



20th October 2016

The Manager
Company Announcements
Australian Securities Exchange
Level 6, Exchange Centre,
20 Bridge Street
Sydney, NSW 2000

FOR RELEASE TO THE MARKET

Dear Sir / Madam,

Re: Notice of Annual General Meeting, Proxy Form and Annual Report

Please find attached on behalf of AUB Group Limited (ASX: AUB) the following documents to be dispatched to shareholders today:

- Notice of Annual General Meeting
- Proxy Form
- Annual Report

Yours faithfully,

A handwritten signature in blue ink, appearing to read 'J2 Coss'.

Justin Coss
Company Secretary

For further information, contact Justin Coss

Tel: (02) 9935 2224
Mobile: 0424 758 719
justinc@aubgroup.com.au

AUB Group Limited

Level 21, 111 Pacific Highway,
North Sydney, NSW 2060

ABN 60 000 000 715
ACN 000 000 715

aubgroup.com.au

Notice of Annual General Meeting

AUB Group Limited ABN 60 000 000 715

Notice is hereby given that the Annual General Meeting of shareholders of AUB Group Limited will be held at the Intercontinental Hotel 117 Macquarie Street, Sydney, New South Wales at 10.00am on Thursday 24 November 2016.

ORDINARY BUSINESS

Item 1: Financial Report

To receive and consider the Company's Financial Report, Directors' Report and the Auditor's Report for the financial year ended 30 June 2016.

Item 2: Re-election of Raymond John Carless as a Director

Mr Carless retires as a director in accordance with Article 6.3 (j) of the Company's Constitution and, being eligible, offers himself for re-election.

Details of the qualifications and experience of Mr Carless and the recommendation of the Board are set out in section 2 of the attached Explanatory Notes.

Item 3: Remuneration Report

To adopt the Remuneration Report for the year ended 30 June 2016.

Voting Exclusion Statement

The Company will disregard any votes cast on Item 3:

- by or on behalf of a member of the key management personnel of the Company (**KMP**) named in the Remuneration Report or a closely related party of those persons (such as close family members and any companies the person controls), regardless of the capacity in which the vote is cast, or
- by a KMP or a closely related party of a KMP, acting as a proxy for another shareholder unless the vote is

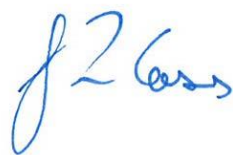
cast as proxy for a person who is entitled to vote on Item 3, and:

- the vote is cast in accordance with a direction on the Proxy Form, or
- in the absence of a direction on the Proxy Form, the vote is cast by the Chairman of the Meeting where the Chairman has received express authority to vote undirected proxies as the Chairman decides, even if the resolution is connected directly or indirectly with the remuneration of a KMP.

***Note:** the vote on this resolution is advisory only and does not bind the directors of the Company.*

Further information in relation to each resolution to be considered at the Annual General Meeting is set out in the enclosed Explanatory Notes. The Notes relating to voting, and the Explanatory Notes, form part of this Notice of Meeting.

By order of the Board



Justin Coss
Company Secretary

Dated 20 October 2016

Notes to Notice of Meeting

- 1 Pursuant to Regulation 7.11.37 of the Corporations Regulations 2001, the Directors have determined that for the purpose of the meeting all shares in the Company shall be taken to be held by the persons who were registered as shareholders at 7:00pm (Sydney time) on Tuesday, 22 November 2016.2 Where more than one joint shareholder votes, the vote of the shareholder whose name appears first in the Company share register shall be accepted to the exclusion of the others.
- 3 A shareholder has a right to appoint a person or body corporate as a proxy. A shareholder who is entitled to cast two or more votes may appoint two proxies and may specify the proportion or number of the member's votes each proxy is entitled to exercise, failing which each may exercise half of the votes. Where a member appoints one (1) proxy, that proxy may vote on a show of hands. Where a member appoints more than one (1) proxy, neither proxy is entitled to vote on a show of hands.
- 4 If you appoint a body corporate as your proxy, the body corporate will need to ensure that it:
 - (a) appoints an individual as its corporate representative to exercise its powers at meetings, in accordance with section 250D of the Corporations Act 2001 (Cth); and
 - (b) provides satisfactory evidence of the appointment of its corporate representative prior to commencement of the meeting. A form of certificate of appointment may be obtained from the Company's registry at: www.linkmarketservices.com.au.
- 5 A proxy need not be a shareholder of the Company.
- 6 Details for completion and lodgement of proxies are on the reverse side of the appointment of proxy form. A proxy must be received by the Company's share registry, Link Market Services Limited, by 10.00am on Tuesday, 22 November 2016. A proxy may be mailed to Link Market Services Limited at Locked Bag A14, Sydney South NSW 1235, hand delivered to Link Market Services Limited at Level 12, 680 George Street, Sydney NSW or 1A Homebush Bay Drive, Rhodes NSW 2138 or sent by facsimile to Link Market Services Limited on (02) 9287 0309 or online at www.linkmarketservices.com.au. Shareholders will need their Securityholder Reference Number (SRN) or Holder Identification Number (HIN). Please note that the online proxy facility is not suitable for shareholders wishing to appoint two proxies.
- 7 Shareholders who plan to attend the meeting are asked to arrive at the venue 30 minutes prior to the time designated for the meeting, if possible, so that their shareholding may be checked against the share register and attendance noted. Shareholders attending in person must register their attendance upon arrival.
- 8 If you appoint the Chair as your proxy, you can direct the Chair to vote in accordance with your directions on the proxy form, and this can be contrary to the Chair's intention to cast all available votes in favour of all Resolutions. If you do not direct the Chair to vote for or against a Resolution, or to abstain from voting on a Resolution, you will be directing the Chair to vote in accordance with the Chair's voting intentions. It is the intention of the Chair of the meeting acting as proxy to cast any such votes in favour of all Resolutions.
- 9 A reasonable opportunity will be given to shareholders as a whole to ask questions about the management of the Company or the Financial Report (including the remuneration report). Similarly, a reasonable opportunity will be given to shareholders as a whole to ask the Company's external auditor, Ernst & Young, (or its representative) questions relevant to: (a) the conduct of the audit; (b) the preparation and content of the audit reports; (c) the accounting policies adopted by the Company in relation to the preparation of the financial statements; and (d) the independence of the auditor in relation to the conduct of the audit.
- 10 Shareholders may also submit a written question to Ernst & Young (to be lodged with the Company at least 5 business days before the meeting) if the question is relevant to the content of Ernst & Young's audit reports or the conduct of its audit of the financial report for the financial year ended 30 June 2016.

EXPLANATORY NOTES

Item 1: Financial Reports (no vote)

The Company's Annual Report for the financial year ended 30 June 2016 has been made available to shareholders and is published on the Company's website www.aubgroup.com.au/ in the News and investor centre section.

There is no requirement for shareholders to approve this report. During this item of business there will be an opportunity for shareholders to comment on and ask questions about the Company's management, operations, financial position, business strategies and prospects.

Item 2: Re-election of Director (ordinary resolution)

Raymond John Carless - Non-Executive Director - Aged 61.

Mr Carless was appointed as a director on 1 October 2010 and re-elected on 20 November 2013 (at the 2013 AGM).

Mr Carless brings over 35 years' insurance industry experience based in Australia, including 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 was also 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 and Risk Management, Nomination and Remuneration & People Committees.

Board Recommendation: Each Director, other than Mr Carless, recommends that shareholders vote 'for' the resolution to re-elect Mr Carless as a Director.

Item 3: Remuneration Report (ordinary resolution)

The Corporations Act 2001 (Cth) requires a resolution to be put to the shareholders for the adoption of the

Remuneration Report and to give a reasonable opportunity to shareholders to comment on and ask questions about the Remuneration Report.

The Remuneration Report is set out in pages 15 to 26 of the Annual Report and includes:

- a discussion of Board policy for determining the nature and amount (or value, as appropriate) of remuneration of Directors and senior managers of the Company;
- an explanation of the relationship between the remuneration of Directors and senior management and the Company's performance; and
- details of the performance conditions connected with the remuneration of each Director and senior manager.

The vote on this resolution is advisory only and does not bind the directors of the Company. However, as required by the Corporations Act 2001 (Cth), if the Company receives a "no" vote of 25% or more in relation to the Remuneration Report at two successive annual general meetings, a spill resolution will be put to the members at the second annual general meeting. If the spill resolution is passed with 50% or more of the votes cast, the Company will, within 90 days, hold a spill meeting to vote on whether to keep the existing directors (the managing director will not be subject to the spill vote).

At the 2015 Annual General Meeting of the Company, the Remuneration Report was approved without a "no" vote of 25% or more.

Board Recommendation: The Board recommends that shareholders vote 'for' the resolution to approve the Remuneration Report.

LODGE YOUR VOTE



ONLINE

www.linkmarketservices.com.au


BY MAIL

AUB Group Limited
C/- Link Market Services Limited
Locked Bag A14
Sydney South NSW 1235 Australia



BY FAX

+61 2 9287 0309



BY HAND

Link Market Services Limited
1A Homebush Bay Drive, Rhodes NSW 2138; or
Level 12, 680 George Street, Sydney NSW 2000



ALL ENQUIRIES TO

Telephone: +61 1800 194 270 (free call within Australia)

PROXY FORM

I/We being a member(s) of AUB Group Limited and entitled to attend and vote hereby appoint:

APPOINT A PROXY

☐

the Chairman of the Meeting (mark box)

OR if you are **NOT** appointing the Chairman of the Meeting as your proxy, please write the name of the person or body corporate you are appointing as your proxy

or failing the person or body corporate named, or if no person or body corporate is named, the Chairman of the Meeting, as my/our proxy to act on my/our behalf (including to vote in accordance with the following directions or, if no directions have been given and to the extent permitted by the law, as the proxy sees fit) at the Annual General Meeting of the Company to be held at **10:00am on Thursday, 24 November 2016 at Intercontinental Hotel 117 Macquarie Street, Sydney, New South Wales** (the **Meeting**) and at any postponement or adjournment of the Meeting.

Important for Resolution 3: If the Chairman of the Meeting is your proxy, either by appointment or by default, and you have not indicated your voting intention below, you expressly authorise the Chairman of the Meeting to exercise the proxy in respect of Resolution 3, even though the Resolution is connected directly or indirectly with the remuneration of a member of the Company's Key Management Personnel (**KMP**).

The Chairman of the Meeting intends to vote undirected proxies in favour of each item of business.

VOTING DIRECTIONS

Proxies will only be valid and accepted by the Company if they are signed and received no later than 48 hours before the Meeting.

Please read the voting instructions overleaf before marking any boxes with an ☒

Resolutions

For Against Abstain*

- 2 Re-election of Raymond John Carless as a Director

☐	☐	☐
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- 3 Remuneration Report

☐	☐	☐
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* If you mark the Abstain box for a particular Item, you are directing your proxy not to vote on your behalf on a show of hands or on a poll and your votes will not be counted in computing the required majority on a poll.

SIGNATURE OF SHAREHOLDERS – THIS MUST BE COMPLETED

Shareholder 1 (Individual)

Joint Shareholder 2 (Individual)

Joint Shareholder 3 (Individual)

Sole Director and Sole Company Secretary

Director/Company Secretary (Delete one)

Director

This form should be signed by the shareholder. If a joint holding, either shareholder may sign. If signed by the shareholder's attorney, the power of attorney must have been previously noted by the registry or a certified copy attached to this form. If executed by a company, the form must be executed in accordance with the company's constitution and the *Corporations Act 2001* (Cth).



HOW TO COMPLETE THIS SHAREHOLDER PROXY FORM

YOUR NAME AND ADDRESS

This is your name and address as it appears on the Company's share register. If this information is incorrect, please make the correction on the form. Shareholders sponsored by a broker should advise their broker of any changes. **Please note: you cannot change ownership of your shares using this form.**

APPOINTMENT OF PROXY

If you wish to appoint the Chairman of the Meeting as your proxy, mark the box in Step 1. If you wish to appoint someone other than the Chairman of the Meeting as your proxy, please write the name of that individual or body corporate in Step 1. A proxy need not be a shareholder of the Company.

DEFAULT TO CHAIRMAN OF THE MEETING

Any directed proxies that are not voted on a poll at the Meeting will default to the Chairman of the Meeting, who is required to vote those proxies as directed. Any undirected proxies that default to the Chairman of the Meeting will be voted according to the instructions set out in this Proxy Form, including where the Resolution is connected directly or indirectly with the remuneration of KMP.

VOTES ON ITEMS OF BUSINESS – PROXY APPOINTMENT

You may direct your proxy how to vote by placing a mark in one of the boxes opposite each item of business. All your shares will be voted in accordance with such a direction unless you indicate only a portion of voting rights are to be voted on any item by inserting the percentage or number of shares you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on the items of business, your proxy may vote as he or she chooses. If you mark more than one box on an item your vote on that item will be invalid.

APPOINTMENT OF A SECOND PROXY

You are entitled to appoint up to two persons as proxies to attend the Meeting and vote on a poll. If you wish to appoint a second proxy, an additional Proxy Form may be obtained by telephoning the Company's share registry or you may copy this form and return them both together.

To appoint a second proxy you must:

- (a) on each of the first Proxy Form and the second Proxy Form state the percentage of your voting rights or number of shares applicable to that form. If the appointments do not specify the percentage or number of votes that each proxy may exercise, each proxy may exercise half your votes. Fractions of votes will be disregarded; and
- (b) return both forms together.

SIGNING INSTRUCTIONS

You must sign this form as follows in the spaces provided:

Individual: where the holding is in one name, the holder must sign.

Joint Holding: where the holding is in more than one name, either shareholder may sign.

Power of Attorney: to sign under Power of Attorney, you must lodge the Power of Attorney with the registry. If you have not previously lodged this document for notation, please attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the *Corporations Act 2001*) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please indicate the office held by signing in the appropriate place.

CORPORATE REPRESENTATIVES

If a representative of the corporation is to attend the Meeting the appropriate "Certificate of Appointment of Corporate Representative" should be produced prior to admission in accordance with the Notice of Meeting. A form of the certificate may be obtained from the Company's share registry or online at www.linkmarketservices.com.au.

LODGEMENT OF A PROXY FORM

This Proxy Form (and any Power of Attorney under which it is signed) must be received at an address given below by **10:00am on Tuesday, 22 November 2016**, being not later than 48 hours before the commencement of the Meeting. Any Proxy Form received after that time will not be valid for the scheduled Meeting.

Proxy Forms may be lodged using the reply paid envelope or:



ONLINE

www.linkmarketservices.com.au

Login to the Link website using the holding details as shown on the Proxy Form. Select 'Voting' and follow the prompts to lodge your vote. To use the online lodgement facility, shareholders will need their "Holder Identifier" (Securityholder Reference Number (SRN) or Holder Identification Number (HIN) as shown on the front of the Proxy Form).



BY MOBILE DEVICE

Our voting website is designed specifically for voting online. You can now lodge your proxy by scanning the QR code adjacent or enter the voting link www.linkmarketservices.com.au into your mobile device. Log in using the Holder Identifier and postcode for your shareholding.

QR Code



To scan the code you will need a QR code reader application which can be downloaded for free on your mobile device.



BY MAIL

AUB Group Limited
C/- Link Market Services Limited
Locked Bag A14
Sydney South NSW 1235
Australia



BY FAX

+61 2 9287 0309



BY HAND

delivering it to Link Market Services Limited*
1A Homebush Bay Drive
Rhodes NSW 2138

or

Level 12
680 George Street
Sydney NSW 2000

* During business hours (Monday to Friday, 9:00am–5:00pm)

**IF YOU WOULD LIKE TO ATTEND AND VOTE AT THE ANNUAL GENERAL MEETING, PLEASE BRING THIS FORM WITH YOU.
THIS WILL ASSIST IN REGISTERING YOUR ATTENDANCE.**

ANNUAL REPORT 2016





THE LEADING PROVIDER
OF RISK MANAGEMENT,
ADVICE AND SOLUTIONS
FOR CLIENTS.

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CHAIRMAN'S MESSAGE

AUB Group finished the year with a financial result that was less than we had hoped, but in the context of market headwinds the Group has maintained the trend of continuous growth. The achievement of 3.3% growth of underlying Net Profit After Tax, and a small increase in Earnings Per Share, was at the lower end of our expectations. The activities that represent the majority of our business being Australian Insurance Broking and Underwriting Agencies, suffered the triple effect of lower market premiums, increased competition and lower interest rates. In response to these difficult conditions, the majority of the individual businesses that make up these areas showed a resolve to adapt to the prevailing conditions.

Despite the market conditions, the Group offset the market downturn and produced an Adjusted NPAT of \$37.6 million. Having declared a final dividend of 28 cents per share, the total dividend for the year increased to 40 cents per share. We believe the tough experience of the last three years will evidence itself as improved performance and focus in the future. AUB Group is in a strong financial position, and our investment made to diversify our income base and strengthen our operations put the Group in good stead for future growth, even if the constrained premium climate continues longer than expected.

Active management of our strategy and portfolio. The strategic steps to diversify AUB Group into Insurance Broking in New Zealand, along with an increased presence in the Risk Services field has proved its worth, with strong profit growth this financial year. Profit from our Risk Services businesses grew from \$2.0 million to \$7.2 million, demonstrating the benefits of the Group's strategy to provide total risk management solutions to clients. Our investment into the New Zealand market is progressing ahead of expectations where profit contribution increased from \$0.3 million to \$2.9 million this year. Acquisitions in both areas took place throughout the year as the strategy gathered momentum. We continue to be optimistic about the opportunities for both these new areas. We believe our model which shares real long term ownership with the executives and founders of the business, sets us apart from many now entering the market. We will continue to concentrate our efforts on this diversified portfolio of business assets as it provides resilience and flexibility to enhance value for shareholders.

Partnership as our foundation. The AUB Group model which sees us having less than 100% shareholdings in the businesses we own, has at its core the sense of partnership. Partnerships rely heavily on transparency, integrity and goodwill to be effective. We bring these qualities to each of the engagements we have with our companies. The partnership model by its nature requires respect and consideration of each partners' view and opinion. While this can sometimes be time consuming as everyone gets comfortable with change, in our experience, this is a valuable contributor to getting the future of each business right. In the past we have been less involved in our partner businesses than we are today, and for some this has required adjustment. However, using the attributes of respectful partnership we are now engaged with our companies more than ever before, and we expect that this will bring benefit to all parties.

Focus on the client. AUB Group focusses predominantly on the small and medium enterprise market, with a small number of specialists servicing the large corporate market. Regardless of the market or service, we have a fundamental belief that the client will be better served, and have a more valued outcome, by a person who has, or is employed by, an organisation where the shareholders of the business work in the business. The energy and commitment they bring to any service is that much more because of the shared ownership under the AUB Group model. We will continue to seek better client outcomes through our partnership model.

Accelerating our culture through brand and people. To ensure our Group name remains relevant and agnostic to all segments and geographies that we serve, we completed a company name and brand change this year, changing from Austbrokers Holdings Limited to AUB Group Limited. We continue to build the capability of our leaders, and this year launched our AUB Group Academy. This leadership based program is aimed at building capability in the areas of strategic thinking, change management and leadership skills. As an organisation we are committed to creating opportunities for our people while at the same time enhancing our skills and capabilities as an organisation.

Board Changes. The renewal of the AUB Group Board continued this year. We welcomed a new Director in Paul Lahiff, while Richard Longes retired after a decade on the Board. In addition, Stephen Rouvray retired from his role of CFO and Company Secretary in July. I thank Richard and Stephen for their outstanding service and wise counsel at an important time in AUB Group's history. Pleasingly, the Board and Executive changes over the past few years have been transitioned seamlessly, allowing the business to continue to thrive and grow.

Looking ahead, our primary focus will be on three key areas:

- Growing revenue across all our business areas
- Prudent management of our operating margin
- Leveraging our collective scale to benefit our business partners while minimising risk.

These are levers we can control and will make us more resilient and flexible irrespective of any future market environment impacts. The financial year ahead is an interesting one. Premium rates in the insurance market appear to be stabilising, and our Risk Services division gains in reputation. Be assured we will focus on driving revenue, keeping costs modest and be careful with our capital management

On behalf of the board, I would like to thank all AUB Group employees and our partner businesses for their effort to grow your business.



David Clarke
Chairman

CEO'S MESSAGE

The 2016 financial year showed positive underlying trends across AUB Group. The soft premium cycle in Australasia continued, with premium rates in commercial lines insurance continuing to fall over the year - impacting Broking and Underwriting Agencies' commission income. In addition, the reduction in interest rates created further headwinds for our insurance intermediary operations resulting in reduced interest income. Despite this, the Group demonstrated good growth with Adjusted NPAT up 3.3% after allowing for increased acquisition costs, resulting from our deployment of over \$77 million committed to new investments.

The focussed execution of our Group **Strategy**: 'to be the leading provider of risk management, advice and solutions to clients' continued to deliver growth (organically and via acquisition), resulting in continued diversification of our profit generation. Our commitment to supporting our client's risk needs (principally SME and mid-market businesses) saw the improvement in underlying broking income drivers, including increased policy count, premium funding penetration and life insurance income. We continued disciplined execution of our two main drivers:

Adherence to the proven and long standing Business model – the owner-driver partnership model, where we work with our partner businesses to drive mutual success. Examples this year have been the acquisition of 60% of the Allied Group in our Risk Services area, entering into partnership with KJ Risk in Australian broking (Austbrokers), and selling down equity to management in leading New Zealand broker, Runacres. Whilst we do not normally divest businesses, this year we divested our interests in 3 companies as a result of those businesses no longer meeting our longer term interests. We re-invested these proceeds in higher performing portfolios for shareholder benefit.

Adherence to our Operating Model – providing relevant products and services, at cost, to partner businesses to help drive profitability in our investments. This in turn improves the dividend flow to the Group. During the year, the Group and our partners have benefitted from leveraging our scale in commercial agreements including increased usage of Premium Funding. In addition, we have driven efficiencies via outsourcing capabilities in 'non-core' activities such as telecoms and we increased collaboration between partner businesses such as claims management services between our Risk Services partners and Underwriting Agencies.

