



25th February 2016

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

Dear Sir / Madam,

Re: Market Announcement on Results for the Half Year Ended 31st December 2015

Attached for immediate release is AUB Group Limited (AUB) Market Announcement in relation to the results for the Half Year ended 31st December 2015.

Yours faithfully,

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

J. Coss
Company Secretary

For further information, contact Justin Coss

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ASX release

25th February 2016

AUB Group 1HY16 Results

Summary:

- 72% increase in Reported consolidated Net Profit After Tax for 1HY16 to \$23.8m (1HY15: \$13.9m)¹, benefiting from the \$6.2m after tax profit on the sale of an associate.
- 3.5% increase in Adjusted NPAT² to \$12.9m (1HY15 \$12.4m).
- Fully franked interim dividend maintained at 12 cents per share.
- AUB expects FY16 Adjusted NPAT growth to be in the range of 0% – 5%³.

AUB Group Limited (ASX: AUB) announced a consolidated Net Profit After Tax (Reported NPAT) of \$23.8m up 72% on the prior year. This includes the profit on the sale of AUB Group Limited's (AUB Group) entire investment in Strathearn Insurance Group Pty Ltd (Strathearn) announced in December 2015, of \$6.2m after tax, crystallising strong investment returns to shareholders.

Adjusted NPAT², which reflects the underlying operating profit of the AUB Group, was \$12.9m in 1HY16 (1HY15: \$12.4m), an increase of 3.5%, which is pleasing in the context of a continued challenging insurance market.

This result demonstrates the strength of the AUB Group's disciplined approach to its' business model, operating model and strategy. Strong contributions have been made from the expansion in Risk Services and New Zealand, more than offsetting the impact of the reducing insurance premium rates in the insurance broking and underwriting agencies sectors. Importantly key underlying business drivers evidenced positive growth including client numbers; insurance and premium funding, policy count and life income.

On a Reported NPAT basis, earnings per share increased to 38 cents per share, an increase of 67% over the prior half year, with a ten cents per share contribution from the sale of Strathearn. On an underlying basis, earnings per share increased by 0.4% (based on Adjusted NPAT).

The interim dividend has been maintained at 12 cents per share and is payable on 29th April 2016.

As foreshadowed at our AGM, we continue to focus on the execution of our client-centric Total Risk Solutions strategy, aimed at enhancing the client value proposition and diversifying income generation, through our core 'owner-driver' business model. As our products and services mix and systems capability continue to expand, this will underpin growth across our business divisions building value for our partners and for our clients across Australia and New Zealand.

¹All comparisons are 1HY16 compared to the prior comparable period (pcp) 1HY15 unless otherwise stated.

²Adjusted NPAT excludes adjustments to carrying values of associates and controlled entities, after tax profits and losses on sale and deconsolidation of controlled entities, contingent consideration adjustments, impairment charge and amortisation of intangibles.

³The achievement of targets is subject to prevailing economic conditions.

The AUB Group continued acquisition activity aligned to the strategies of each market segment, and enhanced its portfolio through the divestment of Strathearn and the re-investment of proceeds into higher returning and less volatile investments. Financial year to date the AUB Group committed \$61.0m of acquisition spend (1HY15 \$45m), or \$29.2m net of proceeds from disposals.

AUB Group updated its funding facility, increasing the facility limit to \$79.45m on improved terms, and extending the tenure to 30th November 2018.

INSURANCE BROKING – AUSTRALIA AND NEW ZEALAND

Insurance Broking consists of 47 equity related broking businesses operating across Australia and New Zealand and our involvement in the management of cluster groups both in New Zealand and Australia, with a strategy to continue to evolve the value to clients by advising on their total risk needs and expanding our presence in both markets through organic strategies and acquisitions.

Insurance Broking continued to demonstrate resilience, with the profit contribution to AUB Group from broking down 1.8% in a challenging market, as average policy premiums which underpin broker income continue to decline.

In Australia, while average premium rates per policy reduced in the half (down 6% vs 10% pcp⁴) and interest rates declined, brokers have maintained income by increasing client numbers (up 1% over pcp), increasing penetration of premium funding and expanding in life insurance. In addition expense growth was held to 0.6% (before non controlling interests), despite brokers serving more clients. Our broking partners continued to grow through bolt-on acquisitions, with five transactions completed in the half. Excluding the impacts of acquisitions and divestment activity, broker margins were stable compared to the prior half.

