differences.

*(ii) Significant accounting estimates and assumptions*

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

*Impairment of goodwill/intangibles and investments in associates*

The Group determines whether goodwill is impaired at least on an annual basis and for any identifiable intangibles and investments in associates that have an indicator of impairment. This requires an estimation of the recoverable amount of the cash-generating units to which the goodwill is allocated. The assumptions used in this estimation of recoverable amount and the carrying amount of goodwill are discussed in note 15.

*Share-based payment transactions*

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the options at the date at which they are granted. The fair value of options has been valued taking into account the vesting period, expected dividend payout and the share price at the date the options were granted.

*Net assets acquired in a business combination*

The Group measures the net assets acquired in a business combination at their fair value at the date of acquisition. Fair value is estimated with reference to market transactions for similar assets or Discounted Cash Flow (DCF) analysis.

*Estimation of useful lives of assets*

The estimation of useful lives of assets has been based on historical experience as well as lease terms for office fitouts. In addition, the condition of the asset is assessed at least once per year and considered against the remaining useful life. Adjustments to useful lives are made when considered necessary.

*Fair value of assets acquired*

The Group measures the net assets acquired in business combinations at their fair value at the date of acquisition. If new information becomes available within one year of acquisition about the facts and circumstances that existed at the date of acquisition, then any revisions to the fair value previously recognised, will be retrospectively adjusted.

*Re-estimation of put options financial liability*

A financial liability has been recognised representing an estimate of the value the Group could be required to pay on the future exercise by holders of put options. The Group re-estimates put options financial liability at the reporting date, taking into account the estimated future outcomes for income or profit, on which the purchase price will be determined. Historical trends and any relevant external factors are taken into account in determining the likely outcome.

**(f) Cash and cash equivalents**

Cash and cash equivalents, and cash and cash equivalents - trusts (trust cash), in the Consolidated Statement of Financial Position comprise cash at bank, in hand and short-term deposits with an original maturity of three months or less.

Trust cash relates to cash held for insurance premiums received from policyholders which will ultimately be paid to underwriters.

Trust cash cannot be used to meet business obligations/operating expenses other than payments to underwriters and/or refunds to policyholders.

For the purposes of the Consolidated Statement of Cash Flows, cash and cash equivalents as defined above are shown net of outstanding bank overdrafts.

## 2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (g) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

*Commission, brokerage and fees*

Commission, brokerage and fees are recognised when it is probable that the Group will be compensated for services rendered and the amount of consideration for such services can be reliably measured. This is deemed to be the invoice date. An allowance is made for anticipated lapses and cancellations.

*Interest*

Revenue is recognised as interest accrues using the effective interest method.

*Dividends and Distributions from trusts*

Revenue is recognised when the shareholder's right to receive the payment is established.

*Management fees*

Revenue is recognised when the service has been performed and the right to receive the payment is established.

*Other Income*

"Other income" revenue is recognised when the service has been performed and the right to receive the payment is established.

### (h) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement. This 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.

Leases where the lessor retains substantially all the risks and benefits of ownership are classified as operating leases.

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in the Consolidated Statement of Profit or Loss.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in the Consolidated Statement of Profit or Loss on a straight-line basis over the lease term. Lease incentives are recognised in the Consolidated Statement of Profit or Loss as an integral part of the total lease expense.

### (i) Trade and other receivables

Trade and other receivables which generally have 30 day credit terms, are recognised and carried at original amount less an allowance for lapses and cancellations. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written-off when identified.

Receivables include amounts due from policyholders in respect of insurances arranged by controlled entities. Insurance brokers have credit terms of 90 days from policy inception to pay funds received from policyholders to insurers. Insurance policies that are not paid in 90 days of inception of the insurance are, in the absence from approval from insurer of an extended term to pay, cancelled from inception date. The Group's exposure in relation to these receivables is limited to commissions and fees charged.

### (j) Investment in associates

The Group's investments in its associates are accounted for under the equity method of accounting in the Consolidated Financial Statements. These are entities in which the Group has significant influence and which are not controlled entities. The Group deems they have significant influence if they have more than 20% of the voting rights.

The financial statements of the associates are used by the Group to apply the equity method. The reporting dates of the associates and the AUB Group are identical and adjustments are made to bring into line dissimilar accounting policies used by associates.

The investment in associates is carried in the Consolidated Statement of Financial Position at cost plus post-acquisition changes in the Group's share of net assets of the associates, less dividends and any impairment in value. The Consolidated Statement of Profit or Loss reflects the Group's share of the results of operations of the associates.

Where there has been a change recognised directly in the associate's equity, the Group recognises its share of any changes and discloses this, when applicable, in the Consolidated Statement of Comprehensive Income.

### (k) Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing process. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Gains and losses are recognised in profit or loss when the liabilities are derecognised.

*Borrowing costs*

Borrowing costs are recognised as an expense when incurred.

### (l) Trade and other payables

Liabilities for trade creditors and other amounts are carried at amortised cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the entity. Payables to related parties are carried at the principal amount. Interest, when charged, is recognised as an expense on an accrual basis. Payables are normally settled on 90 day terms.

Trade and other payables include amounts payable to insurers in respect of insurances arranged by controlled entities. Insurance brokers have credit terms of 90 days from policy inception to pay funds received from policyholders to insurers. Insurance policies that are not paid in 90 days of inception of the insurance are, in absence from approval from insurer of an extended term to pay, cancelled from inception date.

## 2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (l) Trade and other payables (continued)

*Put option financial liability*

The Group recognises put options financial liability initially at present value of the value the Group could be required to pay on the future exercise by holders of the put options. After initial recognition, put options financial liability is subsequently measured at amortised cost using the effective interest method. The Group re-estimates put options financial liability at the reporting date, taking into account the estimated future outcomes for income or profit, on which the purchase price will be determined. The Group recalculates the carrying amount of these put options financial liability by computing the present value of estimated future cash flows at the financial liability's original effective interest rate. The adjustment is recognised through the Consolidated Statement of Profit or Loss as income or expense.

### (m) Investments and other financial assets

*Loans and Receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the Consolidated Statement of Profit or Loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

### (n) Derecognition of financial assets and financial liabilities

*(i) Financial assets*

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred or retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration received that the Group could be required to repay.

When continuing involvement takes the form of a written and/or purchased option on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

*(ii) Financial liabilities*

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

### (o) Impairment of financial assets

*(i) Financial assets carried at amortised cost*

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through use of an allowance account. The amount of the loss is recognised in profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in profit or loss, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

*(ii) Financial assets carried at cost*

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the current market rate of return for a similar financial asset.

## 2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (p) Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash-generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses relating to continuing operations are recognised in those expense categories consistent with the function of the impaired asset unless the asset is carried at revalued amount (in which case the impairment loss is treated as a revaluation decrease).

Other than for goodwill and insurance broking register, an assessment is also made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

### (q) Business combinations

The acquisition method of accounting is used to account for all business combinations. Cost is measured as the fair value of the assets given, shares issued or liabilities assumed at the date of exchange. All acquisition costs including stamp duty and legal fees are charged against profits as incurred.

Change in the ownership interest in a controlled entity (without loss of control) is accounted for as a transaction with owners in their capacity as owners and these transactions will not give rise to a gain or loss in the Consolidated Statement of Profit or Loss. Where there is a change in ownership and the Group loses control, the gain or loss will be recognised in the Consolidated Statement of Profit or Loss and the carrying value of non-controlling interests is reset to fair value.

In the year a new business is acquired, an estimate is made of the fair value of the future contingent consideration. Any variation to this amount in future periods (either up or down) is recognised through the Consolidated Statement of Profit or Loss. Over accruals are recognised as income in the year the amount is reversed and any under accruals are charged as an expense against profits. The contingent consideration is carried in the Consolidated Statement of Financial Position at net present value. The interest expense in the Consolidated Statement of Profit or Loss relating to the unwinding of this discounting is offset by a reduction in deferred tax which was raised at the time the net present value adjustment was recognised.

All identifiable assets acquired and liabilities and contingent liabilities assumed in the business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interests.

*(i) Goodwill*

Goodwill on acquisition is initially measured at cost, being the excess of the cost of the business combination over the acquirer's interest in the fair value of the identifiable net assets acquired at the date of acquisition. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses and is not amortised.

As at the acquisition date, any goodwill acquired is allocated to each of the cash-generating units expected to benefit from the combination's synergies.

Goodwill is reviewed for impairment annually, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit and part of the operation of that unit is disposed, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation.

Impairment losses recognised for goodwill are not subsequently reversed.

## 2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (q) Business combinations (continued)

*(ii) Intangible assets - Insurance Broking Register*

Identifiable intangible assets acquired separately or in a business combination are initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment costs. Internally generated intangible assets are not capitalised and expenditure is charged against profits in the year in which the expenditure is incurred.

The useful lives of these intangible assets are assessed to be finite. Intangible assets with finite lives are amortised over the useful life, currently estimated to be 10 years for broking portfolios/client relationships and 15 years for financial services businesses (life risk), and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an identifiable intangible asset with a finite useful life is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, which is a change in accounting estimate. The amortisation expense on identifiable intangible assets with finite lives is recognised in the expense category of the Consolidated Statement of Profit or Loss consistent with the function of the intangible asset.

Gains or losses arising from derecognition of an identifiable intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the Consolidated Statement of Profit or Loss when the asset is derecognised.

*(iii) Revaluation*

When a business combination occurs, the acquiree's identifiable assets and liabilities are notionally restated to their fair value at the date of the exchange transaction to determine the amount of any goodwill associated with the transaction. Any adjustment to those fair values relating to previously held interests of the acquiree is accounted for as an adjustment to fair value and the movement is reflected in the Consolidated Statement of Profit or Loss as either a profit or loss. Prior to 1 July 2009, adjustments to fair value were accounted for as a revaluation. This revaluation which related to broking registers was credited to the asset revaluation reserve and included in the equity section of the Consolidated Statement of Financial Position.

For revaluations that occurred prior to 1 July 2009, an annual transfer from the asset revaluation reserve to retained earnings is made for the difference between amortisation based on the revalued carrying amounts of the broking register and amortisation based on the broking registers' original costs.

Upon disposal, any revaluation reserve relating to the particular broking register being sold is transferred to retained earnings.

### (r) Provisions and employee benefits

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

*Employee benefits*

Liabilities for employee entitlements to annual leave and other current entitlements are accrued at amounts calculated on the basis of current wage and salary rates, including package costs and on-costs. Liabilities for non accumulating sick leave are recognised when the leave is taken and are measured at the rate paid or payable.

Liabilities for employee entitlements to long service leave, which are not expected to be settled within twelve months after balance date, are accrued at the present value of the future amounts to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary level, experience of employee departures and periods of service. The discount factor applied to all such future payments is determined using the corporate bond rates attaching as at the reporting date, with terms to maturity that match, as closely as possible, the estimated future cash outflows.

Any contributions made to the accumulated superannuation funds by entities within the Group are charged against profits when due.

### (s) Issued capital

Ordinary share capital is recognised at the fair value of the consideration received by the company, net of issue costs.

Ordinary shares have the right to receive dividends as declared and, in the event of winding up the company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held.

Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the company.

## 2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (t) Share-based payment transactions

The Group provides benefits to employees (including executive directors) of the Group in the form of share-based payments, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions').

An Employee Share Options Plan (ESOP) is in place which provides benefits to executive directors and senior executives.

The cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. Details of methodology to value of options is included in note 16.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of AUB Group Limited (market conditions) if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the vesting period).

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the Group's best estimate of the number of equity instruments that will ultimately vest. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date. The Consolidated Statement of Profit or Loss charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards that are cancelled or where vesting is only conditional upon a market condition.

In the event options are cancelled, or cancelled and reissued, the unexpensed cost for these is brought forward and recognised immediately in addition to the expense for any reissued/new options.

If the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured, at the date of modification.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share (see note 8).

### (u) Foreign currency

Transactions in foreign currencies are translated to the respective functional currencies of the entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currencies at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year adjusted for payments during the year and the amortised cost in foreign currency translated at the exchange rate at the end of the year.

The assets and liabilities of foreign operations are translated to Australian dollars at exchange rates at the reporting date. The income and expenses of foreign operations are translated to Australian dollars at exchange rates on the dates of the transactions. Foreign currency differences are recognised in other comprehensive income and presented in the foreign currency translation reserve, in equity. If the foreign operation is not a wholly owned controlled entity then the relevant proportion of the translation difference is allocated to non-controlling interests.

### (v) Income tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the year end date as presented in the Consolidated Statement of Financial Position.

Deferred income tax is provided on all temporary differences at the date of the Consolidated Statement of Financial Position between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the taxable temporary differences associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future. No deferred tax liability has been recognised in respect of any potential profit on the disposal of an associate or controlled entity by the Group as there is no intention of disposing of these assets in the foreseeable future. Any tax liability will be recognised when the asset is disposed.

## 2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (v) Income tax (continued)

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- when the deductible temporary differences arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the deductible temporary differences associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each year end date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each year end date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the year end date as presented in the Consolidated Statement of Financial Position.

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

### (w) Other taxes

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST) except:

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Consolidated Statement of Financial Position.

Cash flows are included in the Consolidated Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows. Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

### (x) Property, plant and equipment

Property, plant and equipment, is stated at cost less depreciation and any impairment in value.

Depreciation is calculated on a straight-line over the estimated useful life of the asset as follows:

- Motor vehicles 5 to 8 years.
- Plant and equipment 5 to 10 years.

*Impairment*

The carrying value of property, plant and equipment is reviewed for impairment at each reporting date, with recoverable amount being estimated when events or changes in circumstances indicate the carrying value may be impaired.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs. If any such indication exists and where the carrying value exceeds the estimated recoverable amount, the asset or cash generating unit is written down to their recoverable amount.

*Derecognition and disposal*

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

### (y) Make good provision

A provision has been made for the present value of anticipated costs of future restoration of leased premises. The provision includes future cost estimates associated with dismantling existing fitouts, repainting of premises and carpet replacement where necessary.

The calculation of this provision requires assumptions such as engineering cost estimates and future labour costs. These uncertainties may result in future expenditure differing from the amounts currently provided. The provision recognised for each site is periodically reviewed and updated based on the facts and circumstances available at the time. Changes to the estimates of future costs are recognised in the Consolidated Statement of Financial Position by adjusting both the expense or asset and the provision. The related carrying amounts are disclosed in note 18.

## 2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (z) Operating Segments

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by members of the senior executive management team who are the entity's chief operating decision makers (CODM) to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available.

Operating segments that meet the quantitative criteria as prescribed by AASB 8 are reported separately. However, an operating segment that does not meet the aggregation criteria is still reported separately where information about the segment would be useful for the users of the financial statements. Information about other business activities and operating segments that are below the quantitative criteria are combined and disclosed in a separate category.

The company's corporate structure includes equity investments in insurance intermediary entities.

The activities of an Insurance intermediary involves providing insurance products, advice and services to clients which range from individuals to small, medium and large enterprises. Within the AUB Group, the intermediaries are made up of insurance brokers, underwriting agencies and other providers of insurance related services. The activities of these businesses are similar in nature, regardless of whether it is a general insurance risk business or life insurance risk business.

The only significant difference between the operations is that the underwriting agencies distribute through other intermediaries (brokers) to the final customer. All businesses within the network (both in Australia and New Zealand) deal with the same underwriters, earn income based on a commission and/or fee structure and the underwriting agencies are licenced under the same regulatory framework as insurance brokers.

The New Zealand broking market, whilst operating under a separate statutory regime and geographic region, operates in a similar manner to brokers in Australia and therefore is not considered a separate operating segment.

Discrete financial information about each of these segments is reported to management on a regular basis and the operating results are monitored separately for the purposes of resource allocation and performance assessment. AUB Group have defined these operations as being a separate segment, “Insurance Intermediary Business”.

Although Risk services entities within the group supply insurance related services to the same underwriters that support our brokers and underwriting agencies, they do not earn commission in the same way but rather tender for business and are paid on a fee for service basis based on the tasks they perform. Risk Services businesses also differ from Insurance Intermediary segment in that they do not require an Australian Financial Services Licence (AFSL) to operate and are governed by different legislation and therefore are considered a separate segment, "Risk Services".

## 2.3. CORRECTION OF PRIOR PERIOD ERROR

Comparative information has been revised where appropriate to enhance comparability. Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

Certain amounts reported as comparative information have changed as a result of a correction in the accounting for put options issued to non-controlling interests. A financial liability has now been recognised representing an estimate of value the Group could be required to pay on the future exercise by holders of the put options (30 June 2017: $25.875m; 1 July 2016: $25.875m).

The corresponding effect is decrease/increase in profit or loss recorded in note 4 (v) and note 4 (vi) (year ended 30 June 2017: $NIL; year ended 1 July 2016: $NIL), a decrease in equity recorded in 'Put option reserve' (30 June 2017: $25.875m; 1 July 2016: $25.875m) and a decrease in retained earnings (30 June 2017: $NIL; 1 July 2016: $NIL).

The correction has been applied by revising each of the affected financial statement line items for the prior periods. The following tables summarise the line items that have been impacted by this change on the Group's consolidated financial statements. As a result, some of the sub-totals and totals disclosed have also been revised.

| Consolidated Statement of Profit Or Loss | For the year ended 30 June 2017 | Change | As restated for the year ended 30 June 2017 |
|---|---|---|---|
| Finance Costs | 4,133 | 511 | 4,644 |
| Movement in fair value of put option liability | - | (511) | (511) |
| Profit before tax | - | - | - |
| Income tax expense | - | - | - |
| Net profit after tax for the year | 43,101 | - | 43,101 |
| | | | |
| Net profit for the year attributable to: | | | |
| Equity holders of the parent | 32,988 | - | 32,988 |
| Non-controlling interests | 10,113 | - | 10,113 |
| | | | |
| Basic earnings per share (cents per share) | 51.67 | - | 51.67 |
| Diluted earnings per share (cents per share) | 51.50 | - | 51.50 |

| Consolidated Statement of Financial Position | Opening balance at 1 July 2016 | Change | Opening balance As restated at 1 July 2016 | Balance at 30 June 2017 | Change | As restated For the year ended 30 June 2017 |
|---|---|---|---|---|---|---|
| **Non-current liabilities** | | | | | | |
| Trade and Other liabilities | 11,452 | 25,875 | 37,327 | 970 | 25,875 | 26,845 |
| Total non-current liabilities | 11,452 | 25,875 | 37,327 | 970 | 25,875 | 26,845 |
| | | | | | | |
| **Equity** | | | | | | |
| Issued capital | 141,708 | - | 141,708 | 141,708 | - | 141,708 |
| Put option reserve | - | (25,875) | (25,875) | - | (25,875) | (25,875) |
| Retained earnings | 146,533 | - | 146,533 | 154,579 | - | 154,579 |
| Other reserves | 6,002 | - | 6,002 | 6,501 | - | 6,501 |
| Equity attributable to equity holders of the parent | 294,243 | (25,875) | 268,368 | 302,788 | (25,875) | 276,913 |
| Non-controlling interests | 56,992 | - | 56,992 | 68,868 | - | 68,868 |
| Total equity | 351,235 | (25,875) | 325,360 | 371,656 | (25,875) | 345,781 |

## 3. NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

Certain Australian and International Accounting Standards and interpretations have recently been issued or amended but are not yet effective and have not been adopted by the group for the year end reporting period 30 June 2018. The directors have assessed the impact of these new or amended standards and interpretations (to the extent relevant to the group) as follows:

**AASB 15: Revenue from Contracts with Customers**

AASB 15 Revenue from Contracts with Customers will come into effect for the Group on 1 July 2018, and will replace all current revenue standards and interpretations, including AASB 118 Revenue.

The new standard establishes the principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows, which arise from an entity's contracts with customers. The core principle of AASB 15 requires an entity to recognise revenue upon satisfaction of performance obligations, which occurs when control of the goods or services are transferred to the customer.

The Group will adopt AASB 15 in the financial year beginning 1 July 2018, using the modified retrospective approach. The modified retrospective approach recognises the cumulative effect of initially applying the standard, as an adjustment through equity on 1 July 2018, with no restatement of the prior year comparative numbers.