Australian Broking (Austbrokers): Our partner businesses continued to focus on levers in their control relating to income and expense management, growing policy numbers, expanding premium funding penetration and growing life insurance income. Whilst the headwinds of premium rate and interest rate reductions resulted in a decline in commission/fee income, it was less than the decline experienced in the market. Additional fees were generated with the renewal of our premium funding contract, which will benefit from enhanced terms over the next 5.5 years. Acquisition activity was muted for the industry this year, however our model proved attractive with one stand alone and seven bolt-on acquisitions undertaken in the year. Divestment of our interest in Strathearn enabled a cash profit to be generated and the redeployment of capital into higher yielding assets. Our partnership with leading broking cluster group IBNA, under the AIMS banner, continued to provide product and service benefits to our partners and I thank the IBNA Board for the relationship.

Underwriting Agencies (SURA): This year we appointed a new Managing Director, enabling his predecessor to focus on developing new facilities and underwriting opportunities for the Group. With a strong policy count, we continued to invest in the infrastructure platform for our Strata agency and expect margins to improve over the near term. Our focus on start-ups has traditionally delivered high return on capital employed, so in FY16 we invested in two new agencies yet to be launched to the market. While costs were expensed during FY16, this investment will support revenue growth and improve margins into FY17. Agency revenues were impacted by not only market declines, but also by strong competition in the key portfolios (Strata and Plant & Equipment) where average premiums declined 9% on prior year. Despite this, growth in policy count continued (up 7% in FY16) and profit commissions were strong, demonstrating good underlying health for this area. Finally, we divested a business (NewSurety) as it no longer aligned to the Group's portfolio. This in turn reduces risk and volatility in the agency portfolio.

Risk Services: Demonstrated significant growth with investments delivering to plan and strategic objectives. Acquisition activity continued with one standalone (Allied Health Group) and a bolt on acquisition (CIM) in the first half. Strong revenue increases were seen across all operating business driven by growth in injury management and rehabilitation services via increased panel appointments and provision of claims services to insurers and underwriting agencies. Expansion of our national footprint activities are progressing, generating incremental revenue in key states. Traction between our Risk Services capabilities and our broking entities has helped deepen client relationships by providing extended risk solutions. During the year we divested our interest in a small risk consulting business that no longer aligned to the Group's model.

New Zealand: Our NZ business is performing ahead of plan and exceeding strategic objectives. Activity of the past eighteen months has consolidated our position as the largest broking management group in New Zealand and the 3rd largest broking group in the country by GWP (now more than 15% market share). Acquisitions have been completed with both standalone and bolt-on businesses being acquired. The acquisition of leading broking house, Runacres, is performing well, and in line with our 'skin in the game' partner model, we have since sold down 10% equity to the Managing Director. Two smaller acquisitions (Hawkes Bay IB and Insurance Brokers Alliance) occurred and we have since announced the acquisition of 50% of Dawsons Insurance Brokers (Rotorua), with a strong pipeline of opportunities evident for FY17.



Mark Searles
Chief Executive Officer & Managing Director

SOCIAL AND COMMUNITY ENGAGEMENT

For 30 years, above and beyond the good business sense of corporate social responsibility, AUB Group has focused on doing the right thing for our employees, our partners and our communities.

AUB Group also makes a positive impact on the communities where our employees live and work. In 2015, AUB Group and its partner businesses together donated hundreds of thousands of dollars to community and charitable organisations across the country and overseas. Examples of organisations supported include the Sunrise Children's Villages (through the Australian Cambodia Association); the Create Foundation, which supports and promotes the voices of over 40,000 children and young people in foster care; the Australian Surf Lifesaving Association and the Reach Foundation.

The Group's partner businesses also support a number of community events and organisations through fundraising, corporate donations and volunteering.

PERFORMANCE HIGHLIGHTS

GROWTH DRIVERS ACROSS ALL SEGMENTS

Reported
NPAT growth
to \$42.0 million

+20.4%

Earnings per
share growth
to 66.6 cents

+17.1%

Adjusted
NPAT growth
to \$37.55 million

+3.3%

FY16 dividend
increased from
39.7 cents in FY15

40CPS

Group revenue
increase
to \$233.88 million

+7.6%

Underlying
corporate
cost control

+1.1%

AUSTRALIAN BROKING

Net profit before tax
-4.4% in FY16

\$47.95M

Policy count

+1.0%

Premium funding

+2.7%

Life insurance income

+7.0%

NEW ZEALAND BROKING

Net profit before tax
+883% in FY16

\$2.88M

New investments

+3

UNDERWRITING

Net profit before tax
-21.4% in FY16

\$10.35M

Policy count

+7.0%

Profit commissions

+24.5%

New investments

+2

RISK SERVICES

Net profit before tax
+250% in FY16

\$7.16M

Insurer panels

+3

New investments

+2

BOARD OF DIRECTORS

DAVID CLARKE

Chairman (commenced 26 November 2015)



RICHARD LONGES

Chairman (retired 26 November 2015)



MARK SEARLES

Chief Executive Officer & Managing Director



RAY CARLESS

Non-Executive Director



ROBIN LOW

Non-Executive Director



PAUL LAHIFF

Non-Executive Director



FINANCIAL REPORT



DIRECTORS' REPORT

YEAR ENDED 30 JUNE 2016

Your Directors submit their report for the year ended 30 June 2016.

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 Chairman)

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 The University of New South Wales Medicine Advisory Council, Deans Circle and Charter Hall Group. Mr Clarke was elected Group Chairman on 26 November 2015, is a member of the Audit Committee and Chairs the Nomination and Remuneration & People Committees.

R. A. Longes BA, LLB, MBA

Mr Longes retired as a Director and Group Chairman at the Company's Annual General Meeting on 26 November 2015.

Richard Longes was a lawyer and partner in Freehill Hollingdale & Page from 1974 – 1988. In 1988 he was a founding Partner of the corporate advisory firm Wentworth Associates and is now Chairman of Investec Australia Limited. Until his retirement, he was the Group Chairman, served on the Audit and Risk Management Committee and chaired the Nomination and Remuneration and People Committees of the Group. During the past three years Mr. Longes served as a Director of Boral Limited and Metcash Limited. He is also a Director of Pain Management Research Institute.

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, NZ Brokers Holdings and AIMS amongst others. Prior to joining AUB Group, 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 has over 35 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 and Risk Management, Nomination and Remuneration & People Committees.

R. J. Low B Com, FCA, GAICD

Robin Low was a partner at PricewaterhouseCoopers with over 29 years' experience in financial services, particularly insurance, and in 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 including Sydney Medical School Foundation, Public Education Foundation and Primary Ethics. Ms Low chairs the Audit and 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.

P. A. Lahiff BSc Agr, GAICD

Paul joined the board of directors 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 Smartline Personal Mortgage Advisers, LIXI Australia and Retail Finance Intelligence. Paul holds a BSc from Sydney University and is a Fellow of the Australian Institute of Company Directors. Mr Lahiff is a member of the Audit and Risk Management, Nomination and Remuneration & People Committees.

Company Secretary

J. L Coss, BA, LLB, Dip CII, ANZIIIF (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 for over 20 years 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.

DIRECTORS' REPORT

YEAR ENDED 30 JUNE 2016

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
R. A. Longes	126,404	–
M. P. L. Searles	74,049	410,000
R. J. Carless	19,973	–
D. C. Clarke	10,143	–
R. J. Low	8,710	–
P.A. Lahiff	5,000	–

PRINCIPAL ACTIVITIES

AUB Group Limited (AUB Group or Group) is the leading equity-based risk management, advice and solutions provider in Australasia. The Group has a unique 'owner-driver' business model; a clearly defined operating model and a focused strategy to be the leading provider of risk advice and solutions for clients, who are predominantly SME and mid-market businesses.

The Group business model is to hold equity stakes in partner businesses and to provide a range of services to support ongoing growth of equity partners. These services include technology support via a centralised data centre capability; common platforms to enable efficiency and effectiveness; partnering, marketing, human resources and back office services. Additionally, the Group manages/co-manages networks of independent brokers (Cluster Groups) leveraging the benefits of its services where appropriate.

The Group has business partnerships across Australia and New Zealand comprising 75 equity businesses. The group services more than 460,000 clients across 220 locations and represent in excess of \$4.5 billion of Gross Written Premium via our equity partners and cluster Group management relationships. The Group and its partners employ in excess of 3,000 people.

AUB Group primarily operates through two key segments:

Insurance Intermediaries, where it has equity investments in businesses which provide insurance and risk related services to clients. These include:

- Networks of broking businesses operating in Australia and New Zealand, which provide risk and insurance broking services to, primarily, small to medium sized business clients; and
- Underwriting agency businesses, which provide specialist insurance products for specialised market segments, that are available via insurance brokers, in and outside the Group's broking network.

Risk Services, where it has equity investments in businesses which provide specialist risk solutions primarily in the people and workplace risk areas, and also the provision of ancillary risk assessment and related solutions in the Australian market. These services are provided to insurance companies and to commercial and government clients either directly or via insurance brokers.

On 26 November 2015, the Group changed its name from Austbrokers Holdings Limited to AUB Group Limited in recognition of its expansion beyond Australian Broking.

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 Intermediaries 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 which will be affected by the prevailing interest rate environment, income on insurance premium funding, which is affected by premium and interest rates 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, investigations, registered training, risk advice and claims management to insurers and clients. Fees are negotiated with state based scheme agents and insurers, and in certain jurisdictions are gazetted.

OPERATING AND FINANCIAL REVIEW

Operating results for the year

In the year ended 30 June 2016 (FY2016) net profit after tax (Reported NPAT) attributable to equity holders of the parent increased by 20.4% to \$42.002 million (2015: \$34.887 million). This includes the after tax profit on sale of AUB Group's investment in Strathearn Insurance Group Pty Ltd (Strathearn) announced in December 2015, of \$6.0 million, crystallising strong investment returns to shareholders.

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 \$37.553 million in 2016 up 3.3% on prior year (2015: \$36.345 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.

DIRECTORS' REPORT

YEAR ENDED 30 JUNE 2016

OPERATING AND FINANCIAL REVIEW (CONTINUED)

RECONCILIATION OF ADJUSTED NPAT TO REPORTED NPAT ⁽¹⁾	FY2016 \$ 000	FY2015 \$ 000	Variance %
Net Profit after tax attributable to equity holders of the parent	42,002	34,887	20.4%
Reconciling items net of tax and non controlling interest adjustments for:			
Adjustments to contingent consideration for acquisitions of controlled entities and associates ²	343	(4,441)	-107.7%
Add back offsetting impairment charge to the carrying value of associates & goodwill, related to above (as relevant)	3,114	4,104	-24.1%
Net adjustment	3,457	(337)	1,125.8%
Add back adjustments to the carrying value of associate (impairment), not subject to contingent consideration ³	-	1,500	-100.0%
Less profit on sale or deconsolidation of controlled entities net of tax ⁴	(191)	(817)	-76.6%
Less profit on sale of associates net of tax ⁵	(6,047)	-	N/A
Adjustment to carrying value of entities (to fair value) on date they became controlled or deconsolidated ⁶	(5,725)	(3,224)	77.6%
Net Profit from operations	33,496	32,009	4.6%
Add back amortisation of intangibles net of tax ⁷	4,057	4,336	-6.4%
Adjusted NPAT	37,553	36,345	3.3%

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) is made to the carrying value.

³ In FY2015, one investment in an associate recorded an impairment, due to specific competitive circumstances in a niche segment of the market.

⁴ Profits on deconsolidation occur when interests in a controlled entity are sold and it becomes an associate.

⁵ During the period the Group sold its entire shareholdings in three associates and sold part of its shareholding in another, resulting in profits on sale. These may not occur in a future periods unless similar transactions occur.

⁶ 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.

⁷ Amortisation of intangibles expense decreased over last year due to some intangible assets now being fully amortised. The expense is a non-cash item.

The 3.3% 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 which in turn has grown income, with strong and growing contributions from Risk Services and New Zealand, in the context of a challenging insurance market, where premium rates for commercial insurance have declined by approximately 5% on average, over the financial year.

The Group has benefited from the acquisition of three standalone businesses utilising its 'owner-driver' model in Australia and New Zealand and a number of smaller acquisitions by business partners.

There have been changes to estimates of deferred consideration amounts over the period, and where these have been reductions to the estimates, a corresponding decrease in the carrying value of the asset is recorded. There have been no other impairment charges in the current financial year.

Results by operating segment

Insurance intermediaries:

Australian Broking - profit decreased by 4.4% to \$47.955 million in FY2016, in the context of premium rate reductions of circa 5% on renewal business and reducing interest rates. The result has been impacted by the sale of the 50% interest in the Strathearn Insurance Group Pty Ltd (Strathearn) in December 2015 and includes the profit contribution from KJ Risk Insurance Brokers Pty Ltd acquired on 1 July 2015 and several smaller acquisitions by partner businesses. The result has benefited from additional fees in the current year on the renewal of the premium funding contract with Allianz, and will benefit from enhanced terms over the next 5 years.

New Zealand Broking - profit increased to \$2.880 million up significantly on prior year. This includes a full year contribution from Brokerweb Risk Services Ltd (BWRS) and NZ Brokers Management Ltd acquired in November 2015 and a six month contribution from the acquisition of Runacres & Associates Ltd net of interest and acquisition costs. Our associate BWRS acquired two businesses in the period.

OPERATING AND FINANCIAL REVIEW (CONTINUED)

Results by operating segment (continued)

Underwriting Agencies – profit of \$10.347 million was down \$2.815 million, impacted by a challenging competitive environment.

Revenue was impacted by: reduced average premium rates; income from contract renewals in FY15 not being replicated in FY16; and the lost revenues from the divestment of an associate. This was partly offset by increased profit commissions and revenue from transition services in relation to the sale of an associate.

Expenses increased over the year as a result of planned investment to support future growth. With market conditions deteriorating over the year, remedial actions were taken in the second half, which reduced costs (versus first half of FY2016). Furthermore, Underwriting Agencies incurred expenses in seeding two start-ups in the current year, which are due to be launched in FY17.

Policy count continued to grow (up 7% in FY16) as did profit commissions, demonstrating the underlying health and prospects for the business.

During the year, the Group divested its interest in NewSurety

Pty Ltd (NewSurety), a specialty surety business that no longer aligned to strategy, reducing risk and volatility in the portfolio. While Underwriting Agencies will not receive future income from the divested NewSurety business in FY17, fees from the continuation of the transitional services will partially offset income reduction in FY17.

Risk Services – profit increased to \$7.158 million, up \$5.118 million on prior year, from organic growth and the contribution from Allied Health Australia Pty Ltd acquired on 1 July 2015. The Risk Services businesses continue to grow through expanded insurer relationships, entering new states and through acquisitions.

The implementation of the AUB Group strategy has led to the diversification of earnings, with Australian broking businesses now contributing 70% to profit before corporate expenses in FY2016, down from 88% in FY2012. Growth in underlying corporate expenses were restricted to 1.1% in the current year, before the impact of short term and long term incentive provisions. Total costs increased 7.5% after provisions for incentives, as little STI was paid in FY2015 year as minimum hurdle rates were not met in that year.

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

RECONCILIATION OF OPERATING SEGMENTS	Consolidated FY2016			Consolidated FY2015		
	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	47,955	-	47,955	50,147	-	50,147
- Insurance Broking - New Zealand	2,880	-	2,880	293	-	293
- Underwriting Agencies	10,347	-	10,347	13,162	-	13,162
- Risk Services	-	7,158	7,158	-	2,040	2,040
Profit after tax and after non-controlling interests	61,182	7,158	68,340	63,602	2,040	65,642
Corporate income	2,601	-	2,601	1,939	-	1,939
Corporate expenses	(17,168)	-	(17,168)	(15,546)	-	(15,546)
	46,615	7,158	53,773	49,995	2,040	52,035
Tax	(14,025)	(2,195)	(16,220)	(15,085)	(605)	(15,690)
Adjusted NPAT	32,590	4,963	37,553	34,910	1,435	36,345
Less amortisation expense (net of tax)	(3,797)	(260)	(4,057)	(4,336)	-	(4,336)
Less non-controlling interests in relation to adjustments ¹	(617)	-	(617)	(609)	-	(609)
Less tax expense in relation to adjustments ²	(1,366)	-	(1,366)	(482)	-	(482)
Profit after income tax and non-controlling interests (refer Annual Report note 23 Operating Segments)	26,810	4,703	31,513	29,483	1,435	30,918

¹ Total shareholder returns includes all dividends and receipts on sale since inception, net of initial start-up costs, discounted at AUB Group cost of capital.

² This includes adjustments to carrying value of associates, contingent consideration payments and profit on sale.

DIRECTORS' REPORT

YEAR ENDED 30 JUNE 2016

OPERATING AND FINANCIAL REVIEW (CONTINUED)

Shareholder returns

On a Reported NPAT basis, earnings per share increased by 17.1% over the prior year, and by 0.5% based on Adjusted NPAT. Compound average growth rate in earnings per share over the five years to 30 June 2016 on this adjusted basis was 6.2%. Dividends per share declared for FY2016 are 40.0 cents, an increase of 0.8% on prior year.

The Company's total shareholder return (comprising share price growth and dividends paid) reflects the performance, with a return of 17.3% for the five years to 30 June 2016 on an annualised basis. These longer term returns are above the returns for the ASX All Ordinaries and ASX Small Ordinaries Indices.

FINANCIAL CONDITION

Shareholders' equity increased to \$351.235 million from \$311.326 million. The main reason for the increase was the profit for the year. The reduction in equity through dividends paid was partially offset by the increase in issued capital arising from dividends paid being reinvested as a result of the company's dividend reinvestment plan and the issue of shares as a result of the exercise of employee share options.

The Group continues to generate positive cash flow from operating activities of \$34.038 million (2015: \$41.520 million) excluding insurance trust account funds. After investing and financing activities cash held increased from \$50.511 million to \$70.933 million and includes cash realised from the sale of associates. Borrowings increased by \$22.581 million to \$88.646 million as a result of acquisitions by the Group and from the deconsolidation of a controlled entity. Borrowings of associates of \$47.009 million (2015 \$43.873 million) are not included in the Group balance sheet as these entities are not consolidated. The borrowings of associates relate largely to funding of acquisitions, premium funding and other financing activities.

The Company's banking facilities were increased during the financial year, with the limit now totaling \$79.450 million and the tenure extended to 30 November 2018.

Gearing increased to 20.2% in the year, as funds were drawn down to pay for the acquisition of Runacres & Associates in New Zealand. Net gearing (i.e. gearing ratio net of cash at Group) was 15.3% at year end.

Dividends	Cents	\$'000
Final dividend recommended:		
• on ordinary shares	28.0	17,877
Dividends paid in the year:		
• on ordinary shares - interim	12	7,601
• on ordinary shares - final	27.7	17,245
		24,846

BUSINESS STRATEGIES

The Group's strategic goal is 'To be the leading provider of risk management advice and solutions to clients'.

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:

- Building our client base, by enhancing value and continuously improving and expanding our services;
- Building new risk-related revenue streams; and
- Evolving the total risk solutions customer value proposition across different geographies in support of a sustainable and profitable future.

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

PROSPECTS FOR FUTURE FINANCIAL YEARS

Insurance premium rates in Australia and New Zealand have been in decline for the last 24 months as a result of competition between insurers and a benign claims environment, consistent with previous cycles seen in the insurance market. The last six months has seen signs of a stabilisation of premium rates on renewal business.

The Broking businesses continue to focus on the levers of profit they can control, including other sources of income such as premium funding, fee for service income, life insurance, services income and managing expenses, mitigating the impact on margins. Similarly, Underwriting Agencies will continue to focus on expense management and new business development and will launch two new underwriting agencies to the market in FY2017 to support revenue growth.

Risk Services businesses are not impacted by the insurance premium market, and prospects for these businesses remain strong, as they expand into new states and increase their presence on key insurer workers compensation panels.

PROSPECTS FOR FUTURE FINANCIAL YEARS (CONTINUED)

Any future acquisitions will also underpin future growth.

The Group continues to invest in corporate infrastructure for long term growth as we expand into new areas and geographies. In addition, achievement of growth targets will mean an increase in costs as a result of an increase in short term and long term incentives provisions, compared to FY2016, as only a proportion of STI will be paid in FY2016 and long term incentive awards did not meet required hurdle rates.

In this context, organic growth, bolstered by acquisitions should again provide moderate growth in FY17. The extent of that growth will be impacted by the level of future acquisitions, premium rates and interest rates.

Changes to premium rates (increases or decreases) will continue to impact insurance broking and underwriting agency businesses.

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.

Profit commissions paid by underwriters, which depend on the growth and profitability of business written, were a significant contributor to the results in 2016 but cannot be reliably predicted for future years.

KEY BUSINESS RISKS

The Group is exposed to multiple risks relating to conduct of its various businesses. The following list of risks are not meant to represent an exhaustive list.

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

- Continued negative premium rate environment – insurance premiums rates are set by insurers independently of AUB Group. A continued negative premium rate environment would put further pressure on margins in the Insurance Intermediaries segment. To mitigate this our businesses and the Group focus on business drivers that can be controlled, as outlined above.
- Cyber risk - the Group provides data centre and system support services to many of our partners. These services are supported by the Group and external outsource providers. The Group constantly monitors cyber threats, security and system availability across the network we support. A group-wide cyber insurance policy is in force.

- Regulatory change - the Australian and New Zealand financial services market continues to undergo significant regulatory change. The impact on the general insurance broking sector has not been as significant as other sectors. The impact on changes to life insurance commission structures has been more significant, however this is not a material component of our business today. AUB Group constantly monitors changes in legislation and regulation and engages with government via regulatory bodies to ensure we remain vigilant to future changes and impact on our business.
- Dependence of key suppliers – AUB Group has a number of material outsourcing arrangements with external providers that support critical functions. These are largely in relation to technology and telephony services. AUB Group regularly monitors contracts, service level agreements and performance targets to ensure required deliverables and standards are met.
- Disruption to broker model via digital or direct models. To date, the SME segment has not been as impacted by alternative distribution models as the retail insurance lines, however the businesses are not immune from these risks. The Group continues to invest in technologies that support the broker's role as risk adviser to their clients, which we believe is critical to their value proposition. In addition continued investment in connectivity with insurers, ensures that broker role can be delivered cost efficiently for clients.

