



FREEDOM
INSURANCE
GROUP

ANNUAL REPORT 2018



Freedom Insurance Group Ltd

ACN 608 717 728

- Ambition to reach #2 in the direct life insurance market
- Continued investment driving future growth
- New life products introduced in FY18
- Strong growth in net revenues, In Force premiums and customer numbers
- Enhanced systems, processes and resourcing improves operational performance
- St Andrew's acquisition accelerates growth strategy



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Dear Freedom Shareholder,

In the 2018 financial year, we continued to execute our strategy, which saw us grow Net Revenue, customer numbers and in force premiums. Additionally, Freedom enhanced its capabilities and product suite which provides the foundation for future growth in shareholder value.

Net Revenue for the year grew 20% to \$64.1 million and in force premiums increased 14% to \$124.6 million, which contributed to a \$30.2 million increase in the value of our trail asset and a 75% growth in our trail and administrative commissions to \$9.4 million for the year. This result came despite challenges in the first half of the financial year, when quality of sales leads temporarily impacted new business.

We believe there is opportunity to continue to grow our business over the medium term by delivering simple, convenient and good value insurance products to our customers. To meet this opportunity, over the past year we have made further investments in our processes, launched new products and entered into a strategic transaction. All of these position the business to adapt to ongoing changes in the market place and establish the groundwork for sustained growth in shareholder value.

In this regard, our sales for FY18 were assisted by the launch of three new products, being our Freedom Premium Life and Essential Life products and our Freedom Loan Protection product. We are pleased with the reception of these new products in the market.

In April this year, we announced the proposed \$65 million acquisition of St Andrew's Insurance from the Bank of Queensland. The acquisition of St Andrews will support delivery of Freedom's strategic priorities. The acquisition is expected to be completed in FY19.

Over the coming year, we anticipate our business will continue to evolve to meet the ever changing and highly competitive nature of our market place.

The achievements of the past year represent an important step toward our medium term growth objectives.

On behalf of the Board of Freedom Insurance Group, I would like to thank our CEO Keith Cohen and his management team as well as all staff for their dedication and hard work throughout the year. This has directly resulted in the delivery of a strong set of financials outlined in this report and provided a solid platform for the next growth phase for our company.

Yours sincerely,

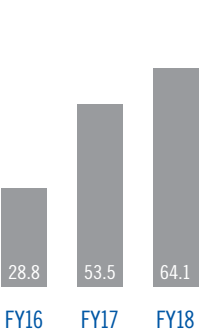


David Hancock
Chairman

Measuring our FY18 progress

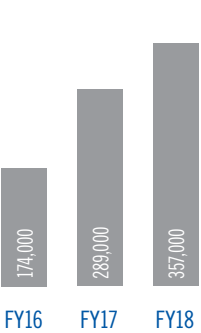
Net Revenue
(\$ million)

↑ **20%**
to \$64.1m



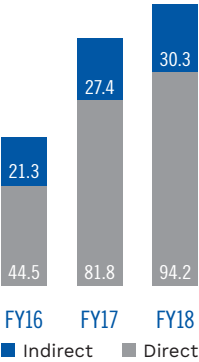
Customers
(as at 30 June 2018)

↑ **24%**
to 357,000



In Force Premiums
(\$ million)

↑ **14%**
to \$124.5m



Earnings
per share

5.5c



Financial Results

For the 12 months ending 30 June 2018, Freedom recorded strong growth in revenue, customer numbers and in force premiums.

The company's Net Revenue grew 20% to \$64.1 million. Net Revenue comprises new business commission plus trail commissions and ongoing administration fees received on the in force book, less commissions paid to Spectrum advisers, the movement in the value of the trail asset as well as revenue from the sale of investments.

Statutory Net Profit After Tax (NPAT) for the year was \$13.2 million, down 6% on the prior year, representing Basic earnings per share of 5.5 cents.

Freedom's new business (Total Sales) declined 5% from the prior year to \$61.1 million. Direct Sales (through our call centres) declined 8% on the prior year to \$53.7 million, while indirect sales (through our Spectrum financial adviser group) grew 20% to \$7.3 million.

Freedom's sales were affected in the first half of the year by lead quality and sales conversion issues but, following the implementation of a number of operational improvements, sales productivity recovered in the second half.

Total sales in the second half of \$32.8 million, were 0.5% higher than the second half of FY17, and a \$4.5 million improvement on the first half's sales.

Customer numbers grew 24% in FY18 to 357,000 and in force premiums grew 14% to \$124.6 million, supported by sales and customer retention results. Higher in force premiums contributed to a \$4.0 million increase in trail commissions and administration fees and a \$30.2 million increase in the value of the trail asset to \$72.8 million.

Freedom's growth in in force policies can be attributed to successful execution of the company's strategy of delivering compelling product offerings supported by high levels of customer service from Freedom's dedicated staff and management team.

EBITDA declined 11% to \$18.7 million in FY18. Excluding the \$3.3 million profit on the sale of our investment in NobleOak Life Limited and \$1.7 million in St Andrew's acquisition costs, EBITDA declined 24% to \$17.0 million.

EBITDA was impacted by reduced sales in the first half from lead quality issues; increased costs during the sales recovery phase; and the cost of the rollout of new products. Marketing/lead generation costs, sales staff costs and other customer acquisition costs all increased relative to new business premium. Maintenance costs generally continue to decline as a percentage of in force premium as we realise scale efficiencies in customer service, administration and retention.

Freedom's remains debt free and, at the end of the financial year, held a cash balance of \$18.4 million.

The Company's financial position was supported during the year by the sale of its non-core investment in NobleOak, the company's former insurer of its new business, for cash proceeds of approximately \$7.0 million. Freedom continues to receive the trail revenue associated with the in force book of business as well as an Administration Fee for continuing to administer policies insured by NobleOak.

Managing Director's Review

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Strategy

The Australian insurance industry remains attractive to execute our business model. There is an opportunity to continue to grow the market over the medium term by delivering simple, convenient, and good value insurance products with great customer outcomes.

The direct insurance market, in which we participate, continues to evolve, with a greater focus on enhancing direct customer relationships and through business partnerships, new product development and differentiation, and enhanced internal practices.

The industry is facing greater regulatory scrutiny. Freedom continues to believe that in the long run this will be beneficial for the industry and our business as it serves to improve confidence in insurance products and providers.

Freedom has a number of strategic priorities to improve its business and grow shareholder value:

- Ongoing organic growth in the uptake of existing Freedom Products;
- Development of new products and refinement of existing products;
- Further enhancement of valued relationships with customers;
- Ongoing recruitment of new financial advisers under Spectrum;
- Identifying and securing new lead sources and new referral alliances;
- Improvement of systems, processes and infrastructure to facilitate growth and great customer outcomes;
- Partnering with corporates for the distribution of complementary products; and
- Selective acquisition of businesses and assets that have the potential to grow Freedom revenue.

St Andrew's Australia acquisition

In support of our strategy, Freedom has agreed to acquire St Andrew's Australia for approximately \$65 million. The acquisition is expected to be completed in FY19 and will be funded through a reinsurance arrangement of St Andrew's' existing life insurance in-force book, cash and funding facilities. The transaction addresses a number of our strategic priorities, as follows:

- Acquisition of APRA licensed (life and general) insurers
- Access to experienced and complementary management team
- Platform for complementary enhanced growth through expanded distribution and broader product suite
- A three-year distribution agreement with Bank of Queensland for St Andrew's products – with the option for a two-year extension
- Value accretion for FIG shareholders.

Freedom's Sources of Revenue

Upfront Commissions

Upon the sale of a policy, Freedom receives Upfront Commissions and fees from the product issuer in the form of a percentage of the annualised premium. The majority of Freedom's costs for the sale of Freedom Products can be attributed to customer acquisition activities, which encompass product design and development, lead generation, marketing and sales. Given the significant portion of costs attributed to customer acquisition, the Upfront Commissions received by Freedom may be less than the total cost of customer acquisition.

Trail Commissions

For the duration of the policy Freedom will receive Trail Commissions. The ongoing income includes deferred income related to customer acquisition activity and administration fees related to tasks associated with ongoing policy maintenance. Freedom determines the retail pricing for Freedom Products and hence effectively determines the upfront and Trail Commissions it receives. Freedom sets these amounts taking into account the competitive positioning of its products.

Outlook

Freedom continues to have the ambition to reach #2 in the direct life insurance market and become a contender for market leadership.

We will continue to invest to realise our growth aspirations, including product and channel expansion, which will bring higher costs in the near term ahead of revenue growth. Nonetheless, we are optimistic on the sales outlook for the new products.

We will continue to invest to enhance our sales, claims, policy management and compliance capabilities. We expect short term pressure on sales for the direct channel as business evolves. We will look to partner with corporates to support the distribution of complementary products.

Finalising and integrating the St Andrew's acquisition remains a near term priority, with close expected in FY19.

Finally, I would like to thank the outstanding efforts of our staff throughout the year and the ongoing support of our business partners and the Board. The 2018 financial year was in many ways quite challenging. However, I am pleased we were able to work together to deliver a stronger second half and achieve a number of major strategic milestones. I am excited about the year ahead.



Keith Cohen
Managing Director

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Directors' Report

30 June 2018

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'Group') consisting of Freedom Insurance Group Ltd (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 30 June 2018.

Directors

The following persons were directors of Freedom Insurance Group Ltd during the whole of the financial year and up to the date of this report, unless otherwise stated:

- David Hancock – Chairman
- Keith Cohen
- Stephen Menzies
- Andrew Jensen
- Katrina Glendinning

Review of Operations

The profit for the Group after providing for income tax amounted to \$13.153 million (30 June 2017: \$14.064 million).

The statutory financial results for the financial year ended 30 June 2018 and 30 June 2017 were:

	2018 \$'000	2017 \$'000	Change \$'000	Change %
Revenue	61,339	53,663	7,676	14%
Other income	3,288	–	3,288	–
Expenses	45,402	33,404	11,998	36%
Profit before tax	19,225	20,259	(1,034)	(5%)
Profit after tax	13,153	14,064	(911)	(6%)

Principal activities

The Group is an insurance intermediary that specialises in the development, distribution and administration of risk life insurance products that are issued by Australian Prudential Regulation Authority ('APRA') for regulated life insurers. The Group is not an APRA regulated life insurer.

The focus is on straightforward life insurance products that are simple to understand and convenient for customers to obtain.

There was no change in the principal activities during the financial year.

Dividends

There were no dividends paid, recommended or declared during the current or previous financial year.

The Group's revenue includes a mix of commission revenue comprising upfront commission and fees generated by policy sale and ongoing commission and fees; net present value trail commission movement and administration fees related to the 'in force' book of policies.

For the 2018 financial year, the Group recorded revenue of \$61.339 million compared to \$53.663 million in the prior year.

Freedom's policies insured approximately 350,000 individuals, up from approximately 280,000 individuals at 30 June 2017. Reflecting the growing size of the in force book, trail commissions increased 77% from the prior year to \$9.386 million and the net present value of the trail asset added a further \$30.185 million to Group revenue. The increase in the NPV of trail commissions was \$20.123 million in the prior year.

