LATITUDE

PROSPECTUS

LATITUDE FINANCIAL GROUP LIMITED ACN 625 845 883

Joint Lead Managers

Goldman Sachs

MACQUARIE

UBS

Important Notice

Offer

This Prospectus is issued by Latitude Financial Group Limited ACN 625 845 883 ('**Company**') and Latitude SaleCo Limited ACN 625 845 874 ('**SaleCo**') for the purposes of Part 6D of the *Corporations Act 2001* (Cth) ('**Corporations Act**'). The offer contained in this Prospectus is an initial public offering to acquire fully paid ordinary shares ('**Shares**') in the capital of the Company ('**Offer**').

Lodgement and Listing

This Prospectus is dated 26 September 2019 ('**Prospectus Date**') and was lodged with the Australian Securities and Investments Commission ('**ASIC**') and the New Zealand Companies Office on that date. The Company will apply to ASX Limited (ABN 98 008 624 691) ('**ASX**') within 7 days of the Prospectus Date for admission of the Company to the Official List and quotation of the Shares on the ASX. None of ASIC, the ASX or their respective officers take any responsibility for the contents of this Prospectus or the merits of the investment to which this Prospectus relates.

Expiry Date

This Prospectus expires on the date that is 13 months after the Prospectus Date. No Shares will be issued or transferred on the basis of this Prospectus after the Expiry Date.

Note to Applicants

The information contained in this Prospectus is not personal financial product advice and does not take into account the investment objectives, financial situation and particular needs (including financial and taxation issues) of any prospective Investor.

It is important that you read this Prospectus carefully and in full before deciding whether to invest in the Company.

In considering the prospects of the Company, you should consider the risk factors that could affect the financial performance of the Company. You should carefully consider these factors in light of your investment objectives, financial situation and particular needs (including financial and taxation issues) and seek professional advice from your accountant, financial adviser, stockbroker, lawyer or other professional adviser before deciding whether to invest in Shares. Some of the risk factors that should be considered by prospective Investors are set out in Section 5. There may be risk factors in addition to these that should be considered in light of your personal circumstances.

You should also consider the best estimate assumptions underlying the Forecast Financial Information (see Section 4) that could affect Latitude's business, financial condition and results of operations.

Except as required by law, no person named in this Prospectus, nor any other person, warrants or guarantees the performance of the Company, the repayment of capital by the Company or the payment of a return on the Shares.

Exposure Period

The Corporations Act prohibits the Company from processing applications to subscribe for Shares under this Prospectus ('**Applications**') in the seven-day period after the date of lodgement of this Prospectus with ASIC ('**Exposure Period**').

The Exposure Period may be extended by ASIC by up to a further seven days. The Exposure Period is to enable this Prospectus to be examined by market participants prior to the raising of funds. The examination may result in the identification of deficiencies in this Prospectus, in which case any Application may need to be dealt with in accordance with section 724 of the Corporations Act.

Applications received during the Exposure Period will not be processed until after the expiry of that period. No interest will be paid on any Application Monies received or refunded. No preference will be conferred on Applications received during the Exposure Period.

Obtaining a Copy of this Prospectus

The Company proposes to make this Prospectus available in electronic form on its IPO website www.latitudeipo.com.au.

The Offer constituted by this Prospectus in electronic form is available only to persons downloading it within Australia and New Zealand. It is not available to persons in other jurisdictions (including the United States) in which it would not be lawful to make such an offer or invitation.

Persons having received a copy of this Prospectus in its electronic form may, before the Closing Date, obtain a paper copy of this Prospectus (free of charge) by telephoning the Latitude IPO Offer Information Line on 1300 384 651 (within Australia) or +61 3 9415 4328 (outside Australia) from 8:30am to 5:00pm Australian Eastern Time ('AET') Monday to Friday during the Offer Period.

Applications

Applications for Shares may only be made during the Offer Period by completing an Application Form attached to or accompanying this Prospectus, or in its paper copy form which may be downloaded in its entirety from www.latitudeipo.com.au. The website and its content do not form part of this Prospectus and are not to be interpreted as part of, nor incorporated into, this Prospectus, which should form the sole basis of your investment decision. By making an Application, you represent and warrant that you were given access to the Prospectus.

The Corporations Act prohibits any person from passing on to another person the Application Form unless it is attached to, or accompanied by, the complete and unaltered version of this Prospectus.

Financial Information Presentation

Section 4 sets out in detail the financial information referred to in this Prospectus. The basis of preparation is set out in Section 4. The Financial Information has been prepared and presented in accordance with the recognition and measurement principles of IFRS, as issued by the IASB, as outlined in Section 4.2.2.

All financial amounts contained in this Prospectus are expressed in Australian dollars and rounded to the nearest $0.1 million unless otherwise stated. Any discrepancies between totals and sums of components in the charts, graphs and tables contained in this Prospectus are due to rounding.

The historical and forecast financial information in this Prospectus should be read in conjunction with, and qualified by reference to the information contained in Sections 4 and 5.

Investors should be aware that certain financial data included in this Prospectus is 'non-IFRS Financial Information' under Regulatory Guide 230: Disclosing non-IFRS financial information, published by ASIC.

The Company believes this non-IFRS Financial Information provides useful information to users in measuring the financial performance and financial condition of Latitude.

The non-IFRS measures do not have standardised meanings prescribed by AAS and therefore, may not be comparable to similarly titled measures presented by other entities, nor should they be construed as an alternative to other financial measures determined in accordance with AAS.

Investors are cautioned, therefore, not to place undue reliance on any non-IFRS Financial Information and ratios included in this Prospectus.

Unless otherwise stated or implied, all pro forma data in this Prospectus gives effect to the pro forma adjustments referred to in Section 4.

Market and Industry Data Based Primarily on Management Estimates

This Prospectus (and in particular Section 2) contains data relating to the industries, segments and end-markets in which Latitude operates ('**Market and Industry Data**'). Such information includes, but is not limited to, statements and data relating to market share, estimated historical and forecast market growth, market trends and Latitude's position. Unless otherwise stated, the information has been prepared by Latitude using both publicly available data and its own internally generated data. Latitude's internally generated data is based on estimates and assumptions that both the Directors and Management believe to be reasonable, as at the Prospectus Date.

The Market and Industry Data has not been independently prepared or verified and neither Latitude nor the Joint Lead Managers can assure you as to its accuracy or the accuracy of the underlying assumptions used to estimate such Industry Data. Latitude's estimates involve risk and uncertainties and are subject to change based on various factors, including those described in the risk factors set out in Section 5.

In addition to the Market and Industry Data, this Prospectus uses third-party market data, estimates and projections. Latitude has not independently verified this information. There is no assurance that any of the third-party projections contained in this information will be achieved.

Statements of Past Performance

This Prospectus includes information regarding the past performance of the Company. Investors should be aware that past performance should not be relied upon as being indicative of future performance.

Forward-Looking Statements

This Prospectus includes forward-looking statements. These statements are based on present economic and operating conditions, and on a number of best estimate assumptions of the Directors regarding future events and actions that, as at the Prospectus Date, are expected to take place (including the key assumptions set out in Section 4). The basis of preparation and presentation of the Forecast Financial Information, to the extent applicable, is consistent with the basis of preparation and presentation of the Pro Forma Historical Financial Information. The Forecast Financial Information presented in this Prospectus is unaudited.

This Prospectus contains forward-looking statements which are identified by words such as 'believes', 'considers', 'could', 'estimates', 'expects', 'intends', 'may', and other similar words that involve risks and uncertainties. The Forecast Financial Information is an example of forward-looking statements.

Any forward-looking statements are subject to various risk factors that could cause the Company's actual results to differ materially from the results expressed or anticipated in these statements. Such statements are not guarantees of future performance and involve known and unknown risks, uncertainties, assumptions and other important factors (including the risks set out in Section 5), many of which are beyond the control of the Company, the Directors and Management. Forward-looking statements should therefore be read in conjunction with, and are qualified by reference to, risk factors as set out in Section 5, General Assumptions as set out in Section 4.7.1, Specific Assumptions as set out in Section 4.7.2, the sensitivity analysis as set out in Section 4.9, and other information in this Prospectus.

The Company cannot and does not give any assurance that the results, performance or achievements expressed or implied by the forward-looking statements contained in this Prospectus will actually occur and Investors are cautioned not to place undue reliance on these forward-looking statements. The Company has no intention of updating or revising forward-looking statements, or publishing prospective financial information in the future, regardless of whether new information, future events or any other factors affect the information, contained in this Prospectus, except where required by law.

No Cooling-Off Rights

Cooling-off rights do not apply to an investment in Shares issued or transferred under this Prospectus. This means that, except as required by law, you cannot withdraw your Application.

Data, Photographs and Diagrams

Photographs and diagrams used in this Prospectus that do not have descriptions are for illustration only and should not be interpreted to mean that any person shown in them endorses this Prospectus or its contents or that the assets shown in them are owned by the Company. Diagrams used in this Prospectus are illustrative only and may not be drawn to scale. Unless otherwise stated, all data contained in charts, graphs and tables is based on information available at the Prospectus Date.

Defined Terms and Time

Some of the terms and abbreviations used in this Prospectus have defined meanings. These are capitalised and defined in the Glossary in Section 12 of this Prospectus. Unless otherwise stated or implied, references to times in this Prospectus are to AET.

Disclaimers

Except as required by law, and only to the extent so required, none of the Company, SaleCo, the Directors, the Existing Investors, the Joint Lead Managers or any other person in connection with the Offer warrants or guarantees the future performance of the Company, or any return on any investment made pursuant to this Prospectus.

No person is authorised to give any information or make any representation in connection with the Offer which is not contained in this Prospectus. Any information or representation not so contained may not be relied on as having been authorised by the Company, the Directors, the Existing Investors, the Joint Lead Managers or any other person in connection with the Offer. You should rely only on information in this Prospectus.

Goldman Sachs Australia Pty Ltd ('**Goldman Sachs**'), Macquarie Capital (Australia) Limited ('**Macquarie Capital**') and UBS AG, Australia Branch ('**UBS**') have acted as joint lead managers and bookrunners (together the Joint Lead Managers). As set out in Section 7, it is expected that the Shares will be quoted on the ASX initially on a conditional and deferred settlement basis. The Company, SaleCo, the Directors, the Joint Lead Managers, the Existing Investors and the Company's service provider Computershare Investor Services Pty Ltd ('**Share Registry**') disclaim all liability, whether in negligence or otherwise, to persons who trade Shares before receiving their holding statements. The Joint Lead Managers have not authorised, permitted or caused the issue or lodgement, submission, dispatch or provision of this Prospectus and there is no statement in this Prospectus which is based on any statement made by them or by any of their affiliates, officers or employees. To the maximum extent permitted by law, the Joint Lead Managers and each of their respective affiliates, officers, employees and advisers expressly disclaim all liabilities in respect of, and make no representations regarding, and take no responsibility for, any part of this Prospectus other than references to their name and make no representation or warranty as to the currency, accuracy, reliability or completeness of this Prospectus.

The Joint Lead Managers, the Co-Managers, the Brokers and their respective related bodies corporate and affiliates, and any of their respective officers, directors, employees, partners, advisers or agents (the '**Lead Manager Parties**') are involved in, or in the provision of, a wide range of financial services and businesses including (without limitation) securities trading and brokerage activities and providing retail, private banking, commercial and investment banking, investment management, corporate finance, securities issuing, credit and derivative, trading and research products and services, including (without limitation) to, or in connection with, persons directly or indirectly involved with the Offer (such as the Existing Investors and members of the Board) or interests associated with such persons, out of which conflicting interests or duties may arise. In the ordinary course of these activities, each of the Lead Manager Parties may at any time hold long or short positions, and may trade or otherwise effect transactions, for its own account or the accounts of customers, including (without limitation) in debt or equity securities, loans, financing arrangements, or other financial accommodation, financial products or services, in connection with, or which rely on the performance of obligations by, interests associated with the Existing Investors, members of the Board or other persons that may be involved in the Offer.

To the extent the Joint Lead Managers or Co-Managers, their respective related bodies corporate or affiliates, or any of their respective officers, directors, employees, partners, advisers or agents provide any information contained in this document to any person (whether by distributing this document, or in verbal communications or otherwise), they do so as a mere conduit of the Company and in reliance on this document.

Important Notice

Selling Restrictions

This Prospectus does not constitute an offer or invitation in any place in which, or to any person to whom, it would not be lawful to make such an offer or invitation.

No action has been taken to register or qualify the Shares or the Offer, or to otherwise permit a public offering of Shares, in any jurisdiction outside Australia or New Zealand. The distribution of this Prospectus outside Australia or New Zealand may be restricted by law and persons who come into possession of this Prospectus outside Australia or New Zealand should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities laws.

The Offer is not being extended to any investor outside Australia and New Zealand, other than to certain Institutional Investors as part of the Institutional Offer.