Effective from 1st July 2015, the AUB Group acquired 49% of a small specialist Australian broker, KJ Risk.

Insurance broking in New Zealand contributed \$0.6m in the half to AUB Group profit (loss of \$0.5m in 1HY15, impacted by initial acquisition costs) and benefiting from the merger of the two largest cluster groups in New Zealand to create the third largest broking entity by premium in the New Zealand market – NZbrokers.

In December, the AUB Group announced the acquisition of Runacres & Associates (Runacres) a New Zealand Insurance Broker of the year, from IAG New Zealand Limited, through the 80% owned AUB Group NZ which will contribute to second half earnings. In addition, the AUB Group announced its divestment of its ownership in Strathearn, in a move that enabled re-investment of proceeds into the higher returning and less volatile investment in Runacres, and realised an after tax profit of \$6.2m. The impact of these two offsetting transactions will improve broking returns in the longer term, however will not materially impact Adjusted NPAT in FY16, due to acquisition and divestment costs incurred in the period.

UNDERWRITING AGENCIES - SURA

Our SURA division is comprised of a number of specialist product underwriting agencies, with market leading positions in each niche, generating an annualised gross written premium now over \$300m.

Our strategy is based around sustainable and profitable growth, evidenced by a strong increase in profit commissions paid by our insurer partners.

We continued to seed fund and develop new specialist agencies which will generate new revenues in future financial years albeit at an expense cost in FY16.

The contribution from Underwriting Agencies to AUB Group's net profit was down by 5.2% in 1HY16 compared to the prior comparable period. Overall income growth (before non controlling interests) was 7.7% up on the prior comparable period, with a 5.0% increase in commission and fee income as a result of policy count growth offset in part by insurance

⁴Prior comparable period.

market pricing competition with average premium rates down across the portfolio, together with a strong contribution from profit commissions (up 57.7%) underpinned by profitable underwriting performance. Expenses (before non controlling interests) grew by 13.2% over 1HY15 from planned investment in developing the infrastructure and management of SURA, upfront costs incurred in developing new agency niches, and a number of one-off expenses in the re-branding of the business.

RISK SERVICES

The Risk Services division was established in 2014, in support of the AUB Group's strategy to provide total risk solutions to clients. Services offered by the division are highly complementary to those provided by our existing operating businesses and provide solutions to clients, insurers and brokers in the areas of claims management, rehabilitation services, investigations, staff training and risk surveys, amongst others. We continue to see good take up of these services by our partners.

Risk Services contributed \$3.2m to AUB Group profit over the half year to 31st December 2015 (\$0.6m 1HY15). This result reflects six month contributions from interests in Altius Group Pty Ltd (acquired 1st February 2015) and Allied Health Australia Pty Ltd (acquired 1st July 2015), which were not represented in the prior comparable period. These businesses continue to experience strong double digit organic revenue growth on a like for like basis, driven by expanding insurer relationships, broadening geographic footprint and continued quality return to work outcomes.

GROUP & OTHER COSTS AND INCOME

AUB Group costs include corporate (or holding company) costs and costs in providing services to the network, where they are not recovered. Throughout the period, we continued to invest in our AUB Group service provision to assist the efficiency, effectiveness and growth of our partner businesses and in investing in our people capability with the introduction of HR, Legal Counsel, Mergers & Acquisition functions.

AUB Group costs increased 13.9% over 1HY15, due to provisions for short term incentives that were not included in the prior period. Before these provisions, costs decreased 1.5% half on prior half, demonstrating tight cost control.

Acquisition and divestment costs totaled \$0.4M for the half (\$0.1m in pcp). Interest costs were stable at \$0.9m (\$0.9m in pcp) with lower interest rates on the termination of some fixed rate facilities on slightly higher debt levels. The cost of interest unwind on deferred consideration increased to \$0.6m (\$0.2m in pcp) as a result of increased earnouts on recent acquisitions. Other income was stable at \$0.9m.