New business declined 5.2% from the previous year to \$61.100 million. Direct policy sales were 7.8% lower, while indirect sales increased by 17%. The decrease in new business was predominantly due to the impact of poor quality sales leads on call centre efficiency and sales conversion rates that impacted first half trading. This issue has been resolved at the time of issuing this report.

The decline in new business contributed to a reduction in upfront commissions net of clawback and clawback provisions to \$19.6 million for the year, down 26.3%.

During the year, the Group disposed of its shares in NobleOak Life Limited which contributed other income of \$3.288 million.

The Group's main operating expenses are employee benefit expenses, expenses associated with upfront customer acquisition and ongoing policy administration.

Total employee benefit costs increased by 32.5% on the prior year to \$22.835 million. This increase reflected growth in maintenance costs for in force policies; costs associated with recovery from the first half lead quality issue; and costs associated with an increase in new product sales. At 30 June 2018, the Company employed 229 employees on a full time equivalent basis, compared to 218 at 30 June 2017.

Marketing and promotion, including internal lead generation costs, grew 84.7% on the prior year to \$12.416 million. This increase was due to a number of issues, including increased per unit lead generation costs; increased lead expenses to address the lead quality issue in the first half; and additional marketing costs associated with new products launch.

Total expenses were impacted by costs of \$1.663 million relating to the Company's proposed acquisition of the St Andrew's insurance business.

Income tax expense for the year was \$6.072 million, representing approximately 31.6% of profit before income tax.

Significant changes in the state of affairs

There were no significant changes in the state of affairs of the Group during the financial year.

Matters subsequent to the end of the financial year

There are no matter or circumstance has arisen since 30 June 2018 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Likely developments and expected results of operations

The Group has launched the following three new products during the financial year as it continues to develop products that are straightforward and simple to understand for customers:

- Freedom Loan Protection;
- Freedom Essential Life; and
- Freedom Premium Life

These are the first of the newly developed products since transitioning to Swiss Re as the insurer. Management expects to scale up its distribution activities with these products and is committed to ongoing product innovation.

In addition, the Freedom Insurance Group have entered into an agreement to acquire St Andrew's Life Insurance from the Bank of Queensland in FY19.

Environmental regulation

The Group is not subject to any significant environmental regulation under Australian Commonwealth or State law.

Directors' Report

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Information on directors

David Hancock

Chairman

Qualifications:

David holds a Bachelor of Business degree and is a member of the Australian Institute of Company Directors.

Experience and expertise:

David has over 30 years of broad experience in financial services. Prior to joining Freedom, David held the position of Chief Executive Officer of listed insurer TOWER Insurance Limited and is a former Executive General Manager at the Commonwealth Bank of Australia, performing a variety of roles across capital markets, fixed income and equities. He has also held several board and senior positions on publicly-listed companies and has held senior roles in JPMorgan where he was a Managing Director with responsibilities in New Zealand, Australia and Asia across various operations.

Other current directorships:

Afterpay Touch Group Limited (ASX: APT)

Former directorships (last 3 years):

Tower Limited (NZE: TWR and ASX: TWR)
ELMO Software Limited (ASX: ELO)

Special responsibilities:

Member of the Audit and Risk Committee and the Remuneration and Nomination Committee

Interests in shares: 142,858 ordinary shares

Interests in options: None

Interests in rights: None

Contractual rights to shares: None

Keith Cohen

Chief Executive Officer and Managing Director

Qualifications:

Keith holds a Bachelor of Science degree and is a fellow of the Institute of Actuaries of Australia and the United Kingdom.

Experience and expertise:

Keith is a co-founder of Freedom Insurance and has been responsible for leading the development and execution of the Company's long term strategy. He is responsible for the day-to-day management decisions and has been critical to the success of the Company from inception. Keith has extensive experience in the life insurance industry and was also the founder and Managing Director of Australian Life Insurance Group from 2002 to 2009. Prior to this, Keith was also a director of various Westpac companies, including Westpac Life Insurance Services Limited, Westpac General Insurance Limited, Westpac Financial Services Limited, Westpac Financial Consultants Limited and Westpac Custodian Nominees Limited. Before joining Westpac as the Chief Actuary in 1996, Keith was Deputy General Manager – Development Actuary at Sage Life Limited in South Africa.

Other current directorships:

None

Former directorships (last 3 years):

NobleOak Life Limited

Special responsibilities: None

Interests in shares: 32,283,885 ordinary shares

Interests in options: None

Interests in rights: None

Contractual rights to shares: None



Stephen Menzies

Non-Executive Director

Qualifications:

Stephen holds a Masters of Laws, Bachelor of Laws and Bachelor of Economics.

Experience and expertise:

Stephen has extensive knowledge in corporate law and corporate restructures. Stephen is an experienced lawyer and business consultant who specialises in securities issues, funds management and corporate finance. He has significant corporate transactional experience, acting for various companies and investment banks in the implementation of complex structured transactions. He has also had extensive involvement in public company takeovers and corporate restructures, as well as both public and private equity issues. Stephen was a partner at Ashurst from 2006 to 2014. He has also acted as a senior enforcement officer at the Australian Securities and Investments Commission. He holds directorships in public companies and chairs Silicon Quantum Computing Pty Ltd, the commercialisation vehicle of the Centre for Quantum Computation and Communication Technology.

Other current directorships:

Platinum Asset Management Limited (ASX: PTM); Century Australia Investments Limited (ASX: CYA)

Former directorships (last 3 years): None

Special responsibilities:

Member of the Audit and Risk Committee and the Remuneration and Nomination Committee

Interests in shares: 142,858 ordinary shares

Interests in options: None

Interests in rights: None

Contractual rights to shares: None



Andrew Jensen

Non-Executive Director

Qualifications:

Andrew is a graduate member of the Institute of Company Directors and a fellow of the Institute of Public Accountants.

Experience and expertise:

Andrew has significant experience in corporate finance with extensive knowledge in the management of all aspects of the finance function with strong commercial, strategic, mergers & acquisitions, and change management experience. He has financially led companies engaged in various fields including telecommunications & technology, real estate, financial services and the franchising sectors in Australia and internationally. Andrew is an accomplished Chief Financial Officer ('CFO') with over 16 years' experience in senior finance and management roles. He served as an Executive Director and CFO of BuyNew Group Ltd and is currently a Non-Executive Director. He is also a Non-Executive Director of Better Choice Home Loans Pty Ltd. Prior to this, Andrew was the CFO and director of VGC Food Group Pty Ltd, CFO of Digicel PNG (Papua New Guinea) part of Digicel Group Limited (Digicel), and CFO of real estate group Ray White for 8 years.

Other current directorships:

iBuyNew Group Limited (ASX: IBN) (Previously known as Disruptive Investment Group Ltd (ASX: DVI))

Former directorships (last 3 years): None

Special responsibilities:

Chairman of the Audit and Risk Committee and member of the Remuneration and Nomination Committee

Interests in shares: 142,858 ordinary shares

Interests in options: None

Interests in rights: None

Contractual rights to shares: None

Directors' Report

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Katrina Glendinning

Non-Executive Director

Qualifications:

Katrina holds a Bachelor of Economics degree, is a member of the Institute of Chartered Accountants in Australia, a Fellow of FINSIA, and is a graduate of the Australian Institute of Company Directors.

Experience and expertise:

Katrina is an experienced financial services executive, with over 25 years of experience across a diverse range of products, investors and regulatory regimes. She has extensive experience across operations, finance, risk and compliance in both start up and established entities. Katrina is Executive Director of Pengana Capital Limited and Pengana Investment Management Limited, and Chief Financial Officer of Pengana Capital Group Limited (ASX: PCG). Prior to joining Pengana, Katrina was an Executive Vice President at BT Funds Management where she held a number of roles from 1993 to 2002.

Other current directorships: None

Former directorships (last 3 years): None

Special responsibilities:

Chairman of the Remuneration and Nomination Committee and a member of the Audit and Risk Committee

Interests in shares: 142,858 ordinary shares

Interests in options: None

Interests in rights: None

Contractual rights to shares: None

'Other current directorships' quoted above are current directorships for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

'Former directorships (last 3 years)' quoted above are directorships held in the last 3 years for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

Company secretaries

Malcolm McCool has a Bachelor degree in both Law and Commerce. He has been with the Group since 2011. He is a senior lawyer with 30 years' experience in a range of corporate legal and management positions in the financial services industry. For much of that period he has been involved in the life insurance industry and has developed a unique mix of legal, product, process development and business and management skills that are ideally suited to a specialist life insurance business such as Freedom Insurance.

Anand Sundaraj (appointed joint company secretary on 29 July 2016) has a Bachelor degree in Laws and a Bachelor of Science degree and is admitted as a solicitor of the Supreme Courts of New South Wales and Victoria. Anand Sundaraj is a corporate lawyer with over 18 years' experience. He is a principal of Sydney-based law firm, Sundaraj & Ker. Anand specialises in advising on mergers and acquisitions and capital raisings for both publicly listed and privately held entities. He also advises on funds management and general securities law matters including listing rule compliance and corporate governance. Anand has worked for a number of pre-eminent law firms including Herbert Smith Freehills, King & Wood Mallesons, and Allen & Overy, as well as global investment bank, Credit Suisse AG.

Meetings of directors

The number of meetings of the Company's Board of Directors ('the Board') and of each Board committee held during the year ended 30 June 2018, and the number of meetings attended by each director were:

	Full Board		Remuneration and Nomination Committee		Audit and Risk Committee	
	Attended	Held	Attended	Held	Attended	Held
David Hancock	12	12	2	2	4	4
Keith Cohen	12	12	–	–	–	–
Stephen Menzies	12	12	2	2	4	4
Andrew Jensen	12	12	2	2	4	4
Katrina Glendinning	12	12	2	2	4	4

Held: represents the number of meetings held during the time the director held office or was a member of the relevant committee.

Remuneration report (audited)

The remuneration report details the key management personnel remuneration arrangements for the Group, in accordance with the requirements of the *Corporations Act 2001* and its Regulations.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including all directors.

The remuneration report is set out under the following main headings:

- Principles used to determine the nature and amount of remuneration
- Details of remuneration
- Service agreements
- Share-based compensation
- Additional information
- Additional disclosures relating to key management personnel

Principles used to determine the nature and amount of remuneration

The objective of the Group's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with the achievement of strategic objectives and the creation of value for shareholders, and it is considered to conform to the market best practice for the delivery of reward. The Board of Directors ('the Board') ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness;
- acceptability to shareholders;
- performance linkage/alignment of executive compensation; and
- transparency.

The Remuneration and Nomination Committee is responsible for determining and reviewing remuneration arrangements for its directors and executives. The performance of the Group depends on the quality of its directors and executives. The remuneration philosophy is to attract, motivate and retain high performance and high quality personnel.