In particular, this Prospectus may not be distributed to, or relied upon by, any person in the United States, unless accompanied by the Institutional Offering Memorandum as part of the Institutional Offer.

The Shares have not been, and will not be, registered under the US Securities Act, or the securities laws of any state or other jurisdiction of the United States. Accordingly, the Shares may only be offered and sold: (i) in the United States to persons that are reasonably believed to be Qualified Institutional Buyers ('**QIBs**') in transactions exempt from the registration requirements of the US Securities Act pursuant to Rule 144A thereunder or to Eligible US Fund Managers in compliance with Regulation S thereunder, and in accordance with applicable United States state securities laws; and (ii) outside the United States in offshore transactions in compliance with Regulation S under the US Securities Act..

None of the Company, SaleCo, the Directors, the Existing Investors or the Joint Lead Managers or any of their respective affiliates, officers, employees and advisers accepts any liability or responsibility for determining whether a person is able to participate in the Offer.

See Sections 7.13 and 9.16 for more detail on selling restrictions that apply to the Offer and sale of Shares in jurisdictions outside Australia and New Zealand.

Privacy

By filling out the Application Form to apply for Shares, you are providing personal information to the Company through the Share Registry, which is contracted by the Company to manage Applications. The Company and the Share Registry may collect, hold, use and disclose that personal information to process and assess your Application, service your needs as a Shareholder, provide facilities and services that you need or request, and carry out appropriate administration.

If you do not provide the information requested in the Application Form, the Company and the Share Registry may not be able to process or accept your Application. Your personal information (including your email) may also be used from time to time to inform you about other products and services offered by the Company, which it considers may be of interest to you.

Your personal information may also be provided to the Company's agents and service providers and to SaleCo, KVD Australia HoldCo Pty Ltd (ABN 83 604 747 391), Latitude Financial Services Limited (New Zealand company number 562 4865) and their respective subsidiaries on the basis that they deal with such information in accordance with the Company's privacy policy (if you are based in Australia) and as authorised under the *Privacy Act 1988* (Cth) and the *Privacy Act 1993* (NZ).

The agents and service providers of the Company may be located outside Australia and New Zealand where your personal information may not receive the same level of protection as that afforded under Australian or New Zealand law (as applicable). The types of agents and service providers that may be provided with your personal information and the circumstances in which your personal information may be shared are:

- the Share Registry for ongoing administration of the register of Shareholders;
- the Joint Lead Managers in order to assess your Application;
- printers and other companies for the purpose of preparation and distribution of statements and for handling mail;
- market research companies for the purpose of analysing the Shareholder base and for product development and planning; and
- legal and accounting firms, auditors, contractors, consultants and other advisers for the purpose of administering, and advising on, the Shares and for associated actions.

You may request access to and correction of your personal information held by (or on behalf of) the Company. You may be required to pay a reasonable charge to the Share Registry in order to access your personal information.

If an Applicant becomes a Shareholder, the Corporations Act requires the Company to include information about the Shareholder (including name, address and details of Shares held) in its public register of members. The information contained in the Company's register of members is also used to facilitate dividend payments and corporate communications (including financial results, annual reports and other information that the Company may wish to communicate to its Shareholders) and compliance by the Company, SaleCo, Latitude and their respective subsidiaries with legal and regulatory requirements. An Applicant has the right to access and correct the information that the Company and the Share Registry hold about that person, subject to certain exemptions under law.

You can request access to and correction of your personal information by writing to or by telephoning the Share Registry as follows:

- 1300 384 651 (within Australia); or
- +61 3 9415 4328 (outside Australia),

from 8.30am to 5.30pm (AET time), Monday to Friday (excluding public holidays).

If any of your information is not correct or has changed, please contact the Share Registry or the Company to update your information. In accordance with the requirements of the Corporations Act, information on the Share register will be accessible to certain members of the public.

You can obtain a copy of the Company's privacy policy for Australia by visiting the Company's website (https://www.latitudefinancial.com.au/privacy/). The privacy policy contains further details regarding access, correction and complaint rights and procedures.

Offer Management

The Offer is being arranged and managed by Goldman Sachs, Macquarie Capital and UBS.

Important Notice to New Zealand Investors

This Offer to New Zealand investors is a regulated offer made under Australian and New Zealand law.

In Australia, this is Chapter 8 of the *Corporations Act 2001* (Cth) and regulations made under that Act. In New Zealand, this is subpart 6 of Part 9 of the *Financial Markets Conduct Act 2013* and Part 9 of the Financial Markets Conduct Regulations 2014.

This Offer and the content of the Prospectus are principally governed by Australian rather than New Zealand law. In the main, the *Corporations Act 2001* (Cth) and the regulations made under that Act set out how the Offer must be made.

There are differences in how financial products are regulated under Australian law. For example, the disclosure of fees for managed investment schemes is different under the Australian regime.

The rights, remedies, and compensation arrangements available to New Zealand investors in Australian financial products may differ from the rights, remedies, and compensation arrangements for New Zealand financial products.

Both the Australian and New Zealand financial markets regulators have enforcement responsibilities in relation to this Offer. If you need to make a complaint about this Offer, please contact the Financial Markets Authority, New Zealand (http://www.fma.govt.nz). The Australian and New Zealand regulators will work together to settle your complaint.

The taxation treatment of Australian financial products is not the same as for New Zealand financial products.

If you are uncertain about whether this investment is appropriate for you, you should seek the advice of an appropriately qualified financial adviser.

The Offer may involve a currency exchange risk. The currency for the financial products is not New Zealand dollars. The value of the financial products will go up or down according to changes in the exchange rate between that currency and New Zealand dollars. These changes may be significant.

If you expect the financial products to pay any amounts in a currency that is not New Zealand dollars, you may incur significant fees in having the funds credited to a bank account in New Zealand in New Zealand dollars.

If the financial products are able to be traded on a financial product market and you wish to trade the financial products through that market, you will have to make arrangements for a participant in that market to sell the financial products on your behalf.

If the financial product market does not operate in New Zealand, the way in which the market operates, the regulation of participants in that market, and the information available to you about the financial products and trading may differ from financial product markets that operate in New Zealand.

Report on Directors' Forecasts and Financial Services Guide

The provider of the Investigating Accountant's Report is required to provide Australian retail clients with a financial services guide in relation to the review under the Corporations Act.

The financial services guide is provided in Section 8.

Company Website

Any references to documents included on the Latitude website, https://www.latitudefinancial.com.au or the Offer website, www.latitudeipo.com.au are for convenience only, and none of the documents or other information available on such websites is incorporated herein by reference.

Questions

If you have any questions about how to apply for Shares, please call the Latitude IPO Offer Information Line on 1300 384 651 (within Australia) or +61 3 9415 4328 (outside Australia) from 8:30am to 5:00pm AET Monday to Friday during the Offer Period or contact your Broker.

Instructions on how to apply for Shares are set out in Section 7 of this Prospectus and on the back of the Application Form.

If you have any questions about whether to invest in the Company, you should seek professional advice from your accountant, financial adviser, stockbroker, solicitor or other professional adviser before deciding whether to invest in the Company.

References to the Company and the Restructure

As at the Prospectus Date, KVDS, a Singapore company owned jointly by KKR, Värde Partners and Deutsche Bank (the '**Existing Investors**'), is the ultimate holding company of Latitude.

In connection with the Offer, Latitude will be restructured so that the Company is the ultimate holding company of Latitude on Completion of the Offer (the '**Restructure**').

The Company and the Existing Investors have entered into a series of arrangements to implement the Restructure, under which the Company has agreed to buy all of the issued share capital of KVD HoldCo (the current holding company of Latitude's Australian business) and LFSL (the current holding company of Latitude's New Zealand business) from KVDS and Deutsche Bank in exchange for Shares (as an interim Restructure step, Deutsche Bank will exit KVDS and briefly hold shares in KVD HoldCo and LFSL directly, prior to selling these shares to the Company) in exchange for Shares. The Company will also acquire the beneficial interests in the Australian and New Zealand securitisation trusts from the Existing Investors (or related entities of those parties). Completion of the Restructure is subject to Listing.

As part of the Restructure, the Shareholder Loans with Existing Investors will also be fully repaid using proceeds of the Offer.

The Restructure is scheduled to take place between 15 October 2019 and 23 October 2019. The key Restructure steps will take place prior to the commencement of unconditional and deferred settlement trading of the Shares on the ASX. If these steps do not complete, the Offer will not complete. Shares issued pursuant to the Restructure will be issued under this Prospectus.

Further detail on the Restructure is provided in Section 9.4.

****This document is important and should be read in its entirety.****

Contents

Key offer statistics and important dates

Key Dates	
Prospectus lodgement date	26 September 2019
Broker Firm Offer opens	4 October 2019
Broker Firm Offer closes	14 October 2019
Bookbuild to determine Final Price	15 and 16 October 2019
Expected commencement of trading on a conditional and deferred settlement basis on the ASX	18 October 2019
Settlement of the Offer	5:00pm, 22 October 2019
Completion of the Restructure	23 October 2019
Expected transfer of Shares (Allotment Date)	23 October 2019
Commencement of unconditional trading on a deferred settlement basis on ASX	23 October 2019
Expected despatch of holding statements	24 October 2019
Expected commencement of trading on a normal settlement basis on the ASX	25 October 2019

Dates may change

The dates above are indicative only and may be subject to change without notice.

The Company and SaleCo, in consultation with the Joint Lead Managers, reserve the right to vary any or all of these times and dates subject to the Corporations Act, the ASX Listing Rules and other applicable laws, including to close the Offer early, extend the Offer, defer the Closing Date, accept late Applications either generally or in particular cases, allot Shares at different times to Investors, or withdraw the Offer, without prior notification. The quotation and commencement of trading of the Shares are subject to confirmation from the ASX. Applications received under the Offer are irrevocable and may not be varied or withdrawn except as required by law.

Investors are encouraged to submit their Application Forms as early as possible after the Offer opens. Times stated throughout this Prospectus refer to the time in AET.

Key Offer Statistics	Low	High
Indicative Price Range	$2.00	$2.25
Final Price/Pro forma LTM Jun-20 Cash NPAT per Share	12.4x	13.9x
Enterprise value[1]/Pro forma LTM Jun-20 Adjusted EBITDA	7.8x	8.8x
Total number of Shares on issue at Completion of the Offer (million Shares)	1,778.2	1,778.2
Market capitalisation using the Indicative Price Range ($ millions)	$3,556.5	$4,001.0
Total proceeds under the Offer ($ millions)	$1,244.8	$1,400.4
– Primary Shares ($ millions)	$1,058.2	$1,065.0
– Secondary Shares ($ millions)	$186.6	$335.4
Total number of Shares available under the Offer (millions)	622.4	622.4
– Primary Shares (millions)	529.1	473.3
– Secondary Shares (millions)	93.3	149.1
Total number of Shares available under the Offer / total number of Shares on issue at Completion of the Offer	35.0%	35.0%
Implied annualised 1H20 forecast dividend yield using the Indicative Price Range[2]	5.2%	4.6%

Notes:

1. Enterprise value calculated as market capitalisation less pro forma unrestricted cash and cash equivalents as at 30 June 2019.
2. The implied dividend yield is based on the expected dividend for the 6 month period to 30 June 2020 (the first expected dividend) assuming the mid-point of the target dividend payout ratio, on an annualised basis.

How to invest

Applications for Shares can only be made by completing and lodging an Application Form.

Instructions on how to apply for Shares are set out in Section 7 and on the back of the Application Form.

Questions

Please call the Latitude IPO Offer Information Line on 1300 384 651 (toll free within Australia) or +61 3 9415 4328 (outside Australia) from 8:30am until 5:00pm (AET) Monday to Friday. If you are unclear in relation to any matter or are uncertain as to whether Latitude is a suitable investment for you, you should seek professional guidance from your solicitor, stockbroker, accountant or other independent and qualified professional adviser before deciding whether to invest.

Letter from the Chairman

Dear Investor,

On behalf of the Board of Directors, I am pleased to offer you the opportunity to become a shareholder in Latitude Financial Group Limited ('**Latitude**').

Latitude is a leading digital payments, instalments and lending platform, with 2.6 million customer accounts and more than 1,950 merchant partners across Australia and New Zealand.

Latitude was formerly owned by GE, under which it developed sophisticated risk management capabilities, an extensive network of merchants and a significant internal bureau of customer data.

These capabilities, combined with significant funding capacity, have enabled Latitude to deliver strong growth and stable returns, with a forecast Adjusted Return on Equity[1] of ~20% for the six months ending 30 June 2020 on an annualised basis.

Our established network of over 1,950 partners (across more than 9,000 outlets) includes leading merchants such as Harvey Norman, Apple and JB Hi-Fi and provides Latitude with significant scale and distribution for its payments and instalments products.

We are investing significantly in technology, which remains a source of competitive advantage and will enable Latitude to further innovate its payments, instalments and lending products.