At the date of the financial report, the Group has substantially completed its assessment of the impact of AASB 15 on both its operating segments, namely, its insurance intermediary segment and its risk services segment, and based on this assessment, the Group has revised its accounting policy on revenue recognition. The new revenue recognition policy will be implemented on 1 July 2018.

**(i) Insurance intermediary segment**

**Commission, brokerage and fee income**

After completing a detailed investigation, the Group confirms that upon application of AASB 15 on its insurance intermediary segment, commissions, brokerage and fee income in respect of broking and underwriting agency services ('insurance intermediary income') will continue to be recognised upon issue of an invoice.

As part of the Group's investigation, the Group considered whether this revenue should be recognised at invoice date, or insurance policy inception date. Based on the main considerations that (a) the fact that the Group acts primarily as an agent of the customer and as an agent of the insurer while acting in the capacity of underwriting agent; (b) the Group's performance obligations are distinct from those of the insurer; and (c) the Group's performance obligations are predominantly completed prior to the inception of the insurance policy, the Group has concluded that invoice date is the relevant date to recognise its insurance intermediary income.

The Group has identified two new performance obligations, so that under AASB 15, a portion of the insurance intermediary revenue which was recognised at invoice date, will now be allocated to additional performance obligations with the associated revenue recognised over time.

In addition to broking and underwriting agency services, revenue will now be recognised as the following distinct performance obligations are satisfied over time:

(i) Claims handling services – the work performed by the broker on behalf of the customer to manage any claims which arise during the policy period; and

(ii) Premium settlement activities – the administrative work involved in settling unpaid fees and commissions, including collection of monies and processing transactions.

Consideration received by the Group for services usually consists of a fixed component and/or a variable component. Under AASB 15, where the Group receives revenue that includes a variable amount, the Group will recognise the variable amount of revenue only to the extent that it is highly probable that a significant reversal of revenue will not occur when the uncertainty associated with the variability is resolved. If the recognition criteria are not met, the Group will defer the recognition of the revenue until that uncertainty has been resolved.

After its evaluation, the Group can confirm that it does not expect a material change in the revenue recognition pattern for profit commissions or override commissions under AASB 15.

The Group generally recognises profit commissions using probability estimates, and this will continue to the extent the recognition criteria for variable consideration are met.

Brokers' override commissions are generally recognised upon receipt of the insurers' advice of the amount of commission earned, which is not expected to change under AASB 15.

**(ii) Risk services segment**

**Fee income**

Generally, the Group recognises revenue for its risk services segment upon issue of an invoice plus an accrual for a percentage of completion of any work in progress (including a profit margin), which has yet to be invoiced, but for which the Group has an enforceable right of payment. Under AASB 15, this method of revenue recognition will not change.

Revenue for other services performed by the risk services segment is recognised once the services have been performed and provided to the customer. Under AASB 15, the Group will continue to recognise revenue once services have been provided to the customer, to the extent the recognition criteria for variable consideration are met.

## 3. NEW ACCOUNTING STANDARDS AND INTERPRETATIONS (CONTINUED)

**AASB 15: Revenue from Contracts with Customers (continued)**

**Quantitative impact of AASB 15**

Based on a detailed analysis, the Group has assessed the cumulative effect of the initial application of AASB 15 as at 1 July 2018 and anticipates there will be a decrease in the range of $4.0 million and $5.0 million to equity (including retained earnings) on 1 July 2018, with a corresponding adjustment to deferred revenue, deferred tax and the carrying value of associates. See the table below for the estimated impact of AASB 15. The Group anticipates the most likely impact to be in the high range, which may differ from the actual impact upon adoption.

The deferral of revenue under AASB 15 is a reflection of a shift in the timing of revenue recognised, not in the quantum of revenue recognised.

This deferral, mainly arises from the change in the timing of the recognition of a portion of insurance intermediary revenue, which, under AASB 15, will now be allocated to two new distinct performance obligations, namely claims handling services and premium settlement activities, along with an amount for policy cancellations. As a result, the insurance intermediary revenue will still be recognised at invoice date, but the portion associated with claims handling services and premium settlement activities will, under AASB 15, be recognised over time as the services are provided to the customer and variable consideration is constrained to reflect potential cancellations.

**Quantitative impact of AASB 15 on equity at 1 July 2018***

| | Range | |
|---|---|---|
| | Low | High |
| | $'000 | $'000 |
| *Adjustments to equity for controlled entities and associates:* | | |
| Revenue | 3,300 | 4,200 |
| Share of profit of associates | 1,690 | 2,060 |
| Impact of AASB 15 | 4,990 | 6,260 |
| Income tax expense (30%) | 990 | 1,260 |
| Impact of AASB 15 after tax | 4,000 | 5,000 |
| *Impact of AASB 15 on retained earnings and NCI:* | | |
| Equity holders of the parent | 3,600 | 4,500 |
| Non-controlling interests | 400 | 500 |
| Impact of AASB 15 after tax - total impact on equity | 4,000 | 5,000 |

*This table shows the estimated impact of AASB 15 which may differ from the actual impact upon adoption of the accounting standard

**AASB 16: Leases**

AASB 16 Leases will replace AASB 117 Leases and other related interpretations. The new lease standard will be effective from the annual reporting period commencing 1 July 2019. All leases should be recognised on the balance sheet at inception of the lease with the exception of short-term leases (less than 12 months) and leases of low-value assets. The lessee must recognise a right-of-use asset and a corresponding lease liability in the amount of the present value of the lease payments. Subsequent to this initial measurement, the right-of-use asset is depreciated over the lease term, whilst lease payments are separated into a principal and interest portion to wind up the lease liability over the lease term.

Although depreciation on the right-of-use asset will be recorded on a straight-line basis, the total periodic expense (i.e. the sum of interest and depreciation expenses) will be generally higher in the early periods and lower in the later periods. As a constant interest rate is applied to the lease liability, interest expenses decrease as lease payments are made during the lease term and the lease liability decreases. This trend in the interest expense, combined with straight-line depreciation of the right-of-use asset, results in a front-loaded expense recognition pattern.

**Impact on financial report**

At this stage, the Group is not able to reasonably measure the quantitative impact arising from AASB 16 as there may be new lease agreements between the date of this report and the effective date of AASB 16, which could be materially different from the existing lease agreements. Nevertheless, after its initial assessment on the impact arising from AASB 16, the Group anticipates that upon adoption of this standard:

• The Group's Statement of Financial Position will be grossed up (both assets and liabilities) to reflect the rights and obligations relating to the Group's leases. For leased properties occupied by the Group, the Statement of Financial Position will hold a depreciating non-financial asset and the associated payable under the lease. Refer to the current existing commitments Note 22 in the financial report for an indicator of the impact of the gross up.

• In the Consolidated Statement of Other Comprehensive Income, net rental expense will be replaced by a higher upfront interest expense which will diminish over time and a straight-lined depreciation expense amortised over the term of the lease. This is expected to have some impact on the Group's earnings before interest and tax ('EBIT').

The Group is considering the available options for transition which include "full retrospective" and "modified retrospective" approaches. The Group will determine in due course which transition approach will be adopted.

**AASB 9: Financial Instruments**

AASB 9 (December 2014) is a new standard that replaces AASB 139, which will be effective from the annual reporting period commencing 1 July 2018. This new standard supersedes AASB 9 issued in December 2009 ( as amended) and AASB 9 (issued in December 2010) and includes a model for classification and measurement, a single, forward looking "expected loss" impairment model and a substantially reformed approach to hedge accounting.

**Impact on financial report**

The Group does not expect material changes arising from this new standard.

## 4. REVENUE AND EXPENSES

| | Consolidated 2018 $'000 | Consolidated 2017 $'000 |
|---|---|---|
| **(i) Revenue** | | |
| Commission, brokerage and fee income | 228,256 | 223,564 |
| Management fees from related entities | 12,390 | 10,661 |
| Total revenue | 240,646 | 234,225 |
| **(ii) Other income** | | |
| Dividends from other persons/corporations | 1 | 1 |
| Interest from related persons/corporations | 23 | 32 |
| Interest from other persons/corporations | 2,353 | 2,752 |
| Other income | 5,465 | 2,829 |
| Total other income | 7,842 | 5,614 |
| **(iii) Share of profit of associates** | | |
| Share of net profits of associates accounted for using the equity method before amortisation (net of income tax expense) | 33,197 | 27,462 |
| Amortisation of intangibles – associates | (3,206) | (2,792) |
| Total share of profit of associates | 29,991 | 24,670 |
| **(iv) Expenses** | | |
| Amortisation of Intangibles - controlled entities | 4,032 | 3,763 |
| Amortisation of capitalised Project Costs | 574 | 415 |
| Advertising and Marketing | 3,864 | 2,607 |
| Audit fees | 1,661 | 1,609 |
| Business Technology and software costs | 8,766 | 7,821 |
| Commission expense | 13,242 | 12,173 |
| Depreciation of property plant and equipment | 2,690 | 2,851 |
| Insurance | 4,662 | 4,640 |
| Legal Fees/Acquisition Costs | 1,289 | 1,774 |
| Rent (operating leases) | 11,145 | 10,786 |
| Salaries and wages | 140,475 | 134,411 |
| Share-based payments | 652 | 580 |
| Travel/Telephone/Motor/Stationery | 9,156 | 8,122 |
| Other expenses | 8,259 | 10,171 |
| Total other expenses | 210,467 | 201,723 |
| **(v) Finance costs** | | |
| Interest paid and other borrowing costs | 4,762 | 4,133 |
| Interest unwind on put option liability | 558 | 511 |
| Total finance costs | 5,320 | 4,644 |
| **(vi) Adjustments to carrying value of associates and contingent consideration payments and put option liability** | | |
| Adjustments to carrying value of entities (to fair value) on the date they became controlled entities or deconsolidated (see notes 7(e),(d)) | 7,752 | 4,334 |
| Movement in put option liability | 31 | 511 |
| Adjustment to contingent consideration on acquisition of controlled entities and associates (see note 15) | 287 | (5,657) |
| Impairment charge relating to the carrying value of associates and goodwill (see note 15) | (2,519) | (2,983) |
| Total adjustments to carrying value of associates and contingent consideration payments and put option liability | 5,551 | (3,795) |
| **(vii) Profit from sale of interests in controlled entities and insurance portfolios** | | |
| Loss on sale on deconsolidation of controlled entities (see note 7(e)) | (339) | - |
| Profit from sale of insurance portfolios | 244 | 30 |
| Total profit from sale of interests in controlled entities and insurance portfolios | (95) | 30 |

## 5. INCOME TAX

| | Consolidated | |
|---|---|---|
| | 2018 | 2017 |
| | $'000 | $'000 |
| Major components of income tax expense | | |
| **Consolidated Statement of Profit or Loss** | | |
| *Current income tax* | | |
| Current income tax charge | 14,254 | 14,145 |
| Adjustment for prior years | (14) | (292) |
| *Deferred tax credit* | | |
| Origination and reversal of temporary differences | (1,063) | (2,577) |
| Total income tax expense in Consolidated Statement of Profit or Loss | 13,177 | 11,276 |

| | 2018 | 2017 |
|---|---|---|
| A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the company's applicable income tax rate is as follows: | | |
| Profit before income tax | 68,148 | 54,377 |
| At the Company's statutory income tax rate of 30% (2017: 30%) | 20,444 | 16,313 |
| Rebateable dividends | - | - |
| Equity accounted income from associates | (6,587) | (5,759) |
| Non-taxable/deductible (gains)/losses on sale | 501 | (650) |
| (Over)/under provision prior year | (14) | (292) |
| Income taxed at different tax rates on overseas operations | (119) | (60) |
| Put options liability | 158 | - |
| Non taxable distributions from associates operating as trusts | (130) | (154) |
| Adjustments to contingent consideration on acquisition of controlled entities and associates | (86) | 1,697 |
| Adjustments to the carrying value of entities (to fair value) on the date they became controlled entities or deconsolidated | (2,259) | (1,300) |
| Impairment charge relating to the carrying value of associates and controlled entities | 755 | 895 |
| Non deductible expenses/other | 514 | 586 |
| Income tax expense reported in the Consolidated Statement of Profit or Loss | 13,177 | 11,276 |

| | 2018 | 2017 |
|---|---|---|
| Income tax payable | 5,140 | 4,706 |

## 5. INCOME TAX (CONTINUED)

| | Consolidated Statement of Financial Position | | Consolidated Statement of Profit or Loss | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | $'000 | $'000 | $'000 | $'000 |
| **Deferred income tax** | | | | |
| Deferred income tax at 30 June relates to the following: | | | | |
| *Deferred tax liability* | | | | |
| Income accrued not yet assessable | 2,284 | 2,026 | 258 | 205 |
| Unamortised value of broker register | 7,700 | 8,753 | - | - |
| Tax credit on insurance broking registers amortisation expense | (1,188) | (1,107) | (1,188) | (1,107) |
| Deferred income tax liabilities | 8,796 | 9,672 | | |
| *Deferred tax asset* | | | | |
| Provisions and accruals not yet claimed for tax purposes | 7,343 | 7,210 | (133) | (1,675) |
| Deferred income tax assets | 7,343 | 7,210 | | |
| Deferred tax credits | | | (1,063) | (2,577) |

### Tax consolidation

For the purposes of income taxation, AUB Group Limited (AUB) entered into a Consolidated Tax Group with its 100% owned subsidiaries. Tax consolidation results in the subsidiary members being treated as part of the Head Company for tax purposes rather than as a separate taxpayers.

The Income Tax Assessment Act (1997) provides that the Consolidated Tax Group is to be treated as a single entity for Australian tax purposes with the Head Company responsible for the tax payable. AUB formally notified the Australian Taxation Office of its adoption of the tax consolidation regime.

The Consolidated Tax Group was formalised by entering into tax sharing and tax funding agreements in order to allocate income tax payable to group members. Each member of the group calculates tax expense on an entity basis. The agreement also provides that AUB carries forward tax funding assets or tax funding liabilities for which an intercompany loan is recognised between the parties.

### Tax effect accounting by members of the tax consolidated group

Members of the tax consolidated group have entered into a tax funding agreement. The tax funding agreement provides for the allocation of current taxes to members of the tax consolidated group in accordance with their accounting profit for the period, while deferred taxes are allocated to members of the tax consolidated group in accordance with the principles of AASB 112 Income Taxes. Allocations under the tax funding agreement are made at the end of each quarter.

### Effective Tax Rate

AUB is conscious of its social responsibility to pay corporate taxes. The Group's effective Australian corporate tax rate at 30 June 2017 was 30.9%.

The information reported by the Australian Taxation Office (ATO) (as prescribed by statute) in respect of corporate tax entities will not necessarily provide the complete picture, particularly for organisations such as AUB that receive the majority of its income through franked dividends.

The AUB consolidated group consists of AUB Group Limited, the parent entity and ASX listed entity, plus over 130 businesses wholly or partly owned by the parent entity, including associates.

The AUB Tax Consolidation Group (AUB TCG), comprises only AUB Group Limited (the parent entity) and its 100% wholly owned entities. The primary income of the AUB TCG is the receipt of franked dividend income received from the partly owned entities. Given tax has already been paid in respect of the franked dividends, the AUB TCG is entitled to a credit equal to that tax. That is, the franking credits attaching to the dividends reflect tax that has already been paid by the individual entity paying the dividends. While the franking credits represent tax paid, they are reflected in the income tax return of the AUB TCG group as an offset against AUB's gross tax, thereby reducing the amount disclosed as "tax payable". Accordingly, the amount disclosed by the ATO their report is after the franking credits have been taken into account.

## 6. CASH AND CASH EQUIVALENTS

### a) Cash and cash equivalents

| | Consolidated | |
|---|---|---|
| | 2018 | 2017 |
| | $'000 | $'000 |
| Reconciliation of profit after tax to net cash flows from operations | | |
| Profit after tax for the period | 54,971 | 43,101 |
| Equity accounted (profits) after income tax | (29,991) | (24,670) |
| Dividends/trust distributions received from associates | 22,620 | 21,839 |
| Amortisation of intangibles | 4,032 | 3,763 |
| Amortisation of capitalised project costs | 574 | 415 |
| Depreciation of fixed assets | 2,690 | 2,851 |
| Share options expensed | 652 | 580 |
| Net movement in put option liability (including interest unwind) | 527 | - |
| Profit/Loss from sale of insurance portfolios and controlled entities | 95 | (30) |
| Adjustment to contingent consideration on acquisition of controlled entities and associates | (287) | 5,657 |
| Adjustments to carrying value of entities (to fair value) on the date they became controlled entities or deconsolidated | (7,752) | (4,334) |
| Impairment charge relating to the carrying value of associates and goodwill | 2,519 | 2,983 |
| *Changes in assets and liabilities* | | |
| Decrease/(increase) in trade and other receivables | (1,593) | 3,918 |
| (Decrease)/increase in trade and other payables | (2,210) | 4,002 |
| (Increase)/decrease in trust receivables | (9,386) | (8,074) |
| Increase/(decrease) in trust payables | 20,647 | 3,973 |
| Increase in provisions | 426 | 3,253 |
| (Increase) in deferred tax asset | (344) | (1,511) |
| | (483) | 130 |
| (Decrease)/increase in provision for tax | (200) | (2,317) |
| Net cash flows from operating activities | 57,507 | 55,529 |
| Cash and cash equivalents | 58,688 | 63,546 |
| Cash and cash equivalents – trust | 99,969 | 89,772 |
| Total cash and cash equivalents | 158,657 | 153,318 |

Due to acquisitions/disposal of consolidated entities during the year, some changes in assets and liabilities shown above will not agree to the movements in the Consolidated Statement of Financial Position.

Trust cash (other than undrawn income) cannot be used to meet business obligations/operating expenses other than payments to underwriters and/or refunds to policyholders.

## 6. CASH AND CASH EQUIVALENTS (CONTINUED)

### b) Changes in liabilities arising from financing activities

**New and amended standards and interpretations**

The Group applied for the first time certain amendments to the standards, which are effective for annual periods beginning on or after 1 July 2017. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

The nature and the impact of each new standard or amendment is described below:

**AASB 2016-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107**

The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). The Group has provided below the information for both the current and the comparative period.

| | Consolidated | | | | | | |
|---|---|---|---|---|---|---|---|
| Year ended 30 June 2018 | 1 July 2017 $'000 | Cash Flows $'000 | Foreign Exchange movement $'000 | Changes in fair value $'000 | New leases $'000 | Other $'000 | 30 June 2018 $'000 |
| Current interest-bearing loans and borrowings (excluding items listed below) | 5,305 | 2,997 | - | - | - | - | 8,302 |
| Current obligations under finance leases and hire purchase contracts | 488 | (20) | - | - | - | - | 468 |
| Non current interest-bearing loans and borrowings (excluding items listed below) | 88,298 | 24,658 | (1,335) | - | - | - | 111,621 |
| Non current obligations under finance leases and hire purchase contracts | 629 | 22 | - | - | 13 | - | 664 |
| Amounts payable under contingent consideration arrangements | 19,272 | (18,411) | (71) | 2,130 | - | 61 | 2,981 |
| Unsecured Loan Other | 376 | (229) | - | - | - | - | 147 |
| Total liabilities from financing activities | 114,368 | 9,017 | (1,406) | 2,130 | 13 | 61 | 124,183 |

| | Consolidated | | | | | | |
|---|---|---|---|---|---|---|---|
| Year ended 30 June 2017 | 1 July 2016 $'000 | Cash Flows $'000 | Foreign Exchange movement $'000 | Changes in fair value $'000 | New leases $'000 | Other $'000 | 30 June 2017 $'000 |
| Current interest-bearing loans and borrowings (excluding items listed below) | 2,975 | 2,330 | - | - | - | - | 5,305 |
| Current obligations under finance leases and hire purchase contracts | 1,069 | (581) | - | - | - | - | 488 |
| Current unsecured loans related/other | 417 | (417) | - | - | - | - | - |
| Non current interest-bearing loans and borrowings (excluding items listed below) | 83,692 | 4,766 | (160) | - | - | - | 88,298 |
| Non current obligations under finance leases and hire purchase contracts | 493 | 136 | - | - | - | - | 629 |
| Amounts payable under contingent consideration arrangements | 32,217 | (23,555) | (78) | 10,421 | - | 267 | 19,272 |
| | - | 376 | - | - | - | - | 376 |
| Total liabilities from financing activities | 120,863 | (16,945) | (238) | 10,421 | - | 267 | 114,368 |

## 7. BUSINESS COMBINATIONS

The business combinations referred to in note 7(a) - 7(e) relate to insurance broking and underwriting agency businesses except for 7(d) PeopleSense Pty Ltd which relates to risk related services.