DIVIDEND AND DIVIDEND REINVESTMENT PLAN

On 25th February 2016 the Directors declared a fully franked interim dividend of 12 cents per share. This dividend is payable on 29th April 2016 to shareholders on the record date of 11th April 2016. Based on issued shares of 63,272,558 shares, this dividend will total \$7,592,707.

The dividend will be eligible for re-investment under the AUB Group's Dividend Reinvestment Plan (DRP). For shareholders to be eligible for the DRP in relation to the interim dividend for 1HY16 elections will need to be received by the share registry by 5pm on 12th April 2016.

If a shareholder has previously submitted an election to participate in the DRP, those instructions will apply to the forthcoming interim dividend and all future dividends. If a shareholder wishes to vary its participation status, a notice of variation must be received by the share registry by 5pm on 12th April 2016 in order to be effective for the forthcoming interim dividend.

The price for AUB Group' shares allocated under the DRP will be the "price" determined under the DRP rules (being the daily volume weighted average market price of all ordinary shares sold in the ordinary course of trading on the ASX during the 5 day trading period starting on the second business day following the record date of the dividend) less any applicable discount determined by the AUB Group's Board. For the forthcoming interim dividend for 1HY16, ordinary

shares will be issued at a 2.5% discount to the relevant “price”. AUB Group may determine a different discount for subsequent dividends.

AUB Group does not propose to underwrite any DRP shortfall.

The DRP will be open to shareholders whose registered address is in Australia or New Zealand at the relevant record date.

OUTLOOK

The commercial lines insurance market outlook remains challenging, and while we had expected premium rates to stabilise over the current financial year, the last six months have seen a continued deterioration in premium rates, albeit at lower single digit declines. In addition, competition in segments of Underwriting Agencies has impacted agency income in some portfolios. In Australia and New Zealand, premium growth is unlikely before late FY16 although the activities undertaken to offset the impact on commission income are forecast to continue.

We continue to build on the strength of our business strategy, our core ‘owner-driver’ business model and to optimise our AUB Group operating model to be the leading Insurance Broking, Specialist Underwriting and Risk Services Group. As our products and services mix continues to expand, this will enable growth across our business divisions building value for our partners and for our clients in Australia and New Zealand.

Over the remainder of FY16, the AUB Group expects continued organic growth supplemented by executing relevant acquisitions and start up investment opportunities across our divisions and locations. We will continue to invest appropriately to ensure the continued development of our value proposition ensuring we are highly relevant and attractive to partners, staff and clients.

Given the current economic and premium rate environment, which remains below where we had anticipated, we expect growth in Adjusted NPAT for FY16 of 0% - 5% over FY15 but this could be affected positively or negatively by future economic conditions and the premium rate environment.

AUB GROUP FY15 PRESENTATION OF FINANCIAL RESULTS

A number of the businesses are associates and are not consolidated in the financial statements. In order to give a more comprehensive view of performance, the following table aggregates 100% of these businesses' revenues and expenses with those of the consolidated brokers and corporate income and expenses before deducting outside shareholder interests. This provides a view as to the growth in the network without potential distortion from shareholding changes that may move entities from consolidated to associates or vice versa.

The following analysis is presented on an Adjusted NPAT basis. A reconciliation of Reported NPAT to Adjusted NPAT is shown in Table 3.

Table 1 Management Presentation of Results

	1HY16 \$' 000	1HY15 \$' 000	Variance %	Contribution to after tax profit increase %
Insurance broking revenue	148,212	149,240	(0.7)	
Insurance broking expenses	(112,951)	(112,256)	0.6	
Net profit – Australia	35,261	36,984	(4.7)	
Net profit – New Zealand	1,020	(565)	N/a	
Profit attributable to other equity interests	(16,710)	(16,489)	1.3	
AUB Group net profit from insurance broking	19,571	19,930	(1.8)	(2.0)
Underwriting agencies net income	24,116	22,393	7.7	
Underwriting agencies expenses	(19,366)	(17,109)	13.2	
Net profit	4,750	5,284	(10.1)	
Profit attributable to other equity interests	(1,160)	(1,497)	(22.5)	
AUB Group net profit from underwriting agencies	3,590	3,787	(5.2)	(1.1)
Risk Services net profit	5,595	1,161	381.9	
Profit attributable to other equity interests	(2,407)	(580)	315	
AUB Group net profit risk services	3,188	581	448.7	14.7
Net profit before corporate income / expenses	26,349	24,298	8.4	11.5
Group costs ⁵	(7,165)	(6,293)	13.9	(4.9)
Acquisition expenses	(381)	(128)	197.7	(1.4)
Corporate finance costs	(1,547)	(1,136)	36.2	(2.3)
Corporate income ⁵	876	945	(7.3)	(0.4)
Net corporate expenses	(8,217)	(6,612)	24.3	(9.0)
Net profit before tax	18,132	17,686	2.5	2.5
Income tax expense	(5,247)	(5,239)	0.2	1.0
Adjusted NPAT	12,885	12,447	3.5	3.5%

