



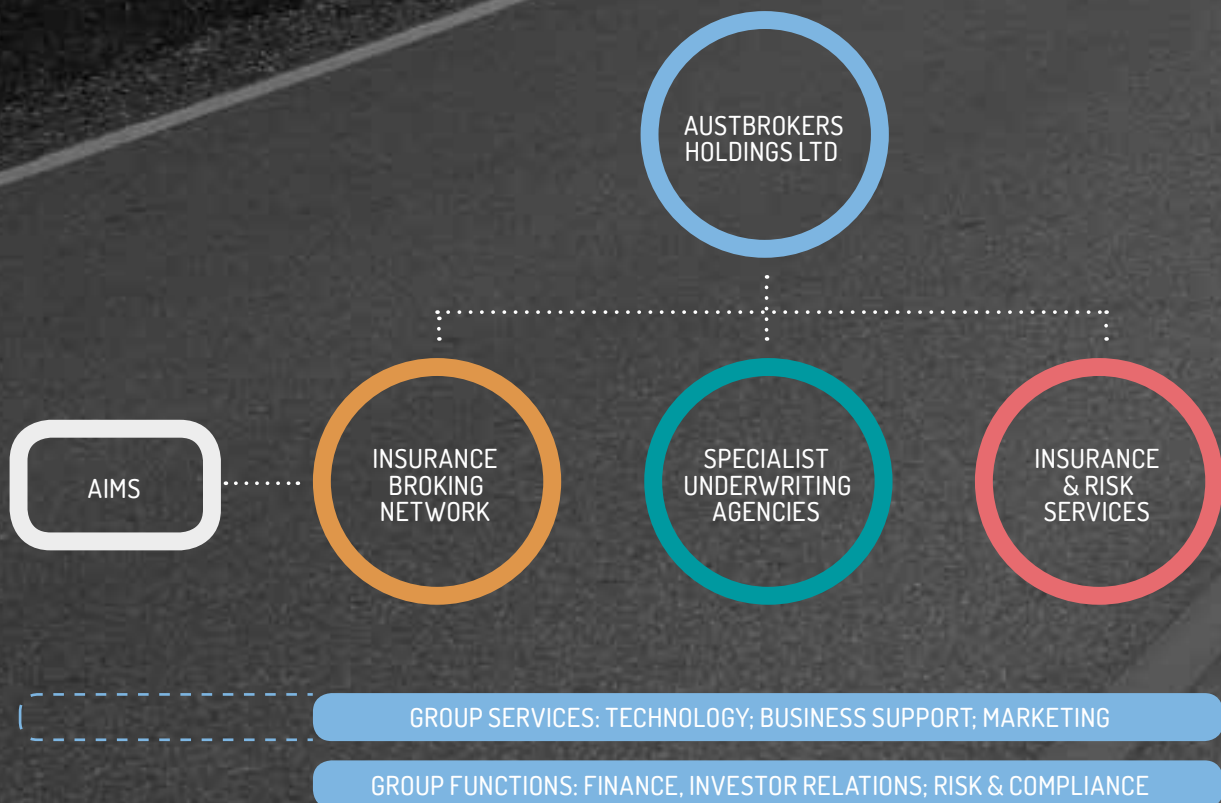
2014 ANNUAL REPORT


AHEAD OF THE CURVE

CONTENTS

| | |
|------------------------------------|-----------|
| Who We Are | 2 |
| Financial Highlights | 4 |
| Letter from the Chairman | 6 |
| Board of Directors | 8 |
| Managing Director's Report | 10 |
| CFO's Report | 12 |
| Insurance Broking Network | 16 |
| Specialist Underwriting Services | 22 |
| Insurance & Risk Services | 28 |
| Group Support Services | 32 |
| AIMS | 34 |
| Corporate Social Responsibility | 36 |
| Financial Report | 38 |
| Directors' Report | 39 |
| Auditor's Independence Declaration | 56 |
| Corporate Governance Statement | 57 |
| Income Statement | 62 |
| Statement of Comprehensive Income | 63 |
| Statement of Financial Position | 64 |
| Statement of Cash Flows | 65 |
| Statement of Changes in Equity | 66 |
| Notes to the Financial Statements | 70 |
| Directors' Declaration | 136 |
| Independent Auditor's Report | 137 |
| ASX Additional Information | 138 |
| Annual General Meeting | 140 |
| Corporate Information | 141 |

WHO WE ARE





A leading insurance distribution, specialist underwriting and risk services group.

The future is here: Keeping ahead of the curve comes not in anticipating the future, but in creating it.

That's what we've been doing since our inception in 1985. From the unveiling of our 'owner-driver' model, to providing a common broking platform, to the launch of our new Insurance and Risk Services division, Austbrokers is keeping ahead of the curve each and every day. Along the way, we are defining what it means to be a comprehensive insurance and risk organisation, building a reputation as a leader in the insurance industry, and inspiring a successful future for Austbrokers and our partners.

Austbrokers' unique owner-driver business model, whereby shareholder partners manage day to day operation of their business while benefiting from group-level support, facilitates genuine partnership and success across all three diversified business streams:

Insurance Broking Network: The Austbrokers insurance broking distribution network comprises 48 brokerages representing over 320,000 clients with over \$2 billion of gross written premium (GWP) and approximately \$700 million in funds under management.

Specialist Underwriting Agencies: Operates 21 niche underwriting agency groups that provide insurance products to defined market segments with a combined GWP approaching \$300 million.

Insurance and Risk Services: Established to provide full risk service solutions to a range of clients and insurance companies. Featuring a wide range of services including workers compensation, injury management, training, recruitment and placement of staff, investigations, claims and risk management support services.

All three business divisions are supported by market-leading operational and technology support services to help improve the efficiency and effectiveness of the operating businesses.

FINANCIAL HIGHLIGHTS

ADJUSTED
NPAT UP 10.5%

2013
\$32.1M*

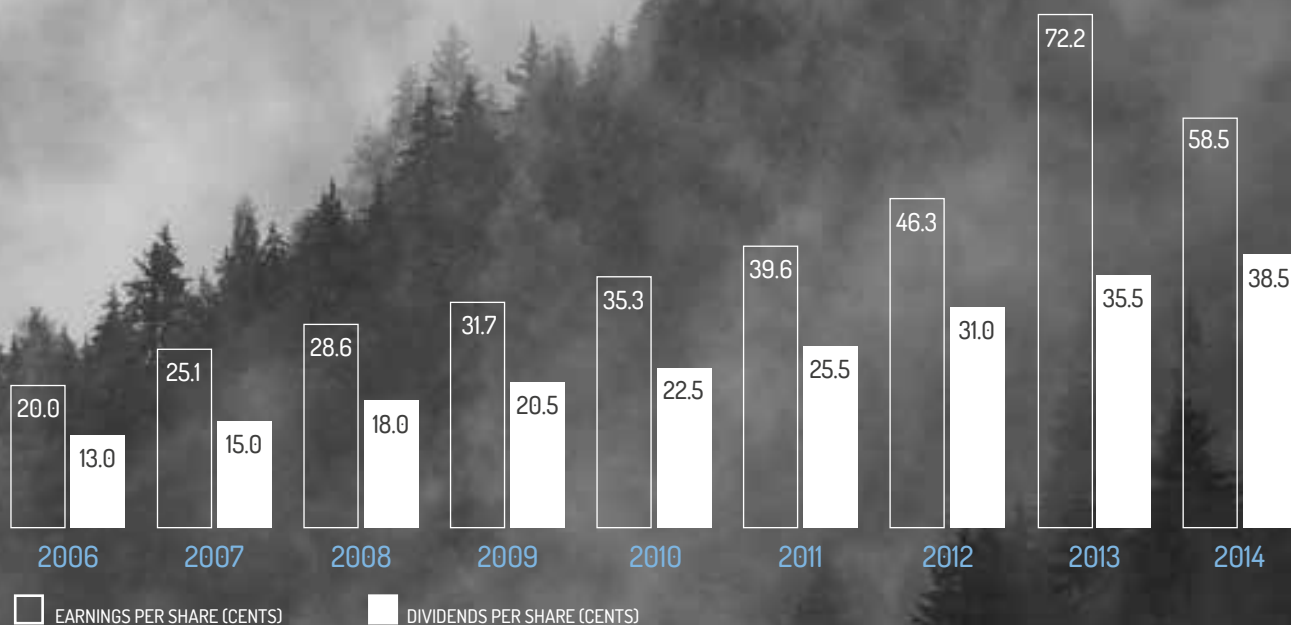
2014
\$35.5M*

REVENUE
UP 18.3%

2013
\$168M

2014
\$199M

*ADJUSTED NPAT. REPORTED NPAT 2013 \$41.2M, 2014 \$34.7M



UNDERLYING EARNINGS PER SHARE

UP 6.5%

DIVIDENDS PER SHARE

UP 8.5% TO
38.5 CENTS

UP 33%

UNDERWRITING
AGENCY PROFITS

UP 4.2% SHARE
OF BROKER PROFITS

9TH YEAR

DOUBLE-DIGIT ADJUSTED
NPAT GROWTH

5 YEARS

41.7% PA

TOTAL
SHAREHOLDER
RETURN FOR
3 YR 28.3% PA



LETTER FROM THE CHAIRMAN

Dear Shareholder,

Austbrokers has again achieved good growth over the past year in an insurance market which has transitioned to a period of lower premium rates and increasing competition. Growth was also achieved while incurring the costs of strengthening the senior management team and building operational capability.

In his CEO report last year, Mark Searles outlined his plans for development of the business and much of this has been implemented. Both Mark and the board are confident that this investment will strengthen the company and its platform for growth.

Headline net profit after tax declined to \$34.7 million, a 16% decrease on last year which was inflated by a number of accounting adjustments relating to the acquisition of further equity in associates. Excluding these adjustments from both years, net profit after tax (NPAT) increased 10.5% over last year. Expenses increased by 9% reflecting the cost of strengthening the support base and now represent 20% of net income, still below the company's rolling seven year average since flotation. Maintaining our expense ratio beneath this average is an ongoing objective.

The directors have declared a final franked dividend of 26.5 cents per share, payable in October. This, together with the interim dividend of 12 cents, is 38.5 cents for the full year, an 8.5% increase. Earnings per share grew at 6.5% over last year.

The group had a comparatively quieter year for acquisitions, successfully completing 10. There was also a focus of embedding the acquisitions made in FY13. Notwithstanding the pressures faced by our broking network we continued to grow gross written premium for the last year to be in excess of \$2 billion (an increase of 300% on that at the time of float) and \$3.4 billion when the AIMS network is included. This represents almost 20% of the Australian intermediated market. Since the end of the financial year we have acquired 50% of a large Bunbury based insurance broker, Nexus (Aust). The group expanded its activities during the year further developing its Underwriting Agency division and establishing a new division of Insurance and Risk Services. Through the acquisition of a 50% interest in Procure Group – Procure provides workers compensation services, rehabilitation, investigations and training to insurers and employers. It is the Group's intent to continue to build this area and since the end of the financial year we have purchased 50% equity in Risk Strategies.

Austbrokers remains committed to the owner-driver model. During the year, equity was increased in one business, and was sold down in two others. Consistent with this philosophy, we are in the process of selling down equity where we hold over 50% in another three of our businesses.

Austagencies again performed very well with a 33% increase in its contribution to group profit, largely due to the continuing development of new businesses including a jointly owned new surety agency, and growth in its existing agencies including the Longitude strata insurance agency. In addition, Austagencies acquired the remaining 50% equity in Celestial Underwriting during the year, Mint Underwriting in April, and in July 2014 acquired 75% of Asia Mideast Insurance and Reinsurance.

The year also saw a change in the board with Phillip Shirriff retiring last November and there will be a future change following David Harrick's intention to not stand for re-election at the next AGM. David has served on the Austbrokers board since 2004, and with his financial and accounting expertise, made a valuable contribution through the company's IPO and its subsequent success both as a Director and Chair of the Audit Committee. We will have an opportunity at the AGM to thank David for his outstanding of service.

Two new directors were appointed in February to replace Phil and David. Robin Low who was previously a partner at PricewaterhouseCoopers and specialising in financial services, and David Clarke who has had significant experience in the insurance and financial sector as a chief executive and director. I believe we have two strong independent directors who will contribute to the board's role of overseeing the group's growth and sound management for the benefit of shareholders.

On behalf of the board, I would also like to emphasise the contribution to the group's success from our partners in the Insurance Broking Network, Underwriting Agencies and Insurance and Risk Services and their employees, as well as all employees of Austbrokers Holdings. Their enthusiasm, professional expertise and dedication are significant drivers of the group's success.

The results achieved for the year and the investment made under the guidance of Mark and his senior management team give the board confidence that the development of the business will continue to provide growth in future years.



R A Longes
Chairman

BOARD OF DIRECTORS



RICHARD LONGES

Chairman

Age 69

Richard was a lawyer with Freehill Hollingdale & Page and a partner from 1974 to 1988. In 1988, Richard was a founding partner of Wentworth Associates, a boutique corporate advisory firm. Richard is Chairman of Investec Bank Australia Limited and is currently a director of Boral Limited. Richard has been a director of a number of public companies and government bodies including Metcash Limited, Chairman of MLC Limited, as well as the responsible entity of the General Property Trust. Richard has a Bachelor of Laws and a Bachelor of Arts from The University of Sydney, and a Masters of Business Administration from The University of New South Wales.



MARK SEARLES

**Chief Executive Officer
& Managing Director**

Age 53

Mark joined Austbrokers on 1 January 2013. Prior to this, he was General Manager, Broker & Agent at CGU where he managed CGU's intermediary distribution capabilities and was responsible for over \$1.9 billion of GWP. Preceding this role, he was CGU's Chief Commercial Officer & General Manager for Retail. Mark has also held senior management roles in the UK at Zurich Financial Services, Sage Group PLC and Lloyds TSB Group where he was Chief Executive Officer of CSL/Goldfish/Goldfish Bank – UK's leading direct-to-customer financial services group. Mark holds a Diploma in Market Research, a Diploma in Advertising and Marketing and a Post Graduate Diploma in Marketing Studies. In addition, he has undertaken the Executive Development Program, IMD Lausanne, and the AICD Advanced Board Ready Program and AICD Diploma.



DAVID HARRICKS

Non-Executive Director

Age 69

David was a Financial Services Partner at PricewaterhouseCoopers for 23 years, specialising in the insurance industry. He has been a director of a number of companies including Lumley General Insurance Ltd. He has also been a member of three compliance committees for the Commonwealth Bank of Australia Group. Presently, David is the Chairman of the Austbrokers Audit and Risk Management Committee. David has a Bachelor of Arts from Macquarie University, a Bachelor of Commerce from The University of New South Wales and is a Fellow of the Institute of Chartered Accountants in Australia.



RAY CARLESS

Non-Executive Director

Age 59

Appointed to the board of directors on 1 October 2010, Ray brings over 35 years' insurance industry experience based in Australia, including management responsibilities throughout the Pacific rim. Until 2000, Ray was Managing Director of reinsurance brokers Benfield Greig in Australia, a position he had held for over 14 years. He was also a director of their worldwide holding company located in London for 10 years. Ray has a Bachelor of Economics from The University of Sydney and is a member of the Australian Institute of Company Directors.



ROBIN LOW

Non-Executive Director

Age 53

Robin joined the board of directors on 3 February 2014. Prior to this, she was a partner at PricewaterhouseCoopers with over 28 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 is on the boards of a number of not-for-profit organisations including Sydney Medical School Foundation, Public Education Foundation and Primary Ethics. Robin is also a director of CSG Limited. Robin holds a Bachelor of Commerce from The University of New South Wales, is a Fellow of the Institute of Chartered Accountants in Australia, and is a Graduate Member of the Australian Institute of Company Directors.



DAVID CLARKE

Non-Executive Director

Age 58

Joining the board of directors on 3 February 2014, David has 35 years' experience in investment banking, funds management, property and retail banking. David was Chief Executive Officer of Investec Bank (Australia) Limited from June 2009 to July 2013. Prior to this he was the Chief Executive Officer of Allco Finance Group and a Director of AMP Limited, following 5 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 also held roles at Lend Lease Corporation Limited where he was an Executive Director and Chief Executive of MLC Limited. David is Chairman of both The University of New South Wales Medicine Advisory Council and Deans Circle, is a member of the Australian Business Community Network Scholarship Foundation and the New Zealand Trade and Enterprise Beachheads Forum. He holds a Bachelor of Laws from Victoria University in Wellington, New Zealand.



MANAGING DIRECTOR'S REPORT

When I joined the group as Chief Executive Officer and Managing Director in January 2013, I inherited an organisation that had achieved double-digit profit growth for the previous seven years, primarily as a result of adherence to the group's unique 'owner-driver' business model. For this to continue, it was imperative that we invested appropriately in this model, while at the same time de-risking income generation by broadening the areas of business operation.

I am pleased that FY2014 was another successful year, and we continue to grow both financially and in stature. The 10.5% growth in underlying NPAT was a pleasing achievement in a market where premium rate decreases were evident, and after having invested heavily in our business. This is the ninth year of consecutive double-digit growth in underlying NPAT since listing on the ASX in 2005.

We have made significant progress on a number of fronts during this last financial year. Our new operating model provides clarity with respect to the role of our market-facing businesses and our service-delivery areas. Our refreshed vision and purpose gives grounding to all that we strive to do, how we engage and the manner in which we behave. The investments made in people, technology and new partner companies are all bearing fruit and creating a solid platform for future growth.

We're ahead of the curve – in more ways than one.

Remaining ahead of the curve is shaped by the ability to service changes in client behaviour, technology, the economy and regulation. We made great progress in 2014, and continue to focus our efforts into 2015. Being 'ahead of the curve' means continuing to develop our capabilities around delivering automated brokering processes, providing complementary insurance and risk services, delivering leading client segment underwriting solutions and ensuring our centralised capabilities deliver market leading services to our partners.

Gearing for growth through business diversification and acquisition. 2014 saw the group achieve several important strategic accomplishments, including expanding our business (and income) streams through new acquisitions. The group completed a total of 10 acquisitions, representing an acquisition spend in excess of \$26 million.

Income from our insurance distribution network grew 11% despite a declining premium rate market. Broker profits also improved by 4.2% thanks to both organic and new broker growth. Additionally, our joint venture with IBNA, has been highly successful in achieving its objectives.

Investment in 'start-up' specialist underwriting agencies, along with additional acquisitions led to the overall growth revenue growth of 39% and profit growth of 33% for Austagencies – our Specialist Underwriting division.

The newly formed Insurance and Risk Services division contributed 1.3% of group profit growth in its first year. This division provides a diversified, and complementary range of services to clients, insurers and the broking network giving them the opportunity to cross-sell relevant insurance and risk services, such as workers compensation and insurance support services.

Building and providing operational 'Centres of Excellence'.

A key success factor of the owner-driver model is that Austbrokers' partners have access to superior, highly cost-effective and efficient centralised support services. Technology is a key enabler in achieving business growth, which is why 2014 was focused on investing in and ensuring our platforms and infrastructures perform to the highest standard. We deployed further capability in technology resilience, improving our platforms and using our combined scale to yield purchasing efficiencies for the group. We further extended our capability in HR administration through the launch of 'HR Online' – enabling 80% of Business Centre clients to gain efficiencies through the use of these services. I firmly believe that centralised support services (from technology, to administration, to marketing) are a unique set of assets that will continue to grow, become more efficient and deliver the full potential to our partner businesses.

Future Opportunities. Austbrokers is approaching 2015 from a position of strength. Our three market-facing business divisions are the foundation for growing and expanding our product and service offerings. Leveraging our strengths is particularly important in a 'flattening' premium rate environment as we provide our partners, shareholders and clients with a diversified range of growth and service options. Despite the expectation of flat premium rates in commercial lines insurance distribution, and a continued low interest rate environment, the financial results will benefit from the investments made in our operating model and continued focus on our established business model.



M P L Searles

Chief Executive Officer
& Managing Director



CFO'S REPORT

NPAT for the year ended 30 June 2014 was \$34.7 million, representing a decline of 16% over the 2013 financial year as a result of the significant adjustments to the carrying values of associates included in the prior year's NPAT being higher than those for the current year.

The contribution to current year profit from adjustments to the carrying value of associates was \$3.405 million (last year \$12.001 million), after tax profits on sale of portfolios, interests in associates and controlled entities and contingent consideration adjustments of \$0.512 million (last year \$0.276 million). If the above mentioned items, together with the amortisation of intangibles are excluded (as shown in the operating and financial review), the net profit (adjusted NPAT) was \$35.450 million in 2014 (2013: \$32.075 million) a 10.5% increase.

Earnings per share (EPS) of 58.5 cents represented a decrease of 19% over the prior corresponding period (increase of 6.5% based on adjusted NPAT). This is the eighth year in succession since the company was listed on the ASX in 2005 that it has delivered strong growth in NPAT and EPS for shareholders.

Operating Results. Revenue for the year was \$199 million, up almost 18% on 2013. Acquisitions contributed the bulk of the increase.

The year saw a softening of premium rates across most classes of insurance business, particularly in the last quarter, which impacted earnings for the year. Although acquisition activity was lower than in the previous year, the flow-on from those acquisitions later in the last financial year contributed to the profit growth this year.

Growth from the broker network contributed 4.6% to the 10.5% profit growth bolt-on acquisitions. Insurance & Risk Services contributed 1.3% to profit growth as a result of the acquisition of 50% of the Procure Group.

The broking network's underlying growth in base commission and fee income was around 3.5% (excluding acquisitions). Total commission and fee income increased by 3.7% over the prior period (excluding direct acquisitions). Expenses in the broker network increased by 5.3% (excluding direct acquisitions). This reflected some increase as a result of bolt-on acquisitions within the network, and direct expenses related to income growth, as well as some inflationary increase in costs.

Specialist underwriting profits were up by 33% on 2013 contributing 5.3% of overall growth. Commission and fee income increased by 39%, as investment in underwriting resources continued. Profit shares received from underwriters were up 110% on 2013.

Corporate expenses were up \$1.067 million, 9% over the prior year due to the investment in strategic resources to provide a platform for future growth including in the business technology area to assist the network gain efficiencies and business advantage. This increase was offset by a reduction in employee incentives in line with the reduced growth in profit. Overall profit growth was reduced by 2.3%. Borrowing costs reduced due to lower interest rates and with higher corporate income and a slightly more favourable corporate tax rate contributed 1.6% to profit growth.

Balance Sheet. The loan facility of \$50 million provided by St George Bank has a term to 30 May 2016, with \$15 million undrawn as at 30 June 2014. With free cash held of around \$7 million, \$22 million would be available for future acquisitions post balance date. This assumes that the Dividend Reinvestment Plan (DRP) will be underwritten for the final dividend. With debt from related companies included, total group debt is \$53.9 million and gearing ratio is 17% (debt-to-debt plus equity). In addition, debt in associates amounts to \$42 million in total.

Dividend. A final dividend of 26.5 cents per share fully franked (up 8% on the 2013 final dividend) has been declared by the board of directors and is payable on 24 October 2014 to shareholders registered in the company's register of members at 5pm on 2 October 2014.

The total dividend for the year of 38.5 cents per share represents an increase of 8.5% on 2013, exceeding earnings per share growth of 6.5% based on adjusted NPAT. The payout ratio on the latter basis increased from 64% to 65%.

The company's DRP will be open to shareholders entitled to participate in the 2014 final dividend. Shares will be issued under the DRP at a 2.5% discount to the 5 day volume weighted average price. The last day to elect for participation is 3 October 2014. It is proposed to have the plan underwritten for the final dividend subject to satisfactory arrangements being made.



S S Rouvray

Chief Financial Officer

PARTNERING FOR GROWTH AND SUCCESS





A powerful owner-driver business model that engages, supports and brings success to partners and shareholders.

INSURANCE BROKING NETWORK

The Austbrokers insurance distribution network comprises 48 brokerages representing over 320,000 clients with in excess of \$2 billion of GWP and approximately \$700 million in funds under management. Austbrokers unique owner-driver business model – whereby broker principals manage the day to day operations of their business while benefiting from group-level operational support – facilitates genuine partnership and success.

Insurance broking businesses are located throughout Australia and New Zealand, managing clients across a diverse range of industries and providing general and specialist insurance products, risk management and broader financial service offerings. Our network partner businesses service SMEs, significant corporate clients, individuals, as well as highly complex industries. There are currently 48 broking and financial services businesses comprising our insurance broking network. Insurance broking is the group's core business generating 82% of the groups revenue in 2014.

Despite a softening premium rate market in 2014, our insurance broking network performance has been steady with an increase in income of 11%. Growth was achieved through a combination of acquisitions as well as continued organic growth.

Austbrokers had another active year of acquisitions with 4 new businesses joining our Austbrokers broking network. Austbrokers existing network business, HQ Insurance acquired Magic Millions Insurance Brokers, cementing its position as the largest bloodstock and livestock broker in Australia. In Perth, Austral Risk Services acquired a stake in TDH Insurance Services. The network grew its Queensland presence with InterRISK (QLD) acquiring a majority shareholding in Atlas Insurance Brokers in Mackay. In Victoria, MGA Insurance Brokers purchased Sherbourne Insurance Brokers in Shepparton, and in Sydney, a 50% equity stake in WRI Insurance Brokers, based in Western Sydney, enhanced the networks existing presence and expertise in the motor dealers and motor trade industries. Adding to the activity, we also announced the 50% purchase of Nexus (Aust) Pty Ltd – one of the largest broking operations in Western Australia. As a previous IBNA member, the Nexus transaction reinforces the benefit of our close ties with the IBNA broking network via our AIMS joint venture.

As well as completing new acquisitions, 2014 was heavily focused on integrating the 18 acquisitions from the previous year into the broking network. Austbrokers worked alongside a number of businesses to achieve a smooth conversion of processing platforms and operational guidelines.

The largest equity based broking network backed by leading group services.

In line with our commitment to the owner driver model, we are working together with partners and to transfer our shareholding for a number of network businesses:

- Adroit (was 60% owned, to 50.0% owned)
- Austbrokers Phillips (was 66% owned, to 58% owned)
- Austbrokers City State (was 90% owned, to 70% owned)
- Austbrokers Canberra (was 85% to 75% owned)

As evidenced by our 2014 activity, Austbrokers is not a passive investor. Partner Development Managers are appointed as non-executive directors to the individual board's of each business and work closely with the business principals in relation to strategy and the performance of the business. Additionally, each broking business has access to a range of group support services that leverage scale, reduce costs and provide tools for growth, including technology, marketing, risk management and compliance. We continually invest in group services for operational optimisation across the network.

The Broker Network Steering Committee was reconstituted in 2014 to form the Austbrokers Principals Board. Members of this board now include representatives from all state regions, principals from all businesses with more than \$100 million GWP, as well as members of the Austbrokers executive team. The new board ensures a more thorough representation of the network and a focused approach on delivering agreed outcomes being achieved.

In addition to the Principals Board, a key initiative in 2014 was the establishment of cross-network improvement groups that are focused on driving further growth and effectiveness. Areas of focus include operational effectiveness, income growth, people and best practices. These groups lead prioritisation and instigation of initiatives that will benefit individual businesses throughout 2015.



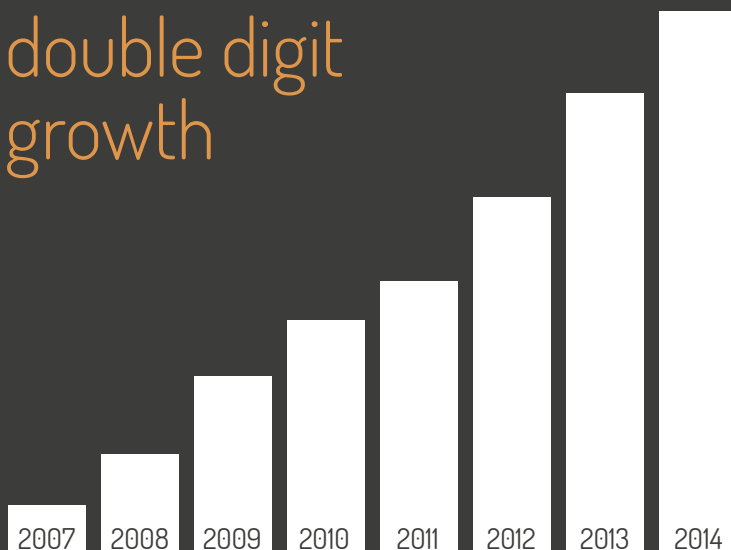
48 businesses
represented in
over 175 locations

LARGEST EQUITY
BASED BROKING
NETWORK IN
AUSTRALIA &
NEW ZEALAND

More than **\$2.0B** base premium

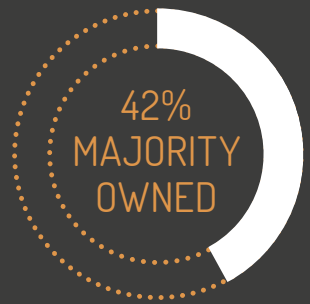
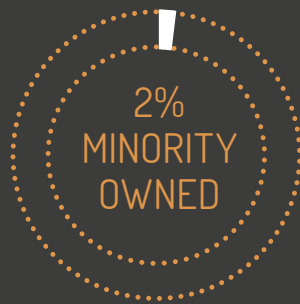
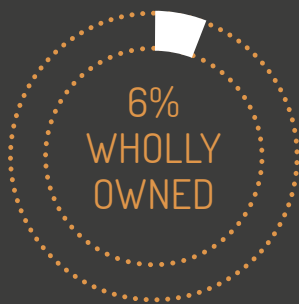
NINE YEARS

of continuous
double digit
growth



\$700M
Funds under
management

Pioneers of the 'Owner-Driver' model



NEARLY
30 YEARS OF ACTIVE
PARTNERSHIP
EXPERIENCE

11% INCOME
GROWTH
IN 2014

>2,200 STAFF

4.2%
PROFIT
INCREASE

320,000 CLIENTS

PARTNERING SHOULDER TO SHOULDER

INSURANCE BROKING NETWORK

Austbrokers ABS Aviation: aviation.

Austbrokers AEI Transport: heavy transport, owner operators, warehousing and logistics, civil contractors and earthmoving, workers compensation.

Austbrokers BGA: workers compensation, business insurance, insurance solutions.

Austbrokers Canberra: construction, transport, motor vehicle dealerships, SMEs sector, registered clubs.

Austbrokers Central Coast: SMEs, sporting clubs, heavy transport, taxi fleets, not for profits, aged and child care.

Austbrokers CE McDonald: retail motor dealer, networks, market stall holders in conjunction with market organisers.

Austbrokers City State: engineering, transport, turf farming, construction.

Austbrokers Coast to Coast: SME businesses, enterprise, petroleum, transport, food processing.

Austbrokers Countrywide: insurance advice, risk management, financial solutions.

Austbrokers Dalby: agricultural, earthmoving, commercial.

Austbrokers Financial Solutions: business succession planning, personal and family protection strategies, life insurances, corporate superannuation.

Austbrokers HCI: small business, truck fleets, personal insurance, business insurance and financial planning.

Austbrokers NCFS: construction, manufacturing, mining, retail businesses.

Austbrokers NTIB: rural insurance, wool industry, agricultural services, professional risks, property owners.

Austbrokers Phillips: workers compensation, timber industry, adventure leisure, transport, health and safety.

Austbrokers Premier: timber, pet, construction, medical practices, business brokers, professional services, hospitality.

Austbrokers Professional Services: professional risk insurance, professional indemnity and D&O/management liability insurance.

Austbrokers Risk & Insurance Services: bus and coach industry, rural and workers compensation.

Austbrokers RWA: farm and crop insurance, nursing homes.

Austbrokers Southern: rural, fishing, forestry, construction.

Austbrokers SPT: broad-based insurance broking services.

Austbrokers Sydney: commercial, SMEs, strata, workers compensation, bloodstock, professional liability life insurance.

Austbrokers Terrace: rail, dental.

Austbrokers Trade Credit: trade credit insurance.

Adroit Insurance Group: supermarkets, hardware, trades, builders, manufacturers, engineers, hotels, accountants.

Austral Risk Services: taxis, small charter vehicle, learner drivers, industrial/commercial enterprises.



Citycover: SMEs, transport, plant and equipment, trades, caravan, retail and personal insurances.

Comsure Insurance Brokers: industrial/commercial, SMEs, trades.

Country Wide Insurance Brokers: rural, farm machinery dealers, SMEs.

Fergusons Insurance Brokers: SME businesses.

Finsura: commercial ski lodges, nanny agencies, pet.