A major strategy of the Group is to acquire insurance broking portfolios or part ownership in insurance broking, underwriting agency and risk services businesses. The terms of these acquisitions vary in line with negotiations with individual vendors but are structured to achieve the Group's benchmarks for return on investment.

Where acquisitions include an element of purchase price contingent on business performance, management has estimated the fair value of this contingent consideration based on a best estimate of future outcomes for income or profit, on which the purchase price is determined, discounted to present value. Historical trends and any relevant external factors are taken into account in determining the likely outcome.

An increase or decrease in the weighted best estimate of future outcomes will result in an increase or decrease in contingent liabilities respectively.

For business combinations referred to in notes 7(c) and 7(d) goodwill represents the excess of the purchase consideration over the fair value of identifiable net assets acquired at the time of acquisition of the business. As at acquisition date, any goodwill relates to benefits from the combination of synergies as well as the entity's ability to generate future profits.

The Group measures the net assets acquired in business combinations at their fair value at the date of acquisition. If new information becomes available within one year of acquisition about the facts and circumstances that existed as at the date of acquisition, then any revisions to the fair value previously recognised, will be retrospectively adjusted.

## 7. BUSINESS COMBINATIONS (CONTINUED)

### (a) Equity transactions between owners–current period

**Transactions resulting in changes in shareholding**

Effective 1 July 2017, the Group acquired 10% of Sura Specialty Pty Ltd (Specialty) for $671,400 increasing its shareholding to 100%.

Effective 1 July 2017, the Group disposed of 15% of Sura Hospitality Pty Ltd (Hospitality) for $290,756 decreasing its shareholding to 85%.

Effective 1 July 2017, a controlled entity acquired 30% of SPT Financial Solutions Pty Ltd (SPTFS) for $310,757 increasing its shareholding from 70% to 100%.

Effective 1 July 2017, a controlled entity disposed of a further 5% of the voting shares in Runacres and Associates Limited (Runacres) for $1,639,260 ($NZ 1,800,000) decreasing its ownership from 90% to 85%.

Effective 31 July 2017, the Group acquired a further 10.2% of the voting shares of InterRisk Australia Pty Ltd (InterRisk) for $2,240,000 increasing its shareholding to 89.2%.

On 1 May 2018, InterRisk issued further shares to existing shareholders valued at $4,900,000 ($368,264 contribution from non-controlling interests) to enable the acquisition of a further 57% of InterRISK Qld Limited increasing its shareholding to 100%. On this date AUB increased its shareholding in InterRisk from 89.2% to 89.95%.

Effective 1 May 2018, the Group acquired a further 0.5% of InterRisk for $111,039 increasing its shareholding to 90.47%

Effective 1 November 2017, a controlled entity acquired a further 49% of the voting shares in SURA Construction Pty Ltd (Construction) for $1,379,000 increasing its ownership to 100%

Effective 1 April 2018, a controlled entity acquired a further 49% of the voting shares in SURA Engineering Pty Ltd (Engineering ) for $1,006,000 increasing its ownership to 100%.

| | Decrease in voting shares | Increase in voting shares |
|---|---|---|
| | Carrying value of assets attributable to Runacres | Carrying value of assets attributable to Construction, Engineering, SPTFS, Speciality, Hospitality and InterRisk |
| | $'000 | $'000 |
| Cash | 5,075 | 19,071 |
| Receivables | 9,800 | 31,036 |
| Property plant and equipment | 351 | 314 |
| Intangibles | 27,725 | 32,761 |
| Total assets | 42,951 | 83,182 |
| Payables and provisions | 12,251 | 46,503 |
| Tax liabilities | 2,542 | 423 |
| Total liabilities | 14,793 | 46,926 |
| Net assets | 28,158 | 36,256 |
| Non-controlling interest in net assets | (2,816) | (5,186) |
| Net assets attributable to AUB Group | 25,342 | 31,070 |
| Cash (received)/paid on sale of shares | (1,639) | 10,327 |
| Profit from sale of interests in controlled entities | - | - |
| (Increase)/decrease to non-controlling interests | (1,522) | 4,860 |
| **Transfer to retained earnings on equity transactions between owners** | **(117)** | **5,467** |

## 7. BUSINESS COMBINATIONS (CONTINUED)

### (b) Equity transactions between owners–previous period

**Transactions resulting in a decrease in shareholding**

Effective 1 July 2016, a controlled entity disposed of 7.5% of the voting shares in Austbrokers Financial Solutions (ACT) Pty Ltd (AFS (ACT)) for $166,344 decreasing its ownership from 100% to 92.5%.

On 1 July 2016, the Group disposed of 17.2% of the voting shares in Terrace Insurance Brokers Pty Ltd (Terrace) for $1,372,734 decreasing its ownership from 70.83% to 53.7%.

Effective 1 July 2016, a controlled entity disposed of 5.0% of the voting shares in Film Insurance Underwriting Agency Pty Ltd (FIUA) for $225,000 decreasing its ownership from 100% to 95%.

On 1 July 2016, a controlled entity disposed of 10% of the voting shares in Runacres and Associates Limited (Runacres) for $3,449,000 decreasing its ownership from 100% to 90%.

Effective 30 November 2016, a controlled entity, Altius Group Holdings Pty Ltd (Altius), issued shares to its employees at fair value for $899,440. The issue of the additional shares by Altius diluted the group's shareholding from 56.5% to 55.3%.

On 1 March 2017, a controlled entity disposed of 15% of the voting shares in Asia Mideast Insurance and Reinsurance Pty Limited (AMIR) for $565,000 decreasing its ownership from 75% to 60%.

**Transaction resulting in an increase in shareholding**

Effective 30 November 2016, a controlled entity acquired a further 20% of the voting shares in Atlas Insurance Broking Pty Ltd (Atlas) increasing its ownership to 100%. The purchase price was $275,000 including an upfront payment of $165,000 plus a deferred settlement of $110,000 payable over the next 2 year period.

Carrying value of assets on the date of change in voting shares were:

| | Increase in voting shares | Dilution in voting shares | Dilution in voting shares |
|---|---|---|---|
| | Carrying value of assets attributable to Atlas | Carrying value of assets attributable to Runacres | Carrying value of assets attributable to AFS (ACT), Terrace, FIUA, Altius and AMIR |
| | $'000 | $'000 | $'000 |
| Cash | 1,157 | 5,725 | 9,718 |
| Receivables | 961 | 11,454 | 10,399 |
| Property plant and equipment | 8 | 467 | 54 |
| Intangibles | 1,689 | 31,330 | 4,262 |
| Total assets | 3,815 | 48,976 | 24,433 |
| Payables and provisions | 1,862 | 11,401 | 16,141 |
| Tax liabilities | (17) | 3,341 | 194 |
| Total liabilities | 1,845 | 14,742 | 16,335 |
| Net assets | 1,970 | 34,234 | 8,098 |
| Non-controlling interest in net assets | - | - | - |
| Net assets attributable to AUB Group | 1,970 | 34,234 | 8,098 |
| **Cash (received)/paid on sale of shares** | 165 | (3,449) | (3,175) |
| Deferred settlement | 110 | - | - |
| Capital gains tax on sale of units | - | - | 217 |
| Adjustment to non-controlling interest | (179) | 3,408 | 2,158 |
| **Transfer to retained earnings on equity transactions between owners** | **(96)** | **41** | **800** |

### (c) Acquisition of new controlled entities - current period

During the current period a controlled entity, incorporated 2 new entities SURA NZ Limited and NZ Brokers Limited for a total of $2. During the period a controlled entity acquired 50% of the voting shares of AB Phillips Professional Lines Pty Ltd for $1,060,000. Net assets acquired on this acquisition were $17K.

## 7. BUSINESS COMBINATIONS (CONTINUED)

### (d) Acquisition of new controlled entities– previous period

On 1 July 2016, Altius Group Holdings Pty Limited (Altius), acquired 100% of the voting shares in PeopleSense Pty Ltd (PeopleSense) for $8,582,268 which included the fair value of the deferred consideration payment of $3,290,402 payable no later than 18 months after the date of acquisition. The maximum amount of the contingent consideration payable is $3,300,000.

The acquisition of PeopleSense was funded by a cash payment of $2,709,598 and a shares issue valued at $2,582,268. The issue of the additional shares by Altius to acquire People Sense diluted the group's shareholding from 60% to 56.5%.

On 20 June 2017, a 55% controlled entity acquired 50% of the voting shares in Bruce Park Pty Ltd (Bruce Park) for $3,963,647 increasing the Group's ownership of Bruce Park to 100% of the voting shares. The Group's share of voting shares through this transaction increased from 50% to 75%. On this date, Bruce Park ceased being an associate and became a controlled entity. The acquisition of the additional 50% of the voting shares in Bruce Park was through an issue of additional voting shares by the controlled entity valued at $1,724,971 plus a cash payment of $2,238,676. The issue of additional voting shares to a third party reduced the Group's direct ownership from 55% to 51%.

On 1 April 2017, a controlled entity acquired a further 50% of the voting shares in Blumberg Pty Ltd through an issue of additional voting shares by that controlled entity valued at $157,000. The Group already held 50% of the voting shares before this transaction and through this additional acquisition of voting shares, the consolidated group increased the voting shares to 51%. On this date, the entity ceased being an associate and became a controlled entity.

On 28 February 2017, a controlled entity acquired 40% of the voting shares in Northern Tablelands Insurance Brokers Pty Ltd (NTIB) for $1,600,000 including a contingent consideration payment of $564,000. The Group already held 50% of the voting shares before this transaction and through this additional acquisition of voting shares, the consolidated group increased the voting shares to 78%. On this date, the entity ceased being an associate and became a controlled entity.

On 30 June 2017, a controlled entity disposed of all the voting shares in All-Trans Underwriting Pty Ltd for $1.

Fair values of the identifiable assets and liabilities of PeopleSense, Bruce Park, Blumberg and NTIB as at the date of acquisition were:

| | Fair value recognised on acquisition $'000 |
|---|---|
| Cash | 4,983 |
| Receivables | 4,338 |
| Intangibles | 3,570 |
| Plant and equipment | 208 |
| Total assets | 13,099 |
| Payables and borrowings | 8,009 |
| Tax provisions | 336 |
| Deferred tax liability | 1,071 |
| Provisions | 241 |
| Total liabilities | 9,657 |
| Net assets | **3,442** |
| Net assets acquired | 3,355 |
| Current carrying value transferred from associates | 1,744 |
| **Fair value on the date the associates became controlled entities (see note 4(vi))** | **4,334** |
| **Purchase price - cash paid** | **5,984** |
| Purchase price - share issue | 4,464 |
| Purchase price - deferred payment | 3,854 |
| Total purchase price of acquisition | 20,380 |
| Goodwill arising on acquisition relating to the group | 11,672 |
| Goodwill arising on acquisition relating to non-controlling interests | 5,666 |
| Increase in non-controlling interest | 4,886 |
| **Cash outflow on acquisition is as follows;** | |
| Net cash acquired with the acquisition | 4,983 |
| Cash paid | (5,984) |
| **Net cash (outflow)** | **(1,001)** |

The acquisition of 100% of PeopleSense was effective on 1 July 2016. The acquisition contributed $1,621,364 to net profit after tax and $9,872,571 to revenue.

Since the date they became controlled entities, the acquisition of Bruce Park and NTIB contributed $197,613 to net profit after tax and $668,131 to revenue. If the acquisition had taken place at the beginning of the year, Bruce Park and NTIB would have contributed $1,178,761 and $4,620,386 to net profit after tax and revenue respectively.

## 7. BUSINESS COMBINATIONS (CONTINUED)

### (e) Consolidation/Deconsolidation of controlled entities – current period

On 1 July 2017, the Group disposed 10% of the voting shares in Austbrokers SPT Pty Ltd and its controlled entities (SPT) for $862,737 reducing its equity from 60% to 50% and therefore it was no longer consolidated from that date.

On 30 November 2017, the Group disposed all its voting shares in Asia Mideast Insurance and Reinsurance Pty Ltd, (AMIR) for $1,444,000. $600,000 was paid on completion of the sale and the balance payable after 12 months. AMIR was no longer consolidated from that date.

On 1 March 2018, the Group disposed all its voting shares in Austbrokers Premier Pty Ltd, (Premier) to an associate for $2,898,839. Premier was no longer consolidated from that date.

On 1 October 2017, the Group acquired the remaining 50% of the voting shares of Aust Re Brokers Pty Ltd (Aust Re) that it did not previously own, increasing its shareholding to 100%. On this date, Aust Re ceased to be an associate and became a controlled entity. The purchase price for the additional 50% of Aust Re was $10,500,000 including a deferred payment of $2,100,000 ($2,048,550 net present value) payable after 12 months.

Effective 1 April 2018, a controlled entity acquired 50% of the voting shares in SURA Accident and Health Pty Ltd for $NIL.

Carrying values of the assets and liabilities of consolidated / deconsolidated entities.

| | Carrying value of assets and liabilities of Aust Re and SURA AH | Carrying value of assets and liabilities of SPT, AMIR and Premier |
|---|---|---|
| | $'000 | $'000 |
| Assets | | |
| Cash | 815 | 7,623 |
| Receivables | 1,989 | 9,609 |
| Plant and equipment | - | 242 |
| Intangibles | - | 8,539 |
| Total assets | 2,804 | 26,013 |
| Liabilities | | |
| Payables and other provisions | 2,135 | 15,588 |
| Borrowings | - | 146 |
| Tax liabilities | 285 | 484 |
| Total liabilities | 2,420 | 16,218 |
| Net Assets | 384 | 9,795 |
| Non-controlling interest | - | (2,120) |
| **Net Assets attributable to AUB Group** | **384** | **7,675** |
| Carrying value of investment in associate / controlled entity | 327 | 1,442 |
| Acquisition price of controlled entity | 8,400 | - |
| Deferred consideration on acquisition of controlled entity | 2,049 | - |
| Fair value adjustment on the date the controlled entity became an Associate | - | 2,871 |
| Fair value adjustments on the date the Associates became controlled entities | 4,881 | - |
| Total purchase price/fair value of acquisition/disposal | 15,657 | 4,313 |
| Goodwill arising on acquisition relating to the group | 15,273 | - |
| Goodwill reduction on deconsolidation of controlled entities | - | (8,539) |
| **Sale proceeds - received** | - | 4,863 |
| Sale proceeds - deferred settlement | - | 844 |
| **Less: carrying value of voting shares sold** | - | (6,046) |
| **Loss on sale on deconsolidation of controlled entities** | **-** | **(339)** |
| **Fair value adjustment on the date the entity became an associate or controlled (see note 4(vii))** | **4,881** | **2,871** |
| Profit on consolidation/deconsolidation of controlled entities before tax and non-controlling interests | 4,881 | 2,532 |
| Tax expense - relating to sale of voting shares | - | 183 |
| **Total fair value adjustment/profit on deconsolidation of controlled entity** | **4,881** | **2,715** |
| **Cash outflow on acquisition/disposal is as follows:** | | |
| Net cash acquired on consolidation or reduction on deconsolidation of controlled entities | 815 | (7,623) |
| Cash (paid) on acquisition/cash received on disposal | (8,400) | 4,863 |
| **Net cash (outflow) on acquisition or deconsolidation of controlled entities** | **(7,585)** | **(2,760)** |

## 8. EARNINGS PER SHARE (EPS) / DIVIDENDS PAID AND PROPOSED

### Earnings Per Share (EPS)

**(a) Earnings used in calculating EPS**

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

**(b) Changes in weighted average number of shares**

There have been no significant transactions involving ordinary shares or potential ordinary shares that would significantly change the number of ordinary shares or potential ordinary shares outstanding between the reporting date and the date of completion of these financial statements.

**(c) Information on the classification of securities**

Options granted to employees as described in note 16 are considered to be potential ordinary shares and have been included in the determination of the diluted earnings per share to the extent they are dilutive. These options have not been included in the determination of the basic earnings per share. The amount of the dilution of these options is the average market price of ordinary shares during the year minus the exercise price.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

| | Consolidated | |
|---|---|---|
| | 2018 | 2017 |
| | $'000 | $'000 |
| Net profit attributable to ordinary equity holders of the parent | 46,520 | 32,988 |

| | 2018 Thousands shares | 2017 Thousands shares |
|---|---|---|
| Weighted average number of ordinary shares for basic earnings per share | 63,846 | 63,846 |
| Effect of dilution: | | |
| Weighted average number of shares under option adjusted for shares that would have been issued at average market price | 242 | 213 |
| Weighted average number of ordinary shares adjusted for the effect of dilution | 64,088 | 64,059 |
| Basic earnings per share (cents per share) | 72.86 | 51.67 |
| Diluted earnings per share (cents per share) | 72.59 | 51.50 |

## 8. EARNINGS PER SHARE (EPS) / DIVIDENDS PAID AND PROPOSED (CONTINUED)

**Dividends Paid and Proposed**

**(d) Equity dividends on ordinary shares:**

| | Consolidated | |
|---|---|---|
| | 2018 | 2017 |
| | $'000 | $'000 |
| *Dividends paid during the year* | | |
| Final franked dividend for financial year ended 30 June 2016: 28.0 cents | - | 17,877 |
| Interim franked dividend for financial year ended 30 June 2017: 12.5 cents | - | 7,981 |
| Final franked dividend for financial year ended 30 June 2017: 29.5 cents | 18,835 | - |
| Interim franked dividend for financial year ended 30 June 2018: 13.5 cents | 8,619 | - |
| Total dividends paid in current year | 27,454 | 25,858 |
| In addition to the above, dividends paid to non-controlling interests totalled $5,491,000 (2017: $8,504,000) | | |
| *Dividends proposed and not recognised as a liability* | | |
| Final franked dividend for financial year ended 30 June 2017: 29.5 Cents | - | 18,835 |
| Final franked dividend for financial year ended 30 June 2018: 32.0 Cents | 20,431 | - |
| | 20,431 | 18,835 |
| Dividends paid per share (cents per share) | 43.00 | 40.50 |
| Dividends proposed per share (cents per share) not recognised at balance date | 32.00 | 29.50 |

**(e) Franking credit balance**

The amount of franking credits available for the subsequent financial year are:

| | | |
|---|---|---|
| – franking account balance as at the end of the financial year at 30% (2017: 30%) | 34,498 | 34,529 |
| – franking credits that will arise from the payment of income tax payable as at the end of the financial year | 385 | 133 |
| The amount of franking credits available for future reporting periods | 34,883 | 34,662 |
| – impact on the franking account of dividends proposed or declared before the financial report was authorised for issue but not recognised as a distribution to equity holders during the year | (8,756) | (8,072) |
| The amount of franking credits available for future reporting periods after payment of dividend | 26,127 | 26,590 |

The tax rate at which paid dividends have been franked is 30% (2017: 30%)

Dividends proposed will be franked at the rate of 30% (2017: 30%)

## 9. TRADE AND OTHER RECEIVABLES

| | Consolidated | |
|---|---|---|
| | 2018 | 2017 |
| | $'000 | $'000 |
| **Current** | | |
| Trade receivables | 28,186 | 24,488 |
| Amount due from customers on broking/underwriting agency operations | 148,026 | 145,836 |
| Amount due from clients in respect of premium funding operations | 350 | 2,083 |
| Other receivables – related entities | 3,142 | 3,572 |
| Total trade and other receivables (current) | 179,704 | 175,979 |
| **Non-Current** | | |
| Trade receivables | 26 | 50 |
| Loans to associated entities | 403 | 426 |
| Total trade and other receivables (non-current) | 429 | 476 |

