

AUSTBROKERS HOLDINGS LIMITED

**First Half Year 2009
Results Presentation**

Thursday 26th February 2009

**Lach McKeough CEO
Steve Rouvray CFO**

Agenda

- **Overview**
 - **Business Overview**
 - **First HY 2009 Business Highlights**
 - **First HY 2009 Financial Highlights**

- First HY 2009 Financial Performance

- FY 2009 Outlook

Business overview

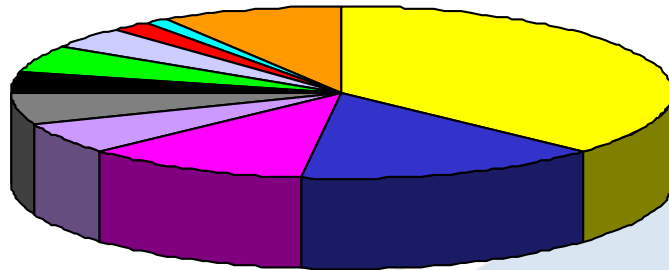


- **Austbrokers is one of top four insurance broking networks in Australia**
 - Client base of over 255,000
 - Over 1,300 personnel engaged in the business
 - Over \$1.25 billion in premiums placed
 - Wide geographical spread over 80 locations
 - Regional presence
 - Solid SME base
 - Corporate capability

Network Premium Distribution by Class & State



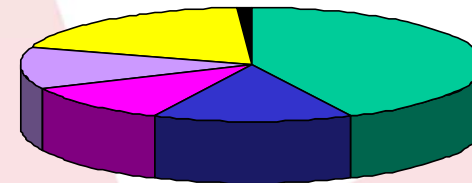
by Class



- 37% Property
- 15% Motor Commercial
- 11% Liability
- 6% Workers Compensation
- 6% Professional Indemnity
- 4% Contractors
- 5% Householders
- 4% Private Motor
- 2% Marine
- 1% Livestock
- 9% Other

* Excludes IAA & Rivers

by State



- 43% NSW
- 14% QLD
- 11% SA
- 12% VIC
- 19% WA
- 1% NT

Business overview (con't)

- **Insurance Broking owner-driver model**

- 39 member broker firms
 - 23 50% owned
 - 13 51% - 80% owned
 - 3 100% owned

- **Underwriting agency business**

- Entities are authorised to write business on behalf of licensed insurers – no underwriting risk
- Austagencies
 - Writes \$60 million in premiums annually
 - Specialist underwriting agencies
 - General property, liability agencies

- **Alliance with IBNA – A&I Member Services (AIMS)**

- \$2 billion premium and 120 businesses (combined Austbrokers / IBNA)
- AIMS value proposition to underwriters to develop products and closer relationships
- Best possible trading terms
- Potential source of acquisitions over time

First HY 2009 Highlights



- **Acquisitions Direct**

- 50% of SRG Corporate – Perth & Gold Coast
- FWR portfolio from Horsells in November 2008 by Austbrokers Sydney
- Mortlock portfolio by Austbrokers Sydney

- **Acquisitions in the Network**

- Stateplan acquired bus portfolio with \$300,000 in income
- Austbrokers Financial Solutions acquired 75% of SPT Financial Services
- Western United Insurance Broker acquired Pollock portfolio in Adelaide with \$300,000 income
- Citycover acquired Scarborough Insurance Brokers 31 December 2008 with \$600,000 income
- Markeys acquired 75% of Sandersons Insurance Brokers with \$950,000 income

- **Increase in Equity**

- 10% of SPT (now 60% owned)
- 20% of Austbrokers City State (now 100% owned)
- 20% of North Cost Insurance Brokers (now 70% owned)
- 40% of Dolphin Insurance (now 100% owned)

- **Premium Funding**

- Continuing promotion and development of Joint Venture with Pacific Premium Funding (GE Company)

First HY 2009 Highlights



- **Synergies / Efficiencies**

- Merger of BHI and Austbrokers ALIB 1 October 1 October
- Continued transfers of brokers to central DataCentre now co-located with Telstra – now over 60% of users in the group