HQ Insurance: premier bloodstock and livestock insurance.

Insurance Advisernet Australia: general insurance.

Insurance Advisernet New Zealand: general insurance.

Insurics: rail, transport and logistics, earthmoving, civil contractors.

InterRISK: ISR, marine, aviation, group and affinity, directors and officers, professional indemnity, management liability, warranty and indemnity, prospectus liability, investment managers insurance, commercial motor, public and products liability, tourism and leisure, construction, mining, energy.

JMD Ross Insurance Brokers: jewellers block, professional indemnity.

Markey Group: SMEs, financial institutions, professional risks, heavy plant and machinery, crane, construction.

MGA Insurance Brokers: strata, commercial, transport, rural.

MGIB: tourism, hospitality.

Nexus Risk Services: General insurance, risk management, speciality services.

Oxley Insurance Brokers: business insurances, workers compensation, life risk insurance, financial planning.

Peter L Brown & Associates: SMEs, rural, professional services, construction.

SRG Corporate: commercial business, sport and recreation, construction, mobile plant, machinery.

Strathearn Insurance Brokers: construction, mining and resources, financial services, engineering, aviation, clinical trials and life science, heavy machinery.

Rivers Insurance Brokers & Far North Insurance Brokers: property development, construction, commercial property, manufacturer, plantations, professional services, commercial marine, tourism, agricultural.

WRI Insurance Brokers: motor dealers, motor trades, workers compensation.

Western United Financial Services: heavy transport, cranes, buses, hospitality industry, aged care and community services, corporate/commercial business insurance, earthmoving, accountants.



Focused on providing targeted
and tailored insurance
solutions specific to industry.

SPECIALIST UNDERWRITING SERVICES

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

Austagencies performed very well with a 33% growth in profit, and contributing 5.3% to group profit. This is the fifth consecutive year of greater than 20% profit growth and is derived from a balanced combination of organic growth (48%), start-up growth (22%) and acquisition growth (30%). Commission and fee income increased by 39%. Profit shares received from underwriters were up 110% on 2013. GWP by Austagencies in 2014 was in excess of \$280 million.

In the past year, Austagencies completed three acquisitions – the first being the remaining 50% equity in Celestial Underwriting in September 2013. In April 2014, 100% ownership of Mint Underwriting was completed with Mint servicing the property, casualty, motor taxis, professional liability and plant and equipment segments. A 75% acquisition of AMIR was completed in July 2014. AMIR is a niche offshore energy agency with strong capability in offshore energy risks.

In total, Austagencies has invested in nine start-ups and completed nine acquisitions in the past five years alone. This has provided local and Lloyd's insurers with access to new and differentiated product and sources of distribution.

Austagencies also accesses Austbrokers reinsurance vehicle Aust Re Brokers contributing in excess of \$0.7 million in profit before tax.

Additional operational efficiencies have been realised in the past year in the area of e-enablement solutions. Utilising the iClose platform, Austagencies has been able to electronically enable a travel product. Underwriting proposals, quotes and placements can now all be enabled and completed online providing a seamless process for the insurance broking community.

From a marketing perspective, 2014 focused on consolidating niche agencies into relevant segments resulting in operational and market awareness efficiencies. SURA Hospitality (an amalgamation of Guardian, Celestial, Dolphin and Alpine agencies) was the first rebrand launched and established in the market, and is now forming a leading tailored insurance business for the hospitality segment. In the next year, we will continue to build on these existing brands to establish more tailored insurance businesses under the SURA name, along with a major process re-engineering project to further enhance the profitability of the business to lock in long-term gains.



TOP 3

market position
in key market
segments

Australia's largest
non-insurer owned
underwriting agency group



50 Specialised
product lines

PIONEERS OF
THE 'OWNER
DRIVER' MODEL

High effective claims
management service

RATED



by LMI Group

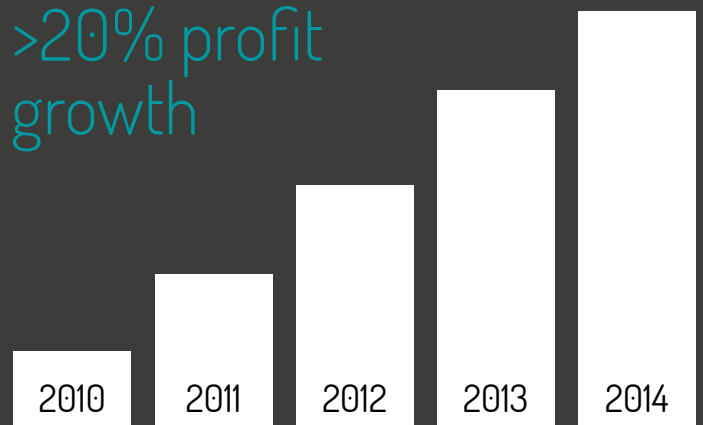
(Australia's leading
loss management
and risk consultancy)

\$280 MILLION
GROSS WRITTEN PREMIUM

33%
GROWTH
IN NET
PROFIT

FIVE YEARS

of continued
consecutive
>20% profit
growth



21 Agencies in
the group

39% REVENUE
GROWTH

9 start-ups & 9 acquisitions
IN THE LAST 5 YEARS



SPECIALIST UNDERWRITING AGENCIES

Austagencies: professional indemnity, specialist services.

Australian Bus & Coach: motor insurance for bus and coach operators.

Aust Re Brokers: insurance wholesaling services.

Asia Mideast Insurance and Reinsurance (AMIR): offshore energy.

CEMAC: contractors, plant and equipment insurance.

Cinesure: liability cover for film and television.

Construction: closed market construction building cover.

Equipment Breakdown: specialised service.

Latitude Underwriting: packages for property and liability cover.

Latitude Marine: marine and boat insurance cover.

Latitude Speciality Liability: speciality liability areas.

Lawsons: liability cover for labour hire and other speciality areas.

Longitude: strata insurance services.

Mint Underwriting: property, casualty, motor taxis, professional liability and plant and equipment segments.

Mint Plus: professional indemnity services.


NewSurety: surety bonds and financial services areas.

Sura Accident & Health: health and accident cover.

Sura Hospitality: hospitality, leisure and entertainment insurance.

Tasman Underwriting: professional indemnity cover.

5-Star Underwriting: insurance for motor dealers.



Market wide specialised
and effective insurance
and risk services.

INSURANCE AND RISK SERVICES

As a group we have a long-term, holistic view of insurance and risk. In 2014, this has resulted in the expansion into broader insurance and risk capabilities. The division provides a diversified and complementary range of services and solutions to clients, insurers and the broking network, giving them the opportunity to provide their clients with comprehensive and relevant insurance and risk services. In its first year, this division contributed 1.3% to group profit growth.

In February 2014, Austbrokers acquired 50% equity in the Procure Group, a leading provider of full service workers compensation and insurance support services. Procure services include integrated insurance and risk solutions, injury management, training, recruitment and placement of staff, claims and risk management and investigation services. They deliver integrated service solutions to insurers, employers, insurance brokers and lawyers across all lines of insurance including workers compensation (specifically all NSW scheme agents), self insurers, specialised insurers and Comcare agencies and licensees, public liability, property liability, compulsory third party (CTP), income protection, life and disability.

While only new to Austbrokers, Procure contributed \$0.6 million net profit before tax this financial year, and are already experiencing expanded growth from our partnership.

The expansion of this business division will be a key focus in the coming year.

INVOLVED, INSPIRED
AND WORKING
TOGETHER BEHIND
THE SCENES







GROUP SUPPORT SERVICES

Expert know-how delivering market leading services.

Underpinning all three business divisions is group support services – market leading services focused on improving the efficiency and effectiveness of our operating businesses. Services include:

- Business Technology
- Business Administration
- Risk Management and Compliance
- Operations
- Marketing
- Accounting and Reporting
- HR Management and Payroll
- Help Desk Support

With a focus on ensuring our platforms and infrastructure perform to the highest standard, in 2014 we deployed further capability in technology resilience, technology solutions and business intelligence platforms using our combined scale to yield purchasing efficiencies for the group. The result was a 10% increase in network partners using Business Centre services. Additionally, the business intelligence platform uses a single view of data platform to provide greater visibility and insight into key performance indicators by line of business.

Our broking businesses leverage a single broking software platform with the majority of firms being hosted on the Austbrokers Data Centre. We further extended our capability in HR administration through the launch of 'HR Online' – enabling 80% of Business Centre clients to gain efficiencies through the use of these services.

The specialised risk framework complies with Financial Services Regulations and is complemented with an automated risk management and audit program to enable ongoing compliance.

From a business solutions perspective, automation of business processes and procedures has been a continued focus. We've been able to leverage our size and scale to provide cost effective data solutions, CRM platforms, buying power and tools to our operating businesses.

From an operations perspective, streamlined project management disciplines have been implemented driving cost and time efficiencies for the business. This market leading discipline ensures business initiatives are scaled, prioritised and resourced in an optimal manner.

Marketing capability has been expanded and upscaled in 2014 providing a range of group wide initiatives and suppliers in a cost effective and timely manner.

Overall, group support services (from technology, to administration, to marketing) are a unique set of assets that will continue to grow, become more efficient and deliver the full potential of highly cost-efficient business services to our partner businesses.



AIMS

Commercially supports our partners by developing relationships that deliver leading products.

A & I Member Services Pty Ltd (AIMS) was established in 2007 as a joint venture between Austbrokers Holdings Ltd and IBNA Ltd to provide commercial services for the collective benefit of all 129 member brokers. Austbrokers and IBNA jointly place gross premium in excess of \$3.4 billion on behalf of their clients. Austbrokers provides the management and infrastructure of AIMS with six management and technical staff contracted to the company. The strategic purpose of AIMS is to deliver leading insurance products; drive commercial access between our brokers and insurers; and drive measurable growth opportunities for brokers and insurers.

Over 60% of total insurance product sales by Austbrokers' partners are generated from six major policy types. Network members issue Austbrokers branded policies for Commercial and Business Packages, Private and Commercial Motor, Domestic Home and Contents, Industrial Special Risks and General Liability. To maintain competitive advantage in the market place, these six products are reviewed on a rolling cycle under the aegis of the AIMS Products Committee, working closely with LMI Group – the leading insurance technical and loss advisory practice in Australia. With increasing internet and call centre sales of home and contents insurance in the Australian market, AIMS has developed a competitive budget-model domestic insurance which is successfully competing for market share as an alternative for our insured clients. An additional suite of specialised products available to the Austbrokers network includes Management Liability, Corporate Travel, Equipment Breakdown and Heavy Motor Transport.

The Annual AIMS Business Convention is a high profile forum for partner networking and promotion of risk and insurance solutions. Approximately 470 delegates and business sponsors attended the Adelaide event in 2014. Over 80% of delegates rated the conference as 'very good' or 'excellent'.

Other AIMS deliverables include Business Intelligence and Training & Education. The AIMS intranet continues to be an effective communication and knowledge management tool for members across the country. AIMS commissions an independent market research firm to survey our brokers online twice yearly. Respondents rate major insurers on

services and product metrics, including claims and call centre delivery. The survey is the only one of its kind delivered in the Australian insurance market. Its credibility is such that a number of insurers include the AIMS survey results as an element of their own performance measurement.

From an education standpoint, AIMS continues to provide Market Days in each state, partnering with our principal insurance partners and drawing crowds in excess of 600 brokers and insurers each year. In addition, a series of Professional Indemnity (PI) training videos and insurance policy master classes for complex insurance policies are presented to practicing brokers around Australia. This program is a key service to members. With stable security, it provides an acknowledged market-leading policy wording, a cost-effective structure and high limits of liability to protect participating broker members and shareholders. The program utilises a blend of specialist insurers in the Australian and London markets, and all broker members of the PI committee have relevant expertise in stewardship of this complex policy placement.

The goal of all AIMS services is measurable growth of and for broker members, and shareholders. In representing our broker members to insurers, AIMS recognises that all parties to the insurance mechanism – clients, brokers and insurers – must balance security, coverage, profitability and business growth. AIMS executives and the management of the principal insurance partners hold regular mutual performance reviews. Growth in policy placements and income generated continues to be satisfactory for all parties.

Member growth of AIMS is the key driver of the company, delivering membership of AIMS via the Austbrokers Equity model or the IBNA Independence model. Whichever model they choose, brokers immediately access all the AIMS benefits by joining our 'one-stop-shop'. For brokers seeking to migrate from IBNA Independence to Austbrokers Equity, a well-honed and successful process is in place for uninterrupted continuity of member benefits. A vigorous campaign for increased membership includes trade publication placements and exhibiting at the annual conference of the National Insurance Brokers Association.



CORPORATE SOCIAL RESPONSIBILITY

Committed to connecting, communicating and partnering with the community.

Austbrokers has set targets and made commitments to be a responsible and sustainable business. Corporate governance is at the core of Austbrokers and the board's approach to enhancing our reputation and protecting shareholder value and funds. We believe these targets can only be achieved with the support of our people at all levels of our business.

Austbrokers' network partners support local community events and organisations, including sporting clubs, locally based charities and also some larger charitable organisations with both funds and activities involving their own employees.

Apart from the many small donations and sponsorships assisting in a great number of causes provided by all the businesses, there have been a number of notable activities by organisations supporting people in the community. Some of these are:

- Peter L Brown & Associates principal, Scott Brown, has founded and organised Tour de Ticker bicycle ride to support HeartKids NSW. This ride covers 700 kilometres, climbing 9,000 metres, and has raised over \$100,000.
- MGA Management Services is a significant supporter of charitable pursuits, contributing over \$135,000 in 2014 to Geraldine Cox's Sunrise Children's Villages in Cambodia, the Royal Flying Doctors Service, Variety Children's Charity and "AllKids" community program in Cambodia.
- Austbrokers Canberra contributed over \$100,000 to community based programs or charities.
- Insurance Advisernet Australia and its authorised representatives provided in excess of \$100,000 to a number of organisations including Beyond Blue, Daffodil Day, Everyday Hero, Kidz Express, Mates4Mates, Movember, NSW Rural Fire Service, Royal Flying Doctors Association, St Vincent De Paul, The Reach Foundation, The Ward Family Fund, World Vision, Young Diggers & Youth Support Advocacy Service.
- Adroit has raised over \$300,000 for local communities in regional Victoria through the significant support of staff members volunteering, organising and hosting local events such as golf days and fun runs. Groups they have supported include Geelong Community Foundation, The Ballarat Foundation, Community Foundation for Central Victoria and Border Trust Community Foundation. Adroit also provides \$100,000 in sponsorship and support to local sporting, community and business clubs.
- Markey Group continue to provide significant support to charities in Regional NSW through their annual charity golf day including over \$35,000 for stroke research to be undertaken by the Hunter Medical Research Institute in 2014. More than \$250,000 has been donated since the inaugural charity golf day in 2008. Markey Group also contribute over \$70,000 to the local community through their sponsorship of numerous local sporting clubs and events such as Relay for Life.
- Austbrokers itself continues to support the Sunrise Children's Villages through the Australian Cambodia Association enabling a number of children to travel to Australia to attend schools.

FINANCIAL REPORT

DIRECTORS' REPORT

YEAR ENDED 30 JUNE 2014

Your Directors submit their report for the year ended 30 June 2014.

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

R. A. Longes BA, LLB, MBA (Non-executive Chairman) Age 69

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.

Presently, he is the Group Chairman, serves on the Audit and Risk Management Committee and chairs the Nomination and Remuneration and Succession Planning Committees of the Group.

During the past three years Mr. Longes served and continues to serve as a Director of Boral Limited and was formerly a director of Metcash Limited.

He is also a Director of Pain Management Research Institute.

M. P. L. Searles GAICD, DipM, Grad Dip Mktg (Director and Chief Executive Officer) Age 53

Mark Searles was previously General Manager, Broker & Agent at CGU a division of IAG. Prior to this role he was Chief Commercial Officer & General Manager for Retail. From 2005-09, Mr Searles was with Zurich Financial Services where he was Managing Director, Direct and Partnerships and Chief Marketing Officer in the United Kingdom. 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 Age 59

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 and Succession Planning Committees.

D. C. Clarke LLB Age 58

David Clarke was appointed a director on 3 February 2014.

David Clarke was Chief Executive Officer of Investec Bank (Australia) Limited from June 2009 to July 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 both the University of New South Wales Medicine Advisory Council and Deans Circle. He is a member of the New Zealand Trade and Enterprise Beachheads Forum. Mr Clarke is a member of the Audit and Risk Management, Nomination and Remuneration and Succession Planning Committees.

D. J. Harricks BA, BCom, FCA Age 69

David Harricks has over 40 years' experience in the insurance industry. Until 2000 he was a Financial Services Partner at PricewaterhouseCoopers for 23 years specialising in the Insurance Industry. Since 2000 he has been a director of a number of companies including Lumley General Insurance Ltd. and was also a member of three Compliance Committees of the Commonwealth Bank of Australia Group. Presently he is Chairman of the Audit and Risk Management Committee and a member of the Nomination and Remuneration and Succession Planning Committees.

R. J. Low B Com, FCA, GAICD Age 53

Robin Low was appointed a director on 3 February 2014.

Robin Low was a partner at PricewaterhouseCoopers with over 28 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 is a member of the Audit and Risk Management, Nomination and Remuneration and Succession Planning Committees.

During the past three years Ms. Low served and continues to serve as a Director of CSG Limited.

P. R. Shirriff BA, FCPA, FCIS, ANZIIF (Sen) CIP Age 68

Mr Shirriff retired at the Company's Annual General Meeting on 20 November 2013

Phillip Shirriff has had over 40 years' experience in the financial services sector and was formerly Chief Executive Officer for ING Financial Services International – Asia/Pacific and from 1985 – 1995 Managing Director of Mercantile Mutual. He was Chairman of ING Bank (Australia) Limited until April 2011 and has been a director of a number of companies including ING Australia Limited and ING NZ (Holdings) Limited.

DIRECTORS' REPORT

YEAR ENDED 30 JUNE 2014

Company Secretary

S. S. Rouvray BEc, CA, FCIS

S. S. Rouvray has been the Company Secretary of Austbrokers Holdings Limited for 28 years. He has also been Chief Financial Officer and Manager of Investor Relations since 2005. A Chartered Accountant for over 40 years, he was previously Company Secretary of ING Australia Holdings Limited and a number of ING Group companies 1985 – 2005 and General Manager of ING Australia Holdings Limited 2002 – 2005.

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 Austbrokers Holdings Limited were:

| | Number of Ordinary Shares | Number of Options over Ordinary Shares |
|------------------|---------------------------|--|
| R. A. Longes | 117,540 | - |
| M. P. L. Searles | - | 233,000 |
| R. J. Carless | 17,973 | - |
| D. C. Clarke | 2,500 | - |
| D. J. Harricks | 27,000 | - |
| R. J. Low | - | - |

PRINCIPAL ACTIVITIES

The principal activities during the year of entities within the consolidated entity were the provision of:

- Insurance broking services and the distribution of ancillary products;
- Insurance products through insurance underwriting agency businesses;
- Insurance and risk services.

There has been no significant change in the nature of these activities during the year other than the expansion into the provision of insurance and risk services through the acquisition of a 50% interest in the Procure Group Pty Ltd.

OPERATING AND FINANCIAL REVIEW

Group overview

Founded in 1985, the Group has grown consistently to become the leading listed equity-based insurance broking, underwriting and associated financial services group in Australia. Underpinning the growth is the highly successful 'owner-driver' model where the Group enters into partnerships with the business owner, typically taking an equity stake of 50% and providing a range of services to support ongoing growth.

These services include technology support via a centralised data centre capability, common platforms to enable efficiency and effectiveness, back office service provision including accounting, payroll and HR support and marketing services. The group has businesses partnerships across Australia and New Zealand employing in excess of 1,800 people and operating in over 170 locations. A key feature of the Group is the diverse nature of its end-client base from individuals to large corporate entities.

The Group has equity interests in 47 broking groups, an insurance and risk services group and 15 underwriting agencies many of which are leaders in their respective segments.

Performance indicators

Management and the Board monitor the Group's overall performance, from its implementation of the mission statement and strategic plan through to the performance of the Group against operating plans and financial budgets.

The Board, together with management, has identified Key Performance Indicators (KPIs) that are used to monitor performance on a regular basis. Directors receive the KPIs for review prior to each Board meeting allowing all Directors to actively monitor the Group's operating performance.

Dynamics of the business

The Group operates in the insurance intermediary and services market sector and this sector has proved to be relatively stable over the period despite economic conditions being subdued. The group's revenue is largely derived from commissions and fees earned on arranging insurance policies and for other 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 and additional revenue derived from underwriters reflecting the profitability and/or growth in the business placed. This can also fluctuate depending on results.

Operating results for the year

Net profit after tax attributable to equity holders of the parent decreased by 15.9% to \$34.655 million (2013: \$41.203 million). This profit includes fair value adjustments to the carrying value of associates of \$3.405 million (2013: \$12.001 million), after tax profits on sale of interests in associates and controlled entities and contingent consideration adjustments representing a loss of \$0.512 million (2013: \$0.276 million profit). If the above mentioned items, together with the amortisation of intangibles are excluded (as shown in the table below), the net profit (Adjusted NPAT) was \$35.450 million in 2014 (2013: \$32.075 million). In the table below, the Adjusted NPAT of \$35.450 million is reconciled to the net profit attributable to equity holders of the parent as reported in the Income Statement.

DIRECTORS' REPORT

YEAR ENDED 30 JUNE 2014

| | 2014 \$'000 | 2013 \$'000 | Increase |
|--|----------------|----------------|----------------|
| Adjusted NPAT attributable to equity holders of the parent | 35,450 | 32,075 | 10.5% |
| Add (Less) Net Profit after tax on sale of interests in associates, portfolios and controlled entities and contingent consideration adjustments* | (512) | 276 | |
| Add Adjustments to the carrying value of associates (after income tax)* | 3,405 | 12,001 | |
| Net Profit after tax before amortisation of intangibles | 38,343 | 44,352 | (13.5)% |
| Less Amortisation of intangibles (net of tax credit)* | (3,688) | (3,149) | |
| Net profit attributable to equity holders of the parent as reported in the Income Statement | 34,655 | 41,203 | (15.9)% |

* This financial information has been derived from the audited consolidated financial statements.

Contingent consideration adjustments occur when there is a variation between the estimated and actual payment made to acquire a controlled entity or associate due to a variation in the expected results on which payment is based. If the payment is under estimated the adjustment is taken as a loss and if it is overestimated it is taken as a profit.

Profits on sale of portfolios or equity interests are essentially the result of adjustments to shareholdings required as a result of pursuing the owner driver model and fluctuate year on year depending on the circumstances arising. Portfolios may be transferred to associates for the same reasons. Last year a portfolio was transferred to an entity in return for shares to form a joint venture specialist insurance broker which resulted in a profit on the portfolio transferred.

The adjustments to carrying values of associates of \$3.405 million the current year and in the prior year of \$12.001 million have arisen as a result of the Group increasing its equity in associates whereupon they became controlled entities, the profit after tax on the sale of a business by an associate to the parent company, offset by an impairment charge in relation to an associate. 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 of this type are made.

Amortisation of intangibles expense increased over last year due to acquisition activity flowing on from late in the prior year and in the current year including increases in equity in associates. This expense is a non cash item and will fluctuate depending on the amount and timing of acquisitions.

Analysing the Adjusted NPAT increase of 10.5%, the broker network, including acquisitions, contributed 4.6% and underwriting agencies 5.3%, while the acquisition of Procure added 1.3%. Increases in corporate income and a reduction in borrowing costs together with a lower effective tax rate added 1.6%. This was partially offset by a 9% increase in corporate expenses which reduced growth by 2.3%.

Direct acquisitions in the broker network of WRI Insurance Brokers in July 2013, and flow on from 2013 acquisitions of Dalby Insurance Brokers in April 2013 and InterRISK in June 2013 offset by some reductions in equity contributed 5.9% to the increase from broking but this was offset by a 1.3% reduction from existing brokers largely the result of reductions in premiums and the loss of some significant accounts in the first half year. Bolt on acquisition activity continued throughout the year within the broker network.

In the insurance broking network, total commission and fee income increased by 12% and total income by 11% over the prior year (3.5% excluding direct acquisitions). Premium funding income was up 16% and profit shares were 17% above last year. Interest income was down 7%. Expenses increased by 13% (5.3% excluding direct acquisitions). This reflects an increase as a result of bolt on acquisitions within the network, direct expenses related to income growth as well as some inflationary increase in costs.

Underwriting agencies' profits increased by 33%. The acquisition of Lawsons Underwriting Australasia Limited and Guardian Insurance Services (now renamed Sura Hospitality) in May 2013 and the Mint acquisitions in April 2014 contributed 8% to this with 25% coming from existing and start up businesses. Commission and fee income excluding acquisitions grew by 22%.

Corporate expenses increased by 9% over the prior year due to the strategic employment of additional resources and increased investment in resourcing the IT area to provide the broking network with additional support and better business tools to manage and grow their businesses. This was partially offset by lower staff incentive expenses.

A lower effective tax rate increased profit growth by 0.4%. This occurred largely as a result of lower non deductible items and the recoupment of tax losses, the benefit of which had not been previously recognised.

DIRECTORS' REPORT

YEAR ENDED 30 JUNE 2014

Shareholder returns

The Group is pleased to report that return to shareholders, both through dividends and earnings per share growth, has reflected the success of the strategies employed.

| Year to 30 June | Basic earnings per share – cents | Increase % | Dividend per share | Increase % |
|--------------------|---|---------------|-----------------------|---------------|
| 2014 | 58.5 | (19.0) | 38.5 | 8.5 |
| 2013 | 72.2 | 56.0 | 35.5 | 14.5 |
| 2012 | 46.3 | 16.9 | 31.0 | 21.6 |
| 2011 | 39.6 | 12.2 | 25.5 | 13.3 |
| 2010 | 35.3 | 11.4 | 22.5 | 9.8 |
| 2009 | 31.7 | 11.0 | 20.5 | 13.9 |
| 2008 | 28.6 | 13.9 | 18.0 | 20.0 |
| 2007 | 25.1 | 25.5 | 15.0 | 15.4 |
| 2006 | 20.0* | N/A | 13.0 | N/A |

* Excluding abnormal profits on sale of equity interests occurring as part of the Initial Public Offering process.

The earnings per share for the 2014 and 2013 years benefited from adjustments to fair value, profits on sale of portfolios and interests in associates as well as adjustments to contingent consideration. Earnings per share based on Net Profit after Tax before amortisation of intangibles and these items, increased by 6.5% and 13.65% in those years respectively. Compound average growth rate in earnings per share over the 5 years to 30 June 2014 on this basis was 10.8%.

The company's total shareholder return (comprising share price growth and dividends paid) reflects the performance with a return of 28.3% for the 3 years and 41.7% for the 5 years to 30 June 2014 on an annualised basis. These longer term returns are above the returns for the ASX All Ordinaries and ASX 200 indices. The return for the 2014 financial year was 2.34%.

Financial condition

Total equity increased to \$269,579,000 from \$230,398,000. 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. Equity was also increased through an increase in Non-controlling interests.

The increase in Trade and other payables which has been more than offset by an increase in Trade and other receivables and Cash and cash equivalents – Trust is the result of acquisitions and growth in the business. These balance sheet items largely represent premiums payable to underwriters and corresponding receivables to be collected and cash held to pay these.

The Group continues to generate positive cash flow from operating activities of \$36,455,000 (2013: \$27,940,000) excluding insurance trust account funds. After investing and financing activities cash held increased from \$38,083,000 to \$43,970,000. Borrowings only increased by \$990,000 to \$53,875,000 as a result of acquisitions by the Group being funded from cash flow and funds derived from the dividend reinvestment plan. Borrowings of associates of \$41,818,000 (2013 \$44,420,000) are not included in this nor are shown on the Group balance sheet as these entities are not consolidated. The borrowings relate largely to funding of acquisitions, premium funding and other financing activities.

The Company's banking facilities of \$50,000,000 have a term to 30 May 2016 and at year end there is \$15,000,000 available to be drawn down for acquisition purposes.

Gearing, which is 16.7% at year end, remains below the acceptable limit of 30% set by the Directors. The Group's policy is to maintain sufficient cash and/or facilities to be able to respond to acquisition opportunities as they arise.

Business strategies and prospects for future years

Austbrokers will continue its strategies to grow focussing on three key pillars:

- Grow its existing distribution business organically and through acquisition.
- Grow its underwriting agency business by expanding the products underwritten and extending the owner driver model to these activities and by acquisition.
- Diversify into insurance and risk services sector.

Premium rates are expected to be under pressure over the next year.

The acquisitions made early in the new financial year should add to profits for the 2015 year and already 50% of Nexus (Aust) Pty Ltd and 75% of Asia Mideast Insurance and Reinsurance has been acquired. These together with Procure Group which was acquired in January 2014, should contribute to future growth. It does appear that acquisition opportunities will continue to arise but these may be impacted by the level of competition in the market. There will be a continuing focus on optimising the Austbrokers operating model.

DIRECTORS' REPORT

YEAR ENDED 30 JUNE 2014

Interest earnings appear likely to be stable, unless there is a further reduction in the cash rates.

Profit commissions paid by underwriters, which depend on the growth and profitability of business written, were a significant contributor the results in 2014 but cannot be reliably predicted for future years.

The Group has invested in additional resources to add to management strength to assist the broker network and agency businesses to expand their businesses and operate more efficiently, some additional costs of which will flow through to the next financial year.

In general, the short term outlook for the economy remains uncertain and may make trading conditions more difficult. Organic growth, bolstered by acquisitions, should again provide moderate growth in the 2015. The extent of that growth will be impacted by the level of future acquisitions and the amount of profit commissions that will be earned.

| Dividends | Cents | \$'000 |
|--------------------------------|-------|--------|
| Final dividend recommended: | | |
| • on ordinary shares | 26.5 | 15,888 |
| Dividends paid in the year: | | |
| • on ordinary shares – interim | 12.0 | 7,157 |
| • on ordinary shares – final | 24.5 | 14,277 |
| | | 21,434 |

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.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

On 28 August 2014 the Directors of Austbrokers Holdings Limited declared a final fully franked dividend on ordinary shares of 26.5 cents per share in respect of the 2014 financial year. Based on the current number of ordinary shares on issue, the total amount of the dividend is \$15,888,233.

In July 2014 acquisitions were made of a 50% interest in Nexus (Aust) Pty Ltd and a 75% interest in Asia and Mideast Insurance and Reinsurance Pty Ltd. In August 2014 a 50% interest was acquired in Risk Strategies Pty Ltd. See note 26 of the Financial Statements for further details.

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.

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 establishment of a committee to specifically review, monitor and report on risk.

The company has identified a series of operational risks which the company believes to be inherent in the industry in which the company operates and these are set out in the Operating and Financial Review. These risk areas are provided to assist investors to understand better the nature of the risks faced by the company and the insurance broking industry. They are not necessarily an exhaustive list. These include:

- Loss of key broking employees and/or lack of skilled replacements.
- Significant consolidation of underwriters.
- Significant increase in premium rates reducing demand.
- Acquisition risks
 - availability
 - performance
- Licensing and regulatory compliance breaches.
- Change in insurer remuneration practices for brokers.
- Commoditisation of business insurance products.
- Significant change in method of distributing insurance products by underwriters.
- Fraud and embezzlement of company funds.
- Pace of business technological change.
- Highly competitive market environment.

DIRECTORS' REPORT

YEAR ENDED 30 JUNE 2014

SHARE OPTIONS

All options are granted over shares in the ultimate controlling entity Austbrokers Holdings Limited.

Unissued shares

As at the date of this report, there were 508,834 unissued ordinary shares under options. Refer to note 18 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 Company's second tranche of options vested fully on 25 September 2009 and are required to be exercised no later than 25 September 2013. The exercise price for each option was \$3.47. During the year 49,350 options were exercised leaving none unexercised at reporting date.

The third tranche of options fully vested on 14 September 2010 and are required to be exercised no later than 14 September 2014. The exercise price for each option was \$4.20. During the year 70,100 options were exercised leaving 132,800 unexercised at reporting date.

The fourth tranche options vested on 29 September 2011 and no further options vested on the retest date of 29 September 2012. All options must be exercised no later than 29 September 2015. During the year 3,305 options were exercised leaving 11,099 unexercised at reporting date. The exercise price for each option remaining was zero.

The fifth tranche of options first vested on 3 November 2012. Options totalling 49,655 vested on that date and were exercised. A further 4,730 options vested on 3 November 2013 and were exercised. The remaining 24,432 options lapsed leaving none outstanding at reporting date. 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 exercise price for each option was zero for all of the options.