## 10. OTHER FINANCIAL ASSETS

| | Consolidated | |
|---|---|---|
| | 2018 | 2017 |
| | $'000 | $'000 |
| **Current** | | |
| Other | 9 | 108 |
| Total other financial assets (current) | 9 | 108 |
| **Non-current** | | |
| Other | 18 | 51 |
| Total other financial assets (non-current) | 18 | 51 |

## 11. INVESTMENT IN ASSOCIATES

| | Consolidated | |
|---|---|---|
| | 2018 | 2017 |
| **Investments at equity accounted amount:** | $'000 | $'000 |
| Associated entities – unlisted shares | 155,888 | 141,713 |

| **Associated entities (and their controlled entities)** | Equity percentage owned 2018 | 2017 | Equity accounted amount 2018 | 2017 |
|---|---|---|---|---|
| Unlisted shares - equity percentage owned and equity accounted carrying value | % | % | $'000 | $'000 |
| Austral Insurance Brokers Pty Ltd | 50.0 | 50.0 | 2,842 | 2,852 |
| Austbrokers AEI Transport Pty Ltd | 50.0 | 50.0 | 9,512 | 9,677 |
| Austbrokers ABS Aviation Pty Ltd | 50.0 | 50.0 | 404 | 277 |
| Austbrokers Dalby Insurance Brokers Pty Ltd | 50.0 | 50.0 | 2,476 | 2,483 |
| Austbrokers Hiller Marine Pty Ltd | 50.0 | 50.0 | - | - |
| Austbrokers RIS Pty Ltd | 49.9 | 49.9 | 2,635 | 2,686 |
| Austbrokers SPT Pty Ltd (became an associate on 1 July 2017) | 50.0 | 60.0 | 4,771 | - |
| A & I Member Services Pty Ltd | 50.0 | 50.0 | - | - |
| Adroit Holdings Pty Ltd | 50.0 | 50.0 | 13,437 | 13,229 |
| Austcan Risk Services (UK) Ltd ( sold 1 April 2018) | - | 30.0 | - | 89 |
| Brett Grant and Associates Pty Ltd | 50.0 | 50.0 | 1,569 | 1,596 |
| Brokerweb Risk Services Ltd * | 40.0 | 40.0 | 15,937 | 14,943 |
| Blumberg Pty Ltd | 51.0 | 51.0 | - | - |
| Bluestone Insurance Pty Ltd | 50.0 | 50.0 | - | - |
| Insurance Advisernet Australia Pty Ltd/ Insurance Advisernet Australia Unit Trust | 49.9 | 49.9 | 16,178 | 15,566 |
| Insurance Advisernet Holdings Pty Ltd / Insurance Advisernet Holdings Unit Trust | 49.9 | 49.9 | 681 | 616 |
| JMD Ross Insurance Brokers Pty Ltd | 50.0 | 50.0 | 1,154 | 969 |
| Markey Group Pty Ltd | 49.9 | 49.9 | 4,085 | 3,626 |
| Global Assured Finance Pty Ltd | 49.9 | 49.9 | - | - |
| HQ Insurance Pty Ltd | 49.7 | 40.7 | 3,740 | 2,028 |
| KJ Risk Group Pty Ltd | 49.0 | 49.0 | 1,796 | 1,728 |
| Lea Insurance Broking Pty Ltd/Lea Insurance Broking Unit Trust | 50.0 | 50.0 | 5,934 | 5,844 |
| MGA Management Services Pty Ltd | 49.9 | 49.9 | 16,686 | 14,444 |
| Northlake Holdings Pty Ltd | 50.0 | 50.0 | 5,676 | 5,558 |
| Nexus (Aust) Pty Ltd | 50.0 | 50.0 | 9,868 | 9,951 |
| Peter L Brown & Associates Pty Ltd | 49.9 | 49.9 | 636 | 582 |
| The Procare Group Pty Ltd | 50.0 | 50.0 | 11,913 | 11,322 |
| Rivers Insurance Brokers Pty Ltd | 49.9 | 49.9 | 4,626 | 3,122 |
| Supabrook Pty Ltd | 49.9 | 49.9 | 859 | 837 |
| R.G Financial Services Pty Ltd | 50.0 | 50.0 | 8 | 15 |
| SRG Group Pty Ltd | 50.0 | 50.0 | 1,999 | 2,043 |
| Western United Financial Services Pty Ltd | 49.9 | 49.9 | 2,041 | 2,010 |
| WRI Insurance Brokers Pty Ltd | 50.0 | 50.0 | 2,966 | 3,165 |
| Countrywide Tolstrup Financial Services Group Pty Ltd/Countrywide Tolstrup Group Unit Trust | 49.9 | 49.9 | 3,494 | 2,318 |
| Oxley Insurance Brokers Pty Ltd / Port Macquarie Insurance Brokers Unit Trust | 49.9 | 49.9 | - | 120 |
| Coffs Harbour Insurance Brokers Unit Trust | 37.5 | 37.5 | 158 | 153 |
| Aust Re Brokers Pty Ltd (controlled entity from 1 October 2017) | 100.0 | 50.0 | - | 1,427 |
| Cinesura Entertainment Pty Ltd | 50.0 | 50.0 | 229 | 171 |
| Fleetsure Pty Ltd | 50.0 | 50.0 | 4,038 | 3,622 |
| Longitude Insurance Pty Ltd *** | 58.5 | 58.5 | 1,355 | 837 |
| Millennium Underwriting Agency Pty Ltd ** | 50.0 | 50.0 | 602 | 508 |
| Sura Professional Risks Pty Ltd | 50.0 | 50.0 | 1,070 | 900 |
| Sura Accident and Health Pty Ltd ( controlled entity from 1 April 2018) | 100.0 | 50.0 | - | - |
| Gard Pty Ltd | 25.0 | - | 89 | - |
| Tasman Underwriting Pty Ltd | 50.0 | 50.0 | 424 | 399 |
| | | | 155,888 | 141,713 |

## 11. INVESTMENT IN ASSOCIATES (CONTINUED)

* The Group has an 80% interest in the controlled entity which has a 50% interest in Brokerweb Risk Services Ltd.

** The controlled entity owns 18.4% of Millennium Underwriting Agency Pty Ltd. The consolidated entity has a further 31.6% interest indirectly through an associate.

*** A controlled entity owns 38.75% of Longitude Insurance Pty Ltd. The consolidated entity has a further 19.33% interest indirectly through an associate.

**During the current year, the following transactions occurred;**

- On 1 July 2017, the Group disposed 10% of the voting shares in Austbrokers SPT Pty Ltd and its controlled entities (SPT) for $862,737 reducing its equity from 60% to 50%. On that date SPT became an Associate.
- On 1 October 2017, the Group acquired a further 50% of the voting shares in Aust Re Pty Ltd and its controlled entities for $10,500,000 increasing its equity from 50% to 100%. On that date Aust Re Pty Ltd became a controlled entity.
- On 1 March 2018, Rivers Insurance Brokers Pty Ltd issued voting shares to the total of $2,629,000 ($1,314,500 AUB Group Limited share) to acquire 100% of the voting shares in Austbrokers Premier Pty Limited.
- On 1 March 2018, the Group acquired a further 9.2% of the voting shares in HQ Insurance Pty Ltd for $1,717,800
- On 1 April 2018, a controlled entity acquired an additional 50% of the voting shares in SURA Accident and Health Pty Ltd for $NIL. On this date it ceased being an associate and became a controlled entity.
- On 1 April 2018, a controlled entity disposed all of the voting shares in Austcan Risk Services (UK) Ltd for $1.

There were no other associates disposed of during the year.

**During the previous year, the following transactions occurred;**

- On 13 January 2017, the consolidated entity contributed a further capital to Countrywide Tolstrup Financial Services Group Pty Ltd/Countrywide Tolstrup Group Unit Trust.
- On 1 March 2017, the consolidated entity acquired 50% of the voting shares of Fleetsure Pty Ltd.
- On 1 April 2017, the consolidated entity acquired a further 1.25% of the voting shares of Longitude Pty Ltd.
- On 1 May 2017, the consolidated entity acquired 50% of the voting shares in Lea Insurance broking Pty Ltd.
- The cost of acquisitions and additional capital in respect of these transactions was $9,387,000 including a deferred payment of $910,000.
- On 20 June 2017, a controlled entity acquired 50% of the voting shares in Bruce Park Pty Ltd on which date it became a controlled entity.
- On 1 March 2017, a controlled entity acquired 40% of the voting shares in Northern Tablelands Insurance Brokers Pty Ltd on which date it became a controlled entity.
- Further adjustments to estimated contingent consideration payable in respect of associates, resulted in a reduction to the estimates previously recognised by the Consolidated Group by $2,664,000 (see note 4(vi)). As the revised contingent consideration estimates were below the original estimated contingent consideration payments, a corresponding and offsetting impairment charge of $2,664,000 was recognised against the carrying value of that associate (see note 4(vi)).

There were no associates disposed of during the previous year.

## 11. INVESTMENT IN ASSOCIATES (CONTINUED)

Other information in respect of associated entities which carry on business directly or through controlled entities.

(a) The principal activity of each associate is insurance broking, except for associates owned by Austagencies Pty Ltd, which are underwriting agents and The Procare Group Pty Ltd which offer Risk Services.

(b) The proportion of voting power held by the controlling entity in respect of each associate is 50% except for Coffs Harbour Unit Trust where the voting power is 37.5%, Longitude Insurance Pty Ltd where voting power is 38.75%, Millennium Underwriting where the voting power is 18.4% and HQ Insurance Brokers Pty Ltd where the voting power is 49.7%.

(c) The reporting date of each associate is 30 June 2018 (prior year reporting date 30 June 2017).

(d) There have been no significant subsequent events affecting the associates' profits for the year.

(e) Other than disclosed in note 15, there were no other impairments of investment in associates for the year.

(f) All associates, including unit trusts, were incorporated or established in Australia except for Brokerweb Risk Services Ltd which is incorporated in New Zealand.

(g) The entity's share of the associate's commitments and contingent liabilities are disclosed in note 22.

(h) The entity's share of associates' profits/(losses):

| | Consolidated | |
|---|---|---|
| | 2018 | 2017 |
| | $'000 | $'000 |
| Revenue | 123,808 | 108,305 |
| Operating profits before income tax | 42,261 | 35,575 |
| Amortisation of intangibles | (3,206) | (2,792) |
| Net profit before income tax | 39,055 | 32,783 |
| Income tax expense attributable to operating profits | (9,064) | (8,113) |
| Share of associates' net profits | 29,991 | 24,670 |
| (i) The entity's share of the assets and liabilities of associates: | | |
| Current assets | 303,391 | 235,025 |
| Non-current assets | 80,551 | 61,374 |
| Current liabilities | (291,480) | (225,502) |
| Non-current liabilities | (22,873) | (14,079) |
| Net assets | 69,589 | 56,818 |
| (j) Reconciliation of carrying value of associates: | | |
| Balance at the beginning of the financial year | 141,713 | 133,894 |
| Associate acquired through new controlled entity | 38 | - |
| Acquisition of associates | 3,032 | 9,386 |
| Reclassification of investment in controlled entities to associates | 4,313 | - |
| Reclassification of investment in associates to controlled entities | (327) | (1,744) |
| Share of associates' profit after income tax | 29,991 | 24,670 |
| Impairment resulting from adjustment to contingent consideration | - | (2,664) |
| Dividends/trust distributions received | (22,620) | (21,839) |
| Net foreign exchange and other movements | (252) | 10 |
| Balance at the end of the financial year | 155,888 | 141,713 |

## 12. SHARES IN CONTROLLED ENTITIES

| | Equity Interest Held | |
|---|---|---|
| | 2018 % | 2017 % |
| All controlled entities are incorporated in Australia except for AUB Group NZ Ltd and its controlled entities which are incorporated in New Zealand, and comprise: | | |
| **Name and Interests in controlled entities:** | | |
| Austbrokers Pty Ltd and its controlled entities | 100 | 100 |
| - Austbrokers Investments Pty Ltd | 100 | 100 |
| - Austbrokers Trade Credit Pty Ltd | 75 | 75 |
| - Austbrokers SPT Pty Ltd AS Trustee for Austbrokers SPT Unit Trust | - | 60 |
| - Finsura Holdings Pty Ltd and its controlled entities | 70 | 70 |
| - Finsura Insurance Broking (Australia) Pty Ltd | 70 | 70 |
| - Finsura Financial Services Pty Ltd | 70 | 70 |
| - Finsura FinPlanning & Risk Pty Ltd | 70 | 70 |
| - Finsura Investment Management Services Pty Ltd | 70 | 70 |
| - Finsura Insurance Broking Unit Trust | 70 | 70 |
| - Finsura Workers Compensation Services Pty Ltd | 28 | 28 |
| - RI Hornsby Pty Ltd | 70 | 70 |
| - Northern Tablelands Insurance Brokers Pty Ltd | 78 | 78 |
| Allied Health Australia Pty Ltd and its controlled entities | 60 | 60 |
| - Peak Conditioning Pty Ltd | 60 | 60 |
| - Peak Support Services Pty Ltd | 60 | 60 |
| - Pinnacle Rehab Pty Ltd | 60 | 60 |
| - Securis Pty Ltd | 60 | 60 |
| AUB Group Services Pty Ltd | 100 | 100 |
| AUB Group Business Centre Pty Ltd | 100 | 100 |
| Kyros Cook & Associates Pty Ltd | 100 | 100 |
| Adept Insurance Brokers Pty Ltd and its controlled entity | 100 | 100 |
| - Geary Smith Pty Ltd | 100 | 100 |
| AB Phillips Group Pty Ltd and its controlled entities | 51 | 51 |
| - AB Phillips Pty Ltd | 51 | 51 |
| - Austbrokers Compensation Services Pty Ltd | 51 | 51 |
| - Interfin Pty Ltd | 51 | 51 |
| - Financial Affairs Pty Ltd | 51 | 51 |
| - Blumberg Pty Ltd | 51 | 51 |
| - AB Phillips Professional Lines Pty Ltd | 50 | - |
| - Bruce Park Pty Ltd | 75 | 75 |
| AEI Holdings Pty Ltd/AEI Insurance (Brokers) Pty Ltd | 100 | 100 |
| ABFS (NSW) Pty Ltd and its controlled entities (previously Austbrokers Financial Solutions (Syd) Pty Ltd) | 75 | 75 |
| - SPT Financial Services Pty Ltd | 75 | 52 |
| - ABFS (QLD) Pty Ltd (acquired from Comsure Insurance Brokers Pty Ltd) | 75 | - |
| - ABFS (ACT) Pty Ltd (previously Austbrokers Financial Solutions (ACT) Pty Ltd) | 69 | 69 |
| Austbrokers C.E. McDonald Pty Ltd and its controlled entity | 100 | 100 |
| - Traders Voice Services Pty Ltd | 100 | 100 |

## 12. SHARES IN CONTROLLED ENTITIES (CONTINUED)

| | Equity Interest Held | |
|---|---|---|
| | 2018 | 2017 |
| | % | % |
| All controlled entities are incorporated in Australia except for AUB Group NZ Ltd and its controlled entities which are incorporated in New Zealand, and comprise: | | |
| **Name and Interests in controlled entities:** | | |
| Austbrokers Central Coast Pty Ltd and its controlled entities | 80 | 80 |
| - Austbrokers Central Coast Financial Services Pty Ltd | 80 | 80 |
| - Austbrokers Affinity Pty Ltd | 40 | 40 |
| Austbrokers City State Pty Ltd and its controlled entity | 70 | 70 |
| Insurics Pty Ltd | 100 | 100 |
| Austbrokers Life Pty Ltd | 100 | 100 |
| Austbrokers Premier Pty Ltd (sold to an Associate on 1 March 2018) | - | 90 |
| Austbrokers Southern Pty Ltd | 80 | 80 |
| Austbrokers Canberra Pty Ltd | 75 | 75 |
| AHL Insurance Brokers (Aust) Pty Ltd | 100 | 100 |
| Australian Bus and Coach Underwriting Agency Pty Ltd | 100 | 100 |
| Austbrokers RWA Pty Ltd and its controlled entities | 60 | 60 |
| - CTRL Pty Ltd | 60 | 60 |
| Austbrokers Sydney Pty Ltd and its controlled entities | 100 | 100 |
| - Austbrokers FWR Pty Ltd | 100 | 100 |
| - Austbrokers ABS Strata unit trust | 100 | - |
| - Austbrokers ABS unit trust | 100 | - |
| - Austbrokers Professional Services Pty Ltd | 80 | 80 |
| - Austbrokers Cyber Pro Pty Ltd | 62.5 | - |
| Austagencies Pty Ltd and its controlled entities | 100 | 100 |
| - Sura Plant and Equipment Pty Ltd | 100 | 100 |
| - Latitude Underwriting Agency Pty Ltd | 100 | 100 |
| - Dolphin Insurance Pty Ltd | 100 | 100 |
| - Sura Hospitality Pty Ltd as trustee for G.U.S. Trust | 85 | 100 |
| - Sura Pty Ltd | 100 | 100 |
| - Trinity Pacific Underwriting Agency Pty Ltd | 100 | 100 |
| - Asia Mideast Insurance and Reinsurance Pty Ltd (sold 1 November 2017) | - | 60 |
| - 5 Star Underwriting Agency Pty Ltd | 100 | 100 |
| - Film Insurance Underwriting Agencies Pty Ltd | 95 | 95 |
| - Sura Film and Entertainment Pty Ltd | 95 | 95 |
| - Sura Speciality Pty Ltd (formerly Lawsons Underwriting Agency Pty Ltd) | 100 | 90 |
| - Sura Labour Hire Pty Ltd | 100 | 90 |
| - Insurance Investment Solutions Pty Ltd | 55 | 55 |
| - Sura Construction Pty Ltd | 100 | 51 |
| - Sura Engineering Pty Ltd | 100 | 51 |
| - Sura Accident and Health Pty Ltd | 100 | - |
| Citycover (Aust) Pty Ltd | 75 | 75 |
| Comsure Insurance Brokers Pty Ltd and controlled entities | 80 | 80 |
| - Austbrokers Financial Solutions (QLD) Pty Ltd | 60 | 60 |
| - Comsure Financial Solutions Pty Ltd (sold to ABFS (NSW) Pty Ltd) | - | 60 |

## 12. SHARES IN CONTROLLED ENTITIES (CONTINUED)

| | Equity Interest Held | |
|---|---|---|
| | 2018 | 2017 |
| | % | % |
| All controlled entities are incorporated in Australia except for AUB Group NZ Ltd and its controlled entities which are incorporated in New Zealand, and comprise: | | |
| **Name and Interests in controlled entities:** | | |
| Altius Group Holdings Pty Ltd and its controlled entities | 55 | 55 |
| - Altius Group Pty Ltd | 55 | 55 |
| - Rehabilitation Services Pty Ltd | 55 | 55 |
| - Occheath Network Pty Ltd | 55 | 55 |
| - Psychological Health Interventions Pty Ltd | 55 | 55 |
| - Altius Group Services Pty Ltd | 55 | 55 |
| - CIM Group Holdings Pty Ltd | 55 | 55 |
| - PeopleSense Pty Ltd | 55 | 55 |
| AUB Group NZ Ltd and its controlled entities | 80 | 80 |
| - NZ Brokers Management Ltd | 80 | 80 |
| - Runacres and Associates Ltd | 68 | 72 |
| - NZ Brokers Life and Health Ltd | 80 | - |
| - NZ Brokers Ltd | 80 | 80 |
| - Sura NZ Ltd | 80 | 80 |
| Austbrokers Coast to Coast Pty Ltd and its controlled entity | 75 | 75 |
| - Austbrokers Coast to Coast Financial Services Pty Ltd | 75 | 75 |
| InterRISK Australia Pty Ltd and its controlled entities | 90.5 | 79 |
| - InterRISK Queensland Pty Ltd | 90.5 | 35 |
| - Atlas Insurance Brokers Pty Ltd | 90.5 | 35 |
| Shield Underwriting Holdings Pty Ltd | 100 | 100 |
| McNaughton Gardiner Insurance Brokers Pty Ltd and its controlled entity | 70 | 70 |
| - McNaughton Gardiner Financial Services Pty Ltd | 70 | 70 |
| North Coast Insurance Brokers Pty Ltd and its controlled entity | 70 | 70 |
| - NCFS Unit Trust | 70 | 70 |
| Terrace Insurance Brokers Pty Ltd and controlled entity | 54 | 54 |
| - Austbrokers Financial Solutions (SA) Pty Ltd | 36 | 36 |
| AUB International Pty Ltd | 100 | 100 |
| Austbrokers Employee Share Acquisition Schemes Trust | 100 | 100 |

**During the current year, the following transaction occurred;**

- Further adjustments to contingent considerations in respect of controlled entities resulted in decreases in the estimates previously recognised by the Consolidated Group by $287,000. This amount was credited to the profit and loss in the current year (see note 4(vi)).