The reward framework is designed to align executive reward to shareholders' interests. The Board have considered that it should seek to enhance shareholders' interests by:

- having financial profit as a core component of plan design;
- focusing on sustained growth in shareholder wealth, growth in share price, and delivering constant or increasing return on assets as well as focusing the executive on key drivers of value to customers; and
- attracting and retaining high calibre executives.

Additionally, the reward framework should seek to enhance executives' interests by:

- rewarding capability and experience;
- reflecting competitive reward for contribution to growth in shareholder wealth; and
- providing a clear structure for earning rewards.

In accordance with best practice corporate governance, the structure of non-executive director and executive director remuneration is separate.

Directors' Report

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Non-executive directors remuneration

Fees and payments to non-executive directors reflect the demands and responsibilities of their role. Non-executive directors' fees and payments are reviewed annually by the Remuneration Committee. The non-executive directors may be paid additional or special remuneration if at the request of the Board they perform any extra services or make special exertions. The Board may, from time to time, receive advice from independent remuneration consultants to ensure non-executive directors' fees and payments are appropriate and in line with the market. The chairman's fees are determined independently to the fees of other non-executive directors based on comparative roles in the external market. The chairman is not present at any discussions relating to the determination of his own remuneration. Non-executive directors do not receive share options or other incentives. There are no retirement benefit schemes for non-executive directors, other than statutory superannuation contributions.

ASX listing rules require the total aggregate non-executive directors' remuneration be determined periodically by a general meeting. At the Annual General Meeting held on 15 November 2017, the shareholders approved the annual base fee for the chairman at \$110,000 and \$65,000 to other non-executive directors. Fees are inclusive of superannuation payments, where applicable.

Each of the non-executive directors has entered into an appointment letter with the Company, confirming the terms of their appointment, their roles and responsibilities and the Company's expectations of them as directors.

Executive remuneration

The Group aims to reward executives based on their position and responsibility, with a level and mix of remuneration which has both fixed and variable 'at risk' components.

The executive remuneration and reward framework has four components:

- base pay and non-monetary benefits;
- short-term performance incentives;
- share-based payments; and
- ther remuneration such as superannuation and long service leave.

The combination of these comprises the executive's total remuneration.

Fixed remuneration, consisting of base salary, superannuation and non-monetary benefits, are reviewed annually by the Remuneration and Nomination Committee based on individual and business unit performance, the overall performance of the Group and comparable market remunerations.

Executives may receive their fixed remuneration in the form of cash or other fringe benefits (for example motor vehicle benefits) where it does not create any additional costs to the Group and provides additional value to the executive. For future periods the short term incentive ('STI') programme is currently being designed.

The long-term incentives ('LTI') include long service leave and share-based payments (Employee share scheme).

Employee share scheme

The Group's Employee Option Plan ('EOP') was established in 2016 to offer options to employees to encourage their long term performance and service on a tax concessional basis. A broader Employee Incentive Plan ('EIP') was established during the previous financial year which is a flexible employee incentive plan suitable for both local and overseas participation.

Employee Incentive Plan ('EIP')

The EIP enables the Group, to offer executives (and other selected employees) a range of different interests or awards to reward and drive performance, retain senior management and other selected employees and to offer broad based employee share ownership.

These interests or awards available under the EIP includes performance rights, options, cash rights, service rights, deferred shares, stock appreciation rights and exempt shares. There were no interest or awards under the EIP during the financial year.

The Board has the discretion based on the reward framework to determine which executives and employees are eligible to participate in the EIP, and what type of award suits the remuneration or incentive purpose. The definition of employee under the EIP rules includes any full time or permanent part time employee or officer and a director of the Company. Directors, including non-executive directors, are only eligible to participate in the EIP if approved by shareholders.

Employee Option Plan

The options granted during the financial year and disclosed in the remuneration report reflect options granted under the EOP.

LTI to KMP are currently delivered in the form of share options. Currently, the number of options granted is based on the Prospectus dated 28 October 2016 and is issued to KMP at no cost.

Options granted to KMP usually vest over three to five years (the 'Performance Period'), subject to the satisfaction of performance conditions. For options granted on 19 September 2016 ('Grant Date'), the Performance Period was from the Group's listing and concludes on the following dates for each of the three tranches:

- Tranche 1: 23 September 2019
- Tranche 2: 31 March 2020
- Tranche 3: 31 March 2021

The performance conditions for the LTI options are currently based on the compound annual growth rate ('CAGR') of the Group's IPO share issue price per security. IPO share issue price was selected as the performance condition for the LTI since it serves as a good measure of economic value of the Group since listing and is a key component in delivering sustained growth in shareholder wealth. The Performance Period and applicable performance conditions for any future LTI opportunities will be determined by the Board and specified in the relevant offer document.

The percentage of options that vest and become exercisable, if any, is determined by reference to the vesting schedule, summarised as follows:

CAGR of IPO share issue price over the Performance Period	% of options that become exercisable
Less than 15% per annum	None
At least 15% per annum	25%
Between 15% and 25% per annum	Interpolated vesting on a straight line basis between 25% (15% CAGR) and 100% (25% CAGR)
At least 25% per annum	100%

If KMP ceases employment for cause, the unvested options will lapse unless the Board determines otherwise. In other circumstances, the options will remain on issue with a broad discretion for the Board to vest or lapse some or all of the options. The Board will ordinarily lapse options in the case of resignation.

Group performance and link to remuneration

In the previous financial year, the Board made discretionary payments to some KMP upon the successful listing of the Company on the ASX. The Board plans to implement the remuneration incentives program in future to appropriately incentivise executives based on measures which are aligned to proposed performance targets of the Group.

The performance measure that drives LTI vesting is the CAGR of the Company's IPO share issue price over the relevant performance period. The Company's share price at 29 June 2018 was 42.5 cents per share.

Use of remuneration consultants

During the financial year, the Group engaged AON Hewitt to review Executive remuneration. AON Hewitt was paid \$32,553 for these services.

Voting and comments made at the Company's 2017 Annual General Meeting ('AGM')

At the 2017 AGM, 87.93% of the votes received supported the adoption of the remuneration report for the year ended 30 June 2017. The Company did not receive any specific feedback at the AGM regarding its remuneration practices.

Details of remuneration

Amounts of remuneration

Details of the remuneration of key management personnel of the Group are set out in the following tables.

The key management personnel of the Group consisted of the following directors of Freedom Insurance Group Ltd during the whole of the financial year and up to the date of this report, unless otherwise stated:

- David Hancock
- Keith Cohen
- Stephen Menzies
- Andrew Jensen
- Katrina Glendinning

And the following persons:

- Jenny Andrews (Chief Financial Officer)
- Craig Orton (Chief Operating Officer) – Appointed on 6 February 2018

Directors' Report

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		Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	
	Cash salary and fees	Cash bonus	Non-monetary	Super-annuation	Long service leave	Equity settled		Total
2018	\$	\$	\$	\$	\$	\$		\$
Non-Executive Directors:								
David Hancock (Chairman)	100,457	–	–	9,543	–	–		110,000
Stephen Menzies	65,000	–	–	–	–	–		65,000
Andrew Jensen	59,361	–	–	5,639	–	–		65,000
Katrina Glendinning	59,361	–	–	5,639	–	–		65,000
Executive Directors:								
Keith Cohen	664,308	–	11,486	22,917	12,893	–		711,604
Other Key Management Personnel:								
Jenny Andrews	301,370	–	–	25,000	9,746	–		336,116
Craig Orton*	139,094	–	–	13,214	196	–		152,504
	1,388,951	–	11,486	81,952	22,835	–		1,505,224

* Represents remuneration from date of appointment to 30 June 2018.

		Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	
	Cash salary and fees	Cash bonus	Non-monetary	Super-annuation	Long service leave	Equity settled		Total
2017	\$	\$	\$	\$	\$	\$		\$
Non-Executive Directors:								
David Hancock (Chairman)*	83,714	–	–	7,953	–	–		91,667
Stephen Menzies*	54,163	–	–	–	–	–		54,163
Andrew Jensen*	49,467	–	–	4,699	–	–		54,166
Katrina Glendinning*	49,467	–	–	4,699	–	–		54,166
Executive Directors:								
Keith Cohen	715,221	50,000	13,195	29,167	4,277	–		811,860
Other Key Management Personnel:								
Jenny Andrews	297,851	150,000	–	30,595	3,276	9,552		491,274
	1,249,883	200,000	13,195	77,113	7,553	9,552		1,557,296

* Represents remuneration from 18 October 2018 (date of appointment) to 30 June 2017.

Service agreements

Remuneration and other terms of employment for key management personnel are formalised in service agreements. Details of these agreements are as follows:

Keith Cohen

Chief Executive Officer and Managing Director

- **Agreement commenced:** 1 July 2015
- **Term of agreement:** Ongoing
- **Details:** Keith is entitled to receive a total remuneration of \$749,700 per annum, a 5% increase from prior year of \$714,000 (comprising base salary and superannuation). Keith is also entitled to five weeks' paid annual leave each year during the term of his employment. In addition, Keith was entitled to a cash bonus of \$50,000 upon successful listing of the Company to the ASX.

Keith's employment agreement may be terminated by Keith or the Group by giving at least six months' notice in writing, or where terminated by the Group, by making payment in lieu of notice and requiring Keith to not work during the notice period or to work for only part of the notice period.

The Group may terminate Keith's employment immediately and without pay in certain circumstances, including for wilful misconduct, failure to obey lawful and reasonable directions, a breach of the confidentiality obligations or failing to comply with any Group policy or procedure.

Keith may terminate his employment immediately by giving written notice to the Group, if the Group breaches a material obligation under the employment agreement and where that breach is capable of being remedied, the Group fails to remedy such breach within 14 days of receipt of a notice from Keith setting out the details of the breach.

Keith's employment contract also includes a post-termination restraint period of 12 months'. The enforceability of the restraint clause is subject to usual legal requirements.

Jenny Andrews

Chief Financial Officer

- **Agreement commenced:** 1 April 2014
- **Term of agreement:** Ongoing
- **Details:** Jenny is entitled to receive a total remuneration of \$330,000 per annum (comprising base salary and superannuation). In addition, Jenny is also entitled to four weeks' paid annual leave each year during the term of her employment.

Jenny's employment may be terminated by giving at least three months' notice in writing, or where terminated by the Group, by making payment in lieu of notice and requiring her to not work during the notice period or to work for only part of the notice period. The Group may terminate her employment immediately and without pay in certain circumstances, including for wilful misconduct, failure to obey lawful and reasonable directions, a breach of the confidentiality obligations or failing to comply with any Group policy or procedure.

Craig Orton

Chief Operating Officer

- **Agreement commenced:** 6 February 2018
- **Term of agreement:** Ongoing
- **Details:** Craig is entitled to receive a total remuneration of \$400,000 per annum (comprising base salary and superannuation). In addition, Craig is also entitled to four weeks' paid annual leave each year during the term of his employment.

Craig's employment may be terminated by giving at least three months' notice in writing, or where terminated by the Group, by making payment in lieu of notice and requiring him to not work during the notice period or to work for only part of the notice period. The Group may terminate his employment immediately and without pay in certain circumstances, including for wilful misconduct, failure to obey lawful and reasonable directions, a breach of the confidentiality obligations or failing to comply with any Group policy or procedure.