Of the sixth tranche of 67,771 options, 52,861 vested on 31 October 2013 and were exercised with a further 1,941 lapsed during the year leaving 12,969 outstanding at reporting date. 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. All options must be exercised no later than 31 October 2017. The exercise price for each option was zero for all of the options.

The earliest vesting date for the seventh tranche of 56,591 options is 31 October 2014. During the year 7,327 options lapsed, leaving 49,264 outstanding at reporting date. 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. All options must

be exercised no later than 5 October 2018. The exercise price for each option was zero for all of the options.

The earliest vesting date for the eighth tranche of 38,320 options is 31 October 2015. During the year 6,117 options lapsed leaving 32,203 outstanding at reporting date. 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. All options must be exercised no later than 5 October 2019. The exercise price for each option was zero for all of the options.

A further grant of 233,000 options was made on 15 January 2013 with an earliest vesting date of 1 January 2016. 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. All options must be exercised no later than 1 January 2020. The exercise price for each option was zero for all of the options.

The earliest vesting date for the ninth tranche of 41,855 options is 30 October 2016. During the year 4,356 options lapsed, leaving 37,499 outstanding at reporting date. 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. All options must be exercised no later than 5 October 2019. 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 49,350 fully paid shares in Austbrokers Holdings Limited at \$3.47, 70,100 at \$4.20 and 60,896 for no consideration. Consequently 180,346 ordinary shares were issued during the financial year.

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 Austbrokers Holdings 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.

REMUNERATION REPORT

This remuneration report ending on page 54, which has been subject to audit, outlines the remuneration arrangements in place for Directors and Executives of Austbrokers Holdings Limited (the company).

The Remuneration Report for the year ending 30 June 2013 received shareholder support at the 2013 AGM with a strong vote in favour.

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 predetermined performance benchmarks; and
- Establish appropriate, demanding performance hurdles for variable executive remuneration.

Remuneration and succession planning committee

The Remuneration and Succession Planning 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.

Remuneration structure

In accordance with the best practice corporate governance, the structure of Non-executive Director and Executive remuneration is separate and distinct.

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 Directors is 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 obtained last year from an external remuneration consultant to ensure that fees were in line with the current market. As a result of their recommendations, fees were increased from 1 April 2013.

Each Director receives a fee for being a Director of the company which includes a fee for each Board committee on which a Director sits. Following the recent review, the Chairman of the Audit and Risk Management Committee receives an additional fee recognising the additional workload that this position entails. Directors do not receive retirement benefits, nor do they participate in any incentive programs.

From 1 April 2013 each director received an annual fee of \$100,000 with the Chairman of the Audit and Risk Management Committee receiving an additional \$20,000. The Chairman of the Board receives an annual fee of \$170,000.

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

The remuneration of Non-executive Directors for the year ended 30 June 2014 is detailed in Table 2 of this report.

Senior Manager and Executive Director remuneration

Objective

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

- reward executives for company, business unit and individual performance against targets set by reference to appropriate benchmarks;
- align the interest of executives with those of shareholders;
- link rewards with the strategic goals and performance of the company; and
- ensure total remuneration is competitive by market standards.

Structure

It is the Remuneration Committee's policy that a fixed term employment contract is entered into only with the Chief Executive Officer and not with any other executives. Details of contracts are provided on page 48.

Remuneration consists of the following key elements:

- Fixed Remuneration.
- Variable Remuneration – Short Term Incentive (STI).
- Variable Remuneration – Long Term Incentive (LTI) or Medium Term Incentive (MTI).

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 policy to have fixed remuneration at market median and total remuneration at the upper quartile.

DIRECTORS' REPORT

YEAR ENDED 30 JUNE 2014

REMUNERATION REPORT (CONTINUED)

Senior Manager and Executive Director remuneration (continued)

To ensure the Remuneration Committee is fully informed when making remuneration decisions it seeks external remuneration advice. This process is 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 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 remuneration recommendations were provided.

Fixed remuneration

Objective

Fixed remuneration is reviewed annually by the Remuneration 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 6 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 of 10% growth in Adjusted NPAT (net of all STI costs) over the prior year to a maximum of 2 times if 20% achieved. 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 3 months of reporting date.

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

For the 2013 financial year, 95% of the STI cash bonus provided in the financial statements was paid in the 2014 financial year. The Remuneration Committee will consider the STI payments for the 2014 financial year in September 2014. The maximum amount available for the 2014 financial year is \$879,000. This amount has been provided for in the 2014 financial year based on the growth in the net profit after tax for the year over the prior year and assumes that executives will substantially achieve their individual performance objectives. The minimum amount of cash bonus is zero assuming no individual performance objectives are met.

Variable remuneration – long term incentive (LTI) and medium term incentive (MTI)

Objective

The objective of the LTI and MTI plans 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.

The MTI was introduced to recognise that as some personnel approach retirement, participation in the LTI scheme would not have met the objectives. Following the retirement of the past CEO the MTI only applies to one other KMP.

Structure

LTI grants to executives are delivered in the form of options and the MTI in the form of cash.

The use of Earnings Per Share Growth (EPSG) was selected for the LTI and MTI plans. The use of earnings per share growth was selected due to the lack of an appropriate comparator group for such measures as Total Shareholders Return (TSR). It is believed EPSG provides alignment between comparative shareholder return and reward for executives.

Relationship of rewards to performance

In assessing whether the performance hurdles for each grant have been met, the earnings per share (EPS) are adjusted for significant items where appropriate and are calculated before amortisation of intangibles.

Option exercise conditions

Exercise conditions:

- (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**");

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);
- (c) any Options which have not become exercisable by the Second Test Date lapse and are of no further force or effect.
- (d) Options granted in the 2010-2014 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.

- (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 200,000 of the options granted to the CEO are the same as set out above except 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 further 33,000 options granted to the CEO have no performance hurdles but are subject to the CEO still being in the employment of the Group at 1 January 2016.

The exercise conditions for the MTI are the same as for the CEO options. The period for testing the earnings per share growth for the MTI is modified to reflect the anticipated period of future service. The amount anticipated to be paid for the period to 30 June 2014 will be paid in the 2016 financial year subject to meeting vesting conditions. An amount of \$48,000 has been provided for in the 2014 financial year.

Company performance and the link to remuneration

Long term and medium term incentives are based on compound average annual growth in earnings per share. The table below sets out the basic earnings per share over the last 7 years and the increases achieved.

| Year to 30 June | Basic earnings per share – cents | Increase % |
|--------------------|-------------------------------------|------------|
| 2014 | 58.5** | (19.0) |
| 2013 | 72.2** | 56.0 |
| 2012 | 46.3 | 16.9 |
| 2011 | 39.6 | 12.2 |
| 2010 | 35.3 | 11.4 |
| 2009 | 31.7 | 11.0 |
| 2008 | 28.6 | 13.9 |
| 2007 | 25.1 | 25.5 |
| 2006 | 20.0* | N/A |

* Excluding abnormal profits on sale of equity interests occurring as part of Initial Public Offering process.

** Includes profit arising from adjustment to fair value on former associates becoming controlled entities of \$2.893 million in 2014 and \$12.277 million in 2013.

DIRECTORS' REPORT

YEAR ENDED 30 JUNE 2014

REMUNERATION REPORT (CONTINUED)

Company performance and the link to remuneration (continued)

Earnings per share based on Net Profit after Tax before amortisation of intangibles, adjustments to fair value on former associates becoming controlled entities, adjustments to contingent acquisition payments and profits on sale of portfolios of controlled entities increased by 6.5% over 2013. Compound average growth rate in earnings per share over the 5 years to 30 June 2014 on this basis was 10.8%.

Total annualised shareholder returns over the one year, three year and five year periods to 30 June 2014 were 2.3%, 28.3% and 41.7% respectively, confirming the alignment of executive remuneration to shareholder returns.

Based on the performance achieved, the option grants in 2005, 2006 and 2007 fully vested, 73% of the grants made in 2008, 69% of the grants made in 2009 and 78% on the grants made in 2010 vested. It is expected that 56% of the grants made in 2011 will vest based on the performance to 30 June 2014 with any further vesting subject to retesting based on performance over the 4 years to 30 June 2015.

Employment contracts

The CEO, Mr. Searles is employed under contract which terminates on 1 January 2016.

- From 1 July 2014, Mr. Searles receives fixed remuneration of \$615,322 per annum.
- Mr Searles was granted 200,000 options to subscribe for ordinary shares under the Senior Executive Option Plan which are subject to performance conditions.
- A further 33,000 options were granted to vest on 1 January 2016 and are not subject to any performance hurdles provided Mr Searles is an employee of a group company on that date.
- Mr. Searles may resign from his position and thus terminate this contract by giving 6 months written notice. On resignation any options will be forfeited.
- The company may terminate the contract at any time without notice if serious misconduct has occurred. Where termination with cause occurs, the CEO 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 three month 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

S. S. Rouvray
Chief Financial Officer and Company Secretary

F. Gualtieri
National Manager – Group Services and Support

F. Pasquini
Chief Distribution Officer

S. Vohra
Chief Operating Officer (appointed 2 September 2013)

K. Mclvor
Chief Broking Officer (appointed 29 July 2013)

T. Stevens
Chief Information Officer (appointed 1 July 2013)

G. J. Arms
General Manager – Equity Operations (ceased on 16 April 2014)

DIRECTORS' REPORT

YEAR ENDED 30 JUNE 2014

Table 1: Shareholdings of Key Management Personnel

| Shares held in Austbrokers Holdings Limited at 30 June 2014 | Balance at 01-Jul-13 | Shares acquired during year | Shares disposed during year | Balance at 30-Jun-14 |
|---|----------------------|-----------------------------|-----------------------------|----------------------|
| Directors | | | | |
| R. A. Longes | 113,615 | 3,925 | - | 117,540 |
| P. R. Shirriff | 100,000 | - | - | 100,000 |
| D. J. Harricks | 27,000 | - | - | 27,000 |
| R. J. Carless | 16,473 | 1,500 | - | 17,973 |
| D. C. Clarke | - | 2,500 | - | 2,500 |
| R. J. Low | - | - | - | - |
| M. P. L. Searles | - | - | - | - |
| Executives | | | | |
| S. S. Rouvray | 281,530 | 38,639 | - | 320,169 |
| F. Gualtieri | 55,294 | 6,916 | 25,000 | 37,210 |
| F. Pasquini | 35,871 | 7,276 | - | 43,147 |
| K. McIvor | - | - | - | - |
| S. Vohra | - | - | - | - |
| T. Stevens | - | - | - | - |
| G. J. Arms | 90,816 | 1,898 | - | 92,714 |
| Total | 720,599 | 62,654 | 25,000 | 758,253 |

| Shares held in Austbrokers Holdings Limited at 30 June 2013 | Balance at 01-Jul-12 | Shares acquired during year | Shares disposed during year | Balance at 30-Jun-13 |
|---|----------------------|-----------------------------|-----------------------------|----------------------|
| Directors | | | | |
| R. A. Longes | 109,168 | 4,447 | - | 113,615 |
| P. R. Shirriff | 100,000 | - | - | 100,000 |
| D. J. Harricks | 27,000 | - | - | 27,000 |
| R. J. Carless | 12,516 | 3,957 | - | 16,473 |
| M. P. L. Searles | - | - | - | - |
| W. L. McKeough (retired 31 December 2012) | 86,260 | 403,514 | 400,000 | 89,774 |
| Executives | | | | |
| S. S. Rouvray | 221,773 | 59,757 | - | 281,530 |
| F. Gualtieri | 50,000 | 90,415 | 85,121 | 55,294 |
| F. Pasquini | 30,229 | 41,742 | 36,100 | 35,871 |
| G. J. Arms | 92,249 | 16,067 | 17,500 | 90,816 |
| Total | 729,195 | 619,899 | 538,721 | 810,373 |

During the previous year, L. McKeough exercised 400,000 options. The shares acquired were sold on the same day as the options were exercised.

During the previous year, S. Rouvray, F. Gualtieri, F. Pasquini and G. Arms exercised 59,757, 90,415, 41,136 and 16,067 options respectively during the period. Of the shares acquired by F. Gualtieri and F. Pasquini 85,121 and 36,100 were sold on the same day as the options were exercised.

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 arms length.

DIRECTORS' REPORT

YEAR ENDED 30 JUNE 2014

Table 2: Compensation of Directors and other Key Management Personnel for the year-ended 30 June 2014 (Consolidated)

| 30 June 2014 | Short-term | | | Post employ- ment | Share- based Payment | Total \$ | Total perform- ance related \$ |
|--|------------------------|---------------------------------------|-----------------------------------|---------------------------|----------------------------|-------------|--|
| | Salary & fees \$ | Cash short term incentive \$ | Non monetary benefits \$ | Super- annuation \$ | Equity options \$ | | |
| Directors | | | | | | | |
| R. A. Longes Chairman | 155,606 | - | 1,295 | 14,394 | - | 171,295 | - |
| M. P. L. Searles Chief Executive | 537,032 | 136,000 | 42,494 | 25,000 | - | 740,526 | 18.37% |
| R. J. Carless Non-executive Director | 91,533 | - | 1,124 | 8,467 | - | 101,124 | - |
| D. J. Harricks Non-executive Director | 85,000 | - | 1,113 | 35,000 | - | 121,113 | - |
| R. J. Low Non-executive Director (appointed 3 February 2014) | 38,139 | - | - | 3,528 | - | 41,667 | - |
| D. C. Clarke Non-executive Director (appointed 3 February 2014) | 22,667 | - | - | 19,000 | - | 41,667 | - |
| P. R. Shirriff Non-executive Director (retired 20 November 2013) | 35,569 | - | - | 3,290 | - | 38,859 | - |
| Executives | | | | | | | |
| S. S. Rouvray Chief Financial Officer /Company Secretary | 264,759 | 195,822 | 46,835 | 34,383 | - | 541,799 | 36.14% |
| F. Gualtieri National Manager – Group Services and Support | 219,919 | 139,939 | 25,572 | 25,509 | 40,934 | 451,873 | 40.03% |
| F. Pasquini Chief Distribution Officer | 234,964 | 149,588 | 31,299 | 25,000 | 43,922 | 484,773 | 39.92% |
| K. McIvor Chief Broking Officer (appointed 29 July 2013) | 279,971 | - | 6,455 | 23,023 | 51,970 | 361,419 | 14.38% |
| S. Vohra Chief Operating Officer (appointed 2 September 2013) | 240,187 | - | 2,558 | 22,182 | 50,240 | 315,167 | 15.94% |
| T. Stevens Chief Information Officer (appointed 1 July 2013) | 228,661 | 129,279 | 47,770 | 23,423 | 40,421 | 469,554 | 36.14% |
| G. J. Arms General Manager – Equity Operations (ceased 16 April 2014) | 744,755 | 174,923 | 73,977 | 20,424 | 43,821 | 1,057,900 | 20.68% |
| | 3,178,762 | 925,551 | 280,492 | 282,623 | 271,308 | 4,938,736 | |

* For G.J Arms, who ceased being a key management personnel on 16 April 2014, salary includes accrued annual leave, long services leave and termination entitlements totalling \$589,024 paid out on termination.

DIRECTORS' REPORT

YEAR ENDED 30 JUNE 2014

Table 3: Compensation of Directors and other Key Management Personnel for the year-ended 30 June 2013 (Consolidated)

| | | | Short-term | Post employ- ment | Share- based Payment | | |
|---|------------------------|---------------------------------------|-----------------------------------|---------------------------|----------------------------|------------------|--|
| | Salary & fees \$ | Cash short term incentive \$ | Non monetary benefits \$ | Super- annuation \$ | Equity options \$ | Total \$ | Total perform- ance related \$ |
| 30 June 2013 | | | | | | | |
| Directors | | | | | | | |
| R. A. Longes Chairman | 142,202 | - | 4,460 | 12,798 | - | 159,460 | - |
| W. L. McKeough* Chief Executive (retired 31 December 2012) | 477,579 | 923,484 | 45,105 | 25,000 | - | 1,471,168 | 62.77% |
| M. P. L. Searles Chief Executive (appointed 1 January 2013) | 254,447 | - | 23,787 | 15,030 | 1,719,540 | 2,012,804 | 85.43% |
| R. J. Carless Non-executive Director | 77,982 | - | 6,129 | 7,018 | - | 91,129 | - |
| D. J. Harricks Non-executive Director | 70,625 | - | 6,253 | 25,000 | - | 101,878 | - |
| P. R. Shirriff Non-executive Director | 77,982 | - | 6,202 | 7,018 | - | 91,202 | - |
| Executives | | | | | | | |
| S. S. Rouvray Chief Financial Officer /Company Secretary | 269,802 | 161,609 | 32,869 | 24,182 | - | 488,462 | 33.09% |
| F. Gualtieri National Manager – Group Services and Support | 202,543 | 111,817 | 29,173 | 24,831 | 44,047 | 412,411 | 37.79% |
| F. Pasquini General Manager – Acquisition and Development | 222,086 | 107,371 | 33,605 | 24,889 | 47,262 | 435,213 | 35.53% |
| G. J. Arms General Manager – Equity Operations | 185,379 | 115,473 | 70,825 | 25,000 | 47,162 | 443,839 | 36.64% |
| | 1,980,627 | 1,419,754 | 258,408 | 190,766 | 1,858,011 | 5,707,566 | |

*For W.L. McKeough, salary and fees includes accrued annual leave and long services leave entitlements totalling \$264,125 paid out on retirement. Short term incentives includes \$177,600 in respect of other long term performance bonus.

DIRECTORS' REPORT

YEAR ENDED 30 JUNE 2014

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

| 30 June 2014 | 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 \$ | |
| Directors | | | | | | | |
| M. P. L. Searles | - | - | - | 0.00% | - | - | |
| Executives | | | | | | | |
| S. S. Rouvray | - | 82,657 | 746 | 0.00% | 38,639 | 2.33 | 12,689 |
| F. Gualtieri | 40,934 | 34,869 | 404 | 9.06% | 6,916 | 0.00 | 6,916 |
| F. Pasquini | 43,922 | 34,095 | 380 | 9.06% | 6,762 | 0.00 | 6,762 |
| S. Vohra | 50,240 | - | - | 15.94% | - | - | - |
| K. McIvor | 51,970 | - | - | 14.38% | - | - | - |
| T. Stevens | 40,421 | - | - | 8.61% | - | - | - |
| G. J. Arms | 43,821 | 37,415 | 147,246 | 4.14% | 7,421 | 0.00 | 7,421 |
| Total | 271,308 | 189,036 | 148,776 | | 59,738 | | 33,788 |

| 30 June 2013 | 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 \$ | |
| Directors | | | | | | | |
| M. P. L. Searles | 1,719,540 | - | - | 85.43% | - | - | - |
| W.L. McKeough | - | 370,646 | - | 0.00% | 400,000 | 3.96 | - |
| Executives | | | | | | | |
| S. S. Rouvray | - | 82,920 | 22,342 | 0.00% | 59,757 | 2.90 | 10,841 |
| F. Gualtieri | 44,047 | 116,343 | 12,123 | 10.68% | 90,415 | 3.41 | 5,882 |
| F. Pasquini | 47,262 | 50,210 | 11,532 | 10.86% | 41,136 | 3.05 | 5,595 |
| G. J. Arms | 47,162 | 37,919 | 12,950 | 10.63% | 16,067 | 2.73 | 6,283 |
| Total | 1,858,011 | 658,038 | 58,947 | | 607,375 | | 28,601 |

The amount unpaid per share for shares issued on exercise of options during 2014 and 2013 was \$NIL.

DIRECTORS' REPORT

YEAR ENDED 30 JUNE 2014

Table 5: Number of options granted as part of remuneration

| | | | Fair value per option at grant date | Exercise price per option | | | |
|----------------------------|----------------|---------------|---|---------------------------------|----------------|---------------------------|--------------------------|
| Year ended 30 June 2014 | Granted no. | Grant date | (\$) (Note 18) | (\$) (Note 18) | Expiry date | First exercise date | Last exercise date |
| Executives | | | | | | | |
| M. P. L. Searles | - | - | - | - | - | - | - |
| S. S. Rouvray | - | - | - | - | - | - | - |
| F. Gualtieri | 4,069 | 30-Oct-13 | 10.06 | 0.00 | 30-Oct-20 | 30-Oct-16 | 30-Oct-20 |
| F. Pasquini | 4,366 | 30-Oct-13 | 10.06 | 0.00 | 30-Oct-20 | 30-Oct-16 | 30-Oct-20 |
| S. Vohra | 4,994 | 30-Oct-13 | 10.06 | 0.00 | 30-Oct-20 | 30-Oct-16 | 30-Oct-20 |
| K. McIvor | 5,166 | 30-Oct-13 | 10.06 | 0.00 | 30-Oct-20 | 30-Oct-16 | 30-Oct-20 |
| T. Stevens | 4,018 | 30-Oct-13 | 10.06 | 0.00 | 30-Oct-20 | 30-Oct-16 | 30-Oct-20 |
| G. J. Arms* | 4,356 | 30-Oct-13 | 10.06 | 0.00 | 30-Oct-20 | 30-Oct-16 | 30-Oct-20 |
| Total | 26,969 | | | | | | |

For options granted in the 2014, 2013, 2012 and 2011 financial years, where options are exercised within two years after the date the options vest, the shares cannot be disposed of prior to the expiry of the two year period from the date the options vested, except if employment is terminated.

*G.J Arms ceased to be a KMP on 16 April 2014.

| | | | Fair value per option at grant date | Exercise price per option | | | |
|----------------------------|----------------|---------------|---|---------------------------------|----------------|---------------------------|--------------------------|
| Year ended 30 June 2013 | Granted no. | Grant date | (\$) (Note 18) | (\$) (Note 18) | Expiry date | First exercise date | Last exercise date |
| Executives | | | | | | | |
| M. P. L. Searles | 233,000 | 15-Jan-13 | 7.38 | 0.00 | 1-Jan-20 | 1-Jan-16 | 1-Jan-20 |
| S. S. Rouvray | - | 31-Oct-12 | 7.71 | 0.00 | 31-Oct-19 | 31-Oct-15 | 31-Oct-19 |
| F. Gualtieri | 5,713 | 31-Oct-12 | 7.71 | 0.00 | 31-Oct-19 | 31-Oct-15 | 31-Oct-19 |
| F. Pasquini | 6,130 | 31-Oct-12 | 7.71 | 0.00 | 31-Oct-19 | 31-Oct-15 | 31-Oct-19 |
| G. J. Arms | 6,117 | 31-Oct-12 | 7.71 | 0.00 | 31-Oct-19 | 31-Oct-15 | 31-Oct-19 |
| Total | 250,960 | | | | | | |

For options granted in the 2013, 2012 and 2011 financial years, where options are exercised within two years after the date the options vest, the shares cannot be disposed of prior to the expiry of the two year period from the date the options vested, except if employment is terminated.

The options issued to M. Searles were valued using the dividend yield method resulting in an option price of \$7.38. Options issued on 31 October 2012 were valued using the volume weighted average share price for the 5 business days prior to the date the options were issued.

DIRECTORS' REPORT

YEAR ENDED 30 JUNE 2014

Table 6: Option holdings of Key Management Personnel

| | | | | | | Total options at year end | |
|------------------------------|--|-------------------------|-------------------|---------------------------|------------------------------------|---------------------------|-----------------------------|
| Options held at 30 June 2014 | Balance at beginning of period 01-Jul-13 | Granted as remuneration | Options exercised | Options lapsed/ forfeited | Balance at end of period 30-Jun-14 | Vested/ exercisable | Not vested /not exercisable |
| Director | | | | | | | |
| M. P. L. Searles | 233,000 | - | - | - | 233,000 | - | 233,000 |
| Executives | | | | | | | |
| S. S. Rouvray | 111,943 | - | 38,639 | 155 | 73,149 | 60,567 | 12,582 |
| F. Gualtieri | 21,365 | 4,069 | 6,916 | 84 | 18,434 | 1,809 | 16,625 |
| F. Pasquini | 56,949 | 4,366 | 6,762 | 79 | 54,474 | 37,225 | 17,249 |
| G. J. Arms | 22,895 | 4,356 | 7,421 | 19,830 | - | - | - |
| S. Vohra | - | 4,994 | - | - | 4,994 | - | 4,994 |
| K. McIvor | - | 5,166 | - | - | 5,166 | - | 5,166 |
| T. Stevens | 5,642 | 4,018 | - | - | 9,660 | - | 9,660 |
| Total | 451,794 | 26,969 | 59,738 | 20,148 | 398,877 | 99,601 | 299,276 |

The outstanding options have an exercise price ranging from \$3.47 for options issued in 2006 to \$4.20 for options issued in 2007 financial year. All options outstanding for later years have an exercise price of zero.

During the current year a total of 41,855 zero priced options were issued (26,969 to KMP).

Unvested options granted to G Arms, including those issued in the current year, lapsed on the day he ceased being an employee.

| | | | | | | Total options at year end | |
|------------------------------|--|-------------------------|-------------------|---------------------------|------------------------------------|---------------------------|-----------------------------|
| Options held at 30 June 2013 | Balance at beginning of period 01-Jul-12 | Granted as remuneration | Options exercised | Options lapsed/ forfeited | Balance at end of period 30-Jun-13 | Vested/ exercisable | Not vested /not exercisable |
| Director | | | | | | | |
| W. L. McKeough | 470,100 | | 400,000 | | 70,100 | 70,100 | |
| M. P. L. Searles | - | 233,000 | - | - | 233,000 | - | 233,000 |
| Executives | | | | | | | |
| S. S. Rouvray | 176,346 | - | 59,757 | 4,646 | 111,943 | 84,284 | 27,659 |
| F. Gualtieri | 108,588 | 5,713 | 90,415 | 2,521 | 21,365 | 588 | 20,777 |
| F. Pasquini | 94,353 | 6,130 | 41,136 | 2,398 | 56,949 | 36,012 | 20,937 |
| G. J. Arms | 35,538 | 6,117 | 16,067 | 2,693 | 22,895 | 628 | 22,267 |
| Total | 884,925 | 250,960 | 607,375 | 12,258 | 516,252 | 191,612 | 324,640 |

The outstanding options have an exercise price ranging from \$3.47 for options issued in 2006 to \$4.20 for options issued in 2007 financial year. All options outstanding for later years have an exercise price of zero.

During the current year a total of 271,320 zero priced options were issued (250,960 to KMP).

W.L. McKeough, had 70,100 options outstanding at 30 June 2013. These are required to be exercised no later than 29 August 2013.

No loans have been advanced to Key Management Personnel during the current year (2013: NIL).

DIRECTORS' REPORT

YEAR ENDED 30 JUNE 2014

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 & succession planning |
| No. of meetings held: | 6 | 5 | 4 | 2 |
| No. of meetings attended: | | | | |
| R. A. Longes | 6 | 5 | 4 | 2 |
| M. P. L. Searles | 6 | N/A | N/A | N/A |
| R. J. Carless | 6 | 5 | 4 | 2 |
| D. C. Clarke | 3 | 2 | 1 | 1 |
| R. J. Low | 3 | 2 | 1 | 1 |
| D. J. Harricks | 6 | 5 | 4 | 2 |
| P. R. Shirriff | 2 | 2 | 2 | 1 |

Mr Searles was not a member of any Committee. All other Directors were eligible to attend all meetings held except Mr Clarke and Ms Low who were both appointed on 3 February 2014 and Mr Shirriff who retired on 20 November 2013. All Directors attended all meetings held during the year in the period in which they were Directors.

Committee membership

As at the date of this report, the company had an Audit and Risk Management Committee, Remuneration and Succession Planning 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 |
|---------------------------------|---------------------------------|---------------------------------|
| D. J. Harricks (Chairman) | R. A. Longes (Chairman) | R. A. Longes (Chairman) |
| R. J. Carless | R. J. Carless | R. J. Carless |
| R. A. Longes | D. J. Harricks | D. J. Harricks |
| P. R. Shirriff (ret 20/11/2013) | P. R. Shirriff (ret 20/11/2013) | P. R. Shirriff (ret 20/11/2013) |
| D. C. Clarke (from 03/02/2014) | D. C. Clarke (from 03/02/2014) | D. C. Clarke (from 03/02/2014) |
| R. J. Low (from 03/02/2014) | R. J. Low (from 03/02/2014) | R. J. Low (from 03/02/2014) |

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 98/0100. 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 Austbrokers Holdings Limited. Refer to page 56 of the Directors' Report.

Non-audit services were provided in relation to taxation matters to the Austbrokers Group by the entity's auditor, Ernst & Young in the financial year ended 30 June 2014.

The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The nature and scope of each of the non-audit services provided means that auditor independence was not compromised. The amounts received or due to be received are detailed in Note 24 of the Financial Report.

Signed in accordance with a resolution of the Directors.



M. P. L. Searles
Director

Sydney, 28 August 2014

AUDITOR'S INDEPENDENCE DECLARATION



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

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

Auditor's Independence Declaration to the Directors of Austbrokers Holdings Limited

In relation to our audit of the financial report of Austbrokers Holdings Limited for the financial year ended 30 June 2014, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Ernst & Young

Mark Raumer
Partner
Sydney
28 August 2014

CORPORATE GOVERNANCE STATEMENT

The Board of Directors of Austbrokers Holdings Limited is responsible for the corporate governance of the consolidated entity. The Board guides and monitors the business and affairs of Austbrokers Holdings Limited on behalf of the shareholders by whom they are elected and to whom they are accountable.

Austbrokers Holdings Limited's Corporate Governance Statement is structured with reference to the ASX Corporate Governance Council's principles and recommendations, which are as follows;

- Principle 1 Lay solid foundations for management and oversight
- Principle 2 Structure the Board to add value
- Principle 3 Promote ethical and responsible decision making
- Principle 4 Safeguard integrity in financial reporting
- Principle 5 Make timely and balanced disclosure
- Principle 6 Respect the rights of shareholders
- Principle 7 Recognise and manage risk
- Principle 8 Remunerate fairly and responsibly

Austbrokers Holdings Limited's corporate governance practices were in place throughout the year ended 30 June 2014 and were fully compliant with the Council's best practice recommendations.

The responsibilities of the Board of Directors and those functions reserved to the Board together with the responsibilities of the Chief Executive Officer are set out in a Board Charter.

To ensure compliance with the principles the company has established Board Committees and a number of policies and procedures including:

- Code of Conduct
- Whistleblower Policy
- Securities Trading Policy
- Risk Management Policy Summary
- Continuous Disclosure Policy
- Board/Directors' Performance Evaluation
- Communications Policy
- Diversity Policy

For further information on corporate governance policies adopted by Austbrokers Holdings Limited including the Board Charter, Board Committee Terms of Reference and the policies and procedures referred to above, refer to the Corporate Governance Section under the About Us tab on our website:

www.austbrokers.com.au

Board functions

The Board seeks to identify the expectations of shareholders, as well as other regulatory and ethical expectations and obligations. In addition, the Board is responsible for identifying areas of significant business risk and ensuring arrangements are in place to adequately manage those risks.

To ensure that the Board is well equipped to discharge its responsibilities it has established guidelines for the nomination and selection of directors and the operation of the Board.

The responsibility for the operation and administration of the Group is delegated, by the Board to the CEO and the executive management team. The Board ensures that this team is appropriately qualified and experienced to discharge their responsibilities and has in place procedures to assess the performance of the CEO and the executive management team.

Whilst at all times the Board retains full responsibility for guiding and monitoring the Group, in discharging its stewardship it makes use of sub-committees.

To this end the Board has established an Audit and Risk Management Committee, a Nomination Committee and a Remuneration and Succession Planning Committee. The roles of these committees are discussed throughout this corporate governance statement. Due to the relatively small Board all Board members are members of all committees.

The Board is responsible for ensuring that management's objectives and activities are aligned with expectations and risks identified by the Board. The Board has a number of mechanisms in place to ensure this is achieved including:

- Board approval of a strategic plan designed to meet stakeholders needs and manage business risk.
- Ongoing development of the strategic plan and approving initiatives and strategies designed to ensure the continued growth and success on the entity.
- Implementation of budgets by management and monitoring progress against budget through the establishment of both financial and non financial key performance indicators.

Other functions reserved to the Board are:

- Approval of annual and half yearly financial reports.
- Approving and monitoring the progress of major acquisitions and divestitures.
- Ensuring any significant risks that arise are identified, assessed, appropriately managed and monitored.
- Reporting to shareholders.