Other significant risks include refinancing risk, misconduct risk, loss of material binders in the underwriting agencies business and succession planning within our partner businesses. Management have controls and plans in place to manage and mitigate these risks.

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 disclosed above.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

On 25 August 2016 the Directors of AUB Group Limited declared a final fully franked dividend on ordinary shares of 28.0 cents per share in respect of the 2016 financial year. Based on the current number of ordinary shares on issue, the total amount of the dividend is \$17.877 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.

DIRECTORS' REPORT

YEAR ENDED 30 JUNE 2016

RISK MANAGEMENT

The Group takes a proactive approach to risk management. The Board is responsible for ensuring that risks, and also opportunities, are identified on a timely basis and that the Group's objectives and activities are aligned with the risks and opportunities identified by the Board. As it is considered that all non-executive directors should be part of this process, they all serve on the Audit and Risk Management Committee.

The Board has a number of mechanisms in place to ensure that management's objectives and activities are aligned with risks identified by the Board. These include the following:

- Board approval of the strategic plan, which encompasses the Group's vision, mission and strategy statements designed to meet stakeholders' needs and manage business 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.
- The allocation of specific responsibility to the Audit and Risk Management Committee to review, monitor and report on risk.

Key risks that may impact the Group's business strategy and prospects for the future financial year have been included in the Operating and Financial Review.

SHARE OPTIONS

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 567,756 unissued ordinary shares under options. 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.

Options

The fourth tranche options vested on 29 September 2011 and no further options vested on the retest date of September 2012. All options must be exercised no later than 29 September 2015. During the year 11,099 options were exercised leaving no unexercised options at reporting date. The exercise price for each option was zero.

The fifth and sixth tranche of options have either vested or lapsed prior to FY2016. Accordingly these plans are now closed and are of no further effect.

The earliest vesting date for the seventh tranche of 21,430 options was 31 October 2014. All remaining options lapsed during the year leaving no unexercised options at reporting date.

For all options issued as part of the seventh tranche and thereafter, if options are exercised within two years of the date the options vest the shares cannot be disposed of before the expiry of the two year period from the date the options vested, except if employment is terminated.

The earliest vesting date for the eighth tranche of 32,203 options is 31 October 2015. Last year 5,713 options lapsed leaving 26,490 outstanding at reporting date. All options must be exercised no later than 5 October 2019. The exercise price for each option was zero for all of the options.

The earliest vesting date for the ninth tranche of 37,499 options is 30 October 2016. Last year 9,235 options lapsed, leaving 28,264 outstanding at reporting date. All options must be exercised no later than 5 October 2020. The exercise price for each option was zero for all of the options.

The earliest vesting date for the tenth tranche of 43,456 options is 31 October 2017. Last year 10,345 options lapsed, leaving 33,111 outstanding at reporting date. All options must be exercised no later than 31 October 2021. The exercise price for each option was zero for all of the options.

The earliest vesting date for the eleventh tranche of 69,891 options is 31 October 2018. All options are outstanding at reporting date. All options must be exercised no later than 31 October 2021. The exercise price for each option was zero for all of the options.

A grant of 233,000 options was made to the CEO on 15 January 2013 with an earliest vesting date of 1 January 2016. During the year, 73,000 were exercised, leaving 160,000 options outstanding at the reporting date. All options must be exercised no later than 1 January 2020. The exercise price for each option was zero for all of the options.

A further grant of 250,000 options was made to the CEO on 7 April 2016 with an earliest vesting date of 1 January 2019. All options must be exercised no later than 1 January 2023. The exercise price for each option was zero for all of the options.

Shares issued as a result of the exercise of options

During the financial year, employees exercised options to acquire 84,099 fully paid shares in AUB Group Limited for no consideration. Consequently 84,099 ordinary shares were issued during the financial year under the Senior Executive Option Plan.

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

This remuneration report has been subject to audit and outlines the remuneration arrangements in place for Directors and Executives of AUB Group Limited (the Company).

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 executives;
- 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.

Remuneration and People Committee

The Remuneration and People Committee of the Board of Directors of the Company is responsible for determining and reviewing compensation arrangements for the Directors, the Chief Executive Officer (CEO) and Senior Management Team.

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 remuneration to \$750,000 per year.

The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is paid to Non-Executive Directors is generally reviewed every second year.

The Board considers advice from external consultants as well as the fees paid to Non-Executive Directors of comparable companies when undertaking the review process. Advice was previously obtained in 2013 from an external remuneration consultant to ensure that fees charged at that time were in line with the current market. As a result of their recommendations, fees were increased from 1 April 2013. Notwithstanding that fees are normally reviewed every second year, fees were not reviewed in 2015. The Board carried out a review in 2016 and taking into account that a review had not been undertaken for three years, determined that a 5% increase in the fees payable to Non-Executive Directors was reasonable and would take effect from 1 July 2016.

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 sits. Both the Chairman of the Board and the Chairman of the Audit and Risk Management Committee receive an additional fee recognising the additional workload that these positions entail. Non-Executive Directors do not receive retirement benefits, nor do they participate in any incentive programs.

From 1 April 2013 to 30 June 2016 each Non-Executive Director has received an annual fee of \$100,000 with the Chairman of the Audit and Risk Management Committee receiving an additional annual fee of \$20,000 and the Chairman of the Board receiving an additional annual fee of \$70,000.

The remuneration of Non-Executive Directors for the year ended 30 June 2016 is detailed in Table 2 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:

DIRECTORS' REPORT

YEAR ENDED 30 JUNE 2016

REMUNERATION REPORT (CONTINUED)

Senior Manager and Executive Director remuneration (continued)

- 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

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

Remuneration consists of the following key elements:

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

The CEO's target remuneration mix comprises 46% fixed remuneration, 16% target STI opportunity and 38% LTI. Senior executives target remuneration mix ranges from 60-70% fixed remuneration, 20-25% target STI opportunity and 10-15% LTI. 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. This process is normally carried out every second year. A formal appointment process was undertaken in 2014 and PricewaterhouseCoopers (PwC) was appointed to advise on senior executive remuneration. In order to ensure that the Remuneration and People Committee is provided with advice, and as required, recommendations, free from undue influence by members of the Key Management Personnel (KMP) group to whom recommendations may relate, the engagement of PwC by the Committee was based on an agreed set of protocols that would be followed by the Committee, PwC and members of the KMP. PwC provided advice in the form of a written report providing insights on remuneration trends and shareholder views and market data in relation to CEO and executive remuneration. No specific remuneration recommendations were provided.

Fixed Remuneration

Objective

Fixed remuneration is reviewed annually by the Remuneration & People 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. As noted above, the Committee has access to external advice independent to management which was obtained as part of the 2014 review.

Structure

Senior executives are given the opportunity to receive their fixed (primary) remuneration in a variety of forms including cash and fringe benefits such as motor vehicles. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the Group.

The fixed remuneration component of the 9 key management personnel of the Group is detailed in Table 2.

Variable remuneration – short term incentive (STI)

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.

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. This process usually occurs within three months of the reporting date.

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

For the 2015 financial year, the STI cash bonus of \$200,000 provided in the financial statements was paid in the 2016 financial year. The Remuneration and People Committee considered the STI payments for the 2016 financial year and has allocated a pool in the sum of

REMUNERATION REPORT (CONTINUED)

Variable remuneration – short term incentive (STI) (continued)

\$1,417,233 for STI cash bonuses for staff and senior management for the 2016 financial year. This amount has been provided for in the 2016 financial year based on the growth in the adjusted NPAT for the year over the prior year.

Variable remuneration – long term incentive (LTI)

Objective

The objective of the LTI plan 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 LTI plan in 2016:

- a) total shareholder return (TSR) measured against the S&P/ASX Small Ordinaries Index (the Target Group); and
- b) consolidated net profit after tax of the Company for that financial year excluding fair value adjustment to carrying values of associates, profit on sale of entities or assets or deconsolidation of controlled entities, contingent consideration adjustments, impairment charges and amortisation of intangibles, provided that the Board has the discretion to adjust the Adjusted NPAT to take into account abnormal or non-security events (Adjusted EPS Growth).

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

Option exercise conditions

Exercise conditions:

- a) subject to satisfaction of the performance based conditions referred to in paragraphs below, options are tested 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 four years (the Second Test Date);

- b) Options granted in FY2016 are comprised of 60% EPS options and 40% TSR options and will vest and may be exercised at the First 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:

The EPS options – Adjusted EPS Growth

- (i) less than 4% per annum, 0% of the EPS options will become exercisable;
- (ii) equal to 4% per annum, 25% of the EPS options will become exercisable;
- (iii) between 4% and 7%, the percentage of options that are exercisable will be determined on a straight line basis;
- (iv) equal to 7% per annum, 50% of the EPS options will become exercisable;
- (v) between 7% and 10%, the percentage of options that are exercisable will be determined on a straight line basis;
- (vi) equal to 10% per annum, 100% of the EPS options will become exercisable;

The TSR options - TSR

- (i) less than the Target Group, 0% of the TSR options will become exercisable;
- (ii) equal to the Target Group, 50% of the TSR options will become exercisable;
- (iii) greater than the Target Group, the percentage of options that are exercisable will be determined on a straight line basis;
- (iv) greater than 150% of the Target Group, 100% of the TSR options will become exercisable.

- c) For options granted in FY2015 or earlier, if the First Test Compound EPS Growth is:

- (i) equal to 8.5%, 20% of the options will become exercisable;
- (ii) equal to 10%, 50% of the options will become exercisable;

DIRECTORS' REPORT

YEAR ENDED 30 JUNE 2016

REMUNERATION REPORT (CONTINUED)

Option exercise conditions (continued)

- (iii) between 10% and 15%, the percentage of options that are exercisable will be determined on a straight line basis;
 - (iv) 15% or more, 100% of the options will become exercisable.
- d) 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 would have become exercisable on the First Test Date using the performance criteria at as the Second Test Date;
- e) Any options which have not become exercisable by the Second Test date lapse and are of no further force or effect.
- f) Options granted in the 2010–2016 financial years 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.
- g) Option exercise conditions for options granted in the 2014 and 2015 financial years were modified so that between 8.5% and 10% Adjusted EPS Growth the percentage of options that are exercisable will be determined on a straight line basis.
- h) The exercise conditions for 200,000 of the options granted to the CEO on 1 January 2013 (of which 160,000 remain unvested) are the same as set out above for FY 2015 except that 20% vest below 8.5% and between 8.5% and 10% Adjusted EPS growth the options that are exercisable will be determined on a straight line basis. The further 33,000 options granted to the CEO on 1 January 2013 have no performance hurdles and vested at 1 January 2016.
- i) The exercise conditions for the 250,000 options granted to the CEO in 2016 are the same as set out above in paras (a)-(f) for FY2016.

Company performance and the link to remuneration

Long term incentives are based on Adjusted EPS Growth and Total Shareholder Returns.

Adjusted EPS Growth was 0.5% over FY2015. Compound average growth rate in earnings per share over the five years to June 2016 on this basis was 6.2%.

Total annualised shareholder return over the one year to 30 June 2016 was 16.6%. However the three year return to 30 June 2016 was 1.06%, confirming the alignment of executive remuneration to shareholder returns. The share price increased over the financial year from \$9.00 to \$10.10 at 30 June 2016.

Dividends per share for the financial year totalled 40 cents compared to 39.7 cents in 2015.

It is expected that none of the grants made in 2012, 2013 and 2014 will vest based on performance to 30 June 2016.

Employment contracts

The CEO, Mr. Searles is employed under contract terminating on 31 December 2018.

- From 1 July 2015, Mr. Searles received fixed remuneration of \$630,000 per annum.
- Mr. Searles was granted 233,000 options on 1 January 2013 to subscribe for ordinary shares under the Senior Executive Option Plan comprised as follows:
 - (i) 200,000 options are subject to performance conditions. 40,000 of these options vested under this grant on 1 January 2016 and, subject to performance hurdles, further options may vest on 1 January 2018.
 - (ii) 33,000 options are not subject to any performance hurdles other than Mr. Searles being an employee of a group. These options vested 1 January 2016.
- 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 30 June 2018 and vest on 1 January 2019. Unvested options are retested at 30 June 2019 and may vest at 1 January 2020 subject to performance hurdles being met.
- Mr. Searles or the company may terminate this 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 (KMP) 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 Table 2.

Details of Key Management Personnel (KMP)

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
Director and Chief Executive Officer

J. S. Blackledge
Chief Financial Officer
(appointed 1 July 2015)

S. S. Rouvray
Chief Financial Officer and Company Secretary
(ceased 1 July 2015)

F. Gualtieri
National Manager – Group Services and Support (ceased 1 July 2015)

F. Pasquini
Chief Distribution Officer

S. Vohra
Chief Operating Officer

K. R. Mclvor
Managing Director – New Zealand and Head of Group Development

T. M. Stevens
Chief Information Officer
(ceased 20 May 2016)

N. F. Thomas
General Manager – Broker Network Development

DIRECTORS' REPORT

YEAR ENDED 30 JUNE 2016

REMUNERATION REPORT (CONTINUED)

Table 1: Shareholdings of Key Management Personnel

Shares held in AUB Group Limited at 30 June 2016	Balance at 01-Jul-15	Shares acquired during year	Shares disposed during year	Balance at 30-Jun-16
Directors				
R. A. Longes (retired 26 November 2015)	122,473	3,931	126,404	–
R. J. Carless	19,973	–	–	19,973
D. C. Clarke	7,500	2,643	–	10,143
R. J. Low	8,320	390	–	8,710
P. A. Lahiff (appointed 1 October 2015)	–	5,000	–	5,000
M. P. L. Searles	–	74,049	–	74,049
Executives				
S. S. Rouvray (ceased 1 July 2015)	384,528	–	–	384,528
J. S. Blackledge	–	–	–	–
F. Gualtieri (ceased 1 July 2015)	11,076	–	11,076	–
F. Pasquini	70,186	6,853	–	77,039
K. R. McIvor	–	–	–	–
S. Vohra	–	–	–	–
T. M. Stevens (ceased 20 May 2016)	–	–	–	–
N. F. Thomas	989	–	–	989
Total	625,045	92,866	137,480	580,431

R.A. Longes was deemed to have disposed of his total shareholding following his retirement from the board of directors on 26 November 2015.

Shares held in AUB Group Limited at 30 June 2015	Balance at 01-Jul-14	Shares acquired during year	Shares disposed during year	Balance at 30-Jun-15
Directors				
R. A. Longes	117,540	4,933	–	122,473
D. J. Harricks (retired 27 November 2014)	27,000	–	–	27,000
R. J. Carless	17,973	2,000	–	19,973
D. C. Clarke	2,500	5,000	–	7,500
R. J. Low	–	8,320	–	8,320
M. P. L. Searles	–	–	–	–
Executives				
S. S. Rouvray	320,169	64,359	–	384,528
F. Gualtieri	37,210	3,866	30,000	11,076
F. Pasquini	43,147	33,039	6,000	70,186
K. R. McIvor	–	–	–	–
S. Vohra	–	–	–	–
T. M. Stevens	–	–	–	–
N. F. Thomas	–	989	–	989
Total	565,539	122,506	36,000	652,045

All equity transactions with KMP's other than those arising from the exercise of options granted as part of their remuneration, have been entered into under terms and conditions no more favourable than those the Group would have adopted if dealing at arm's length.

DIRECTORS' REPORT

YEAR ENDED 30 JUNE 2016

REMUNERATION REPORT (CONTINUED)

Table 2: Compensation of Directors and other Key Management Personnel for the year-ended 30 June 2016 (Consolidated)

	Short-term	Post-employment	Share-based payment				
	Salary & fees	*Cash short term incentive	Non monetary benefits	Super-annuation	**Equity options	Total	performance related
30-Jun-16	\$	\$	\$	\$	\$	\$	\$
Directors							
D. C. Clarke							
Chairman (appointed Chairman 26 November 2015)	129,541	–	–	12,306	–	141,847	–
R. A. Longes							
Chairman (retired 26 November 2015)	62,860	–	–	5,972	–	68,832	–
M. P. L. Searles*							
Chief Executive	569,428	18,750	28,497	35,000	164,792	816,467	22.48%
R. J. Carless							
Non-executive Director	70,000	–	–	30,000	–	100,000	–
P. A. Lahiff							
Non-executive Director (appointed 1 October 2015)	68,493	–	–	6,507	–	75,000	–
R. J. Low							
Non-executive Director	109,589	–	–	10,411	–	120,000	–
Executives							
S. S. Rouvray							
Chief Financial Officer / Company Secretary (retired 1 July 2015)	–	–	–	–	–	–	–
J. S. Blackledge							
Chief Financial Officer (appointed 1 July 2015)	315,843	–	1,584	29,995	10,182	357,604	2.85%
F. Gualtieri							
National Manager - Group Services and Support (ceased 1 July 2015)	–	–	–	–	–	–	–
F. Pasquini							
Chief Distribution Officer	269,017	12,500	42,403	22,500	9,833	356,253	6.27%
K. R. McIvor							
MD New Zealand and Head of Group Development	165,900	12,500	792	7,153	–	186,345	6.71%
S. Vohra							
Chief Operating Officer	305,239	12,500	1,583	28,963	9,841	358,126	6.24%
T. M. Stevens							
Chief Information Officer (ceased 20 May 2016)	218,094	12,500	55,597	20,781	9,523	316,495	6.96%
N. F. Thomas							
General Manager – Broker Network Development	262,033	7,500	37,804	24,893	9,523	341,753	4.98%
	2,546,037	76,250	168,260	234,481	213,694	3,238,722	

*Short term incentives (STI) were paid during the year in respect of the group's performance for 30th June 2015. Any amount payable in respect of the 2016 performance will be paid during 2017 and will be included in the 2017 remuneration report. An estimate of the amounts expected to be paid in respect of 30 June 2016 entitlements have been provided for in the 30 June 2016 Financial Statements.

** Share based payments are calculated on the accrued costs to the company recognising that options issued during the period will vest over three years after taking into account a 50% probability that the group will achieve the performance hurdles required for those options to vest.

DIRECTORS' REPORT

YEAR ENDED 30JUNE 2016

REMUNERATION REPORT (CONTINUED)

Table 3: Compensation of Directors and other Key Management Personnel for the year-ended 30 June 2015 (Consolidated)

	Short-term		Post emplo- yment	Share- based payment			
	Salary & fees	Cash short term incentive	Non monetary benefits	Super- annuation	Equity options	Total	Total perform- ance related
30-Jun-15	\$	\$	\$	\$	\$	\$	\$
Directors							
R. A. Longes Chairman	155,251	–	–	14,749	–	170,000	–
M. P. L. Searles Chief Executive	546,338	155,908	35,750	34,961	–	772,957	20.17%
R. J. Carless Non-Executive Director	65,000	–	–	35,000	–	100,000	–
D. J. Harricks Non-Executive Director (retired 27 November 2014)	13,261	–	–	35,000	–	48,261	–
R. J. Low Non-Executive Director (appointed 3 February 2014)	102,293	–	–	9,718	–	112,011	–
D. C. Clarke Non-Executive Director (appointed 3 February 2014)	83,493	–	–	16,507	–	100,000	–
Executives							
S. S. Rouvray Chief Financial Officer/ Company Secretary	274,284	90,087	36,267	34,709	–	435,347	20.69%
F. Gualtieri National Manager – Group Services and Support	190,516	61,365	58,802	26,444	41,429	378,556	27.15%
F. Pasquini Chief Distribution Officer	264,707	65,093	33,956	34,799	50,809	449,364	25.79%
K. R. McIvor Chief Broking Officer	333,601	67,273	13,678	25,782	52,599	492,933	24.32%
S. Vohra Chief Operating Officer	302,956	72,753	1,583	25,179	50,854	453,325	27.27%
T. M. Stevens Chief Information Officer (appointed 1 July 2014)	230,844	60,149	65,067	27,536	47,718	431,314	25.01%
N. F. Thomas General Manager Broker Network Development	66,437	–	10,905	6,312	–	83,654	0.00%
	2,628,981	572,628	256,008	326,696	243,409	4,027,722	

Compensation payments for N. F. Thomas only relate to the period from when he was appointed KMP on 16 March 2015

DIRECTORS' REPORT

YEAR ENDED 30 JUNE 2016

REMUNERATION REPORT (CONTINUED)

Table 4: Value of options granted as part of remuneration to Key Management Personnel (Consolidated)

	*Value of options granted during the year	Value of options exercised during the year	Value of options lapsed during the year	Percentage of remuneration consisting of options for the year	Shares issued on exercise of options		Options fully vested during the year
					Shares issued	Paid per share	
30 June 2016	\$	\$	\$	%	No.	\$	No.
Directors							
M. P. L. Searles	1,845,000	538,901	–	22.48%	73,000	0.00	–
Executives							
S. S. Rouvray	–	–	34,370	0.00%	–	–	–
J. S. Blackledge	61,090	–	–	2.85%	–	–	–
F. Gualtieri	–	–	145,109	0.00%	–	–	–
F. Pasquini	58,999	28,920	18,451	6.27%	6,853	0.00	–
S. Vohra	59,043	–	–	6.24%	–	–	–
K. R. McIvor	–	–	104,574	0.00%	–	–	–
T. M. Stevens	57,135	–	–	6.96%	–	–	–
N. F. Thomas	57,135	–	–	4.98%	–	–	–
Total	2,138,402	567,821	302,504		79,853		

	*Value of options granted during the year	Value of options exercised during the year	Value of options lapsed during the year	Percentage of remuneration consisting of options for the year	Shares issued on exercise of options		Options fully vested during the year
					Shares issued	Paid per share	
30 June 2015	\$	\$	\$	%	No.	\$	No.
Directors							
M. P. L. Searles	–	–	–	0.00%	–	–	–
Executives							
S. S. Rouvray	–	103,610	16,784	0.00%	64,359	3.74	7,109
F. Gualtieri	41,429	24,277	9,154	10.94%	3,866	0.00	3,866
F. Pasquini	50,809	53,415	8,966	11.31%	32,415	3.71	3,815
S. Vohra	50,854	–	–	11.22%	–	–	–
K. R. McIvor	52,599	–	–	10.67%	–	–	–
T. M. Stevens	47,718	–	–	11.06%	–	–	–
N. F. Thomas	–	–	–	0.00%	–	–	–
Total	243,409	181,302	34,904		100,640		14,790

*Gross value of options granted during the period which will vest over three years if all performance hurdles required for options to vest, are met.
Shares issued on exercise of options during 2016 and 2015 were fully paid.