Other senior members of management are either engaged as a consultant under a consultancy agreement or a party to a contract of employment with Group. These agreements document annual based services fees or base salary and any incentive arrangements, as determined by the Board from time to time; confidentiality provisions; ownership of intellectual property provisions and a non-compete restraint following the termination of engagement or employment. Notice of termination provisions and leave entitlements vary depending on the laws of the jurisdiction in which the related party arrangements.

Directors' Report

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continued

Share-based compensation

Issue of shares

There were no shares issued to directors and other key management personnel as part of compensation during the year ended 30 June 2018 and 30 June 2017.

Options

The terms and conditions of each grant of options over ordinary shares affecting remuneration of directors and other key management personnel in this financial year or future reporting years are as follows:

Grant date	Vesting date and exercisable date	Expiry date	Exercise price	Fair value per option at grant date
19 September 2016	23 September 2019	23 September 2020	\$0.10	\$0.03
19 September 2016	31 March 2020	31 March 2021	\$0.10	\$0.02
19 September 2016	31 March 2021	30 June 2021	\$0.10	\$0.02

Options granted carry no dividend or voting rights.

There were no options over ordinary shares granted to or vested by directors and other key management personnel as part of compensation during the year ended 30 June 2018 and 30 June 2017.

Additional information

The earnings of the Group for the two years to 30 June 2018 are summarised below:

	2018 \$'000	2017 \$'000
Sales revenue	61,339	53,457
EBITDA	19,229	21,181
Profit after income tax	13,153	14,064

The factors that are considered to affect total shareholders return ('TSR') are summarised below:

	2018	2017
Share price at financial year end (\$)	0.43	0.92
Basic earnings per share (cents per share)	5.49	6.73
Diluted earnings per share (cents per share)	5.42	6.66

Additional disclosures relating to key management personnel

Shareholding

The number of shares in the Company held during the financial year by each director and other members of key management personnel of the Group, including their personally related parties, is set out below:

	Balance at the start of the year	Received as part of remuneration	Additions	Disposals/ other	Balance at the end of the year
Ordinary shares					
David Hancock	142,858	—	—	—	142,858
Keith Cohen*	41,283,885	—	—	(9,000,000)	32,283,885
Stephen Menzies**	142,858	—	—	—	142,858
Andrew Jensen***	142,858	—	—	—	142,858
Katrina Glendinning	142,858	—	—	—	142,858
Jenny Andrews	5,139,050	—	—	(500,000)	4,639,050
	46,994,367	—	—	(9,500,000)	37,494,367

Craig Orton did not hold any shares during the financial year ended 30 June 2018.

* Held indirectly through Keith Charles Cohen and Jeanette Patricia Cohen ATF Cohen Family Trust

** Held indirectly through Gyton Pty Ltd ATF Gyton Pty Ltd Superannuation Fund

*** Held indirectly through Andrew Jensen and Kate Jensen ATF A & K Jensen Super Fund

Option holding

The number of options over ordinary shares in the Company held during the financial year by each director and other members of key management personnel of the Group, including their personally related parties, is set out below:

	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
Options over ordinary shares					
Jenny Andrews	550,000	—	—	—	550,000
	550,000	—	—	—	550,000

At 30 June 2018, there were no options vested and exercisable.

Loans to key management personnel and their related parties

There were no loans to key management personnel and their related parties at the current reporting date.

Other transactions with key management personnel and their related parties

There were no other transactions with key management personnel and their related parties at the current reporting date.

This concludes the remuneration report, which has been audited.

Directors' Report

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Shares under option

Unissued ordinary shares of Freedom Insurance Group Ltd under option at the date of this report are as follows:

Grant date	Expiry date	Exercise price	Number under option
19 September 2016	23 September 2020	\$0.10	1,935,000
19 September 2016	31 March 2021	\$0.10	510,000
19 September 2016	30 June 2021	\$0.10	385,000
			2,830,000

No person entitled to exercise the options had or has any right by virtue of the option to participate in any share issue of the Company or of any other body corporate.

Shares issued on the exercise of options

There were no ordinary shares of Freedom Insurance Group Ltd issued on the exercise of options during the year ended 30 June 2018 and up to the date of this report.

Indemnity and insurance of officers

The Company has indemnified the directors on a full indemnity basis, for costs incurred, in their capacity as a director, for which they may be held personally liable. This includes indemnity against all losses or liabilities (including all reasonable legal costs) incurred by the director as an officer of the Company or a related body corporate.

During the financial year, the Company, paid a premium in respect of a contract to insure the directors and executives of the Company against a liability to the extent permitted by the *Corporations Act 2001*. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

Indemnity and insurance of auditor

The Company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the Company or any related entity against a liability incurred by the auditor.

During the financial year, the Company has not paid a premium in respect of a contract to insure the auditor of the Company or any related entity.

Proceedings on behalf of the Company

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

Non-audit services

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 20 to the financial statements.

The directors are satisfied that the provision of non-audit services during the financial year, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*.

The directors are of the opinion that the services as disclosed in note 20 to the financial statements do not compromise the external auditor's independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risks and rewards.

Officers of the Company who are former partners of KPMG

There are no officers of the Company who are former partners of KPMG.

Rounding of amounts

The Company is of a kind referred to in Australian Securities and Investments Commission Corporations Instrument 2016/191 dated 24 March 2016 and, in accordance with that legislative instrument, amounts in the directors' report and financial report have been rounded to the nearest thousand dollars unless otherwise indicated.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out immediately after this directors' report.

Auditor

KPMG continues in office in accordance with section 327 of the *Corporations Act 2001*.

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the *Corporations Act 2001*.

On behalf of the directors



David Hancock
Chairman



Keith Cohen
Managing Director

28 August 2018
Sydney

Auditor's Independence Declaration

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Lead Auditor's Independence Declaration under Section 307C of the *Corporations Act 2001*

To the Directors of Freedom Insurance Group Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Freedom Insurance Group Limited for the financial year ended 30 June 2018 there have been:

- i. No contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- ii. No contraventions of any applicable code of professional conduct in relation to the audit.


KPMG



Andrew Reeves
Partner

Sydney
28 August 2018

Financial Report

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Statement of profit or loss and other comprehensive income

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For the year ended 30 June 2018

Consolidated			
	Note	2018 \$'000	2017 \$'000
Revenue	4	61,339	53,663
Net gain on disposal of investment in NobleOak Life Limited		3,288	–
Expenses			
Employee benefits expense	5	(22,835)	(17,239)
Depreciation expense		(3)	(3)
Management and professional fees		(1,806)	(1,456)
Marketing and promotion		(12,416)	(6,722)
Occupancy costs		(1,965)	(1,366)
Telecommunication and information technology expense		(2,705)	(2,781)
Non-operating expenses	5	(1,663)	(1,291)
Other expenses		(2,008)	(1,627)
Finance costs	5	(1)	(919)
Total expenses		(45,402)	(33,404)
Profit before income tax expense		19,225	20,259
Income tax expense	6	(6,072)	(6,195)
Profit after income tax expense for the year attributable to the owners of Freedom Insurance Group Ltd		13,153	14,064
Other comprehensive income for the year, net of tax		–	–
Total comprehensive income for the year attributable to the owners of Freedom Insurance Group Ltd		13,153	14,064
		Cents	Cents
Basic earnings per share	30	5.49	6.73
Diluted earnings per share	30	5.42	6.66

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

Statement of financial position

As at 30 June 2018

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		Consolidated	
	Note	2018 \$'000	2017 \$'000
Assets			
Current assets			
Cash and cash equivalents	7	18,359	26,856
Trade and other receivables	8	4,325	4,492
Net present value of trail commission		8,570	5,936
Other	9	316	275
Total current assets		31,570	37,559
Non-current assets			
Other financial assets	10	–	3,702
Intangibles	12	5,818	5,818
Net present value of trail commission		65,401	37,850
Total non-current assets		71,219	47,370
Total assets		102,789	84,929
Liabilities			
Current liabilities			
Trade and other payables	13	3,478	4,213
Income tax payable	6	–	1,924
Employee benefits		589	355
Provisions	14	16,338	15,415
Total current liabilities		20,405	21,907
Non-current liabilities			
Deferred tax	6	14,533	8,410
Employee benefits		205	119
Total non-current liabilities		14,738	8,529
Total liabilities		35,143	30,436
Net assets		67,646	54,493
Equity			
Contributed capital	15	32,589	32,589
Reserves	16	49	49
Retained profits		35,008	21,855
Total equity		67,646	54,493

The above statement of financial position
should be read in conjunction with the accompanying notes

Statement of changes in equity

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For the year ended 30 June 2018

Consolidated	Contributed capital \$'000	Reserves \$'000	Retained profits \$'000	Total equity \$'000
Balance at 1 July 2016	8,416	688	7,791	16,895
Profit after income tax expense for the year	–	–	14,064	14,064
Other comprehensive income for the year, net of tax	–	–	–	–
Total comprehensive income for the year	–	–	14,064	14,064
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs (note 15)	23,485	–	–	23,485
Share-based payments (note 16)	–	49	–	49
Transfer on conversion of loans payable (note 16)	688	(688)	–	–
Balance at 30 June 2017	32,589	49	21,855	54,493
Consolidated	Contributed capital \$'000	Reserves \$'000	Retained profits \$'000	Total equity \$'000
Balance at 1 July 2017	32,589	49	21,855	54,493
Profit after income tax expense for the year	–	–	13,153	13,153
Other comprehensive income for the year, net of tax	–	–	–	–
Total comprehensive income for the year	–	–	13,153	13,153
Balance at 30 June 2018	32,589	49	35,008	67,646

The above statement of changes in equity
should be read in conjunction with the accompanying notes

Statement of cash flows

For the year ended 30 June 2018

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Consolidated		
Note	2018 \$'000	2017 \$'000
Cash flows from operating activities		
Profit before income tax expense for the year	19,225	20,259
Adjustments for:		
Depreciation and amortisation	3	3
Share-based payments	–	49
Net gain on disposal of non-current assets	(3,288)	–
Finance costs – non-cash	–	738
Interest received	(555)	(140)
Interest and other finance costs	1	181
	15,386	21,090
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	167	(397)
Decrease/(increase) in prepayments	(41)	254
Increase in other operating assets	(30,185)	(20,123)
Decrease in trade and other payables	(735)	(31)
Increase in employee benefits	320	268
Increase in other provisions	923	7,639
	(14,165)	8,700
Interest received	555	140
Interest and other finance costs paid	(1)	(181)
Income taxes paid	(1,873)	–
Net cash from/(used in) operating activities	(15,484)	8,659
Cash flows from investing activities		
Payments for investments	–	(225)
Payments for property, plant and equipment	11 (3)	(3)
Proceeds from disposal of investments	10 6,990	–
Proceeds/(payments) from/(to) security deposits	–	126
Net cash from/(used in) investing activities	6,987	(102)
Cash flows from financing activities		
Proceeds from issue of shares	15 –	15,000
Share issue transaction costs	–	(820)
(Repayments)/proceeds of borrowings	–	(3,000)
Net cash from financing activities	–	11,180
Net increase/(decrease) in cash and cash equivalents	(8,497)	19,737
Cash and cash equivalents at the beginning of the financial year	26,856	7,119
Cash and cash equivalents at the end of the financial year	7 18,359	26,856

The above statement of cash flows
should be read in conjunction with the accompanying notes

Notes to the financial statements

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Note 1. General information

The financial statements cover both Freedom Insurance Group Ltd ('Company' or 'parent entity') as an individual entity and the consolidated entity consisting of Freedom Insurance Group Ltd and the entities it controlled at the end of, or during, the year (the 'Group'). The financial statements are presented in Australian dollars, which is Freedom Insurance Group Ltd's functional and presentation currency.