CORPORATE GOVERNANCE STATEMENT

Structure of the Board

The skills, experience and expertise relevant to the position of Director held by each Director in office at the date of the annual report is included in the Directors' Report. Directors of Austbrokers Holdings Limited are considered to be independent when they are independent of management and free from any business or other relationship that could materially interfere with – or could reasonably be perceived to materially interfere with – the exercise of their unfettered and independent judgment.

In the context of Director independence, 'materiality' is considered from both the company and individual Director perspective. The determination of materiality requires consideration of both quantitative and qualitative elements. An item is presumed to be quantitatively immaterial if it is equal to or less than 5% of the appropriate base amount. It is presumed to be material (unless there is qualitative evidence to the contrary) if it is equal to or greater than 10% of the appropriate base amount. Qualitative factors considered include whether a relationship is strategically important, the competitive landscape, the nature of the relationship and the contractual or other arrangements governing it and other factors that point to the actual ability of the Director in question to shape the direction of the company's loyalty.

In accordance with the definition of independence above, the materiality thresholds set, the following Directors of Austbrokers Holdings Limited constituting a majority of directors are considered to be independent:

| Name | Position |
|----------------|----------------------------------|
| R. A. Longes | Chairman, Non-executive Director |
| R. J. Carless | Non-executive Director |
| D. C. Clarke | Non-executive Director |
| D. J. Harricks | Non-executive Director |
| R. J. Low | Non-executive Director |

There are procedures in place, agreed by the Board, to enable Directors in furtherance of their duties to seek independent professional advice at the company's expense.

The term in office held by each Director in office at the date of this report is as follows:

| Name | Term in office |
|------------------|----------------|
| R. A. Longes | 9 years |
| M. P. L. Searles | 20 months |
| R. J. Carless | 4 years |
| D. C. Clarke | 7 months |
| D. J. Harricks | 9 years |
| R. J. Low | 7 months |

For additional details regarding Board appointments, please refer to information included in the Directors' Report and on our website.

Performance

The performance of the Board and key executives is reviewed regularly against both measurable and qualitative indicators. During the reporting period, the Nomination Committee and the Remuneration and Succession Planning Committee conducted performance evaluations as set out in the Performance Evaluation Policy that involved an assessment of each Board member's and key executive's performance against specific and measurable qualitative and quantitative performance criteria. The performance criteria against which directors and executives are assessed are aligned with the financial and non-financial objectives of Austbrokers Holdings Limited. Directors whose performance is consistently unsatisfactory may be asked to retire.

Securities trading policy

Under the company's securities trading policy, an executive or director must not trade in any securities of the company at any time when they are in possession of un-published price sensitive information in relation to those securities.

Before commencing to trade, an executive must first notify the Company Secretary of their intention to do so and senior executives and directors must first obtain approval of the Chairman. Only in exceptional circumstances will approval be given by the Chairman to trade outside any of the 6 week periods which commence immediately after the announcement of the half yearly result or the full year results, the annual general meeting or the date of the release of a disclosure document offering equity securities in the company.

As required by the ASX Listing Rules, the company notifies the ASX of any transaction conducted by directors in the securities of the company.

Nomination Committee

The Board has established a Nomination Committee, which meets at least annually, to ensure that the Board continues to operate within the established guidelines, including when necessary selecting candidates for the position of Director. The Nomination Committee operates under Terms of Reference approved by the Board and comprises all Non-executives Directors. The Nomination Committee comprised of the following:

R. A. Longes (Committee Chairman)
R. J. Carless
D. J. Harricks
P. R. Shirriff (retired 20 November 2013)
D. C. Clarke (appointed 03 February 2014)
R. J. Low (appointed 03 February 2014)

For details on the number of meetings of the Audit and Risk Management Committee held during the year and the attendees at those meetings, refer to the Directors' Report.

Audit and Risk Management Committee

The Board has established an Audit and Risk Management Committee, which operates under Terms of Reference approved by the Board. It is the Board's responsibility to monitor that management fulfil their responsibility to ensure

CORPORATE GOVERNANCE STATEMENT

that an effective internal control framework exists within the entity. This includes internal controls to deal with both the effectiveness and efficiency of significant business processes, the safeguarding of assets, the maintenance of proper accounting records, and the reliability of financial information as well as non-financial considerations such as the benchmarking of operational key performance indicators. The Board has delegated responsibility for establishing and maintaining a framework of internal control and ethical standards to the Audit and Risk Management Committee.

The Committee also provides the Board with additional assurance regarding the reliability of financial information for inclusion in the financial reports. All members of the Audit and Risk Management Committee are Non-executive Directors.

The members of the Audit and Risk Management Committee during the year, who were all considered independent, were:

D. J. Harricks (Committee Chairman)
R. J. Carless
R. A. Longes
P. R. Shirriff (retired 20 November 2013)
D. C. Clarke (appointed 03 February 2014)
R. J. Low (appointed 03 February 2014)

The Audit Committee is responsible for monitoring the external audit process. The company has established a summary of procedures for ensuring the rotation, independence and competence of the external auditor which can be found on the company's website.

For details on the number of meetings of the Audit and Risk Management Committee held during the year and the attendees at those meetings, refer to the Directors' Report.

Risk

The identification and effective management of risk, including calculated risk taking is viewed as an essential part of the Group approach to creating long term shareholder value. A policy for risk management has been established by the Board.

Management, through the Chief Executive, is responsible for designing, implementing and reporting on the adequacy of the Group's risk management and internal control system. Management reports to the Board Audit and Risk Management Committee on the Group's key risks and the extent to which it believes these risks are being managed. This is performed on a quarterly basis or more frequently as required by the Board or relevant sub-committee.

The Board is responsible for satisfying itself that management has developed and implemented a sound system of risk management and internal control. Detailed work on this task is delegated to the Board Audit and Risk Management Committee and reviewed by the Board. The Board Audit and Risk Management Committee also oversees the adequacy and comprehensiveness of risk reporting from management.

A standardised approach to risk assessment is used across the Group to ensure that risks are consistently assessed and reported to an appropriate level of management, and to the Board as appropriate.

The Group carries out risk specific management activities in four core areas; strategic risk, operational risk, reporting risk and compliance in accordance with Australian/New Zealand Standard for Risk Management (AS/NZS 4360 Risk Management) and the Committee of Sponsoring Organisations of the Treadway Commission (COSO) risk framework.

Detailed internal control questionnaires are completed by key finance managers in relation to financial and other risk reporting on a six monthly basis. These are reviewed by our senior finance team as part of our half yearly reporting to the market and to achieve compliance with section 295A of the Corporations Act and Recommendation 7.3 of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations.

A detailed compliance program in the insurance broking operations also operates to ensure the Group meets its regulatory obligations. Executive risk management committees also meet regularly to deal with specific areas of risk such as compliance, occupational health and safety and financial risk and report to the Board through the Audit and Risk Management Committee as to the company's management of its material business risks.

The Board also receives a written assurance from Chief Executive Officer (CEO) and the Chief Financial Officer (CFO) that to the best of their knowledge and belief, the declaration provided by them in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in relation to financial reporting risks. The Board notes that due to its nature, internal control assurance from the CEO and CFO can only be reasonable rather than absolute. This is due to such factors as the need for judgment, the use of testing on a sample basis, the inherent limitations in internal control and because much of the evidence available is persuasive rather than conclusive and therefore is not and cannot be designed to detect all weaknesses in control procedures.

CORPORATE GOVERNANCE STATEMENT

Remuneration and Succession Planning Committee

It is the company's objective to provide maximum stakeholder benefit from the retention of a high quality Board and executive team by remunerating Directors and key executives fairly and appropriately with reference to relevant employment market conditions. To assist in achieving this objective, the Remuneration and Succession Committee links the nature and amount of executive Directors' and officers' emoluments to the company's financial and operational performance. The expected outcomes of the remuneration structure are:

- Retention and motivation of key executives;
- Attraction of high quality management to the company; and
- Performance incentives that allow executives to share the success of Austbrokers Holdings Limited; and
- Retention and performance of Directors.

For a full discussion of the company's remuneration philosophy and framework and the remuneration received by Directors and executives in the current period please refer to the remuneration report, which is contained within the Directors' Report.

There is no scheme to provide retirement benefits, other than statutory superannuation, to Non-executive Directors.

The Board is responsible for determining and reviewing compensation arrangements for the Directors themselves and the Chief Executive Officer and executive team. The Board has established a Remuneration and Succession Planning Committee through the year, comprising all Non-executive Directors. Members of the committee, who were all considered independent, throughout the year were:

R. A. Longes (Committee Chairman)
R. J. Carless
D. J. Harricks
P. R. Shirriff (retired 20 November 2013)
D. C. Clarke (appointed 03 February 2014)
R. J. Low (appointed 03 February 2014)

For details on the number of meetings of the Remuneration and Succession Committee held during the year and the attendees at those meetings, refer to the Directors' Report.

Shareholder Communication Policy

The company's objective is to promote effective communication with its shareholders at all times. It is committed to:

- Ensuring shareholders and the financial markets are provided with full and timely information about the Company's activities in a balanced and understandable way.
- Complying with continuous disclosure obligations contained in the ASX listing rules and the Corporations Act in Australia.
- Communicating with its shareholders and making it easier for shareholders to communicate with the Company.

To promote effective communication with shareholders and encourage participation at general meetings, information is communicated to shareholders:

- Through the release of information to the market via the ASX.
- Through the distribution of the annual report and notices of annual general meeting.
- Through shareholder meetings and investor relation presentations.
- By posting relevant information on Austbrokers Holdings Limited's website: www.austbrokers.com.au

The Company's website has a dedicated investor relations section for the purposes of publishing all important company information and relevant announcements made to the market.

The external auditors are required to attend the annual general meeting and are available to answer any shareholder questions about the conduct of the audit and preparation of the audit report.

Diversity Policy

The company recognises that to remain competitive in today's commercial environment it is necessary to focus on developing a talented and diversified workforce. Austbrokers is committed to developing the quality and skills of its people and by encouraging diversity at all levels of the organisation to enable individuals to realise their maximum potential.

To achieve this, a Diversity Policy has been put in place. The primary function of the Diversity Policy is to:

- ensure that individuals are treated equitably, with a level of mutual respect;
- reduce bias and prejudice;
- develop a range of practices and guidelines that actively counteracts bias or prejudice;
- promote inclusive practices including gender equality and
- encourage all individuals to communicate respectfully and fairly.

Through the implementation of this Diversity Policy, Austbrokers seeks to achieve the following objectives:

- to promote a corporate culture which embraces diversity when determining the composition of employees, senior management and the board, including recruitment of employees and directors from a diverse pool of qualified candidates;
- maximise the pool of potential job applicants and improve their chances to recruit the right person first time, every time;
- become the employer of choice, reducing the costs of recruitment and improving retention;
- make more effective use of human capital, improve workforce morale, reduce staff turnover, sickness and absenteeism;
- safeguard the organisation with good succession planning and knowledge transfer;
- gain goodwill in the community and improve business profile;

CORPORATE GOVERNANCE STATEMENT

- exploit links to increase sales to new customers and clients from minority communities;
- develop the capacity of the workforce to do business with all sections of the community;
- provide better customer service, respond effectively to change in the marketplace, and become the supplier of choice;
- encourage employees to develop to their fullest potential and utilise the talents and resources of the workforce to maximise the efficiency of the organisation; and
- comply with relevant equality legislation, codes of practice and relevant best practice guidelines.

The Diversity Policy is overseen by the Remuneration and Succession Planning Committee of the Board. Management reports to the committee on a six monthly basis on the status of the implementation of the Policy and the progress towards achieving its objectives.

Austbrokers is committed to developing, promoting and retaining women. Our commitment to women in leadership comprises a range of initiatives including:

- Board Nomination Committee includes recognition of the need for gender diversity in its Charter;
- Implementing recruitment procedures to ensure equal numbers of male and female candidates are put forward for Senior Management and Board positions;
- Highlighting promotion of women in Network communications including website;
- Mentoring and career resiliency programs embedding equal opportunity to senior positions into recruitment and selection policies;
- Attracting and promoting talented women into management positions;
- Updating organisation policies and procedures (e.g. work life balance, senior executive meetings to be held in office hours), policies for career planning (mentoring), encourage promotion from within;
- Providing human resources policies that help women balance their work, life and family responsibilities;
- Combining the Austbrokers Young Leaders staff training programme with career progression focus; and
- Developing and implementing measurable gender diversity objectives to monitor progress.

Austbrokers seeks to reap the benefits of equal opportunity for women in the workplace programs through increased employee effectiveness, attracting and retaining the best talent, improving morale and increasing consumer and market responsiveness.

A survey of the makeup of the work force across Austbrokers and its majority owned entities is conducted annually (the most recent in April 2014) to monitor gender diversity in leadership, management and support roles. The results of the survey indicated that females made up 62% of total employees and were well represented in management roles at 54% but representation fell to 12% when considering leadership roles. In addition, there are currently no females in the Austbrokers senior management group.

The nature of Austbrokers diversified individual insurance broking businesses (the majority with outside shareholding held by the businesses' management) does allow for females to develop into leadership roles in those businesses. By its nature however, it does not have management progression from those businesses through to Austbrokers into what is a relatively small specialist senior management group and this provides challenges in increasing females in leadership roles.

Objectives were set in 2011 as follows:

- A female board member to be appointed by 2015.
- Increase number of women in the leadership group by 10% by 2014.
- Increase the number of women in management roles by 10% by 2013.

During the year a female director was appointed which has met the first objective.

The number of women in management roles increased from the base period from 49% to 54% which achieved the third objective above. New acquisitions in the group with lower proportions of female leaders and managers have reduced the overall proportion of females in leadership roles from around 20% in August 2012. Continuing focus will be given to increasing female representation in leadership roles. A further survey will be undertaken in April 2015 to monitor progress in achieving the objective of 10% increase.

Workplace Gender Equality

Austbrokers Holdings Limited lodged its 2013-14 report to the Workplace Gender Equality Agency and covers 26 insurance businesses within the Austbrokers Network where the equity holding was greater than 50%. A copy of the public version of the report may be accessed on the Austbrokers website www.austbrokers.com.au.

INCOME STATEMENT

YEAR ENDED 30 JUNE 2014

| | | Consolidated | |
|--|-------------------------|----------------|----------------|
| | Notes | 2014 \$'000 | 2013 \$'000 |
| Revenue | 4 (i) | 172,966 | 142,180 |
| Other income | 4 (ii) | 5,973 | 6,490 |
| Share of profit of associates | 4 (iii) | 19,806 | 19,370 |
| Expenses | 4 (iv) | (144,754) | (118,614) |
| Finance costs | 4 (v) | (3,333) | (3,081) |
| | | 50,658 | 46,345 |
| Income arising from adjustments to carrying values of associates, sale of interests in associates, controlled entities and broking portfolios | | | |
| – Adjustments to carrying value of associates | 4(vi), 7(f),(g),(s),(t) | 3,867 | 12,001 |
| – Profit/(loss) from sale of interests in controlled entities, broking portfolios and contingent consideration adjustments | 4(vii) | (512) | 412 |
| Profit before income tax | | 54,013 | 58,758 |
| Income tax expense | 5 | 11,611 | 11,221 |
| Net profit after tax for the period | | 42,402 | 47,537 |
| Net profit after tax for the period attributable to: | | | |
| Equity holders of the parent | | 34,655 | 41,203 |
| Non-controlling interests | | 7,747 | 6,334 |
| | | 42,402 | 47,537 |
| Basic earnings per share (cents per share) | 6 | 58.5 | 72.2 |
| Diluted earnings per share (cents per share) | 6 | 58.0 | 71.5 |

STATEMENT OF COMPREHENSIVE INCOME

YEAR ENDED 30 JUNE 2014

| | Consolidated | | |
|---|--------------|----------------|----------------|
| | Notes | 2014 \$'000 | 2013 \$'000 |
| Net profit after tax for the period | | 42,402 | 47,537 |
| Other comprehensive income | | | |
| Other comprehensive income | | - | - |
| Income tax (expense) relating to components of other comprehensive income | | - | - |
| Other comprehensive income after income tax for the period | | - | - |
| Total comprehensive income after tax for the period | | 42,402 | 47,537 |
| Total comprehensive income after tax for the period attributable to: | | | |
| Equity holders of the parent | | 34,655 | 41,203 |
| Non-controlling interests | | 7,747 | 6,334 |
| | | 42,402 | 47,537 |

STATEMENT OF FINANCIAL POSITION

YEAR ENDED 30 JUNE 2014

| | Notes | Consolidated | |
|--|-------|----------------|----------------|
| | | 2014 \$'000 | 2013 \$'000 |
| Assets | | | |
| <i>Current assets</i> | | | |
| Cash and cash equivalents | 7 | 43,970 | 38,083 |
| Cash and cash equivalents – trust | 7 | 108,187 | 112,610 |
| Trade and other receivables | 9 | 182,736 | 156,698 |
| Other financial assets | 10 | 71 | 1,716 |
| Total current assets | | 334,964 | 309,107 |
| <i>Non-current assets</i> | | | |
| Trade and other receivables | 11 | 44 | 264 |
| Other financial assets | 12 | 620 | 424 |
| Investment in associates | 13 | 103,301 | 82,169 |
| Property, plant and equipment | 15 | 8,157 | 7,455 |
| Intangible assets and goodwill | 16 | 174,220 | 158,639 |
| Deferred income tax asset | 5 | 5,175 | 6,006 |
| Total non-current assets | | 291,517 | 254,957 |
| Total assets | | 626,481 | 564,064 |
| Liabilities | | | |
| <i>Current liabilities</i> | | | |
| Trade and other payables | 19 | 273,325 | 253,395 |
| Income tax payable | 5 | 5,617 | 6,071 |
| Provisions | 20 | 10,182 | 9,963 |
| Interest bearing loans and borrowings | 21 | 11,562 | 10,132 |
| Total current liabilities | | 300,686 | 279,561 |
| <i>Non-current liabilities</i> | | | |
| Trade and other payables | 19 | 2,479 | - |
| Provisions | 20 | 2,520 | 2,469 |
| Deferred tax liabilities | 5 | 8,904 | 8,883 |
| Interest bearing loans and borrowings | 21 | 42,313 | 42,753 |
| Total non-current liabilities | | 56,216 | 54,105 |
| Total liabilities | | 356,902 | 333,666 |
| Net assets | | 269,579 | 230,398 |
| Equity | | | |
| Issued capital | 22 | 108,339 | 90,586 |
| Retained earnings | | 114,836 | 100,390 |
| Share based payments reserve | 22 | 5,296 | 5,173 |
| Asset revaluation reserve | 22 | 1,000 | 1,500 |
| Equity attributable to equity holders of the parent | | 229,471 | 197,649 |
| Non-controlling interests | | 40,108 | 32,749 |
| Total equity | | 269,579 | 230,398 |

STATEMENT OF CASH FLOWS

YEAR ENDED 30 JUNE 2014

| | Notes | Consolidated | |
|--|--|-----------------|----------------|
| | | 2014 \$'000 | 2013 \$'000 |
| Cash flows from operating activities | | | |
| Receipts from customers | | 167,420 | 127,250 |
| Net (decrease)/increase in cash held in customer trust accounts | | (4,423) | 11,230 |
| Dividends received from others | | 46 | 62 |
| Dividends/trust distributions received from associates | | 17,116 | 17,215 |
| Interest received | | 4,210 | 4,491 |
| Management fees received from associates/related entities | | 6,673 | 3,524 |
| Payments to suppliers and employees | | (143,443) | (110,476) |
| Interest paid | | (3,316) | (3,164) |
| Income tax (paid) | | (12,251) | (10,962) |
| Net cash flows from operating activities | 7 (a) | 32,032 | 39,170 |
| Cash flows from investing activities | | | |
| Proceeds from reduction in interests in controlled entities | 7(b),(c),(d),(f) | 5,330 | 3,015 |
| Payment for increase in interests in controlled entities | 7(e),(g) | - | (1,757) |
| Net proceeds from/(payments) for new consolidated entities, net of cash acquired | 7(s),(t),(u),(v),(w) (x),(y),(z),(aa) | 295 | 8,367 |
| Payment for new associates | 7(h),(i),(k),(l),(m), (n),(o),(p),(q) | (12,435) | (3,235) |
| Payment for new broking portfolios purchased by members of the economic entity | 7(ab) | (1,337) | (5,725) |
| Proceeds from sale of broking portfolios by member of the economic entity | 7(ac) | 330 | 953 |
| Proceeds from sale of associates | 7(ad),(ae) | 318 | - |
| Proceeds from sale of controlled entity (net of cash disposed) | 7(af) | - | 199 |
| Proceeds from/(payment for) purchases/sale of other financial assets | | 58 | (228) |
| Proceeds from sale of plant and equipment | | 145 | 246 |
| Payment for plant and equipment | | (2,500) | (1,534) |
| Advances of mortgages to associates/related entities | | (4,350) | (300) |
| Proceeds from mortgage repayments from associates/related entities | | 5,763 | 30 |
| Net cash flows (used in)/from investing activities | | (8,383) | 31 |
| Cash flows from financing activities | | | |
| Dividends paid to shareholders | | (10,621) | (8,323) |
| Dividends paid to shareholders of non controlling interests | | (6,745) | (5,097) |
| Proceeds from issue of share capital | | 6,940 | 2,414 |
| Payment for contingent consideration on prior year acquisitions | | (7,938) | (3,022) |
| (Repayment) of/Increase in borrowings and lease liabilities | | (2,010) | 9,469 |
| Repayments from related entities | | (1,811) | 449 |
| Net cash flows (used in) financing activities | | (22,185) | (4,110) |
| Net increase in cash and cash equivalents | | 1,464 | 35,091 |
| Cash and cash equivalents at beginning of the period | | 150,693 | 115,602 |
| Cash and cash equivalents at end of period | 7 (a) | 152,157 | 150,693 |

STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 30 JUNE 2014

| Consolidated | Attributable to equity holders of the parent | | | | | Non-controlling interest \$'000 | Total equity \$'000 |
|--|--|--------------------------|----------------------------------|------------------------------------|--------------|---------------------------------|---------------------|
| | Issued capital \$'000 | Retained earnings \$'000 | Asset revaluation reserve \$'000 | Share based payment reserve \$'000 | Total \$'000 | | |
| At 1 July 2012 | 76,036 | 77,017 | 2,109 | 3,873 | 159,035 | 13,255 | 172,290 |
| Profit for the year | - | 41,203 | - | - | 41,203 | 6,334 | 47,537 |
| Other comprehensive income | - | - | - | - | - | - | - |
| Total comprehensive income for the year | - | 41,203 | - | - | 41,203 | 6,334 | 47,537 |
| Cancellation of shares in Inferfin Pty Ltd by Aprikeesh Pty Ltd. (see note 7 (e)) | - | (5) | (99) | - | (104) | (153) | (257) |
| Adjustment on dilution of voting shares in controlled entities resulting from additional shares issued to non controlling interests. These adjustments are treated as transaction between owners and credited directly to retained earnings (see note 7 (f)) | - | 810 | - | - | 810 | 2,205 | 3,015 |
| Adjustment resulting from the consolidated entity acquiring an additional 10% interest in the voting shares of a controlled entity. The acquisition is treated as a transaction between owners and the resulting goodwill is recognised directly in retained earnings (see note 7 (g)) | - | (753) | - | - | (753) | (747) | (1,500) |
| Non controlling interests relating to new acquisitions | - | - | - | - | - | 16,952 | 16,952 |
| Transfer from asset revaluation reserve for amortisation of broking register recognised on step acquisition of broking subsidiaries | - | 728 | (728) | - | - | - | - |
| Tax effect of transfer from asset revaluation reserve for amortisation of broking register recognised on step acquisition of broking subsidiaries | - | (218) | 218 | - | - | - | - |
| Cost of share-based payment | - | - | - | 504 | 504 | - | 504 |
| Tax benefit arising from payments made to employee share trust to acquire shares to satisfy exercise of share options | - | - | - | 754 | 754 | - | 754 |
| Adjustment to tax benefit arising from expected future payments to acquire shares to satisfy vested and partially vested options which were unexercised at balance date (net of any benefit previously recognised in the income statement relating to share based payment expense). | - | - | - | 42 | 42 | - | 42 |
| Issued capital resulting from net proceeds from Dividend Reinvestment Plan | 10,069 | - | - | - | 10,069 | - | 10,069 |

STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 30 JUNE 2014

| | Attributable to equity holders of the parent | | | | | Non-controlling interest \$'000 | Total equity \$'000 |
|--|--|-----------------------------|-------------------------------------|---------------------------------------|-----------------|------------------------------------|------------------------|
| | Issued capital \$'000 | Retained earnings \$'000 | Asset revaluation reserve \$'000 | Share based payment reserve \$'000 | Total \$'000 | | |
| Consolidated | | | | | | | |
| On 13 September 2012 allotted 36,100 shares at an issue price of \$3.47 (see note 22). | 125 | - | - | - | 125 | - | 125 |
| On 13 September 2012 allotted 20,000 shares at an issue price of \$4.20 (see note 22). | 84 | - | - | - | 84 | - | 84 |
| On 18 December 2012 allotted 9,747 shares at an issue price of \$4.22 (see note 22). | 41 | - | - | - | 41 | - | 41 |
| On 18 December 2012 allotted 223,200 shares at an issue price of \$3.47 (see note 22). | 775 | - | - | - | 775 | - | 775 |
| On 18 December 2012 allotted 297,300 shares at an issue price of \$4.20 (see note 22). | 1,249 | - | - | - | 1,249 | - | 1,249 |
| On 2 April 2013 allotted 38,900 shares at an issue price of \$3.47 (see note 22). | 135 | - | - | - | 135 | - | 135 |
| On 2 April 2013 allotted 10,412, shares at an issue price of \$4.20 (see note 22). | 44 | - | - | - | 44 | - | 44 |
| On 13 June 2013 allotted 193,348, shares at an issue price of \$10.692 as part of an acquisition (see note 7 (aa)) | 2,067 | - | - | - | 2,067 | - | 2,067 |
| Share issue expenses | (39) | - | - | - | (39) | | (39) |
| Equity dividends | - | (18,392) | - | - | (18,392) | (5,097) | (23,489) |
| At 30 June 2013 | 90,586 | 100,390 | 1,500 | 5,173 | 197,649 | 32,749 | 230,398 |

STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 30 JUNE 2014

| Consolidated | Attributable to equity holders of the parent | | | | Total \$'000 | Non- cont- rolling interest \$'000 | Total equity \$'000 |
|--|--|--------------------------------|--|--|-----------------|--|---------------------------|
| | Issued capital \$'000 | Retained earnings \$'000 | Asset reval- uation reserve \$'000 | Share based payment reserve \$'000 | | | |
| At 1 July 2013 | 90,586 | 100,390 | 1,500 | 5,173 | 197,649 | 32,749 | 230,398 |
| Profit for the year | - | 34,655 | - | - | 34,655 | 7,747 | 42,402 |
| Other comprehensive income | - | - | - | - | - | - | - |
| Total comprehensive income for the year | - | 34,655 | - | - | 34,655 | 7,747 | 42,402 |
| Adjustment resulting from a controlled entity issuing additional shares to non controlling interests. The dilution in voting shares is treated as a transaction between owners and the resulting adjustment is recognised directly in retained earnings (see note 7 (b)) | - | 758 | - | - | 758 | 2,088 | 2,846 |
| Adjustment relating to reduction of voting shares in a controlled entity resulting in an increase in voting shares by non controlling interests. This adjustment was treated as transaction between owners and adjusted directly to retained earnings (see note 7 (c)) | - | 75 | - | - | 75 | 238 | 313 |
| Adjustment resulting from the consolidated entity disposing of 8.5% interest in the voting shares of a controlled entity. The disposal is treated as a transaction between owners and the resulting adjustment in goodwill is recognised directly in retained earnings (see note 7 (d)) | - | (108) | - | - | (108) | 2,132 | 2,024 |
| Non controlling interests relating to new acquisitions (see note 7(s),(u)) | - | - | - | - | - | 1,677 | 1,677 |
| Non controlling interests relating to disposals of broking portfolios and investment in associates. (see note 7(ac),(ad),(ae)) | - | - | - | - | - | 222 | 222 |
| Transfer from asset revaluation reserve for amortisation of broking register recognised on step acquisition of broking subsidiaries | - | 714 | (714) | - | - | - | - |
| Tax effect of transfer from asset revaluation reserve for amortisation of broking register recognised on step acquisition of broking subsidiaries | - | (214) | 214 | - | - | - | - |
| Cost of share-based payment | - | - | - | 124 | 124 | - | 124 |

STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 30 JUNE 2014

| | Attributable to equity holders of the parent | | | | | Non-controlling interest \$'000 | Total equity \$'000 |
|--|--|--------------------------|----------------------------------|------------------------------------|----------------|---------------------------------|---------------------|
| | Issued capital \$'000 | Retained earnings \$'000 | Asset revaluation reserve \$'000 | Share based payment reserve \$'000 | Total \$'000 | | |
| Consolidated | | | | | | | |
| Tax benefit arising from payments made to employee share trust to acquire shares to satisfy exercise of share options | - | - | - | 339 | 339 | - | 339 |
| Adjustment to tax benefit arising from expected future payments to acquire shares to satisfy vested and partially vested options which were unexercised at balance date (net of any benefit previously recognised in the income statement relating to share based payment expense) | - | - | - | (340) | (340) | - | (340) |
| On 12 September 2013 allotted 49,350 shares at an issue price of \$3.47 (see note 22) | 171 | - | - | - | 171 | - | 171 |
| On 12 September 2013 allotted 70,100 shares at an issue price of \$4.20 (see note 22) | 295 | - | - | - | 295 | - | 295 |
| On 16 October and 24 October 2013, 612,902 and 699,903 shares were issued respectively at \$10.8727 as a result of a Dividend Reinvestment Plan (see note 22) | 14,275 | - | - | - | 14,275 | - | 14,275 |
| On 30 April 2014, 313,425 shares were issued at \$10.2140 as a result of a Dividend Reinvestment Plan (see note 22) | 3,201 | - | - | - | 3,201 | - | 3,201 |
| Share issue expenses | (189) | - | - | - | (189) | - | (189) |
| Equity dividends | - | (21,434) | - | - | (21,434) | (6,745) | (28,179) |
| At 30 June 2014 | 108,339 | 114,836 | 1,000 | 5,296 | 229,471 | 40,108 | 269,579 |

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2014

1. CORPORATE INFORMATION

The financial report of Austbrokers Holdings Limited for the year ended 30 June 2014 was authorised for issue in accordance with a resolution of the directors on 28 August 2014.

Austbrokers Holdings 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, insurance and risk services and conducting underwriting agency businesses.

2.1 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies and methods of computation are the same as those adopted in prior years except as disclosed below.

AASB 10 *Financial Reporting*

- The revised AASB 10 Financial Reporting established a new control model that applies to all entities. It replaces parts of AASB 127 dealing with the accounting for consolidated financial statements. The new control model broadened the situations when an entity is considered to be controlled by another entity and includes new guidance for applying the model to specific situations, including the impact of potential voting rights and when holding less than a majority voting rights may give control.
- The Group assessed the effect of applying AASB 10 by carrying out a full analysis of voting power and influence over the operations of each associate and there were no changes to investments that were recognised as associates or joint ventures that needed to be consolidated into the Group as controlled entities.

AASB 11 *Joint Arrangements* and AASB 12 *Disclosure in interests in other entities*

- AASB 11 replaces AASB 131 Interests in Joint Ventures and UIG-113 Jointly Controlled Entities. AASB 11 uses the principle of control as set out in AASB 10 to define joint control, and therefore the determination of whether joint control exists, may change. AASB 12 includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements and associates. New disclosures have been introduced about the judgements made by management to determine whether control exists, and the required information about associates and subsidiaries with non controlling interests.
- A full analysis of voting power and influence over the operations was carried out and there was no change in the accounting for associates.

AASB 119 *Employee benefits*

- The revised AASB 119 Employee Benefits changed the definition of short-term employee benefits. The distinction between short-term and long-term employee benefits is now based on whether the benefits are expected to be settled wholly within 12 months after the reporting date.
- The Group assessed the effect of applying AASB 119 and concluded that it did not result any material change in the classification of employee provisions between current and non current liabilities.

AASB 136 *Impairment of assets* (amendment AASB 2013 -3)

- These amendments remove the unintended consequences of AASB 13 on the disclosures required under AASB 136. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash generating units for which impairment loss has been recognised or reversed during the period. These amendments are effective retrospectively for annual periods beginning on or after 1 January 2014 with earlier application permitted, provided AASB 13 is also applied. The Group has early adopted these amendments to AASB 136 in the current period since the amended/additional disclosures provide useful information as intended by the AASB. Accordingly, these amendments have been considered while making disclosures for impairment of non-financial assets in Note 17. These amendments would continue to be considered for future disclosures.