DIRECTORS' REPORT

YEAR ENDED 30 JUNE 2016

REMUNERATION REPORT (CONTINUED)

Table 5: Number of options granted as part of remuneration

Year ended 30 June 2016	Granted no.	Grant date	Fair value per option at grant date	Exercise price per option	Expiry date	First exercise date	Last exercise date
			(\$) (note 16)	(\$) (note 16)			
Executives							
M. P. L. Searles	250,000	7-Apr-16	7.91	0.00	1-Jan-23	1-Jan-19	1-Jan-23
S. S. Rouvray	–	–	–	–	–	–	–
J. S. Blackledge	8,357	23-Nov-15	7.31	0.00	23-Nov-22	23-Nov-18	23-Nov-22
F. Gualtieri	–	–	–	–	–	–	–
F. Pasquini	8,071	23-Nov-15	7.31	0.00	23-Nov-22	23-Nov-18	23-Nov-22
S. Vohra	8,077	23-Nov-15	7.31	0.00	23-Nov-22	23-Nov-18	23-Nov-22
K. R. Mclvor	–	–	0	–	–	–	–
T. M. Stevens	7,816	23-Nov-15	7.31	0.00	23-Nov-22	23-Nov-18	23-Nov-22
N. F. Thomas	7,816	23-Nov-15	7.31	0.00	23-Nov-22	23-Nov-18	23-Nov-22
Total	290,137						

Where options are exercised within two years after the date the options vest, any shares acquired on exercising of those options cannot be disposed of prior to the expiry of the two year period from the date the options vested, except if employment is terminated.

Year ended 30 June 2015	Granted no.	Grant date	Fair value per option at grant date	Exercise price per option	Expiry date	First exercise date	Last exercise date
			(\$) (note 16)	(\$) (note 16)			
Executives							
M. P. L. Searles	–	–	–	–	–	–	–
S. S. Rouvray	–	–	–	–	–	–	–
F. Gualtieri	4,558	31-Oct-14	9.0892	0.00	31-Oct-21	31-Oct-17	31-Oct-21
F. Pasquini	5,590	31-Oct-14	9.0892	0.00	31-Oct-21	31-Oct-17	31-Oct-21
S. Vohra	5,595	31-Oct-14	9.0892	0.00	31-Oct-21	31-Oct-17	31-Oct-21
K. R. Mclvor	5,787	31-Oct-14	9.0892	0.00	31-Oct-21	31-Oct-17	31-Oct-21
T. M. Stevens	5,250	31-Oct-14	9.0892	0.00	31-Oct-21	31-Oct-17	31-Oct-21
N. F. Thomas**	4,396	31-Oct-14	9.0892	0.00	31-Oct-21	31-Oct-17	31-Oct-21
Total	31,176						

Where options are exercised within two years after the date the options vest, any shares acquired on exercising of those options cannot be disposed of prior to the expiry of the two year period from the date the options vested, except if employment is terminated.

**Options allocated to N. F. Thomas were issued before he was appointed as a KMP on 16 March 2015.

REMUNERATION REPORT (CONTINUED)

Table 6: Option holdings of Key Management Personnel

	Total options at year end						
Options held at 30 June 2016	Balance at beginning of period 01-Jul-15	Granted as remuneration	Options exercised	Options lapsed/ forfeited	Balance at end of period 30-Jun-16	Vested/ exercisable	Not vested/not exercisable
Director							
M. P. L. Searles	233,000	250,000	73,000	–	410,000	–	410,000
Executives							
S. S. Rouvray	5,473	–	–	5,473	–	–	–
J. S. Blackledge	–	8,357	–	–	8,357	–	8,357
F. Gualtieri	17,317	–	–	17,317	–	–	–
F. Pasquini	25,877	8,071	6,853	2,938	24,157	–	24,157
S. Vohra	10,589	8,077	–	–	18,666	–	18,666
K. R. McIvor	10,953	–	–	10,953	–	–	–
T. M. Stevens	14,910	7,816	–	–	22,726	–	22,726
N. F. Thomas	8,319	7,816	–	–	16,135	–	16,135
Total	326,438	290,137	79,853	36,681	500,041	–	500,041

The outstanding options have an exercise price of \$NIL.

During the current year a total of 319,891 zero priced options were issued (290,137 to KMP).

F. Gualtieri ceased to be a KMP on 1 July 2015. All unvested options lapsed on that date.

S. S. Rouvray ceased to be a KMP on 1 July 2015. All unvested options lapsed on that date.

T. M. Stevens ceased to be a KMP on 20 May 2016.

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

Options held at 30 June 2015	Balance at beginning of period 01- Jul-14	Granted as remuneration	Options exercised	Options lapsed/ forfeited	Balance at end of period 30- Jun-15	Total options at year end	
						Vested/ exercisable	Not vested/not exercisable
Director							
M. P. L. Searles	233,000	–	–	–	233,000	–	233,000
Executives							
S. S. Rouvray	73,149	–	64,359	3,317	5,473	–	5,473
F. Gualtieri	18,434	4,558	3,866	1,809	17,317	–	17,317
F. Pasquini	54,474	5,590	32,415	1,772	25,877	6,853	19,024
S. Vohra	4,994	5,595	–	–	10,589	–	10,589
K. R. McIvor	5,166	5,787	–	–	10,953	–	10,953
T. M. Stevens	9,660	5,250	–	–	14,910	–	14,910
N. F. Thomas	3,923	4,396	–	–	8,319	–	8,319
Total	402,800	31,176	100,640	6,898	326,438	6,853	319,585

The outstanding options have an exercise price of \$NIL. During the year ended 30 June 2015 a total of 43,456 zero priced options were issued (31,176 to KMP).

N. F. Thomas became a KMP on 16 March 2015 and options issued before that date are shown above.

DIRECTORS' REPORT

YEAR ENDED 30 JUNE 2016

REMUNERATION REPORT (CONTINUED)

Table 7: The following options were granted, vested or lapsed during the year.

	Grant year	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	2012	–	31-Dec-13	1-Jan-16	\$7.38	–	73,000
	2015	250,000	7-Apr-16	1-Jan-19	\$7.91	–	–
S. S. Rouvray	2011	–	31-Oct-11	31-Oct-14	\$6.28	5,473	–
J. S. Blackledge	2015	8,357	23-Nov-15	23-Nov-18	\$7.31	–	–
F. Gualtieri	2011	–	31-Oct-11	31-Oct-14	\$6.28	2,977	–
	2012	–	31-Oct-12	31-Oct-15	\$7.71	5,713	–
	2013	–	30-Oct-13	30-Oct-16	\$10.06	4,069	–
	2014	–	31-Oct-14	31-Oct-17	\$9.09	4,558	–
F. Pasquini	2008	–	29-Sep-08	29-Sep-11	\$4.22	–	–
	2011	–	31-Oct-11	31-Oct-14	\$6.28	2,938	–
	2015	8,071	23-Nov-15	23-Nov-18	\$7.31	–	–
S. Vohra	2015	8,077	23-Nov-15	23-Nov-18	\$7.31	–	–
K. R. Mclvor	2013	–	30-Oct-13	30-Oct-16	\$10.06	5,166	–
	2014	–	31-Oct-14	31-Oct-17	\$9.09	5,787	–
T. M. Stevens	2015	7,816	23-Nov-15	23-Nov-18	\$7.31	–	–
N. F. Thomas	2015	7,816	23-Nov-15	23-Nov-18	\$7.31	–	–
		290,137				36,681	73,000

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

There are no loans outstanding owing by Key Management Personnel at 30 June 2016 (2015: NIL).

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:	8	8	1	4
No. of meetings attended:				
R. A. Longes	3	3	1	2
M. P. L. Searles	8	–	–	–
R J Carless	8	8	1	4
D. C. Clarke	8	8	1	4
R. J. Low	8	8	1	4
P. A. Lahiff	7	6	–	1

Mr. Searles was not a member of any Committee. All other Directors were eligible to attend all meetings held except Mr. Lahiff who was appointed on 1 October 2015 and Mr. Longes who retired on 26 November 2015 and attended all meetings held during the year in the period in which he was a Director.

DIRECTORS' REPORT

YEAR ENDED 30 JUNE 2016

DIRECTORS' MEETINGS (CONTINUED)

Committee membership

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

Audit	Remuneration	Nomination
R. J. Low (Chairman)	R. A. Longes (ret 26/11/15)	R. A. Longes (ret 26/11/15)
R. J. Carless	R. J. Carless	R. J. Carless
R. A. Longes (ret 26/11/15)	D. C. Clarke (Chairman)	D. C. Clarke (Chairman)
D. C. Clarke	R. J. Low	R. J. Low
P. A. Lahiff (app 01/10/2015)	P. A. Lahiff (app 01/10/2015)	P. A. Lahiff (app 01/10/2015)

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 Class Order 2016/191. The Company is an entity to which the Class Order applies.

AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

The Directors received an independence declaration from the auditors of AUB Group Limited. Refer to page 28 of the Directors' Report.

Non-audit services were provided in relation to taxation matters to the AUB Group by the entity's auditor, Ernst & Young in the financial year ended 30 June 2016. 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 25 of the Financial Report.

Signed in accordance with a resolution of the Directors



D.C. Clarke
Chairman
Sydney, 25 August 2016



M.P.L. Searles
Chief Executive Officer and Managing Director

AUDITOR'S INDEPENDENCE DECLARATION



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

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As lead auditor for the audit of AUB Group Limited for the financial year ended 30 June 2016, 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

A handwritten signature in black ink that reads 'David Jewell'.

David Jewell
Partner
Sydney, 25 August 2016

INCOME STATEMENT

YEAR ENDED 30 JUNE 2016

	Notes	Consolidated	
		2016 \$'000	2015 \$'000
Revenue	4 (i)	202,977	191,339
Other income	4 (ii)	7,629	5,313
Share of profit of associates	4 (iii)	23,272	20,695
Expenses	4 (iv)	(178,064)	(163,240)
Finance costs	4 (v)	(5,389)	(4,310)
		50,425	49,797
Income arising from adjustments to carrying values of associates, sale of interests in controlled entities and broking portfolios			
– Adjustments to carrying value of associates and estimates for contingent consideration	4(vi)	1,730	1,881
– Profit from sale of interests in controlled entities and associates	4(vii)	8,759	2,088
Profit before income tax		60,914	53,766
Income tax expense	5	12,127	10,909
Net Profit after tax for the period		48,787	42,857
Net Profit after tax for the period attributable to:			
Equity holders of the parent		42,002	34,887
Non-controlling interests		6,785	7,970
		48,787	42,857
Basic earnings per share (cents per share)	8	66.6	56.9
Diluted earnings per share (cents per share)	8	66.5	56.7

STATEMENT OF COMPREHENSIVE INCOME

YEAR ENDED 30 JUNE 2016

	Consolidated	
	2016	2015
	\$'000	\$'000
Net Profit after tax for the period	48,787	42,857
Other comprehensive income		
Net movement in foreign currency translation reserve	575	(192)
Income tax benefit relating to currency translation	(13)	13
Other comprehensive income after income tax for the period	562	(179)
Total comprehensive income after tax for the period	49,349	42,678
Total comprehensive income after tax for the period attributable to:		
Equity holders of the parent	42,429	34,708
Non-controlling interests	6,920	7,970
	49,349	42,678

STATEMENT OF FINANCIAL POSITION

YEAR ENDED 30 JUNE 2016

		Consolidated	
		2016	2015
	Notes	\$'000	\$'000
Assets			
<i>Current Assets</i>			
Cash and cash equivalents	6	70,933	50,511
Cash and cash equivalents – Trust	6	87,513	105,498
Trade and other receivables	9	165,801	165,053
Other financial assets	10	670	150
Total Current Assets		324,917	321,212
<i>Non-current Assets</i>			
Trade and other receivables	9	163	143
Other financial assets	10	40	72
Investment in associates	11	133,894	141,661
Property, plant and equipment	13	9,806	6,507
Intangible assets and goodwill	14	246,746	199,836
Deferred income tax asset	5	5,535	5,574
Total non-current Assets		396,184	353,793
Total Assets		721,101	675,005
Liabilities			
<i>Current Liabilities</i>			
Trade and other payables	17	239,510	252,380
Income tax payable	5	5,593	5,975
Provisions	18	12,415	10,055
Interest bearing loans and borrowings	19	4,461	8,624
Total Current Liabilities		261,979	277,034
<i>Non-current Liabilities</i>			
Trade and other payables	17	11,452	19,280
Provisions	18	2,730	2,735
Deferred tax liabilities	5	9,520	7,189
Interest bearing loans and borrowings	19	84,185	57,441
Total Non-current Liabilities		107,887	86,645
Total Liabilities		369,866	363,679
Net Assets		351,235	311,326
Equity			
Issued capital	20	141,708	128,890
Retained earnings		146,533	128,165
Share based payments reserve	21	5,384	5,707
Foreign currency translation reserve	21	248	(179)
Asset revaluation reserve	21	370	540
Equity attributable to equity holders of the parent		294,243	263,123
Non-controlling interests	21	56,992	48,203
Total Equity		351,235	311,326

STATEMENT OF CASH FLOWS

YEAR ENDED 30 JUNE 2016

		Consolidated	
		2016	2015
	Notes	\$'000	\$ 000
Cash flows from operating activities			
Receipts from customers		191,629	182,458
Dividends received from others		2	15
Dividends/trust distributions received from associates		20,454	18,464
Interest received		3,619	3,623
Management fees received from associates/related entities		11,099	10,136
Payments to suppliers and employees		(175,886)	(155,941)
Income tax (paid)		(12,700)	(13,366)
Interest paid		(4,179)	(3,869)
Net cash from operating activities before customer trust account movements		34,038	41,520
Net (decrease)/increase in cash held in customer trust accounts		(9,292)	2,815
Net cash flows from operating activities	6	24,746	44,335
Cash flows from investing activities			
Proceeds from reduction in interests in controlled entities	7(a),(b)	2,425	2,714
Payment for increase in interests in controlled entities	7(a)	(291)	(990)
(Payments) for/proceeds from new consolidated entities, net of cash acquired	7(c),(d)	(40,007)	(17,605)
Cash outflow from sale/deconsolidation of controlled entities	7(e)	(10,539)	(7,008)
Payment for new/additional interests in associates	11	(2,971)	(16,423)
Payment for new broking portfolios purchased by members of the economic entity		(1,836)	(1,631)
Proceeds from sale of broking portfolios by member of the economic entity		-	124
Proceeds from sale of associates (net of sale expenses)		30,432	-
Proceeds from sale of other financial assets		14	-
Proceeds from new shares issued to non-controlling interests		2,714	788
(Payment for)/proceeds from purchases/sale of other financial assets		-	(34)
Proceeds from sale of plant and equipment		195	556
Payment for plant and equipment and capitalised projects		(5,032)	(2,695)
Advances of mortgages to associates/related entities		(2,316)	(84)
Proceeds from mortgage repayments from associates/related entities		1,815	213
Net cash flows (used in) investing activities		(25,397)	(42,075)
Cash flows from financing activities			
Dividends paid to shareholders		(12,028)	(9,972)
Dividends paid to shareholders of non-controlling interests		(4,399)	(6,500)
Proceeds from issue of share capital		-	7,192
Payment for contingent consideration on prior year acquisitions		(4,330)	(4,967)
Increase in/(repayment) of borrowings and lease liabilities		23,387	16,797
Advances to related entities		458	(958)
Net cash flows from financing activities		3,088	1,592
Net increase in cash and cash equivalents		2,437	3,852
Cash and cash equivalents at beginning of the period		156,009	152,157
Cash and cash equivalents at end of period	6	158,446	156,009

STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 30 JUNE 2016

	Attributable to equity holders of the parent						Non-controlling interest	Total equity
	Issued capital	Retained earnings	Asset revaluation reserve	Foreign currency translation reserve	Share based payment reserve	Total		
Consolidated	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 July 2015	128,890	128,165	540	(179)	5,707	263,123	48,203	311,326
Profit for the year	-	42,002	-	-	-	42,002	6,785	48,787
Other comprehensive income	-	-	-	427	-	427	135	562
Total comprehensive income for the year	-	42,002	-	427	-	42,429	6,920	49,349
Adjustment relating to an increase in voting shares in controlled entities (see note 7(a))	-	1,800	-	-	-	1,800	835	2,635
Non controlling interests relating to new acquisitions (see note 7(c))	-	-	-	-	-	-	11,999	11,999
Adjustment resulting from the deconsolidation of controlled entity (see note 7(e))	-	(758)	-	-	-	(758)	(6,566)	(7,324)
Transfer from asset revaluation reserve	-	170	(170)	-	-	-	-	-
Cost of share-based payment	-	-	-	-	(312)	(312)	-	(312)
Movement in tax benefit related to employee share trust transactions	-	-	-	-	(11)	(11)	-	(11)
On 30 October 2015 and 29 April 2016, 1,505,688 shares were issued as a result of a Dividend Reinvestment Plan (see note 20)	12,852	-	-	-	-	12,852	-	12,852
Allotted 11,099 shares at an issue price of \$NIL (see note 20)	-	-	-	-	-	-	-	-
Allotted 73,000 shares at an issue price of \$NIL (see note 20)	-	-	-	-	-	-	-	-
Share issue expenses	(34)	-	-	-	-	(34)	-	(34)
Equity dividends	-	(24,846)	-	-	-	(24,846)	(4,399)	(29,245)
At 30 June 2016	141,708	146,533	370	248	5,384	294,243	56,992	351,235

STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 30 JUNE 2016

	Attributable to equity holders of the parent						Non-controlling interest	Total equity
	Issued capital	Retained earnings	Asset revaluation reserve	Foreign currency translation reserve	Share based payment reserve	Total		
Consolidated	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 July 2014	108,339	114,836	1,000	-	5,296	229,471	40,108	269,579
Profit for the year	-	34,887	-	-	-	34,887	7,970	42,857
Other comprehensive income	-	-	-	(179)	-	(179)	-	(179)
Total comprehensive income for the year	-	34,887	-	(179)	-	34,708	7,970	42,678
Adjustment resulting from the consolidated entity disposing of interests in controlled entities (see note 7 (e))	-	108	-	-	-	108	(12,520)	(12,412)
Adjustment relating to an increase in the voting shares in controlled entities. (see note 7(b))	-	1,205	-	-	-	1,205	89	1,294
Non controlling interests relating to new acquisitions (see note 7(d))	-	-	-	-	-	-	19,056	19,056
Transfer from asset revaluation reserve	-	460	(460)	-	-	-	-	-
Cost of share-based payment	-	-	-	-	451	451	-	451
Movement in tax benefit related to employee share trust transactions	-	-	-	-	(40)	(40)	-	(40)
Allotted 132,800 and 27,834 respectively, as a result of employees exercising options (see note 20)	558	-	-	-	-	558	-	558
On 15 October and 24 October 2014 and 30 April 2015, 696,147, 928,220 and 516,092 shares were issued respectively as a result of a Dividend Reinvestment Plan (see note 20)	20,183	-	-	-	-	20,183	-	20,183
Share issue expenses	(190)	-	-	-	-	(190)	-	(190)
Equity dividends	-	(23,331)	-	-	-	(23,331)	(6,500)	(29,831)
At 30 June 2015	128,890	128,165	540	(179)	5,707	263,123	48,203	311,326

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2016

1. CORPORATE INFORMATION

The financial report of AUB Group Limited for the year ended 30 June 2016 was authorised for issue in accordance with a resolution of the directors on 25 August 2016.

On 26 November 2015, Austbrokers Holdings Limited changed its name to AUB Group Limited.

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.

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) under the option available to the Company under ASIC Class Order 2016/191. The Company is an entity to which the class order 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 AUB Group. These are presented separately in the income statement 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 Income Statement.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2016

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) and preference share 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) and preference share 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. 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. Other than for zero priced options, the fair value is determined by an external valuer using a binomial model. The fair value of the zero priced options issued before 1 January 2013 was based on the volume weighted average share price for the 5 day period prior to the options being granted. From 1 January 2013, the fair value of the zero priced options has been based on the dividend yield method 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.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2016

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Cash and cash equivalents

Cash and cash equivalents, and cash and cash equivalents - trusts (trust cash), in the 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 Statement of Cash Flows, cash and cash equivalents as defined above are shown net of outstanding bank overdrafts.

(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 profit or loss.

Operating lease payments are recognised as an expense in the Income statement on a straight-line basis over the lease term. Lease incentives are recognised in the income statement 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 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.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2016

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Investment in associates (continued)

The financial statements of the associates are used by the Group to apply the equity method. The reporting dates of the associates and 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 income statement 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 Statement of Comprehensive Income.

(k) Interest-bearing loans and borrowing

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.

(m) 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 Income Statement. Where there is a change in ownership and the Group loses control, the gain or loss will be recognised in the Income Statement 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 Income Statement. 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 Statement of Financial Position at net present value. The interest expense in the income statement 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.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2016

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Business combinations (continued)

Impairment losses recognised for goodwill are not subsequently reversed.

(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 income statement 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 income statement 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 income statement 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 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.