Freedom Insurance Group Ltd is a for profit listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Levels 12 and 13
20 Bond Street
Sydney, NSW 2000

The Group is an insurance intermediary that specialises in the development, distribution and administration of risk life insurance products that are issued by Australian Prudential Regulation Authority ('APRA') for regulated life insurers. The Group is not an APRA regulated life insurer.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 28 August 2018. The directors have the power to amend and reissue the financial statements.

Note 2. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out either in the respective notes or below. These policies have been consistently applied to all the years presented, unless otherwise stated.

New or amended Accounting Standards and Interpretations adopted

The Group has adopted all of the new or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the Group.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the *Corporations Act 2001*, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

Historical cost convention

The financial statements have been prepared under the historical cost convention.

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Freedom Insurance Group Ltd at 30 June 2018 and the results of all subsidiaries for the year then ended.

Subsidiaries are all those entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the Group are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The acquisition of common control subsidiaries is accounted for at book value. The acquisition of other subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Where the Group loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The Group recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

Current and non-current classification

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the Group's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the Group's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

Impairment of non-financial assets

Goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

Employee benefits

Short-term employee benefits

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

Long-term employee benefits

The liability for annual leave not expected to be settled within 12 months of the reporting date are measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on high quality corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Defined contribution superannuation expense

Contributions to defined contribution superannuation plans are expensed in the period in which they are incurred.

Goods and Services Tax ('GST') and other similar taxes

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

Rounding of amounts

The Company is of a kind referred to in Australian Securities and Investments Commission Corporations Instrument 2016/191 dated 24 March 2016 and, in accordance with that legislative instrument, amounts in the directors' report and financial report have been rounded to the nearest thousand dollars unless otherwise indicated.

Note 3.

Operating segments

Identification of reportable operating segments

The Group operates in one segment being the provision of insurance policies, principally in Australia. This operating segment is based on the internal reports that are reviewed and used by the Board of Directors (who are identified as the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources. There is no aggregation of operating segments.

The operating segment information is the same information as provided throughout the financial statements and is therefore not duplicated.

Major customers

During the year ended 30 June 2018 over 85% (2017: 58%) of the Group's external revenue was derived from sales to one major customer.

Notes to the financial statements

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continued

Note 4.
Revenue

	Consolidated	
	2018 \$'000	2017 \$'000
Sales revenue		
Commissions	27,326	31,673
Net present value trail commission movement	30,185	20,123
Administration fees	3,256	1,661
	60,767	53,457
Other revenue		
Interest	555	140
Other revenue	17	66
	572	206
Revenue	61,339	53,663

Accounting policy for revenue recognition

Revenue is recognised when it is probable that the economic benefit will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

Commissions

Upfront commissions are fees that are earned upon the sale of a new insurance policy. Early termination by customers may trigger a clawback of revenue as specified in agreements with insurance providers. These clawbacks are provided for as a provision offset against commissions.

Trail commissions are ongoing fees for customers introduced to insurance providers. Trail commissions represent commissions earned calculated as a percentage of the value of the underlying policies. The Group is entitled to receive trail commissions without having to perform further services. On initial recognition, trail revenue and receivables are recognised at fair value, being the net present value of expected future cash flows of trail commission, discounted using discounted cash flow valuation techniques.

Subsequent to initial recognition and measurement, the trail commission asset is measured at amortised cost. The carrying amount of the asset is adjusted to reflect actual and revised estimated cash flows by recalculating the carrying amount through computing the present value of estimated future cash flows at the original effective interest rate. The resulting adjustment is recognised in profit or loss.

Administration fees and other revenue

Revenue is recognised when it is received or when the right to receive payment is established.

Note 5. Expenses

	Consolidated	
	2018 \$'000	2017 \$'000
Profit before income tax includes the following specific expenses:		
Employee benefits expense		
Wages, salaries and other benefits	21,201	15,937
Defined contribution superannuation expense	1,634	1,302
Total employee benefits expense	22,835	17,239
Non-operating expense		
Capital raising related costs	–	1,291
Acquisition expenses	1,663	–
Total non-operating expense	1,663	1,291
Finance costs		
Interest and finance charges paid/payable	1	549
Unwind of compound financial instrument	–	370
Finance costs expensed	1	919
Rental expense relating to operating leases		
Minimum lease payments	1,692	1,347

The non-operating expenses relate to capital raising costs for listing in FY17 and the acquisition of St Andrews Life Insurance in FY18.

Accounting policy for leases

Operating lease payments, net of any incentives received from the lessor, are charged to profit or loss on a straight-line basis over the term of the lease.

Accounting policy for finance costs

All finance costs are expensed in the period in which they are incurred.

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Note 6.
Income tax

	Consolidated	
	2018 \$'000	2017 \$'000
Income tax expense		
Current tax (income)/expense	(1,884)	1,909
Deferred tax – origination and reversal of temporary differences	8,168	4,286
Adjustment recognised for prior periods	(212)	–
Aggregate income tax expense	6,072	6,195
Deferred tax included in income tax expense comprises:		
Decrease in deferred tax	8,168	4,286
Numerical reconciliation of income tax expense and tax at the statutory rate		
Profit before income tax expense	19,225	20,259
Tax at the statutory tax rate of 30%	5,768	6,078
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Non-deductible expenses	1,503	6
Non-assessable income	(987)	–
Unwind of compound financial instrument	–	111
	6,284	6,195
Adjustment recognised for prior periods	(212)	–
Income tax expense	6,072	6,195
Amounts credited directly to equity		
Deferred tax	(211)	(351)
Deferred tax liability		
Deferred tax liability comprises temporary differences attributable to:		
Amounts recognised in profit or loss:		
Tax losses	1,884	–
Accrued expenses	769	353
S40-880 blackhole deduction	362	433
Provision for clawback	4,239	3,648
Net present value trail commission	(22,191)	(13,136)
Other	193	(59)
	(14,744)	(8,761)
Amounts recognised in equity:		
Capital raising costs	211	351
Deferred tax liability	(14,533)	(8,410)

Note 6.

Income tax (continued)

	Consolidated	
	2018 \$'000	2017 \$'000
Movements:		
Opening balance	(8,410)	(4,475)
Charged to profit or loss	(8,168)	(4,286)
Credited to equity	211	351
Deferred tax asset on losses	1,884	–
Prior period adjustment	(50)	–
Closing balance	(14,533)	(8,410)
Provision for income tax		
Provision for income tax	–	1,924

Accounting policy for income tax

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

Tax consolidated group

Freedom Insurance Group Ltd (the 'head entity') and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under the tax consolidation regime. The head entity and each subsidiary in the tax consolidated group continue to account for their own current and deferred tax amounts. The tax consolidated group has applied the 'separate taxpayer within group' approach in determining the appropriate amount of taxes to allocate to members of the tax consolidated group.

In addition to its own current and deferred tax amounts, the head entity also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from each subsidiary in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the tax consolidated group. The tax funding arrangement ensures that the intercompany charge equals the current tax liability or benefit of each tax consolidated group member, resulting in neither a contribution by the head entity to the subsidiaries nor a distribution by the subsidiaries to the head entity.

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Note 7.

Current assets – cash and cash equivalents

	Consolidated	
	2018 \$'000	2017 \$'000
Cash at bank	17,401	18,021
Cash on deposit	958	8,835
	18,359	26,856

Accounting policy for cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Note 8.

Current assets – trade and other receivables

	Consolidated	
	2018 \$'000	2017 \$'000
Trade receivables	4,475	4,646
Less: Provision for impairment of receivables	(150)	(154)
	4,325	4,492

Impairment of receivables

Movements in the provision for impairment of receivables are as follows:

	Consolidated	
	2018 \$'000	2017 \$'000
Opening balance	154	208
Unused amounts reversed through profit or loss	(4)	(54)
Closing balance	150	154

Past due but not impaired

Receivables are within trading terms and are neither past due nor impaired.

Accounting policy for trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Trade receivables are generally due for settlement within 30 days.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly. A provision for impairment of trade receivables is raised when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 60 days overdue) are considered indicators that the trade receivable may be impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

Note 9.
Current assets – other

	Consolidated	
	2018 \$'000	2017 \$'000
Prepayments	316	275

Note 10.
Non-current assets – other financial assets

	Consolidated	
	2018 \$'000	2017 \$'000
Investment in NobleOak Life Limited – unlisted held at cost	–	3,702

Reconciliation

Reconciliation of the carrying amounts at the beginning and end of the current and previous financial year are set out below:

Opening carrying amount	3,702	3,702
Disposals	(3,702)	–
Closing carrying amount	–	3,702

The investment in NobleOak Life Limited was disposed of on 8 September 2017 for \$6,990,000. The investment was originally made as part of the strategic initiative to establish a strong partnership between NobleOak Life Limited and the Group. In February 2017, the Group commenced the transition to Swiss Re and as a result, the Group has disposed of this non-core investment.

Accounting policy for investments

The investment has been designated as an available-for-sale asset. It was initially measured at fair value and subsequently carried at cost less accumulated impairment losses.

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Note 11.

Non-current assets – property, plant and equipment

	Consolidated	
	2018 \$'000	2017 \$'000
Plant and equipment – at cost	162	159
Less: Accumulated depreciation	(162)	(159)
	–	–

Accounting policy for property, plant and equipment

Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to acquisition.

Depreciation is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment over their expected useful lives as follows:

Plant and equipment 3 years

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the Group. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss.

Note 12.

Non-current assets – intangibles

	Consolidated	
	2018 \$'000	2017 \$'000
Goodwill – at cost	5,818	5,818

Goodwill arose on the acquisition of Finwealth Holdings Pty Ltd during the year ended on 30 June 2016. The goodwill has been allocated to Spectrum Wealth Advisors Pty Ltd cash-generating unit.

The recoverable amount of the goodwill has been determined based on fair value less cost of disposal.

The recoverable amount exceeded the carrying amount and no impairment was required. Management believes that the revenue multiple using the market approach was a key assumption on which the recoverable amount was based on. The revenue multiple was obtained from an independent insurance broking valuation report. This is a level 2 fair value measurement.

Accounting policy for goodwill

Goodwill arises on the acquisition of a business. Goodwill is not amortised. Instead, goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are taken to profit or loss and are not subsequently reversed.