- **IBNA Alliance**

- Presentation of value proposition to underwriters
- Launch of new policy wordings
- Agreement to remuneration terms

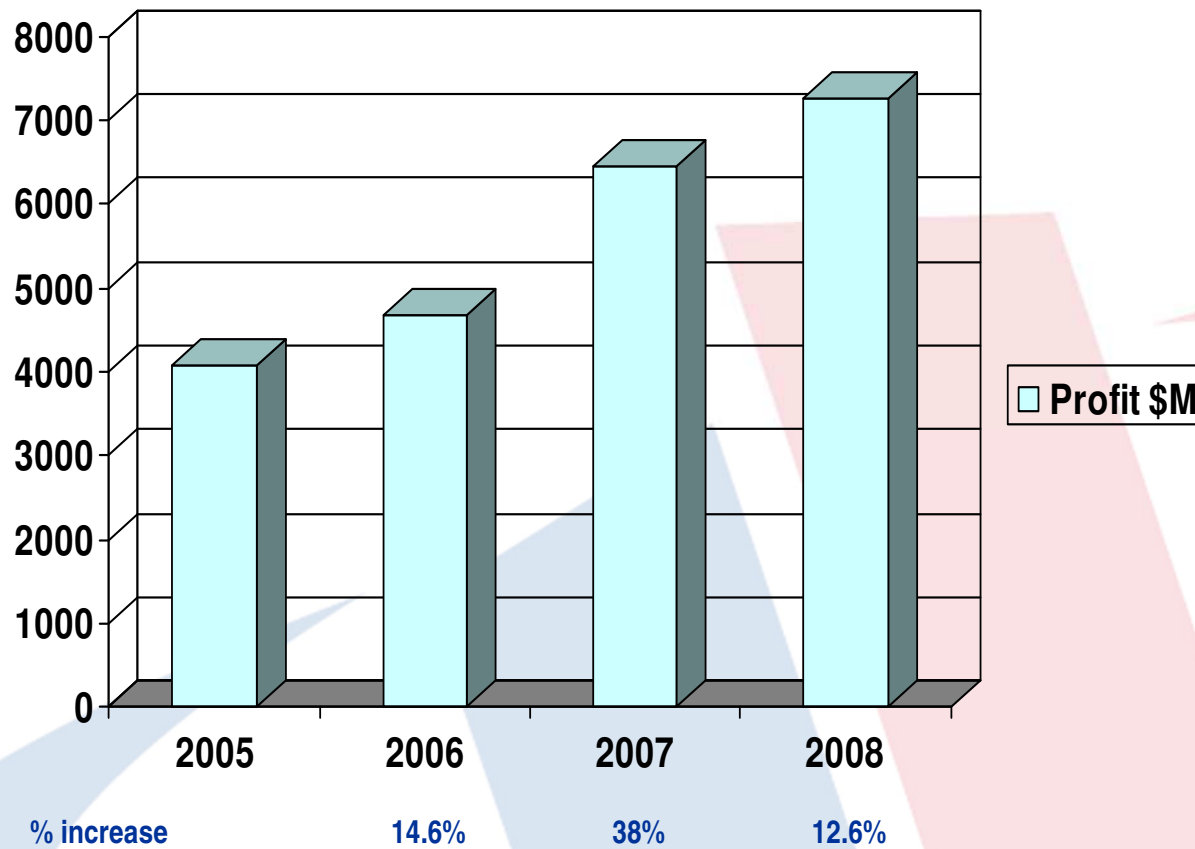
- **Owner Driver**

- Divested small equity interests
 - Finsura 10% (now 70% owned)
 - Austbrokers RWA 20% (now 60% owned)
 - Austbrokers AEI Transport 2.5% (now 65% owned)

- **Underwriting Agencies**

- Increased income by 11%
- Developed new agencies

Profit Growth Half Year to 31 December 2005 - 2008



Profit – Net profit after tax before amortisation of intangibles before profits on businesses / portfolios sold (Adjusted NPAT)