  During the current year, the Group incorporated a new controlled entity, NZ Brokers Life and Health Ltd, with capital of $100.

**During the previous year, the following transactions occurred;**

- Further adjustments to contingent considerations in respect of controlled entities resulted in increases to the estimates previously recognised by the Consolidated Group by $8,674,000. This amount was charged against profits in the current year (see note 4(vi)).

  The Group incorporated a new controlled entity, Austbrokers Life Pty Ltd, with capital of $200,000.

See note 7 - Business Combinations, for details of increases and decreases in voting shares in controlled entities and acquisition of new controlled entities during the current and previous year.

## 13. PROPERTY, PLANT AND EQUIPMENT

| | Consolidated | | | |
|---|---|---|---|---|
| | Property $'000 | Plant and equipment $'000 | Motor vehicles $'000 | Total $'000 |
| **Cost** | | | | |
| **Year ended 30 June 2018** | | | | |
| Balance at the beginning of the year | 702 | 23,109 | 2,457 | 26,268 |
| Acquisition of controlled entities | - | 300 | - | 300 |
| Deconsolidation of controlled entities | - | (1,101) | (126) | (1,227) |
| Translation of foreign exchange rate movements | - | (34) | (23) | (57) |
| Additions during the year | - | 2,482 | 1,150 | 3,632 |
| Disposals during the year | - | (2,731) | (552) | (3,283) |
| Property, plant and equipment at cost | 702 | 22,025 | 2,906 | 25,633 |
| **Depreciation** | | | | |
| Balance at the beginning of the year | 115 | 13,309 | 1,196 | 14,620 |
| Acquisition of controlled entities | - | 214 | - | 214 |
| Deconsolidation of controlled entities | - | (867) | (57) | (924) |
| Disposals during the year | - | (2,490) | (437) | (2,927) |
| Translation movements | - | (22) | (14) | (36) |
| Depreciation during the year | 8 | 2,287 | 395 | 2,690 |
| Accumulated depreciation | 123 | 12,431 | 1,083 | 13,637 |
| **Summary** | | | | |
| Net carrying amount at beginning of year | 587 | 9,800 | 1,261 | 11,648 |
| **Net carrying amount at end of year** | **579** | **9,594** | **1,823** | **11,996** |

| | | | | |
|---|---|---|---|---|
| **Cost** | | | | |
| **Year ended 30 June 2017** | | | | |
| Balance at the beginning of the year | 803 | 19,093 | 2,463 | 22,359 |
| Acquisition of controlled entities | - | 636 | 21 | 657 |
| Translation of foreign exchange rate movements | - | (4) | (3) | (7) |
| Additions during the year | - | 4,462 | 355 | 4,817 |
| Disposals during the year | (101) | (1,078) | (379) | (1,558) |
| Property, plant and equipment at cost | 702 | 23,109 | 2,457 | 26,268 |
| **Depreciation** | | | | |
| Balance at the beginning of the year | 124 | 11,307 | 1,122 | 12,553 |
| Acquisition of controlled entities | - | 449 | - | 449 |
| Disposals during the year | (17) | (891) | (324) | (1,232) |
| Translation movements | - | (2) | 1 | (1) |
| Depreciation during the year | 8 | 2,446 | 397 | 2,851 |
| Accumulated depreciation | 115 | 13,309 | 1,196 | 14,620 |
| **Summary** | | | | |
| Net carrying amount at beginning of year | 679 | 7,786 | 1,341 | 9,806 |
| **Net carrying amount at end of year** | **587** | **9,800** | **1,261** | **11,648** |

## 14. INTANGIBLE ASSETS AND GOODWILL

| | Consolidated | | | |
|---|---|---|---|---|
| | Capitalised project costs | Goodwill | Insurance broking registers | Total |
| | $'000 | $'000 | $'000 | $'000 |
| **Cost** | | | | |
| **Year ended 30 June 2018** | | | | |
| Balance at the beginning of the year | 1,890 | 236,668 | 56,892 | 295,450 |
| Additional businesses and portfolios acquired | - | 17,881 | 729 | 18,610 |
| Deconsolidation of controlled entities | - | (8,345) | (2,205) | (10,550) |
| Additional capitalised project acquired | 1,858 | - | - | 1,858 |
| Disposal businesses and portfolios | - | (74) | - | (74) |
| Disposal capitalised project | (1,011) | - | - | (1,011) |
| Impairment charge | - | (2,518) | - | (2,518) |
| Translation of foreign exchange rate movements | - | (1,113) | (460) | (1,573) |
| Total intangibles | 2,737 | 242,499 | 54,956 | 300,192 |
| **Amortisation** | | | | |
| Balance at the beginning of the year | 820 | - | 30,771 | 31,591 |
| Deconsolidation of controlled entities | - | - | (2,011) | (2,011) |
| Disposal capitalised project | (1,011) | - | - | (1,011) |
| Amortisation current year | 574 | - | 4,032 | 4,606 |
| Translation of foreign exchange rate movements | - | - | (80) | (80) |
| Accumulated amortisation | 383 | - | 32,712 | 33,095 |
| **Summary** | | | | |
| Net carrying amount at beginning of year | 1,070 | 236,668 | 26,121 | 263,859 |
| **Net carrying amount at end of year** | **2,354** | **242,499** | **22,244** | **267,097** |
| **Year ended 30 June 2017** | | | | |
| Balance at the beginning of the year | 1,011 | 219,766 | 53,382 | 274,159 |
| Additional businesses and portfolios acquired | - | 17,338 | 3,570 | 20,908 |
| Additional capitalised project acquired | 879 | - | - | 879 |
| Impairment charge | - | (319) | - | (319) |
| Translation of foreign exchange rate movements | - | (117) | (60) | (177) |
| Total intangibles | 1,890 | 236,668 | 56,892 | 295,450 |
| **Amortisation** | | | | |
| Balance at the beginning of the year | 405 | - | 27,008 | 27,413 |
| Amortisation current year | 415 | - | 3,763 | 4,178 |
| Accumulated amortisation | 820 | - | 30,771 | 31,591 |
| **Summary** | | | | |
| Net carrying amount at beginning of year | 606 | 219,766 | 26,374 | 246,746 |
| **Net carrying amount at end of year** | **1,070** | **236,668** | **26,121** | **263,859** |

## 14. INTANGIBLE ASSETS AND GOODWILL (CONTINUED)

Individual intangible assets material to the group are attributable to the following controlled entities.

(i) Goodwill

| | Consolidated | |
|---|---|---|
| | 2018 | 2017 |
| | $'000 | $'000 |
| InterRisk Australia Pty Ltd and its controlled entities | 18,995 | 18,995 |
| Austbrokers Sydney Pty Ltd and its controlled entities | 8,890 | 8,890 |
| Altius Group Holdings Pty Ltd and its controlled entities | 45,969 | 45,969 |
| Austagencies Pty Ltd and its controlled entities | 46,464 | 33,828 |
| AUB Group NZ Ltd and its controlled entities | 25,887 | 27,001 |
| Citycover (Aust) Pty Ltd | 8,689 | 8,689 |
| Allied Health Australia Pty Ltd and its controlled entities | 22,693 | 22,693 |
| AB Phillips Group Pty Limited and its controlled entities | 14,654 | 13,317 |

(ii) Insurance Broking Registers

| | Remaining amortisation period (years) | | | |
|---|---|---|---|---|
| | 2018 | 2017 | | |
| AUB Group NZ Ltd | 7.5 | 8.5 | 8,039 | 9,503 |
| Austbrokers Financial Solutions Pty Ltd and its controlled entities | 8.5 | 9.5 | 1,598 | 998 |
| Finsura Holdings Pty Ltd and its controlled entities | 8.5 | 9.5 | 1,161 | 1,295 |
| InterRISK Australia Pty Ltd and its controlled entities | 5.0 | 6.0 | 3,130 | 3,747 |
| Citycover (Aust) Pty Ltd | 6.5 | 7.5 | 2,144 | 2,475 |
| AB Phillips Group Pty Limited and its controlled entities | 8.5 | 9.5 | 3,108 | 3,560 |

## 15. IMPAIRMENT TESTING OF IDENTIFIABLE INTANGIBLE ASSETS AND GOODWILL

The Group determines whether goodwill is impaired at least on an annual basis. Ongoing reviews of the performance of each cash generating unit (CGU) is carried out regularly to determine if any CGU shows new indicators of impairment.

The recoverable amount of the identifiable intangible assets and goodwill is determined based on the higher of the estimate of fair value of the CGU to which they relate less costs to sell and its value in use. In determining fair value, each controlled entity or associate is considered a separate CGU or grouped into a single CGU for impairment testing where cash inflows are interdependent and have similar characteristics.

The CGU represent the lowest level within the Group at which the goodwill is monitored for internal management purposes.

Australian insurance broking entities, New Zealand insurance broking entities and Risk Services entities are viewed as separate CGUs at the entity level for impairment purposes, whilst the underwriting agency businesses have each been aggregated into a single CGU.

To conduct impairment testing, the group compares the carrying value with the recoverable amount of each CGU.

The recoverable amount is based on the higher of:

- Fair value - based on maintainable earnings; or
- Value in use - based on a discounted cash flow model.

*Fair value*

The Company has sought independent external advice to determine the appropriate pre tax profit multiple used to determine fair value. The Weighted Average Cost of Capital (WACC) is based on the cost of capital calculated for each CGU after taking into account: market risks; a risk loading recognising; the size of the business; current borrowing interest rates, borrowing capacity of the businesses; and the risk free rate.

| Key assumptions for the fair value methodology | 2018 | 2017 |
|---|---|---|
| Fair value is based on estimates of maintainable earnings. The appropriate pre tax maintainable earnings for each CGU is multiplied by a multiple from within the range, depending on the type of business carried out by the CGU | 7 – 8 times | 7 – 8 times |
| The risk free rate (before risk margin) | 2.8% | 2.8% |
| Multiples have been determined after factoring in the following assumed sustainable long term profit growth | Up to 2.0% | Up to 2.0% |

*Value in use*

Where the Value In Use methodology produces a higher valuation than Fair Value, this valuation is used for the Recoverable Amount. This measurement takes into account the expected discounted cash flows for the next 5 years based on the forecast profitability (DCF). The valuation takes into account the weighted average cost of capital (WACC) for those CGUs and also looks at the expected long term growth rate with a terminal value calculation at the end of 5 years. This methodology will result in a better estimate valuation for entities where historic performance may not factor in the medium and long term expected growth from this business.

During the current year, two CGUs (2017: five) were valued using the value in use methodology. All other CGUs were supportable using the fair value methodology.

| Key assumptions for the value in use methodology | 2018 % | 2017 % |
|---|---|---|
| Post tax discount rates (WACC) | 9.5% - 12.3% | 9.5% - 11.3% |
| Short term revenue growth rate - used in discount cash flow assumptions (1-5 years) | 3.0% – 10.0% | 2.0% – 10.0% |
| Long term revenue growth rate | 1.5% -2.0% | 1.0% - 1.5% |

The short term growth rate of 10% relates to a CGU in the Risk Services segment which has a different income and expense growth characteristics to other CGUs within the group.

The fair value and value in use measurements were categorised as level 3 fair value based on the inputs in the valuation technique used (see note 28 (c)).

The resulting recoverable amounts derived from the appropriate measures described above are compared to the carrying value for each CGU and in the event that the carrying value exceeds the recoverable amount, an impairment loss is recognised.

No reasonable possible change in key assumptions would result in the recoverable amount of a CGU that is material to the group's total intangible assets, goodwill and investment in associates, being significantly less than the carrying value included in the accounts.

## 15. IMPAIRMENT TESTING OF IDENTIFIABLE INTANGIBLE ASSETS AND GOODWILL (CONTINUED)

The Group's acquisition policy is to pay a deposit and defer a component of the purchase price to be determined based on future financial results. Estimates of the final acquisition cost are made and recognised in the financial statements. An estimate of the contingent consideration is made at the time of acquisition and is reviewed and varied at balance date if estimates change or actual payments are made. This adjustment can be a loss (if increased) or a profit (if reduced). Where an estimate is reduced an offsetting adjustment (impairment) is made to the carrying value.

During the current year, due to current market conditions further adjustments to contingent considerations in respect of current and prior year acquisitions resulted in a net reduction (previous year increase) to the estimates previously recognised by the Consolidated Group of $287,000 (2017: $5,657,000). Where the revised contingent consideration estimates were below the original estimated contingent consideration payments, a corresponding and offsetting impairment charge of $219,000 (2017: $2,983,000) was recognised against the carrying value of those investments (see note 4(vi)).

A financial services entity (insurance intermediary segment) has been subject to legislative changes including changes to the trail commissions from dormant superannuation funds which has resulted in a loss of revenue in the last 3 years which is also expected to continue for at least next year. The main impact is a reduction in upfront commissions since January 2018 due to the Life Insurance Framework legislation.

The resulting recoverable amount of $5,326,000 as at 30 June 2018 was based on the fair value less cost of disposal of a controlled entity using the valuation methodology above resulted in an impairment of $2,300,000 ($1,725,000 after adjusting for non-controlling interests). This impairment represents 0.54% of the Group's investment in associates and controlled entities. The impairment loss was charged to the income statement (see note 4(vi)).

| | Contingent consideration adjustments | | Impairment charges | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | $'000 | $'000 | $'000 | $'000 |
| Increases in contingent consideration adjustments relating to controlled entities | - | 8,674 | - | - |
| Reductions in contingent consideration and impairment adjustments relating to controlled entities | (287) | (353) | 219 | 319 |
| Reductions in contingent consideration and impairment adjustments relating to associates | - | (2,664) | - | 2,664 |
| Impairment charge relating to a controlled entity | - | - | 2,300 | - |
| Total | (287) | 5,657 | 2,519 | 2,983 |

## 16. SHARE-BASED PAYMENT PLANS

**Employee share option plan**

The share-based payments expense recognised in the Consolidated Statement of Profit or Loss is included in note 4 (iv) Expenses.

The following table illustrates the number (No.) and weighted average exercise prices (WAEP) of and movements in share options issued during the year:

Unless otherwise stated, all options are granted over shares in the ultimate controlling entity, AUB Group Limited.

| Share options movements (applicable to each relevant financial year) | 2018 No. | 2017 No. | 2018 WAEP ($) | 2017 WAEP ($) |
|---|---|---|---|---|
| Outstanding at the beginning of the year | 672,205 | 567,756 | 0.00 | 0.00 |
| Granted during the year | 80,217 | 148,023 | 0.00 | 0.00 |
| Options lapsed or forfeited during the period relating to options previously issued during the financial year ending 30 June; | | | | |
| - 2013 | (160,000) | (26,490) | 0.00 | 0.00 |
| - 2014 | (24,246) | (4,018) | 0.00 | 0.00 |
| - 2015 | - | (5,250) | 0.00 | 0.00 |
| - 2016 | (8,357) | (7,816) | 0.00 | 0.00 |
| - 2017 | (30,549) | - | 0.00 | 0.00 |
| - 2018 | (2,962) | - | 0.00 | 0.00 |
| Outstanding at the end of the year | 526,308 | 672,205 | 0.00 | 0.00 |

**The number of options outstanding as at 30 June 2018 is represented by:**

| Financial year in which options were issued | Option grant date | Earliest exercise date | Valuation $ | Number of options outstanding at year end 2018 | 2017 |
|---|---|---|---|---|---|
| 2013 | 15-Jan-13 | 01-Jan-16 | 7.38 | - | 160,000 |
| 2014 | 30-Oct-13 | 30-Oct-16 | 10.06 | - | 24,246 |
| 2015 | 31-Oct-14 | 31-Oct-17 | 9.09 | 27,861 | 27,861 |
| 2016 | 23-Nov-15 | 23-Nov-18 | 7.31 | 53,718 | 62,075 |
| 2016 | 07-Apr-16 | 01-Jan-19 | 7.90 | 250,000 | 250,000 |
| 2017 | 08-Dec-16 | 23-Nov-18 | 9.36 | 23,964 | 32,321 |
| 2017 | 24-Jan-17 | 24-Jan-20 | 8.99 | 93,510 | 115,702 |
| 2018 | 23-Nov-17 | 23-Nov-20 | 11.83 | 77,255 | - |
| Options outstanding at the end of the year | | | | 526,308 | 672,205 |

All options must be exercised by no later than 7 years from the issue date.

**During the year the following options were granted, exercised or lapsed**

- 80,217 share options were granted on 23 November 2017 (2,962 lapsed during current year), exercisable 3 years from 23 November 2017 at an exercise price of $NIL. The volume weighted average share price for the 5 business days prior to the date the options were issued was $13.23. 60% of these options are subject to Earnings Per Share hurdles and 40% are subject to Total Shareholder Return hurdles. The options were valued using an average price of $11.83.
- 41,868 options lapsed due to various staff members no longer employed.
- 184,246 options lapsed due to vesting conditions over the 4 years ended 30 June 2017, not being met.

## 16. SHARE-BASED PAYMENT PLANS (CONTINUED)

**During the previous year the following options were granted, exercised or lapsed**

- 115,702 Share options were granted on 24 January 2017, exercisable 3 years from 24 January 2017 at an exercise price of $NIL.
- 32,321 Share options were granted on 8 December 2016, exercisable 2 years from 23 November 2016 at an exercise price of $NIL. These options were issued as a result of an administrative error in respect of the number of options issued during the previous year. The additional options were issued on the same terms and conditions as the 62,075 options issued on 23 November 2015.
- 22,726 options, lapsed due to an employee no longer employed.
- 20,848 options lapsed due to vesting conditions over the 4 years ended 30 June 2016, not being met.

The fair value of all options has been valued taking into account the vesting period, expected dividend payout and the share price at the date the options were granted.

The weighted average remaining contractual life for the share options outstanding at 30 June 2018 is 4.90 years. (2017: 4.52 years).

*Option Exercise conditions*

These option exercise conditions apply to all options issued up to 30 June 2015.

(a) subject to satisfaction of the performance based conditions referred to in paragraphs (b) and (c) below, the options will vest 3 years after the date of grant;

(b) if the First Test Compound Earnings Per Share Growth (Compound Growth) is:

  (i) greater than or equal to 8.5% per annum, 20% of the options will become exercisable;

  (ii) equal to 10% per annum, 50% of the options will become exercisable;

  (iii) between 10% and 15%, the percentage of options that are exercisable will be determined on a pro rata basis so that the number of options that are exercisable will increase from 50% by 1 percentage point for every 0.1% additional Compound Growth over 10%;

  (iv) 15% per annum or more, 100% of the options will become exercisable.

In each case on the date on which the Company's audited financial statements for the third financial year ending after the grant are lodged with the Australian Securities Exchange (the "First Test Date");

(c) if all of the options do not become exercisable on the First Test Date and the Second Test Compound Growth is higher than the First Test Compound Growth then on the date on which the Company's audited financial statements for the fourth financial year ending after the grant are lodged with the Australian Securities Exchange (the "Second Test Date") an additional number of options will become exercisable as is equal to the difference between the number of options which became exercisable under paragraph (b) and the number of options which would have become exercisable if paragraph (b) applied on the basis of the Second Test Compound Growth (rather than the First Test Compound Growth);

(d) any options which have not become exercisable by the Second Test Date lapse and are of no further force or effect;

(e) option exercise conditions for options granted in the 2014 financial year were modified so that between 8.5% and 10% EPSG the options that are exercisable will be determined on a pro rata basis so that the number of options that are exercisable will increase from 20% by 2 percentage points for every 0.1% additional Compound Growth over 8.5%.