Note 13.

Current liabilities – trade and other payables

	Consolidated	
	2018 \$'000	2017 \$'000
Trade payables	858	875
Commissions payable	983	1,168
Other creditors	902	1,135
Accruals	735	1,035
	3,478	4,213

Refer to note 18 for further information on financial instruments.

Accounting policy for trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

Note 14.

Current liabilities – provisions

	Consolidated	
	2018 \$'000	2017 \$'000
Clawback provision	16,338	15,415

Clawback provision

The clawback provision is determined using the same valuation techniques and assumptions as applied in calculating the net present value of trail commission (note 19).

For the clawback provision, the key assumption is the lapse rates assumed in the first 2 years of a policy. These rates are reviewed annually taking into consideration observed policy experience.

Movements in provision

Movements in the provision during the current financial year is set out below:

	Clawback
Consolidated – 2018	\$'000
Carrying amount at the start of the year	15,415
Provision arising from current period sales	7,067
Amounts utilised	(8,644)
Discount rate release	1,257
Lapse assumption change	1,243
Carrying amount at the end of the year	16,338

Accounting policy for provisions

Provisions are recognised when the Group has a present (legal or constructive) obligation as a result of a past event, it is probable the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost.

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Note 15.

Equity – contributed capital

	Consolidated			
	2018 Shares \$'000	2017 Shares \$'000	2018 Shares \$'000	2017 Shares \$'000
Ordinary shares – fully paid	239,723,495	239,723,495	32,589	32,589

Movements in ordinary share capital

Details	Date	Shares	\$'000
Balance	1 July 2016	163,633,670	8,416
Share issue	24 November 2016	42,857,142	15,000
Conversion of convertible notes payable and accrued interest into shares	28 November 2016	33,232,683	9,305
Transfer of reserve on conversion of convertible notes payable into shares	28 November 2016	–	688
Share issue costs		–	(1,171)
Tax on share issue costs		–	351
Balance	30 June 2017	239,723,495	32,589
Balance	30 June 2018	239,723,495	32,589

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the Company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Share buy-back

There is no current on-market share buy-back.

Capital risk management

The Group's objectives when managing capital is to maintain a strong balance sheet and strategic flexibility, provide the shareholders with adequate return and to ensure that the Group can fund its operations and continue as a going concern.

The Groups debt and capital includes ordinary share capital and financial liabilities, supported by financial assets.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The capital risk management policy remains unchanged from the 2017 Annual Report.

Note 16.

Equity – reserves

	Consolidated	
	2018 \$'000	2017 \$'000
Share-based payments reserve	49	49

Share-based payments reserve

The reserve is used to recognise the value of equity benefits provided to employees and directors as part of their remuneration, and other parties as part of their compensation for services.

Convertible note reserve

The reserve is used to recognise the value of the conversion feature in convertible notes and loans payable.

Movements in reserves

Movements in each class of reserve during the current and previous financial year are set out below:

Consolidated	Share-based payments \$'000	Convertible note \$'000	Total \$'000
Balance at 1 July 2016	–	688	688
Revaluation – gross	–	(688)	(688)
Share-based payments	49	–	49
Balance at 30 June 2017	49	–	49
Balance at 30 June 2018	49	–	49

Note 17.

Equity – dividends

Dividends

There were no dividends paid, recommended or declared during the current or previous financial year.

Franking credits

	Consolidated	
	2018 \$'000	2017 \$'000
Franking credits available for subsequent financial years based on a tax rate of 30%	1,772	31

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:

- franking credits that will arise from the payment of the amount of the provision for income tax at the reporting date
- franking debits that will arise from the payment of dividends recognised as a liability at the reporting date
- franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date

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Note 18. Financial instruments

Financial risk management objectives

The Group's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis and ageing analysis.

Risk management is carried out by senior management under policies approved by the Board of Directors ('the Board'). These policies include identification and analysis of the risk exposure of the Group and appropriate procedures, controls and risk limits. Finance reports to the Board on a monthly basis.

Market risk

Foreign currency risk and price risk

The Group is not exposed to any significant foreign exchange risk or price risk.

Interest rate risk

The Group has some exposure to interest rate risk via earnings on cash at bank.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group trades only with recognised creditworthy third parties (life insurance funds), and as such no collateral is required. The maximum exposure to credit risk at the reporting date to recognised financial assets is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements.

Specifically, the Group has a credit risk exposure with Swiss Re Life & Health Ltd (a major Australian Company), which as at 30 June 2018 owed the Group \$3,620,000 (76% of trade receivables) (2017: \$3,208,000 (69% of trade receivables)). This balance was within its terms of trade and no impairment was made as at 30 June 2018. Balances are regularly paid within the following month.

Credit risk exposure also extends to future revenue which has been brought to account through the net present value trail commission asset, less the clawback provision as disclosed in the statement of financial position and notes to the financial statements.

Liquidity risk

Vigilant liquidity risk management requires the Group to maintain sufficient liquid assets (mainly cash and cash equivalents) and available borrowing facilities to be able to pay debts as and when they become due and payable.

The Group manages liquidity risk by maintaining adequate cash reserves and available borrowing facilities by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.

Note 18.

Financial instruments (continued)

Remaining contractual maturities

The following tables detail the Group's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid and therefore these totals may differ from their carrying amount in the statement of financial position.

	Weighted average interest rate	1 year or less	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Remaining contractual maturities
Consolidated – 2018	%	\$'000	\$'000	\$'000	\$'000	\$'000

Non-derivatives

Non-interest bearing

Trade payables	–	858	–	–	–	858
Commissions payable	–	983	–	–	–	983
Other payables	–	902	–	–	–	902
Total non-derivatives		2,743	–	–	–	2,743

	Weighted average interest rate	1 year or less	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Remaining contractual maturities
Consolidated – 2017	%	\$'000	\$'000	\$'000	\$'000	\$'000

Non-derivatives

Non-interest bearing

Trade payables	–	875	–	–	–	875
Commissions payable	–	1,168	–	–	–	1,168
Other payables	–	1,135	–	–	–	1,135
Total non-derivatives		3,178	–	–	–	3,178

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above.

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Note 19.

Fair value measurement

Fair value hierarchy

The following tables detail the Group's assets and liabilities, measured or disclosed at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: Unobservable inputs for the asset or liability

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Consolidated – 2018		\$'000	\$'000	\$'000
Assets				
Net present value of trail commission	–	–	73,971	73,971
Total assets	–	–	73,971	73,971

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Consolidated – 2017		\$'000	\$'000	\$'000
Assets				
Net present value of trail commission	–	–	43,786	43,786
Total assets	–	–	43,786	43,786

There were no transfers between levels during the financial year.

The carrying amounts of trade and other receivables and trade and other payables are assumed to approximate their fair values due to their short-term nature.

The fair value of financial liabilities is estimated by discounting the remaining contractual maturities at the current market interest rate that is available for similar financial liabilities.

The key assumptions underlying the fair value calculations of trail commission receivable at the reporting date include, but are not limited to discount rate, annual premium growth and policy lapses. Policy lapses vary by product from 10% to 16% per annum over most years with durational adjustments applied where appropriate, based on specific product experiences and features.

Valuation techniques for fair value measurements categorised within level 2 and level 3

A fair value is placed on trail commission using the present value of expected future commissions based on a discounted cash flow approach. The key assumptions used based on internally observable data, and the impact of changes in those key assumptions are quantified below.

Note 19.

Fair value measurement (continued)

Level 3 assets and liabilities

Movements in level 3 assets and liabilities during the current and previous financial year are set out below:

	Trail commission asset
Consolidated	\$'000
Balance at 1 July 2016	23,663
Asset arising from current period sales	23,277
Change in fair value of future trail cash flow expectations	(5,049)
Discount unwind	1,895
Balance at 30 June 2017	43,786
Asset arising from current period sales	22,963
Change in fair value of future trail cash flow expectations	3,651
Discount unwind	3,571
Balance at 30 June 2018	73,971

The level 3 assets and liabilities unobservable inputs and sensitivity are as follows:

Description	Key assumptions/ unobservable inputs	Sensitivity
Net present value of trail commission asset	Discount rate	An increase in discount rate by 1% would decrease the asset by \$4,560,000 (2017: \$2,007,000). A reduction in discount rate by 1% would increase the asset by \$5,174,000 (2017: \$2,183,000).
	Annual premium growth	An increase in annual premium growth by 1% would increase the asset by \$5,329,000 (2017: \$2,020,000). A reduction in annual premium growth by 1% would decrease the asset by \$4,765,000 (2017: \$1,887,000).
	Policy lapses	An increase in policy lapses by 1% would decrease the asset by \$3,850,000 (2017: \$2,031,000). A reduction in policy lapses by 1% would increase the asset by \$4,361,000 (2017: \$2,196,000).

Accounting policy for fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Assets and liabilities measured at fair value are classified, into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

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Note 20.

Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by KPMG, the auditor of the Company:

	Consolidated	
	2018 \$'000	2017 \$'000
Audit services – KPMG (2017: Crowe Horwath Sydney)		
Audit or review of the financial statements	113,000	93,000
Other services – KPMG (2017: Crowe Horwath Sydney)		
Preparation of the tax return	–	25,795
Other services	30,000	102,300
	30,000	128,095
	143,000	221,095

Note 21.

Contingent liabilities

There are no contingent liabilities as at 30 June 2018 or 30 June 2017.

Note 22.

Commitments

	Consolidated	
	2018 \$'000	2017 \$'000
Lease commitments – operating		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	1,606	1,491
One to five years	2,834	3,840
	4,440	5,331

Operating lease commitments represents contracted amounts for offices under non-cancellable operating leases expiring on 28 February 2021. The lease has fixed 4% increase each year. On renewal, the terms of the lease will be renegotiated.

Note 23. Related party transactions

Parent entity

Freedom Insurance Group Ltd is the parent entity.

Subsidiaries

Interests in subsidiaries are set out in note 26.

Key management personnel

Disclosures relating to key management personnel ('KMP') are set out in note 24 and the remuneration report included in the directors' report.

Transactions with related parties

The following transactions occurred with related parties:

	Consolidated	
	2018 \$'000	2017 \$'000
Payment for other expenses:		
Fees paid for recruitment services to KMP	–	24,000

Receivable from and payable to related parties

There were no trade receivables from or trade payables to related parties at the current and previous reporting date.

Terms and conditions

All transactions were made on normal commercial terms and conditions and at market rates.

Note 24. Key management personnel disclosures

Compensation

The aggregate compensation made to directors and other members of key management personnel of the Group is set out below:

	Consolidated	
	2018 \$'000	2017 \$'000
Short-term employee benefits	1,400,437	1,463,078
Post-employment benefits	81,952	77,113
Long-term benefits	22,835	7,553
Share-based payments	–	9,552
	1,505,224	1,557,296

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Note 25.

Parent entity information

Set out below is the supplementary information about the parent entity.