First HY 2009 financial performance



| \$'000 | Actual First HY 2009 | Actual First HY 2008 | % change |
|---|----------------------------|----------------------------|----------|
| Broker Revenue (net of commission paid) | 89,290 | 80,954 | 10.3% |
| Brokers & Agencies Profit (AHL share) | 14,199 | 12,800 | 10.9% |
| Profit (before tax and amortisation of intangibles and sales of businesses) | 10,240 | 9,451 | 8.3% |
| NPAT (before amortisation of intangibles and sales of businesses) – Adjusted NPAT | 7,270 | 6,456 | 12.6% |
| Net Profit Attributable to Members | 6,689 | 5,853 | 14.3% |

Agenda

- Overview

- **First HY 2009 Financial Performance:**

- *Income statement – as per ASX reporting*
- *Reconciliation to Adjusted NPAT*
- *Profit and loss statement – detailed*
- *Balance sheet*
- *Other financials*

- FY 2009 outlook

Income Statement



FOR THE HALF YEAR TO 31 DECEMBER 2008

| | 2008 \$' 000 | 2007 \$' 000 | Variance % |
|--|-----------------|-----------------|--------------|
| Revenue from ordinary activities | 46,060 | 39,917 | 15.4% |
| Expenses from ordinary activities- Expenses | (36,180) | (31,058) | 16.5% |
| Borrowing Costs | (1,182) | (820) | 44.1% |
| | 8,698 | 8,039 | 8.2% |
| Profit from sale of interests in subsidiaries | 540 | - | |
| Profit before tax | 9,238 | 8,039 | 14.9% |
| Income tax expense | 1,615 | 1,490 | 8.4% |
| Net profit | 7,623 | 6,549 | 16.4% |
| Profit attributable to minority interest | (934) | (696) | 34.2% |
| Net Profit attributable to members | 6,689 | 5,853 | 14.3% |

Half Year to 31 December 2008



Profit after tax

Reconciliation of reported result to operating NPAT before profits relating to divestments and amortisation of intangibles.

| | First HY Actual 2009 \$ '000 | First HY Actual 2008 \$ '000 |
|--|---|---|
| Reported Profit attributable to members | 6,689 | 5,853 |
| Profits on sale of interest in associates and controlled entities | (540) | |
| Tax effect of prior and year capital losses utilised | | (281) |
| Profit from ongoing operations | <hr/> 6,149 | <hr/> 5,572 |
| Amortisation of intangibles net of tax | 1,121 | 884 |
| Net profit after tax from continuing operations before amortisation of intangibles (Adjusted NPAT) | <hr/> 7,270 | <hr/> 6,456 |

Half Year to 31 December 2008 compared to 2007



| | FHY 2009 | FHY 2008 | VARIANCE | VARIANCE |
|--|----------------|----------------|---------------|--------------|
| | \$'000 | \$'000 | \$'000 | % |
| BROKER OPERATIONS | | | | |
| COMMISSION AND FEES | 72,077 | 65,356 | 6,721 | 10.3% |
| LIFE INCOME | 3,646 | 3,754 | -108 | -2.9% |
| PROFIT COMMISSIONS | 295 | 235 | 60 | 25.5% |
| PREMIUM FUNDING | 5,597 | 4,763 | 834 | 17.5% |
| INTEREST | 5,258 | 4,495 | 763 | 17.0% |
| OTHER INCOME | 2,417 | 2,351 | 66 | 2.8% |
| REVENUE | 89,290 | 80,954 | 8,336 | 10.3% |
| EXPENSES | -66,604 | -60,685 | -5,919 | 9.8% |
| PROFIT FROM BROKING OPERATIONS | 22,686 | 20,269 | 2,417 | 11.9% |
| PROFIT FROM UNDERWRITING AGENCIES | 1,501 | 1,311 | 190 | 14.5% |
| PROFIT BEFORE TAX, CORPORATE EXPENSES AND AMORTISATION OF INTANGIBLES | 24,187 | 21,580 | 2,607 | 12.1% |
| PROFIT ATTRIBUTABLE TO OTHER PARTIES | -9,988 | -8,780 | -1,208 | 13.8% |
| PROFIT BEFORE TAX, CORPORATE OFFICE EXPENSES AND AMORTISATION OF INTANGIBLES (AFTER OUTSIDE EQUITY INTERESTS) | 14,199 | 12,800 | 1,399 | 10.9% |
| CORPORATE OFFICE | | | | |
| INCOME | 1,101 | 1,237 | -136 | -11.0% |
| EXPENSES | -5,060 | -4,586 | -474 | 10.3% |
| NET CORPORATE OFFICE EXPENSES | -3959 | -3349 | -610 | 18.2% |
| PROFIT BEFORE TAX AND AMORTISATION OF INTANGIBLES | 10,240 | 9,451 | 789 | 8.3% |
| INCOME TAX | -2,970 | -2,995 | 25 | -0.8% |
| NET PROFIT AFTER TAX AND BEFORE AMORTISATION OF INTANGIBLES | 7,270 | 6,456 | 814 | 12.6% |