Latitude's growth is also supported by its diverse funding profile, which provides significant funding capacity. As at 30 June 2019, Latitude had undrawn facilities of over A$1.4 billion.

Latitude's listing on the ASX will improve Latitude's financial flexibility to execute on its growth strategy and provide an opportunity for others to invest in Latitude.

Following Completion, the Existing Investors (KKR, Värde Partners and Deutsche Bank) are expected to continue to hold approximately 54% of the issued Shares.

This Prospectus contains detailed information about the Offer and the financial and operating performance, and outlook for Latitude. As with all companies, Latitude is subject to a range of company-specific and general risks. These include the evolving regulatory landscape for financial services companies in Australia and New Zealand, risks associated with information technology and cybersecurity, adverse changes in, or failed responses to, consumer preferences or macroeconomic conditions, and access to and cost of its funding. The material risks associated with investing in Latitude are detailed in Section 5. I encourage you to read this Prospectus carefully in its entirety before making your investment decision.

On behalf of my fellow Directors, I look forward to welcoming you as a shareholder.

Yours sincerely,

Michael Tilley
Chairman of the Board

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[1] Adjusted Return on Equity ('**ROE**') for the 1H20 period is calculated as 1H20 Cash NPAT divided by the average of the forecast total equity as at 31 December 2019 and of the forecast total equity as at 30 June 2020, and is presented on an annualised basis. See Section 4.14 (note 45) for further details on the calculation of Adjusted ROE.

01.

Investment Overview

01. Investment Overview

1.1 Overview of Latitude

Topic	Summary	For More Information
Who is Latitude?	Latitude is a digital payments, instalments and lending platform. Latitude provides innovative products and services that support the needs of customers and merchants and other commercial partners, leveraging its technology and database of customer information. Latitude offers its customers in Australia and New Zealand payment and instalments products ('**L-Pay**') and lending products ('**L-Money**'). Its Business-to-Business-to-Consumer ('**B2B2C**') and Direct-to-Consumer ('**D2C**') distribution model enables customers to transact through Latitude's established network of commercial partners, as well as with Latitude directly, online and by phone. Headquartered in Melbourne, Australia, Latitude employs approximately 1,600 FTE staff.	Section 2.1
What is Latitude's History?	Latitude traces its recent corporate history back to a range of acquisitions made by GE in Australia and New Zealand, including the Coles Myer store card, Nissan Finance, Avco Financial (including Hallmark Insurance) and Australian Guarantee Corporation. In 2015, a consortium of investors consisting of KKR, Värde Partners, and Deutsche Bank ('**Existing Investors**') acquired the business from GE. Since the acquisition, Latitude has established itself as a standalone business, combining the risk management processes and long-standing customer relationships established under GE ownership with substantial investment to create a new customer brand, upgrade technology infrastructure, establish a funding platform and enable ongoing innovation.	Section 2.1.1
What is Latitude's Strategy?	In 2019, with the commencement of a new Chief Executive Officer (Ahmed Fahour), Latitude developed a revised business strategy ('**Latitude 2.0**'). This strategy seeks to capture the growth opportunities in payments, instalments and lending and drive innovation in digital products that are easy, transparent and inclusive. The Latitude 2.0 strategy has four pillars: • **Build Momentum** by building on Latitude's established and profitable business model, with an ongoing focus on customer and partner acquisition, as well as servicing future customer needs. Ongoing focus on compliance with regulatory obligations and management of risks is a key part of this pillar; • **Lead in Payments and Instalments (L-Pay)** by enhancing Latitude's digital experience for customers and merchant and commercial partners, growing its payments products (LatitudePay and Genoapay) as low-cost customer acquisition tools, and expanding its merchant and commercial partner base in the services and eCommerce sectors; • **Grow Lending Business (L-Money)** by moving to a unified Latitude brand in Australia, alongside its Gem brand in New Zealand, to enhance data-driven marketing, integration of the customer experience on mobile, and developing new digital products and commercial partnerships; and • **Develop the Digital Organisation (L-Accelerator)** by continuously investing in talent, technology and ways of working. The L-Accelerator strategy supports a customer centric and innovative technology organisation, with an ongoing brand and culture focus on customer interest and ambition to help people live better with good money habits.	Section 2.1.3

Topic	Summary	For More Information
What Products does Latitude Offer its Customers?	Latitude offers customers in Australia and New Zealand the following products: • **L-Pay, Latitude's payments and instalments products**, where the customer's need is to purchase goods or services and where Latitude provides a range of payments and instalments solutions for the merchant and customer to transact. These products include: – **LatitudePay** and **Genoapay**, which allow customers to purchase goods and services on a no-interest basis with regular repayments over equal, weekly instalments; and – **Gem Visa, GO Mastercard and CreditLine**[2], which allow customers to purchase goods on credit and interest free terms from three to 60 months. Gem Visa and GO Mastercard cards are enabled with Scheme functionality for everyday purchases; and • **L-Money, Latitude's lending products**, where the customer is considering their broader payment and financing needs. Latitude serves customers online, over the phone, as well as via brokers and white-label commercial partners. These products currently include: – **Credit cards (*28° Global, Infinity Rewards, Low Rate*)**[3], which allow customers to purchase goods and/or services on revolving credit and are primarily offered directly to customers online; – **Personal loans**, which customers can use for a range of purposes and are offered directly to customers, through brokers and under a relationship agreement (through which Latitude manufactured products are distributed under a third-party brand in New Zealand); and – **Motor loans**, which customers can use to purchase cars, motorcycles, boats and recreational vehicles. Motor loans are offered by Latitude only in Australia directly to customers and through Latitude's broker network. In addition, Hallmark Insurance provides insurance predominately in connection with Latitude's payments, instalments and lending products, including price protection, merchandise protection, stolen card cover, and adverse life events (death, disability, unemployment).	Section 2.3

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[2] These are the instalments products currently being originated by Latitude; however, Latitude has other instalments products which have historically been issued and which existing customers may still use at all participating merchants (e.g. Buyer's Edge).

[3] These are credit cards products currently being originated by Latitude; however, Latitude has other credit card products which have historically been issued and which existing customers may still use at all participating merchants (e.g. Eco and Latitude MasterCard).

01. Investment Overview

Topic	Summary	For More Information
How does Latitude Generate its Revenue and what are its Key Expenses?	Latitude's key revenue sources are: • **Net interest income:** interest charged to customers on instalments products, credit card, personal loan and motor loan balances; merchant service and transaction fees paid by merchant and commercial partners to Latitude; and establishment, annual, account keeping and other fees, including late fees, charged to customers; less, interest and other associated costs of establishing and maintaining its various funding sources and, third-party commissions; • **Other operating income:** includes interchange income, statement fees and other fees and charges; and • **Net insurance income:** the premium income earned from the Hallmark Insurance credit insurance business after the deduction of associated costs that are not general operating expenses of Hallmark Insurance, such as claims expense, refunds (relating to the refund of premiums to customers due to loan refinancing or cancellation) and customer acquisition costs. Latitude's key expenses are: • **Loan impairment expenses:** including both receivables written off and movement in provisions for impairment losses, net of recoveries of amounts previously written off; • **Employee expenses:** including labour costs and other benefits; and • **Other general operating expenses:** including occupancy, technology, marketing and depreciation and amortisation. Further detail on the components of Latitude's key sources of revenue and expenses are set out in Section 4.6.1 and in the glossary contained in Section 4.14.	Section 4

Topic	Summary	For More Information
How does Latitude Acquire Customers?	Latitude has a multi-channel distribution network comprising direct acquisitions, and merchant and other commercial partnerships aligned to the product type and intended end customer: • **Merchant partnerships**[4]**:** Latitude offers its L-Pay products through an established network of over 1,950 merchant partners, consisting of more than 650 partners offering Latitude's instalments products in-store and online and a further 1,300 partners offering Latitude's payments products in-store and online through Genoapay. These merchant partners operate more than 9,000 online and physical outlets across Australia and New Zealand; • **Direct acquisition:** customers are acquired directly online and by phone through ongoing investment in brand and marketing. In August 2019, Latitude commenced unification of its products in Australia under a Latitude brand identity to enable greater marketing scale and build higher awareness. In New Zealand, Latitude uses Gem as its customer facing brand; and • **Third party partnerships:** Latitude offers L-Money products through intermediaries including brokers and other commercial partnerships. Latitude also undertakes marketing and engagement with its existing customers in relation to new needs which may be met by Latitude products. These existing customers can benefit from their Latitude relationship as the approval process for new products is simplified via use of existing data. Engagement initiatives have regard to a customer's product stage and financial situation. Across all distribution channels, Latitude is committed to acting responsibly in all of its engagements with its customers, including engaging in responsible lending practices for its products that are subject to regulation by the National Credit Code ('**NCC**') in Australia and the *Credit Contracts and Consumer Finance Act 2003* (NZ) ('**CCCFA**') in New Zealand.	Section 2.2

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[4] As at 30 June 2019.

01. Investment Overview

Topic	Summary	For More Information
What is Latitude's Value Proposition?	Latitude's L-Pay products support long-standing, mutually beneficial relationships with merchant and commercial partners and customers. Latitude believes these relationships help merchant partners grow customers and sales. Features of Latitude's merchant proposition include: • Integrated, multi-channel offering; • Access to a large established customer base; • Sales and program support; and • Data-driven marketing. L-Pay provides Latitude's customers with a variety of payments and instalments solutions at the time of purchasing in-store or online. Features of Latitude's L-Pay customer proposition include: • Convenient applications and automated decisioning; • Online self-servicing; and • Digital wallet payments. Latitude's L-Money products are personal loans, motor loans and credit cards: • Personal loans meet the lending needs of customers for a variety of uses that includes debt consolidation, home improvement and life events. The value proposition includes personalised risk-based pricing with online or phone applications. Motor loans offer a similar value proposition for car and recreational vehicle purchasing; and • The credit cards product range has a variety of value propositions that include interest free shopping, fee free international shopping and rewards. Customers can apply for credit cards online and Latitude is planning to introduce instant provisioning so that the period between application and spending is reduced to minutes.	Sections 2.2.1 and 2.2.2
Who are Latitude's Customers?	Latitude has 2.6 million customer accounts (as at 30 June 2019), of which 51% have been open for more than five years. Latitude has a diverse customer base with strong credit characteristics. Latitude does not target or approve credit to individuals under the age of 18 or to subprime[5] borrowers and does not offer payday lending[6] products.	Section 2.2.1

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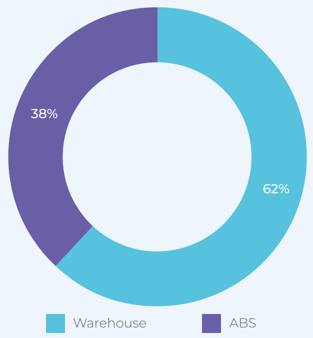
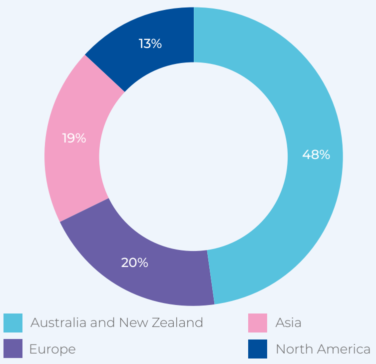
[5] While there is no Australian standard for subprime, Latitude considers subprime to be default rates in excess of 20%, which is outside Latitude's risk appetite. See Section 3.6.3 for further discussion.

[6] Payday lending typically refers to short-term, unsecured and high interest loans, which typically attract higher risk applicants.