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 98/0100. The Company is an entity to which the class order applies.

(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 Austbrokers Holdings Limited (the parent company) and all entities that Austbrokers Holdings Limited controlled from time to time during the year and at the reporting date.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2014

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

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

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

Non controlling interests represent the portion of profit or loss and net assets in subsidiaries which are not 100% owned by the Austbrokers 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.

(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;
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares; and
- 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

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 17.

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, using the assumptions detailed in note 18. 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.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2014

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Significant accounting judgements, estimates and assumptions (continued)

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.

(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.

(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.

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

Operating lease payments are recognised as an expense in the 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.

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

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2014

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 borrowings

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

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

Borrowing costs

Borrowing costs are recognised as an expense when incurred.

(l) Trade and other payables

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

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

(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. 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2014

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Business combinations (continued)

(ii) *Intangible assets – Insurance Broking Register (continued)*

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2014

(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 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.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2014

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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 interest rates attaching, as at the reporting date, to national government guaranteed securities 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) 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.

(t) Share-based payment transactions

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

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

The cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value of options, other than for zero priced options, is determined by an external valuer using a binomial model, further details of which are given in note 18. Further details of the method for valuing zero priced options is given at note 18.

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

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

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the Group's best estimate of the number of equity instruments that will ultimately vest. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date. The 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 6).

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2014

(u) 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.

(v) 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 20.

(w) 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.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2014

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(w) Income tax (continued)

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.

(x) 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 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.

(y) 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.

The company's corporate structure includes equity investments in insurance intermediary entities. Discrete financial information about each of these entities is reported to management on a regular basis and accordingly management considers each entity to be a discrete operating segment of the business. The company believes that all of the Group's equity investments in insurance intermediary entities or providers of insurance and risk related services, 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2014

3. NEW ACCOUNTING STANDARDS AND UIG 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 2014. 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 9 | Financial Instruments | On 24 July 2014 The IASB issued the final version of IFRS 9 which replaces IAS 39 and includes a logical model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially-reformed approach to hedge accounting. The final version of IFRS 9 introduces a new expected-loss impairment model that will require more timely recognition of expected credit losses. The AASB is yet to issue the final version of AASB 9. AASB 9 includes requirements for a simplified approach for classification and measurement of financial assets compared with the requirements of AASB 139. | 1 January 2018 | It is not expected that the amendments to classifications and measurement of financial assets will have any material impact on the classification of financial instruments in the financial statements. | 1 July 2018 |
| IFRS 15 | Revenue from Contracts with Customers | In May 2014, the IASB issued IFRS 15 <i>Revenue from Contracts with Customers</i> , which replaces IAS 11 <i>Construction Contracts</i> , IAS 18 <i>Revenue and related Interpretations</i> (IFRIC 13 <i>Customer Loyalty Programmes</i> , IFRIC 15 <i>Agreements for the Construction of Real Estate</i> , IFRIC 18 <i>Transfers of Assets from Customers</i> and SIC-31 <i>Revenue-Barter Transactions Involving Advertising Services</i>). 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. An entity recognises revenue in accordance with that core principle. | 1 January 2017 | The Group is still assessing the impact of the changes required under IFRS 15 but it is not expected that it will have a material impact on the financial report. | 1 July 2017 |

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2014

4. REVENUE AND EXPENSES

| | Consolidated | |
|---|----------------|----------------|
| | 2014 \$'000 | 2013 \$'000 |
| (i) Revenue | | |
| Commission, brokerage and fee income | 166,293 | 138,656 |
| Management fees related entities | 6,673 | 3,524 |
| Total revenue | 172,966 | 142,180 |
| (ii) Other income | | |
| Dividends from other persons | 46 | 62 |
| Interest from related persons/corporations | 126 | 89 |
| Interest from other persons/corporations | 4,084 | 4,402 |
| Other income | 1,717 | 1,937 |
| Total other income | 5,973 | 6,490 |
| (iii) Share of profit of associates | | |
| Share of net profits of associates accounted for using the equity method before amortisation | 21,612 | 20,761 |
| Amortisation of intangibles – associates | (1,806) | (1,391) |
| Total share of profit of associates | 19,806 | 19,370 |
| (iv) Expenses | | |
| Amortisation of intangibles – controlled entities | 4,034 | 3,531 |
| Salaries and wages | 92,305 | 75,637 |
| Share-based payments | 124 | 504 |
| Audit fees | 1,499 | 1,354 |
| Travel/telephone/motor/stationery | 6,395 | 5,015 |
| Depreciation of property plant and equipment | 1,929 | 1,860 |
| Rent (operating leases) | 8,265 | 6,685 |
| Commission expense | 10,377 | 7,335 |
| Business technology and software costs | 2,711 | 2,049 |
| Insurance | 3,495 | 2,946 |
| Other expenses | 13,620 | 11,698 |
| Total other expenses | 144,754 | 118,614 |
| (v) Finance costs | | |
| Borrowing costs | 3,333 | 3,081 |
| Total finance costs | 3,333 | 3,081 |
| (vi) Adjustments to carrying value of associates | | |
| Fair value adjustment to carrying value of associates on the date they became controlled entities (see note 7(s),(t),(x),(y)) | 4,121 | 12,630 |
| Impairment charge relating to the carrying value of an associate (see note 17, 7(ab)) | (254) | (629) |
| Total adjustments to carrying value of associates | 3,867 | 12,001 |
| (vii) Profit/(loss) from sale of interests in controlled entities, broking portfolios and contingent consideration adjustments | | |
| Profit from sale of interests in controlled entities and broking portfolios (see note 7(ac)-(af)) | - | 305 |
| Adjustment to contingent consideration on acquisition of portfolios/controlled entities (see note 7(n),(o),(r),(ab)) | (512) | 107 |
| Total profit/(loss) from sale of interests in controlled entities, broking portfolios and contingent consideration adjustments | (512) | 412 |

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2014

5. INCOME TAX

| | Consolidated | |
|---|----------------|----------------|
| | 2014 \$'000 | 2013 \$'000 |
| Major components of income tax expense | | |
| Income statement | | |
| <i>Current income tax</i> | | |
| Current income tax charge | 9,376 | 10,998 |
| Adjustment for prior years | (99) | (33) |
| <i>Deferred tax expense</i> | | |
| Origination and reversal of temporary differences | 2,334 | 256 |
| Total income tax expense in income statement | 11,611 | 11,221 |

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 | 54,013 | 58,758 |
| At the company's statutory income tax rate of 30% (2013: 30%) | 16,204 | 17,627 |
| Rebateable dividends | (13) | (14) |
| Non assessable income from associated entities | (4,207) | (2,887) |
| Non-taxable gains/losses on sale | - | (52) |
| Capital Losses recouped | - | (111) |
| (Over)/under provision prior year | (99) | (33) |
| Tax on distributions from associates operating as trusts | (94) | (80) |
| Adjustment to contingent consideration on acquisition of controlled entity | 153 | (33) |
| Fair value adjustment to carrying value of associate on the date it became a controlled entity | (774) | (3,789) |
| Impairment charge relating to the carrying value of an associate | 76 | 189 |
| Non deductible expenses/other | 365 | 404 |
| Income tax expense reported in the consolidated income statement | 11,611 | 11,221 |
| Income tax payable | 5,617 | 6,071 |

| | Consolidated | | Consolidated | |
|--|------------------------------------|----------------|------------------|----------------|
| | Statement of Financial position | | Income Statement | |
| | 2014 \$'000 | 2013 \$'000 | 2014 \$'000 | 2013 \$'000 |
| Deferred income tax | | | | |
| Deferred income tax at 30 June relates to the following: | | | | |
| <i>Deferred tax liability</i> | | | | |
| Income accrued not assessable | 2,016 | 1,723 | (293) | (9) |
| Unamortised value of broker register | 8,098 | 8,219 | - | - |
| Tax credit on amortisation expense | (1,210) | (1,059) | (1,210) | (1,059) |
| Gross deferred income tax liabilities | 8,904 | 8,883 | | |
| <i>Deferred tax asset</i> | | | | |
| Provisions and accruals not claimed for tax purposes | 5,175 | 6,006 | (831) | 812 |
| Gross deferred income tax assets | 5,175 | 6,006 | | |
| Deferred tax income/(expense) | | | (2,334) | (256) |

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2014

5. INCOME TAX (CONTINUED)

Tax consolidation

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

The Income Tax Assessment Act (1997) provides that the Consolidated Tax Group is to be treated as a single entity for Australian tax purposes with the Head Company responsible for the tax payable. Austbrokers Holdings Ltd 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 Austbrokers Holdings 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 2014

6. 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 18 are considered to be potential ordinary shares and have been included in the determination of the diluted earnings per share to the extent they are dilutive. These options have not been included in the determination of the basic earnings per share. The amount of the dilution of these options is the average market price of ordinary shares during the year minus the exercise price.

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

| | Consolidated | |
|--|-----------------------------|-----------------------------|
| | 2014 \$'000 | 2013 \$'000 |
| Net profit attributable to ordinary equity holders of the parent | 34,655 | 41,203 |
| | | |
| | 2014 Thousands shares | 2013 Thousands shares |
| | | |
| Weighted average number of ordinary shares for basic earnings per share | 59,247 | 57,070 |
| Effect of dilution: | | |
| Weighted average number of shares under option adjusted for shares that would have been issued at average market price | 457 | 553 |
| Weighted average number of ordinary shares adjusted for the effect of dilution | 59,704 | 57,623 |
| | | |
| Basic earnings per share (cents per share) | 58.5 | 72.2 |
| Diluted earnings per share (cents per share) | 58.0 | 71.5 |

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2014

7. CASH AND CASH EQUIVALENTS

| | Consolidated | |
|---|----------------|----------------|
| | 2014 \$'000 | 2013 \$'000 |
| (a) Reconciliation of profit after tax to net cash flows from operations | | |
| Profit after tax for the year | 42,402 | 47,537 |
| Equity accounted (profits) after income tax | (19,806) | (19,370) |
| Dividends/trust distributions received from associates | 17,116 | 17,215 |
| Amortisation of intangibles | 4,034 | 3,531 |
| Profit from sale of interests in controlled entities and broking portfolios | - | (305) |
| Adjustment to contingent consideration on acquisition of portfolios/controlled entities | 512 | (107) |
| Fair value adjustment to carrying value of associates on the date they became controlled entities | (4,121) | (12,630) |
| Impairment charge relating to the carrying value of an associate | 254 | 629 |
| Depreciation of fixed assets | 1,929 | 1,860 |
| Share options expensed | 124 | 504 |
| Changes in assets and liabilities | | |
| (Increase) in trade and other receivables | 742 | 529 |
| (Decrease)/Increase in trade and other payables | (4,875) | 2,007 |
| (Increase) in trust receivables | (24,313) | (5,609) |
| Increase in trust payables | 18,559 | 2,964 |
| Increase in provisions | 52 | 153 |
| Decrease/(Increase) in deferred tax asset | 454 | (408) |
| (Decrease) in deferred tax liability | (916) | (1,196) |
| (Decrease)/Increase in provision for tax | (115) | 1,866 |
| Net cash flows from operating activities | 32,032 | 39,170 |
| Cash and cash equivalents | 43,970 | 38,083 |
| Cash and cash equivalents – trust | 108,187 | 112,610 |
| Total cash and cash equivalents | 152,157 | 150,693 |

Due to acquisitions/disposal of controlled 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 policyholders.

Business combinations

All the business combinations referred to in note 7(b) – 7(af) relate to insurance broking and underwriting agency businesses except for 7(k) which relates to insurance and risk related services.

A major strategy of the group is to acquire insurance broking portfolios or interests in insurance broking businesses ranging from 50% – 100%. The terms of these acquisitions vary in line with negotiations with individual vendors but are structured to achieve the Group's benchmarks or return on investment and to take advantage of the rationalisation in the broking industry where many current owners of businesses are approaching retirement.

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.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2014

7. CASH AND CASH EQUIVALENTS (CONTINUED)

Equity transactions between owners – current year

- (b) Effective 1 July 2013, the Consolidated entity diluted its voting shares in Austbrokers AEI Transport Pty Ltd (AB AEIT) by 10%, when AB AEIT issued additional shares to existing shareholders for \$2,846,405 reducing the equity ownership to 55%. The carrying value of the identifiable assets and liabilities of AB AEIT as at the date of the dilution in equity were:

| | AB AEIT Carrying value \$'000 |
|---|-------------------------------------|
| Cash | 9,578 |
| Receivables | 13,976 |
| Property plant and equipment | 100 |
| Other assets | |
| Deferred tax assets | 48 |
| Intangibles | 12,793 |
| Total assets | 36,495 |
| Payables and provisions | 20,944 |
| Borrowings | 4,650 |
| Tax liabilities | 771 |
| Total liabilities | 26,365 |
| Net assets | 10,130 |
| Non controlling interests | (963) |
| Net assets attributable to parent before share issue | 9,167 |
| Cash received on share issue/sale of shares | 2,846 |
| Net assets attributable to parent after share issue | 12,013 |
| Cash received on share issue | 2,846 |
| Adjustment to non controlling interests | 2,088 |
| Profit transferred to retained earnings on dilution of shareholding in controlled entity | 758 |

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2014

7. CASH AND CASH EQUIVALENTS (CONTINUED)

Equity transactions between owners – current year (continued)

(c) Effective 31 July 2013, a controlled entity, Adroit Holdings Limited sold 1.89% of the units in Austbrokers Employee Equity Trust (AEET) decreasing the equity ownership to 74.59%.

Effective 2 January 2014, a controlled entity, Adroit Holdings Limited sold 11% of the voting shares in Adroit Eureka Pty Ltd (Eureka) decreasing the equity ownership to 63.6%.

Effective 2 January 2014, a controlled entity, Adroit Holdings Limited sold 20% of the voting shares in Adroit Financial Group (AFG) and Adroit FS decreasing the equity ownership to 80% for both entities.

| | AEET Carrying value \$'000 | Eureka Carrying value \$'000 | AFG Carrying value \$'000 | Adroit FS Carrying value \$'000 |
|--|-------------------------------------|---------------------------------------|------------------------------------|--|
| Cash | 6 | - | - | - |
| Investment | 344 | 691 | 446 | 259 |
| Receivables | 1 | 138 | 0 | 0 |
| Total assets | 351 | 829 | 446 | 259 |
| Payables and provisions | 4 | 145 | 543 | 175 |
| Net assets attributable to parent Before share disposal | 347 | 684 | (97) | 84 |
| Sale proceeds | - | 302 | 116 | 42 |
| Less: | | | | |
| Costs associated with disposals | (48) | (97) | (19) | 17 |
| Adjustment to non controlling interests | (9) | 186 | 27 | 34 |
| Profit/(loss) transferred to retained earnings on disposal of voting shares | (39) | 19 | 70 | 25 |

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2014

7. CASH AND CASH EQUIVALENTS (CONTINUED)

Equity transactions between owners – current year (continued)

(d) Effective 1 January 2014, the Consolidated entity disposed of 8.5% of the voting shares in Adroit Holdings Pty Limited for \$2,024,378 reducing the equity ownership to 60%.

The carrying value of the identifiable assets and liabilities of Adroit Holdings Pty Ltd as at the date of the disposal were:

| | Adroit Holdings Pty Ltd Carrying value \$'000 |
|---|---|
| Cash | 11,889 |
| Receivables | 8,359 |
| Property plant and equipment | 1,968 |
| Other assets | 462 |
| Deferred tax assets | 856 |
| Goodwill | 22,040 |
| Intangibles | 5,739 |
| Total assets | 51,313 |
| Payables and provisions | 18,213 |
| Borrowings | 4,241 |
| Tax liabilities | 2,860 |
| Total liabilities | 25,314 |
| Net assets | 25,999 |
| Cash received on sale of shares | 2,024 |
| Increase in non controlling interests | 2,132 |
| Loss transferred to retained earnings on sale of shareholding in controlled entity | (108) |

Equity transactions between owners – previous year.

(e) Effective 1 July 2012, Interfin Pty Ltd, an entity within the consolidated group, cancelled voting shares resulting in a payment of \$257,000 to non controlling interests.

The cancellation of voting shares previously issued to non controlling interests, increased the voting shares owned by Aprikeesh Pty Ltd in Interfin from 67.8% to 78.8%. The cancellation of voting shares was treated as a transaction between owners and the resulting change of \$5,000 and \$99,000 was reflected in retained earnings and asset revaluation reserve respectively.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2014

7. CASH AND CASH EQUIVALENTS (CONTINUED)

Equity transactions between owners – previous year (continued)

(f) Effective 1 July 2012, the Consolidated entity diluted its voting shares of Austbrokers Financial Solutions (Syd) Pty Ltd (AFS) from 100% to 75% , when AFS issued additional shares to a new shareholder for \$1,224,920.

Effective 1 July 2012, the Consolidated entity diluted its voting shares of Austbrokers Terrace Pty Ltd (ABT) from 85% to 70.83% when ABT issued additional shares to non controlling interests for \$1,018,035.

Effective 1 January 2013, a controlled entity diluted its voting shares in SPT Financial Services Pty Ltd (SPT) from 75% to 70%, when SPT issued additional shares to a new shareholder for \$73,119.

Effective 30 June 2013, a controlled entity diluted its voting shares in Austbrokers AEI Pty Ltd (AEI) from 80% to 65%, when AEI issued additional shares to a new and existing shareholders for \$1,250,000 including \$550,746 to its parent entity.

The value of the non-controlling interests in AFS, ABT, SPT and AEI was determined based on their 25%, 29.17%, 30% and 35% interest in the carrying value of the identifiable net assets of each company respectively as at the date of dilution of shareholding.

The carrying value of the identifiable assets and liabilities of AFS, ABT, SPT and AEI as at the date of the dilution in equity were:

| | AFS Carrying value \$'000 | ABT Carrying value \$'000 | SPT Carrying value \$'000 | AEI Carrying value \$'000 |
|---|------------------------------------|------------------------------------|------------------------------------|------------------------------------|
| Cash | 482 | 3,020 | 139 | 813 |
| Receivables | 456 | 3,650 | 109 | 931 |
| Other investments | - | 121 | - | - |
| Property plant and equipment | 28 | 52 | 15 | - |
| Intangibles | 3,832 | 2,172 | 836 | 256 |
| Total assets | 4,798 | 9,015 | 1,099 | 2,000 |
| Payables and provisions | 2,237 | 6,319 | 62 | 1,522 |
| Borrowings | - | 410 | 583 | - |
| Tax liabilities | 18 | 16 | 45 | 22 |
| Total liabilities | 2,255 | 6,745 | 690 | 1,544 |
| Net assets | 2,543 | 2,270 | 409 | 456 |
| Non controlling interests | (108) | (69) | - | - |
| Net assets before share issue | 2,435 | 2,201 | 409 | 456 |
| Cash received on share issue to non controlling interests | 1,225 | 1,018 | 73 | 699 |
| Shares issued to parent | - | - | - | 551 |
| Net assets after share issue | 3,660 | 3,219 | 482 | 1,706 |
| Cash received on share issue to non controlling interests | 1,225 | 1,018 | 73 | 699 |
| Adjustment to non controlling interests | 915 | 608 | 49 | 633 |
| Profit transferred to retained earnings on dilution of shareholding in controlled entity | 310 | 410 | 24 | 66 |

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2014

7. CASH AND CASH EQUIVALENTS (CONTINUED)

Equity transactions between owners – previous year (continued)

(g) Effective 1 July 2012, the Consolidated entity acquired an additional 10% of the voting shares of Austbrokers Canberra Pty Ltd for \$1,500,000 increasing the equity ownership to 85%.

The value of the non-controlling interests was determined based on its 10% interest in the carrying value of the identifiable net assets as at the date of acquisition.

The carrying value of the identifiable assets and liabilities of Austbrokers Canberra Pty Ltd as at the date of the acquisition were:

| | Carrying value \$'000 |
|---|-----------------------------|
| Cash | 6,880 |
| Receivables | 8,589 |
| Property plant and equipment | 187 |
| Intangibles | 5,695 |
| Total assets | 21,351 |
| Payables and provisions | 14,200 |
| Tax liabilities | 220 |
| Total liabilities | 14,420 |
| Net assets | 6,931 |
| Purchase price – cash paid for additional voting shares | 1,500 |
| Less: | |
| Non controlling interest share – acquired | 693 |
| Non controlling interest share – adjustment | 54 |
| Loss transferred to retained earnings on acquisition of additional voting shares | (753) |

The Group had acquired a call option to purchase additional voting shares in Austbrokers Canberra Pty Ltd in the event that the annual profit during the next 12 months fell below \$2,700,000. Based on the profit from this entity, the fair value of this option was \$NIL.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2014

7. CASH AND CASH EQUIVALENTS (CONTINUED)

Acquisition/sales of associates – current year

- (h) On 1 July 2013, the consolidated entity acquired 50% of the voting shares of WRI insurance Brokers Pty Ltd for \$4,876,264 which represents the value of identifiable net assets acquired at the time of acquisition of the business.
- (i) On 1 September 2013, a controlled entity, Adroit Holdings Pty Limited, acquired 20% of the voting shares of NRIG Pty Limited for \$40,000.
- (j) On 1 September 2013, a controlled entity, Adroit Holdings Pty Limited, sold all of the voting shares in Interprac General Insurance Pty Limited and Trinity Pacific Underwriting Agency Pty Ltd for \$219,600 and \$98,312 respectively. Both sale proceed are net of sale expenses. (see note 7 (ad) and (ae)).
- (k) On 1 January 2014, the company acquired 50% of the voting shares in Procare Pty Ltd for \$11,139,163 including an amount of \$3,839,163 which represents the fair value of the contingent consideration expected to be paid in the future.
- (l) On 1 April 2014, a controlled entity, Austagencies Pty Limited, acquired 50% of the voting shares in Mint Plus Pty Ltd for \$1,026,746 including an amount of \$807,987 which represents the fair value of the contingent consideration expected to be paid in the future.
- (m) Effective 1 December 2013, a controlled entity, Austbrokers Sydney Pty Ltd, had its voting shares in HQ Insurance Pty Ltd reduced from 47.5% to 40.4% through an issue of shares to a new shareholder.

Acquisition of associates – previous year

- (n) On 1 December 2012, the consolidated entity acquired 50% of the voting shares of Brett Grant and Associates Pty Ltd for \$1,728,603 including an amount of \$752,978 which represents the fair value of the contingent consideration expected to be paid 15 months after the acquisition date. During the current year, the contingent consideration on the acquisition was increased by \$729,891 and the adjustment included in the income statement (see note 4(vii)).
- (o) On 1 April 2013, the consolidated entity acquired 50% of the voting shares of Dalby Insurance Brokers Pty Ltd for \$2,538,926 including an amount of \$1,481,426 which represents the fair value of the contingent consideration expected to be paid 15 months after the acquisition date. During the current year, the contingent consideration on the acquisition was increased by \$36,381 and the adjustment included in the income statement (see note 4(vii)).
- (p) On 1 May 2013, the consolidated entity acquired 47.5% of the voting shares of HQ Insurance Brokers Pty Ltd for \$1,200,000
- (q) During the period, the consolidated entity incorporated or acquired the following entities, Angel Accident and Health Underwriting Agency Pty Ltd, One Liability Underwriting Pty Ltd, NewSurety Pty Ltd and Aust Re Brokers Pty Ltd. The capital contribution for 50% of the voting shares in each entity was \$50, \$100, \$100 and \$10 respectively.
- (r) On 1 January 2011, the consolidated entity acquired 50% of the voting shares in Celestial Underwriting Agency Pty Ltd. The purchase price included an element of contingent consideration which was determined on a multiple of the average net profit after tax achieved over the three financial years immediately following acquisition. During the previous year, the estimated contingent consideration on this acquisition of \$569,466 was reduced to \$NIL and the adjustment included in the income statement. (see note 4(vii)).

Acquisition of new controlled entities – current year

- (s) On 4 October 2013, a controlled entity acquired an additional 50% of the voting shares in Celestial Underwriting Agency Pty Ltd for \$300,000 bringing the total equity to 100%.

On 1 January 2014, the company entity acquired an additional 25% of the voting shares in Power Insurance Brokers Pty Ltd for \$1,250,000 bringing the total equity to 75%.

Fair values of the identifiable assets and liabilities of Celestial Underwriting Agency Pty Ltd and Power Insurance Brokers Pty Ltd as at the date of acquisition were:

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2014

7. CASH AND CASH EQUIVALENTS (CONTINUED)

Acquisition of new controlled entities – current year (continued)

| | Celestial Underwriting Agency Pty Ltd | | Power Insurance Brokers Pty Ltd | |
|--|--|-----------------------------|--|-----------------------------|
| | Fair value recognised on acquisition \$'000 | Carrying value \$'000 | Fair value recognised on acquisition \$'000 | Carrying value \$'000 |
| Cash | 158 | 158 | 2,827 | 2,827 |
| Receivables | 897 | 897 | 1,559 | 1,559 |
| Right to future income | 180 | - | - | - |
| Plant and equipment | 10 | 10 | 264 | 264 |
| Other assets | 19 | 19 | 22 | 22 |
| Deferred tax asset | 30 | 30 | 56 | 56 |
| Intangibles | - | - | 1,603 | - |
| Total assets | 1,294 | 1,114 | 6,331 | 4,728 |
| Payables | 777 | 777 | 4,060 | 4,060 |
| Provisions | 81 | 27 | 95 | 95 |
| Borrowings | - | - | 1,987 | 1,987 |
| Deferred tax liabilities | - | - | 481 | - |
| Total liabilities | 858 | 804 | 6,623 | 6,142 |
| Net assets | 436 | 310 | (292) | (1,414) |
| Carrying value of existing 50% equity at the date of acquisition | 451 | | 120 | |
| Dividend received on date of acquisition relating to pre 31 December 2013 | - | | (200) | |
| Fair value adjustment on existing holding at the date of acquisition (see note 4(vi)) | - | | 2,580 | |
| Adjusted carrying value of existing 50% equity at the date of acquisition | 451 | | 2,500 | |
| Purchase price – cash paid for additional voting shares (including payment for right to future income) | 300 | | 1,250 | |
| Carrying value of controlled entity | 751 | | 3,750 | |
| Fair value of 100% of acquired entity | 751 | | 5,000 | |
| Less net assets of acquired entity | 436 | | (292) | |
| Total Goodwill arising on acquisition | 315 | | 5,292 | |
| Non controlling interests measured at fair value | - | | 1,250 | |
| Cash outflow on acquisition is as follows; | | | | |
| Net cash acquired with the controlled entity | 158 | | 2,827 | |
| Cash paid (net of dividend received) | (300) | | (1,050) | |
| Net cash (outflow)/inflow | (142) | | 1,777 | |

The acquisition of an additional 50% of Celestial Underwriting Agency Pty Ltd was effective on 1 July 2013. The acquisition contributed \$390,477 to net profit after tax and \$850,432 to revenue. The acquisition of an additional 25% of the voting shares in Power Insurance Brokers Pty Ltd was effective on 1 January 2014. The acquisition contributed \$429,802 to net profit after tax and \$1,855,041 to revenue. Had the acquisition taken place at the beginning of the period, the profit after tax contribution would have been \$1,059,593 and \$3,848,401 to revenue.

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.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2014

7. CASH AND CASH EQUIVALENTS (CONTINUED)

Acquisition of new controlled entities – current year (continued)

(t) On 1 April 2014, Austagencies Pty Ltd acquired 100% of the voting shares in All-Trans Underwriting Pty Ltd (All-Trans) for \$1,961,474 including contingent consideration of \$1,475,571.

On 1 April 2014, Austagencies Pty Ltd acquired 100% of the voting shares in Trinity Pacific Underwriting Agency Pty Ltd (Trinity) for \$4,019,671 including contingent consideration of \$3,662,156.

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

| | All-Trans | | Trinity | |
|---|--|-----------------------------|--|-----------------------------|
| | Fair value recognised on acquisition \$'000 | Carrying value \$'000 | Fair value recognised on acquisition \$'000 | Carrying value \$'000 |
| Cash | 155 | 155 | 1,009 | 1,009 |
| Receivables | 47 | 47 | 198 | 198 |
| Plant and equipment | - | - | 3 | 3 |
| Total assets | 202 | 202 | 1,210 | 1,210 |
| Payables | 116 | 116 | 1,844 | 1,844 |
| Provisions | - | - | - | - |
| Total liabilities | 116 | 116 | 1,844 | 1,844 |
| Net assets | 86 | 86 | (634) | (634) |
| Purchase price – cash paid for voting shares | 486 | | 358 | |
| Purchase price – deferred consideration | 1,475 | | 3,662 | |
| Total carrying value of controlled entity | 1,961 | | 4,020 | |
| Goodwill arising on acquisition | 1,875 | | 4,654 | |
| Cash outflow on acquisition is as follows; | | | | |
| Net cash acquired with the controlled entity | 155 | | 1,009 | |
| Cash paid | (486) | | (358) | |
| Net cash (outflow)/inflow | (331) | | 651 | |

The acquisition of 100% of All-Trans Pty Ltd was effective on 1 April 2014. The acquisition contributed \$164,378 to net profit after tax and \$186,067 to revenue. Had the acquisition taken place at the beginning of the period, the profit after tax contribution would have been \$86,289 and revenue would have been \$828,307.

The acquisition of 100% of Trinity was effective on 1 April 2014. The acquisition contributed \$3,014 to net profit and \$139,477 to revenue. Had the acquisition taken place at the beginning of the period, the profit after tax contribution would have been \$87,773 and revenue would have been \$1,599,076.

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 above entities were acquired from an associate which was owned 50% by the Consolidated Group. On acquisition of 100% of the voting shares of the entities, an adjustment of \$1,541,000 was recognised by the Consolidated Group to bring the initial investment in these associates to fair value. This has been adjusted against the carrying value of the associate. (see note 4(vi)). A deferred tax liability of \$462,300 has been recognised in the accounts.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2014

7. CASH AND CASH EQUIVALENTS (CONTINUED)

Acquisition of new controlled entities – current year (continued)

- (u) Effective 1 March 2014, a controlled entity InterRISK Queensland Pty Ltd acquired 80% of the voting shares in a newly incorporated entity, Atlas Insurance Brokers Pty Ltd (Atlas) for \$1,710,000.

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

| | Atlas | |
|---|---|-----------------------|
| | Fair value recognised on acquisition \$'000 | Carrying value \$'000 |
| Cash | 50 | 50 |
| Intangibles | 1,183 | 4,732 |
| Total assets | 1,233 | 4,782 |
| Payables | 2,644 | 2,644 |
| Borrowings | - | - |
| Deferred tax liabilities | 355 | - |
| Total liabilities | 2,999 | 2,644 |
| Net assets | (1,766) | 2,138 |
| Purchase price – cash paid | 1,710 | |
| Total cost base | 1,710 | |
| Less fair value of assets acquired | (1,413) | |
| Fair value of 100% of acquired entity | 2,138 | |
| Total goodwill arising on acquisition | 3,904 | |
| Non controlling interests measured at fair value | 427 | |
| Cash outflow on acquisition is as follows; | | |
| Net cash acquired with the controlled entity | 50 | |
| Cash paid | (1,710) | |
| Net cash outflow | (1,660) | |

The acquisition of 80% of Atlas was effective on 1 March 2014. The acquisition contributed a loss of \$38,172 to net profit and \$424,421 to revenue. As the acquisition was in respect of a newly incorporated entity, the full year impact to the profit after tax would have been a loss of \$38,172 and revenue would have been \$424,421.

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

Acquisition of new controlled entities – previous year

- (v) During the period, Austagencies incorporated Cinesure Pty Limited for \$1000. On 1 May 2013, Austbrokers Financial Solutions (Syd) Pty Ltd incorporated a new 100% owned entity, Austbrokers Financial Solutions (ACT) Pty Ltd for \$10.
- (w) The company acquired 100% of the voting shares in two newly incorporated entities, Austbrokers Gladstone Pty Ltd, Austbrokers Financial Services (Gladstone) Pty Ltd for \$100 each. These entities were sold to an associate on 1 May 2013 (see note 7(af)).

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2014

7. CASH AND CASH EQUIVALENTS (CONTINUED)

Acquisition of new controlled entities – previous year (continued)

(x) Effective 1 July 2012, the Company acquired an additional 18.5% of the voting shares in Adroit Holdings Pty Ltd for \$4,406,000, bringing the total equity to 68.5%.

