FREEDOM INSURANCE GROUP
2018 ANNUAL GENERAL MEETING
CHAIRMAN'S ADDRESS

2018 Review

In the 2018 financial year, Net Revenue, customer numbers and in force premiums all increased. Net Revenue was $64.1 million, while "in force" premiums increased to $124.6 million, contributing to an increase in the net present value of trail commission on our in-force policies.

Financial year EBITDA was $18.7 million in 2018, 11% lower than the 2017 financial year due to lead performance issues in the first half. As a consequence, Net Profit After Tax of $13.2 million declined 6% on the previous year.

In April 2018, Freedom announced the proposed acquisition of St Andrew's Insurance from the Bank of Queensland for $65 million.

ASIC review and business restructure

While the company's FY18 financial performance and delivery on strategy was pleasing, more recent events have had a significant impact on the company's operations and prospects.

On 30 August 2018, the Australian Securities and Investment Commission, as the primary regulator of the sale of insurance products in Australia, released its review of the life insurance industry which included a number of recommendations that significantly affect Freedom's direct sales model.

Specifically, it appeared likely that Freedom's distribution model would not meet the requirements of ASIC's proposed new regulatory regime, which included all industry participants ceasing sales of life insurance, including funeral insurance, via outbound sales calls.

Following the release of the review, Freedom began a process of consultation with ASIC to understand clearly the ramifications for our business and shortly thereafter, Freedom launched a Strategic Review.

With the assistance of Deloitte, the Strategic Review is examining the Freedom business structure and operating model with the aim of protecting and maximising shareholder value in light of the ASIC recommendations and expectations, taking into account discussions with ASIC and critical business partners as well as the time and risks associated with any transition.

In early October, the Freedom Board decided to implement a restructure of the business involving the following elements:

- immediate suspension of new business sales of all direct insurance products;
- continued servicing and renewals of its in force book of policies; and

- restructuring of operations to align the business and staffing with its reduced activities.

Freedom reduced its staff to approximately 90 employees and decreased other operating costs to align them with reduced activities and sales level.

Following this business restructure, Freedom continues to service its existing customers whose policies will be unaffected by these changes. It continues to receive administration fees and trailing commissions from existing in-force policies.

As at 30 June 2018, the net present value of commissions from its in force polices was valued at $74.0 million, partly offset by a provision for clawback of commissions of $16.4 million.

The Board unanimously believes that, in light of the significant impacts on the business arising from the recent ASIC review and anticipated changes to the regulatory environment, the business restructure is in the best interests of Freedom shareholders, business partners and policy holders.

The restructure also provides greater certainty for existing policyholders. The business will focus on continuing to provide an excellent customer experience by supporting customers in times of need through the provision of high quality insurance and simple and timely claims management.

Freedom is assessing future options for the business. This work includes progressing the St Andrew's acquisition as an attractive opportunity capable of enhancing the Freedom business model and operating capability as well as re-establishing a growth path for the company.

Freedom confirms that it continues to consider the most efficient funding mix, including equity capital, and operating structure for the acquisition.

Freedom further advises that it will consider the sale of its non-core Spectrum Wealth Advisers business.

Royal Commission

It would be remiss of me today not to address elements of the company's appearance before the Royal Commission in September 2018.

Freedom acknowledges the instances of unacceptable behaviour highlighted by the Commission. For this the board, management and staff of Freedom are deeply sorry.

The examples highlighted at the hearings are not in line with community expectations, the code of conduct, governance practices or company values.

Freedom has made a number of changes to its policies and procedures, including more rigorous training of staff, increased internal monitoring of customer calls, a formal process of reviewing and enhancing compliance procedures, and protecting vulnerable customers.

We remain committed to make any further changes required to improve customer outcomes.

Management and Board renewal

As a consequence of the business restructure announced in early October, Managing Director and Chief Executive Officer, Keith Cohen left the company and ceased as a director of Freedom. Chief Financial Officer, Jenny Andrews, has also departed the company.

And on Monday this week, we announced a number of further changes to ensure the composition of the Board continues to reflect the changing governance requirements of the company.

Non-executive director Ms Katrina Glendinning resigned as a director and I advised the Board I will be leaving the board at the conclusion of this Annual General Meeting, to focus on executive management commitments at other companies.

We were also delighted to announce the appointment of Ms Pauline Vamos as a non-executive director of the company. Following conclusion of this meeting, Pauline will assume the role of Chairman of the Board.

Ms Vamos will bring to Freedom highly relevant experience, including over 30 years' in the insurance and financial services industry with highly relevant experience in the areas of life insurance, regulatory matters, compliance and risk frameworks and governance.

Craig Orton, previously Chief Operating Officer, has been acting in the role of Chief Executive Officer but, as announced earlier this week, intends to leave the company at the end of December.

I want to express my appreciation for Craig's work since joining Freedom in February of this year. While maintaining substantial responsibilities for operations, Craig has also worked tirelessly on major projects to improve customer outcomes, regulatory matters, and the business restructuring and Strategic Review that followed the release of the ASIC report on direct life insurance.

Craig's readiness to take on the extremely demanding role of Freedom's representative at the Royal Commission hearings and to step in as CEO when circumstances required it also reflects his commitment to supporting the company. I thank him sincerely for his contribution.

The board is pleased to announce the appointment of Sean Williamson as CEO to take over from Craig. Sean has 25 years' experience in the life insurance industry in a broad range of roles encompassing technical, distribution, strategy and general management and as a consultant to Freedom, has an in-depth understanding of the company.

I would also like to mention Malcolm McCool, our joint Company Secretary, for his hard work and dedication during the events past few months. Indeed, I thank all of our management team for their efforts through this challenging period.