Half Year to 31 December 2008 compared to 2007

Consolidated & Equity Brokers Results

| | FHY 2009 | FHY 2008 | VARIANCE | VARIANCE |
|---|----------------|----------------|---------------|--------------|
| | \$'000 | \$'000 | \$'000 | % |
| CONSOLIDATED BROKERS | | | | |
| COMMISSION AND FEES | 23,884 | 20,259 | 3,625 | 17.9% |
| LIFE INCOME | 2,197 | 2,233 | -36 | -1.6% |
| PROFIT COMMISSIONS | 26 | 14 | 12 | 85.7% |
| PREMIUM FUNDING | 2,178 | 1,708 | 470 | 27.5% |
| INTEREST | 1,574 | 1,039 | 535 | 51.5% |
| OTHER INCOME | 240 | 652 | -412 | -63.2% |
| REVENUE FROM CONSOLIDATED BROKERS | 30,099 | 25,905 | 4,194 | 16.2% |
| OTHER EXPENSES | -24,622 | -20,600 | -4,022 | 19.5% |
| EXPENSES FROM CONSOLIDATED BROKERS | -24,622 | -20,600 | -4,022 | 19.5% |
| PROFIT FROM CONSOLIDATED BROKERS | 5,477 | 5,305 | 172 | 3.2% |
| EQUITY ACCOUNTED BROKERS | | | | |
| COMMISSION AND FEES | 48,193 | 45,097 | 3,096 | 6.9% |
| LIFE INCOME | 1,449 | 1,521 | -72 | -4.7% |
| PROFIT COMMISSIONS | 269 | 221 | 48 | 21.7% |
| PREMIUM FUNDING | 3,419 | 3,055 | 364 | 11.9% |
| INTEREST | 3,684 | 3,456 | 228 | 6.6% |
| OTHER INCOME | 2,177 | 1,699 | 478 | 28.1% |
| REVENUE FROM EQUITY ACCOUNTED BROKERS | 59,191 | 55,049 | 4,142 | 7.5% |
| OTHER EXPENSES | -41,982 | -40,085 | -1,897 | 4.7% |
| EXPENSES FROM EQUITY ACCOUNTED BROKERS | -41,982 | -40,085 | -1,897 | 4.7% |
| PROFIT FROM EQUITY ACCOUNTED BROKERS | 17,209 | 14,964 | 2,245 | 15.0% |
| PROFIT FROM BROKING OPERATIONS | 22,686 | 20,269 | 2,417 | 11.9% |

Above variances are distorted due to three brokers moving from equity to consolidated. Before transfers and direct acquisitions consolidated brokers' income increased 3.5% and expenses 5%, equity brokers' income increased 9.6% and expenses 7.9%. Consolidated brokers' profit declined by 2.5% and equity brokers increased by 14.1%