The following option exercise conditions apply to all options issued after 1 July 2015.

60% of options issued are subject to the compound annual growth rate hurdle set out in Part (b) below (EPS options). 40% of options issued will be subject to the total shareholder return hurdle set out in Part (d) below (TSR options);

(a) subject to satisfaction of the performance based conditions referred to in paragraphs (b) and (c) below, the EPS options will vest 3 years after the date of grant;

(b) if the First Test Compound Earnings Per Share Growth (Compound Growth) is:

  (i) greater than or equal to 4.0% per annum, 25% of the options will become exercisable;

  (ii) between 4% and 7%, the percentage of options that are exercisable will be determined on a pro rata basis so that the number of Options that are exercisable will increase from 25% by 1 percentage point for every 0.12% additional growth over 4.0%;

  (iii) equal to 7% per annum, 50% of the options will become exercisable;

  (iv) between 7% and 10%, the percentage of options that are exercisable will be determined on a pro rata basis so that the number of options that are exercisable will increase from 50% by 1 percentage point for every 0.06% additional growth over 7.0%;

  (v) 10% per annum or more, 100% of the options will become exercisable;

  (vi) in each case on the date on which the Company's audited financial statements for the third financial year ending after the grant are lodged with the Australian Securities Exchange (the "First Test Date");

## 16. SHARE-BASED PAYMENT PLANS (CONTINUED)

**Option exercise conditions (continued)**

(c) if all of the options do not become exercisable on the First Test Date and the Second Test Date Compound Growth is higher than the First Test Compound Growth then an additional number of options will become exercisable as is equal to the difference between the number of options which became exercisable under paragraph (b) and the number of options which would have become exercisable if paragraph (b) applied on the basis of the Second Test Compound Growth (rather than the First Test Compound Growth);

(d) subject to satisfaction of the performance based conditions referred to in paragraphs (e) and (f) below, the TSR options will vest 3 years after the date of grant;

(e) The percentage of TSR options that will be exercisable on the 3 Year Test Date is;

  (i) At Target Group (100% of Target Group TSR) 50% of TSR options become vested.

  (ii) Between 100% and 150% of Target Group, the number of TSR options that are exercisable will increase from 50% by 1 percentage point for every 1% increase in TSR against the Target Group over 100%.

  (iii) If all of the TSR options do not become exercisable on the First Test Date and the performance criteria on the Second Test Date are higher than on the first Test Date, an additional number of TSR options will become exercisable equal to the difference between the number of TSR options which became exercisable at the First Test Date and the number of TSR options which would have become exercisable if the 4 Year TSR had been applied.

  (iv) Any TSR options which have not become exercisable by the Second Test Date lapse and are of no further force or effect.

(f) Target Group means the companies in the S&P/ASX Small Ordinaries Index as adjusted by the Board, in its discretion, to take into account matters or events, which may distort the results. This may include, but is not limited to, removing entities in a particular sector or entities affected by takeovers, mergers or de-mergers.

## 17. TRADE AND OTHER PAYABLES

| | Consolidated | |
|---|---|---|
| | 2018 | 2017 |
| | $'000 | $'000 |
| **Current** | | |
| Trade payables | 16,449 | 16,156 |
| Amount payable on broking/underwriting agency operations | 215,768 | 207,116 |
| Contingent consideration and other payables | 11,537 | 28,868 |
| Other payables – related entities | 883 | 1,272 |
| Total trade and other payables (current) | 244,637 | 253,412 |
| **Non-current** | | |
| Contingent consideration payables | - | 260 |
| Put option liability | 26,403 | 25,875 |
| Other payables - related entities | - | 710 |
| Total trade and other payables (non-current) | 26,403 | 26,845 |
| Included in trade and other payable are the following contingent consideration payables; | | |
| Balance at the beginning of the year | 19,272 | 32,217 |
| Contingent consideration on current year acquisitions (at net present value) | 2,418 | 4,764 |
| Payments made in respect of previously recognised contingent consideration | (18,411) | (23,555) |
| Adjustments to contingent consideration payments previously recognised | (287) | 5,657 |
| Foreign currency translation movements | (72) | (78) |
| Interest recognised in original contingent consideration at net present value | 61 | 267 |
| Balance at the end of the year | 2,981 | 19,272 |

## 18. PROVISIONS

| | Consolidated | | |
|---|---|---|---|
| | Employee entitlements | Make good provision | Total |
| | $'000 | $'000 | $'000 |
| **Year ended 30 June 2018** | | | |
| Balance at the beginning of the year | 17,725 | 1,125 | 18,850 |
| Acquisition of controlled entity | 7 | - | 7 |
| Arising during the year | (285) | (28) | (313) |
| Deconsolidation of controlled entities | (811) | - | (811) |
| Balance at the end of the year | 16,636 | 1,097 | 17,733 |
| Current 2018 | 14,374 | 194 | 14,568 |
| Non-current 2018 | 2,262 | 903 | 3,165 |
| | 16,636 | 1,097 | 17,733 |
| **Year ended 30 June 2017** | | | |
| Balance at the beginning of the year | 14,262 | 883 | 15,145 |
| Acquisition of controlled entity | 458 | - | 458 |
| Arising during the year | 3,005 | 242 | 3,247 |
| Balance at the end of the year | 17,725 | 1,125 | 18,850 |
| Current 2017 | 15,069 | 175 | 15,244 |
| Non-current 2017 | 2,656 | 950 | 3,606 |
| | 17,725 | 1,125 | 18,850 |

### Make good provision on leased premises

In accordance with the various lease agreements, the Group must restore the leased premises to a similar condition that existed prior to leasing the premises by removing all fixed and removable partitions. A provision has been included for expected amounts payable.

Because of the long-term nature of the liability, the greatest uncertainty in estimating the provision is the cost that will ultimately be incurred. During the year further amounts were provided for premises leased during the year.

Current lease durations range from less than 1 year to 10 years. Make good payments will only be made at the end of the lease.

### Employee entitlements

Refer to note 2.2 (r) for the relevant accounting policy and a discussion of the significant estimation and assumptions applied in the measurement of this provision.

## 19. INTEREST-BEARING LOANS AND BORROWINGS

| | Consolidated | |
|---|---|---|
| | 2018 | 2017 |
| | $'000 | $'000 |
| **Current** | | |
| Secured bank loan * | 8,302 | 5,305 |
| Obligations under finance leases and hire purchase contracts (note 22) | 468 | 488 |
| Unsecured loan - other | 147 | 376 |
| **Total interest-bearing loans and borrowings (current)** | 8,917 | 6,169 |
| **Non-current** | | |
| Secured bank loan * | 111,621 | 88,298 |
| Obligations under finance leases and hire purchase contracts (note 22) | 664 | 629 |
| **Total interest-bearing loans and borrowings (non-current)** | 112,285 | 88,927 |
| ** Summary of secured bank loans* | | |
| *St George Bank* | *9,362* | *82,605* |
| *Syndicated finance facility (ANZ Banking Group and St George Bank)* | *99,576* | *-* |
| *Macquarie Bank* | *8,237* | *7,438* |
| *Commonwealth Bank* | *1,045* | *1,143* |
| *National Australia Bank* | *1,703* | *2,244* |
| *Hunter Premium Funding* | *-* | *173* |
| *Total secured bank loans* | *119,923* | *93,603* |

**Group borrowing facilities as at 30 June 2018**

The facilities are subject to financial undertakings and warranties typical of facilities of this nature and have sub-limits for various purposes including acquisitions.

AUB Group Limited has negotiated a new syndicated, multi-currency finance facility comprising ANZ Banking Group and St George Bank for $150 million (30 June 2017 $79.5 million facility with St George Bank). This facility includes an advance in $NZ totalling $NZ34 million. The new finance facility expires on 6 December 2020 with a mechanism for two one year extensions on agreement of both parties.

In the previous year, AUB Group Limited had negotiated a finance facility with St George Bank for $92.4 million, including $32.4 million (NZ $34 million) advanced to a controlled entity in New Zealand. This facility ceased on 6 December 2017 and was replaced with the new syndicated multi -currency finance facility.

In addition to the new facility provided to AUB Group Limited, controlled entities within the group have also negotiated other facilities with other banks as shown below. Whilst the facilities expire beyond the next 12 months some facilities have provision for mandatory principal repayments during the facility period. These mandatory repayments are shown as current liabilities.

AUB Group Limited also has a facility with St George Bank relating to rental guarantees and credit card facilities totalling $8 million. (30 June 2017 $5 million).

During the current and prior years, there were no defaults or breaches of terms and conditions of any of these facilities.

## 19. INTEREST-BEARING LOANS AND BORROWINGS (CONTINUED)

**Group borrowing facilities as at 30 June 2018 (continued)**

| Name of Facility Provider | Type of borrowing | Total Facility $'000 | Undrawn Amount $'000 | Amount Utilised $'000 | Borrowing Amount $'000 | Current $'000 | Non current $'000 | Expiry date | Interest rate % | Variable / Fixed (Var/Fix) |
|---|---|---|---|---|---|---|---|---|---|---|
| *AUB Group Limited* | | | | | | | | | | |
| Syndicated finance facility | Loan facility | 118,924 | 50,424 | 68,500 | 68,500 | - | 68,500 | 6/12/2020 | 3.86 | Var |
| | Loan facility | 31,076 | - | 31,076 | 31,076 | - | 31,076 | 6/12/2020 | 3.75 | Var |
| St George | Credit Cards | 1,500 | 1,154 | 346 | - | - | - | 6/12/2020 | 17.45 | Var |
| | Bank guarantee | 6,500 | 3,380 | 3,120 | - | - | - | 6/12/2020 | N/A | Var |
| *Facilities arranged by other controlled entities* | | | | | | | | | | |
| St George Bank | Loan facility | 11,506 | 2,144 | 9,362 | 9,362 | 6,002 | 3,360 | Between 25/07/2018 & 29/06/2020 | 3.59 - 8.14 | Var/Fix |
| Finance facilities with other banks | Loan facility | 13,466 | 2,476 | 10,990 | 10,985 | 2,300 | 8,685 | Between 31/07/2018 & 15/06/2022 | 4.87 - 5.53 | Var |
| **Total Borrowing Facilities** | | **182,972** | **59,578** | **123,394** | **119,923** | **8,302** | **111,621** | | | |

**Group borrowing facilities as at 30 June 2017**

| Name of Facility Provider | Type of borrowing | Total Facility $'000 | Undrawn Amount $'000 | Amount Utilised $'000 | Borrowing Amount $'000 | Current $'000 | Non current $'000 | Expiry date | Interest rate % | Variable / Fixed (Var/Fix) |
|---|---|---|---|---|---|---|---|---|---|---|
| *AUB Group Limited* | | | | | | | | | | |
| St George Bank | Loan facility | 53,500 | 11,500 | 42,000 | 42,000 | - | 42,000 | 30/11/2018 | 3.05 | Var |
| | Credit cards | 1,450 | - | 1,450 | - | - | - | 30/11/2018 | 17.45 | Var |
| | Bank guarantee / overdraft | 5,000 | 1,518 | 3,482 | - | - | - | 30/11/2018 | N/A | Var |
| *Facilities arranged by other controlled entities* | | | | | | | | | | |
| St George Bank | Loan facility | 43,994 | 3,389 | 40,605 | 40,605 | 2,198 | 38,407 | Between 13/09/2017 & 1/04/2020 | 3.27 - 6.50 | Var/Fix |
| Finance facilities with other banks | Loan facility | 13,472 | 2,445 | 11,027 | 10,998 | 3,107 | 7,891 | Between 30/07/2017 & 15/06/2022 | 4.62 - 5.61 | Var |
| **Total Borrowing Facilities** | | **117,416** | **18,852** | **98,564** | **93,603** | **5,305** | **88,298** | | | |

## 20. ISSUED CAPITAL

| | Consolidated 2018 $'000 | Consolidated 2017 $'000 |
|---|---|---|
| Issued capital opening balance | 141,708 | 141,708 |
| No further capital issued during the year | - | - |
| Issued capital | 141,708 | 141,708 |

| | Shares No. | |
|---|---|---|
| Number of shares on issue (ordinary shares fully paid) | 63,846,476 | 63,846,476 |
| **Movements in number of shares on issue** | | |
| Beginning of the financial year | 63,846,476 | 63,846,476 |
| No further shares issued during the year | - | - |
| Total shares on issue | 63,846,476 | 63,846,476 |

Ordinary shares have the right to receive dividends and, in the event of winding up the company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held.

Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the company.

## 21. NATURE AND PURPOSE OF RESERVES

*Asset revaluation reserve*

The asset revaluation reserve was used to record movements in the revalued amounts of broker register acquired through step up acquisition of broking subsidiaries before 1 July 2009. From this date, fair value adjustments on business combinations are no longer recognised through the asset revaluation reserve but in the Consolidated Statement of Profit or Loss. The reserve can only be used to pay dividends in limited circumstances. The current year amortisation expense relating to those step ups is transferred to retained earnings when the amortisation expense is charged to the profit and loss account.

*Foreign currency translation reserve*

This reserve is used to record foreign currency differences from translation of the financial information of foreign operations that have a currency other than Australian dollars.

*Put Option Reserve*

AUB Group Limited has entered into agreements with various shareholders of related entities and associates, granting options to put shares held by those shareholders to AUB Group Limited at market values current at the date of exercise of that option. The earliest the put option can be exercised is 5 years from the date of AUB acquiring its initial shareholding in those entities, which falls within the next 18 months - 3 years. Movements in the put option liability are ultimately transferred to the Put Option Reserve.

*Share based payment reserve*

This reserve is used to record the value of equity benefits provided to employees and directors as part of their remuneration. Refer to note 16 for further details of these plans.

*Non-controlling interests*

This is measured at their proportionate share of the acquirees' identifiable net assets.

| | | Consolidated 2018 $'000 | Consolidated 2017 $'000 |
|---|---|---|---|
| Interest in: | Ordinary shares | - | - |
| | Non-controlling Interest share of net assets | 66,501 | 68,868 |
| | | 66,501 | 68,868 |

## 22. COMMITMENTS AND CONTINGENCIES

**Finance lease and hire purchase commitments - Group as lessee**

The Group has finance leases and hire purchase contracts for various items of plant and machinery, which include motor vehicles and office fitouts. These leases have terms of renewal but no purchase options and escalation clauses. Renewals are at the option of the specific entity that holds the lease.

| | Consolidated | |
|---|---|---|
| | 2018 | 2017 |
| | $'000 | $'000 |
| Finance lease and hire purchase commitments | | |
| *Payable* | | |
| – Not later than one year | 502 | 519 |
| – Later than one year and not later than five years | 680 | 663 |
| – Later than five years | - | - |
| Minimum lease and hire purchase payments | 1,182 | 1,182 |
| Deduct: future finance charges | 50 | 65 |
| Present value of minimum lease and hire purchase payments (refer note 19) | 1,132 | 1,117 |

**Operating lease commitments - Group as lessee**

The Group has entered into leases for premises, commercial leases on certain motor vehicles and fixed assets. These leases have an average life of between 3 and 10 years with no renewal option included in the contracts. There are no restrictions placed upon the lessee by entering into these leases.

Operating Lease Commitments: Non Cancellable

Operating leases contracted for but not capitalised in the financial statements

| | Consolidated | |
|---|---|---|
| | 2018 | 2017 |
| | $'000 | $'000 |
| Operating Lease Commitments: Non Cancellable | | |
| Operating leases contracted for but not capitalised in the financial statements | | |
| *Payable* | | |
| – Not later than one year | 8,423 | 7,475 |
| – Later than one year and not later than five years | 21,252 | 19,548 |
| – Later than five years | 2,923 | 4,571 |
| | 32,598 | 31,594 |

## 22. COMMITMENTS AND CONTINGENCIES (CONTINUED)

**Operating lease commitments: Associates as lessee**

Operating lease commitments: Non Cancellable

Operating leases contracted for but not capitalised in the financial statements

| | Consolidated | |
|---|---|---|
| | 2018 | 2017 |
| | $'000 | $'000 |
| Operating Lease Commitments: Non Cancellable | | |
| Operating leases contracted for but not capitalised in the financial statements | | |
| *Payable* | | |
| – Not later than one year | 3,783 | 3,374 |
| – Later than one year and not later than five years | 7,456 | 7,348 |
| – Later than five years | 1,915 | 1,741 |
| | 13,154 | 12,463 |

| | | |
|---|---|---|
| **Contingent liabilities** | | |
| Estimates of the maximum amounts of contingent liabilities that may become payable | | |
| AUB Group Limited has guaranteed loan facilities provided to associates in proportion to its shareholding | 12,805 | 14,380 |
| AUB Group Limited has guaranteed lease facilities provided to associates in proportion to its shareholding | 27 | 44 |
| | 12,832 | 14,424 |

AUB Group Limited has provided indemnities to other shareholders of related entities and associates in relation to guarantees given by those shareholders, to financiers of or lessors to entities in which AUB Group Limited has an equity interest. At balance date no liability has arisen in relation to these indemnities.

**Put/call options**

AUB Group Limited has entered into agreements with various financiers and shareholders of related entities and associates, granting options to put shares held in related companies or associates to AUB Group Limited at market values current at the date of exercise of that option. These have been given in relation to shares in the related entity/associate pledged by the borrower as security for funding provided to those shareholders in relation to the acquisition of those shares.

AUB Group Limited has entered into agreements with various shareholders of related entities and associates, granting options to put shares held by those shareholders to AUB Group Limited at market values current at the date of exercise of that option. The earliest the put option can be exercised is 5 years from the date of AUB acquiring its initial shareholding in those entities, which falls within the next 18 months – 3 years.

Other than shown on note 2.3, at balance date no liability has arisen in relation to these arrangements.

## 23. OPERATING SEGMENTS

The Company's corporate structure is organised into two business units which have been identified as separate reportable segments as follows:

- equity investments in insurance intermediary entities (insurance broking and underwriting agencies); and
- equity investments in risk services entities.

Discrete financial information about each of these segments is reported to management on a regular basis and the operating results are monitored separately for the purposes of resource allocation and performance assessment.

Management believes that all of the Group's equity investments in insurance intermediary entities or providers of insurance, exhibit similar economic characteristics and have therefore been aggregated into a single reporting segment, being the insurance intermediary sector. This assessment is based on each of the operating segments having similar products and services, similar types of customer, employing similar operating processes and procedures and operating within a common regulatory environment.

The Risk Services segment comprises of equity investments in risk related service entities operating under a separate jurisdiction and licence as well as a separate regulatory framework. The financial information of entities that fall within risk services have been aggregated into one operating segment.

# NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 30 JUNE 2018

## 23. OPERATING SEGMENTS (CONTINUED)

| | 30 June 2018 | | | 30 June 2017 | | |
|---|---|---|---|---|---|---|
| | Insurance Intermediary $'000 | Risk Services $'000 | Total $'000 | Insurance Intermediary $'000 | Risk Services $'000 | Total $'000 |
| Revenue | | | | | | |
| Interest from other persons / corporations | 2,301 | 52 | 2,353 | 2,617 | 135 | 2,752 |
| Other income received from customers | 187,440 | 58,695 | 246,135 | 180,466 | 56,621 | 237,087 |
| Total Income | 189,741 | 58,747 | 248,488 | 183,083 | 56,756 | 239,839 |
| Share of profit of associates | | | | | | |
| Share of Net Profits of Associates Accounted for using the Equity Method (net of income tax expense) | 31,956 | 1,241 | 33,197 | 27,051 | 411 | 27,462 |
| Amortisation of Intangibles - Associates | (3,206) | - | (3,206) | (2,792) | - | (2,792) |
| Total Revenue | 218,491 | 59,988 | 278,479 | 207,342 | 57,167 | 264,509 |
| Less: Expenses | | | | | | |
| Amortisation of Intangibles - controlled entities | 4,032 | - | 4,032 | 3,763 | - | 3,763 |
| Depreciation of property plant and equipment | 2,113 | 577 | 2,690 | 2,332 | 519 | 2,851 |
| Operating expenses | 156,289 | 47,456 | 203,745 | 151,089 | 44,020 | 195,109 |
| Borrowing costs (excluding interest unwind on put option liability) | 4,637 | 125 | 4,762 | 3,965 | 168 | 4,133 |
| Total expenses including borrowing costs | 167,071 | 48,158 | 215,229 | 161,149 | 44,707 | 205,856 |
| Profit before income tax | 51,420 | 11,830 | 63,250 | 46,193 | 12,460 | 58,653 |
| Less: Income tax expense | (9,886) | (3,291) | (13,177) | (7,500) | (3,776) | (11,276) |
| Profit after income tax | 41,534 | 8,539 | 50,073 | 38,693 | 8,684 | 47,377 |
| Less: Non-controlling interest | (5,233) | (3,218) | (8,451) | (6,577) | (3,536) | (10,113) |
| Profit after income tax and non-controlling interests | 36,301 | 5,321 | 41,622 | 32,116 | 5,148 | 37,264 |
| Impairment charge on carrying value of goodwill | (2,300) | - | (2,300) | - | - | - |
| Profit after income tax and non-controlling interests and impairment charges | 34,001 | 5,321 | 39,322 | 32,116 | 5,148 | 37,264 |
| Other Adjustments to carrying value of associates, contingent consideration payments and profit on sale (see note 4(vi),(vii) | | | 7,725 | | | (4,276) |
| Profit after non-controlling interests attributable to shareholders of the parent | | | 47,047 | | | 32,988 |
| Movement in put option liability (including finance charge) | | | (527) | | | - |
| Other comprehensive income attributable to members of AUB Group Limited (net of non-controlling interests) | | | (671) | | | (36) |
| Profit after non-controlling interests and other comprehensive income | | | 45,849 | | | 32,952 |

Segments include intergroup charges at commercial terms and conditions for services rendered. These charges are eliminated on consolidation

## 23. OPERATING SEGMENTS (CONTINUED)

| | Consolidated | |
|---|---|---|
| | 2018 | 2017 |
| | $'000 | $'000 |
| **Geographic information** | | |
| **Revenue** | | |
| Revenue - Australia | 260,966 | 248,771 |
| Revenue - New Zealand | 17,513 | 15,738 |
| Total Revenue | 278,479 | 264,509 |

The revenue attributable to each region is based on the income earned from clients that reside in those regions.

| | | |
|---|---|---|
| **Total non-current assets** | | |
| Non current assets - Australia | 391,884 | 372,934 |
| Non-current assets - New Zealand | 50,888 | 52,023 |
| Total non-current assets | 442,772 | 424,957 |

Non current assets attributable to each region have been aggregated based on the assets that reside within each business in addition to any assets within the Consolidated Group that are necessary in the operation of those businesses.

## 24. AUDITORS' REMUNERATION

| | 2018 | 2017 |
|---|---|---|
| | $ | $ |
| Amounts received or due to Ernst & Young (Australia and NZ) for: | | |
| Audit of the financial statements | 1,044,633 | 1,062,511 |
| Other assurance related services | 189,850 | 46,792 |
| Other - including taxation services | 45,500 | 73,567 |
| Total | 1,279,983 | 1,182,870 |
| Amounts received or due to non Ernst & Young audit firms for: | | |
| Audit of the financial statements | 290,914 | 321,098 |
| Other assurance related services | 18,927 | 27,035 |
| Other - taxation services | 71,591 | 77,829 |
| Total | 381,432 | 425,962 |
| Total auditors' remuneration | 1,661,415 | 1,608,832 |

## 25. SUBSEQUENT EVENTS

On 27 August 2018 the Directors of AUB Group Limited declared a final dividend on ordinary shares in respect of the 2018 financial year. The total amount of the dividend is $20,430,872 which represents a fully franked dividend of 32.0 cents per share. The dividend has not been provided for in the 30 June 2018 financial statements.

## 26. RELATED PARTY DISCLOSURES

**a) The following related party transactions occurred during the year:**

*(i) Transactions with related parties in parent, controlled entities and associates.*

Entities within the wholly owned Group charge associates $12,390,265 (2017: $10,660,989) management fees for expenses incurred and services rendered.

Entities within the wholly owned Group invest in trusts managed by related parties. These transactions are at normal commercial terms and conditions.

Entities within the wholly owned Group provide funds to other entities within the Group. These funds are non-interest bearing and are repayable on demand. See note 9 for amounts receivables from related parties $3,142,299 (2017: $3,571,186) and note 17 for payables to related parties $883,069 (2017: $1,981,524).

Entities within the wholly owned Group have advanced funds to other related parties.

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| Austbrokers Aviation Pty Ltd | 11,167 | 9,237 |
| Austbrokers Hiller Marine Pty Ltd | 293,899 | 238,905 |
| Cruden & Read Pty Ltd | 108,177 | - |
| HQ Insurance Pty Ltd | 546,857 | - |
| Geebeejay Pty Ltd | 6,000 | 18,800 |
| Longitude Insurance Pty Ltd | 401,741 | 2,090,742 |
| R.G Financial Services Pty Ltd | 20,055 | - |
| Tasman Underwriting Pty Ltd | 39,653 | 7,914 |
| Austbrokers AEI Transport Pty Ltd | 2,198 | - |
| Lexsa Pty Ltd | 110,000 | - |
| Sally Underwood | 804,000 | - |
| Craig Walker | 43,736 | - |
| All -Trans Underwriting Pty Ltd | 49,849 | 50,122 |
| Damian Price | 39,702 | 25,060 |
| Sura Accident and Health Pty Ltd | - | 775,059 |
| Sura Professional Risk Pty Ltd | 61,347 | 8,559 |
| Gard Insurance Pty Ltd | 297,221 | 44,498 |
| Venrick Pty Ltd | 27,210 | 48,605 |
| Dean Fiddes | 34,422 | - |
| Brokerweb Risk Services Ltd | 50,186 | 13,705 |
| Joe Lo Surdo | 165,000 | 225,000 |
| Bay Insurance Brokers Ltd | - | 7,490 |
| Blackfish Pty Ltd | 24,079 | - |
| Dawson Insurance Brokers (Rotorua) Limited | - | 7,490 |
| Brian Barreto | 5,800 | - |
| | 3,142,299 | 3,571,186 |

## 26. RELATED PARTY DISCLOSURES (CONTINUED)

**a) The following related party transactions occurred during the year: (continued)**

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| Other payables - related parties | | |
| James Wiechman Pty Ltd ATF Wiechman Family Trust | - | 250,264 |
| Peter Curtis Pty Ltd ATF Curtis Family Trust | - | 289,102 |
| Areten Pty Ltd | - | 49,689 |
| Tim Parry | 5,689 | 4,775 |
| Budin Financial Services Pty Ltd | - | 81,887 |
| Fleetsure Pty Ltd | 300,000 | |
| Judd O'Shea | - | 16,377 |
| Aust Re Brokers Pty Ltd | - | 62,312 |
| Cinesura Entertainment Pty Ltd | 54,161 | 52,119 |
| Derick Borean | 235,064 | 475,064 |
| Richard Forby | 235,064 | 475,064 |
| MGA Management Services Pty Ltd | - | 80,000 |
| Northern Tablelands Insurance Brokers Pty Ltd | 53,091 | - |
| Corunna Investments Pty Ltd | - | 11,988 |
| SPFS Enterprises Pty Ltd ATF Salisbury Family Trust | - | 132,883 |
| | 883,069 | 1,981,524 |

*(ii) Transactions with other related parties*

Entities within the wholly owned group charge associated entities interest on interest-bearing loans. Total interest charged for the period was $23,039 (2017: $22,331). The interest charged is on normal commercial terms and conditions.

| | Consolidated | |
|---|---|---|
| | 2018<br>$ | 2017<br>$ |
| KJ Risk Group Pty Ltd | 403,164 | 425,961 |
| | 403,164 | 425,961 |

No further loans have been advanced to members of the economic entity (2017: $NIL). During the year members of the economic entity have repaid loans issued by AUB Group Services Pty Ltd totalling $22,797 (2017: $33,000). The balance outstanding at 30 June 2018 was $403,164 (2017: $425,961).

A key management personnel, K. McIvor, has a 20% interest in the voting shares of a controlled entity, AUB Group NZ Ltd.

*(iii) Transactions with directors and director related entities*

Entities within the wholly owned group receive fees for arranging insurance cover for directors and/or director related entities. These transactions are at normal commercial terms and conditions.

Other than disclosed above and in notes 26(c) and 26(d), there were no other transactions with director or director related entities.

Information regarding outstanding balances at year end is included in notes 9, 10 and 17.

## 26. RELATED PARTY DISCLOSURES (CONTINUED

**b) Details of Key Management Personnel:**

The directors of the company in office during the year and until the date of signing this report are:

| | |
|---|---|
| D. C. Clarke | Chair (non-executive) |
| R. J. Carless | Director (non-executive) |
| P. A. Lahiff | Director (non-executive) |
| R. J. Low | Director (non-executive) |
| C. L. Rogers | Director (non-executive) (appointed 3 May 2018) |

The following persons were the executives with the greatest authority for the planning, directing and controlling the activities of the consolidated entity during the financial year:

| | |
|---|---|
| M.P.L Searles | Chief Executive Officer and Managing Director |
| J. Blackledge | Chief Financial Officer (ceased 11 May 2018) |
| M. Shanahan | Chief Financial Officer (appointed 12 April 2018) |
| E. Henderson | Chief Operating Officer (appointed 2 January 2018) |
| F. Pasquini | Divisional Chief Executive, National Partner & Group Acquisition |
| S. Vohra | Divisional Chief Executive, Risk Services |
| K. McIvor | Managing Director, AUB Group New Zealand |
| N. Thomas | Divisional Chief Executive, Austbrokers Network |
| A. Zissis | Managing Director, SURA |

**c) There are no loans outstanding owing by Key Management Personnel at 30 June 2018 (2017: NIL)**

**d) Compensation of Key Management Personnel by Category**

| | Consolidated | |
|---|---|---|
| | 2018 | 2017 |
| | $ | $ |
| Salary, fees and short term incentives | 4,779,298 | 4,401,068 |
| Post employment | 234,197 | 252,864 |
| Other long-term | - | - |
| Termination benefits | - | - |
| Share-based payment | 531,132 | 466,531 |
| | 5,544,627 | 5,120,463 |

See note 3(a) of remuneration report. Previous year comparatives have been changed to include accrued short term incentive provision in respect of the relevant financial reporting period. Previously short term incentives paid during the period were reported.

## 27. PARENT ENTITY INFORMATION

| | 2018 | 2017 |
|---|---|---|
| | $'000 | $'000 |
| **Assets** | | |
| Cash and cash equivalents | 9,940 | 7,600 |
| Current assets | 75,538 | 59,400 |
| Non-current assets | 207,348 | 172,042 |
| Total assets | 292,826 | 239,042 |
| **Liabilities** | | |
| Current liabilities | 644 | 12,624 |
| Non-current liabilities - interest-bearing loans and borrowings | 99,576 | 42,000 |
| Total liabilities | 100,220 | 54,624 |
| Net assets | 192,606 | 184,418 |
| **Equity** | | |
| Issued capital | 141,708 | 141,708 |
| Share based payments | 6,861 | 6,090 |
| Retained earnings | 44,037 | 36,620 |
| Total shareholders equity | 192,606 | 184,418 |
| | | |
| Profit for the year before income tax | 34,084 | 24,727 |
| Income tax (credit) | (787) | (901) |
| Net profit after tax for the period | 34,871 | 25,628 |
| Other comprehensive (expense)/income after income tax for the period | - | - |
| Total comprehensive income after tax for the period | 34,871 | 25,628 |
| **Other information** | | |
| Guarantees entered into by the parent entity in relation to the debts of its controlled entities or associates | | |
| AUB Group Limited has guaranteed loan facilities provided to controlled entities and associates in proportion to its shareholding | 18,909 | 18,694 |
| AUB Group Ltd has guaranteed lease facilities provided to associates in proportion to its shareholding | 27 | 44 |
| | 18,936 | 18,738 |

### Contingent liabilities

AUB Group Limited has provided indemnities to other shareholders of related entities and associates in relation to guarantees given by those shareholders, to financiers of or lessors to entities in which AUB Group Limited has an equity interest. At balance date no liability has arisen in relation to these indemnities.

AUB Group Limited has entered into agreements with various financiers and shareholders of related entities and associates, granting options to put shares held in related companies or associates to AUB Group Limited. Refer note 22.

# 28. FINANCIAL INSTRUMENTS

**Financial risk management objectives and policies**

The Group's principal financial instruments comprise receivables, loans, cash and short-term deposits, payables, finance leases, overdrafts, interest-bearing loans and borrowings and bank overdrafts.

The Group manages its exposure to key financial risks, including interest rate and foreign currency risk in accordance with the Group's financial risk management policy. The objective of the policy is to support the delivery of the Group's financial targets whilst protecting future financial security.

The Group does not enter into derivative transactions nor has any significant foreign currency transactions.

The Board reviews and agrees policies for managing each of these risks as summarised below. Primary responsibility for identification and control of financial risks rests with the Board Audit & Risk Management Committee, supported by a Management Committee, under the authority of the Board. The Board reviews and agrees policies for managing each of the risks identified below.

**Risk exposures and Responses**

**a) Credit Risk**

Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents, intercompany receivables, loans, trade and other receivables. Although there is a concentration of cash and cash equivalents held with major banks, credit risk is not considered significant.

The company's exposure to credit risk is concentrated in the financial services industry with parties which are considered to be of sufficiently high credit quality. There are no financial assets which are past due or impaired.

Receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

**Amounts due from premium funding operations**

Amounts due from premium funding operations include amounts due from policyholders in respect of insurances arranged by a controlled entity. These arrangement with policyholders have repayment terms up to 10 months from policy inception. The individual funding arrangements are used to pay insurers. Should policyholders default under the premium funding arrangement, the insurance policy is cancelled by the insurer and a refund issued which is credited against the amount due. The Group's credit risk exposure in relation to these receivables is limited to commissions and fees charged plus any additional interest charged under the premium funding arrangement.

**Insurance Broking Account receivables**

Receivables include amounts due from policyholders in respect of insurances arranged by controlled entities. Insurance brokers have credit terms of 90 days from policy inception to pay funds received from policyholders to insurers. Should policyholders not pay, the insurance policy is cancelled by the insurer and a credit given against the amount due. The Group's credit risk exposure in relation to these receivables is limited to commissions and fees charged. Commission revenue is recognised after taking into account an allowance for expected revenue losses on policy lapses and cancellations, based on past experience.

The Group's assets and liabilities include amounts due from policyholders and amounts due to underwriters from broking activities. Due to the reasons disclosed above, these assets and liabilities have been excluded from the Group's credit risk analysis. The net difference between the assets and liabilities relate to the undrawn commission and fee income brought to account in revenue. This amount has been deducted from amounts payable on broking/underwriting agency operations.

| | Consolidated | |
|---|---|---|
| | 2018 | 2017 |
| | $'000 | $'000 |
| Assets and liabilities relating to Insurance Broking Account. | | |
| Amounts due from customers on broking/underwriting agency operations | 148,026 | 145,836 |
| Cash held on trust | 99,969 | 93,087 |
| Amounts payable on broking/underwriting agency operations | (215,768) | (207,116) |
| Undrawn income | (32,227) | (31,807) |
| Net receivables included in Insurance Broking Account | - | - |

## 28. FINANCIAL INSTRUMENTS (CONTINUED)

### a) Credit Risk (continued)

The Group's exposure to credit risk in relation to financial assets arises from potential default of the counterparty, with a maximum exposure equal to the carrying amount of these financial assets. Cash and cash equivalents are concentrated with major banks and the risk of default by these counterparties is not considered significant.

Cash and cash equivalents are deposited with Australian and New Zealand Banks. The majority of trade receivables are expected to be collected within 90 days. The remainder of the financial assets are to related entities or entities that have a relationship to our associates and are either on call or where loans have a fixed maturity date, are secured by fixed and floating charges (see note 10). At 30 June 2018, all financial assets were neither past due nor impaired.

| | Consolidated | |
|---|---|---|
| | 2018 | 2017 |
| Financial assets | $'000 | $'000 |
| Cash and cash equivalents | 58,688 | 60,231 |
| Trade and other receivables | 28,212 | 24,538 |
| Amount due from clients in respect of premium funding operations | 350 | 2,083 |
| Related party receivables | 3,142 | 3,572 |
| Loans - related entities | - | 80 |
| Other receivables | 430 | 505 |
| | 90,822 | 91,009 |

The amount for trade and other receivables included in the table above excludes insurance broking account receivables.

## 28. FINANCIAL INSTRUMENTS (CONTINUED)

### b) Liquidity Risk

The company's objective is to maintain adequate cash to ensure continuity of funding and flexibility in its day-to-day operations.

The company reviews its cash flows weekly and models expected cash flows for the following 12 to 24 months (updated monthly) to ensure that any stress on liquidity is detected, monitored and managed, before risks arise.

To monitor existing financial assets and liabilities as well as enable an effective controlling of future risks, the Group has established comprehensive risk reporting that reflects expectations of management of expected settlement of financial assets and liabilities.

The Group's main borrowing facilities are provided by a syndicated facility comprising ANZ Bank and St George Bank, although some controlled entities have arranged borrowing facilities with other banks. The terms of these arrangements have been disclosed in Note 19 "Interest-bearing loans and borrowings".

The company considers the maturity of its financial assets and projected cashflows from operations to monitor liquidity risk.

Liquidity risk arises in the event that the financial assets/liabilities are not able to be realised/settled for the amounts disclosed in the accounts on a timely basis.

The table below reflects all contractually fixed pay-outs and receivables for settlement, repayments and interest resulting from recognised financial assets and liabilities. Cash flows for financial assets and liabilities without a fixed amount or timing are based on the conditions existing at 30 June 2018 with comparatives based on conditions existing at 30 June 2017.

The risk implied from the values shown in the table below, reflects a balanced view of cash inflows and outflows. Lease liabilities, trade payables and other financial liabilities mainly originate from the financing of assets used in the Group's ongoing operations such as plant and equipment and investments in working capital, e.g. trade receivables and deferred payments on broker acquisitions.

The table summarises the maturity profile of the Group's financial assets and financial liabilities based on contractual undiscounted payments.

| | Consolidated | |
|---|---|---|
| | 2018 | 2017 |
| Financial assets | $'000 | $'000 |
| Due not later than 6 months | 338,015 | 327,268 |
| 6 months to not later than one year | 355 | 2,137 |
| Later than one year and not later than five years | 447 | 527 |
| Later than five years | - | - |
| | 338,817 | 329,932 |
| Financial liabilities | | |
| Due not later than 12 months | (253,554) | (259,581) |
| Later than one year and not later than five years | (138,688) | (115,772) |
| Later than five years | - | - |
| | (392,242) | (375,353) |

The Group's liquidity risk relating to amounts receivable/payable from broking operations have been included in the table above, although trust cash and amounts due from insurance broking account receivables/broking account payables are not available to meet operating expenses/business obligations other than for payments to underwriters and/or repayments to policyholders. Should policyholders not pay, the insurance policy is cancelled by the insurer and a credit given against the amount due. The Group's liquidity risk in relation to these receivables is limited to commissions and fees charged.

## 28. FINANCIAL INSTRUMENTS (CONTINUED)

**c) Fair Values of recognised assets and liabilities**

Set out below is a comparison by category of the carrying value and the fair value of all the Group's financial instruments.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

The Company's contingent considerations made in relation to acquisitions of controlled entities and associates are categorised as level 3. These are valued based on the inputs in the valuation used on new acquisitions during the reporting period, refer to note 7.