	Parent	
	2018 \$'000	2017 \$'000
Statement of profit or loss and other comprehensive income		
Profit/(loss) after income tax	3,076	(1,566)
Total comprehensive income	3,076	(1,566)
Statement of financial position		
Total current assets	3,186	2,258
Total assets	65,541	62,886
Total current liabilities	951	1,290
Total liabilities	951	1,372
Equity		
Contributed capital	63,444	63,444
Share-based payments reserve	49	49
Retained profits/(accumulated losses)	1,097	(1,979)
Total equity	64,590	61,514

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries

The parent entity is a party to a deed of cross guarantee (refer note 27), under which it guarantees the debts of certain of its subsidiaries as at 30 June 2018 and 30 June 2017.

Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2018 and 30 June 2017.

Capital commitments – Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2018 and 30 June 2017.

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the Group, as disclosed in note 2, except for the following:

- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.
- Dividends received from subsidiaries are recognised as other income by the parent entity and its receipt may be an indicator of an impairment of the investment.

Note 26.

Interests in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 2:

Name	Principal place of business / Country of incorporation	Ownership interest	
		2018 %	2017 %
Customer Contact Pty Ltd	Australia	100%	100%
Freedom Insurance Pty Ltd	Australia	100%	100%
Freedom Insurance Administration Pty Ltd	Australia	100%	100%
Freedom Insurance Investments Pty Ltd	Australia	100%	100%
Insurance Network Services Australia Pty Ltd	Australia	100%	100%
Finwealth Holdings Pty Ltd	Australia	100%	100%
Spectrum Wealth Advisers Pty Ltd	Australia	100%	100%

Note 27.

Deed of cross guarantee

The following entities are party to a deed of cross guarantee under which each company guarantees the debts of the others:

- Freedom Insurance Group Ltd (head entity)
- Customer Contact Pty Ltd
- Freedom Insurance Pty Ltd
- Freedom Insurance Administration Pty Ltd
- Freedom Insurance Investments Pty Ltd
- Insurance Network Services Australia Pty Ltd
- Finwealth Holdings Pty Ltd
- Spectrum Wealth Advisers Pty Ltd

By entering into the deed, the wholly-owned entities have been relieved from the requirement to prepare financial statements and directors' report under Corporations Instrument 2016/785 issued by the Australian Securities and Investments Commission.

The above companies represent a 'Closed Group' for the purposes of the Corporations Instrument, and as there are no other parties to the deed of cross guarantee that are controlled by Freedom Insurance Group Ltd, they also represent the 'Extended Closed Group'.

The statement of profit or loss and other comprehensive income and statement of financial position are the same as the Group and therefore have not been separately disclosed.

Note 28.

Non-cash investing and financing activities

	Consolidated	
	2018 \$'000	2017 \$'000
Shares issued on conversion of notes	–	9,305

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Note 29.
Changes in liabilities arising from financing activities

	Loans payable	Convertible notes payable	Total
Consolidated	\$'000	\$'000	\$'000
Balance at 1 July 2016	3,000	8,613	11,613
Repayment of loans	(3,000)	–	(3,000)
Converted to ordinary shares on listing of the Company	–	(8,613)	(8,613)
Balance at 30 June 2017	–	–	–
Balance at 30 June 2018	–	–	–

Note 30.
Earnings per share

	Consolidated	
	2018 \$'000	2017 \$'000
Profit after income tax attributable to the owners of Freedom Insurance Group Ltd	13,153	14,064

	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	239,723,495	208,923,971
Adjustments for calculation of diluted earnings per share:		
Options over ordinary shares	2,830,000	2,209,726
Weighted average number of ordinary shares used in calculating diluted earnings per share	242,553,495	211,133,697

	Cents	Cents
Basic earnings per share	5.49	6.73
Diluted earnings per share	5.42	6.66

Accounting policy for earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the owners of Freedom Insurance Group Ltd, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

Note 31. Share-based payments

The Freedom Employee Option Plan was established in compliance with the employee share scheme legislation in Australia enactive from 1 July 2015 to encourage the Group to offer options to employees and directors to encourage their long term performance and service on a tax concessional basis.

Set out below are summaries of options granted under the plan:

2018							
Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
19/09/2016	23/09/2020	\$0.10	1,935,000	–	–	–	1,935,000
19/09/2016	31/03/2021	\$0.10	510,000	–	–	–	510,000
19/09/2016	30/06/2021	\$0.10	385,000	–	–	–	385,000
			2,830,000	–	–	–	2,830,000
Weighted average exercise price			\$0.10	\$0.00	\$0.00	\$0.00	\$0.10

2017							
Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
19/09/2016	23/09/2020	\$0.10	–	1,935,000	–	–	1,935,000
19/09/2016	31/03/2021	\$0.10	–	510,000	–	–	510,000
19/09/2016	30/06/2021	\$0.10	–	385,000	–	–	385,000
			–	2,830,000	–	–	2,830,000
Weighted average exercise price			\$0.00	\$0.10	\$0.00	\$0.00	\$0.10

The weighted average remaining contractual life of options outstanding at the end of the financial year was 2.4 years (2017: 3.4).

Accounting policy for share-based payments

Equity-settled compensation benefits are provided to employees and directors.

Equity-settled transactions are awards of shares, or options over shares, that are provided to employees and directors in exchange for the rendering of services.

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using either the Binomial or Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the Group receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

The cost of equity-settled transactions are recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is

the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

Market conditions are taken into consideration in determining fair value. Therefore any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the Group or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the Group or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.

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Note 32.

Critical 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, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

Net present value ('NPV') of trail commission

The Group recognises trail commission revenue at the time of being entitled to the upfront commission on sale of an insurance premium, rather than on the basis of actual payments received. This method of revenue recognition requires management to make certain estimates and assumptions including, but are not limited to, lapse rates, discount rates and its associated risk free rate, and price increases. The Group receives trail commission income for the life of the settled insurance policy. Management have determined that there are three key assumptions: (i) Discount rate – determining the appropriate discount rate requires a degree of judgement; (ii) Premium age re-rate or price increase – the rate is affected by the policy type and the age of the individual lives insured. Historical premium increases are used as a base to which adjustments may be applied to take into account current and expected market conditions; and (iii) Policy lapses – the rate of policy lapses are affected by many variables including the age of particular policies and market conditions. Historical lapse rates are used as a base to which adjustments may be applied to take into account current and expected market conditions. Refer to note 19 for key assumptions used.

Fair value measurement hierarchy

The Group is required to classify all assets and liabilities, measured at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being: Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date; Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and Level 3: Unobservable inputs for the asset or liability. Considerable judgement is required to determine what is significant to fair value and therefore which category the asset or liability is placed in can be subjective.

The fair value of assets and liabilities classified as level 3 is determined by the use of valuation models. These include discounted cash flow analysis or the use of observable inputs that require significant adjustments based on unobservable inputs.

Goodwill

The Group tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill has suffered any impairment, in accordance with the accounting policy stated in the notes. The recoverable amounts of cash-generating units have been determined based on fair value less cost of disposal.

Income tax

The Group is subject to income taxes in the jurisdictions in which it operates. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on the Group's current understanding of the tax law. Where the final tax outcome of these matters is different from the carrying amounts, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

Clawback provision

Upfront fees received from certain insurance providers can be clawed back in the event of early termination. The clawback period ranges from nil to two years, depending on agreements. The Group provides for this liability based upon historic average rates of attrition and recognises revenue net of these clawback amounts.

Note 33. New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Group for the annual reporting period ended 30 June 2018. The Group's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the Group, are set out below.

AASB 9 Financial Instruments

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard replaces all previous versions of AASB 9 and completes the project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. AASB 9 introduces new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost, if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, which arise on specified dates and solely principal and interest. All other financial instrument assets are to be classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income ('OCI'). For financial liabilities, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New impairment requirements will use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment will be measured under a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. The standard introduces additional new disclosures.

The Group has assessed the impact of adopting the standard on its consolidated financial statements. Based on our assessment, we believe there are no material or significant impact to the consolidated financial statements. Changes in accounting policies resulting from the adoption of AASB 9 will generally be applied retrospectively, except the Group will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes.

AASB 15 Revenue from Contracts with Customers

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard provides a single standard for revenue recognition. The core principle of the standard is that an entity will recognise 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. The standard requires: contracts (either written, verbal or implied) to be identified, together with the separate performance obligations within the contract; determine the transaction price; allocation of the transaction price to the separate performance obligations on a basis of relative stand-alone selling price of each distinct good or service, or estimation approach if no distinct observable prices exist; and recognition of revenue when each performance obligation is satisfied. For services, the performance obligation is satisfied when the service has been provided, typically for promises to transfer services to customers. For performance obligations satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied. Contracts with customers are presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment.

The Group has assessed the impact of adopting the standard on its consolidated financial statements for each of its revenue streams. As the Group currently has a revenue recognition policy which recognises revenue when performance obligations are satisfied, there are no material or significant impact to the consolidated financial statements. The Group anticipates it will be applying the "modified retrospective" approach in adopting the standard. The Group will not restate its comparative information and will apply changes, if any, through retained earnings as at 1 July 2018.

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Note 33. New Accounting Standards and Interpretations not yet mandatory or early adopted (continued)

AASB 16 Leases

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. The standard replaces AASB 117 'Leases' and for lessees will eliminate the classifications of operating leases and finance leases. Subject to exceptions, a 'right-of-use' asset will be capitalised in the statement of financial position, measured as the present value of the unavoidable future lease payments to be made over the lease term. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets (such as personal computers and small office furniture) where an accounting policy choice exists whereby either a 'right-of-use' asset is recognised or lease payments are expensed to profit or loss as incurred. A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results will be improved as the operating expense is replaced by interest expense and depreciation in profit or loss under AASB 16. For classification within the statement of cash flows, the lease payments will be separated into both a principal (financing activities) and interest (either operating or financing activities) component. For lessor accounting, the standard does not substantially change how a lessor accounts for leases. The Group will adopt this standard from 1 July 2019 and the main lease being the Sydney premises in which the Group operates, will be brought onto the statement of financial position as an asset with a corresponding liability. The Group is in the process of assessing the impact of AASB 16 and is not yet able to reasonably estimate the impact on its financial statements.

IASB revised Conceptual Framework for Financial Reporting

The revised Conceptual Framework has been issued by the International Accounting Standards Board ('IASB'), but the Australian equivalent has yet to be published. The revised framework is applicable for annual reporting periods beginning on or after 1 January 2020 and the application of the new definition and recognition criteria may result in future amendments to several accounting standards. Furthermore, entities who rely on the conceptual framework in determining their accounting policies for transactions, events or conditions that are not otherwise dealt with under Australian Accounting Standards may need to revisit such policies. The Group will apply the revised conceptual framework from 1 July 2020 and is yet to assess its impact.

Other amending accounting standards

Other amending accounting standards issued are not considered to have a significant impact on the financial statements of the Group as their amendments provide either clarification of existing accounting treatment or editorial amendments.