I note with regret that Freedom employees have faced a great deal of uncertainty in recent months. In order to secure the future of the business, difficult but necessary decisions resulted in a significant number of redundancies.

I thank those employees who continue to deliver for customers for the work they do and I thank those who have recently left the business for their contribution.

Conclusion

As I mentioned earlier, the suspension of sales activities was undertaken to preserve shareholder value in the context of major proposed changes to the regulatory framework for the industry. Despite the considerable disappointment and regret of recent events, the Board is of the view that significant value remains within the company, including:

- a large in-force book;
- administration and customer service operations to support these policies;
- enduring relationships with business partners; and
- the St Andrew's opportunity.

I note ASIC's view that life insurance plays a crucial role in helping consumers manage unexpected events and protect themselves and their families against financial difficulties. In this regard, the Board believes there continues to be opportunities for the company to deliver shareholder value through servicing its existing customer base well and ongoing participation in the industry.

I wish Pauline, the Board and management every success as the company enters a new phase.

I thank you for your time and your support as shareholders and now hand over to Craig for a review of operations.

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CEO'S ADDRESS

The important focus of my address will be to update you on our strategy, the changes to our business and operating structure and how that impacts Freedom's future. But first I will provide a review of the Company's financial and operational performance for the 2018 financial year.

Operating review

For the 12 months ending 30 June 2018, Freedom recorded growth in revenue, customer numbers and in force premiums. Statutory Net Profit After Tax (NPAT) for the year was $13.2 million, a decline of 6% on the prior year and representing Basic earnings per share of 5.5 cents.

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 advisers. The movement in the value of the trail asset as well as revenue from sale of investments is also included in Net Revenue.

In financial year 2018, Freedom's new business (Total Sales) declined 5% from the prior year to $61.1 million. Direct Sales declined 8% on the prior year to $53.7 million, while indirect sales (through our Spectrum financial adviser group) grew 17% to $7.3 million.

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 procedures, sales recovered in the second half.

In force premiums grew 14% to $124.6 million. Trail commissions and administration fees increased $4.0 million and the net present value of these fees, also known as the trail asset, grew to $72.8 million. The value of this asset is partly offset by a provision for the clawback of commissions of $16.3 million.

In financial year 2018, EBITDA declined 11% to $18.7 million. Excluding the $3.3 million profit on the sale of our investment in NobleOak and $1.7 million in St Andrew's acquisition costs, EBITDA declined 24% to $17.0 million.

The sale of Freedom's non-core investment in NobleOak Life Ltd, the company's former insurer of its new business, for cash proceeds of approximately $7.0 million and a pretax profit of $3.3 million was completed in the first half of the financial year. 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 Noble Oak.

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

Strategic review and business restructure

As the Chairman discussed, the release of the ASIC review of direct life insurance brought significant change to the regulatory framework for our business.

The Freedom Strategic Review, in consultation with our business partners, determined that to preserve shareholder value following these substantial regulatory changes, the most appropriate course of action was to suspend sales and resize our operations. This will enable us, in the short term, to focus on the maintenance and servicing of our existing policy holders, while we examine options for our business model.

The restructure has resulted in the closure of our outbound sales centre and consequent decline in employee numbers from more than 220 at 30 June 2018 to around 90 today. We also ceased an arrangement with external call centre specialist Peakbound Holdings.

I thank all of our employees and business partners for their cooperation and understanding through this extremely difficult period of change.

To implement these changes the company will incur restructuring costs totalling approximately $5 million, inclusive of redundancy payments for affected staff.

The reduction in annual salary cost from these changes will be approximately $12 million, in line with our previously announced expectations. And we are on track to realising reductions in operating expenses in other areas, such as lead generation, by approximately $15 million on an annualised basis.

The company is not generating up front commission revenue while its sales are suspended. However, it will generate revenue from trail income and management fees earned on the in force book as well as revenue from Spectrum Wealth Advisers.

Having regard these changes and with reference to our performance in the half and anticipated results for the remainder of the half year, Freedom expects that for the six months ended 31 December 2018 it will record an EBITDA loss of between approximately $7 million and $8 million, including restructuring costs.

While the major restructuring initiatives announced on 2 October have been largely completed, all aspects of the business remain under review to ensure resources and capital are deployed efficiently while continuing to deliver high standards of service to our customers.

Progressing the St Andrew's acquisition remains a priority for the management team as it provides an attractive growth path for the company. We continue to work on funding options and the regulatory approval process for the acquisition.

Meeting community and regulator expectations

I echo the Chairman's acknowledgement that there were instances of behaviours within our operations, highlighted at the Royal Commission, that fell below the standards expected by the community and the regulator. And I would also like to take this opportunity to express again, as I did when I appeared before the Commission, a heartfelt apology to those people affected by those behaviours.

The experience of appearing at the Royal Commission was humbling but one that left me with a profound sense of why it is so important that, at a minimum, we meet and where possible exceed community expectations of our business.

Freedom Insurance had begun the process of change within the organisation prior to appearing at the Royal Commission, including working to improve employee training, moving towards 100% quality assurance review of all sales calls and reviewing and enhancing compliance processes and procedures. Indeed, since I joined Freedom in February this year, I have ensured this process remained a high priority.

We are determined to embed a culture of continuous improvement within the business. Our ambition is to earn a reputation for achieving the highest standards of professionalism among our employees, while delivering the best outcomes for customers.

Conclusion

I thank the Chairman for his kind words and the Board for their support. As David said, it's been an extremely busy year for me but with the strategic review nearing completion, I believe it is the right time to handover to a new CEO as a new operating model for the company emerges.

I thank all our staff, including the management team for their hard work and commitment to Freedom through this difficult time and I wish Sean and the team all the very best as they take Freedom forward.