Topic	Summary	For More Information
Who are Latitude's Merchant and other Commercial Partners?	Latitude offers L-Pay products through an established network of over 1,950 merchant and other commercial partners across Australia and New Zealand. This consists of more than 650 merchant partners offering Latitude's instalments products in-store and online, and a further 1,300 merchant partners offering Latitude's payments product in-store and online through Genoapay. These merchant partners operate more than 9,000 online and physical outlets across Australia and New Zealand. The longevity and exclusive nature of many of Latitude's merchant partnerships are testament to Latitude's value proposition to merchant and commercial partners: • In the 12 months to 30 June 2019, 85% of Latitude's interest free instalments product volume was transacted with seven merchant partners signed to exclusive agreements with Latitude; and • Of Latitude's top 30 merchant partners (based on interest free instalments product volume in the 12 months to 30 June 2019), 21 have partnered with Latitude for 15 or more years. Latitude also offers L-Money products through intermediaries including brokers and other commercial partnerships.	Section 2.2.2
How does Latitude's Technology Enable its Business?	Latitude's technology enables: • **Customer experience:** new, digital product developments and online self-servicing leading to an enhanced user experience; • **Merchant and commercial partner integration:** integration with merchant and commercial partners', brokers' and other intermediaries' systems and customer processes, as well as the provision of customer insights to merchant and commercial partners; • **Risk management:** timely decision making and customer risk assessment capabilities driven by Latitude's proprietary credit-decisioning systems, Internal Bureau, credit bureau relationships and other digital data sources; and • **Operating efficiency:** online customer management systems supporting Latitude's operating platform whereby customers can be serviced efficiently. The Latitude 2.0 strategy has defined a suite of initiatives that support delivery and execution of its four key strategic pillars, with investment in digital talent, customer research, technology and way of working. This foundation is expected to improve business agility, and through maturing customer-centred design practices, transform payments, instalments and lending experiences that include innovative shopping and financing features. Latitude's technology investment program is introducing a suite of customer acquisition, self-service, digital marketing, instant card provisioning and merchant insight features that are powered by modern cloud and artificial intelligence technology. As at 30 June 2019, Latitude had a digital and technology workforce of approximately 200 FTEs, and is also supported by outsourcing arrangements to maintain and support its technology platforms.	Section 2.1.4.1

Topic	Summary	For More Information
How does Latitude Manage Credit Risk?	Strong credit risk management is a key component in Latitude's strategy. Latitude utilises a number of risk management strategies and processes to support profitable growth in an evolving regulatory environment, including: • Proprietary models and credit scorecards to manage portfolio risk which are informed by an extensive operating history within Latitude's business; • Latitude's Internal Bureau which combines customer data from repayment behaviour and transactional history with external credit bureau information, including information which Latitude is able to access as a Comprehensive Credit Reporting ('**CCR**') participant; • The ability to apply risk-based pricing and lending limits, which are informed by Latitude's proprietary credit scorecards and based on data from Latitude's Internal Bureau; • Controlled testing and associated refinement of risk parameters using Latitude's credit scorecards and decision systems; • Ongoing assessment of customer behaviour to re-assess risk profiles in support of portfolio reporting and credit lifecycle decisions; and • An appropriate governance framework and enterprise risk management policies. Building on its extensive data history and risk management expertise, Latitude continues to invest in its risk management capabilities. Several areas of innovation in Latitude's risk management approach are intended to be pursued to leverage data and technology to enhance risk management. These include: • Further leveraging Latitude's Internal Bureau and customer data; • Building and integrating machine learning; and • Partnering with third parties to enhance risk management. Latitude also has a comprehensive in-house collections function, supplemented by third-party service providers. Latitude's collections approach uses multiple channels to engage customers and includes differentiated collections strategies (based on a behaviour score determined by customer risk and balance owing) and hardship assistance.	Section 3.5

Topic	Summary	For More Information
How does Latitude Fund its Operations?	Since its acquisition from GE in 2015, Latitude has established a treasury function with a funding platform across a broad global base of well recognised and experienced financiers. Latitude's sources of funding include: • Revolving warehouse facilities for Latitude's payment products, instalments products and credit card receivables (in Australian and New Zealand dollars), personal loans (in Australian and New Zealand dollars) and motor loans (Australian dollars); • Australian and New Zealand dollar asset-backed securities ('**ABS**') programmes for credit card receivables and Australian dollar ABS for personal loans receivables; • Cash reserves and operating cash flow; and • Corporate debt facilities. Latitude has established a strategy to effectively manage its funding programme and minimise risk through diversification of investors, access to multiple geographies, maturity profile balancing and exposure management. As at 30 June 2019, Latitude had committed facilities of A$8.5 billion and existing capacity of over A$1.4 billion to support future receivables growth, sourced from over 50 financiers across multiple geographies. **Figure 1: Principal funding sources as at 30 June 2019 (%)**  **Figure 2: Diversified debt investor base geographically as at 30 June 2019**  	Section 3.7

1.2. Key Financial Metrics

Topic	Summary	For More Information
What is Latitude's Historical and Forecast Financial Performance?	A summary of Latitude's Pro Forma Financial Information and Combined Financial Information is presented below. It is a summary only and should be read in conjunction with the more detailed discussion of the historical and forecast financial information set out in Section 4 (including the assumptions set out in Section 4) as well as the key risks set out in Section 5. Prior to the Offer, entities contained in the group (comprising KVDAH and LFSL) ('**Group**') were separate and distinct for accounting purposes and therefore each entity produced its own general purpose consolidated financial statements. The Group was not required to, and did not, prepare a single set of statutory financial statements on a consolidated basis. The Combined Historical Financial Information has been extracted from the general purpose combined financial statements of the Group for FY18 (which includes relevant comparative information for FY17). The Combined Historical Financial Statements have been prepared for the purposes of the Offer and for the disclosure of Historical Financial Information in this Prospectus. Because no parent company prepared consolidated financial statements for the Group prior to the Offer, in accordance with the accounting standards, these are referred to as 'combined' historical financial statements rather than 'consolidated' historical financial statements. Details on the basis of preparation of the Combined Historical Financial Statements is set out in Section 4.2.2. While Pro Forma Financial Information set out below does not represent the Combined results for the Company, Latitude believes it reflects the underlying business that will exist following Completion, and is therefore useful to Investors in evaluating the underlying performance of Latitude.	Section 4

Topic	Summary	For More Information
What is Latitude's Historical and Forecast Financial Performance? continued	**Table 1: Selected Pro Forma Historical and Forecast Financial Information**	Section 4

Table 1: Selected Pro Forma Historical and Forecast Financial Information

		Historical		Forecast		Historical		Forecast
A$ million	**Note**	**FY17**	**FY18**	**FY19**	**LTM Jun-20**	**1H18**	**1H19**	**1H20**
Net interest income		862.5	882.9	954.0	984.4	438.5	468.7	499.1
Total other operating income		121.3	117.0	107.2	111.1	60.0	55.3	59.2
Total operating income		**983.8**	**999.9**	**1,061.2**	**1,095.5**	**498.5**	**523.9**	**558.3**
Loan impairment expense	5	(257.1)	(253.4)	(253.6)	(258.6)	(136.4)	(127.8)	(132.8)
Total operating expenses		(423.7)	(403.5)	(429.9)	(442.2)	(201.1)	(212.5)	(224.9)
Profit/(loss) before income tax and significant items		**302.9**	**343.0**	**377.7**	**394.7**	**161.0**	**183.6**	**200.6**
Significant items	9	(28.8)	(24.4)	(89.4)	(76.7)	(3.5)	(50.0)	(37.3)
Amortisation of acquisition intangibles and structural changes	10	(99.9)	(80.0)	(71.8)	(78.5)	(50.0)	(34.4)	(41.1)
Profit/(loss) before income tax		**174.2**	**238.6**	**216.5**	**239.4**	**107.5**	**99.2**	**122.2**
Income tax (expense)/benefit	11	(50.3)	(63.8)	(52.1)	(61.3)	(32.1)	(26.9)	(36.1)
Pro forma NPAT		**123.9**	**174.8**	**164.4**	**178.2**	**75.4**	**72.3**	**86.1**
Cash NPAT		**214.7**	**248.4**	**278.1**	**287.6**	**112.8**	**131.8**	**141.3**
Operating income growth (PcP)		n.a.	1.6%	6.1%	6.8%	n.a.	5.1%	6.6%
Cash NPAT growth (PcP)		n.a.	15.7%	12.0%	7.6%	n.a.	16.8%	7.2%
Adjusted Cost to income ratio		43.1%	40.4%	40.5%	40.4%	40.3%	40.6%	40.3%
Adjusted Return on Equity					20.7%			20.6%

Notes: Refer to the Glossary of Financial Table Notes in Section 4.14. In respect of the prior comparative period used in calculating the pro forma operating income growth rate and cash NPAT growth rates for LTM Jun-20 set out in Table 1, the prior corresponding period refers to the 12 month period ended 30 June 2019 ('**LTM Jun-19**'). For a description of the basis of preparation of the financial data for LTM Jun-19 used in calculating the pro forma financial growth rates for LTM Jun-20, see the Notes to Table 29 in Section 4.3.5.

Topic | **Summary** | **For More Information**

What is Latitude's Historical and Forecast Financial Performance? continued

Table 2: Selected key performance indicators

A$ million	Note	Historical FY17	Historical FY18	Forecast FY19	Forecast LTM Jun-20	Historical 1H18	Historical 1H19	Forecast 1H20
Volume	28	8,458.2	8,859.4	9,200.9	9,661.1	4,248.5	4,358.1	4,818.3
Gross loan receivables	29	7,030.9	7,575.4	7,861.9	8,023.2	7,252.4	7,702.6	8,023.2
Average Gross Receivables ('AGR')	30	6,801.6	7,253.0	7,676.0	7,821.0	7,170.3	7,642.7	7,934.7
Total accounts ('000)	31	2,608.6	2,591.1	2,731.0	2,928.8	2,588.4	2,587.5	2,928.8
Active accounts ('000)	32	1,839.8	1,854.6	1,925.2	2,074.5	1,849.3	1,835.7	2,074.5

Notes: Refer to the Glossary of Financial Table Notes in Section 4.14.

For more detail on the Pro Forma adjustments to the Combined Financial Statements, please refer to Section 4.3.1. A summary of Combined Financial Information is set out below:

Table 3: Selected Combined Historical and Forecast Financial Information

A$ million	Note	Historical FY17	Historical FY18	Forecast FY19	Forecast LTM Jun-20	Historical 1H18	Historical 1H19	Forecast 1H20
Net interest income		724.5	772.5	864.6	927.6	372.1	419.2	482.2
Total other operating income		121.3	117.0	107.2	111.1	60.0	55.3	59.2
Total operating income		**845.8**	**889.5**	**971.8**	**1,038.7**	**432.1**	**474.5**	**541.4**
Loan impairment expense	22	(256.1)	(253.4)	(253.6)	(258.6)	(136.4)	(127.8)	(132.8)
Total operating expenses		(499.0)	(504.2)	(645.2)	(646.8)	(247.6)	(282.7)	(284.3)
Distribution to trust beneficiaries	26	(57.0)	(74.5)	(77.1)	(26.1)	(25.7)	(51.0)	–
Profit/(loss) before income tax		**33.6**	**57.5**	**(4.1)**	**107.2**	**22.4**	**13.0**	**124.3**
Income tax (expense)/benefit	27	(16.1)	(13.2)	(5.3)	(32.2)	(8.1)	(8.8)	(35.7)
Combined NPAT		**17.5**	**44.3**	**(9.4)**	**75.0**	**14.4**	**4.2**	**88.6**
Operating income growth (PcP)		**n.a.**	**5.2%**	**9.2%**	**11.5%**	**n.a.**	**9.8%**	**14.1%**
Adjusted Cost to income ratio	**46**	**50.7%**	**50.4%**	**60.8%**	**59.0%**	**49.7%**	**54.0%**	**50.9%**

Notes: Refer to the Glossary of Financial Table Notes in Section 4.14.

Section 4

Topic	Summary	For More Information
What is Latitude's Dividend Policy?	Subject to future business conditions, available profits and franking credits and the financial position of Latitude, it is the current intention of Latitude to pay dividends. The Directors anticipate that the initial dividend to Shareholders will be determined in respect of the six month period to 30 June 2020 with reference to available profits and the financial position of Latitude. The planned future dividend payout ratio range is 55% to 75% of Cash NPAT. Assuming a 1H20 result consistent with the Forecast Financial Information, the Directors anticipate the first dividend will be approximately 65% of forecast Cash NPAT, in respect of the six month period to 30 June 2020, equivalent to approximately 5 cents per Share payable in October 2020. In assessing the dividend payment in future periods, the Directors at their discretion may consider a number of factors, including the general business environment, the operating results and financial condition of Latitude, future funding requirements, capital management initiatives, tax considerations (including the level of franking credits available), any contractual, legal or regulatory restrictions on the payment of dividends by Latitude, and any other factors the Directors may consider relevant. Latitude may contemplate the inclusion of a Dividend Reinvestment Programme ('**DRP**'). No assurances can be or are given by any person, including the Directors, about the payment of any dividend and the level of franking on such dividends. Please read the Forecast Financial Information as set out in Section 4.7, in conjunction with the assumptions underlying its preparation as set out in Sections 4.7.1 and 4.7.2, the sensitivities as set out in Section 4.9, and the risk factors as set out in Section 5. Investors who are not tax residents of Australia and who acquire Shares may be subject to Australian withholding tax on dividends or other distributions paid in respect of the Shares. Such Investors should consult with their own tax advisers regarding the application of Australian withholding or other taxes to their particular situations as well as any additional tax consequences resulting from purchasing, holding or disposing of the Shares. Please refer to Section 4.10 for further information regarding the dividend policy.	Section 4.10

1.3. Key Strengths

Topic	Summary	For More Information
A Leading Digital Payments and Instalments Provider	Latitude is a leading digital payments and instalments provider in Australia and New Zealand with a scaled customer and merchant and commercial partner base. As of 30 June 2019, Latitude had A$4.5 billion of instalments products gross receivables from a base of more than two million customer accounts. Overall, across the combined L-Pay and L-Money business, Latitude had 2.6 million customer accounts which, for the 12 months ended 30 June 2019, conducted over 160 million[7] transactions and amounted to A$7.7 billion of gross receivables as at 30 June 2019.	Section 2.1.6
Well Positioned for Compelling Growth Opportunities	The Australian and New Zealand retail, services and finance sectors represent large and growing total addressable industries for Latitude's L-Pay and L-Money products: • Total consumer spending in Australia and New Zealand was approximately A$1 trillion[8] and NZ$153 billion[9], respectively, in 2018 and had both increased by a CAGR of approximately 3% over the 10 years to 2018; • Retail spending in both Australia and New Zealand, subsets of total consumer spending, had increased more quickly at a CAGR of 3.7% and 4.0%, respectively, over the 10 years to 2018, reaching approximately A$321 billion[10] and NZ$95 billion, respectively, in 2018[11]; and • Unemployment was near five-year lows at approximately 5.2% in Australia and 3.9% in New Zealand during 2019[12]. In this context, Latitude is well positioned to continue its track record of growth, with initiatives including: • Latitude's recent acquisition of Auckland-based financial technology company Genoapay, announced in December 2018, enabling expansion in payments including the launch of LatitudePay in Australia; • Opportunities to grow payments and instalments in the services sector, such as health and travel, and with eCommerce platforms; • Opportunities to grow lending with ongoing improvements in the digital experience; • Latitude continuing to partner with, and potentially invest in, third parties in the regulatory technology and financial technology industries to enhance Latitude's risk management; and • Latitude otherwise continuing to focus on value accretive inorganic opportunities to accelerate its growth strategy, in existing and new markets, subject to achieving risk adjusted returns in addition to key commercial objectives.	Sections 2.3 and 2.1.4

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[7] Latitude Financial Services, year to 30 June 2019, Australia and New Zealand. Transactions include all Latitude card products active in 2019.