(n) Investments and other financial assets

Loans and Receivables

Loans and receivables, including mortgages, 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 income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

(o) 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.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2016

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Derecognition of financial assets and financial liabilities (continued)

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.

(p) 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.

(q) 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

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2016

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Impairment of non financial assets (continued)

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.

(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 accumulation superannuation funds by entities within the Group are charged against profits when due.

(s) 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.

(t) 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.

(u) 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 zero priced 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

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2016

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(u) Share-based payment transaction (continued)

conditions is included in the determination of fair value at grant date. The income statement 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).

(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 Statement of Financial Position.

Deferred income tax is provided on all temporary differences at the date of the 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.

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 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 Statement of Financial Position. Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2016

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(w) Other taxes (continued)

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) Plant and equipment

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 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 Statement of Financial Position by adjusting both the expense or asset and the provision. The related carrying amounts are disclosed in note 18.

(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 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 AFSL to operate and are governed by different legislation and therefore are considered a separate segment, "Risk Services".

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2016

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 2016. The directors have assessed the impact of these new or amended standards and interpretations (to the extent relevant to the Group) as follows:

Reference	Title	Summary	Application date of standard	Impact on financial report	Application date for Group
AASB 15	Revenue from Contracts with Customers	AASB 15 revenue from Contracts with customers replaces the existing revenue recognition standards AASB 111 Construction Contracts, AASB 118 Revenue and related Interpretations (Interpretation 13 Customer Loyalty Programmes, Interpretation 15 Agreements for the Construction of Real-estate, Interpretation 18 Transfers of Assets from customers. AASB 15 specifies the accounting treatment for revenue arising from contracts with customers (except for contracts within the scope of other accounting standards such as leases or financial instruments). The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. AASB 2015-8 amended the AASB 15 effective date so it is now effective for annual reporting periods commencing on or after 1 January 2018. Early application is permitted. AASB 2014-5 incorporates the consequential amendments to a number Australian Accounting Standards (including Interpretations) arising from the issuance of AASB 15. AASB 2016-3 Amendments to Australian Accounting Standards - Clarification to AASB 15 and to clarify the requirements on identifying performance obligations principal versus agent consideration and the timing of recognising revenue from granting a licence and provides further practical expedients on transition to AASB 15.	1 January 2018	The Group is still assessing the impact of the changes required under AASB 15 but it is not expected that it will have a material impact on the financial report.	1 July 2018

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2016

3. NEW ACCOUNTING STANDARDS AND INTERPRETATIONS (CONTINUED)

Reference	Title	Summary	Application date of standard	Impact on financial report	Application date for Group
AABB 16	Amendments to IFRS 16 "Leases"	This Standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity. The new standard will be effective on or after 1 January 2019. Early application is permitted. The new standard will be effective on or after 1 January 2019. Early application is permitted. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligations to make lease payments. A lessee measures right-of-use assets similarly to other non-financial assets (such as property, plant and equipment) and lease liabilities similarly to other financial liabilities. As a consequence, a lessee recognises depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows applying AASB 107 Statement of Cash Flows.	1 January 2019	Assets and liabilities arising from a lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments (including inflation-linked payments), and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. AASB 16 contains disclosure requirements for lessees. Lessees will need to apply judgement in deciding upon the information to disclose to meet the objective of providing a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of the lessee. It is expected that the impact on the financial statements will result in an increase in fixed assets and a corresponding increase in lease liabilities.	1 July 2019
AASB 9	Financial Instruments	AASB 9 (December 2014) is a new standard that replaces AASB 139. 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.	1 January 2018	The Group is still assessing the impact of the changes required under AASB 9.	1 July 2018

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2016

4. REVENUE AND EXPENSES

	Consolidated	
	2016	2015
	\$'000	\$'000
(i) Revenue		
Commission, brokerage and fee income	191,878	181,203
Management fees from related entities	11,099	10,136
Revenue	202,977	191,339
(ii) Other income		
Dividends from other persons/corporations	2	15
Interest from related persons/corporations	54	18
Interest from other persons/corporations	3,565	3,605
Other income	4,008	1,675
Total other income	7,629	5,313
(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)	26,536	23,568
Amortisation of intangibles – associates	(3,264)	(2,873)
Total share of profit of associates	23,272	20,695
(iv) Expenses		
Amortisation of intangibles – controlled entities	3,323	4,043
Amortisation of capitalised project costs	405	-
Salaries and wages	113,866	101,865
Share-based payments (credit)	(313)	451
Audit fees	1,488	1,585
Travel/telephone/motor/stationery	8,079	7,889
Depreciation of property, plant and equipment	2,532	2,119
Rent (operating leases)	9,729	9,790
Commission expense	12,358	11,650
Business technology and software costs	4,640	4,438
Insurance	4,676	4,647
Other expenses	17,281	14,763
Total other expenses	178,064	163,240
(v) Finance costs		
Borrowing costs	5,389	4,310
Total finance costs	5,389	4,310
(vi) Adjustments to carrying value of associates and contingent consideration payments		
Adjustments to carrying value of entities (to fair value) on the date they became controlled or deconsolidated (see notes 7(d), (e))	5,724	3,029
Adjustment to contingent consideration on acquisition of controlled entities and associates (see notes 11, 15)	277	4,456
Impairment charge relating to the carrying value of associates and goodwill (see notes 11, 15)	(4,271)	(5,604)
Total adjustments to carrying value of associates	1,730	1,881
(vii) Profit from sale of interests in controlled entities and associates		
Losses from sale of interests in controlled entities and associates	(649)	-
Profit from sale of interests in controlled entities and associates (see note 11)	9,408	2,088
Total profit from sale of interests in controlled entities, associates and contingent adjustments	8,759	2,088

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2016

5. INCOME TAX

	Consolidated	
	2016	2015
	\$'000	\$'000
Major components of income tax expense		
Income statement		
<i>Current income tax</i>		
Current income tax charge	13,485	12,808
Adjustment for prior years	(315)	(188)
<i>Deferred tax expense</i>		
Origination and reversal of temporary differences	(1,043)	(1,711)
Total income tax expense in income statement	12,127	10,909
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	60,914	53,766
At the Company's statutory income tax rate of 30% (2015: 30%)	18,274	16,130
Rebateable dividends	(1)	(5)
Equity accounted income from associates	(5,169)	(4,537)
Non-taxable gains/losses on sale	(305)	(52)
(Over)/under provision prior year	(315)	(188)
Income taxed at different tax rates on overseas operations	(21)	(7)
Tax on distributions from associates operating as trusts	(138)	(95)
Adjustments to contingent consideration on acquisition of controlled entities and associates	(97)	(1,337)
Fair value adjustment to the carrying value of a controlled entity on the date it became an associate	(1,894)	-
Fair value adjustment to the carrying value of an associate on the date it became a controlled entity	-	(1,104)
Impairment charge relating to the carrying value of associates and controlled entities	1,281	1,681
Non deductible expenses/other	512	423
Income tax expense reported in the consolidated income statement	12,127	10,909
Income tax payable	5,593	5,975

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2016

5. INCOME TAX (CONTINUED)

	Consolidated		Consolidated	
	Statement of Financial Position		Income statement	
	2016	2015	2016	2015
	\$'000	\$'000	\$'000	\$'000
Deferred income tax				
Deferred income tax at 30 June relates to the following:				
<i>Deferred tax liability</i>				
Income accrued not assessable	1,821	1,917	(96)	(99)
Unamortised value of broker register	8,685	6,485	-	-
Tax credit on insurance broking register amortisation expense	(986)	(1,213)	(986)	(1,213)
Deferred income tax liabilities	9,520	7,189		
<i>Deferred tax asset</i>				
Provisions and accruals not claimed for tax purposes	5,535	5,574	39	(399)
Deferred income tax assets	5,535	5,574		
Deferred tax (income)/expense			(1,043)	(1,711)

Tax consolidation

For the purposes of income taxation, AUB Group Limited entered into a Consolidated Tax Group with its 100% owned controlled entities. Tax consolidation results in the 100% owned 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 Group Limited formally notified the Australian Taxation Office of its adoption of the tax consolidation regime by lodging notice with the Australian Taxation Office.

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 Group Limited 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.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2016

6. CASH AND CASH EQUIVALENTS

	Consolidated	
	2016	2015
(a) Reconciliation of profit after tax to net cash flows from operations	\$'000	\$'000
Profit after tax for the period	48,787	42,857
Equity accounted (profits) after income tax	(23,272)	(20,695)
Dividends/trust distributions received from associates	20,454	18,464
Amortisation of intangibles	3,324	4,043
Losses from sale of interests in controlled entities and associates	649	-
Profit from sale of interests in controlled entities and associates	(9,408)	(2,088)
Adjustment to contingent consideration on acquisition of controlled entities and associates	(277)	(4,456)
Adjustments to carrying value of entities (to fair value) on the date they became controlled or deconsolidated	(5,724)	(3,029)
Impairment charge relating to the carrying value of associates and goodwill	4,271	5,604
Depreciation of fixed assets	2,532	2,119
Amortisation of capitalised project costs	405	-
Share options expensed	(313)	451
Changes in assets and liabilities		
(Increase) in trade and other receivables	(1,964)	(4,935)
(Decrease)/increase in trade and other payables	(5,186)	1,441
Decrease in trust receivables	203	20,251
(Decrease) in trust payables	(11,792)	(12,917)
Increase/(decrease) in provisions	2,630	(318)
(Increase)/decrease in deferred tax asset	(27)	1,178
(Decrease) in deferred tax liability	(732)	(2,090)
(Decrease) in provision for tax	186	(1,545)
Net cash flows from operating activities	24,746	44,335
Cash and cash equivalents	70,933	50,511
Cash and cash equivalents – trust	87,513	105,498
Total cash and cash equivalents	158,446	156,009

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 Statement of Financial Position.

Non cash financing activity transactions include transactions resulting from the dividend reinvestment plan.

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

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2016

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 (c), Allied Health Australia Pty Ltd and CIM Pty Ltd, which relates to risk services businesses.

A major strategy of the group is to acquire part ownership in insurance broking, underwriting agency and risk services businesses or portfolios. 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 probability weighted 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 at the date of acquisition, then any revisions to the fair value previously recognised, will be retrospectively adjusted.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2016

7. BUSINESS COMBINATIONS (CONTINUED)

(a) Equity transactions between owners—current year

Effective 1 July 2015, a controlled entity acquired all of the voting shares it did not hold in Interfin Pty Ltd (Interfin) by issuing shares in AB Phillips and Associates Pty Ltd (AB Phillips) to the value of \$336,846. This resulted in AUB Group diluting its shareholding in AB Phillips from 58% to 56.9%.

Effective 1 February 2016, a controlled entity acquired a portfolio for a consideration \$1,300,000 by issuing \$500,000 of voting shares plus a cash payment of \$800,000. This transaction resulted in AUB Group diluting its shareholding in AB Phillips from 56.9% to 55.4%.

Effective 1 July 2015, the consolidated entity diluted its voting shares in Austbrokers SPT Unit Trust (SPT) from 70% to 60% after SPT issued \$600,615 in additional units in the trust. As part of the transaction AUB Group Limited also disposed of 206,243 units in SPT for \$383,643.

Effective 28 October 2015, the consolidated entity acquired an additional 1.8% of the voting shares in InterRISK Australia Pty Ltd (InterRISK) for \$287,530 increasing its equity ownership from 77.1% to 78.9%.

Effective 1 November 2015, the consolidated entity sold 10% of the voting shares in Austbrokers Canberra Pty Ltd (Canberra) for \$1,500,000 decreasing its equity ownership from 85% to 75%.

Carrying value of assets attributable to Interfin, InterRISK, AB Phillips, and Canberra on the date of change in voting shares were;

	Carrying value of assets attributable to InterRISK and Interfin \$'000	Carrying value of assets attributable to Canberra, SPT and AB Phillips \$'000
Cash	16,207	18,947
Receivables	17,135	16,249
Property plant and equipment	298	979
Intangibles	25,161	13,664
Total assets	58,801	49,839
Payables and provisions	32,289	31,743
Borrowings	-	3,805
Tax liabilities	17	988
Total liabilities	32,306	36,536
Net assets	26,495	13,303
Non-controlling interest in net assets	(1,725)	-
Net assets attributable to AUB Group	24,770	13,303
Cash (received) on sale of shares/units in trust	-	(1,883)
(Proceeds) from additional units in trust/shares issued	-	(1,101)
Cash paid	291	-
Capital gains tax on sale of units	-	59
Adjustment to non-controlling interest	(499)	1,333
Transfer to retained earnings on acquisition/dilution in voting shares	208	1,592

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2016

7. BUSINESS COMBINATIONS (CONTINUED)

(b) *Equity transactions between owners—previous period*

Effective 1 August 2014, the Consolidated entity acquired an additional 10% of the voting shares in Austbrokers Premier Pty Ltd (Premier) for \$625,000 increasing its equity ownership to 90%.

Effective 1 July 2014, the Consolidated entity acquired an additional 9.1% of the voting shares in Sura Hospitality Pty Ltd (Hospitality) as trustee for G.U.S. Trust for \$364,368 increasing its equity ownership to 100%.

Effective 1 January 2015, the Consolidated entity disposed of 20% of the voting shares in Austbrokers Citystate Pty Ltd (Citystate) for \$1,308,603, decreasing its equity from 90% to 70%.

Effective 1 February 2015, the Consolidated entity disposed of 8% of the voting shares in Aprikeesh Pty Ltd (Apriseesh) for \$1,406,741, decreasing its equity from 66% to 58%.

Carrying value of assets attributable to Premier, Hospitality, Citystate and Aprikeesh on the date of change in voting shares were;

	Carrying value of assets disposed in Citystate and Apriseesh	Carrying value of assets acquired in Premier and Hospitality
	\$'000	\$'000
Cash	9,004	1,183
Receivables	5,467	7,180
Property plant and equipment	306	111
Intangibles	3,065	5,591
Total assets	17,842	14,065
Payables and provisions	12,460	8,401
Tax liabilities	458	88
Total liabilities	12,918	8,489
Net assets	4,924	5,576
Cash paid/(received)	(2,714)	990
Adjustment to non-controlling interests	588	(499)
Tax expense on disposal of shares	430	-
Transfer to retained earnings on acquisition of voting shares in Premier and Hospitality and disposal of voting shares in Citystate and Apriseesh	(1,696)	491

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2016

7. BUSINESS COMBINATIONS (CONTINUED)

(c) Acquisition of new controlled entities– current year

On 1 July 2015, the Group acquired 60% of the voting shares in Allied Health Australia Pty Ltd (Allied) for \$13,966,080 which included the fair value of the deferred consideration payment of \$4,490,984 payable no later than 24 months after the date of acquisition. The maximum amount of the contingent consideration payable is \$12,245,000.

On 1 July 2015, a controlled entity incorporated a new entity, Expert Strata Pty Ltd with issued capital of \$200,000. The group acquired 55% of the voting shares of this entity contributing \$110,000 of issued capital and non-controlling interests contributing \$90,000.

On 15 July 2015, a controlled entity acquired 100% of the voting shares in Financial Affairs Pty Limited (Financial Affairs) for \$4,256,340 which included a fixed deferred consideration payment of \$816,340.

On 1 December 2015, Forean Group Holdings purchased the assets of Rebem Pty Ltd through a newly incorporated 100% owned subsidiary, CIM Group Holdings Pty Ltd (CIM) for \$2,453,244 including a contingent consideration of \$698,612. There is no cap on the contingent amount payable.

Effective 1 January 2016, an 80% controlled entity in New Zealand acquired 100% of the voting shares in Runacres and Associates Ltd (Runacres) for \$34,488,000.

On 31 December 2015, an 80% controlled entity in New Zealand issued additional voting shares totalling \$13,120,800 including a contribution from non-controlling interests of \$2,624,160.

Portfolio acquisitions of \$1.836 million that occurred during the year are not separately disclosed.

Fair values of the identifiable assets and liabilities of Allied, Financial affairs and CIM as at the date of acquisition were:

Fair values of the identifiable assets and liabilities of Runacres as at the date of acquisition were:

	Fair value recognised on acquisition of Runacres \$'000	Fair value recognised on acquisition of Allied, Financial Affairs and CIM \$'000
Cash	8,330	821
Receivables	10,199	1,740
Intangibles	11,235	1,277
Plant and equipment	594	438
Total assets	30,358	4,276
Payables and borrowings	12,685	1,375
Borrowings	-	344
Deferred tax liability	3,146	383
Provisions	39	631
Total liabilities	15,870	2,733
Net assets	14,488	1,543
Net assets acquired	14,488	1,310
Purchase price – cash paid	34,488	14,670
Purchase price – deferred payment/contingent consideration	-	6,006
Total purchase price of acquisition	34,488	20,676
Goodwill arising on acquisition relating to the Group	20,000	19,366
Goodwill arising on acquisition relating to the non-controlling interests	-	9,077
Total goodwill arising on acquisition	20,000	28,443
Cash inflow on acquisition is as follows;		
Net cash acquired with the controlled entity	8,330	821
Cash paid	(34,488)	(14,670)
Net cash (outflow)	(26,158)	(13,849)

The acquisition of 60% of Allied was effective on 1 July 2015. The acquisition contributed \$1,023,494 to net profit after tax and \$15,609,210 to revenue.

The acquisition of 100% of Financial Affairs was effective on 15 July 2015. The acquisition contributed \$291,505 to net profit after tax and \$1,705,513 to revenue. Had the acquisition taken place at the beginning of the period, the profit after tax contribution would have been \$291,505 and \$1,719,602 to revenue.

The acquisition of 100% of CIM was effective on 1 December 2015. The acquisition contributed \$120,700 to net profit after tax and \$1,494,313 to revenue. Had the acquisition taken place at the beginning of the period, the profit after tax contribution would have been \$264,034 and \$2,625,099 to revenue.

The acquisition of 100% of Runacres was effective on 1 January 2016. The acquisition contributed \$1,131,000 to net profit after tax and \$4,086,000 to revenue. Had the acquisition taken place at the beginning of the period, the profit after tax contribution would have been \$2,250,000 and \$5,250,000 to revenue.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2016

7. BUSINESS COMBINATIONS (CONTINUED)

(d) Acquisition of new controlled entities— previous period

On 1 July 2014, a controlled entity acquired 75% of the voting shares in Asia Mideast Insurance and Reinsurance Pty Ltd (AMIR) for \$2,301,750 which included a deferred consideration payment of \$337,500, payable 12 months after the date of acquisition.

Effective 1 November 2014, the company incorporated a new controlled entity in New Zealand, NZ Brokers Holdings Ltd (NZBH) with a share capital of \$3,953,063 in which it has 80% interest in the voting shares. The carrying value of the investment in this company is \$3,164,851. The amount received from non-controlling interests amounted to \$788,212.

Effective 1 November 2014, NZ Brokers Holdings Ltd acquired 100% of the voting shares of Brokerweb Management Ltd (BWM) for \$7,675,596 including a contingent consideration payment of \$1,567,116. The maximum amount of the contingent consideration is unlimited.

On 31 December 2014, the company owned 50% of the voting shares of Citycover (Aust) Pty Ltd (Citycover). On that date it acquired a further 22.5% interest for \$2,300,000. A further 2.5% was acquired on 1 January 2015 for \$255,556. On 31 December 2014 Citycover ceased to be an associate and became a controlled entity.

Effective 1 February 2015, the company acquired 60% of the voting shares of Forean Group Holdings Ltd (Forean) for \$22,476,732 including a contingent consideration payment of \$8,550,580. The range of possible contingent consideration payments fall within \$NIL and \$9,900,000. Fair values of the identifiable assets and liabilities of acquisitions as at the date of acquisition were:

	Fair value recognised on acquisition			
	AMIR \$'000	BWM \$'000	Citycover \$'000	Forean \$'000
Cash	3,020	866	2,143	921
Receivables	3,511	733	1,574	2,088
Plant and equipment	27	233	190	1,094
Deferred tax asset	-	-	122	320
Intangibles	-	-	3,299	-
Total assets	6,558	1,832	7,328	4,423
Payables and borrowings	5,733	814	4,401	2,666
Deferred tax liability	133	-	989	-
Provision for taxation	37	450	266	-
Provisions	347	-	138	258
Total liabilities	6,250	1,264	5,794	2,924
Net assets	308	568	1,534	1,499
Net assets acquired	231	568	1,151	899
Purchase price – cash paid	1,964	6,109	2,556	13,926
Purchase price – deferred payment	338	1,567	-	8,550
Fair value adjustment on existing holding at the date of acquisition (see note 4(vi))	-	-	3,680	-
Carrying value of existing share in associate before acquisition	-	-	1,431	-
Total carrying value after acquisition	2,302	7,676	7,667	22,476
Goodwill arising on acquisition relating to the group	2,071	7,108	6,517	21,577
Goodwill arising on acquisition relating to the non-controlling interests	690	-	2,322	14,385
Total goodwill arising on acquisition	2,761	7,108	8,839	35,962
Cash inflow on acquisition is as follows;				
Net cash acquired with the controlled entity	3,020	866	2,143	921
Cash paid	1,964	6,109	2,556	13,926
Net cash in(outflow)/flow	1,056	(5,243)	(413)	(13,005)

The acquisition of AMIR contributed a profit \$16,314 to net profit after tax and \$1,136,974 to revenue.

The acquisition of NZBH contributed a loss (after expensing acquisition costs), of \$728,804 to net profit after tax and \$30,859 to revenue.

The acquisition of an additional 22.5% of Citycover was effective on 31 December 2014. The acquisition did not make a contribution to the current period result other than its 50% contribution as an equity accounted associate.

BWM contributed a profit of \$276,972 to net profit after tax and \$1,807,914 to revenue.

The acquisition of Citycover contributed a profit of \$327,505 to net profit after tax and \$2,471,121 to revenue.