On 1 November 2012, the Company acquired an additional 30% of the voting shares in Comsure Insurance Brokers Pty Ltd for \$2,237,131 bringing the total equity to 80%.

Fair values of the identifiable assets and liabilities of Adroit Holdings Pty Ltd and Comsure Insurance Brokers Pty Ltd as at the date of acquisition were:

| | Adroit Holdings Pty Ltd | | Comsure Insurance Brokers Pty Ltd | |
|--|---|-----------------------------|---|-----------------------------|
| | Fair value recognised on acquisition \$'000 | Carrying value \$'000 | Fair value recognised on acquisition \$'000 | Carrying value \$'000 |
| Cash | 13,958 | 13,958 | 2,740 | 2,740 |
| Receivables | 13,644 | 13,644 | 2,823 | 2,824 |
| Plant and equipment | 2,311 | 2,311 | 63 | 63 |
| Other assets | 310 | 310 | 29 | 29 |
| Deferred tax asset | 321 | 321 | 69 | 69 |
| Intangibles | 6,665 | - | 1,780 | - |
| Total assets | 37,209 | 30,544 | 7,504 | 5,725 |
| Payables | 27,254 | 27,254 | 5,175 | 5,175 |
| Provisions | 517 | 517 | 222 | 222 |
| Borrowings | 4,739 | 4,739 | - | - |
| Deferred tax liabilities | 1,999 | - | 534 | - |
| Total liabilities | 34,509 | 32,510 | 5,931 | 5,397 |
| Net assets | 2,700 | (1,966) | 1,573 | 328 |
| Value attributable to non controlling interests | 1,041 | 1,041 | (7) | (7) |
| Net assets excluding non controlling interests | 1,659 | (3,007) | 1,580 | 335 |
| Carrying value of existing 50% equity at the date of acquisition | 2,512 | | 520 | |
| Fair value adjustment on existing holding at the date of acquisition (see note 4(vi)) | 9,284 | | 3,209 | |
| Adjusted carrying value of existing 50% equity at the date of acquisition | 11,796 | | 3,729 | |
| Purchase price – cash paid for additional voting shares | 4,406 | | 2,237 | |
| Carrying value of controlled entity | 16,202 | | 5,966 | |
| less: Net assets acquired | 1,136 | | 1,264 | |
| Goodwill arising on acquisition relating to the Group | 15,066 | | 4,702 | |
| Goodwill relating to non controlling interests | 6,930 | | 1,175 | |
| Total Goodwill arising on acquisition | 21,996 | | 5,877 | |
| Cash inflow on acquisition is as follows; | | | | |
| Net cash acquired with the controlled entity | 13,958 | | 2,740 | |
| Cash paid | (4,406) | | (2,237) | |
| Net cash inflow | 9,552 | | 503 | |

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2014

7. CASH AND CASH EQUIVALENTS (CONTINUED)

Acquisition of new controlled entities – previous year (continued)

The acquisition of an additional 18.5% of Adroit Holdings Pty Ltd was effective on 1 July 2012. The additional acquisition contributed \$1,727,250 to net profit after tax and \$18,215,683 to revenue.

The acquisition of an additional 30% of Comsure Insurance Brokers Pty Ltd was effective on 1 November 2012.

The additional acquisition contributed \$703,854 to net profit after tax and \$3,697,498 to revenue. Had the acquisition taken place at the beginning of the period, the profit after tax contribution would have been \$792,568 and revenue would have been \$4,817,719.

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.

(y) On 1 July 2012, the Company acquired the remaining 50% interest in Insurics Pty Ltd it did not already own for \$2,527,000.

Effective 1 June 2013, Austbrokers AEI Pty Ltd, acquired 100% of the voting shares in Chegwyn Insurance Brokers Pty Ltd for \$1,250,000

Fair values of the identifiable assets and liabilities of Insurics Pty Ltd and Chegwyn Insurance Brokers Pty Ltd as at the date of acquisition were:

| | Insurics Pty Ltd | | Chegwyn Insurance Brokers Pty Ltd | |
|---|---|-----------------------|---|-----------------------|
| | Fair value recognised on acquisition \$'000 | Carrying value \$'000 | Fair value recognised on acquisition \$'000 | Carrying value \$'000 |
| Cash | 1,646 | 1,646 | 922 | 922 |
| Receivables | 358 | 343 | 4 | 4 |
| Plant and equipment | 155 | 155 | 32 | 32 |
| Deferred tax asset | 98 | 98 | - | - |
| Intangibles | 993 | - | 317 | - |
| Total assets | 3,250 | 2,242 | 1,275 | 958 |
| Payables | 2,091 | 2,090 | 976 | 976 |
| Borrowings | 324 | 324 | - | - |
| Deferred tax liabilities | 298 | - | 95 | - |
| Total liabilities | 2,713 | 2,414 | 1,071 | 976 |
| Net assets | 537 | (172) | 204 | (18) |
| Fair value adjustment on existing holding at the date of acquisition (see note 4(vi)) | 137 | | - | |
| Carrying value of existing 50% share | 1,149 | | - | |
| Purchase price – cash paid | 2,527 | | 1,250 | |
| Total cost base | 3,813 | | 1,250 | |
| Less fair value of assets acquired | 537 | | 204 | |
| Goodwill arising on acquisition | 3,276 | | 1,046 | |
| Cash outflow on acquisition is as follows; | | | | |
| Net cash acquired with the controlled entity | 1,646 | | 922 | |
| Cash paid | (2,527) | | (1,250) | |
| Net cash outflow | (881) | | (328) | |

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2014

7. CASH AND CASH EQUIVALENTS (CONTINUED)

Acquisition of new controlled entities – previous year (continued)

(y) continued

The acquisition of an additional 50% of Insurics Pty Ltd was effective on 1 July 2012. The additional acquisition contributed \$512,794 to net profit after tax and \$3,027,010 to revenue.

The acquisition of Chegwyn Insurance Brokers Pty Ltd was effective on 1 June 2013. The additional acquisition contributed \$21,990 to net profit after tax and \$67,895 to revenue. Had the acquisition taken place at the beginning of the period, the profit after tax contribution would have been \$71,070 and revenue would have been \$699,450.

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.

(z) Effective 1 May 2013, Austagencies Pty Ltd acquired 90.0% of the voting shares in Lawsons Underwriting Australasia Ltd for \$6,355,682 (including a deferred payment of \$1,630,122).

Effective 1 May 2013, Austagencies Pty Ltd acquired 90.91% of the voting shares in Sura Hospitality Pty Ltd (previously Guardian Underwriting Services Pty Ltd), trustee for G.U.S. Trust for \$3,618,469 (including a deferred payment of \$891,167).

Fair values of the identifiable assets and liabilities of Lawsons Underwriting Australasia Ltd and G.U.S. trust as at the date of acquisition were:

| | Lawsons Underwriting Australasia Ltd | | G.U.S. Trust | |
|---|--|-----------------------------|--|-----------------------------|
| | Fair value recognised on acquisition \$'000 | Carrying value \$'000 | Fair value recognised on acquisition \$'000 | Carrying value \$'000 |
| Cash | 1,806 | 1,806 | 780 | 780 |
| Receivables | 4,420 | 4,420 | 1,319 | 1,319 |
| Plant and equipment | 32 | 32 | 29 | 29 |
| Intangibles | - | - | - | - |
| Total assets | 6,258 | 6,258 | 2,128 | 2,128 |
| Payables | 5,417 | 5,417 | 2,114 | 2,114 |
| Provisions | 226 | 226 | 14 | 14 |
| Borrowings | 500 | 500 | - | - |
| Deferred tax liabilities | - | - | - | - |
| Total liabilities | 6,143 | 6,143 | 2,128 | 2,128 |
| Net assets | 115 | 115 | - | - |
| Purchase price – cash paid for voting shares | 4,725 | | 2,727 | |
| Purchase price – deferred consideration | 1,631 | | 891 | |
| Carrying value of controlled entity | 6,356 | | 3,618 | |
| Goodwill arising on acquisition relating to the group | 6,253 | | 3,618 | |
| Goodwill relating to non controlling interests | 695 | | 362 | |
| Total goodwill arising on acquisition | 6,948 | | 3,980 | |
| Cash outflow on acquisition is as follows; | | | | |
| Net cash acquired with the controlled entity | 1,806 | | 780 | |
| Cash paid | (4,725) | | (2,727) | |
| Net cash outflow | (2,919) | | (1,947) | |

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2014

7. CASH AND CASH EQUIVALENTS (CONTINUED)

Acquisition of new controlled entities – previous year (continued)

The acquisition of 90% of Lawsons Underwriting Australasia Ltd was effective on 1 May 2013. The acquisition contributed \$244,437, to net profit and \$564,323 to revenue. Had the acquisition taken place at the beginning of the period, the profit after tax contribution would have been \$905,247 and revenue would have been \$3,097,068. The acquisition of 90.91% of G.U.S. Trust was effective on 1 May 2013. The acquisition contributed \$25,260 to net profit after tax and \$215,644 to revenue. Had the acquisition taken place at the beginning of the period, the profit after tax contribution would have been \$377,817 and revenue would have been \$1,529,592.

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.

(aa) Effective 31 May 2013, the Company acquired 77.09% of the voting shares in InterRISK (Australia) Pty Ltd for \$17,242,386 (including a deferred payment of \$1,325,960 and shares valued at \$2,067,277).

Fair values of the identifiable assets and liabilities of InterRISK Pty Ltd as at the date of acquisition were:

| | InterRISK (Australia) Pty Ltd | |
|--|--|-----------------------------|
| | Fair value recognised on acquisition \$'000 | Carrying value \$'000 |
| Cash | 18,236 | 18,236 |
| Receivables | 9,197 | 9,197 |
| Plant and equipment | 406 | 406 |
| Other assets | 19 | 19 |
| Deferred tax asset | 213 | 213 |
| Intangibles | 4,984 | - |
| Total assets | 33,055 | 28,071 |
| Payables | 19,772 | 19,772 |
| Provisions | 1,065 | 1,065 |
| Borrowings | 4,132 | 4,132 |
| Deferred tax liabilities | 1,495 | - |
| Total liabilities | 26,464 | 24,969 |
| Net assets | 6,591 | 3,102 |
| Value attributable to non controlling interests | 672 | 672 |
| Net assets excluding non controlling interests | 5,919 | 2,430 |
| 77.09% Of net assets acquired | 4,563 | |
| Purchase price – cash paid for voting shares | 13,849 | |
| 193,348 Shares issued at \$10.692 As part of acquisition price | 2,067 | |
| Purchase price – deferred consideration | 1,326 | |
| Total acquisition cost | 17,242 | |
| Goodwill arising on acquisition relating to the Group | 12,679 | |
| Goodwill on acquisition relating to non controlling interests | 3,769 | |
| Total Goodwill arising on acquisition | 16,448 | |
| Cash inflow on acquisition is as follows; | | |
| Net cash acquired with the controlled entity | 18,236 | |
| Cash paid | (13,849) | |
| Net cash inflow | 4,387 | |

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2014

7. CASH AND CASH EQUIVALENTS (CONTINUED)

Acquisition of new controlled entities – previous year (continued)

(aa) continued

The acquisition of 77.09% of InterRISK Australia Pty Ltd was effective on 1 June 2013. The acquisition contributed \$430,201 to net profit after tax and \$1,888,850 to revenue. Had the acquisition taken place at the beginning of the period, the profit after tax contribution would have been \$1,587,993 and revenue would have been \$15,600,823.

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.

Acquisition and disposal of broking portfolios

(ab) The group acquired broking portfolios by way of business combinations as follows:

| | Fair value recognised on acquisition | |
|--|--------------------------------------|----------------|
| | 2014 \$'000 | 2013 \$'000 |
| Intangibles | 341 | 2,296 |
| Deferred tax liabilities | (102) | (690) |
| Fair value of assets acquired | 239 | 1,606 |
| Purchase price – cash paid | 1,337 | 5,725 |
| Contingent consideration | - | 1,698 |
| | 1,337 | 7,423 |
| Less: Fair value of assets acquired | 239 | 1,606 |
| Goodwill arising on acquisition | 1,098 | 5,817 |

The current year broking portfolio acquisitions of \$1,337,000 did not include any contingent consideration.

During the previous period, controlled entities acquired broking portfolios which included an element of contingent consideration which is finally determined on a multiple of commission and fees achieved in the financial year immediately following acquisition. The potential undiscounted amount of all future payments that could be required was between \$555,000 and \$1,982,000. The fair value of this contingent consideration at the date of acquisition had been estimated as \$1,610,000. During June 2013, the amount previously estimated for contingent consideration was increased by a further \$87,854 increasing the total contingent consideration to \$1,698,000. The additional amount was included in the 2013 income statement. (see note 4(vii))

During June 2014 a controlled entity settled contingent consideration payments on a portfolio acquired in May 13. The estimated contingent consideration on this acquisition was reduced by \$253,915 and the adjustment to contingent consideration included in the income statement. (see note 4(vii)). The carrying value of the intangible was reduced by a \$253,915 impairment charge in recognition that the carrying value was overvalued by this amount. The adjustment was included in the 2014 income statement (see note 4(vi)).

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2014

7. CASH AND CASH EQUIVALENTS (CONTINUED)

(ac) The group disposed of broking portfolios as follows:

| | Consolidated | |
|---|----------------|----------------|
| | 2014 \$'000 | 2013 \$'000 |
| Proceeds from sale of broking portfolio (net of sales expenses) | 330 | 953 |
| Less: | | |
| Adjustment to intangibles | (222) | (543) |
| Non controlling interests | (108) | - |
| Unrealised profit on sale of broking portfolio to an associate | - | (287) |
| Profit on sale of broking portfolio (pre tax) | - | 123 |

(ad) During the period a controlled entity disposed of all of its voting shares in Trinity Pacific Underwriting Agency Pty Ltd to a related entity for \$140,446 (\$98,312 net of disposal costs)

| | | |
|---|----------|----------|
| Proceeds from sale of associate (net of disposal costs) | 98 | - |
| Less: | | |
| Non controlling interests | (39) | - |
| Adjustment to intangibles | (59) | - |
| Profit on sale of associate | - | - |

(ae) During the period a controlled entity disposed of all of its voting shares in Interprac General Insurance Pty Ltd for \$300,000 (\$219,600 net of disposal costs)

| | | |
|---|----------|----------|
| Proceeds from sale of associate (net of disposal costs) | 220 | - |
| Less: | | |
| Carrying value of associate | (32) | - |
| Non controlling interests | (75) | - |
| Adjustment to intangibles | (113) | - |
| Profit on sale of associate | - | - |

Disposals of controlled entities – previous period

(af) On 1 May 2013, the company disposed of all of its equity in Austbrokers Gladstone Pty Ltd and Austbrokers Financial Services (Gladstone) Pty Ltd for \$268,000 to an associated entity, Rivers Insurance Brokers Pty Ltd.

| | | |
|--|----------|------------|
| Proceeds from sale of controlled entity | - | 268 |
| Less carrying value/unrealised profit on sale of controlled entity to an associate | - | (86) |
| Profit on sale (pre tax) | - | 182 |
| Cash inflow on disposal is as follows; | | |
| Net cash reduction on disposal of controlled entity | - | (69) |
| Cash received on disposal of controlled entity | - | 268 |
| Net cash inflow on sale on controlled entity | - | 199 |
| Total profit on disposals pre tax – items 7 (ac) – 7(af) (see note 4 (vii)) | - | 305 |

\$2,620,068 (\$2,544,068 net of amortisation) of intangibles recognised by the entities sold were included in previous year group consolidated financial statements and have been deconsolidated when the entities were sold in May 2013. (see note 16).

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2014

8. DIVIDENDS PAID AND PROPOSED

Equity dividends on ordinary shares:

(a) Dividends paid during the year

| | Consolidated | |
|--|----------------|----------------|
| | 2014 \$'000 | 2013 \$'000 |
| Final franked dividend for financial year ended 30 June 2012: 21.5 cents | - | 12,053 |
| Interim franked dividend for financial year ended 30 June 2013: 11.0 cents | - | 6,339 |
| Final franked dividend for financial year ended 30 June 2013: 24.5 cents | 14,277 | - |
| Interim franked dividend for financial year ended 30 June 2014: 12.0 cents | 7,157 | - |
| Total dividends paid in current year | 21,434 | 18,392 |

In addition to the above, dividends paid to non controlling interests totalled \$6,745,000 (2013: \$5,097,000).

(b) Dividends proposed and not recognised as a liability

| | | |
|--|---------------|---------------|
| Final franked dividend for financial year ended 30 June 2013: 24.5 cents | - | 14,247 |
| Final franked dividend for financial year ended 30 June 2014: 26.5 cents | 15,888 | - |
| | 15,888 | 14,247 |
| Dividends paid per share (cents per share) | 36.5 | 32.5 |
| Dividends proposed per share (cents per share) not recognised at balance date | 26.5 | 24.5 |

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% (2013: 30%) | 30,498 | 27,985 |
| - franking credits that will arise from the payment (refund) of income tax payable as the end of the financial | (267) | 569 |
| The amount of franking credits available for future reporting periods. | 30,231 | 28,554 |
| - 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. | (6,809) | (6,105) |
| The amount of franking credits available for future reporting periods after payment of dividend. | 23,422 | 22,449 |

The tax rate at which paid dividends have been franked is 30% (2013: 30%)

Dividends proposed will be franked at the rate of 30% (2013: 30%)

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2014

9. TRADE AND OTHER RECEIVABLES (CURRENT)

| | Consolidated | |
|---|----------------|----------------|
| | 2014 \$'000 | 2013 \$'000 |
| Trade receivables | 18,448 | 18,118 |
| Amount due from customers on broking/underwriting agency operations | 161,977 | 137,664 |
| Other receivables – related entities | 2,311 | 916 |
| Total receivables (current) | 182,736 | 156,698 |

10. OTHER FINANCIAL ASSETS (CURRENT)

| | | |
|---|-----------|--------------|
| Mortgages – related entities (amortised cost) | 44 | 1,457 |
| Other | 27 | 259 |
| Total other financial assets (current) | 71 | 1,716 |

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.

11. TRADE AND OTHER RECEIVABLES (NON CURRENT)

| | | |
|--|-----------|------------|
| Trade receivables | 44 | 264 |
| Total receivables (non current) | 44 | 264 |

12. OTHER FINANCIAL ASSETS (NON CURRENT)

| | | |
|---|------------|------------|
| Mortgages – related entities (amortised cost) | 213 | - |
| Other | 407 | 424 |
| Total other financial assets (non current) | 620 | 424 |

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.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2014

13. INVESTMENT IN ASSOCIATES

Investments at equity accounted amount:

| | Consolidated | | | |
|---|-------------------------|-------------|-------------------------|----------------|
| | | | 2014 \$'000 | 2013 \$'000 |
| Associated entities – unlisted shares | | | 103,301 | 82,169 |
| Associated entities (and their controlled entities) – unlisted shares – equity percentage owned and equity accounted carrying value | | | | |
| | Equity percentage owned | | Equity accounted amount | |
| | Jun-14 % | Jun-13 % | 2014 \$'000 | 2013 \$'000 |
| Austral Insurance Brokers Pty Ltd | 50.0 | 50.0 | 3,036 | 2,977 |
| A & I Member Services Pty Ltd | 50.0 | 50.0 | - | - |
| Austbrokers RIS Pty Ltd | 49.9 | 49.9 | 2,586 | 2,490 |
| Austbrokers ABS Aviation Pty Ltd | 50.0 | 50.0 | 122 | 106 |
| Bruce Park Pty Ltd | 49.9 | 49.9 | 1,421 | 1,457 |
| Brett Grant and Associates Pty Ltd | 50.0 | 50.0 | 1,659 | 1,562 |
| Citycover (Aust) Pty Ltd | 49.9 | 49.9 | 1,740 | 1,725 |
| Austbrokers Dalby Insurance Brokers Pty Ltd | 50.0 | 50.0 | 2,868 | 2,467 |
| Insurance Advisernet Australia Pty Ltd/Insurance Advisernet Australia Unit Trust | 49.9 | 49.9 | 17,283 | 15,386 |
| Insurance Advisernet Holdings Pty Ltd/Insurance Advisernet Holdings Unit Trust | 49.9 | 49.9 | 774 | 592 |
| JMD Ross Insurance Brokers Pty Ltd | 49.9 | 49.9 | 912 | 963 |
| Markey Group Pty Ltd | 49.9 | 49.9 | 4,084 | 3,803 |
| Global Assured Finance Pty Ltd | 49.9 | 49.9 | - | - |
| MGA Management Services Pty Ltd | 49.9 | 49.9 | 8,749 | 7,590 |
| Northern Tablelands Insurance Brokers Pty Ltd | 49.9 | 49.9 | 102 | 103 |
| Northlake Holdings Pty Ltd | 50.0 | 50.0 | 5,232 | 5,074 |
| Peter L Brown & Associates Pty Ltd | 49.9 | 49.9 | 623 | 571 |
| Procure Pty Ltd | 50.0 | 0.0 | 11,435 | - |
| Power Insurance Brokers Pty Ltd | 75.0 | 49.9 | - | 101 |
| Rivers Insurance Brokers Pty Ltd | 49.9 | 49.9 | 3,044 | 3,199 |
| Strathearn Insurance Group Pty Ltd | 49.9 | 49.9 | 21,732 | 22,153 |
| Supabrook Pty Ltd | 49.9 | 49.9 | 986 | 1,030 |
| SRG Group Pty Ltd | 50.0 | 50.0 | 1,924 | 2,000 |
| Western United Financial Services Pty Ltd | 49.9 | 49.9 | 1,758 | 1,513 |
| WRI Insurance Brokers Pty Ltd | 50.0 | 0.0 | 4,398 | - |
| NRIG Pty Ltd | 20.0 | 0.0 | 40 | - |
| Countrywide Tolstrup Financial Services Group Pty Ltd/Countrywide Tolstrup Group Unit Trust | 49.9 | 49.9 | 2,227 | 1,976 |
| Oxley Insurance Brokers Pty Ltd/Port Macquarie Insurance Brokers Unit Trust | 49.9 | 49.9 | 589 | 539 |
| Coffs Harbour Unit Trust | 37.5 | 37.5 | 99 | 109 |
| Aust Re Brokers Pty Ltd | 50.0 | 50.0 | 291 | 235 |
| Tasman Underwriting Pty Ltd | 50.0 | 50.0 | 473 | 490 |
| Millennium Underwriting Agency Pty Ltd* | 50.0 | 50.0 | 222 | 264 |
| One Liability Underwriting Pty Ltd | 50.0 | 50.0 | - | - |
| Sura Accident and Health Pty Ltd (formerly Angel Accident and Health Underwriting Agency Pty Ltd) | 50.0 | 50.0 | - | - |
| Longitude Insurance Pty Ltd** | 56.1 | 56.1 | 530 | 286 |
| NewSurety Pty Ltd | 50.0 | 50.0 | 206 | - |
| Celestial Underwriting Agency Pty Ltd | 100.0 | 50.0 | - | 452 |
| Mint Plus Pty Ltd | 50.0 | 0.0 | 772 | - |
| Interprac General Insurance Pty Ltd | 0.0 | 18.8 | - | 32 |
| HQ Insurance Pty Ltd | 40.4 | 47.5 | 1,384 | 924 |
| | | | 103,301 | 82,169 |

*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.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2014

13. INVESTMENT IN ASSOCIATES (CONTINUED)

During the current year, the following transactions occurred;

- On 1 July 2013, the company acquired 50% of the voting shares of WRI Insurance Brokers Pty Ltd for \$4,876,264 which includes an amount of \$876,264 that represents the value of identifiable net assets acquired at the time of acquisition of the business.
- On 1 September 2013, a controlled entity, Adroit Holdings Pty Limited, sold all of the voting shares in Interprac General Insurance Pty Limited for \$300,000 (\$219,600 net of disposal costs).
- On 1 September 2013, a controlled entity, Adroit Holdings Pty Limited, acquired 20% of the voting shares of NRIG Pty Limited for \$40,000.
- On 4 October 2013, a controlled entity, Austagencies Pty Ltd, acquired an additional 50% of the voting shares in Celestial Underwriting Agency Pty Ltd for \$300,000 bringing the total equity to 100%. On that date Celestial Underwriting Agency Pty Ltd ceased to be an associate.
- Effective 1 December 2013, a controlled entity, Austbrokers Sydney Pty Ltd, had its voting shares in HQ Insurance Pty Ltd reduced from 47.5% to 40.4% through an issue of shares to a new shareholder.
- On 1 January 2014, the company acquired an additional 25% of the voting shares in Power Insurance Brokers Pty Ltd for \$1,250,000 bringing the total equity to 75%. On that date Power Insurance Brokers Pty Ltd ceased to be an associate.
- On 1 January 2014, the company acquired 50% of the voting shares in Procure Pty Ltd for \$11,139,163 including an amount of \$3,839,163 which represents the fair value of the contingent consideration expected to be paid in the future.
- On 1 April 2014, a controlled entity, Austagencies Pty Limited, acquired 50% of the voting shares in Mint Plus Pty Ltd for \$1,026,746 including an amount of \$807,987 which represents the fair value of the contingent consideration expected to be paid in the future.

During the previous year, the following transactions occurred;

- On 1 July 2012, the consolidated entity acquired additional voting shares in Insurics Pty Ltd and Adroit Holdings Pty Ltd on which date they ceased to be associates and became controlled entities.
- Interprac General Insurance Pty Ltd was acquired as part of Adroit Holdings Pty Ltd.
- On 1 November 2012, the consolidated entity acquired additional voting shares in Comsure Pty Ltd on which date it ceased to be an associate and became a controlled entity.
- During the period, the consolidated entity incorporated or acquired the following entities, Angel Accident and Health Underwriting Agency Pty Ltd, One Liability Underwriting Pty Ltd, New Surety Pty Ltd and Aust Re Brokers Pty Ltd. The capital contribution for 50% of the voting shares in each entity was \$50, \$100, \$100 and \$10 respectively.
- On 1 December 2012, the consolidated entity acquired 50% of the voting shares of Brett Grant and Associates Pty Ltd for \$1,728,603.
- On 1 April 2013, the consolidated entity acquired 50% of the voting shares of Dalby Insurance Brokers Pty Ltd for \$2,538,926.
- On 1 May 2013, the consolidated entity acquired 47.5% of the voting shares of HQ Insurance Brokers Pty Ltd for \$1,200,000.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2014

13. 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 – insurance broking, except for associates owned by Austagencies Pty Ltd, which are underwriting agents and Procure Pty Ltd which offers insurance 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 and 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% (2013:47.5%) and NRIG Pty Ltd where the voting power is 20%.
- (c) The reporting date of each associate is 30 June 2014 (prior year reporting date 30 June 2013).
- (d) There have been no significant subsequent events affecting the associates' profits for the year.
- (e) Other than disclosed in note 17, there were no other impairments of investment in associates for the year.
- (f) All associates, including unit trusts, were incorporated or established in Australia.
- (g) The entity's share of the associate's commitments and contingent liabilities are disclosed in note 23.

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

Share of associates':

| | Consolidated | |
|--|----------------|----------------|
| | 2014 \$'000 | 2013 \$'000 |
| Revenue | 86,502 | 77,682 |
| Operating profits before income tax | 27,323 | 24,881 |
| Amortisation of intangibles | (1,806) | (1,391) |
| Net profit before income tax | 25,517 | 23,490 |
| Income tax expense attributable to operating profits | (5,711) | (4,120) |
| Share of associates' net profits | 19,806 | 19,370 |

(i) The entity's share of the assets and liabilities of associates in aggregate:

| | | |
|-------------------------|---------------|---------------|
| Current assets | 185,860 | 164,636 |
| Non-current assets | 44,254 | 39,737 |
| Current liabilities | (178,809) | (159,840) |
| Non-current liabilities | (10,917) | (11,276) |
| Net assets | 40,388 | 33,257 |

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2014

14. SHARES IN CONTROLLED ENTITIES CONSOLIDATED

All controlled entities are incorporated in Australia and comprise:

| Name and interests in controlled entities: | Consolidated Equity interest held | |
|---|--------------------------------------|-----------|
| | 2014 % | 2013 % |
| 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 | 70 | 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 |
| Adroit Holdings Pty Ltd and its controlled entities | 60 | 68.5 |
| – Adroit Financial Group Pty Ltd | 48 | 68.5 |
| – Stateplan Facilities Pty Ltd | 60 | 68.5 |
| – Adroit Hume Pty Ltd | 48.3 | 55.3 |
| – Adroit Melbourne Pty Ltd | 60 | 68.5 |
| – Adroit Workers Compensation Solutions Pty Ltd | 54 | 61.7 |
| – Adroit Insurance Group Pty Ltd | 60 | 68.5 |
| – Adroit FS Pty Ltd | 48 | 68.5 |
| – Adroit Bellarine Pty Ltd | 57 | 65.1 |
| – Adroit Sandhurst Pty Ltd | 41.2 | 47 |
| – Adroit Eureka Pty Ltd | 38.2 | 51.1 |
| – Adroit Latrobe Pty Ltd | 60 | 68.5 |
| – Tealrose Pty Ltd | 60 | 68.5 |
| – Adroit Albury FG Pty Ltd | 30.6 | 34.9 |
| – Adroit Epping Financial Planning Pty Ltd | 57.2 | 65.7 |
| – We can Bcoz Pty Ltd | 60 | 68.5 |
| – Bcoz Underwriting Agencies Unit Trust | 54.2 | 62.6 |
| – Adroit Workcom Investments Pty Ltd | 53.5 | 68.5 |
| – Adroit Management Services Pty Ltd | 60 | 68.5 |
| – Austbrokers Employee Equity Trust | 44.8 | 52.4 |
| Austbrokers Services Pty Ltd | 100 | 100 |
| 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 |
| Aprikeesh Pty Ltd and its controlled entities | 66 | 66 |
| – Austbrokers Phillips Pty Ltd | 66 | 66 |
| – Austbrokers Australian Compensation Services Pty Ltd | 66 | 66 |
| – Interfin Pty Ltd | 52 | 52 |
| 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 |

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2014

14. SHARES IN CONTROLLED ENTITIES CONSOLIDATED (CONTINUED)

All controlled entities are incorporated in Australia and comprise:

| Name and Interests in controlled entities: | Consolidated Equity interest held | |
|--|--------------------------------------|-----------|
| | 2014 % | 2013 % |
| 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 | 90 | 90 |
| Austbrokers Premier Pty Ltd | 80 | 80 |
| Austbrokers Southern Pty Ltd | 80 | 80 |
| Austbrokers Canberra Pty Ltd | 85 | 85 |
| Austbrokers AEI Transport Pty Ltd and controlled entities | 55 | 65 |
| – Carriers Insurance Brokers Pty Ltd | 44 | 52 |
| – Austbrokers AEI Pty Ltd | 35.6 | 42.3 |
| – Chegwyn Insurance Brokers Pty Ltd | 35.6 | 42.3 |
| Austbrokers Sydney Pty Ltd and its controlled entities | 100 | 100 |
| – Austbrokers FWR Pty Ltd | 100 | 100 |
| – Austbrokers Professional Services Pty Ltd | 80 | 80 |
| Australian Bus and Coach Underwriting Agency Pty Ltd | 100 | 100 |
| AHL Insurance Brokers Pty Ltd and its controlled entity | 100 | 100 |
| – AHL Insurance Brokers (Aust) Pty Ltd | 100 | 100 |
| Austagencies Pty Ltd and its controlled entities | 100 | 100 |
| – Cemac Pty Ltd | 100 | 100 |
| – Cinesure Pty Ltd | 100 | 100 |
| – Latitude Underwriting Agency Pty Ltd | 100 | 100 |
| – Dolphin Insurance Pty Ltd | 100 | 100 |
| – 5 Star Underwriting Agency Pty Ltd | 100 | 100 |
| – Film Insurance Underwriting Agencies Pty Ltd | 100 | 100 |
| – Construction Underwriting Pty Ltd | 51 | 51 |
| – Breakdown Underwriting Pty Ltd | 51 | 51 |
| – Lawsons Underwriting Agency Pty Ltd | 90 | 90 |
| – Sura Hospitality Pty Ltd (previously Guardian underwriting Services Pty Ltd) as trustee for G.U.S. Trust | 90.9 | 90.9 |
| – All-Trans Underwriting Pty Ltd | 100 | 0 |
| – Celestial Underwriting Agency Pty Ltd | 100 | 50 |
| – Trinity Pacific Underwriting Agency Pty Ltd | 100 | 0 |
| Austbrokers RWA Pty Ltd and its controlled entities | 60 | 60 |
| – Austbrokers RWA Financial Services Pty Ltd | 30 | 30 |
| – Harvey Business Management Pty Ltd | 0 | 60 |
| – CTRL Pty Ltd | 60 | 60 |
| Comsure Insurance Brokers Pty Ltd and controlled entity | 80 | 80 |
| – Comsure Financial Solutions Pty Ltd | 60 | 60 |
| Power Insurance Brokers Pty Ltd | 75 | 49.9 |
| Insurics Pty Ltd | 100 | 100 |
| InterRISK Australia Pty Ltd and its controlled entity | 77.1 | 77.1 |
| – InterRISK Queensland Pty Ltd | 37 | 37 |
| – Atlas Insurance Brokers Pty Ltd | 27 | 0 |
| Shield Underwriting Holdings Pty Ltd | 100 | 100 |
| McNaughton Gardiner Insurance Brokers Pty Ltd and its controlled entity | 70 | 70 |
| All controlled entities are incorporated in Australia and comprise: | | |
| – 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 |
| – Ballina Insurance Brokers Pty Ltd as trustee for Ballina Insurance Brokers unit trust | 56 | 56 |
| Austbrokers Terrace Insurance Brokers Pty Ltd and controlled entity | 70.8 | 70.8 |
| – Austbrokers Financial Solutions (SA) Pty Limited | 47 | 47 |
| Austbrokers Employee Share Acquisition Schemes Trust | 100 | 100 |

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2014

14. SHARES IN CONTROLLED ENTITIES CONSOLIDATED (CONTINUED)

During the current year, the following transactions occurred;

- Effective 1 July 2013, the consolidated entity diluted its voting shares of Austbrokers AEI Transport Pty Ltd (AB AEIT) by 10%, when AB AEIT issued additional shares to existing shareholders for \$2,846,405 reducing the equity ownership to 55%.
- Effective 1 July 2013, a controlled entity, Adroit Holdings Limited sold 1.89% of the units in Austbrokers Employee Equity Trust decreasing the equity ownership to 74.59%.
- On 4 October 2013, a controlled entity, acquired an additional 50% of the voting shares in Celestial Underwriting Agency Pty Ltd for \$300,000 bringing the total equity to 100%. Celestial Underwriting Agency Pty Ltd ceased to be an associate on that date.
- On 1 January 2014, the company acquired an additional 25% of the voting shares in Power Insurance Brokers Pty Ltd for \$1,250,000 bringing the total equity to 75%. On that date Power Insurance Brokers Pty Ltd ceased to be an associate.
- Effective 1 January 2014, the company disposed of 8.5% of the voting shares in Adroit Holdings Pty Limited for \$2,024,378 reducing the equity ownership to 60%.
- On 1 April 2014, a controlled entity, Austagencies Pty Ltd acquired 100% of the voting shares in All-Trans Underwriting Pty Ltd for \$1,961,474 including contingent consideration of \$1,475,571.
- On 1 April 2014, Austagencies Pty Ltd acquired 100% of the voting shares in Trinity Pacific Underwriting Agency Pty Ltd for \$4,019,671 including contingent consideration of \$3,662,156.
- Effective 2 January 2014, a controlled entity, Adroit Holdings Limited sold 11% of the voting shares in Adroit Eureka Pty Ltd (Eureka) decreasing the equity ownership to 63.6%.
- Effective 2 January 2014, a controlled entity, Adroit Holdings Limited sold 20% of the voting shares in Adroit Financial Group (AFG) and Adroit FS decreasing the equity ownership to 80% for both entities.
- Effective 1 March 2014, a controlled entity InterRisk Queensland Pty Ltd acquired 80% of the voting shares in a newly incorporated entity, Atlas Insurance Brokers Pty Ltd (Atlas) for \$1,710,000.
- On 11 June 2014, Harvey Business Management Pty Ltd was voluntarily deregistered.