First HY 2009 compared to First HY 2008



- Adjusted NPAT for First HY 2009 at \$7.3 million
 - Adjusted NPAT excludes \$0.5 million profits on sale of interests in associates and controlled entities and \$1.1 million amortisation of intangibles expense
 - Exceeded prior period adjusted NPAT by \$0.8 million – 12.6%
- NPAT Earnings Per Share (excluding profits on sale of businesses)
 - 14.5 cents before amortisation (First HY 2008 – 12.9 cents) – increase 12.4%
 - 12.2 cents after amortisation (First HY 2008 – 11.1 cents) – increase 9.9%
- Interim Dividend of 7 cents per share fully franked payable in April up 7.7% on previous year
- Major acquisitions (before funding costs) contributed approximately 1% of the total increase in broker profits from \$20.3 million to \$22.7 million
- Total broker expenses excluding impact of direct acquisitions were up approximately 7.0% (excluding commissions paid)
- Corporate expenses increased \$248,000 over previous period due to a provision for network marketing incentive IT costs incurred up front due with the DataCentre, salary increases offset by lower incentive accruals
- Total expenses including corporate and broker network (excluding direct acquisitions) increased 7.2%
- Interest earned increased by 17% due to acquisitions, increased funds on deposit and the increase in interest rates up to October 2008. Acquisitions contributed approximately 1.6% of the increase
- Finance costs up 35% to \$875,000 due to additional borrowings for earn out payments and new acquisitions

First HY 2009 compared with First HY 2008

Insurance Broking Income Analysis

- Total insurance broking income up approximately 7.6% on 2008 (excluding direct acquisitions)
- Premiums placed (excluding direct acquisitions) up approximately 9% on 2008 (2007 up 5%)
- Insurance broking commission and fees (excluding direct acquisitions) up approximately 7% (2008 up 5%)
- Premium funding income (excluding direct acquisitions) up 17%
- Life income is down 2.9% as a result of lower funds under management
- Net income from broking commission and fees represents 16% of pure premium (2008:17%)
- Fees 7.4% of premium (2008: 7.4%)
- Commission : fee split 63.8% : 36.2% compared to 2008 61.9% : 38.1%

Broker Profits as % of Broker Income



Brokers Profits (before tax) as a percentage of Broker Income

| | Including Austagencies | Insurance Broking |
|--------|------------------------|-------------------|
| FH2009 | 25.6% | 25.4% |
| FH2008 | 25.2% | 25.0% |
| FH2007 | 20.7% | |
| FH2006 | 19.2% | |

Continued improvement in margins

Austagencies Underwriting Agencies



| \$'000 | PROFIT IMPACT | | |
|------------------------------|---------------|--------------|---------------|
| | HY 2009 | HY 2008 | INCR / (DECR) |
| Commission and fees | 4,347 | 3,604 | 743 |
| Profit commission | 653 | 663 | (10) |
| Interest | 292 | 393 | (101) |
| Other income | <u>8</u> | <u>108</u> | <u>(100)</u> |
| | 5,300 | 4,768 | 532 |
| Expenses | <u>3,799</u> | <u>3,457</u> | <u>342</u> |
| Net Profit before income tax | <u>1,501</u> | <u>1,311</u> | <u>190</u> |

- Profit increase of 14.5%
- Commission and fees increased by 17% through organic growth
- Expenses increased by 9% - additional resources to grow business

Balance sheet



| | 31 Dec 2008 | 30 June 2008 |
|---------------------------------|----------------|----------------|
| Assets | \$000 | \$000 |
| Current Assets | | |
| Cash at Bank | 19,505 | 23,640 |
| Cash at Bank – Trust | 40,755 | 35,016 |
| Receivables | 50,699 | 69,621 |
| Other Financial Assets | 975 | 2,297 |
| Total Current Assets | 111,904 | 130,574 |
| Non Current Assets | | |
| Receivables | 27 | 67 |
| Plant Equipment | 55,653 | 4,544 |
| Investments Equity Accounted | 5,378 | 53,848 |
| Other Financial Assets | 1,573 | 1,390 |
| Intangibles | 68,868 | 60,676 |
| Deferred Tax Assets | 2,404 | 2,195 |
| Total Non current Assets | 133,903 | 122,720 |
| Total Assets | 245,807 | 253,294 |