The acquisition of Forean contributed a profit of \$824,866 to net profit after tax and \$7,661,962 to revenue.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2016

7. BUSINESS COMBINATIONS (CONTINUED)

(d) Acquisition of new controlled entities— previous period (continued)

If the acquisitions of BWM, Citycover and Forean occurred on 1 July 2014, the contribution to revenue and the net profit after tax attributable to the owners of the group would have been \$2,419,872 and \$24,913,914 respectively.

The fair value of the identifiable net assets acquired of the entities above (excluding Citycover) were approximately equivalent to the carrying values of assets acquired at the date of acquisition. The fair value of the assets acquired for Citycover were approximately equivalent to the carrying values of assets except for the identifiable intangibles and associated deferred tax.

(e) Deconsolidation of controlled entities on loss of control - current year

On 1 July 2015, the Group disposed 5% of the voting shares in AEI Transport Pty Ltd and its controlled entities (AEIT) for \$990,662, reducing its equity from 55% to 50% and therefore it is no longer consolidated from that date.

Deconsolidation of controlled entities on loss of control - previous year

On 1 April 2015, the Group disposed of 10% of the voting shares in Adroit Holdings Pty Ltd (Adroit) for \$2,477,675 reducing its equity from 60% to 50% and therefore no longer consolidated from that date.

On 27 April 2015, the Group disposed of all of its units in Ballina Insurance Brokers Unit Trust (Ballina) for \$1,324,197, a trust 80% owned by North Coast Insurance Brokers Pty Ltd, a 70% owned controlled entity.

	Carrying value of assets and liabilities	
	2016	2015
	\$'000	\$'000
Assets	AEIT	Adroit and Ballina
Cash	11,530	10,810
Receivables	13,577	9,848
Plant and equipment	58	2,203
Other assets	93	40
Intangibles	11,143	28,158
Total assets	36,401	51,059
Liabilities		
Payables	22,725	19,087
Borrowings	2,000	3,840
Tax liabilities	171	1,626
Total liabilities	24,896	24,553
Net assets	11,505	26,506
Carrying value of controlled entity transferred to shares in associates	3,593	11,492
Fair value adjustment on the date the controlled entity became an associate	6,313	896
Fair value of associate on the date the Group lost controlling interest	9,906	12,388
Sale proceeds	991	3,802
Less: carrying value of controlled entities on consolidation	(605)	(2,626)
Reversal of previous period transaction between owners transferred to retained earnings on sale of voting shares in controlled entity	758	(108)
Profit on sale of voting shares in controlled entity	1,144	1,068
Fair value adjustment on the date the controlled entity became an associate (see note 4(vi))	6,313	896
Profit on deconsolidation of controlled entities before tax and non-controlling interests	7,457	1,964
Tax expense	(952)	(641)
Total fair value adjustment and profit on deconsolidation of controlled entity - after tax	6,505	1,323
Non-controlling interests	-	(571)
Profit after tax and non controlling interests	6,505	752
Cash outflow on disposal is as follows;		
Net cash reduction on deconsolidation of controlled entity acquired with the controlled entity	(11,530)	(10,810)
Cash received on sale	991	3,802
Net cash (outflow) on deconsolidation of controlled entity	(10,539)	(7,008)

Adroit contributed \$975,725 to profit after tax and non controlling interests up to the date it became an associate on 1 April 2015.

Ballina contributed \$110,241 to profit after tax and non controlling interests up to date of disposal.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2016

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:

	2016	2015
	\$'000	\$'000
Net profit attributable to ordinary equity holders of the parent	42,002	34,887

	2016	2015
	Thousands	Thousands
	shares	shares
Weighted average number of ordinary shares for basic earnings per share	63,041	61,295
Effect of dilution:		
Weighted average number of shares under option adjusted for shares that would have been issued at average market price	160	202
Weighted average number of ordinary shares adjusted for the effect of dilution	63,201	61,497
Basic earnings per share (cents per share)	66.6	56.9
Diluted earnings per share (cents per share)	66.5	56.7

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2016

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

(d) *Equity dividends on ordinary shares:*

	Consolidated	
	2016	2015
	\$'000	\$'000
<i>Dividends paid and proposed</i>		
Final franked dividend for financial year ended 30 June 2014: 26.5 cents	–	15,923
Interim franked dividend for financial year ended 30 June 2015: 12.0 cents	–	7,408
Final franked dividend for financial year ended 30 June 2015: 27.7 cents	17,245	–
Interim franked dividend for financial year ended 30 June 2016: 12.0 cents	7,601	–
Total dividends paid in current year	24,846	23,331

In addition to the above, dividends paid to non controlling interests totalled \$4,399,000 (2015: \$6,500,000)

Dividends proposed and not recognised as a liability

Final franked dividend for financial year ended 30 June 2015: 27.7 Cents	–	17,245
Final franked dividend for financial year ended 30 June 2016: 28.0 Cents	17,877	–
	17,877	17,245
Dividends paid per share (cents per share)	39.7	38.5
Dividends proposed per share (cents per share) not recognised at balance date	28.0	27.7

(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% (2015: 30%)	32,255	31,481
– franking credits that will arise from the payment of income tax payable as at the end of the financial year	1,966	2,635
The amount of franking credits available for future reporting periods	34,221	34,116
– 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	(7,662)	(7,391)
The amount of franking credits available for future reporting periods after payment of dividend	26,559	26,725

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2016

9. TRADE AND OTHER RECEIVABLES

	Consolidated	
	2016	2015
	\$'000	\$'000
Trade receivables	29,961	22,031
Amount due from customers on broking/underwriting agency operations	126,788	139,946
Amount due from clients in respect of premium funding operations	6,366	-
Other receivables – related entities	2,686	3,076
Total receivables (current)	165,801	165,053

Trade receivables	163	143
Total receivables (non-current)	163	143

10. OTHER FINANCIAL ASSETS

Mortgages – related entities (amortised cost)	629	128
Other	41	22
Total other financial assets (current)	670	150

The mortgages are secured by registered fixed and floating charges over assets in the business, securities and supplemented with cross guarantees and indemnities where necessary.

Other	40	72
Total other financial assets (non-current)	40	72

11. INVESTMENT IN ASSOCIATES

	Consolidated	
	2016	2015
	\$'000	\$'000
Investment in associates		
Investments at equity accounted amount:		
Associated entities – unlisted shares	133,894	141,661

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2016

11. INVESTMENT IN ASSOCIATES (CONTINUED)

	Equity percentage		Equity accounted amount	
	2016	2015	2016	2015
	%	%	\$'000	\$'000
Austral Insurance Brokers Pty Ltd	50	50	2,787	2,916
Austbrokers AEI Transport Pty Ltd and controlled entities	50	55	9,597	–
A & I Member Services Pty Ltd	50	55	–	–
Androit Holdings Pty Ltd	50	50	13,333	13,375
Austbrokers RIS Pty Ltd	49.9	49.9	2,653	2,610
Austbrokers ABS Aviation Pty Ltd	50	50	253	179
Bruce Park Pty Ltd	49.9	49.9	1,523	1,425
Brett Grant and Associates Pty Ltd	49.9	49.9	1,661	1,667
Brokerweb Risk Services Ltd*	40	40	16,499	15,743
Austbrokers Dalby Insurance Brokers Pty Ltd	50	50	3,029	2,879
Insurance Advisernet Holdings Pty Ltd/Insurance Advisernet Holdings Unit Trust	49.9	49.9	15,350	15,870
Insurance Advisernet Holdings Pty Ltd/Insurance Advisernet Holdings Unit Trust	49.9	49.9	874	803
JMD Ross Insurance Brokers Pty Ltd	49.9	49.9	877	880
Markey Group Pty Ltd	49.9	49.9	3,742	3,855
Global Assured Finance Pty Ltd	49.9	49.9	–	–
KJ Risk Insurance Brokers Pty Ltd	49.0	–	1,752	–
MGA Management Services Pty Ltd	49.9	49.9	12,199	10,485
Northern Tablelands Insurance Brokers Pty Ltd	49.9	49.9	117	94
Northlake Holdings Pty Ltd	50	50	5,554	5,506
Peter L Brown & Associates Pty Ltd	49.9	49.9	562	490
The Procure Group Pty Ltd	49.9	49.9	11,337	10,528
Rivers Insurance Brokers Pty Ltd	49.9	49.9	3,074	2,917
Strathearn Insurance Group Pty Ltd (sold December 2015)	–	49.9	–	21,215
Supabrook Pty Ltd	49.9	49.9	785	939
SRG Group Pty Ltd	50	50	2,137	2,097
Western United Financial Services Pty Ltd	49.9	49.9	1,985	1,895
WRI Insurance Brokers Pty Ltd	50	50	3,052	2,898
Countrywide Tolstrup Financial Services Group Pty Ltd/Countrywide Tolstrup Group Unit Trust	49.9	49.9	2,214	2,064
Oxley Insurance Brokers Pty Ltd/Port Macquarie Insurance Brokers Unit Trust	49.9	49.9	155	317
Coffs Harbour Insurance Brokers Unit Trust	37.5	37.5	140	187
Aust Re Brokers Pty Ltd	50	50	943	647
Tasman Underwriting Pty Ltd	50	50	498	520
Millennium Underwriting Agency Pty Ltd**	50	50	446	481
Cinesura Entertainment Pty Ltd (Formerly One Liability Underwriting Pty Ltd)	50	50	71	–
Sura Travel Pty Ltd (Formerly Sura Accident And Health Pty Ltd)	50	50	–	–
Longitude Insurance Pty Ltd***	56.1	56.1	794	898
Newsurety Pty Ltd (sold February 2016)	–	50	–	224
Sura Professional Risks Pty Ltd (Formerly Mint Plus Pty Ltd)	50	50	696	469
Risk Strategies Pty Ltd (sold February 2016)	–	50	–	1,054
Nexus (Aust) Pty Ltd	50	50	11,157	11,887
Blumberg Pty Ltd	50	50	103	102
Bluestone Insurance Pty Ltd	50	50	–	–
R.G Financial Services	50	–	5	–
Austcan Risk Services (UK) Ltd	30	–	63	–
HQ Insurance Pty Ltd	40.4	40.4	1,877	1,535
			133,894	141,661

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YEAR ENDED 30 JUNE 2016

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 37.5% of Longitude Insurance Pty Ltd. The consolidated entity has a further 18.58% interest indirectly through an associate.

During the current year, the following transactions occurred;

- On 1 July 2015, the consolidated entity acquired 49% of the voting shares of K J Risk Pty Ltd for \$1,748,134.
- On 1 July 2015, the Group disposed 5% of the voting shares in AEI Transport Pty Ltd and its controlled entities for \$990,622 reducing its equity from 55% to 50%. On that date AEI Transport Pty Ltd ceased to be a controlled entity and became an associate.
- On 1 July 2015, a controlled entity acquired 50% of the voting shares in a newly incorporated entity, Austbrokers RG Financial Services Pty Ltd for \$100.
- On 1 January 2015, the consolidated entity acquired an associate, Austcan Risk Services (UK) Ltd for \$30.

During the current period, further adjustments to contingent considerations in respect of associates resulted in a reduction to the estimates previously recognised by the Consolidated Group by \$2,231,640. As the revised contingent consideration estimates were below the original estimated contingent consideration payments, a corresponding and offsetting impairment charge of \$2,231,640 was recognised against the carrying value of that associate (see note 4(vi)).

During the current period, further adjustments to contingent considerations in respect of an associate resulted in an increase to the estimates previously recognised by the Consolidated Group by \$881,000. In the previous year the estimate was reduced by \$687,000 with a corresponding impairment charge recognised in the profit and loss. During the current year the contingent consideration was increased by \$881,000 to reflect the estimated final payment. A \$687,000 impairment charge booked in the previous year has been reversed and a further \$195,000 has been charged against profits in the current year (see note 4(vi)).

During the year the consolidated entity disposed of the following associates;

- On 1 December 2015, the consolidated entity disposed of all the voting shares in Strathearn Insurance Group Pty Ltd.
- On 1 February 2016, the consolidated entity disposed of all the voting shares in Risk Strategies Pty Ltd.
- Between 30 September 2015 and 1 March 2016, a controlled entity disposed all of the voting shares owned in NewSurety Pty Ltd.

The total sales proceeds (before disposal costs) in respect of the sale of the associates above were \$30,648,882.

During the previous year, the following transactions occurred;

- On 1 July 2014, the consolidated entity acquired 50% of the voting shares of Nexus (Aust) Pty Ltd for \$12,253,179 which includes an amount of \$6,653,179 that represents the contingent consideration amount payable in the next 2 years.
- On 1 September 2014, the consolidated entity acquired 50% of the voting shares of Risk Strategies Pty Ltd for \$1,083,386 which includes an amount of \$383,386 which represents the contingent consideration payable in 12 months. On 1 July 2014, a controlled entity acquired 50% of the voting shares of Bluestone Insurance Pty Ltd and Blumberg Pty Ltd for \$50 and \$103,000 respectively.
- On 1 November 2014, a controlled entity in New Zealand acquired 50% of the voting shares of Brokerweb Risk Services Ltd for \$16,801,889 which includes an amount of \$6,780,164 which represents the contingent consideration payable in the next 2 years.
- On 31 December 2014, the company owned 50% of the voting shares of Citycover (Aust) Pty Ltd (Citycover). On that date it acquired a further 22.5% interest for \$2,300,000. Citycover ceased to be an associate and became a controlled entity.
- On 1 April 2015, the company reduced its interest in the voting shares of Adroit Holdings Pty Ltd from 60% to 50%. On that date Adroit Holdings Pty Ltd ceased to be a controlled entity and became an associate. NRIG Pty Ltd an associate owned by Adroit Holdings Limited also ceased to be a direct associate of the consolidated group on that date.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2016

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 Procure Group Pty Ltd which offer risk related 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, Longitude Insurance Pty Ltd where voting power is 37.5%, Millennium Underwriting where the voting power is 18.4%, HQ Insurance Brokers Pty Ltd where the voting power is 40.4% and Austcan risk Services (UK) Ltd where the voting power is 30%.
- (c) The reporting date of each associate is 30 June 2016 (prior year reporting date 30 June 2015).
- (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 and Austcan Risk Services (UK) Limited which is incorporated in the United Kingdom.
- (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	
	2016	2015
	\$'000	\$'000
Revenue	108,473	97,710
Operating profits before income tax	34,060	29,240
Amortisation of intangibles	(3,264)	(2,873)
Net profit before income tax	30,796	26,367
Income tax expense attributable to operating profits	(7,524)	(5,672)
Share of associates' net profits	23,272	20,695
(i) The entity's share of the assets and liabilities of associates:		
Current assets	220,047	206,047
Non-current assets	54,212	47,928
Current liabilities	(210,656)	(199,556)
Non-current liabilities	(10,122)	(8,387)
Net assets	53,481	46,032

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2016

12. SHARES IN CONTROLLED ENTITIES

All controlled entities are incorporated in Australia except for AUB Group NZ Ltd and its controlled entity which are incorporated in New Zealand, and comprise:

	Equity Interest Held	
	2016	2015
	%	%
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 Limited as trustee for Austbrokers SPT Unit Trust	60	70
– Finsura Holdings Pty Ltd And Its Controlled Entities	70	70
– Finsura Insurance Broking (Australia) Pty Ltd	70	70
– Finsura Financial Services Pty Limited	70	70
– Finsura Investment Management Services Pty Limited	70	70
– Finsura Insurance Broking Unit Trust	70	70
– RI Hornsby Pty Limited	70	70
Allied Health Australia Pty Ltd	60	-
AUB Group Services Pty Ltd (formerly Austbrokers Services Pty Ltd)	100	100
AUB Group Business Centre Pty Ltd (formerly Austbrokers 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 Limited	100	100
AB Phillips Group Pty Ltd (previously Aprikees Pty Ltd) and its controlled entities	56	58
– AB Phillips Pty Ltd	56	58
– Austbrokers Compensation Services Pty Ltd	56	48
– Interfin Pty Ltd	56	46
– Financial Affairs Pty Ltd	100	-
AEI Holdings Pty Ltd/AEI Insurance (Brokers) Pty Ltd	100	100
Austbrokers Financial Solutions (Syd) Pty Ltd and its controlled entities	75	75
– SPT Financial Services Pty Ltd	52	52
– Austbrokers Financial Solutions (ACT) Pty Ltd	75	75
Austbrokers C.E. McDonald Pty Ltd and its controlled entity	100	100
– Traders Voice Services Pty Ltd	100	100
Austbrokers Central Coast Pty Ltd and its controlled entity	80	80
– Austbrokers Central Coast Financial Services Pty Ltd	80	80
Austbrokers City State Pty Ltd	70	70
Austbrokers Premier Pty Ltd	90	90
Austbrokers Southern Pty Ltd	80	80
Austbrokers Canberra Pty Ltd	75	85
Australian Bus And Coach Underwriting Agency Pty Ltd	100	100

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2016

12. SHARES IN CONTROLLED ENTITIES (CONTINUED)

	Equity Interest Held	
	2016	2015
	%	%
Austbrokers AEI Transport Pty Ltd and controlled entities (deconsolidated on 1 July 2015)	50	55
– Carriers Insurance Brokers Pty Ltd	40	44
– Austbrokers AEI Pty Ltd	30	35.6
– Chegwyn Insurance Brokers Pty Ltd	30	35.6
Austbrokers Sydney Pty Ltd and its controlled entities	100	100
– Austbrokers FWR Pty Ltd	100	100
– Austbrokers Professional Services Pty Ltd	80	80
Austbrokers RWA Pty Ltd and its controlled entities	60	60
– Austbrokers RWA Financial Services Pty Ltd	30	30
– CTRL Pty Ltd	60	60
AHL Insurance Brokers Pty Ltd (sold on 29 February 2016)	-	100
AHL Insurance Brokers (Aust) Pty Ltd	100	100
Austagencies Pty Ltd and its Controlled Entities	100	100
– Sura Plant & Equipment Pty Ltd (formerly CEMAC Pty Ltd)	100	100
– Sura Film & Entertainment Pty Ltd (formerly Cinesure 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	100	100
– All-Trans Underwriting Pty Ltd	100	100
– Sura Pty Ltd (previously Celestial Underwriting Agency Pty Ltd)	100	100
– Trinity Pacific Underwriting Agency Pty Ltd	100	100
– 5 Star Underwriting Agency Pty Ltd	100	100
– Film Insurance Underwriting Agency Pty Ltd	100	100
– Lawsons Underwriting Agency Ltd	90	90
– Sura Labour Hire Pty Ltd	90	90
– Expert Strata Pty Ltd	55	-
– Sura Construction Pty Ltd	51	51
– Sura Engineering Pty Ltd	51	51
Asia Mideast Insurance and Reinsurance Pty Ltd	75	75
Citycover (Aust) Pty Ltd	75	75
Comsure Insurance Brokers Pty Ltd and controlled entity	80	80
– Comsure Financial Solutions Pty Ltd	60	60

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2016

12. SHARES IN CONTROLLED ENTITIES (CONTINUED)

	Equity Interest Held	
	2016	2015
	%	%
Forean Group Holdings Pty Ltd and its controlled entities	60	60
– Altius Group Pty Ltd	60	60
– Rehabilitation Services Pty Ltd	60	60
– Occheath Network Pty Ltd	60	60
– Psych Health Intervention Pty Ltd	60	60
– Altius Group Services Pty Ltd	60	60
– CIM Group Holdings Pty Ltd	60	-
AUB Group NZ Ltd (formerly NZ Broker Holdings Ltd)	80	80
– NZ Brokers Management Ltd	80	80
– Runacres and Associate Ltd	80	-
Austbrokers Coast to Coast Pty Ltd (formerly Power Insurance Brokers Pty Ltd)	75	75
Insurics Pty Ltd	100	100
InterRISK Australia Pty Ltd and its controlled entities	77.1	77.1
– InterRISK Queensland Pty Ltd	37	37
– Atlas Insurance Brokers Pty Ltd	27	27
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 entities	70	70
– NCFS Unit Trust	70	70
Austbrokers Terrace Insurance Brokers Pty Ltd and controlled entity	70.8	70.8
– Austbrokers Financial Solutions (SA) Pty Limited	47	47
AUB International Pty Ltd	100	-
Austbrokers employee share acquisition schemes trust	100	100

- 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.
- During the current year AUB Group Limited incorporated a new controlled entity AUB International Pty Ltd for \$1.
- During the previous year a controlled entity incorporated a new controlled entity Sura Labour Hire Pty Ltd for \$100.
- During the current period, further adjustments to contingent considerations in respect of controlled entities resulted in a reduction to the estimates previously recognised by the Consolidated Group by \$2,039,518. As the revised contingent consideration estimates were below the original estimated contingent consideration payments, a corresponding and offsetting impairment charge of \$2,039,518 was recognised against the carrying value of those associates (see note 4(vi)).
- During the current period, further adjustments to contingent considerations in respect of controlled entities resulted in increases to the estimates previously recognised by the Consolidated Group by \$3,799,302. This amount was charged against profits in the current year (see note 4(vi)).