During the previous year, the following transactions occurred;

- On 1 November 2012, the consolidated entity acquired an additional 30% interest in Comsure Insurance Brokers Pty Ltd for \$2,237,131, bringing the total equity to 80%.
- Effective 1 July 2012, the consolidated entity acquired an additional 18.5% interest in Adroit Holdings Pty Ltd for \$4,406,000, bringing the total equity to 68.5%.
- On 1 July 2012, the consolidated entity acquired the remaining 50% interest in Insurics Pty Ltd it did not already own for \$2,527,000.
- Effective 1 July 2012, the consolidated entity acquired an additional 10% of the voting shares of Austbrokers Canberra Pty Ltd for \$1,500,000 increasing the equity ownership to 85%.
- Effective 1 July 2012, the consolidated entity diluted its voting shares of Austbrokers Financial Solutions (Syd) Pty Ltd (AFS) by 25%, when AFS issued additional shares to a new shareholder for \$1,224,920 reducing the equity ownership to 75%.
- Effective 1 July 2012, the consolidated entity diluted its voting shares of Austbrokers Terrace Pty Ltd from 85% to 70.83% when Austbrokers Terrace Pty Ltd issued additional shares to non controlling interests for \$1,018,035. During the period, Austbrokers Terrace increased its shareholding in Austbrokers Financial Solutions (SA) from 50.98% to 66.67%.
- On 15 October 2012, the consolidated entity incorporated Cinsure Pty Ltd. The capital contribution for 100% of the voting shares was \$1000.
- Effective 1 January 2013, a controlled entity diluted its voting shares in SPT Financial Solutions Pty Ltd (SPT) from 75% to 70%, when SPT issued additional shares to a new shareholder for \$73,119.
- Effective 1 May 2013, Austagencies Pty Ltd acquired 90.0% of the voting shares in Lawsons Underwriting Australasia Ltd for \$6,355,682 (including a deferred payment of \$1,630,122).
- Effective 1 May 2013, Austagencies Pty Ltd acquired 90.91% of the voting shares in Guardian Underwriting Services Pty Ltd, trustee for G.U.S Trust for \$3,618,469 (including a deferred payment of \$891,167).
- Effective 31 May 2013, the Company acquired 77.09% of the voting shares in InterRISK Australia Pty Ltd for \$17,242,386 (including a deferred payment of \$1,325,960 and shares valued at \$2,067,277).
- Effective 1 June 2013, Austbrokers AEI Pty Ltd, acquired 100% of the voting shares in Chegwyn Insurance Brokers Pty Ltd for \$1,250,000.
- Effective 30 June 2013, a controlled entity diluted its voting shares in AEI Pty Ltd (AEI) from 80% to 65%, when AEI issued additional shares to new and existing shareholders for \$1,250,000 including \$550,746 to its parent entity.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2014

14. SHARES IN CONTROLLED ENTITIES CONSOLIDATED (CONTINUED)

During the previous year, the following transactions occurred; (continued)

- On 1 May 2013, Austbrokers Financial Solutions (Syd) Pty Ltd incorporated a new 100% owned entity, Austbrokers Financial Solutions (ACT) Pty Ltd for \$10.
- On 1 May 2013, the consolidated entity disposed of 100% of Austbrokers Gladstone Pty Ltd and Austbrokers Financial Services (Gladstone) Pty Ltd to an associate, Rivers Insurance Brokers Pty Ltd for \$268,000.
- During the period, a controlled entity Aprikeesh Pty Ltd increased its equity in Interfin Pty Ltd from 67.5% to 78.68%. The acquisition was treated as a transaction between owners.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2014

15. PROPERTY, PLANT AND EQUIPMENT

| | Consolidated | | | |
|--|--------------------|----------------------------------|-----------------------------|-----------------|
| | Property \$'000 | Plant and equipment \$'000 | Motor vehicles \$'000 | Total \$'000 |
| Year ended 30 June 2014 | | | | |
| Balance at the beginning of the year | 730 | 16,721 | 1,448 | 18,899 |
| Acquisition of controlled entities | - | 386 | 204 | 590 |
| Additions during the year | - | 2,127 | 352 | 2,479 |
| Disposals during the year | - | (288) | (298) | (586) |
| Property, plant and equipment at cost | 730 | 18,946 | 1,706 | 21,382 |
| Depreciation | | | | |
| Balance at the beginning of the year | 94 | 10,809 | 541 | 11,444 |
| Acquisition of controlled entities | - | 248 | 65 | 313 |
| Disposals during the year | - | (270) | (191) | (461) |
| Depreciation during year | 10 | 1,678 | 241 | 1,929 |
| Accumulated depreciation | 104 | 12,465 | 656 | 13,225 |
| Summary | | | | |
| Net carrying amount at beginning of year | 636 | 5,912 | 907 | 7,455 |
| Net carrying amount at end of year | 626 | 6,481 | 1,050 | 8,157 |
| Year ended 30 June 2013 | | | | |
| Balance at the beginning of the year | 730 | 12,029 | 1,083 | 13,842 |
| Acquisition of controlled entities | - | 6,307 | 391 | 6,698 |
| Additions during the year | - | 1,113 | 421 | 1,534 |
| Disposals during the year | - | (2,728) | (447) | (3,175) |
| Property, plant and equipment at cost | 730 | 16,721 | 1,448 | 18,899 |
| Depreciation | | | | |
| Balance at the beginning of the year | 83 | 8,296 | 405 | 8,784 |
| Acquisition of controlled entities | - | 3,588 | 141 | 3,729 |
| Disposals during the year | - | (2,704) | (225) | (2,929) |
| Depreciation during year | 11 | 1,629 | 220 | 1,860 |
| Accumulated depreciation | 94 | 10,809 | 541 | 11,444 |
| Summary | | | | |
| Net carrying amount at beginning of year | 647 | 3,733 | 678 | 5,058 |
| Net carrying amount at end of year | 636 | 5,912 | 907 | 7,455 |

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2014

16. INTANGIBLE ASSETS AND GOODWILL

| | Consolidated | | |
|---|--------------------|---|-----------------|
| | Goodwill \$'000 | Insurance broking registers \$'000 | Total \$'000 |
| Year ended 30 June 2014 | | | |
| Balance at the beginning of the year | 134,772 | 43,783 | 178,555 |
| Additional businesses and portfolios acquired | 17,138 | 3,128 | 20,266 |
| Impairment charge | (254) | - | (254) |
| Disposals of broking portfolios | (397) | - | (397) |
| Total intangibles | 151,259 | 46,911 | 198,170 |
| Amortisation | | | |
| Balance at the beginning of the year | - | 19,916 | 19,916 |
| Amortisation current year | - | 4,034 | 4,034 |
| Accumulated amortisation | - | 23,950 | 23,950 |
| Summary | | | |
| Net carrying amount at beginning of year | 134,772 | 23,867 | 158,639 |
| Net carrying amount at end of year | 151,259 | 22,961 | 174,220 |
| Year ended 30 June 2013 | | | |
| Balance at the beginning of the year | 71,980 | 27,317 | 99,297 |
| Additional businesses and portfolios acquired | 65,385 | 17,036 | 82,421 |
| Disposal of controlled entities | (2,050) | (570) | (2,620) |
| Disposals of broking portfolios | (543) | - | (543) |
| Total Intangibles | 134,772 | 43,783 | 178,555 |
| Amortisation | | | |
| Balance at the beginning of the year | - | 16,461 | 16,461 |
| Amortisation current year | - | 3,531 | 3,531 |
| Disposal of controlled entities | - | (76) | (76) |
| Accumulated amortisation | - | 19,916 | 19,916 |
| Summary | | | |
| Net carrying amount at beginning of year | 71,980 | 10,856 | 82,836 |
| Net carrying amount at end of year | 134,772 | 23,867 | 158,639 |

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.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2014

16. INTANGIBLE ASSETS AND GOODWILL (CONTINUED)

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

| | Consolidated | |
|---|----------------|----------------|
| | 2014 \$'000 | 2013 \$'000 |
| (i) Goodwill | | |
| Adroit Holdings Pty Ltd | 21,862 | 22,009 |
| InterRISK Australia Pty Ltd and its controlled entity | 20,352 | 16,448 |
| Comsure Insurance Brokers Pty Ltd | 5,876 | 5,876 |
| Austbrokers Sydney Pty Ltd and its controlled entities | 23,882 | 24,941 |
| Power Insurance Brokers Pty Ltd | 5,292 | - |
| Austbrokers Central Coast Pty Ltd and its controlled entities | 2,341 | 2,341 |
| Austbrokers RWA Pty Ltd and its controlled entities | 5,691 | 5,495 |
| Aprikeesh Pty Ltd and its controlled entities | 2,315 | 2,315 |
| Austbrokers Financial Solutions (Syd) Pty Ltd and its controlled entities | 7,113 | 7,330 |
| Austagencies and its controlled entities | 34,033 | 27,189 |
| Austbrokers Premier Pty Ltd | 3,407 | 3,407 |

| | Remaining amortisation period (years) | | | |
|---|--|------|-------|-------|
| | 2014 | 2013 | | |
| (ii) Insurance Broking Registers | | | | |
| Adroit Holdings Pty Ltd | 8.0 | 9.0 | 5,404 | 5,999 |
| InterRISK Australia Pty Ltd and its controlled entity | 9.0 | 10.0 | 5,598 | 4,943 |
| Comsure Insurance Brokers Pty Ltd | 8.5 | 9.5 | 1,484 | 1,662 |
| Austbrokers Sydney Pty Ltd and its controlled entities | 3.0 | 4.0 | 2,158 | 3,313 |
| Power Insurance Brokers Pty Ltd | 9.5 | - | 1,523 | - |
| Aprikeesh Pty Ltd and its controlled entities | 4.5 | 5.5 | 1,293 | 1,564 |
| Austbrokers Financial Solutions and its controlled entities | 6.5 | 7.5 | 1,635 | 1,782 |
| RWA Insurance Brokers Pty Ltd and its controlled entities | 7.5 | 8.5 | 687 | 796 |

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2014

17. 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 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 cash generating unit or grouped into the one cash generating unit where operations are linked. The value in use calculation takes into account net present value of future cash flows for the next 5 years plus a terminating value.

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 9.92 to 11.53 times (2013: 9.92 to 11.53 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 (2013: 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.

External expert advice has been sought in relation to the determination of the appropriate weighted average cost of capital (WACC) to be used in determining the profit multiples. 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. In the previous year, the long term average rate for 10 year bonds was used to reflect a sustainable risk free rate. The risk free rate (before risk margin) used in the current year is 3.7% (2013: 5.2%).

When considered appropriate, a secondary measure is applied to determine directors' estimates of fair value. This measure applies a multiple of 1.8 times to broking revenue (2013: 1.8 times) for general insurance broking businesses and 2.5 times to life insurance renewal commissions (2013: 2.5 times). These valuation bases are commonly used in the market to determine value for acquisitions of similar businesses.

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 recognised. During the current year, an impairment charge relating to the carrying value of a cash generating unit of \$253,915 (2013: \$629,000) was recognised and included in the income statement as an expense. The carrying value of the cash generating unit before the impairment loss was \$2,208,179 (2013: \$1,105,494) which was reduced to \$1,954,264 (2013: \$476,494) after recognising the impairment charge. The impairment charge was offset by a reduction in the estimated contingent consideration in respect of this entity where the contingent consideration was reduced by \$253,915 (2013: \$569,466) and this amount was included in the current year income statement (see note 4 (vi),(vii),7(ab)). The impact to the current year result relating to the adjustment to the carrying value of this cash generating unit was a net profit of \$NIL (2013: loss of \$59,534).

No reasonable change in assumptions would result in the recoverable amount of a cash generating unit being materially less than the carrying value included in the accounts.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2014

18. 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. Unless otherwise stated, all options are granted over shares in the ultimate controlling entity, Austbrokers Holdings Ltd.

| Share options | 2014 No. | 2013 No. | 2014 WAEP (\$) | 2013 WAEP (\$) |
|--|----------------|----------------|-------------------|-------------------|
| Outstanding at the beginning of the year | 667,853 | 1,118,673 | 1.54 | 3.11 |
| Granted during the period - Zero priced options | 41,855 | 271,320 | 0.00 | 0.00 |
| Exercised during the period: Options issued during 2006 | (49,350) | (298,200) | 3.47 | 3.47 |
| Exercised during the period: Options issued during 2007 | (70,100) | (317,300) | 4.20 | 4.20 |
| Exercised during the period: Options issued during 2008 | (3,305) | (20,159) | 0.00 | 0.00 |
| Exercised during the period: Options issued during 2008 | - | (13,181) | 0.00 | 0.00 |
| Exercised during the period: Options issued during 2009 | (4,730) | (49,655) | 0.00 | 0.00 |
| Exercised during the period: Options issued during 2010 | (52,861) | - | 0.00 | 0.00 |
| Lapsed/forfeited during the period: Options issued during 2009 | (787) | (23,645) | 0.00 | 0.00 |
| Lapsed/forfeited during the period: Options issued during 2010 | (1,941) | - | 0.00 | 0.00 |
| Lapsed/forfeited during the period: Options issued during 2011 | (7,327) | - | 0.00 | 0.00 |
| Lapsed/forfeited during the period: Options issued during 2012 | (6,117) | - | 0.00 | 0.00 |
| Lapsed/forfeited during the period: Options issued during 2013 | (4,356) | - | 0.00 | 0.00 |
| Outstanding at the end of the year | 508,834 | 667,853 | 1.10 | 1.54 |

The outstanding balance as at 30 June 2014 is represented by:

- NIL (2013: 49,350) options granted on 25 September 2006, exercisable 3 years from the issue date at an exercise price of \$3.47.
- 132,800 (2013: 202,900) options granted on 14 September 2007, exercisable 3 years from the issue date at an exercise price of \$4.20.
- 11,099 (2013: 14,404) 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 (2013: 5,517) Share options were granted on 3 November 2009, exercisable 3 years from 3 November 2009 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 \$4.81.
- 12,969 (2013: 67,771) Share options were granted on 15 October 2010, exercisable 3 years from 15 October 2010 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 \$5.06.
- 49,264 (2013: 56,591) 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.
- 32,203 (2013: 38,320) 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.
- 233,000 (2013: 233,000) Share options were granted on 15 January 2013, 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.
- 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 \$10.0575.

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

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2014

18. SHARE-BASED PAYMENT PLANS (CONTINUED)

During the year the following options were exercised or lapsed.

- 41,855 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 \$10.0575.
- 49,350 Share options were exercised on 12 September 2013 at an exercise price of \$3.47. The volume weighted average price for the 5 business days prior to the date the options were exercised was \$10.89.
- 70,100 Share options were exercised on 12 September 2013 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 \$10.89.
- 3,305 Share options were exercised on 12 September 2013 at an exercise price of \$NIL. The volume weighted average price for 5 business days prior to the date the options were exercised was \$10.89.
- 4,730 Share options were exercised on 30 October 2013 at an exercise price of \$NIL. The volume weighted average price for 5 business days prior to the date the options were exercised was \$11.68.
- 52,861 Share options were exercised on 30 October 2013 at an exercise price of \$NIL. The volume weighted average price for 5 business days prior to the date the options were exercised was \$11.68.
- 787 options lapsed due to vesting conditions over the 4 years ended 30 June 2013, not being met.
- 19,741 Zero priced options, lapsed on 14 April due to a staff member leaving.

During the previous year the following options were exercised or lapsed.

- 233,000 Share options were granted on 15 January 2013, 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.
- 38,320 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.
- 36,100 Share options were exercised on 13 September 2012 at an exercise price of \$3.47. The volume weighted average price for the 5 business days prior to the date the options were exercised was \$7.8065.
- 223,200 Share options were exercised on 18 December 2012 at an exercise price of \$3.47. The volume weighted average price for the 5 business days prior to the date the options were exercised was \$8.27.
- 20,000 Share options were exercised on 13 September 2012 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 \$7.8065.
- 297,300 Share options were exercised on 18 December 2012 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 \$8.27.
- 8,307 Share options were exercised on 13 September 2012 at an exercise price of \$NIL. The volume weighted average price for 5 business days prior to the date the options were exercised was \$7.8065.
- 9,747 Share options were exercised on 18 December 2012 at an exercise price of \$4.22. The volume weighted average price for 5 business days prior to the date the options were exercised was \$8.27.
- 54,529 Share options were exercised on 18 December 2012 at an exercise price of \$NIL. The volume weighted average price for 5 business days prior to the date the options were exercised was \$8.27.
- 38,900 Share options were exercised on 2 April 2013 at an exercise price of \$3.47. The volume weighted average price for 5 business days prior to the date the options were exercised was \$9.80.
- 10,412 Share options were exercised on 2 April 2013 at an exercise price of \$4.22. The volume weighted average price for 5 business days prior to the date the options were exercised was \$9.80.
- 23,645 options lapse due to vesting conditions over the 4 years ended 30 June 2013, not being met.

Share options were granted during the period on similar terms and conditions as options outstanding at 30 June 2013, as noted in the annual report.

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 share-based payments expense recognised in the consolidated income statement is included in note 4 (iv) Expenses.

The weighted average remaining contractual life for the share options outstanding at 30 June 2014 is 3.91 years. (2013: 4.98 years).

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2014

18. SHARE-BASED PAYMENT PLANS (CONTINUED)

Option exercise conditions

These option exercise conditions apply to all options except 233,000 options issued to the Chief Executive Officer (CEO) on 15 January 2013 and those granted after 30 October 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 200,000 of the options granted to the CEO 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 further 33,000 options granted to the CEO have no performance hurdles but are subject to the CEO still being in the employment of the Group at 1 January 2016.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2014

19. TRADE AND OTHER PAYABLES

| | Consolidated | |
|--|----------------|----------------|
| | 2014 \$'000 | 2013 \$'000 |
| Current | | |
| Trade payables | 12,543 | 14,395 |
| Amount payable on broking/underwriting agency operations | 238,674 | 220,115 |
| Other payables – non related | 21,561 | 17,918 |
| Other payables – related entities | 547 | 967 |
| Total trade and other payables | 273,325 | 253,395 |
| Non-current | | |
| Trade payables | 2,479 | - |
| Total trade and other payables | 2,479 | - |

20. PROVISIONS

| | Consolidated | | |
|---------------------------------------|---|----------------------------------|-----------------|
| | Employee entitle- ments \$'000 | Make good provision \$'000 | Total \$'000 |
| Year ended 30 June 2014 | | | |
| Balance at the beginning of the year | 11,692 | 740 | 12,432 |
| Acquisition of controlled entity | 426 | - | 426 |
| Arising during the year | (180) | 24 | (156) |
| Balance at the end of the year | 11,938 | 764 | 12,702 |
| Current 2014 | 10,008 | 174 | 10,182 |
| Non-current 2014 | 1,930 | 590 | 2,520 |
| | 11,938 | 764 | 12,702 |
| Year ended 30 June 2013 | | | |
| Balance at the beginning of the year | 9,549 | 740 | 10,289 |
| Acquisition of controlled entity | 1,827 | - | 1,827 |
| Arising during the year | 316 | - | 316 |
| Balance at the end of the year | 11,692 | 740 | 12,432 |
| Current 2013 | 9,963 | - | 9,963 |
| Non-current 2013 | 1,729 | 740 | 2,469 |
| | 11,692 | 740 | 12,432 |

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2014

20. PROVISIONS (CONTINUED)

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 5 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.

21. INTEREST BEARING LOANS AND BORROWINGS

| | Consolidated | |
|--|----------------|----------------|
| | 2014 \$'000 | 2013 \$'000 |
| Current | | |
| Obligations under finance leases and hire purchase contracts (note 23) | 1,022 | 567 |
| Unsecured loan from other related parties | 177 | 128 |
| Secured bank loan* | 10,363 | 9,437 |
| Total interest bearing loans and borrowings | 11,562 | 10,132 |
| Non-current | | |
| Obligations under finance leases and hire purchase contracts (note 23) | 1,222 | 596 |
| Unsecured loan from other parties | 35 | 51 |
| Secured bank loan* | 41,056 | 42,106 |
| Total interest bearing loans and borrowings | 42,313 | 42,753 |

* 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> | 43,071 | 42,115 |
| <i>Macquarie Bank</i> | 370 | 337 |
| <i>Commonwealth Bank</i> | 1,167 | 1,312 |
| <i>National Australia Bank</i> | 2,343 | 2,588 |
| <i>Hunter Premium Funding</i> | 685 | 838 |
| <i>Bendigo Bank</i> | 3,783 | 4,353 |
| Total secured bank loans | 51,419 | 51,543 |

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 2014

21. INTEREST BEARING LOANS AND BORROWINGS (CONTINUED)

St George Bank facilities

St George Bank has provided finance facilities to Austbrokers Holdings Ltd amounting to \$50,000,000 plus a further \$800,000 in credit card facilities (2013: \$40,600,000). The facility expires on 30 May 2016.

- Austbrokers Holdings Ltd facilities have been utilised to the amount of \$32,912,695 (2013: \$32,820,435) in bill acceptance/discount facilities totalling \$30,000,000 and bank guarantees/credit cards/overdraft facilities totalling \$2,912,695. The unutilised amount of the facility at 30 June 2014 was \$17,887,305 (2013: \$7,779,565).
- Austbrokers Holdings Ltd has utilised \$2,912,695 (2013: \$2,820,435) in respect of bank guarantees, credit card and overdraft facilities.
- Austbrokers Holdings Ltd, has utilised \$25,000,000 (2013: \$25,000,000) in commercial bill facilities at period end. Interest rates have been fixed at an effective rate of 5.35% (2013: 5.35%) until 31 August 2015. Bills are rolled over on quarterly intervals. Rollover of the bills is guaranteed for the duration of the facility as long as there are no breaches of the facility agreement.
- Austbrokers Holdings Ltd, has utilised \$5,000,000 (2013: \$5,000,000) in commercial bill facilities at 30 June 2014. The commercial bill has a variable rate of 4.41% (2013: 4.79%). Bills are rolled over on monthly intervals. Rollover of the bills is guaranteed for the duration of the facility as long as there are no breaches of the facility agreement.
- The facilities are secured by registered fixed and floating charges over the assets and undertakings of the Group and cross guarantees and indemnities given by each of the wholly owned subsidiaries.

A controlled entity, Austbrokers AEI Transport Pty Ltd has negotiated a loan facility amounting to \$4,650,000 (2013: \$4,650,000). These facilities have been utilised to the amount of \$4,000,000 (2013: \$4,650,000) This facility expires on 15 May 2015.

- A commercial bill for \$650,000 was repaid during the year (2013: \$650,000) The interest rate on the bill at 30 June 2013 was 4.97%.
- A commercial bill for \$4,000,000 has an interest rate of 5.75%. (2013: 5.75%) and the rate is fixed until 15 May 2015.
- The facility is secured by registered fixed and floating charges over the assets of Austbrokers AEI Transport Pty Ltd, a guarantee for 55% (2013 : 65%) of the amount given by Austbrokers Holdings Ltd and guarantees and indemnities given by the shareholders with non controlling interests.

A controlled entity, Austbrokers Central Coast Pty Ltd has renegotiated a commercial bill facility from St George Bank for \$550,000. The existing facility was reduced from \$1,005,000 to \$550,000. The facility is fully drawn down at year end. The facility expires on 1 April 2020. A mandatory repayment of \$122,511 is due by 30 June 2015.

- The commercial bill for \$550,000 (2013: \$1,005,000) has an interest rate of 6.2% (2013: 7.33%) and the rate is fixed until the facility expires. Interest rate on the previous commercial bill was based on the variable rate prevailing at that time.
- The facility is secured by registered fixed and floating charges over the assets of Austbrokers Central Coast Pty Ltd, a letter of comfort from Austbrokers Holdings Ltd and guarantees and indemnities given by the shareholders with non controlling interests.

A controlled entity, Austbrokers Financial Solutions (Syd) Pty Ltd has negotiated a commercial bill facility from St George Bank for \$2,700,000. (2013: \$2,700,000). The undrawn amount of this facility is \$591,994 (2013: \$1,361,282). The facility expires on 31 May 2016.

- The commercial bill for \$1,068,718 (2013: \$1,338,718) has an interest rate of 5.77% (2013: 5.77%) and the rate is fixed until 29 May 2015 after which time it will revert to the variable rate prevailing at that time.
- The commercial bill for \$706,080 (2013: \$NIL) has an interest rate of 5.26% (2013: NIL%) and the rate is fixed until 28 November 2014 after which time it will revert to the variable rate prevailing at that time.
- The commercial bill for \$333,208 (2013: \$NIL) has an interest rate of 5.28% (2013: NIL%) and the rate is fixed until 28 November 2014 after which time it will revert to the variable rate prevailing at that time.
- The facility is secured by registered fixed and floating charges over the assets of Austbrokers Financial Solutions (Syd) Pty Ltd, a letter of comfort from Austbrokers Holdings Ltd and guarantees and indemnities given by the shareholders with non controlling interests.

A controlled entity, SPT Financial Services Pty Ltd, entered into an agreement with St George Bank to provide finance facilities amounting to \$449,574 (\$379,574 in loans and \$70,000 for bank overdraft facilities) (2013: \$480,974 including loans of \$410,974 and \$70,000 for bank overdraft facilities). At balance date these facilities have been utilised to the amount of \$379,574 (2013: \$480,074). The undrawn amount of this facility is \$70,000 (2013: \$70,000).

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2014

21. INTEREST BEARING LOANS AND BORROWINGS (CONTINUED)

St George Bank facilities (continued)

- The facility expires on 13 March 2018. The variable interest rate is negotiated quarterly and the rate applicable at 30 June 2014 was 6.04% (2013: 6.11%).
- The facilities are secured by registered fixed and floating charges over the assets of SPT Financial Services Pty Ltd, a letter of comfort given by Austbrokers Holdings Ltd, and guarantees and indemnities given by the shareholders with non controlling interests.

A controlled entity, Finsura Holdings Pty Ltd, has negotiated a loan facility amounting to \$750,000 (2013: \$750,000). At balance date these facilities have been utilised to the amount of \$386,805 (2013: \$506,805). The undrawn amount of the facility at 30 June 2014 was \$363,195 (2013: \$243,195). This facility will expire on 10 June 2019.

- A loan of \$386,805 (2013:\$507,000) has a variable interest rate of 5.14% (2013: 5.3%).
- The facilities are secured by registered fixed and floating charges over the assets of Finsura Holdings Pty Ltd , a letter of comfort given by Austbrokers Holdings Ltd, and guarantees and indemnities given by the shareholders with non controlling interests.

A controlled entity, InterRISK Australia Pty Ltd, has negotiated loan facilities amounting to \$4,400,000 (2013: \$4,490,000) including bank guarantees totalling \$760,000 (2013: \$350,000). The drawn down amount of these facilities at 30 June 2014 was \$3,640,000 in loan facilities and 604,921 in bank guarantees (2013: \$4,133,008). The undrawn amount of the bank guarantees at 30 June 2014 was \$145,079 (2013: \$6,992). An amount of \$1,140,000 of the facility is required to be repaid during the next 12 months. The facility expires in 1 November 2015.

An additional loan facility was negotiated during the year amounting to \$3,825,000 (2013: \$NIL) including bank guarantees totalling \$25,000 (2013: \$NIL).The drawn down amount of these facilities at 30 June 2014 was \$1,959,275 (2013: \$NIL). The undrawn amount of the facility at 30 June 2014 was \$1,865,725 (2013: \$NIL). The facility expires in 1 April 2019.

- A loan of \$3,640,000 (2013:\$4,133,008) has a variable interest rate of 4.23% (2013: 4.57%).
- A loan of \$1,959,275 (2013:\$NIL) has a variable interest rate of 4.26% (2013: NIL%).
- The facilities are secured by registered fixed and floating charges over the assets of InterRISK Australia Pty Ltd and its controlled entities.

A new controlled entity, Power Insurance Brokers Pty Ltd, negotiated a loan facility amounting to \$47,738 (2013: \$NIL). The drawn down amount of these facilities at 30 June 2014 was \$47,738 (2013: \$NIL). The facility expires in 22 September 2014.

- A loan of \$47,738 (2013:\$NIL) has a variable interest rate of 5.44% (2013: NIL%).
- The facilities are secured by registered fixed and floating charges over the assets of Power Insurance Brokers Pty Ltd, a letter of comfort given by Austbrokers Holdings Ltd, and guarantees and indemnities given by the shareholders with non controlling interests.

Macquarie Bank facilities

A controlled entity, Aprikeesh Pty Ltd, has renegotiated a loan facility amounting to \$557,000 (2013: \$557,000). At 30 June 2014 these facilities have been utilised to the amount of \$370,157. (2013: \$337,000) The undrawn amount of the facility at 30 June 2014 was \$186,843 (2013: \$220,000). The loan facility expires on 31 May 2018 (2013: loan facility was to expire in March 2014).