Note 34. Events after the reporting period

There are no matter or circumstance has arisen since 30 June 2018 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

In the directors' opinion:

- the attached financial statements and notes comply with the *Corporations Act 2001*, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 2 to the financial statements;
- the attached financial statements and notes give a true and fair view of the Group's financial position as at 30 June 2018 and of its performance for the financial year ended on that date;
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
- at the date of this declaration, there are reasonable grounds to believe that the members of the Extended Closed Group will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in note 27 to the financial statements.

The directors have been given the declarations required by section 295A of the *Corporations Act 2001*.

Signed in accordance with a resolution of directors made pursuant to section 295(5)(a) of the *Corporations Act 2001*.

On behalf of the directors



David Hancock
Chairman



Keith Cohen
Managing Director

28 August 2018
Sydney

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To the shareholders of Freedom Insurance Group Limited

Report on the audit of the Financial Report

Opinion

We have audited the **Financial Report** of Freedom Insurance Group Limited (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the **Group's** financial position as at 30 June 2018 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The **Financial Report** comprises:

- Consolidated statement of financial position as at 30 June 2018
- Consolidated statement of profit or loss, Consolidated statement of comprehensive income, Consolidated statement of changes in equity, and Consolidated statement of cash flows for the year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

The **Group** consists of the Company and the entities it controlled at the year-end or from time to time during the financial year.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.



Key Audit Matters

The **Key Audit Matters** we identified are:

- Valuation of net present value of trail commission
- Valuation of provision for commission clawback

Key Audit Matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Report of the current period.

These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of net present value of trail commission (\$74 million)

Refer to Note 19 to the Financial Report

The key audit matter

Trail commissions represents commissions earned, calculated as a percentage of the value of the underlying policies. The Group is entitled to receive trail commissions without having to perform further services. The Group's policy is on initial recognition, trail commissions and receivables are recognised at fair value, being the net present value of expected future cash flows of trail commission, using discounted cash flow valuation techniques.

The net present value of trail commission represents 72% of total assets of the Group.

The valuation of the net present value of trail commission is a significant focus for our audit, and a Key Audit Matter. This is due to the judgement applied by the Group in estimating the net present value of trail commission which the eventual outcome remains uncertain.

We used our judgement in assessing the reasonableness of the assumptions used by the Group in the estimation as it involves a range of assumptions such as discount rate, annual premium increase rates, policy lapse rates and mortality rates.

In addition, for the 30 June 2018 valuation, the Group implemented a new model for valuing the net present value of trail commission and engaged an external expert to conduct the valuation.

How the matter was addressed in our audit

Our procedures included:

- Evaluating the Group's processes and key controls regarding the estimation of the net present value of trail commission.
- Testing the underlying data used by the Group in the new model applied to the estimation of the net present value of trail commission. We reconciled historical data to prior year's audited model and reconciled the current year data input to the new business information.
- Using our specialists, we have checked the reconciliation prepared between the old and new model, the reasonableness of the variances and assessed the overall variances between the two models for consistency with our expectation.
- Involving our specialists, we evaluated the externally prepared valuation by:
 - Assessing the reasonableness of the valuation approach and methodology against market and industry practices and accounting standards;
 - We independently developed a discount rate range using publicly available market data for comparable entities and compared the range against the discount rate used by the Group ;
 - Challenging annual premium increase rates and policy lapse rates against actual experience information;
 - Comparing the mortality rates against the published industry mortality rates;
 - Performing a sensitivity analysis of the new model by varying key assumptions, such as the discount rate, annual premium increase rates, and policy lapse rates, within a reasonable range, to assess

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- the risk of bias or inconsistent application and to focus our further procedures; and
- Assessing the objectivity, scope, competence, experience and skills of the Group's external expert.
- Assessing the Group's disclosures in the financial report in relation to the net present value of trail commission against the requirements of the accounting standards.

Valuation of provision for commission clawback (\$16 million)

Refer to Note 14 to the Financial Report

The key audit matter

The provision for commission clawback arises when policies are cancelled within the contractual lapse period.

The provision for commission clawback represents 47% of the total liabilities of the Group.

The valuation of provision for commission clawback is a significant focus for our audit, and a Key Audit Matter. This is due to the judgement applied by the Group in estimating the provision for commission clawback which the eventual outcome remains uncertain.

We used our judgement in assessing the reasonableness of the assumptions used by the Group in the estimation as it involves assumptions such as policy lapse rates and a discount rate.

In addition, for the 30 June 2018 valuation, the Group implemented a new model for valuing the provision for commission clawback and engaged an external expert to conduct the valuation.

How the matter was addressed in our audit

Our procedures included:

- Evaluating the Group's processes and key controls regarding the estimation of provision for commission clawback.
- Testing the underlying data used by the Group in the new model applied to the estimation of the provision for commission clawback. We reconciled historical data to prior year's audited model and reconciled the current year data input to new business information.
- Using our specialists, we have checked the reconciliation prepared between the old and new model, and assessed the reasonableness of the overall variance between the two models for consistency with our expectation.
- Involving our valuation specialists, we evaluated the externally prepared valuation by:
 - Assessing the reasonableness of the valuation approach and methodology against market and industry practices and accounting standards;
 - We independently developed a discount rate range using publicly available market data for comparable entities and compared the range against the discount rate used by the Group;
 - Comparing the policy lapse rates to actual experience information;
 - Performing a sensitivity analysis of the new model by varying key assumptions, such as the discount rate and policy lapse rates, within a reasonable range, to assess the risk of bias or inconsistent application and to focus our further procedures; and



- Assessing the objectivity, scope, competence, experience and skills of the Group's external expert.
- Assessing the Group's disclosures in the financial report in relation to provision for commission clawback against the requirements of the accounting standards.

Other Information

Other Information is financial and non-financial information in Freedom Insurance Group Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the Group and Company's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group and Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

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Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our Auditor's Report.

Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of Freedom Insurance Group Limited for the year ended 30 June 2018, complies with *Section 300A of the Corporations Act 2001*.

Directors' responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with *Section 300A of the Corporations Act 2001*.

Our responsibilities

We have audited the Remuneration Report included in pages 11 to 17 of the Directors' report for the year ended 30 June 2018.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with *Australian Auditing Standards*.

KPMG
KPMG

Andrew Reeves
Partner

Sydney
28 August 2018

The shareholder information set out below was applicable as at 30 June 2018.

Distribution of equitable securities

Analysis of number of equitable security holders by size of holding:

	Number of holders of ordinary shares	Number of holders of options over ordinary shares
1 to 1,000	191	–
1,001 to 5,000	805	–
5,001 to 10,000	355	–
10,001 to 100,000	703	–
100,001 and over	147	8
	2,201	8
Holding less than a marketable parcel	330	

Equity security holders

Twenty largest quoted security holders

The names of the twenty largest security holders of quoted equity securities are listed below:

	Ordinary shares	
	Number held	% of total shares held
MR KEITH CHARLES COHEN & MRS JEANETTE PATRICIA COHEN	32,283,885	13.47%
J P MORGAN NOMINEES AUSTRALIA LIMITED	25,838,705	10.78%
BNP PARIBAS NOMINEES PTY LTD	13,564,048	5.66%
MR AARON HARVEY LIGHT	10,311,300	4.30%
CARPE DIEM ASSET MANAGEMENT PTY LTD	6,904,925	2.88%
MR MALCOLM JOHN MCCOOL & MRS RONDA FRANCES MCCOOL	6,107,350	2.55%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	6,089,630	2.54%
MISS YOLANDE MARY NAPIER DE TORRES	5,440,255	2.27%
DARING INVESTMENTS PTY LTD	4,746,880	1.98%
MS JENNIFER DALE ANDREWS	4,639,050	1.94%
MR BRIAN KENNETH PILLEMER	4,410,090	1.84%
BNP PARIBAS NOMS (NZ) LTD	4,335,111	1.81%
CITICORP NOMINEES PTY LIMITED	4,229,464	1.76%
NG CAPITAL MANAGEMENT PTY LTD	4,189,604	1.75%
TAMPAUL PTY LIMITED	4,080,000	1.70%
BOND STREET CUSTODIANS LIMITED	3,979,883	1.66%
SIXTH AVENUE INVESTMENTS PTY LTD	3,905,942	1.63%
JETM INVESTMENTS PTY LTD	3,905,942	1.63%
LUAGA PTY LTD	3,865,459	1.61%
KOLENDA HOLDINGS PTY LTD	3,660,917	1.53%
	156,488,440	65.3%

Unquoted equity securities

	Number of issue	Number of holders
Options over ordinary shares issued	2,830,000	8

Substantial holders

Substantial holders in the Company are set out below:

	Ordinary shares	
	Number held	% of total shares issued
MR KEITH CHARLES COHEN & MRS JEANETTE PATRICIA COHEN	32,283,885	13.47%
FREEDOM INSURANCE GROUP*	32,283,885	13.47%

* Freedom has a relevant interest in 32,283,885 shares controlled by Keith Cohen which he agreed not to sell until after 12 September 2018.

Voting Rights

The voting rights attached to ordinary shares are set out below:

Ordinary shares

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon each poll each share will have one vote.

There are no other classes of equity securities.

Class	Expiry date	Number of shares
Ordinary shares	12 September 2018	32,283,885

The Company's Directors and management are committed to conducting Freedom Insurance's business in an ethical manner and in accordance with the highest standards of corporate governance. The Company has adopted and substantially complies with the ASX Corporate Governance Principles and Recommendations (Third Edition) (**Recommendations**) to the extent appropriate to the size and nature of the company's operations.

The company has prepared a statement which sets out the corporate governance practices that were in operation throughout the financial year for the company, identifies any Recommendations that have not been followed, and provides reasons for not following such Recommendations (**Corporate Governance Statement**).

In accordance with ASX Listing Rules 4.10.3 and 4.7.4, the Corporate Governance Statement will be available for review on the Company's website (<https://www.freedominsurance.com.au/investors/corporate-governance.html>), and will be lodged together with an Appendix 4G with ASX at the same time that this Annual Report is lodged with ASX.

The Appendix 4G will particularise each Recommendation that needs to be reported against by the Company, and will provide shareholders with information as to where relevant governance disclosures can be found.

The Company's corporate governance policies and charters are all available on Freedom Insurance's website (<https://www.freedominsurance.com.au/investors/corporate-governance.html>)

Corporate Directory

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Directors

- David Hancock
- Keith Cohen
- Stephen Menzies
- Andrew Jensen
- Katrina Glendinning

Company secretaries

- Malcolm McCool
- Anand Sundaraj

Registered office

Levels 12 and 13
20 Bond Street
Tel: 1300 884 488

Share register

Computershare
Investor Services Pty Limited
Yarra Falls, 452 Johnston Street
Abbotsford, VIC 3067
Tel: 1300 787 272

Auditor

KPMG
International Tower 3
300 Barangaroo Avenue
Sydney, NSW 2000

Stock exchange listing

Freedom Insurance Group Ltd
shares are listed on the
Australian Securities Exchange
(ASX code: FIG)

Website

www.freedominsurance.com.au

Business objectives

Freedom Insurance Group is an insurance intermediary that specialises in the development, distribution and administration of risk life insurance products. It has used cash and cash equivalents held at the time of listing, in a way consistent with its stated business objectives.