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2016

13. PROPERTY, PLANT AND EQUIPMENT

	Consolidated			
	Property	Plant and equipment	Motor vehicles	Total
	\$'000	\$'000	\$'000	\$'000
Property, Plant and Equipment				
Year ended 30 June 2016				
Balance at the beginning of the year	730	16,690	1,401	18,821
Acquisition of controlled entities	-	1,249	849	2,098
Disposal of controlled entities	-	(214)	-	(214)
Translation movements	-	7	13	20
Additions during the year	73	4,408	550	5,031
Disposals during the year	-	(3,047)	(350)	(3,397)
Property, plant and equipment at cost	803	19,093	2,463	22,359
Depreciation				
Balance at the beginning of the year	114	11,593	607	12,314
Acquisition of controlled entities	-	684	382	1,066
Disposal of controlled entities	-	(156)	-	(156)
Disposals during the year	-	(3,005)	(198)	(3,203)
Translation movements	-	39	6	45
Depreciation during year	10	2,152	325	2,487
Accumulated depreciation	124	11,307	1,122	12,553
Summary				
Net carrying amount at beginning of year	616	5,097	794	6,507
Net carrying amount at end of year	679	7,786	1,341	9,806
Year ended 30 June 2015				
Balance at the beginning of the year	730	18,946	1,706	21,382
Acquisition of controlled entities	-	2,284	279	2,563
Disposal of controlled entities	-	(4,654)	(418)	(5,072)
Additions during the year	-	1,216	468	1,684
Disposals during the year	-	(1,102)	(634)	(1,736)
Property, plant and equipment at cost	730	16,690	1,401	18,821
Depreciation				
Balance at the beginning of the year	104	12,465	656	13,225
Acquisition of controlled entities	-	963	56	1,019
Disposal of controlled entities	-	(2,649)	(220)	(2,869)
Disposals during the year	-	(898)	(282)	(1,180)
Depreciation during year	10	1,712	397	2,119
Accumulated depreciation	114	11,593	607	12,314
Summary				
Net carrying amount at beginning of year	626	6,481	1,050	8,157
Net carrying amount at end of year	616	5,097	794	6,507

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2016

14. INTANGIBLE ASSETS AND GOODWILL

	Consolidated			
	Capitalised project costs \$'000	Goodwill \$'000	Insurance broking registers \$'000	Total \$'000
Year ended 30 June 2016				
Balance at the beginning of the year	1,011	181,251	43,725	225,987
Additional businesses and portfolios acquired	-	50,650	12,693	63,343
Impairment charge	-	(2,038)	-	(2,038)
Translation of foreign exchange rate movements	-	475	-	475
Deconsolidation of controlled entity	-	(10,572)	(3,036)	(13,608)
Total intangibles	1,011	219,766	53,382	274,159
Amortisation				
Balance at the beginning of the year	-	-	26,151	26,151
Deconsolidation of controlled entity	-	-	(2,466)	(2,466)
Amortisation current year	405	-	3,323	3,728
Accumulated amortisation	405	-	27,008	27,413
Summary				
Net carrying amount at beginning of year	1,011	181,251	17,574	199,836
Net carrying amount at end of year	606	219,766	26,374	246,746
Year ended 30 June 2015				
Balance at the beginning of the year	-	151,259	46,911	198,170
Additional businesses and portfolios acquired	-	55,972	3,553	59,525
Capitalised project costs	1,011	-	-	1,011
Impairment charge	-	(2,273)	-	(2,273)
Translation of foreign exchange rate movements	-	(448)	-	(448)
Deconsolidation of controlled entity	-	(23,259)	(6,739)	(29,998)
Total intangibles	1,011	181,251	43,725	225,987
Amortisation				
Balance at the beginning of the year	-	-	23,950	23,950
Deconsolidation of controlled entity	-	-	(1,842)	(1,842)
Amortisation current year	-	-	4,043	4,043
Accumulated amortisation	-	-	26,151	26,151
Summary				
Net carrying amount at beginning of year	-	151,259	22,961	174,220
Net carrying amount at end of year	1,011	181,251	17,574	199,836

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2016

14. INTANGIBLE ASSETS AND GOODWILL (CONTINUED)

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 balance of the Insurance broking register will be amortised over the remaining period ranging from 1 to 10 years (15 years for financial services business) depending on original acquisition date.

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

	Consolidated	
	2016	2015
(i) Goodwill	\$'000	\$'000
Interrisk Australia Pty Ltd and its controlled entity	18,995	20,352
Austbrokers Sydney Pty Ltd and its controlled entities	14,355	23,882
Forean Holdings and its controlled entities	38,349	35,962
Austagencies and its controlled entities	33,828	34,521
AUB Group NZ Limited and its controlled entities	27,134	6,659
Citycover Australia Pty Ltd	8,689	8,689
Allied Health Pty Ltd	22,693	-

	Remaining amortisation period (years)		2016	2015
	2016	2015		
(ii) Insurance Broking Registers				
AUB Group NZ Limited	9.5	-	10,674	-
Interrisk Australia Pty Ltd and its controlled entity	7.0	8.0	3,055	4,981
Austbrokers Sydney Pty Ltd and its controlled entities	8.0	9.0	1,963	2,194

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2016

15. IMPAIRMENT TESTING OF INTANGIBLE ASSETS, GOODWILL AND INVESTMENT IN ASSOCIATES

The recoverable amount of the equity accounted associates and goodwill and insurance broking registers arising on consolidation of controlled entities is determined based on the higher of the directors' estimate of fair value of the cash generating unit (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. Interdependent businesses have the following similar characteristics;

- the nature of the products and services
- the type of class of customer for their products and services
- the methods used to distribute their products or provide their services
- if applicable, the nature of the regulatory environment, for example, banking, insurance or public utilities.
- the business is integrated with other entities and the results are interdependent.

In the current year, the group has reviewed the operations of the underwriting agency and the New Zealand businesses, which led to a reassessment of the structure of the CGUs to bring them more in line with the requirements of AASB 136.

Consequently, the underwriting agency businesses and the New Zealand businesses have each been aggregated into single CGUs. These CGUs represent the lowest level within the Group at which the goodwill is monitored for internal management purposes and reflects the interdependency of cash inflows generated therein.

Insurance broking entities and risk services entities are still viewed as separate CGUs at the entity level for impairment purposes, consistent with the previous year treatment.

The measure used in assessing the directors' fair value is based on the directors' estimates of the sustainable profits, which have been tested against the current and prior year's profits as well as the following year's financial budgets approved by senior management. After determining the appropriate after tax profit for each associate/controlled entity, the after tax profit is multiplied by a profit multiple from within the range of 9.87 to 11.46 times (2015: 9.84 to 11.52 times). These profit multiples have been determined based on the cost of capital for each cash generating unit factoring in an assumed sustainable profit growth of 2.0% per annum (2015: 2.0%). The profit multiples used are reviewed against externally accessible factors and are considered by directors to be reflective of generally accepted market values.

When considered appropriate, an alternative test is applied to determine directors' estimates of fair value. This measure applies a multiple of 1.8 times to broking revenue (2015: 1.8 times) for general insurance broking businesses and 2.5 times to life insurance renewal commissions (2015: 2.5 times). These valuation bases are commonly used in the market to determine value for acquisitions of similar businesses.

Where fair value less cost of sale methodology does not support the carrying value of an asset, a secondary Value in Use methodology is used. If this 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 under this approach takes into account the weighted average cost of capital (WACC) for those entities and also looks at the expected long term growth rate of 2.0% (2015: 2.0%) with a terminal value calculation at the end of 5 years. This methodology will result in a better estimate valuation for entities where the current year profit or the following year budget may not factor in the medium and long term expected growth from this business. 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)).

In previous periods, external expert advice had been sought in relation to the determination of the appropriate weighted average cost of capital (WACC) to be used in determining the profit multiples. For this financial year, this calculation was updated internally. The WACC is based on the cost of capital calculated for each cash generating unit after taking into account market risks, a risk loading recognising the size of the business, current borrowing interest rates, factoring in the borrowing capacity of the businesses and the risk free rate. The 10 year bond rate prevailing at year end was used for the current year after factoring in a risk margin. The risk free rate (before risk margin) used in the current year is 2.41% (2015: 2.5%). The resulting fair values derived from the appropriate measure are compared to the carrying value for each cash generating unit and in the event that the carrying value exceeds the recoverable amount, an impairment loss is recognized.

Key assumptions for the value in use methodology	2016	2015
	%	%
Post tax discount rates	10.7 – 12.1	NA
Short term revenue growth rate (1-5 years)	1.0 – 5.0	NA
Long term revenues growth rate	1.5 – 2.0	NA

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2016

15. IMPAIRMENT TESTING OF INTANGIBLE ASSETS, GOODWILL AND INVESTMENT IN ASSOCIATES (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 prior year acquisitions resulted in a net reduction to the estimates previously recognised by the Consolidated Group. Where the revised contingent consideration estimates were below the original estimated contingent consideration payments, a corresponding and offsetting impairment charge of \$4,271,000 (2015:\$4,104,000) was recognised against the carrying value of those investments (see note 4(vi)).

The resulting fair value of an associate using the valuation methodology outlined above resulted in an impairment of \$NIL (2015: \$1,500,000). The previous year impairment was due to specific competitive circumstances in a niche segment of the market impacting income. The previous year impairment represented 0.4% of the Group's investment in associates and controlled entities. The previous year impairment loss was charged to the income statement (see note 4(vi)).

	Contingent consideration adjustments		Impairment charges	
	2016	2015	2016	2015
	\$'000	\$'000	\$'000	\$'000
Adjustments relating to controlled entities	(1,759)	2,473	2,040	2,273
Adjustments relating to associates	2,036	1,983	2,231	1,831
Impairment charge relating to an associate	-	-	-	1,500
Total	277	4,456	4,271	5,604

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

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2016

16. SHARE-BASED PAYMENT PLANS

Employee share option plan

The share-based payments expense recognised in the income statement 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.

	2016	2015	2016	2015
Share options	No.	No.	WAEP (\$)	WAEP (\$)
Outstanding at the beginning of the year	378,687	508,834	0.12	1.10
Granted during the period – zero priced options	319,891	43,456	0.00	0.00
Exercised during the period: options issued during 2007	-	(132,800)	0.00	4.20
Exercised during the period: options issued during 2008	(11,099)	-	4.22	0.00
Exercised during the period: options issued during 2011	-	(27,834)	0.00	0.00
Exercised during the period: options issued during 2013	(73,000)	-	0.00	0.00
Lapsed/forfeited during the period: options issued during 2010	-	(12,969)	0.00	0.00
Lapsed/forfeited during the period: options issued during 2011	(21,430)	-	0.00	0.00
Lapsed/forfeited during the period: options issued during 2012	(5,713)	-	0.00	0.00
Lapsed/forfeited during the period: options issued during 2013	(9,235)	-	0.00	0.00
Lapsed/forfeited during the period: options issued during 2014	(10,345)	-	0.00	0.00
Outstanding at the end of the year	567,756	378,687	0.00	0.12

The outstanding balance as at 30 June 2016 is represented by:

- NIL (2015: 11,099) options granted on 29 September 2008, exercisable 3 years from 29 September 2008 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 \$4.22.
- NIL (2015: 21,430) Share options were granted on 31 October 2011, exercisable 3 years from 31 October 2011 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 \$6.28.
- 26,490 (2015: 32,203) Share options were granted on 31 October 2012, exercisable 3 years from 31 October 2012 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 \$7.71.
- 160,000 (2015: 233,000) Share options were granted on 15 January 2014, exercisable 3 years from 1 January 2013 at an exercise price of \$NIL. The options were valued using the dividend yield method resulting in an option price of \$7.38.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2016

16. SHARE-BASED PAYMENT PLANS (CONTINUED)

Employee Share Option Plan (continued)

- 28,264 (2015: 37,499) Share options were granted on 30 October 2013, exercisable 3 years from 30 October 2013 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 \$11.15. The options were valued using the dividend yield method resulting in an option price of \$10.06.
- 33,111 (2015: 43,456) Share options were granted on 31 October 2014, exercisable 3 years from 31 October 2014 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 \$10.28. The options were valued using the dividend yield method resulting in an option price of \$9.09.
- 69,891 Share options were granted on 23 November 2015, exercisable 3 years from 23 November 2018 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 \$8.48. The options were valued using the dividend yield method resulting in an option price of \$7.31.
- 250,000 Share options were granted on 7 April 2016, exercisable 3 years from 1 January 2019 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 \$8.73. The options were valued using the dividend yield method resulting in an option price of \$7.91.

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

- 11,099 Share options were exercised on 16 October 2015 at an exercise price of \$NIL. The volume weighted average price for the 5 business days prior to the date the options were exercised was \$8.82.
- 25,293 Zero priced options, lapsed due to staff members resigning.
- 69,891 Share options were granted on 23 November 2015, exercisable 3 years from 23 November 2018 at an exercise price of \$NIL. The options were valued using the dividend yield method resulting in an option price of \$7.31.
- 21,430 options lapsed due to vesting conditions over the 4 years ended 30 June 2015, not being met.
- 250,000 Share options were granted on 7 April 2016, exercisable 3 years from 1 January 2019 at an exercise price of \$NIL. The options were valued using the dividend yield method resulting in an option price of \$7.91.
- 73,000 Share options were exercised on 6 April 2016 at an exercise price of \$NIL. The volume weighted average price for the 5 business days prior to the date the options were exercised was \$8.42.

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

- 43,456 Share options were granted on 31 October 2014, exercisable 3 years from 31 October 2014 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 \$9.0892. The options were valued using the dividend yield method resulting in an option price of \$9.09.
- 132,800 Share options were exercised on 12 September 2014 at an exercise price of \$4.20. The volume weighted average price for the 5 business days prior to the date the options were exercised was \$10.87.
- 12,969 options lapsed due to vesting conditions over the 4 years ended 30 June 2014, not being met.
- 27,834 Share options were exercised on 16 December 2014 at an exercise price of \$NIL. The volume weighted average price for the 5 business days prior to the date the options were exercised was \$10.08.

The fair value of the zero priced options issued before 1 January 2013 was based on the volume weighted average share price for the 5 day period prior to the options being granted. From 1 January 2013, the fair value of the zero priced options has been based on the dividend yield method 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 2016 is 5.32 years (2015: 4.59 years).

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2016

16. SHARE-BASED PAYMENT PLANS (CONTINUED)

Option Exercise conditions

These option exercise conditions apply to all options issued up to 30 June 2015 except 233,000 options issued to the Chief Executive Officer (CEO) on 15 January 2013.

- 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% percent 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 exercise conditions for 233,000 (73,000 options vested and were exercised during the current year) options granted to the CEO on 1 January 2013 are the same as set out above except that between 8.5% and 10% compound growth 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;

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2016

16. SHARE-BASED PAYMENT PLANS (CONTINUED)

Option Exercise conditions (continued)

- 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%;
 - 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");
- 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) 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 Second Test Date and the 4 Year TSR, as a percentage of the Target Group TSR, is higher than the 3 Year TSR, as a percentage of the Target Group TSR, then on the Second 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.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2016

17. TRADE AND OTHER PAYABLES

	Consolidated	
	2016	2015
	\$'000	\$'000
Current		
Trade payables	27,141	11,542
Amount payable on broking/underwriting agency operations	186,253	217,647
Contingent consideration and other payables	25,371	22,596
Other payables – related entities	745	595
Total trade and other payables (current)	239,510	252,380
Non-current		
Contingent consideration and other payables	11,334	19,280
Trade payables	118	-
Total trade and other payables (non current)	11,452	19,280

Included in trade and other payable are the following contingent consideration payables:

Balance at the beginning of the year	28,259	13,747
Contingent consideration on current year acquisitions (at net present value)	6,006	24,271
Payments made in respect of previously recognised contingent consideration	(4,330)	(4,967)
Adjustments to contingent consideration payments previously recognised	(277)	(4,456)
Reversal of prior year impairment charge (see note 11)	687	-
Foreign currency translation movements	683	(638)
Interest recognised in original contingent consideration at net present value	1,189	302
Balance at the end of the year	32,217	28,259

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2016

18. PROVISIONS

	Consolidated		
	Employee entitlements	Make good provision	Total
	\$'000	\$'000	\$'000
Year ended 30 June 2016			
Balance at the beginning of the year	11,918	872	12,790
Acquisition/disposal of controlled entity	603	-	603
Arising during the year	1,741	11	1,752
Balance at the end of the year	14,262	883	15,145
Current 2016	12,006	409	12,415
Non-current 2016	2,256	474	2,730
Total provisions	14,262	883	15,145
Year ended 30 June 2015			
Balance at the beginning of the year	11,938	764	12,702
Disposal of controlled entity	(1,259)	97	(1,162)
Arising during the year	1,239	11	1,250
Balance at the end of the year	11,918	872	12,790
Current 2015	9,793	262	10,055
Non-current 2015	2,125	610	2,735
Total provisions	11,918	872	12,790

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.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2016

19. INTEREST BEARING LOANS AND BORROWINGS

	Consolidated	
	2016	2015
	\$'000	\$'000
Current		
Secured bank loan *	2,975	7,393
Obligations under finance leases and hire purchase contracts (note 22)	1,069	772
Unsecured loan from other related parties	417	459
Total interest bearing loans and borrowings (current)	4,461	8,624
Non-current		
Secured bank loan *	83,692	56,891
Obligations under finance leases and hire purchase contracts (note 22)	493	534
Unsecured loan from other related parties	-	16
Total interest bearing loans and borrowings (non current)	84,185	57,441

* The Group has negotiated facilities through various banks as shown below. Details of those facilities are as follows;

<i>Summary of secured bank loans</i>		
<i>St George Bank</i>	<i>65,067</i>	<i>47,826</i>
<i>Macquarie Bank</i>	<i>4,871</i>	<i>440</i>
<i>Commonwealth Bank</i>	<i>1,245</i>	<i>1,136</i>
<i>National Australia Bank</i>	<i>2,677</i>	<i>2,898</i>
<i>Hunter Premium Funding</i>	<i>353</i>	<i>524</i>
<i>Westpac NZ Bank</i>	<i>12,454</i>	<i>11,460</i>
Total secured bank loans	86,667	64,284

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

On 1 December 2015, AUB Group Limited accepted terms for the refinancing and increasing of the existing St George Bank finance facilities for a further 3 years. The finance facility was increased from \$50.8 million to \$79.5 million, including \$20.118 (NZ \$21 million) advanced to a controlled entity in New Zealand.

In addition to the St George Bank facilities provided to AUB Group Limited, controlled entities within the group have also negotiated other facilities with both St George Bank and other banks as disclosed 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.

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

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

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2016

19. INTEREST BEARING LOANS AND BORROWINGS (CONTINUED)

Group borrowing facilities as at 30 June 2016										
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	16,500	37,000	37,000	-	37,000	30/11/2018	3.16	Var
	Credit cards	1,450	-	1,450	-	-	-	30/11/2018	17.45	Var
	Bank guarantee / overdraft	5,000	478	4,522	-	-	-	30/11/2018	N/A	Var
Facilities arranged by other controlled entities										
								Between 02/07/2015 &		
St George Bank	Loan facility	30,662	2,595	28,067	28,067	2,088	25,979	10/07/2020	3.51 - 6.14	Fix/Var
	Bank overdraft	70	70	-	-	-	-	13/03/2018	N/A	Var
Westpac NZ Bank	Loan facility	12,454	-	12,454	12,454	-	12,454	31/01/2018	4.24	Var
								Between 31/10/2017 &		
Finance facilities with other banks		10,669	1,526	9,143	9,146	887	8,259	20/06/2021	4.65 - 8.89	Var
Total borrowing facilities		113,805	21,169	92,636	86,667	2,975	83,692			
Group borrowing facilities as at 30 June 2015										
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	45,000	7,935	37,065	37,065	-	37,065	30/07/2016	3.68 - 5.35	Var
	Credit cards	1,000	-	1,000	-	-	-	30/07/2016	17.50	Var
	Bank guarantee / overdraft	5,000	553	4,447	-	-	-	30/07/2016	N/A	Var
Facilities arranged by other controlled entities										
								Between 02/07/2015 &		
St George Bank	Loan facility	15,482	4,721	10,761	10,761	6,594	4,167	10/07/2020	3.68 - 6.2	Fix/Var
	Bank overdraft	70	70	-	-	-	-	13/03/2018	N/A	Var
Westpac NZ Bank	Loan facility	11,460	-	11,460	11,460	-	11,460	31/01/2018	5.46	Var
								Between 31/10/2017 &		
Finance facilities with other banks		5,184	186	4,998	4,999	799	4,200	20/06/2018	4.99 - 6.6	Var
Total borrowing facilities		83,196	13,465	69,731	64,284	7,393	56,891			

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2016

20. ISSUED CAPITAL

	Consolidated	
	2016	2015
	\$'000	\$'000
Issued capital opening balance	128,890	108,339
Net proceeds from dividend reinvestment plan	12,852	20,183
On 11 September 2014 allotted 132,800 shares at an issue price of \$4.20	-	558
On 16 December 2014 allotted 27,834 shares at an issue price of \$nil	-	-
On 10 October 2015 allotted 11,099 shares at an issue price of \$nil	-	-
On 6 April 2016 allotted 73,000 shares at an issue price of \$nil	-	-
Share issue expenses	(34)	(190)
Issued capital	141,708	128,890

	Consolidated	
	2016	2015
	Shares	Shares
	No.	No.
Number of shares on issue (ordinary shares fully paid)	63,846,476	62,256,689

Movements in number of shares on issue

Beginning of the financial year	62,256,689	59,955,596
On 10 October 2015 allotted 11,099 shares at an issue price of \$NIL.	11,099	-
On 30 October 2015 1,004,770 shares were issued at \$8.629 as a result of a Dividend Reinvestment Plan.	1,004,770	-
On 29 April 2016 500,918 shares were issued at \$8.3468 as a result of a Dividend Reinvestment Plan.	500,918	-
On 6 April 2016 73,000 shares were issued at an issue price of \$NIL.	73,000	-
On 11 September 2014 allotted 132,800 shares at an issue price of \$4.20.	-	132,800
On 15 October 2014 696,147 shares were issued at \$9.8016 as a result of a Dividend Reinvestment Plan.	-	696,147
On 24 October 2014 928,220 shares were issued at \$9.8016 as a result of a Dividend Reinvestment Plan.	-	928,220
On 16 December 2014 allotted 27,834 shares at an issue price of \$NIL.	-	27,834
On 30 April 2015 516,092 shares were issued at \$8.2522 as a result of a Dividend Reinvestment Plan.	-	516,092
Total shares on issue	63,846,476	62,256,689

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2016

20. ISSUED CAPITAL (CONTINUED)

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.

Of the total shares issued up to 30 June 2016, 73,000 had restrictions whereby the shares could not be disposed of before 1 January 2018, except in the case where employee who own the shares, resigns.

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 income statement. 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.