[8] Source: Australian Bureau of Statistics, Retail Trade (Category 8501, Series A3348585R), National Accounts: National Income, Expenditure and Product (Category 5206, Series A2303447K). Year ended September, seasonally adjusted. Notes: Household final consumption expenditure calculated by the Australian Bureau of Statistics has been used as the measure of total consumer spending in Australia.

[9] Source: Statistics New Zealand, Historical consumption data (M2), year ended December 2018. Notes: Private consumption expenditure calculated by Statistics New Zealand has been used as the measure of total consumer spending in New Zealand.

[10] Source: Australian Bureau of Statistics National Income, Expenditure and Product (Series 5206).

[11] Reserve Bank of New Zealand, Stats NZ Series M2 Consumption Data.

[12] Source: Statistics New Zealand (M9 Labour Market), Australian Bureau of Statistics (Category 6202, Series A84423050A). Unemployment data as at 30 June 2019.

Topic	Summary	For More Information
Focused on Technology Investments in Customer Experience	Latitude has the operating scale to compete and grow against large incumbents, and the specialist digital focus to innovate customer and merchant and commercial partner experiences to compete with new financial technology companies. For the 12 month period to 30 June 2020, Latitude has planned to grow its IT project capital expenditure to be nearly double its FY18 actual spend. Latitude has made substantial investments, and plans to continue to make ongoing investment, in its digital platform. This is core to optimising customer experience and response times, including enabling quick credit assessment and approval for eligible customers. Latitude's digital and technology team had a workforce of approximately 200 FTEs as of June 2019, and is also supported by outsourcing arrangements, to maintain its technology infrastructure, databases and software. Latitude believes that its digital platform enables ongoing improvement in user-friendly experiences for customers, merchants and other commercial partners including online application functionality, automated decisioning, instant provision of digital cards, self-servicing across card products, new digital wallet enablement for cards and planned online and mobile servicing capabilities for personal and motor loans. These investments allow Latitude to offer end-to-end digital products and to innovate new experiences for the digital payment, instalments and lending products. The ongoing innovation and development of new customer centric products are designed to empower customers and attract new commercial partners.	Section 2.1.4.1

Topic	Summary	For More Information
Strong Relationship Proposition for Commercial Partners	Latitude's history and operating model have been, and continue to be, focused on supporting its commercial partners. It drives merchant and other commercial partner sales and strengthens relationships with customers. As a result, Latitude has built a large and long-standing commercial partnership network. Some of the key highlights of Latitude's partnership network include: • Latitude offers its L-Pay products through an established network of over 1,950 merchant and commercial partners, consisting of more than 650 partners offering Latitude's instalments products in-store and online and a further 1,300 partners offering Latitude's payment products in-store and online through Genoapay. These partners operate more than 9,000 outlets across Australia and New Zealand; • 21 of Latitude's top 30 merchant partners (by interest free instalments product volume in the 12 months to 30 June 2019) have maintained long-term partnerships with Latitude of 15 years or more; • In the twelve months to 30 June 2019, 85% of Latitude's interest free instalments product volume was transacted with seven merchant and commercial partners signed up to exclusive agreements with Latitude; • Latitude's personal and motor loans (Australia only) are distributed through partnership agreements and via a network of around 6,050 brokers in Australia (of whom ~1,450 transact regularly[13] with Latitude). Latitude does not currently have a broker network in New Zealand but is currently piloting the offer of personal loans with a small number of brokers; and • Latitude also has agreements with other commercial partners who originate personal loans (currently Kiwibank in New Zealand). Ongoing innovation and new product development (i.e. payments products) are designed to support Latitude's partnerships and also attract new partners and customers.	Section 2.2.2

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[13] As at June 2019, a broker who transacts regularly was someone who had lodged or settled three or more transactions with Latitude in the last three months.

Topic	Summary	For More Information
Contemporary Customer Brand and Successful Direct Marketing Operation	Latitude has recognised brands in Australia (the Latitude brand) and New Zealand (the Gem brand). Latitude continues to invest in these brands with demonstrated success in acquiring customers directly online and by phone. In August 2019, Latitude commenced unification of its products in Australia under a refreshed Latitude brand to enable greater marketing scale and build higher awareness. In New Zealand, Latitude uses Gem as its customer facing brand. Latitude also engages merchant and partner acquired customers, along with those directly acquired, with data-driven marketing to support their ongoing needs in payments and finance (engagement initiatives have regard to a customer's product stage and financial situation). This has driven repeat usage of its instalments payments products, with 79% of total interest free instalment volume generated from repeat purchases by existing customers in the 12 months to 30 June 2019. Based on the analysis of Latitude's existing instalments products customers[14]: • 44% of customers made repeat interest free purchases on their card; • 50% of customers used their card as a general purchase credit card; and • 19% of customers used their card to make cash withdrawals. Latitude's data-driven engagement also supports Latitude in meeting new needs of customers as they age and their circumstances change. For example, in the six months to 30 June 2019, 37% of Latitude's personal loan volumes were from existing instalments product and credit card customers.	Sections 2.1.4 and 2.1.6

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[14] For the basis of calculation of these metrics, see notes of Figure 10 in Section 2.1.4.2.

Topic	Summary	For More Information
Sophisticated Risk Management Capability	Latitude utilises proprietary customer data and data analytics from its Internal Bureau to assist with its underwriting decisions and to help predict customer behaviour. For each individual customer, Latitude can collect up to 1,000 unique data points to drive smarter credit decisions, better understand customer preferences, increase acceptance rates and generate targeted marketing. Leveraging its rich, proprietary, through-the-cycle data and analytics expertise over the last 20+ years, Latitude has created proprietary models to enable risk-based pricing and sizing of its loan products over a broad pricing range. It has an established credit risk management infrastructure and processes which are informed by its years of experience through both the Australian and New Zealand credit cycles. Latitude continues to update and improve its credit risk management capability and resultant credit decisions based on regular testing. Latitude's net loss rates over the last decade have averaged 3.93% p.a.[15], with the 90+ days past due delinquency rate in FY18 at 1.22%[16]. Latitude expects its credit risk management capabilities to be further enhanced by CCR in Australia and New Zealand, which enables Latitude to access third-party data through a number of credit bureaus when assessing customer applications. Latitude's enterprise risk management framework and risk appetite statement aim to ensure that relevant risks in its business activities are appropriately identified, measured, monitored and controlled. Additionally, Latitude has invested in technology to mitigate important operational and cyber security risks.	Section 3.1
Experienced Management Team and Board	Latitude's experienced management team has a demonstrated track record of executing transformation strategies and launching digital businesses. They have fostered a strong corporate culture within Latitude driving employee satisfaction and engagement. Latitude Management and Directors have overseen an ongoing business transformation that includes the following initiatives: • Completed separation from GE, with Latitude operating as a fully standalone business since July 2017; • Established a treasury function with programmatic ABS issuances, an Australian and New Zealand dollar funding base and over 50 financiers; • Transitioned to a branchless business; • Launched a new brand, introduced new product propositions and digital payments capability; and • Signed L-Pay merchant partnerships with various Australian and New Zealand retailers, including in 2018 an agreement with JB Hi-Fi which is exclusive for new Instalment Product applications in Australia[17].	Sections 2.1 and 6

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15 Average net charge-off rate, calculated on a monthly basis from July 2009 to June 2019, for the Australian portfolio (ex-motor loans).

16 Average 90+ days past due delinquency rate, calculated on a monthly basis, for the Australian portfolio (ex-motor loans).

17 See Section 9.11.1 for further details relating to this agreement.

Topic	Summary	For More Information
Strong Historical and Forecast Financial Profile	Key highlights from Latitude's recent financial performance include: • Cash NPAT[18] growth of 15.7% from FY17 to FY18; • An increase in NPAT from A$123.9 million in FY17 to A$174.8 million in FY18 on a pro forma basis (A$17.5 million to A$44.3 million on a combined basis); • Volume growth of 4.7% from FY17 to FY18; • Gross loan receivables growth of 7.7% from FY17 to FY18; • Declining Adjusted Cost to income ratio from 43.1% in FY17 to 40.4% in FY18 on a pro forma basis (50.7% to 50.4% on a combined basis); • Strong Risk adjusted income yield[19] of 10.68% in FY17 and 10.29% in FY18 on a pro forma basis (8.67% and 8.77% on a combined basis); and • Net charge-off rates of 3.29% in FY17 and 3.34% in FY18. Latitude is well positioned to deliver continued growth and performance in the near term and, in the 12 months to 30 June 2020[20], is forecast to achieve: • Adjusted Return on Equity ('**ROE**') of 20.7%; • Cash NPAT[21] of A$287.6 million representing growth of 7.6% (relative to the prior comparable period ('**PcP**')); • Volume growth of 7.7% (relative to the PcP); and • Gross loan receivables growth of 4.2% (relative to the PcP).	Section 4

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[18] Cash NPAT is calculated by adding the after tax impact of Significant items and Amortisation of acquisition intangibles and structural changes to pro forma NPAT. Cash NPAT is measured by Latitude to evaluate the operating performance of the business without the impact of expenditure associated with Significant items and the non-cash expense associated with the Amortisation of acquisition intangibles and structural changes. For more information, refer to Section 4.14 – Glossary of Financial Table Notes.

[19] Used as a measure of the profitability of and returns on each product, Risk adjusted income yield is Risk Adjusted Income ('**RAI**') divided by AGR. RAI is calculated as total operating income less loan impairment expense and is measured by Latitude to evaluate the Risk adjusted margin on receivables after funding costs and the loan impairment expense (net charge offs and the associated expense for movements in provisions on Latitude's receivables) before the allocation of operating expenses. For insurance products, RAI is calculated as net earned premium less claims add investment income. AGR is the average monthly receivables balance during the period (e.g. calculated based on the 13-month average across the period for a financial year). For more information, refer to Section 4.14 – Glossary of Financial Table Notes.

[20] In respect of the prior comparative period used in calculating the pro forma operating growth rates and financial growth rates for LTM Jun-20, the prior corresponding period refers to LTM Jun-19. For a description of the basis of preparation of the financial data for LTM Jun-19 used in calculating the pro forma financial growth rates for LTM Jun-20, see the Notes to Table 29 in Section 4.3.5.

[21] Refer to footnote 18.