- The loan facility of \$370,157 (2013:\$337,000) has a variable interest rate of 5.93% (2013: 6.02%) and is negotiated quarterly.
- The facilities are secured by registered fixed and floating charges over the assets and undertakings of the Aprikeesh Group and cross guarantees and indemnities given by each of the wholly owned subsidiaries.

Commonwealth Bank facilities

A controlled entity, North Coast Insurance Brokers Pty Ltd has negotiated three loan facilities totalling \$1,167,094 (2013: \$1,312,353).The facilities were fully drawn down at 30 June 2014 (2013: fully drawn down).

- A loan facility of \$475,000 (2013: \$472,337) has been fixed until 13 September 2014 at a rate of 6.6% (2013 6.6%). The facility expires in 13 September 2014.
- A loan facility of \$77,165 (2013: \$76,708) has a variable rate of 6.5%. (2013: 6.85%). The facility expires in 13 September 2014.
- A loan facility of \$614,929 (2013: \$763,308) has a variable rate of 6.48%. (2013: 8.14%) The facility expires on 21 June 2018. Principal repayments of \$175,618 (2013: \$134,480) are due to be repaid during the next 12 months.
- The facilities are secured by registered fixed and floating charges over the assets of North Coast Insurance Brokers Pty Ltd, its controlled entities and guarantees and indemnities given by the shareholders with non controlling interests.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2014

21. INTEREST BEARING LOANS AND BORROWINGS (CONTINUED)

National Australia Bank facilities

A controlled entity, Austbrokers Terrace Insurance Brokers Pty Ltd, repaid all finance facilities during the period. At 30 June 2013 a loan facility totalling \$170,000 had been drawn down at a variable interest rate of 6.42% which was negotiated monthly.

A controlled entity, Austbrokers RWA Pty Ltd, negotiated a loan facility for \$2,343,032. (2013: \$3,047,620) The undrawn amount of this facility is \$NIL (2013: \$629,276). The company has negotiated a further \$250,000 in credit card and overdraft facilities which have been drawn down to \$134,355 (2013:\$202,225). The loan facility expires in March 2018.

- A loan facility of \$2,343,032 (2013: \$3,047,620) has a variable rate of 6.43%. (2013: 6.62%) The facility is fully utilised at year end. (2013: \$2,418,344)
- The facilities are secured by registered fixed and floating charges over the assets of Austbrokers RWA Pty Ltd, its controlled entities and guarantees and indemnities given by the shareholders with non controlling interests.

Hunter Premium Funding

A controlled entity, Austbrokers Southern Pty Ltd, negotiated a \$684,910 (2013: \$837,669) loan facility that expires on 28 June 2018. The undrawn amount of this facility at 30 June 2014 was \$NIL (2013: NIL). A mandatory repayment of \$161,170 is due by 30 June 2015.

- The interest rate on the loan of \$684,910 (2013: \$837,669) is renegotiated six monthly and the rate applicable at 30 June 2014 was 5.47% (2013: 5.53%).
- The facilities are secured by registered fixed and floating charges over the assets of Austbrokers Southern Pty Ltd, its controlled entities and guarantees and indemnities given by the shareholders with non controlling interests.

Bendigo Bank

A controlled entity, Adroit Holdings Pty Ltd, negotiated a loan facility for \$6,035,000 (30 June 2013: \$7,610,000). The undrawn amount of this facility at 30 June 2014 was \$2,252,325 (2013: \$3,257,325). The facility expires in December 2015.

- A loan facility of \$2,305,000 (2013:\$2,305,000) has been fixed until December 2015 at a rate of 8.58%. (2013: 8.58%) The facility was fully utilised at 30 June 2014.
- A loan facility of \$730,000 (2013: \$2,305,000) has a variable rate of 5.30%. (2013: 5.46%) The facility is fully utilised at 30 June 2014.(2013: \$1,180,000).
- A loan facility of \$3,000,000 (2013: \$3,000,000) has a variable rate of 5.31%. (2013: 5.46%) The utilised amount of this facility is \$747,675.
- The facilities are secured by registered fixed and floating charges over the assets of Adroit Holdings Pty Ltd, its controlled entities and guarantees and indemnities given by the shareholders with non controlling interests.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2014

22. ISSUED CAPITAL AND RESERVES

| | Consolidated | |
|---|----------------|----------------|
| | 2014 \$'000 | 2013 \$'000 |
| Issued capital opening balance | 90,586 | 76,036 |
| On 13 September 2012 allotted 8,307 shares at an issue price of \$NIL | - | - |
| On 13 September 2012 allotted 36,100 shares at an issue price of \$3.47 | - | 125 |
| On 13 September 2012 allotted 20,000 shares at an issue price of \$4.20 | - | 84 |
| On 18 December 2012 allotted 54,529 shares at an issue price of \$NIL | - | - |
| On 18 December 2012 allotted 9,747 shares at an issue price of \$4.22 | - | 41 |
| On 18 December 2012 allotted 223,200 shares at an issue price of \$3.47 | - | 775 |
| On 18 December 2012 allotted 297,300 shares at an issue price of \$4.20 | - | 1,249 |
| On 2 April 2013 allotted 38,900 shares at an issue price of \$3.47 | - | 135 |
| On 2 April 2013 allotted 10,412, shares at an issue price of \$4.22 | - | 44 |
| On 13 June 2013 allotted 193,348, shares at an issue price of \$10.692 | - | 2,067 |
| Net Proceeds from Dividend Reinvestment Plan | 17,476 | 10,069 |
| On 11 September 2013 allotted 49,350 shares at an issue price of \$3.47 | 171 | - |
| On 11 September 2013 allotted 70,100 shares at an issue price of \$4.20 | 295 | - |
| On 11 September 2013 allotted 3,305 shares at an issue price of \$NIL | - | - |
| On 28 November 2013 allotted 57,591 shares at an issue price of \$NIL | - | - |
| Share issue expenses | (189) | (39) |
| Issued capital | 108,339 | 90,586 |

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2014

22. ISSUED CAPITAL AND RESERVES (CONTINUED)

| | Consolidated | |
|--|-----------------------|-----------------------|
| | 2014 Shares No. | 2013 Shares No. |
| Number of shares on issue (ordinary shares fully paid) | 59,955,596 | 58,148,980 |
| Movements in number of shares on issue | | |
| Beginning of the financial year | 58,148,980 | 55,999,095 |
| On 13 September 2012 allotted 8,307 shares at an issue price of \$NIL | - | 8,307 |
| On 13 September 2012 allotted 36,100 shares at an issue price of \$3.47 | - | 36,100 |
| On 13 September 2012 allotted 20,000 shares at an issue price of \$4.20 | - | 20,000 |
| On 18 December 2012 allotted 54,529 shares at an issue price of \$NIL | - | 54,529 |
| On 18 December 2012 allotted 9,747 shares at an issue price of \$4.22 | - | 9,747 |
| On 18 December 2012 allotted 223,200 shares at an issue price of \$3.47 | - | 223,200 |
| On 18 December 2012 allotted 297,300 shares at an issue price of \$4.20 | - | 297,300 |
| On 2 April 2013 allotted 38,900 shares at an issue price of \$3.47 | - | 38,900 |
| On 2 April 2013 allotted 10,412, shares at an issue price of \$4.22 | - | 10,412 |
| On 13 June 2013 allotted 193,348, shares at an issue price of \$10.692 | - | 193,348 |
| On 24 October 2012, 920,425 shares were issued at \$7.5008 as a result of a Dividend Reinvestment Plan | - | 920,425 |
| On 26 April 2013, 337,617 shares were issued at \$9.7316 as a result of a Dividend Reinvestment Plan | - | 337,617 |
| On 16 October 2013, 612,902 shares were issued at \$10.8727 as a result of a Dividend Reinvestment Plan. | 612,902 | - |
| On 24 October 2013, 699,943 shares were issued at \$10.8727 as a result of a Dividend Reinvestment Plan. | 699,943 | - |
| On 30 April 2014, 313,425 shares were issued at \$10.2140 as a result of a Dividend Reinvestment Plan. | 313,425 | - |
| On 12 September 2013 allotted 49,350 shares at an issue price of \$3.47 | 49,350 | - |
| On 12 September 2013 allotted 70,100 shares at an issue price of \$4.20 | 70,100 | - |
| On 12 September 2013 allotted 3,305 shares at an issue price of \$NIL | 3,305 | - |
| On 28 November 2013 allotted 57,591 shares at an issue price of \$NIL | 57,591 | - |
| Total shares on issue | 59,955,596 | 58,148,980 |

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, 49,655 have restrictions whereby they cannot be disposed before 2 November 2014, except in the case where employees who own the shares, resign.

Of the total shares on issue at 30 June 2013, 193,348 which were issued on 13 June 2013 as part of an acquisition, were in escrow and could not be disposed for a period of 12 months from the date the shares were issued.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2014

22. ISSUED CAPITAL AND RESERVES (CONTINUED)

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.

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 18 for further details of these plans.

| | | Consolidated | |
|----------------------------------|-------------------|----------------|----------------|
| | | 2014 \$'000 | 2013 \$'000 |
| <i>Non controlling interests</i> | | | |
| Interest in: | Ordinary shares | - | - |
| | Retained earnings | 40,108 | 32,749 |
| | | 40,108 | 32,749 |

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2014

23. COMMITMENTS AND CONTINGENCIES

| | Consolidated | |
|--|----------------|----------------|
| | 2014 \$'000 | 2013 \$'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 | 1,049 | 611 |
| – Later than one year and not later than five years | 1,330 | 659 |
| – Later than five years | - | - |
| Minimum lease and hire purchase payments | 2,379 | 1,270 |
| Deduct: Future finance charges | 135 | 107 |
| Present value of minimum lease and hire purchase payments (refer note 21) | 2,244 | 1,163 |
| 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 7 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 | 5,086 | 4,318 |
| – Later than one year and not later than five years | 8,733 | 8,569 |
| – Later than five years | 189 | - |
| | 14,008 | 12,887 |
| 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 | 3,337 | 3,211 |
| – Later than one year and not later than five years | 5,833 | 7,388 |
| – Later than five years | - | 125 |
| | 9,170 | 10,724 |
| Contingent liabilities | | |
| Estimates of the maximum amounts of contingent liabilities that may become payable | | |
| Austbrokers Holdings Ltd has guaranteed loan facilities provided to associates in proportion to its shareholding. | 3,656 | 2,081 |
| Austbrokers Holdings Ltd has guaranteed lease facilities provided to associates in proportion to its shareholding. | 205 | 205 |
| | 3,861 | 2,286 |

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2014

23. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Austbrokers Holdings Ltd 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 Austbrokers has an equity interest. At balance date no liability has arisen in relation to these indemnities.

Austbrokers Holdings Ltd 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 Austbrokers 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. See note 29(f).

24. AUDITORS' REMUNERATION

| | Consolidated | |
|---|------------------|------------------|
| | 2014 \$ | 2013 \$ |
| Amounts received or due to Ernst & Young (Australia) for: | | |
| Audit of the financial statements | 820,500 | 732,500 |
| Other – including taxation services | 59,000 | 101,014 |
| Total | 879,500 | 833,514 |
| Amounts received or due to non Ernst & Young audit firms for: | | |
| Audit of the financial statements | 512,185 | 408,238 |
| Other assurance related services | 37,080 | 18,390 |
| Other – taxation services | 70,191 | 93,975 |
| Total | 619,456 | 520,603 |
| Total auditors' remuneration | 1,498,956 | 1,354,117 |

25. OPERATING SEGMENTS

The company's corporate structure includes equity investments in insurance intermediary entities. Discrete financial information about each of these entities is reported to management on a regular basis and accordingly management considers each entity to be a discrete operating segment of the business. The company believes that all of the Group's equity investments in insurance intermediary entities or providers of insurance and risk related services, 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 group is in the business of distributing and advising on insurance or insurance related products in Australia.

26. SUBSEQUENT EVENTS

On 28 August 2014, the Directors of Austbrokers Holdings Ltd declared a final dividend on ordinary shares in respect of the 2014 financial year. The total amount of the dividend is \$15,888,233 which represents a fully franked dividend of 26.5 cents per share. The dividend has not been provided for in the 30 June 2014 financial statements.

Effective 1 July 2014, the company acquired 50% interest in the voting shares of Nexus Insurance Brokers Pty Ltd for \$5,600,000 with further contingent consideration payments yet to be determined. Effective 1 July 2014 the company acquired 75% interest in the voting shares of Asia Midwest Insurance and Reinsurance Pty Ltd for an initial payment of \$2,000,000 with further contingent consideration payments yet to be determined.

Effective 22 August 2014, the company acquired 50% interest in the voting shares of Risk Strategies Pty Limited for \$700,000 with further contingent consideration payments yet to be determined.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2014

27. RELATED PARTY DISCLOSURES

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

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

Entities within the wholly owned group charge associates \$6,673,220 (2013: \$3,523,586) management fees for expenses incurred and services rendered.

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

Entities within the wholly owned group provide funds to other entities within the group. These funds are non-interest bearing and are repayable on demand. See note 9 for amounts receivables from related parties \$2,310,954 (2013: \$915,840) and note 19 for payables to related parties \$547,852 (2013: \$967,027).

| | Consolidated | |
|---|--------------|------------|
| | 2014 \$ | 2013 \$ |
| Entities within the wholly owned group have advanced funds to other related entities. | | |
| John Edward Hallman | 26,785 | - |
| Hallman Family Trust | 215,788 | - |
| Howard Insurance Brokers Pty Ltd | 128,942 | 524,062 |
| Austbrokers Aviation Pty Ltd | 10,701 | 3,664 |
| A & I Member Services Pty Ltd | 13,867 | 7,730 |
| Paul Hogan Family Trust | 8,000 | 8,000 |
| Geebeejay Pty Ltd | 17,850 | 23,470 |
| Mishjola Pty Ltd | 25,000 | 16,030 |
| Tapmaa Pty Ltd | 25,000 | - |
| Longitude Insurance Pty Ltd | 707,585 | 25,391 |
| Angel Accident and Health Underwriting Agency Pty Ltd | 514,392 | 234,601 |
| Tasman Underwriting Pty Ltd | 27,500 | - |
| Mint Plus Pty Ltd | 250,058 | - |
| NRIG Pty Ltd | 40,000 | - |
| Complete Wealth Pty Ltd | 43,223 | - |
| Aust Re Brokers Pty Ltd | 16,480 | - |
| Newsurety Pty Ltd | 33,000 | - |
| Australian Insurance Broking Services Pty Ltd | 4,500 | - |
| Damian Price | 12,151 | - |
| Tim Parry | 1,462 | - |
| Kelly Paul Commins | 3,826 | - |
| Susan Maria Commins | 5,652 | - |
| Grant Pratt | 36,692 | - |
| HQ Insurance Pty Ltd | 142,500 | - |
| Trinity Pacific underwriting Pty Ltd | - | 39,527 |
| Anthony Gallagher | - | 28,115 |
| Ammica Pty Ltd | - | 5,250 |
| | 2,310,954 | 915,840 |

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2014

27. RELATED PARTY DISCLOSURES (CONTINUED)

| | Consolidated | |
|---|----------------|----------------|
| | 2014 \$ | 2013 \$ |
| Other payables – related entities | | |
| Interprac General Insurance Pty Ltd | - | 136,809 |
| Aust Re Brokers Pty Ltd | - | 10 |
| James Wiechman Pty Ltd ATF Wiechman Family Trust | 165,752 | 103,517 |
| Peter Curtis Pty Ltd ATF Curtis Family Trust | 135,598 | 94,807 |
| Areten Pty Ltd | 62,726 | 33,546 |
| Tasman Underwriting Pty Ltd | - | 31,025 |
| The United Underwriting Unit Trust | - | 442,739 |
| Bcoz Underwriting Agencies Unit Trust | 100 | - |
| Austbrokers Employee Equity Trust - Unitholder | 743 | - |
| SPFS Enterprises Pty Ltd ATF Salisbury Family Trust | 182,933 | 124,574 |
| | 547,852 | 967,027 |

(ii) Transactions with other related parties.

Entities within the wholly owned group charge associated entities interest on interest bearing loans. Total interest charged for the period was \$126,569 (2013: \$89,627). The interest charged is on normal commercial terms and conditions.

Further loans have been advanced to members of the economic entity of \$4,350,000 (2013: 300,000). Members of the economic entity have repaid loans issued by Austbrokers Services Pty Ltd totalling \$5,550,000 (2013: \$30,000) during the year. The balance outstanding at 30 June 2014 was \$257,000 (2013: \$1,457,000).

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

(iii) Transactions with directors and director-related entities.

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

Other than disclosed above and in note 27 (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, 11, 13 and 19.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2014

27. RELATED PARTY DISCLOSURES (CONTINUED)

(b) Details of key management personnel

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

| | |
|---------------------------|--|
| David John Harricks | Director (non-executive) |
| Richard Anthony Longes | Chairman (non-executive) |
| Raymond John Carless | Director (non-executive) |
| Robin Jane Low | Director (non-executive) (appointed 3 February 2014) |
| David Clarence Clarke | Director (non-executive) (appointed 3 February 2014) |
| Phillip Robert Shirriff | Director (non-executive) (retired 20 November 2013) |
| Mark Peter Lister Searles | Director and Chief Executive Officer |

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 |
| S. S. Rouvray | Chief Financial Officer and Company Secretary |
| F. Gualtieri | National Manager – Group Services and Support |
| F. Pasquini | Chief Distribution Officer |
| S. Vohra | Chief Operating Officer |
| K. McIvor | Chief Broking Officer |
| T. Stevens | Chief Information Officer |
| G. J. Arms | General Manager – Equity Operations (ceased being a KMP on 16 April 2014) |

(c) No loans have been advanced to key management personnel during the current year (2013: NIL).

(d) Compensation of key management personnel by category.

| | Consolidated | |
|----------------------|--------------|------------|
| | 2014 \$ | 2013 \$ |
| Short-Term | 3,795,781 | 3,481,189 |
| Post Employment | 282,623 | 190,766 |
| Other Long-Term | - | 177,600 |
| Termination Benefits | 589,024 | - |
| Share-based Payment | 271,308 | 1,858,011 |
| | 4,938,736 | 5,707,566 |

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2014

28. PARENT ENTITY INFORMATION

| | 2014 \$'000 | 2013 \$'000 |
|--|----------------|----------------|
| Assets | | |
| Cash and cash equivalents | 5,515 | 12,016 |
| Current assets | 64,974 | 65,875 |
| Non-current assets | 109,335 | 84,552 |
| Total assets | 179,824 | 162,443 |
| Liabilities | | |
| Current liabilities | 5,655 | 5,012 |
| Interest bearing loans and borrowings | 30,000 | 30,000 |
| Total liabilities | 35,655 | 35,012 |
| Net assets | 144,169 | 127,431 |
| Equity | | |
| Issued capital | 108,339 | 90,586 |
| Share based payments | 5,296 | 5,173 |
| Retained earnings | 30,534 | 31,672 |
| Total shareholders equity | 144,169 | 127,431 |
| Profit for the year before income tax | 20,211 | 14,750 |
| Income tax (credit) | (85) | (69) |
| Net profit after tax for the period | 20,296 | 14,819 |
| Other comprehensive (expense)/income after income tax for the period | - | - |
| Total comprehensive income after tax for the period | 20,296 | 14,819 |

The previous year comparatives have been corrected to remove the impact of a fair value uplift in associates that were controlled for the first time. Fair value adjustment totalling \$13.920 million has been removed from the 2013 operating profit before tax, reducing from \$28.670 million to \$14.750 million. A corresponding reduction has been reflected in the carrying value of associates reducing from \$98.472 million to \$84.552 million.

| Other information | 2014 \$'000 | 2013 \$'000 |
|--|----------------|----------------|
| Guarantees entered into by the parent entity in relation to the debts of its subsidiaries or associates | | |
| Austbrokers Holdings Ltd has guaranteed loan facilities provided to associates in proportion to its shareholding. | 7,118 | 2,081 |
| Austbrokers Holdings Ltd has guaranteed lease facilities provided to associates in proportion to its shareholding. | 38 | 205 |
| | 7,156 | 2,286 |

Contingent liabilities

Austbrokers Holdings Ltd 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 Austbrokers has an equity interest. At balance date no liability has arisen in relation to these indemnities.

Austbrokers Holdings Ltd 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 Austbrokers at current market values. These have been given in relation to shares pledged as security for funding provided to those shareholders in relation to the acquisition of those shares. See note 29(f).

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2014

29. 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.

Insurance broking account receivables

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

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

| | Consolidated | |
|---|----------------|----------------|
| | 2014 \$'000 | 2013 \$'000 |
| Assets and liabilities relating to Insurance Broking Account. | | |
| Amounts due from customers on broking/underwriting agency operations. | 161,977 | 137,664 |
| Cash held on trust | 108,187 | 112,610 |
| Amounts payable on broking/underwriting agency operations. | (238,674) | (220,115) |
| Undrawn income | (31,490) | (30,159) |
| Net receivables included in Insurance Broking Account | - | - |

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2014

29. FINANCIAL INSTRUMENTS (CONTINUED)

(a) Credit risk (continued)

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 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 2014, all financial assets were neither past due nor impaired.

| | 2014 | 2013 |
|------------------------------|---------------|---------------|
| | \$'000 | \$'000 |
| Financial assets | | |
| Cash and cash equivalents | 43,970 | 38,083 |
| Trade and other receivables | 18,492 | 18,382 |
| Related party receivables | 2,311 | 916 |
| Mortgages – related entities | 257 | 1,457 |
| Mortgages – other | 27 | 259 |
| Other receivables | 407 | 424 |
| | 65,464 | 59,521 |

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

(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 21 "Interest bearing loans and borrowings". It is the Group's policy that Austbrokers Holdings Limited's own facilities become current no less than 13 months from balance date. Where facilities are within this time frame, the Group will arrange to have new facilities in place in the year the borrowing repayments become current.

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 2014 with comparatives based on conditions existing at 30 June 2013.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2014

29. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Liquidity risk (continued)

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

| | Consolidated | |
|---|------------------|------------------|
| | 2014 \$'000 | 2013 \$'000 |
| Financial assets | | |
| Due not later than 6 months | 334,928 | 308,249 |
| 6 months to not later than one year | 36 | 858 |
| Later than one year and not later than five years | 664 | 688 |
| Later than five years | - | - |
| | 335,628 | 309,795 |
| Financial liabilities | | |
| Due not later than 12 months | (284,887) | (263,527) |
| Later than one year and not later than five years | (44,792) | (42,753) |
| Later than five years | - | - |
| | (329,679) | (306,280) |

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 2014

29. 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 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 | |
|---------------------------------------|------------------|------------------|------------------|------------------|
| | 2014 \$'000 | 2013 \$'000 | 2014 \$'000 | 2013 \$'000 |
| Financial assets | | | | |
| Cash and cash equivalents | 152,157 | 150,693 | 152,157 | 150,693 |
| Trade and other receivables | 180,469 | 156,046 | 180,469 | 156,046 |
| Related party receivables | 2,311 | 916 | 2,311 | 916 |
| Mortgages – related entities | 257 | 1,457 | 257 | 1,457 |
| Mortgages – other | 27 | 259 | 27 | 259 |
| Loan with associated entities | 407 | 424 | 407 | 424 |
| Total financial assets | 335,628 | 309,795 | 335,628 | 309,795 |
| Financial liabilities | | | | |
| Loans and other borrowings | (53,875) | (52,885) | (53,920) | (52,932) |
| Trade and other payables and accruals | (275,804) | (253,395) | (275,804) | (253,395) |
| Total financial liabilities | (329,679) | (306,280) | (329,724) | (306,327) |

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.

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 2014, 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.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2014

29. FINANCIAL INSTRUMENTS (CONTINUED)

(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.

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 | |
|---|----------------|----------------|
| | 2014 \$'000 | 2013 \$'000 |
| Financial assets | | |
| Cash and cash equivalents (including trust account balance) | 152,157 | 150,693 |
| Mortgages – related entities | 257 | 1,457 |
| Mortgages – other | 27 | 259 |
| Total financial assets | 152,441 | 152,409 |
| Financial liabilities | | |
| Loans and other borrowings | (19,912) | (22,074) |
| Net exposure to interest rate movements | 132,529 | 130,335 |

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

The Group's policy is to maintain a component of long term borrowings at fixed interest rates, determined six monthly or annually, 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. Of the total current and non current interest bearing loans and borrowings totalling \$53.9 million (2013:\$52.9 million), \$33.9 million (2013: \$30.8 million) have been fixed for periods greater than 12 months at rates ranging from 4.79% to 8.6%. See note 21 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 2013 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) | |
|--|------------------------------------|----------------|---|----------------|
| | 2014 \$'000 | 2013 \$'000 | 2014 \$'000 | 2013 \$'000 |
| Judgements of reasonably possible movements | | | | |
| Consolidated | | | | |
| +1.0% (100 basis points) (2013 +1.0% (100 basis points)) | 928 | 912 | - | - |
| -0.50% (50 basis points) (2013 -0.75% (75 basis points)) | (464) | (685) | - | - |

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2014

29. FINANCIAL INSTRUMENTS (CONTINUED)

(d) Market risk (continued)

The net increase in consolidated profits in respect of interest rate rises is due to the net positive impact of interest bearing assets being greater than borrowings.

Equity securities price risk

Equity securities price risk arises from investments in equity securities. The group does not invest in listed equity securities or derivatives.

At year end, the Group had no material exposure to equities other than to shares in associated entities and controlled entities and therefore has no exposure to price risk that has not already been reflected in the financial statements. The Group tests for impairment annually and reviews all investments at least half yearly. The methodology for testing for impairment is shown in note 17. Other than shown below, there were no impaired investments at balance date. At 30 June 2014, an impairment charge totalling \$253,915 relating to the carrying value of a controlled entity (2013: \$629,000 relating to the carrying value of an associate) was recognised and was shown as an expense in the income statement. The impairment charge was offset against a reduction in a contingent consideration payment for the same associate totalling \$253,915 (2013: 569,466) that was no longer required and was credited to the income statement.

(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 2014, the Group's strategy was to maintain a gearing ratio of not greater than 30% which was unchanged from 2013.

| | Consolidated | |
|---|----------------|----------------|
| | 2014 \$'000 | 2013 \$'000 |
| The gearing ratios at 30 June were as follows; | | |
| Debt to equity ratio | | |
| Interest bearing loans and borrowings (see note 21) | 53,875 | 52,885 |
| Total equity | 269,579 | 230,398 |
| Total equity and borrowings | 323,454 | 283,283 |
| Debt/Equity plus Borrowings Ratio | 16.7% | 18.7% |

(f) Put option

The Group has assisted certain security holders in associates and controlled entities to acquire their interest in those entities by entering into agreements to grant their financier an option to put to the Group any such securities held as security for the loan. The impact of this agreement is to enable those security holders to secure funding which may not have been otherwise available or which may have been available at a higher cost. This option can only be exercised by the financier in the event of a default by the borrower under the relevant loan agreement, where such default has not been remedied. Under the agreements the shares are to be acquired by the Group at fair value at the time the option is exercised. As the agreements stipulate that the securities are to be acquired at fair value, the put options have a nil value.

DIRECTORS' DECLARATION

YEAR ENDED 30 JUNE 2014

In the opinion of the directors:

- (a) the financial statements and notes of the consolidated entity are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;
- (b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 2.2; and
- (c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable
- (d) this declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the Corporations Act 2001 for the financial year ended 30 June 2014.

On behalf of the Board



M. P. L. Searles
Director

Sydney, 28 August 2014

INDEPENDENT AUDITOR'S REPORT



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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF AUSBROKERS HOLDINGS LIMITED

Report on the financial report

We have audited the accompanying financial report of Austbrokers Holdings Limited, which comprises the consolidated statement of financial position as at 30 June 2014, 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 Austbrokers Holdings 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 2014 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 44 to 54 of the directors' report for the year ended 30 June 2014. 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 Austbrokers Holdings Limited for the year ended 30 June 2014, complies with section 300A of the Corporations Act 2001.

Ernst & Young

Mark Raumer
Partner
Sydney
28 August 2014

ASX ADDITIONAL INFORMATION

YEAR ENDED 30 JUNE 2014

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 10th September 2014.

(a) Distribution of equity securities

Ordinary share capital

- 59,955,596 fully paid ordinary shares are held by 2,553 individual shareholders.

All issued ordinary shares carry one vote per share and carry the rights to dividends.

94,170 ordinary shares issued on exercise of options under the Senior Executive Option Plan are held in escrow in accordance with the Plan.

Options

- 508,834 options are held by 13 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 | 1,240 | - |
| 1,001 – 5,000 | 935 | 3 |
| 5,001 – 10,000 | 216 | 2 |
| 10,001 – 100,000 | 144 | 7 |
| 100,001 and over | 18 | 1 |
| | 2,553 | 13 |
| Holding less than a marketable parcel | 67 | - |

ASX ADDITIONAL INFORMATION

YEAR ENDED 30 JUNE 2014

(b) Substantial shareholders

| Ordinary shareholders | Fully paid | |
|--|------------|------------|
| | Number | Percentage |
| QBE Insurance Group Limited (20/12/11) | 7,469,201 | 13.45 |
| National Australia Bank Limited (11/10/12) | 5,147,109 | 9.18 |
| Invesco Australia Limited (26/07/13) | 3,547,835 | 6.10 |
| Challenger Limited (30/07/14) | 3,288,250 | 5.48 |
| AustralianSuper Pty Ltd (25/07/2014) | 3,024,979 | 5.05 |
| Allianz Australia Insurance Limited (27/08/07) | 2,557,000 | 5.01 |

(c) Twenty largest holders of quoted equity securities

| Ordinary shareholders | Fully paid | |
|--|------------|------------|
| | Number | Percentage |
| J P Morgan Nominees Australia Limited | 13,738,466 | 22.91 |
| Citicorp Nominees Pty Limited | 11,877,379 | 19.81 |
| National Nominees Limited | 10,352,201 | 17.27 |
| HSBC Custody Nominees (Australia) Ltd | 6,831,556 | 11.39 |
| BNP Paribas Noms Pty Ltd <DRP> | 3,282,076 | 5.47 |
| Milton Corporation Limited | 1,024,795 | 1.71 |
| Masfen Securities Limited | 713,601 | 1.19 |
| HSBC Custody Nominees(Australia) Limited | 691,403 | 1.15 |
| UBS Wealth Management Australia Nominees Pty Ltd | 458,667 | 0.77 |
| Mirrabooka Investments Limited | 451,533 | 0.78 |
| Citicorp Nominees Pty Limited <Colonial First State Inv A/C> | 368,629 | 0.61 |
| Mrs Gaeleen Enid Rouvray | 297,723 | 0.50 |
| SIB Holdings Pty Ltd <SIB UNIT A/C> | 254,882 | 0.43 |
| Bond Street Custodians Limited <Ganes Value Growth A/C> | 219,629 | 0.37 |
| Markey Investments Pty Ltd <TA Markey & Co Staff RF A/C> | 191,984 | 0.32 |
| Warbont Nominees Pty Ltd | 190,398 | 0.32 |
| BNP Paribas Noms (NZ) Ltd | 138,663 | 0.23 |
| Gemnet Pty Ltd <Richard Longes Super Fund> | 117,540 | 0.20 |
| Mr Phillip Robert Shirriff & Mrs Ruth Pymble Shirriff | 100,000 | 0.17 |
| Marich Nominees Pty Ltd | 94,910 | 0.16 |

ANNUAL GENERAL MEETING

The Annual General Meeting of Austbrokers Holdings Limited will be held at the Sofitel Wentworth Hotel Phillip Street, Sydney, NSW 2000 on Tuesday 25th of November 2014 at 10.00am.

This annual report covers the consolidated entity comprising Austbrokers Holdings Limited and its controlled entities.

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 40-43.

Directors

R. A. Longes (Chairman)
M. P. L. Searles (Chief Executive Officer)
R. J. Carless
D. C. Clarke
R. J. Low
D. J. Harricks

Company Secretary

S. S. Rouvray

Registered Office and Principal Place of Business

Level 21
111 Pacific Highway
North Sydney, NSW 2060
Phone: 61 2 9935 2222

Share Register

Link Market Services Limited
Level 12
680 George Street
Sydney, NSW 2000
Phone: 1800 194 270 (Outside Australia + 61 2 8280 7209)

Austbrokers Holdings Limited shares are listed on the Australian Securities Exchange (ASX)

Auditors

Ernst & Young
680 George Street
Sydney, NSW 2000