Balance sheet (cont)



| Liabilities | 31 December 2008 \$'000 | 30 June 2008 \$000 |
|---------------------------------------|----------------------------|-----------------------|
| Current Liabilities | | |
| Payables | 92,265 | 112,718 |
| Tax Liabilities | 2,351 | 3,663 |
| Provisions | 5,398 | 4,580 |
| Interest bearing loans and borrowings | 547 | 501 |
| Total Current Liabilities | 100,561 | 121,462 |
| Non current liabilities | | |
| Trade payables | 78 | 78 |
| Provisions | 1,850 | 2,886 |
| Interest bearing loans | 31,650 | 20,216 |
| Deferred Tax Liabilities | 5,040 | 4,983 |
| Total Non current liabilities | 38,618 | 28,163 |
| Total Liabilities | 139,179 | 149,625 |
| Net Assets | 106,628 | 103,669 |
| Equity | | |
| Contributed Equity | 49,924 | 49,707 |
| Retained earnings | 42,325 | 41,097 |
| Other reserves | 1,097 | 816 |
| Asset Revaluation Reserve | 3,360 | 3,278 |
| Outside equity interest | 9,922 | 8,771 |
| Total Equity | 106,628 | 103,669 |

Other Financials

Funding

- Interest Bearing Liabilities
 - \$25 million at holding company level
 - \$6.6 million in subsidiaries
- Increased facility from St George Bank in August 2008 – limit \$44 million including subsidiaries \$6 million
- Estimated \$4.6 million committed for future payments for completed acquisitions payable FY 2010
- Facility term is 5 years to August 2013
- Key ratios
 - Interest cover ratio – 13 times (EBITDA basis)
 - Gearing 23%, target range 25 – 30% (debt to debt plus equity)
 - Comfortably meet financial undertakings to Bank
- Borrowing by associates at 31 December 2008 not on Austbrokers balance sheet - \$28.6 million
 - Includes borrowings for own premium funding activities, acquisition funding and loans to AR's
 - Interest cover ratio 16 times (as a group)

Agenda

- Business Overview
- First HY 2009 Financial Performance

• **FY 2009 Outlook**

- *Market conditions*
- *Strategy*
- *Outlook*

Market conditions

- Premium rates
 - Indications from underwriters that they will increase premium rates
 - Premium rate increases will vary across classes
- Lower interest rate environment and likelihood of further decrease
- Uncertainty over the extent of economic slowdown and impact on business
- Depressed stock market will impact funds under management and trail commissions for superannuation and financial planning business
- Age demographics in insurance broking industry will ensure continued acquisition opportunities for direct acquisitions or portfolio / bolt on business

Strategy

- Growth – acquisition activity to continue
 - business development – marketing strategies
 - marketing initiatives implemented to increase cross sell of insurance products
- Expand underwriting agency capability
- Back office synergies and efficiencies – transfer of brokers to central IT DataCentre, mergers, leveraging central back office where possible
- Underwriter relationship / product development via AIMS (IBNA Alliance) – for marketing advantage and best trading terms
- Premium funding – growth and development of existing relationship with Pacific / GE
- Life risk and superannuation - continue to develop cross sell

Outlook



- Premium rate increases now likely
- Insurance broking industry consolidation – continuing acquisition opportunities
- Organic growth in income expected to continue to emerge through broker network initiatives and rate increases
- Additional borrowing costs arising from earn out payments made in FHY2009
- Uncertainty over future profit commissions depending on underwriting results
- Lower interest rates may impact interest earnings (some offset in lower borrowing costs)
- Economic slow down may impact amount of insurance business available
- Based on the above the increase in NPAT before amortisation of intangibles and profits on sale of interests in associates and controlled entities for FY 2009 is still expected to be in the range of 5% - 10% over FY 2008. This is subject to economic conditions not resulting in a significant level of business failures or reduced insurance coverage, particularly in the SME sector

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