Topic	Summary	For More Information
Established and Broad Funding Base	Latitude has established a funding platform with participants including global and domestic institutional financiers and capital markets access. Latitude's funding platform currently comprises a mix of Warehouse Facilities, five public ABS issuances, other corporate facilities and balance sheet cash. The key features of Latitude's current funding structure are as follows: • 4.07% weighted average cost of funds[22] which equates to pro forma Interest expense/AGR of 3.76% in FY18 (combined Interest expense/AGR of 5.01% in FY18); • Diversified funding platform with a broad base of financiers and staggered durations, with typical revolving period tenors of three to five years and current capacity of over A$1.4 billion[23] to support future receivables growth; • Actively managed maturity profile with no maturity or call dates for products which are the subject of ongoing origination prior to 2020[24]; and • Raising of funds in the same currency as its loans to customers (in Australian dollars and New Zealand dollars).	Section 3.7

1.4. Key Risks

Topic	Summary	For More Information
Evolving Regulatory Environment	**Current regulatory environment** Latitude is currently subject to a range of laws and regulations across Australia and New Zealand and is required to be licensed by, and/or registered with, various government regulators to offer a number of its products in those jurisdictions. There has also been significant regulatory reform and other activity in both Australia and New Zealand during recent years, which may impact Latitude's L-Pay and L-Money product offerings, as well as the insurance elements of Latitude's business. There is a risk that Latitude could face legal or regulatory sanctions (including fines, bans or remediation orders), loss or restriction of its licences, damage to its reputation, or increased compliance cost as a result of any failure to comply with (or comply with developing interpretations of) applicable laws, regulations, licence conditions, codes of conduct and standards of good practice, including in relation to responsible lending and CCI, all of which could adversely impact Latitude's business, earnings and balance sheet. See Section 5.2.1 for discussion of recent and ongoing ASIC and AFCA investigations and interactions, including in respect of Latitude's responsible lending obligations and its obligations with respect to the provision of CCI in Australia, as well as other compliance risks currently facing Latitude's business.	Section 5.2.1

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[22] External debt only, as at 31 December 2018.

[23] As at 30 June 2019.

[24] As at 30 June 2019. For further details, refer to the debt maturity profile at Section 3.7.2.

Topic	Summary	For More Information
Evolving Regulatory Environment continued	**Regulatory changes** Recent regulatory changes in Australia include ASIC's new product intervention powers which enable ASIC to take action where, in the opinion of ASIC, certain financial products cause significant consumer detriment, the creation of a new external dispute resolution scheme in AFCA with a broad jurisdiction to resolve disputes on the basis of fairness even where there has been no breach of law and the expansion of APRA's powers to regulate the lending activities of non-ADIs. The exercise of these powers may have an adverse effect on Latitude's business or financial performance. There are also a number of current legislative proposals which may adversely impact Latitude's business. For example, several recommendations were made by the Banking Royal Commission in Australia which are relevant to Latitude. These include the recommendation to abolish the Point of Sale Exemption, which the Australian Government proposes to consult on and introduce legislation in respect of by 30 June 2020, and a number of proposals relating to CCI including deferred and unsolicited phone sales reform. In addition, ASIC is proposing to use its modification powers to ban unsolicited phone sales of CCI from March 2020, unless a consumer is provided personal financial advice, and is expected to release a revised regulatory guide as to what constitutes responsible lending in the second half of 2019. There is also a reasonable likelihood that the Commerce Commission in New Zealand will follow the lead of changes being implemented by the Australian Government. While LatitudePay and Genoapay are not currently subject to the NCC requirements in Australia and in New Zealand are only subject to the aspects of the CCCFA that relate to "credit contracts" generally, as opposed to the more onerous provisions that apply to "consumer credit contracts", a recent Australian Parliament Senate Economics Committee report recommended that the regulation of such products be considered. There are also proposals for regulation making powers in New Zealand which could bring such products within the ambit of the definition of "consumer credit contracts" in the CCCFA. There is therefore a risk that LatitudePay and Genoapay will be subject to greater regulation and higher costs in Australia or New Zealand in the future. Latitude cannot predict precisely what form any legislative change in relation to the above matters may take, nor what other legislative or regulatory developments may occur in the future, and the impact that any such changes or developments may have on its business. Changes which necessitate Latitude ceasing to provide certain of its current suite of products, or which require Latitude to make significant changes to its processes or procedures or to provide its products on terms less favourable to Latitude than currently, could adversely impact take-up of Latitude's products or increase the cost of compliance, and the risk of non-compliance, which may have an adverse impact on the financial performance and prospects of Latitude.	Section 5.2.1

Topic	Summary	For More Information
Information Technology and Cybersecurity	The financial services industry in general and Latitude in particular as a digital payments and instalments provider, is heavily reliant on information technology. Latitude's ability to provide reliable services and accurate and timely reporting for its customers is dependent upon the ongoing performance of its information systems, software and telecommunications equipment, which include specialised and proprietary software systems, third-party suppliers (including of software), IT infrastructure and back-end data processing systems. Latitude currently has a relatively high ratio of legacy infrastructure and systems which carry a risk of suboptimal function or system failure. This also places a high degree of importance on Latitude's disaster recovery capability which is still in development, and has not been tested for critical customer and revenue generating platforms. Further, as advancements in technology and financial businesses in the financial services industry continue to be made, Latitude must keep pace with, and use, new technologies and systems to increase efficiency and enable it to better serve customers and reduce costs. At the same time as investing in the enhancement of its technology systems, Latitude must also maintain its current technology and business processes to minimise any risk of disruption to its product and service offerings which may cause its products and services to be less competitive. In the normal course of business, Latitude also collects, processes and retains personal, sensitive and confidential information regarding its partners and its customers. Latitude also has arrangements in place with its partners and other third parties through which it shares and receives information about their customers who are, or may become, Latitude's customers. Latitude's facilities and systems, and those of its partners and third-party service providers, may be subject to the risk of external or internal security breaches, cyber-attacks, acts of vandalism, computer viruses, misplaced or lost data, programming or human errors, or other similar events. Any systemic failure, cybersecurity breach or sustained disruption to the effective operation of Latitude's technology platform, or any failure to keep pace with technological change in the financial services industry, could damage Latitude's reputation and its ability to generate new business or retain existing business, directly impair Latitude's ability to comply with its regulatory and contractual obligations, assess credit risk and undertake collection management and maintain its operations and customer service levels. It could also necessitate increased expenditure on technology or generally across the business.	Section 5.2.2

Topic	Summary	For More Information
Changing Consumer Preferences and Competitive Threats	The industry in which Latitude operates is subject to changing consumer trends, demands and preferences, responding to which can require significant investment. For example, customers have an increasing preference for debit over credit products and there has been decline in demand for unsecured personal lending. A failure by Latitude to anticipate, identify and react to these changes in a timely manner could lead to reduced demand and margins for Latitude's products. The financial services industry is also subject to rapid and significant changes in technologies, products and services, including continually changing ways for merchants and customers to obtain access to credit and make and process payments. Latitude's failure to successfully develop and commercialise new and enhanced products or services in this developing market could have an adverse effect on its business and results of operations. The financial services and insurance industry is competitive, and actions by existing competitors or new entrants to the market could result in reductions in Latitude's lending volumes, reduced margins and/or loss of market share.	Section 5.2.3
Execution Risk on Initiatives and Strategies	Latitude has been working to implement its Latitude 2.0 strategy including its L-Pay and L-Money product offerings and the launch of its LatitudePay product in Australia. There is a risk that the benefits of these initiatives, or other initiatives that are currently being, or which may be, pursued, may be subject to unexpected delays, that costs may overrun or that the initiatives, such as new product launches or potential acquisitions, may not generate the financial returns that are intended. There is also the risk that a failure to adequately execute these changes, particularly in an environment of intense change across Latitude's business, may increase operational and compliance risks or adversely impact customers.	Section 5.2.4
Macroeconomic Conditions	Macroeconomic factors affect the business and economic environment and, ultimately, the volume and profitability of Latitude's business. Given the concentration of Latitude's business in Australia and New Zealand, it is particularly exposed to changes in macroeconomic conditions in those countries. An adverse change in any or all macroeconomic factors may adversely affect Latitude's business, operating and financial performance. Further, while interest rates are expected to stay low in the short to medium term, in the event of higher interest rates or inflation, or deterioration in Australian and New Zealand economic conditions, this may increase the likelihood that borrowers will become unemployed or have insufficient income to pay their debts. It may also decrease underlying customer spending that drives demand for Latitude's products. Further, consumer confidence and spending may not necessarily correspond with levels of unemployment or inflation, as consumer confidence and spending have waned even in the absence of such conditions against the backdrop of global uncertainty and slowdown.	Section 5.2.5

Topic	Summary	For More Information
Access to, and Cost of, Funding	Latitude's funding platform currently comprises a mix of Warehouse Facilities, Term Securitisations, corporate debt facilities as well as cash balances. Latitude depends on these sources to fund originations and the continued funding of receivables and therefore may face funding risks. A loss of, or adverse impact on or in relation to, one or more of Latitude's funding sources, without access to alternative funding sources, could limit Latitude's ability to write new business or to write business on favourable terms, or to refinance expiring Warehouse Facilities and other facilities. Latitude may also be exposed to increased funding costs (including as a result of interest rate rises) on its existing Warehouse Facilities as part of the renewal process or on new Warehouse Facilities or Term Securitisations which, for various reasons, may not be able to be immediately passed on to existing customers or merchant and commercial partners. Any material increase in funding costs and an inability to pass these increased costs on to customers and merchant and commercial partners may have a material impact on Latitude's future funding costs, adversely affecting Latitude's financial performance, net earnings and/or new sales volumes.	Section 5.2.6
Failures of Risk Management	Latitude's risk management processes and procedures seek to appropriately mitigate risks and appropriately balance risk and return. If Latitude's risk management framework does not effectively identify and control these risks, Latitude could suffer unexpected losses or otherwise be adversely affected. Some of the key risks to which Latitude is subject are: • **Credit:** Latitude is exposed to its customers' ability and willingness to meet their payment obligations during the term of their contracts. Latitude's business model assumes a certain proportion of its customers will default on their payments and Latitude has systems in place to monitor credit risk and likelihood of default, as well as collections processes. However, there is no guarantee that Latitude's credit underwriting and risk management strategies will enable it to avoid high charge off levels or delinquencies relative to those experienced historically, or that Latitude's allowance for losses will be sufficient to cover actual losses; • **Fraud:** Latitude is exposed to the risk that customers, employees, partners, individual borrowers and other third parties may seek to commit fraud against Latitude or in connection with the products and services that Latitude provides. Latitude relies on its systems and processes, as well as certain external providers and processes, to identify fraud and minimise its impact should it occur. Failure of these controls and the subsequent underwriting of fraudulent loans could result in damage to Latitude's reputation or standing with funding providers, or impact Latitude's ability to attract new customers, and may have an adverse effect on Latitude's financial performance and prospects;	Section 5.2.7

Topic	Summary	For More Information
Failures of Risk Management continued	• **Operational:** Latitude's operational and conduct risks include its reliance on salespeople – who in some cases are employees of Latitude's merchant and commercial partners (or broker partners) and not Latitude, over which Latitude has no direct supervisory control. Although Latitude provides training and support to its own salespeople and the salespeople of its merchant and broker partners, there is a risk of failure (accidental or intentional) by salespeople (either Latitude employees or the employees of Latitude's merchant or broker partners) to comply with Latitude's operational systems and processes which may expose Latitude to process error and system failure, and regulatory non-compliance, which may, in turn, result in loss or damage to Latitude. This risk will persist, and may be heightened, to the extent certain aspects of Latitude's growth strategy involve expansion through new merchant and other commercial (including broker) partnerships[25]; and • **Reliance on models:** Latitude relies extensively on models in managing many aspects of its business, including stress testing, forecasting, cash flow, customer selection, credit and other risk management, pricing and collections management. Models may prove in practice to be less predictive than Latitude expects for a variety of reasons. The errors or inaccuracies in Latitude's models may be material, and could lead Latitude to make wrong or suboptimal decisions in managing Latitude's business. In addition, there may also be risks that exist, or that develop in the future, that Latitude has not appropriately anticipated, identified or mitigated including when processes are changed, or new products and services are introduced.	Section 5.2.7
Reliance on Commercial Partnerships	Latitude distributes products through a number of channels and intermediaries, including merchant partners for its payments and instalments products and brokers and white-label arrangements for its lending products. Accordingly, Latitude's future financial performance, prospects and financial condition depend, in part, on its ability to retain these existing commercial partners, and attract new commercial partners, on acceptable terms, as well as the continued operational and financial strength of its partners. The terms of the distribution agreements with each of its merchant and other commercial partners vary, and there is no guarantee that Latitude will be able to negotiate new distribution agreements with any of its current merchant or other commercial partners on terms acceptable to Latitude upon expiry of the current arrangements. If one or more merchant or other commercial partners were to terminate their agreements for any reason, if their agreements were renewed on terms less favourable to Latitude, or if one or more merchant or other commercial partners were to default on their agreement, become insolvent, lose market share or cease to sell or broker products financed by Latitude (reducing the Latitude distribution network), Latitude's financial performance, prospects and financial condition could be adversely impacted.	Section 5.2.8

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[25] Broker expansion in Australia only.