All other assets and liabilities measured at fair value are categorised as level 2 under the three level hierarchy reflecting the availability of observable market inputs when estimating the fair value.

The consolidated entity's put option liabilities are categorised as level 3.

| | Carrying value | | Fair value | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| **Financial assets** | $'000 | $'000 | $'000 | $'000 |
| Cash and cash equivalents | 158,657 | 153,318 | 158,657 | 153,318 |
| Trade and other receivables | 176,641 | 170,800 | 176,641 | 170,800 |
| Amounts due from clients in respect of premium funding operations | 350 | 2,083 | 350 | 2,083 |
| Related party receivables | 3,142 | 3,572 | 3,142 | 3,572 |
| Loans – related entities | - | 80 | - | 80 |
| Loans – other | 9 | 28 | 9 | 28 |
| Loan with associated entities | 18 | 51 | 18 | 51 |
| Total financial assets | 338,817 | 329,932 | 338,817 | 329,932 |
| **Financial liabilities** | | | | |
| Loans and other borrowings | (121,202) | (95,096) | (121,198) | (95,092) |
| Trade and other payables and accruals | (271,040) | (280,257) | (271,040) | (280,257) |
| Total financial liabilities | (392,242) | (375,353) | (392,238) | (375,349) |

Market values have been used to determine the fair value of securities. The fair value of loans and notes and other financial assets has been calculated using market interest rate.

The Group's fair value of recognised assets and liabilities above include trust cash and amounts relating to receivables/ payables from broking operations, although trust cash and amounts due from insurance broking account receivables/broking account payables are not available to meet operating expenses/business obligations other than for payments to underwriters and/or repayments to policyholders.

# 28. FINANCIAL INSTRUMENTS (CONTINUED)

### c) Fair Values of recognised assets and liabilities (continued)

The value of the deferred consideration payments outstanding at 30 June 2018 was $3.0 million (2017: $19.3 million)

Of the $3.0 million, a total of $0.9 million relates to contingent consideration payments which are due to be paid within 90 days and are based on actual results for those businesses as at 30 June 2018. The balance of $2.1 million is due to be paid within 12 months (see note 17 for movements in contingent consideration estimates).

The fair value of the non current deferred contingent consideration payments may change as a result of changes in the projected future financial performance of the acquired assets and liabilities.

Reasonable possible changes in assumptions will change these deferred payments as follows:

- If the full year 2018 operating profit declines by 10% compared to the current forecast, a reduction of $NIL (2017: $1,173,000) in the deferred consideration would result.

- If the full year 2018 operating profit increases by 10% compared to the current forecast, an increase of $NIL (2017: $1,211,000) in the deferred consideration would result.

Management has assessed that cash and short-term deposits, trade receivables, trade payables, bank overdrafts and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

The fair value of the financial assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following methods and assumptions were used to estimate the fair values:

Long-term fixed-rate and variable-rate receivables/borrowings are evaluated by the Group based on parameters such as interest rates, individual creditworthiness of the customer. Based on this evaluation, allowances are taken into account for the expected losses of these receivables. As at 30 June 2018, the carrying amounts of such receivables, net of allowances, were not materially different from their calculated fair values.

The fair value of unquoted instruments, loans from banks and other financial liabilities (including put option liability), obligations under finance leases, as well as other non-current financial liabilities is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

Fair values of the Group's interest-bearing borrowings and loans are determined by using DCF method using discount rate that reflects the issuer's borrowing rate as at the end of the reporting period.

### d) Market Risk

*Interest rate risk*

The Group's exposure to interest rate movements relates to cash and cash equivalents held by the Group and the Group's long-term debt obligations. To manage interest rate risk, interest rates on borrowings are fixed for a period depending on market conditions. This risk is minimal as the Group holds cash received from policyholders to pay insurers in excess of the amount of borrowings and therefore the group has a hedge against interest rate rises. Loans generally have interest rate resets every six months. In the event of interest rate rises, a net increase in interest revenue will occur due to cash and cash equivalents exceeding borrowings.

The main risk to the Group is in relation to interest rate reductions which will decrease the net income earned on cash and cash equivalents held. The cash held to pay insurers must be held in prescribed investments (Australian bank accounts or deposits) and as such will be subject to market interest rate fluctuations. The Group has at balance date, the following mix of financial assets and liabilities exposed to Australian variable interest rate risk.

| | Consolidated | |
|---|---|---|
| | 2018 | 2017 |
| Financial assets | $'000 | $'000 |
| Cash and cash equivalents (including trust account balance) | 158,657 | 153,318 |
| Loans – related entities | - | 80 |
| Loans – other | 9 | 28 |
| Total financial assets | 158,666 | 153,426 |
| Financial liabilities | | |
| Loans and other borrowings | (121,202) | (94,821) |
| Net exposure to interest rate movements | 37,464 | 58,605 |

Borrowings fixed for a period greater than 12 months have been excluded from the table above.

## 28. FINANCIAL INSTRUMENTS (CONTINUED)

### d) Market Risk (continued)

*Interest rate risk (continued)*

The Group's long term policy is to maintain a component of long term borrowings at fixed interest rates, which are carried at amortised cost and it is acknowledged that exposure to fluctuations in fair value is a by-product of the Group's policy. Due to the current low interest rate environment, the group has determined that variable interest rates will result in a better overall interest rate risk than fixing for extended periods. Of the total current and non-current interest bearing loans and borrowings totalling $119.9 million (2017:$93.6 million), $183,000 has been fixed for periods greater than 12 months (2017: $275,000 at 6.5%). All other borrowings are based on variable interest rates. See note 19 for full details of terms and conditions.

The Group constantly analyses its interest rate exposure. Within this analysis consideration is given to potential renewals of existing positions, alternative financing and the term for fixing interest rates.

The following sensitivity analysis is based on the interest rate exposures in existence at year end. The sensitivity for the prior year has been prepared on an equivalent basis.

At year end, had interest rates moved as illustrated in the table below, with all other variables held constant, post tax profits and equity would have been affected as follows:

| | Post tax profits Higher/(lower) | | Impacts directly to equity Higher/(lower) | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Judgements of reasonably possible movements. | $'000 | $'000 | $'000 | $'000 |
| Consolidated | | | | |
| +0.5% (50 basis points) (2017 +0.50% (50 basis points)) | 187 | 291 | - | - |
| -0.5% (50 basis points) (2017 -0.50% (50 basis points)) | (187) | (291) | - | - |

The net increase in consolidated profits in respect of interest rate rises is due to the net positive impact of interest-bearing assets being greater than borrowings.

*Equity securities price risk*

Equity securities price risk arises from investments in equity securities. The Group does not invest in listed equity securities or derivatives.

At year end, the Group had no material exposure to equities other than to shares in associated entities and controlled entities and therefore has no exposure to price risk that has not already been reflected in the financial statements. The Group tests for impairment annually and reviews all investments at least half yearly. The methodology for testing for impairment is shown in note 15. Other than shown below, there were no impaired investments at balance date. At 30 June 2018, an impairment charge totalling $2,519,000 (2017: $2,983,000) relating to the carrying value of controlled entities and associates was recognised and was shown as an expense in the Consolidated Statement of Profit or Loss. The impairment charge was offset against a reduction in contingent consideration payments in respect of controlled entities and associates totalling $287,000 (2017: $3,017,000) that was in excess of the expected settlement amounts and were credited to the Consolidated Statement of Profit or Loss.

Included in the impairment charge of $2,519,000 shown above was an amount of $2,300,000 relating to goodwill in a controlled entity. A financial services entity has been subject to legislative changes including changes to the trail commissions which has resulted in a loss of revenue in the last 3 years which is also expected to continue for at least next year.

## 28. FINANCIAL INSTRUMENTS (CONTINUED)

### d) Market Risk (continued)

*Foreign Currency Risk*

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign currency rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenue or expenses is denominated in a foreign currency) and the Group's investment in overseas controlled entities.

The Group does not hedge its exposure in foreign currencies.

The majority of the foreign exchange rate exposure relates to the investment in New Zealand (NZ) operations, although some controlled entities raise client invoices in foreign currency denominations.

At year end, had foreign exchange rates moved as illustrated in the table below, with all other variables held constant, post tax profits and equity would have been affected as follows:

| | Post tax profits Higher/(lower) | | Impacts directly to equity Higher/(lower) | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Judgements of reasonably possible movements. | $'000 | $'000 | $'000 | $'000 |
| Consolidated (AUB direct investment in New Zealand) | | | | |
| -NZ $0.10 (ten cents) (2017 -NZ $0.10 (ten cents) | - | - | 1,671 | 1,450 |
| +NZ $0.10 (ten cents) (2017 +NZ $0.10 (ten cents) | - | - | (1,671) | (1,450) |

### e) Capital Management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns to shareholders and benefits for other stakeholders and to maintain an optimum capital structure.

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

The Group monitors capital on the basis of the gearing ratio. The debt to equity ratio is calculated as total borrowings divided by total equity and borrowings.

During 2018, the Group's strategy was to maintain a gearing ratio of not greater than 30% which was unchanged from 2017.

| | Consolidated | |
|---|---|---|
| | 2018 | 2017 |
| The gearing ratios at 30 June were as follows; | $'000 | $'000 |
| Debt to equity ratio | | |
| Interest-bearing loans and borrowings (see note 19) | 121,202 | 95,096 |
| Total equity | 357,230 | 345,781 |
| Total equity and borrowings | 478,432 | 440,877 |
| Debt/(Debt plus Equity) Ratio | 25.3% | 21.6% |

### f) Put Option

AUB Group Limited has entered into agreements with various financiers and shareholders of related entities and associates, granting options to put shares held in related companies or associates to AUB Group Limited. Refer note 22.

Other than shown on note 2.3, at balance date no liability has arisen in relation to these arrangements.

In the opinion of the directors:

(a) the financial statements and notes of the consolidated entity are in accordance with the Corporations Act 2001, including:

  i. giving a true and fair view of the consolidated entity's financial position as at 30 June 2018 and of its performance for the year ended on that date;

  ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;

(b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 2.2;

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

(d) this declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the Corporations Act 2001 for the financial year ended 30 June 2018.

On behalf of the Board

D.C. Clarke
Chair

Sydney, 27 August 2018

M. P. L. Searles
Chief Executive Officer and Managing Director

Sydney, 27 August 2018

# INDEPENDENT AUDITOR'S REPORT

Ernst & Young
200 George Street
Sydney NSW 2000 Australia
GPO Box 2646 Sydney NSW 2001

Tel: +61 2 9248 5555
Fax: +61 2 9248 5959
ey.com/au

EY
Building a better working world

## Independent Auditor's Report to the Members of AUB Group Limited

### Report on the Audit of the Financial Report

*Opinion*

We have audited the financial report of AUB Group Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2018, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the consolidated financial position of the Group as at 30 June 2018 and of its consolidated financial performance for the year ended on that date; and

b) 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* (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.

*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 year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

| Why significant | How our audit addressed the key audit matter |
|---|---|
| **Carrying value of goodwill, insurance broker register intangible assets and investment in associates**<br>Financial report reference: Notes 2, 11, 14, and 15 | |
| Goodwill, other intangible assets and investment in associates totals $423 million and represent 54% of total assets.<br>This was a key matter as the determination of whether or not certain elements of goodwill, insurance broker register intangible assets and investment in associates are impaired, involves complex and subjective judgments by the Group about the future results of the relevant parts of the business. All of these assets were assessed for impairment using the same impairment model.<br>The key inputs and judgments involved in the impairment assessment include:<br>▸ Applicable profit multiples<br>▸ Forecast cash flows including assumptions on revenue growth<br>▸ Discount rates<br>▸ Terminal growth rate<br>Economic and entity specific factors are incorporated into the profit multiples used in the impairment assessment.<br>The Group has many individual Cash Generating Units (CGUs) which can be impacted positively or adversely by state based changes in the macro-environment changes, particularly those impacted by specific industries or natural events.<br>The future results of brokers and underwriting agencies are exposed to insurance premium rates, volumes and commission rates, and broker fees. Similarly, the risk services entities are likely to be affected by any changes in state based workers compensation scheme arrangements. | Our audit procedures included the following:<br>▸ We assessed the Group's determination of CGUs.<br>▸ We evaluated the Group's process regarding impairment assessment of goodwill, other intangible assets and investment in associates to determine any asset impairments.<br>▸ We involved our valuation specialists to assist in assessing the appropriateness of the impairment model including key inputs into the models such as the applicable profit multiples and discount rates.<br>▸ We evaluated the cash flow forecasts by comparing them to the Board approved budgets and our understanding of the industry's external factors affecting revenue growth.<br>▸ We independently developed expectations regarding the impairment testing results based on our understanding of the business, external industry trends and experience and the Group's historic business activity. We evaluated the Group's impairment testing results against those expectations.<br>▸ We tested the mathematical accuracy of the impairment model and agreed relevant data back to the latest budgets, actual results and other supporting documentation.<br>▸ We evaluated the estimated useful life attributed to identifiable insurance broking register intangible assets.<br>▸ We assessed the Group's sensitivity analysis and evaluated whether any reasonably foreseeable change in assumptions could lead to an impairment.<br>▸ We assessed the adequacy of the disclosures in note 15 to the financial report.<br>▸ Our valuation specialists assessed the relationship between the impairment models and the model used by the Group to value the recognised put option. This included consistency, where relevant, of key inputs into the models allowing for the different time horizons of cash flows. |
| **Decentralised operations**<br>Financial report reference: Notes 2.2, 11 and 12 | |
| The Group comprises more than 90 subsidiaries and associates ('components') that are part of two reportable segments, with operations in Australia and New Zealand.<br>This was a key audit matter as the individual components are wide ranging in size, the customers and products of each business operation. The decentralised and varied nature of these operations require significant oversight by the Group to monitor the activities, review component financial reporting and undertake the Group consolidation procedures.<br>The financial report of a number of controlled entities and associates are audited by component teams and therefore the assessment of the adequacy of the procedures of another auditor was considered significant to the audit. | Our audit procedures included the following:<br>▸ We assessed effectiveness of relevant controls over the Group's decentralised structure, including centralised monitoring controls at the Group, segment and individual component level.<br>▸ We planned and scoped our audit using a risk based approach across all key components of the Group to determine the extent of audit work to be undertaken at each location.<br>▸ We met the component audit teams of the significant entities to evaluate, through review of underlying audit work, scoping of key audit areas, planning and execution of audit procedures, significant areas of estimation and judgment, and audit findings.<br>▸ We analysed the financial information of all components, including those not considered as individually significant. Procedures included discussions with the Group about the components' financial performance, and an assessment as to whether there was any matters arising that required explanation or additional procedures. |

### *Information Other than the Financial Report and Auditor's Report*

The directors are responsible for the other information. The other information comprises the information included in the Group's 2018 Annual Report, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

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.

### *Responsibilities of the Directors for the Financial Report*

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

In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or cease operations, or have no realistic alternative but to do so.

### *Auditor's Responsibilities for the Audit of the Financial Report*

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## Report on the Remuneration Report

### *Opinion on the Remuneration Report*

We have audited the Remuneration Report included in pages 20 to 30 of the Directors' Report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of the AUB Group Limited for the year ended 30 June 2018, 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.

Ernst & Young

Ernst & Young

David Jewell

David Jewell
Partner
Sydney
27 August 2018

# ASX ADDITIONAL INFORMATION
## YEAR ENDED 30 JUNE 2018

Additional information required by the Australian Stock Exchange Ltd and not shown elsewhere in this report is as follows. The information is current as at 3 August 2018.

(a) Distribution of equity securities

*Ordinary share capital*

- 63,846,476 fully paid ordinary shares are held by 1,624 individual shareholders. All issued shares carry one vote per share and carry the rights to dividends.

Nil ordinary shares issued on exercise of options under the Senior Executive Option Plan are held in escrow in accordance with the Plan.

*Options*

- 526,308 options are held by 14 individual option holders.

Options do not carry a right to vote.

The number of shareholders, by size of holding, in each class are:

| | Fully paid ordinary shares | Options |
|---|---|---|
| 1 – 1000 | 693 | - |
| 1,001 – 5,000 | 613 | 3 |
| 5,001 – 10,000 | 173 | - |
| 10,001 – 100,000 | 121 | 10 |
| 100,001 and over | 24 | 1 |
| | 1,624 | 14 |
| Holding less than a marketable parcel | 106 | |

(b) Substantial shareholders

| Ordinary shareholders | Date of Notice | Number | Fully paid Percentage |
|---|---|---|---|
| Challenger Limited | 12-March-2018 | 7,551,802 | 11.83% |
| FMRC LLC | 02-February-2018 | 5,797,978 | 9.08% |
| BT Investment Management Limited | 20-April-2018 | 4,482,008 | 7.02% |
| Perpetual Limited | 08-March-2018 | 4,210,270 | 6.59% |
| MFS Investment Management on behalf of Sun Life Financials Inc. | 30-May-2017 | 3,514,103 | 5.50% |

(c) Twenty largest holders of quoted equity securities

| Ordinary shareholders | Number | Fully paid Percentage |
|---|---|---|
| Fidelity Mgt & Research | 5,263,430 | 8.20% |
| Perpetual Investments | 5,246,533 | 8.20% |
| Pendal Group | 4,674,991 | 7.30% |
| MFS Investment Mgt | 3,389,236 | 5.30% |
| Greencape Capital | 2,840,222 | 4.40% |
| NovaPort Capital | 2,800,179 | 4.40% |
| Avoca Investment Mgt | 2,445,751 | 3.80% |
| WaveStone Capital | 2,407,885 | 3.80% |
| Aberdeen Standard Investments | 2,222,500 | 3.50% |
| Wilson Asset Mgt | 2,101,651 | 3.30% |
| Pengana Capital | 1,876,344 | 2.90% |
| Australian Foundation Investment Co | 1,682,719 | 2.60% |
| Wellington Mgt Company | 1,627,414 | 2.50% |
| Paradice Investment Mgt | 1,498,237 | 2.30% |
| Fisher Funds Mgt | 1,344,943 | 2.10% |
| Perennial Value Mgt | 1,290,098 | 2.00% |
| Milton Corporation | 1,126,153 | 1.80% |
| Karara Capital | 1,027,527 | 1.60% |
| Adam Smith Asset Mgt | 902,293 | 1.40% |
| Dimensional Fund Advisors | 876,283 | 1.40% |
| | 46,644,389 | 73.10% |

# DIVIDEND DETAILS

**Dividend Details**

| Dividend | Amount | Franking | Ex Date | Record Date | Payment Date |
|---|---|---|---|---|---|
| Interim* | 13.5c | Fully Franked | 5/04/2018 | 6/04/2018 | 27/04/2018 |
| Final** | 32.0c | Fully Franked | 7/09/2018 | 10/09/2018 | 9/10/2018 |

* The Dividend Reinvestment Plan was suspended from 25/08/16

# CORPORATE INFORMATION

This annual report covers the consolidated entity comprising AUB Group Limited and its subsidiaries. The Group's functional and presentation currency is AUD($).

A description of the Group's operations and of its principal activities is included in the operating and financial review in the Directors' report on pages 13-31.

### Directors

D. C. Clarke (Chair)
M. P. L. Searles (Chief Executive Officer and Managing Director)
R. J. Carless
R. J. Low
P.A. Lahiff
C. L. Rogers

### Company Secretaries

J. L. Coss
H. T. Elderman

### Annual General Meeting

The Annual General Meeting of AUB Group Limited will be held at the Auditorium, Level 15, 1 Farrer Place, Sydney NSW 2000 on Tuesday 13th of November 2018 at 10.00am.

### Registered Office and Principal Place of Business

AUB Group Limited
Level 10, 88 Phillip Street
Sydney NSW 2000
P: + 61 2 9935 2222
W: www.aubgroup.com.au

ACN: 000 000 715

### Share Register

Link Market Services Limited
Level 12, 680 George Street
Sydney NSW 2000
P: 1300 554 474
(Outside Australia +61 2 8280 7100)

AUB Group Limited shares are listed on the Australian Securities Exchange (ASX: AUB)

### Auditors

Ernst & Young
200 George Street
Sydney NSW 2000