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	
	2016	2015
	\$'000	\$'000
Interest in: Ordinary shares	–	–
Retained earnings	56,992	48,203
	56,992	48,203

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2016

22. COMMITMENTS AND CONTINGENCIES

	Consolidated	
	2016	2015
	\$'000	\$'000
Finance lease and hire purchase commitments – group as lessee		
The Group has finance leases and hire purchase contracts for various items of software and plant and machinery. 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.		
Finance lease and hire purchase commitments		
<i>Payable</i>		
– Not later than one year	1,117	799
– Later than one year and not later than five years	519	564
– Later than five years	–	–
Minimum lease and hire purchase payments	1,636	1,363
Deduct: future finance charges	74	57
Present value of minimum lease and hire purchase payments (refer note 19)	1,562	1,306
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		
<i>Payable</i>		
– Not later than one year	6,758	4,880
– Later than one year and not later than five years	18,099	4,792
– Later than five years	5,508	–
	30,365	9,672
Operating lease commitments – associates as lessee		
Operating lease commitments: non cancellable		
Operating leases contracted for but not capitalised in the financial statements		
<i>Payable</i>		
– Not later than one year	2,289	2,248
– Later than one year and not later than five years	5,945	3,609
– Later than five years	2,104	28
	10,338	5,885
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.	5,373	3,656
AUB Group Limited has guaranteed lease facilities provided to associates in proportion to its shareholding.	460	1,035
	5,833	4,691

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2016

22. COMMITMENTS AND CONTINGENCIES (CONTINUED)

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 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 3-5 years.

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 2016

23. OPERATING SEGMENTS (CONTINUED)

	30 June 2016			30 June 2015		
	Insurance Intermediary	Risk Services	Total	Insurance Intermediary	Risk Services	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue						
Interest from other persons / corporations	3,545	20	3,565	3,593	12	3,605
Other income received from customers	168,341	38,700	207,041	185,398	7,649	193,047
Total Income	171,886	38,720	210,606	188,991	7,661	196,652
Share of profit of associates						
Share of Net Profits of Associates Accounted for using the Equity Method (net of income tax expense)	24,914	1,622	26,536	22,958	610	23,568
Amortisation of Intangibles - Associates	(2,892)	(372)	(3,264)	(2,873)	-	(2,873)
Total Revenue	193,908	39,970	233,878	209,076	8,271	217,347
Less: Expenses						
Amortisation of Intangibles - controlled entities	3,323	-	3,323	4,043	-	4,043
Amortisation of capitalised Project Costs	405	-	405	-	-	-
Depreciation of property plant and equipment	2,119	413	2,532	2,043	76	2,119
Other expenses	141,868	29,936	171,804	151,462	5,616	157,078
Borrowing costs	5,373	16	5,389	4,310	-	4,310
Total expenses including borrowing costs	153,088	30,365	183,453	161,858	5,692	167,550
Profit before income tax	40,820	9,605	50,425	47,218	2,579	49,797
Less: Income tax expense	(9,525)	(2,602)	(12,127)	(10,315)	(594)	(10,909)
Profit after income tax	31,295	7,003	38,298	36,903	1,985	38,888
Less: Non-controlling interest	(4,485)	(2,300)	(6,785)	(7,420)	(550)	(7,970)
Profit after income tax and non-controlling interests	26,810	4,703	31,513	29,483	1,435	30,918
Other Adjustments to carrying value of associates, contingent consideration payments and profit on sale (see note 4(vi),(vii))			10,489			3,969
Profit after non controlling interests attributable to shareholders of the parent			42,002			34,887
Other comprehensive income attributable to members of AUB Group Limited			427			(179)
Profit after non controlling interests and other comprehensive income			42,429			34,708

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

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2016

23. OPERATING SEGMENTS (CONTINUED)

	Consolidated	
	2016	2015
	\$'000	\$'000
Geographic information		
Revenue		
Revenue - Australia	224,179	215,260
Revenue - New Zealand	9,699	2,087
Total Revenue	233,878	217,347
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	333,884	324,173
Non-current assets - New Zealand	62,300	29,620
Total non-current assets	396,184	353,793

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. SUBSEQUENT EVENTS

On 25 August 2016 the Directors of AUB Group Limited declared a final dividend on ordinary shares in respect of the 2016 financial year. The total amount of the dividend is \$17,877,013 which represents a fully franked dividend of 28.0 cents per share. The dividend has not been provided for in the 30 June 2016 financial statements.

25. AUDITORS REMUNERATION

	Consolidated	
	2016	2015
	\$	\$
Amounts received or due to Ernst & Young (Australia) for:		
Audit of the financial statements	987,807	952,575
Other – including taxation services	44,369	112,155
Total	1,032,176	1,064,730
Amounts received or due to other audit firms for:		
Audit of the financial statements	350,735	418,363
Other assurance related services	10,080	14,820
Other – taxation services	94,704	87,173
Total	455,519	520,356
Total auditors' remuneration	1,487,695	1,585,086

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2016

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 \$11,098,753 (2015: \$10,136,090) 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.

(ii) *Transactions with related parties in controlled entities and associates.*

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 \$2,686,093 (2015: \$3,076,233) and note 17 for payables to related parties \$744,610 (2015: \$594,477).

Entities within the wholly owned group have advanced funds to other related entities.

	2016	2015
	\$	\$
John Edward Hallman	-	5,492
Austbrokers Aviation Pty Ltd	10,704	-
Austbrokers Hiller Marine Pty Ltd	53,035	-
R G Financial Services	32,191	-
A & I Member Services Pty Ltd	9,877	10,081
Geebeejay Pty Ltd	7,800	15,550
Mishjola Pty Ltd	-	50,000
Tapmaa Pty Ltd	-	50,000
Longitude Insurance Pty Ltd	1,318,623	1,436,032
Sura Travel Pty Ltd (formerly Sura Accident and Health Pty Ltd)	816,950	750,569
Tasman Underwriting Pty Ltd	24,487	8,863
Austbrokers AEI Transport Pty Ltd	30,078	-
Austbrokers AEI Pty Ltd	2,385	-
Aust Re Brokers Pty Ltd	8,498	12,142
Newsurety Pty Ltd	39,406	23,309
Australian Insurance Broking Services Pty Ltd	-	15,750
Damian Price	12,671	11,867
HQ Insurance Pty Ltd	-	6,720
Sura Professional Risk Pty Ltd	78,203	450,809
Gard Insurance Pty Ltd	78,257	921
Austbrokers Financial Solution RG Pty Ltd	-	20,000
Venrick Pty Ltd	70,000	70,000
Blumberg Pty Ltd	31,157	13,628
Brokerweb Risk Services Ltd	13,771	-
Tezzared Pty Ltd	-	30,000
Tibec Pty Ltd	48,000	94,500
	2,686,093	3,076,233

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2016

26. RELATED PARTY DISCLOSURES (CONTINUED)

(ii) Transactions with related parties in parent, controlled entities and associates (continued)

Other payables – related entities	2016 \$	2015 \$
James Wiechman Pty Ltd ATF Wiechman Family Trust	227,719	159,444
Peter Curtis Pty Ltd ATF Curtis Family Trust	121,547	75,815
Areten Pty Ltd	44,817	53,725
Tim Parry	2,181	697
Budin Financial Services Pty Ltd	90,220	115,220
Integral Insurance Solutions Pty Ltd	-	24,644
Judd O'Shea	19,644	-
Rhys Bastian	101,731	-
Corunnaa Investments Pty Ltd	10,364	-
SPFS Enterprises Pty Ltd ATF Salisbury Family Trust	126,387	164,932
	744,610	594,477

(iii) 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 \$54,277 (2015: \$17,765). The interest charged is on normal commercial terms and conditions.

Further loans have been advanced to members of the economic entity of \$2,315,000 (2015: \$84,000). Members of the economic entity have repaid loans issued by AUB Group Services Pty Ltd totalling \$1,815,000 (2015: \$213,000) during the year. The balance outstanding at 30 June 2016 was \$629,000 (2015: \$128,000).

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

A party related to M. P. L. Searles provides services to an associate on normal commercial terms and conditions.

(iv) 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 note 26 (c), there were no other transactions with director or directors' related entities.

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

b) Details of Key Management Personnel

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

D. C. Clarke (appointed Chairman from 26 November 2015)	Chairman (non-executive)
R. J. Carless	Director (non-executive)
P. A. Lahiff (appointed 1 October 2015)	Director (non-executive)
R. A. Longes (retired 26 November 2015)	Chairman (non-executive)
R. J. Low	Director (non-executive)

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2016

26. RELATED PARTY DISCLOSURES (CONTINUED)

b) Details of Key Management Personnel (continued)

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	Managing Director and Chief Executive Officer
S. S. Rouvray (ceased 1 July 2015)	Chief Financial Officer and Company Secretary
J. S. Blackledge (appointed 1 July 2015)	Chief Financial Officer
F. Gualtieri (ceased 1 July 2015)	National Manager - Group Services and Support
F. Pasquini	Chief Distribution Officer
S. Vohra	Chief Operating Officer
K. R. Mclvor	Head of Group Development
T. M. Stevens (ceased 20 May 2016)	Chief Information Officer
N. F. Thomas	General Manager – Broker Network Development

a) There are no loans outstanding owing by Key Management Personnel at 30 June 2016 (2015: NIL).

b) Compensation of Key Management Personnel by Category

	Consolidated	
	2016	2015
	\$	\$
Short-term	2,790,547	3,457,617
Post employment	234,481	326,696
Other long-term	-	-
Termination benefits	-	-
Share-based payment	213,694	243,409
	3,238,722	4,027,722

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2016

27. PARENT ENTITY INFORMATION

	2016	2015
	\$'000	\$'000
Assets		
Cash and cash equivalents	19,441	10,134
Current assets	56,246	79,187
Non-current assets	167,474	146,018
Total assets	243,161	235,339
Liabilities		
Current liabilities	17,635	9,238
Non-current liabilities	4,583	11,186
Interest bearing loans and borrowings	37,000	37,065
Total liabilities	59,218	57,489
Net assets	183,943	177,850
Equity		
Issued capital	141,708	128,890
Share based payments	5,384	5,707
Retained earnings	36,851	43,253
Total shareholders equity	183,943	177,850
Profit for the year before income tax	18,433	35,532
Income tax (credit)	(796)	(519)
Net profit after tax for the period	19,229	36,051
Other comprehensive (expense)/income after income tax for the period	-	-
Total comprehensive income after tax for the period	19,229	36,051
Other information		
Guarantees entered into by the parent entity in relation to the debts of its controlled entities or associates		
Austbrokers Holdings Ltd has guaranteed loan facilities provided to associates in proportion to its shareholding.	10,477	7,118
Austbrokers Holdings Ltd has guaranteed lease facilities provided to associates in proportion to its shareholding.	460	1,035
	10,937	8,153

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.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2016

27. PARENT ENTITY INFORMATION (CONTINUED)

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 3-5 years.

28. FINANCIAL INSTRUMENTS

Financial risk management objectives and policies

The Group's principal financial instruments comprise receivables, mortgages, 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 and 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, mortgages, trade and other receivables. Although there is a concentration of cash and cash equivalents held with a major bank, 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 arrangements 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.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2016

28. FINANCIAL INSTRUMENTS (CONTINUED)

a) Credit Risk (continued)

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	
	2016	2015
	\$'000	\$'000
Assets and liabilities relating to Insurance Broking Account.		
Amounts due from customers on broking/underwriting agency operations.	126,788	139,946
Cash held on trust	87,513	105,498
Amounts payable on broking/underwriting agency operations.	(186,253)	(217,647)
Undrawn income	(28,048)	(27,797)
Net receivables included in Insurance Broking Account	–	–

Financial assets

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. There is no significant concentration of risks within the Group as cash and cash equivalents are invested amongst a number of financial institutions to minimise the risk of defaults by counterparties.

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 2016, all financial assets were neither past due nor impaired.

	Consolidated	
	2016	2015
	\$'000	\$'000
Financial assets		
Cash and cash equivalents	70,933	50,511
Trade and other receivables	30,124	22,174
Amounts due from clients in respect of premium funding activities	6,366	–
Related party receivables	2,686	3,076
Mortgages – other	629	128
Other receivables	81	94
	110,819	75,983

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

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2016

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 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 2016 with comparatives based on conditions existing at 30 June 2015.

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

	Consolidated	
	2016	2015
	\$'000	\$'000
Financial assets		
Due not later than six months	318,215	321,136
Six months to not later than one year	6,702	75
Later than one year and not later than five years	203	215
Later than five years	-	-
	325,120	321,426
Financial liabilities		
Due not later than 12 months	(243,971)	(261,004)
Later than one year and not later than five years	(95,637)	(76,721)
Later than five years	-	-
	(339,608)	(337,725)

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.

The risk implied from the values shown in the table, 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.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2016

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.

	Carrying value		Fair value	
	2016	2015	2016	2015
	\$'000	\$'000	\$'000	\$'000
Financial assets				
Cash and cash equivalents	158,446	156,009	158,446	156,009
Trade and other receivables	156,912	162,119	156,912	162,119
Amounts due from clients in respect of premium funding operations	6,366	-	6,366	-
Related party receivables	2,686	3,076	2,686	3,076
Mortgages – related entities	629	128	629	128
Mortgages – other	41	22	41	22
Loan with associated entities	40	72	40	72
Total financial assets	325,120	321,426	325,120	321,426
Financial liabilities				
Loans and other borrowings	(88,646)	(66,065)	(88,641)	(66,130)
Trade and other payables and accruals	(250,962)	(271,660)	(250,962)	(271,660)
Total financial liabilities	(339,608)	(337,725)	(339,603)	(337,790)

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.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2016

28. FINANCIAL INSTRUMENTS (CONTINUED)

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

The value of the deferred consideration payments outstanding at 30 June 2016 was \$32.2 million (2015: \$28.3 million)

Of the \$32.2 million, a total of \$20.9 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 2016. The balance of \$11.3 million is due to be due to be paid over the next 15 to 24 months and is shown in the accounts as a non current liability. (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 2017 operating profit declines by 10% compared to the current forecast, a reduction of \$3.4 million in the deferred consideration would result.
- If the full year 2017 operating profit increases by 10% compared to the current forecast, an increase of \$3.2 million 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 2016, 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, 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. Mortgage 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.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2016

28. FINANCIAL INSTRUMENTS (CONTINUED)

d) Market Risk (continued)

Interest rate risk (continued)

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	
	2016	2015
	\$'000	\$'000
Financial assets		
Cash and cash equivalents (including trust account balance)	158,446	156,009
Mortgages – related entities	629	128
Mortgages – other	41	22
Total financial assets	159,116	156,159
Financial liabilities		
Loans and other borrowings	(88,279)	(65,054)
Net exposure to interest rate movements	70,837	91,105

Borrowings fixed for a period greater than 12 months have been excluded from the table above.

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 \$86.7 million (2015:\$66.1 million), \$367,000 (2015: \$1.1 million) has been fixed for periods greater than 12 months at approximately 6.1% (2015: 6.1%). 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)	
	2016	2015	2016	2015
	\$'000	\$'000	\$'000	\$'000
Judgements of reasonably possible movements.				
Consolidated				
+0.5% (50 Basis points) (2015 +0.50% (50 Basis points))	349	319	–	–
-0.5% (50 Basis points) (2015 -0.50% (50 Basis points))	(349)	(319)	–	–

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.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2016

28. FINANCIAL INSTRUMENTS (CONTINUED)

d) Market Risk (continued)

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 2016, an impairment charge totalling \$4,271,000 (2015: \$5,604,000) relating to the carrying value of controlled entities and associates was recognised and was shown as an expense in the income statement. The impairment charge was offset against a reduction in contingent consideration payments in respect of controlled entities and associates plus further current year adjustments resulting in a net movement of \$277,000 (2015: \$4,456,000) that was in excess of the expected settlement amounts and were credited to the income statement.

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 (other comprehensive income) and equity would have been affected as follows:

	Post tax profits Higher/(lower)		Impacts directly to equity Higher/(lower)	
	2016	2015	2016	2015
Judgements of reasonably possible movements.	\$'000	\$'000	\$'000	\$'000
Consolidated				
-NZ \$0.10 (ten cents) (2015 -NZ \$0.10 (ten cents)	1,397	320	–	–
+NZ \$0.10 (ten cents) (2015 +NZ \$0.10 (ten cents)	(1,397)	(320)	–	–

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2016

28. FINANCIAL INSTRUMENTS (CONTINUED)

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 2016, the Group's strategy was to maintain a gearing ratio of not greater than 30% which was unchanged from 2015.

	Consolidated	
	2016	2015
	\$'000	\$'000
The gearing ratios at 30 June were as follows;		
Debt to equity ratio		
Interest bearing loans and borrowings (see note 19)	88,646	66,065
Total equity	351,235	311,326
Total equity and borrowings	439,881	377,391
Debt/Equity plus Borrowings Ratio	20.2%	17.5%

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 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 3-5 years.

At balance date no liability has arisen in relation to these indemnities.

DIRECTORS DECLARATION

YEAR ENDED 30 JUNE 2016

In the opinion of the directors:

- i. the financial statements and notes of the consolidated entity are in accordance with the Corporations Act 2001, including:
 1. giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date;
 2. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;
- ii. the financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 2.2;
- iii. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- iv. 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 2016.

On behalf of the Board



D.C. Clarke
Chairman

Sydney, 25 August 2016



M. P. L. Searles
Chief Executive
Officer and Managing
Director

Sydney, 25 August 2016



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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF AUB GROUP LIMITED

Report on the financial report

We have audited the accompanying financial report of AUB Group Limited, which comprises the consolidated statement of financial position as at 30 June 2016, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility 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 controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2.2, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report 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 entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

Opinion

In our opinion:

- (a) the financial report of AUB Group Limited is 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 2016 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2.2.

Report on the remuneration report

We have audited the Remuneration Report included in pages 15 to 26 of the directors' report for the year ended 30 June 2016. 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.

Opinion

In our opinion, the Remuneration Report of AUB Group Limited for the year ended 30 June 2016, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

David Jewell
Partner
Sydney, 25 August 2016

ASX ADDITIONAL INFORMATION

YEAR ENDED 30 JUNE 2016

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 19 August 2016.

(a) Distribution of equity securities

Ordinary share capital

- 63,846,476 fully paid ordinary shares are held by 1,853 individual shareholders. All issued ordinary shares carry one vote per share and carry the rights to dividends.

84,099 ordinary shares issued on exercise of options under the Senior Executive Option Plan are held in escrow in accordance with the Plan.

Options

- 567,756 options are held by 11 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	714	-
1,001 – 5,000	770	-
5,001 – 10,000	207	3
10,001 – 100,000	142	7
100,001 and over	20	1
	1,853	11
Holding less than a marketable parcel	106	-

ASX ADDITIONAL INFORMATION

YEAR ENDED 30 JUNE 2016

(b) Substantial shareholders

Ordinary shareholders	Date of Notice	Number	Fully paid
			Percentage
QBE Insurance Group Limited	20/12/11	8,902,942	13.90
Challenger Limited	31/07/15	7,205,209	11.28
Bennelong Funds Management Group Pty Ltd	17/03/15	4,351,246	6.80
MFS Investment Management	09/06/16	4,321,380	6.80
Greencape Capital Pty Ltd	31/07/15	4,110,118	6.40
FMR LLC	19/04/16	3,533,988	5.50
BT Investment Management Ltd	06/05/16	3,290,658	5.20
Allianz Australia Insurance	27/08/07	3,324,279	5.20

(c) Twenty largest holders of quoted equity securities

Ordinary shareholders	Number	Fully paid
		Percentage
J P Morgan Nominees Australia Limited	17,395,039	27.25
Citicorp Nominees Pty Limited	14,759,548	23.12
HSBC Custody Nominees (Australia) Ltd	10,025,447	15.70
National Nominees Limited	6,097,497	9.55
BNP Paribas Nominees Pty Ltd	1,614,685	2.53
RBC Investor Services Australia Pty Ltd	1,152,709	1.81
Milton Corporation Limited	1,044,795	1.64
Masfen Securities Limited	747,096	1.17
HSBC Custody Nominees(Australia) Limited	632,021	0.99
Mirrabooka Investments Limited	557,907	0.87
BNP Paribas Noms (NZ) Ltd	374,015	0.57
Djerriwarrh Investments Limited	365,003	0.57
The Trust Company Superannuation Limited	361,500	0.57
RBC Investor Services Australia Nominees Pty Ltd	303,055	0.47
Mrs Gaeleen Enid Rouvray	236,723	0.37
Markey Investments Pty Ltd	148,709	0.23
SIB Holdings Pty Ltd	127,441	0.20
Gemnet Pty Ltd	126,404	0.20
Mr Stephen Spence Rouvray	125,359	0.20
Bond Street Custodians Limited	119,951	0.19

DIVIDEND DETAILS

Dividend Details

Dividend	Amount	Franking	Ex Date	Record Date	Payment Date
Interim*	12c	Fully Franked	08/04/16	11/04/16	29/04/16
Final**	28c	Fully Franked	07/10/16	10/10/16	31/10/16

* The Dividend Reinvestment Plan issue price for the interim dividend was \$8.4638 based on a discount of 2.5%

**The Dividend Reinvestment Plan was suspended from 25/08/16

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 8-27.

Directors

R. A. Longes (retired 26 November 2015)
M. P. L. Searles (Chief Executive Officer)
R. J. Carless
D. C. Clarke (Chairman)
R. J. Low
P. A. Lahiff (appointed 1 October 2015)

Company Secretary (appointed 30 November 2015)

J. L. Coss

Annual General Meeting

The Annual General Meeting of AUB Group Limited will be held at the Intercontinental Hotel, 117 Macquarie Street, Sydney, NSW 2000 on Thursday 24th of November 2016 at 10.00am

Registered Office and Principal Place of Business

Level 10, 88 Phillip Street
Sydney, NSW 2000
Phone: +61 2 9935 2222

Share Register

Link Market Services Limited
Level 12
680 George Street
Sydney, NSW 2000
Phone: 1300 554 474
(Outside Australia + 61 2 8280 7100)

AUB Group Limited shares are listed on the Australian Securities Exchange (ASX)

Auditors

Ernst & Young
200 George Street
Sydney, NSW 2000