Topic	Summary	For More Information
Brands and Reputation	Latitude's business relies, to a large extent, on relationships and its reputation to attract and retain customers and merchant and commercial partners. Other risks described in this Prospectus, including those relating to legal and regulatory requirements, compliance matters, responsible lending and sales practices, potential conflicts of interest, litigation, privacy laws, cyber security and ethical issues may cause harm to Latitude's reputation. Any adverse public perception of Latitude's reputation or image (or of others engaged in a similar business or activities), whether or not accurate, could adversely affect Latitude's business, operating and financial performance, and financial condition.	Section 5.2.9
Recruitment and Retention of Key Employees	Latitude's successful operation relies on its ability to attract and retain experienced and high-performing employees with specialist skills, including senior managers and executives. There is a risk that a failure to retain certain senior management and executives or other employees could lead to the loss of or a change in the conditions attached to Latitude's AFSLs, as well as impact on Latitude's ability to develop and implement its business strategies. Latitude's digitisation project is also reliant on scaling up its workforce of skilled information technology and digital specialists. If Latitude does not attract and retain personnel with such skills, this may impact on its ability to achieve its strategic goals.	Section 5.2.10
Reliance on Supplier Contracts and Other Agreements	There are a number of risks associated with Latitude's existing contracts and agreements (outside of the commercial partner agreements described above), including those related to key information technology and other operational and business process support contracts with third-party suppliers. There is a risk that Latitude's existing contracts may be terminated, lost or impaired, or renewed on less favourable terms. Some of Latitude's contracts can be terminated without cause or on short notice or for a change of control (including arising from the Offer) and a number of Latitude's existing contracts have expired or will shortly expire. Latitude is also exposed to the risk that one or more of its third-party suppliers (particularly in respect of key information technology or providers of operational and business process support) may have failures in or interruptions to their operational processes and controls, default on their agreement with Latitude, become insolvent, lose market share or otherwise cease to be able to provide products or services to Latitude at its previous standards or to Latitude's performance requirements.	Section 5.2.11
Other Risks	A number of other risks relating specifically to an investment in Latitude and generally to an investment in the Shares are included in Section 5, including risks associated with its ability to meet forecasts or objectives, adverse movement in interest rates, changes in foreign exchange rates, litigation, claims or disputes and the protection of intellectual property.	Sections 5.2 and 5.3

1.5. Key Offer Statistics

Topic	Summary			For More Information
What are the Key Offer Statistics?		Low	High	Sections 7.1 and 7.7
	Indicative Price Range	$2.00	$2.25	
	Total number of Shares on issue at Completion of the Offer (million Shares)	1,778.2	1,778.2	
	Market capitalisation using the Indicative Price Range ($ millions)	$3,556.5	$4,001.0	
	Total proceeds under the Offer ($ millions)	$1,244.8	$1,400.4	
	– Primary Shares ($ millions)	$1,058.2	$1,065.0	
	– Secondary Shares ($ millions)	$186.6	$335.4	
	Total number of Shares available under the Offer (millions)	622.4	622.4	
	– Primary Shares (millions)	529.1	473.3	
	– Secondary Shares (millions)	93.3	149.1	
	Total number of Shares available under the Offer / total number of Shares on issue at Completion of the Offer	35.0%	35.0%	
What are the Key Investment Metrics?		Low	High	Section 4
	Final Price / Pro forma LTM Jun-20 Cash NPAT per Share	12.4x	13.9x	
	Enterprise value[26]/Pro forma LTM Jun-20 Adjusted EBITDA	7.8x	8.8x	
	Implied annualised 1H20 forecast dividend yield using the Indicative Price Range[27]	5.2%	4.6%	

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[26] Enterprise value calculated as market capitalisation less pro forma unrestricted cash and cash equivalents as at 30 June 2019.

[27] The implied dividend yield is based on the expected dividend for the 6 month period to 30 June 2020 (the first expected dividend) assuming the mid-point of the target dividend payout ratio, on an annualised basis.

1.6. Latitude Directors and Senior Executives

Topic	Summary	For More Information
Who are the Directors of Latitude?	• Michael Tilley – Independent Non-Executive Chairman • Alison Ledger – Independent Non-Executive Director • Mark Joiner – Independent Non-Executive Director • Ahmed Fahour – Managing Director and Chief Executive Officer • Scott Bookmyer – Non-Executive Director (Shareholder Representative Director – KKR) • Haseeb Malik – Non-Executive Director (Shareholder Representative Director – Värde Partners)[28] • James Corcoran – Proposed Non-Executive Director (Shareholder Representative Director – Värde Partners) • Beaux Pontak – Non-Executive Director (Shareholder Representative Director – Deutsche Bank)	Section 6.1.1
Who are the Senior Executives of Latitude?	• Ahmed Fahour – Managing Director and Chief Executive Officer • Adrienne Duarte – Chief Financial Officer • Andrew Walduck – Executive General Manager, Digital & Technology • Chris Blake – Executive General Manager, Corporate Services • David Gelbak – Chief Customer Officer, New Zealand • Greg Sutherland – Executive General Manager, Latitude Money & Chief Marketing Officer • Greg White – Chief Customer Officer, Australia • Jo Mikleus – Chief Risk Officer • Paul Varro – Executive General Manager, Latitude Pay & Insurance	Section 6.1.2

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[28] It is intended that Haseeb Malik will resign and be replaced by James Corcoran as the Shareholder Representative Director for Värde Partners with effect immediately from Completion of the Offer.

1.7. Significant Interests of Key People and Related Party Transactions

Topic	Summary	For More Information
Who are the Existing Investors and what will their Interest in the Company be Before and After Completion?	The Existing Investors are KKR, Värde Partners and Deutsche Bank. The Existing Investors, through KVD Singapore Pte Ltd ('**KVDS**'), own 100% of Latitude as at the Prospectus Date. However, they do not hold any of the Shares in the Company (the Company at this time being wholly owned by Michael Tilley). The Existing Investors will, conditional on Listing occurring, sell[29], or cause KVDS to sell, all of the shares in KVD HoldCo and LFSL to the Company on or about Completion in exchange for Shares in accordance with the Restructure described in Section 9.4. As at the Prospectus Date, certain Minority Investors also have an economic interest in Latitude via the Existing Investors. These Minority Investors are anticipated to realise this economic interest through receipt of Shares pursuant to the Restructure. The shareholdings of the Existing Investors on Completion are expected to be as follows:[30]	Sections 7.4 and 9.9

Shareholders	% of shares held in KVDS at Prospectus Date[31]	Shares expected to be held on Completion (m)	% of Shares expected to be held on Completion
KKR	35.0%	364.0	20.5%
Värde Partners	35.0%	365.9	20.6%
Deutsche Bank[32]	30.0%	229.2	12.9%
Total	**100%**	**959.2**	**53.9%**

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[29] As an interim Restructure step, Deutsche Bank will exit KVDS and briefly hold shares in KVD HoldCo and LFSL directly, prior to selling these shares to the Company in exchange for Shares. KKR and Värde Partners will at that time hold their Shares through KVDS. However, it is intended that, immediately prior to Completion, KKR and Värde Partners will implement certain Restructure steps which will result in these parties holding their Shares directly.

[30] Assumes the Final Price is the Mid-Point Final Price.

[31] Represents legal ownership of shares in KVDS. Refer to Section 7.4 for further detail on shareholding structure.

[32] Some of the shares held by Deutsche Bank in KVDS at the Prospectus Date are subject to risk participation arrangements that have the effect of transferring the economic exposure to those shares to certain wealth management and institutional investors. As a result of these participation arrangements while Deutsche Bank has a legal interest in 30% of KVDS shares at the Prospectus Date, its economic exposure to those shares is around 21.6%.

<table>
<tr><th>Topic</th><th>Summary</th><th>For More Information</th></tr>
<tr>
<td>What significant benefits are payable to Directors and other persons connected with the Company or the Offer and what significant interests do they hold?</td>
<td>
<p>Pursuant to the Pre-Completion Equity Plans, the entitlements of certain Management Shareholders and certain Minority Investors connected with KKR will vest and be settled in Shares and cash on or about Completion.</p>
<p>On Completion, the Directors and other Management Shareholders will hold Shares as follows:[33]</p>
<table>
<tr><th>Shareholders</th><th>Shares expected to be held on Completion (m)</th><th>% of Shares expected to be held on Completion</th></tr>
<tr><td>Michael Tilley[34]</td><td>4.5</td><td>0.3%</td></tr>
<tr><td>Mark Joiner</td><td>0.7</td><td>0.0%</td></tr>
<tr><td>Alison Ledger</td><td>0.1</td><td>0.0%</td></tr>
<tr><td>Ahmed Fahour</td><td>12.6</td><td>0.7%</td></tr>
<tr><td>Adrienne Duarte</td><td>1.8</td><td>0.1%</td></tr>
<tr><td>Other Management Shareholders</td><td>14.4</td><td>0.8%</td></tr>
</table>
<p>In addition, certain Management Shareholders including Michael Tilley, Ahmed Fahour and Adrienne Duarte may be awarded a discretionary equity grant by the Board on Completion. In the event that any such equity grant is awarded, it will be awarded as a grant of Rights. The number of Rights to be granted to these Management Shareholders will be determined by dividing the value of the discretionary equity grant, as determined by the Board, by the Final Price. Any Rights awarded in relation to the discretionary equity grant will be fully vested at grant and will automatically convert to Shares following release of the Company's results for the 2019 financial year. Details of these potential discretionary grants are discussed in sections 6.2.2.4, 6.2.4, 6.2.5 and 6.2.6.</p>
<p>Directors and Management Shareholders are otherwise entitled to remuneration and fees on commercial terms, including in respect of grants under the Latitude Equity Plan, as disclosed in Sections 6.2.2 and 6.2.3.</p>
<p>Advisers and service providers are entitled to fees for services in connection with the Offer as disclosed in Section 6.2.1.</p>
</td>
<td>Sections 6.2 and 6.3</td>
</tr>
</table>

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[33] Assumes the Final Price is the Mid-Point Final Price.

[34] Michael Tilley was the sole shareholder of the Company at incorporation and as at the Prospectus Date. He holds one share.

Topic	Summary	For More Information
Will any Shares be subject to restrictions on disposal following Completion?	Yes. The Escrowed Shareholders, being the Existing Investors, the Management Shareholders and the Minority Investors, have agreed to enter into voluntary escrow arrangements in relation to the Shares held by them on Completion of the Offer as set out below. **Existing Investors** The Escrowed Shares held by the Existing Investors will constitute approximately 54% of the Shares on issue at Completion. Under the terms of the voluntary escrow arrangements with the Existing Investors, subject to certain customary exceptions, the Escrowed Shares held by the Existing Investors will be subject to escrow until the start of the second trading day after the date on which the Company releases its financial results with respect to the half year 30 June 2020. **Management Shareholders** The Escrowed Shares held by the Management Shareholders will constitute approximately 2% of the Shares on issue at Completion. Under the terms of the voluntary escrow arrangements with Ahmed Fahour, subject to certain customary exceptions, the Escrowed Shares held by Ahmed Fahour will be subject to the following escrow restrictions: • (**initial release**) in respect of 50% of the Escrowed Shares held by Ahmed Fahour at Completion, until the start of the second trading day after the date on which the Company releases its annual financial results of the Company for the period ending 31 December 2020 to the ASX; and • (**final release**) in respect of any remaining Escrowed Shares held by Ahmed Fahour, until the start of the second trading day after the date on which the Company releases its financial results for the half year ending 30 June 2021 to the ASX. Under the terms of the voluntary escrow arrangements with the other Management Shareholders, subject to certain customary exceptions, the Escrowed Shares held by all other Management Shareholders will be subject to the following escrow restrictions: • (**initial release**) in respect of 50% of the Escrowed Shares held by each of those Management Shareholders at Completion, until the start of the second trading day after the date on which the Company releases its financial results for the half year ending 30 June 2020 to the ASX ('**Initial Management Shareholder Release Date**'); and • (**final release**) in respect of the remaining Escrowed Shares held by those Management Shareholders, on or after 4.15pm on the date which falls 12 months after the Initial Management Shareholder Release Date. **Minority Investors** The Escrowed Shares held by the Minority Investors will constitute approximately 9% of the Shares on issue at Completion. Under the terms of the voluntary escrow arrangements, subject to certain customary exceptions, the Escrowed Shares held by Minority Investors will be subject to escrow restrictions until after 29 January 2020.	Section 9.8

1.8. Overview of the Offer

Topic	Summary	For More Information
What is the Offer?	The Offer is a sale of approximately 622.4 million Shares by SaleCo. The Shares received by Successful Applicants will comprise 473.3 million to 529.1 million Primary Shares to be issued by the Company to SaleCo for sale under the Offer and 93.3 million to 149.1 million Secondary Shares to be issued by the Company to the Selling Shareholders under the Restructure to be subsequently transferred to SaleCo for sale under the Offer.	Section 7.1
What is the Restructure?	As at the Prospectus Date, KVDS, a Singapore company owned jointly by the Existing Investors, is the ultimate holding company of Latitude. In connection with the Offer, Latitude will be restructured so that the Company is the ultimate holding company of Latitude on Completion of the Offer. The Company and the Existing Investors have entered into a series of arrangements to implement the Restructure, under which the Company has agreed to buy all of the issued share capital of KVD HoldCo (the current holding company of Latitude's Australian business) and LFSL (the current holding company of Latitude's New Zealand business) from the Selling Shareholders[35] in exchange for Shares. The Company will also acquire the beneficial interests in the Australian and New Zealand securitisation trusts from the Existing Investors (or related entities of those parties). As part of the Restructure, the Shareholder Loans with Existing Investors will also be fully repaid using proceeds of the Offer. Completion of the Restructure is subject to Listing. The Restructure is scheduled to take effect on 23 October 2019. Completion of the Restructure is a condition to the commencement of unconditional and deferred settlement trading in the Shares. If the Restructure does not complete, the Offer will not complete. Shares issued pursuant to the Restructure will be issued under this Prospectus.	Section 9.4
Who is the issuer of the Prospectus?	Latitude Financial Group Limited (ACN 625 845 883) and Latitude SaleCo Limited (ACN 625 845 874) are joint issuers of this Prospectus.	Section 7.1
What is the price of Shares under the Offer and how will the price be determined?	The Indicative Price Range for the Offer is A$2.00 to A$2.25 per Share. Successful Applicants under the Offer will pay the Final Price. The Final Price will be determined at the conclusion of the Bookbuild process and may be set below, within or above the Indicative Price Range.	Section 7.7
Why is the Offer being conducted?	The Offer is being conducted to: • Provide Latitude with access to the public equity capital markets, which will allow it to reduce leverage, pursue further growth opportunities and improve its financial flexibility; • Provide the Existing Investors with an opportunity to realise a portion of their investment in the Company; and • Provide a liquid market for the Shares and an opportunity for others to invest in the Company.	Section 7.3

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[35] As an interim Restructure step, Deutsche Bank will exit KVDS and briefly hold shares in KVD HoldCo and LFSL directly, prior to selling these shares to the Company in exchange for Shares.