⁵Network management fee recoveries have been offset against the relevant costs they offset, rather than included in income. Prior half year results have been restated on a consistent basis.

Table 2 Financial Results – Reported NPAT

	1HY16	1HY15	Increase /
	\$' 000	\$' 000	(Decrease)
Revenue from ordinary activities ^{1 2}	105,938	97,691	8.4%
Expenses from ordinary activities ²	(89,623)	(81,599)	9.8%
	16,315	16,092	1.4%
Net Profit before tax on sale of interests in associates portfolios and controlled entities	9,122	-	
Adjustment to the carrying value of associates and contingent consideration adjustments (before income tax)	6,313	3,525	79.1%
Profit before tax	31,750	19,617	61.8%
Income tax expense	(5,187)	(2,956)	75.5%
Net profit	26,563	16,661	59.4%
Profit attributable to non controlling interests	(2,775)	(2,808)	(1.2)%
Net Profit attributable to members	23,788	13,853	71.7%

Notes

1. Revenue from ordinary activities includes the AUB Group's share of net profit after tax from associates which are companies and the AUB Group's share of net profits before tax from associates which are unit trusts.
2. During the period, one former controlled entity became an associate and as a result their revenue and expenses are no longer included in those line items and their share of after tax profits are included in revenue.

Reconciliation of Reported and Adjusted NPAT

Profits on sale of equity interests and fair value adjustments to carrying value of associates at the date at which they became subsidiaries or associates occur from time to time as a result of the Company's owner driver strategy and the need to introduce new shareholders to businesses within the AUB Group and to facilitate succession. In addition the AUB 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 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.

These profits (or losses), are not part of the regular trading activities and can distort the underlying performance of the business. Furthermore, amortisation of intangibles is a non cash expense and can vary due to the level of acquisitions and as existing intangibles are fully amortised.

These items have been eliminated to provide a clear representation of the underlying trading performance. This measure is referred to as the Adjusted NPAT. Reconciliation of reported Net Profit after Tax attributable to equity holders to Adjusted NPAT is set out below:

Table 3 Reconciliation of Adjusted NPAT to Reported NPAT*

	1HY16	1HY15	Increase
	\$' 000	\$' 000	
Net Profit after tax attributable to equity holders of the parent	23,788	13,853	71.7%
Reconciling items net of tax and non controlling interest adjustments for:			
Reduction in contingent consideration for acquisitions of controlled entities and associates	(1,691)		N/A
Add back offsetting impairment charge to the carrying value of associates & goodwill, related to above	1,691		N/A
Net adjustment	-	-	N/A
Profit on sale of interest in associates (after tax)	(6,318)	-	N/A
Adjustment to carrying value of controlled entity (to fair value) on the date it was deconsolidated and became an associate (after tax)	(6,504)	-	N/A
Adjustment to carrying value of associates (to fair value) on date they became controlled (after tax)	-	(3,525)	N/A
Net Profit from operations	10,966	10,328	6.2%
Add back amortisation of intangibles net of tax	1,919	2,119	(9.4%)
Adjusted NPAT	12,885	12,447	3.5%

* The financial information in this table has been derived from the audited consolidated financial statements. The Adjusted NPAT is non-IFRS financial information and as such, has not been audited in accordance with Australian Accounting Standards. Further notes to this table are included in the Results of Operations section of the Directors' Report.