<table>
<tr><th>Topic</th><th>Summary</th><th>For More Information</th></tr>
<tr><td>What is the proposed use of the funds raised under the Broker Firm Offer?</td><td>The proceeds of the Offer are as set out, and will be applied as set out, in the tables below.
<table>
<tr><th>Sources of funds</th><th>A$million</th><th>%</th></tr>
<tr><td>Gross cash proceeds received from issue of Primary Shares</td><td>1,061.6</td><td>80.3%</td></tr>
<tr><td>Gross cash proceeds received from the sale of Secondary Shares</td><td>261.0</td><td>19.7%</td></tr>
<tr><td>Total sources</td><td>1,322.6</td><td>100.0%</td></tr>
</table>
<table>
<tr><th>Uses of funds</th><th>A$million</th><th>%</th></tr>
<tr><td>Payment to or at the direction of Selling Shareholders</td><td>261.0</td><td>19.7%</td></tr>
<tr><td>Repayment of Shareholder Loans, payment of break fees and accrued interest</td><td>930.5</td><td>70.4%</td></tr>
<tr><td>Settlement of cash component of Pre-Completion Equity Plan entitlements</td><td>19.5</td><td>1.5%</td></tr>
<tr><td>Payment of costs of the Offer</td><td>69.3</td><td>5.2%</td></tr>
<tr><td>Cash to balance sheet</td><td>42.2</td><td>3.2%</td></tr>
<tr><td>Total uses</td><td>1,322.6</td><td>100.0%</td></tr>
</table></td><td>Section 7.3</td></tr>
<tr><td>Will the Shares be quoted on the ASX?</td><td>The Company will apply to the ASX for admission to the Official List and quotation of Shares on the ASX (which is expected to be under the code ‘LFS’). Completion of the Offer is conditional on the ASX approving the Application. If approval is not given within three months after such Application is made (or any longer period permitted by law), the Offer will be withdrawn and all Application Monies received will be refunded without interest as soon as practicable in accordance with the requirements of the Corporations Act.</td><td>Section 7.15.1</td></tr>
<tr><td>When can I sell my Shares on the ASX?</td><td>It is expected that trading of Shares on the ASX will commence on or about 18 October 2019 on a conditional and deferred settlement basis.
It is expected that despatch of holding statements will occur on or about 24 October 2019 and that Shares will commence trading on the ASX on a normal settlement basis on 25 October 2019.
It is the responsibility of each Applicant to confirm their holding before trading their Shares. Applicants who sell Shares before they receive an initial holding statement do so at their own risk.</td><td>Section 7.7</td></tr>
<tr><td>How is the Offer structured?</td><td>The Offer consists of:
• The Broker Firm Offer – which is open to Australian and New Zealand resident retail clients of Brokers, who have received a firm allocation from their Broker.
• The Institutional Offer – which is an invitation to bid for Shares made to Institutional Investors in Australia, New Zealand and in certain other eligible jurisdictions in the world under the Prospectus and to Institutional Investors in the United States under the Institutional Offering Memorandum.</td><td>Section 7.2</td></tr>
</table>

Topic	Summary	For More Information
Is the Offer underwritten?	The Offer is not underwritten.	Section 7.16
Who are the Joint Lead Managers of the Offer?	The Joint Lead Managers are Goldman Sachs, Macquarie Capital and UBS.	Section 7.7
What is SaleCo and what role does it play in the Offer?	SaleCo is a special purpose vehicle that has been established to enable the Existing Investors and the Company to sell Primary Shares and Secondary Shares.	Section 9.5
What is the allocation policy?	The allocation of Shares between the Broker Firm Offer and the Institutional Offer will be determined by the Company and SaleCo after engagement with the Existing Investors and consulting with the Joint Lead Managers, having regard to the allocation policies outlined in Sections 7.8.6 and 7.11.5. With respect to the Broker Firm Offer, it is a matter for each Broker to decide how it allocates firm Shares among its eligible retail clients.	Section 7.2
Is there any brokerage, commission or stamp duty payable by Applicants?	No brokerage, commission or stamp duty should be payable by Applicants for Shares under the Offer.	Section 7.7
What are the tax implications of investing in Shares?	The tax consequences for an Investor of any investment in the Shares will depend upon an Investor's particular circumstances. Applicants should obtain their own tax advice prior to deciding whether to invest.	Section 7.7
When will I receive confirmation that my Application has been successful?	It is expected that initial holding statements will be despatched by standard post on or about 24 October 2019.	Section 7.7
What is the minimum Application size under the Offer?	The minimum Application size under the Broker Firm Offer is $2,000 of Shares in aggregate.	Section 7.8.3
How can I apply?	If you are an eligible Investor, you may apply by completing a valid Application Form and/or following the instructions provided to you by your Broker. To the extent permitted by law, an Application under the Offer is irrevocable. Applications must be received on or before the Closing Date.	Section 7.8.2
What are the restrictions applicable to foreign Shareholders?	Certain selling restrictions apply in relation to the Offer as set out in Sections 7.13 and 9.16 and it is the responsibility of any Investor to ensure compliance with the laws of any country outside Australia relevant to their Application.	Sections 7.13 and 9.16

Topic	Summary	For More Information
Where can I find out more information about this Prospectus or the Offer?	All enquiries in relation to this Prospectus should be directed to the Latitude IPO Offer Information Line on 1300 384 651 (within Australia) or +61 3 9415 4328 (outside Australia) between 8:30am and 5:00pm (AET), Monday to Friday. All enquiries in relation to the Broker Firm Offer should be directed to your Broker. If you require assistance to complete the Application Form, require additional copies of this Prospectus, are unclear in relation to any matter or are uncertain as to whether Shares are a suitable investment for you, you should seek professional guidance from your stockbroker, solicitor, accountant, financial adviser or other independent professional adviser before deciding whether to invest.	Section 7.7
Can the Offer be withdrawn?	The Company reserves the right not to proceed with the Offer at any time before the issue of Shares to Applicants. This right will only be exercised after engagement with the Existing Investors. If the Offer does not proceed, Application Monies will be refunded to Applicants. No interest will be paid on any Application Monies refunded as a result of the withdrawal of the Offer.	Section 7.7

02.

Company Overview

02. Company Overview

This section provides an overview of Latitude and its business covering the following areas:

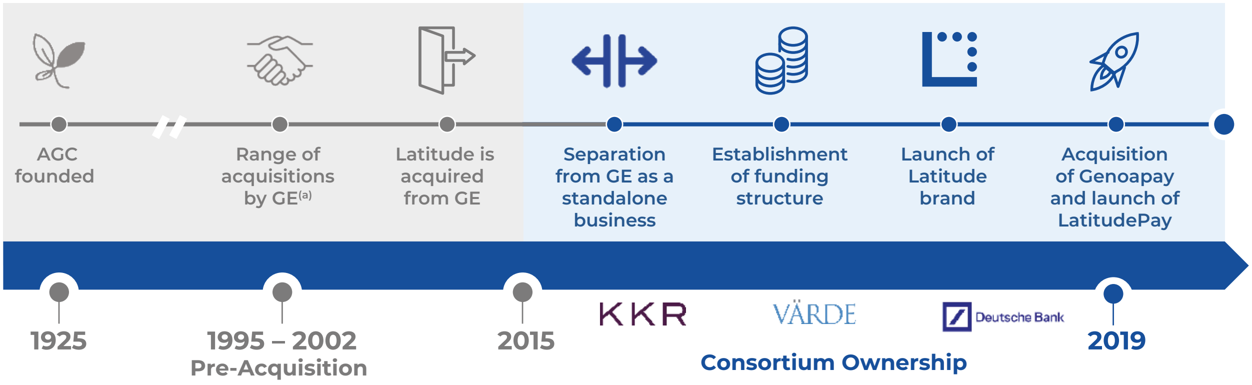
- **Section 2.1: Introduction to Latitude** – Introduction to the business, including Latitude's business strategy, financial highlights and key strengths;
- **Section 2.2: Latitude's Customers and Merchant and Commercial Partners** – Latitude's customers and merchant and other commercial partners;
- **Section 2.3: Latitude's Products and Distribution** – Product offering, key business lines and distribution channels by product;
- **Section 2.4: Latitude's Organisation Structure** – Organisation structure and employees; and
- **Section 2.5: Latitude's Macroeconomic, Competitive and Regulatory Environment** – Macroeconomic environment, Latitude's competitors and regulatory environment.

2.1. Introduction to Latitude

2.1.1. Business overview

Latitude is a digital payments, instalments, and lending platform. Latitude has a long history in financial services since Australian Guarantee Corporation ('**AGC**'), one of Latitude's predecessor businesses, was founded in the 1920s, providing finance for the purchasing of household items. Latitude traces its recent corporate history back to a range of acquisitions made by GE in Australia and New Zealand, including the Coles Myer store card, Nissan Finance, Avco Financial (including Hallmark Insurance) and AGC. In 2015, a consortium of investors consisting of KKR, Värde Partners, and Deutsche Bank acquired the business from GE, and the business was subsequently renamed Latitude Financial Services. The business today provides a range of payments and instalments products (including LatitudePay, Genoapay, Gem Visa, GO Mastercard, and CreditLine), and lending products (28° Global, Infinity Rewards and Low Rate credit cards, as well as Latitude personal loans and motor loans[36]) in Australia and New Zealand. Headquartered in Melbourne, Australia, Latitude employs approximately 1,600 FTE staff. Latitude's recent corporate history is summarised in Figure 3.

Figure 3: Latitude's recent corporate history



Key Acquisitions	1995: Coles Myer store card 1998: Nissan Finance 1999: AVCO (incl. Hallmark) 2002: Australian Guarantee Corporation ('AGC')	2015: Acquisition of GE's consumer finance business in Australia and New Zealand 2018: Acquisition of Genoapay to bolster payments capabilities
Business Highlights	2005: Launch of GO Mastercard 2009: Establishment of personal loans relationship with Kiwibank (NZ) 2011: Launch of Gem Visa, 28° Global 2012: Launch of online capabilities 2012: Launch of CreditLine (AFS)	2015: Initial warehouse funding transactions 2016: Launch of Latitude brand, system separation from GE, closure of personal loan branch network and move to centralised organisations and servicing 2018: Digital wallet payment capability 2019: Successful integration of Genoapay, launch of LatitudePay

(a) GE acquisitions include Coles Myer's credit card business (1995), Nissan Australia's finance arm (1998), AVCO (incl. Hallmark Insurance) (1999) and AGC (2002).

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[36] Motor loans are not currently offered in New Zealand. Personal loans are used for this purpose in New Zealand.

02. Company Overview

Since the acquisition by the Existing Investors in 2015, Latitude has established itself as a standalone business, combining the risk management processes and long-standing customer relationships fostered under its GE heritage with substantial investment to create a customer brand, upgrade technology infrastructure, establish a funding platform and enable ongoing innovation.

Today, Latitude offers customers in Australia and New Zealand the following products:

- **Payments and instalments (L-Pay):** where the customer's need is to purchase goods or services and where Latitude provides a payment and finance solution to customers for the merchant and customer to transact. Some of these products are enabled with scheme functionality for everyday purchases; and
- **Lending (L-Money):** where customers are directly considering their payments and financing needs for personal loans, motor loans, or credit cards. Latitude serves customers online, over the phone and through brokers and a white-label partner.

In addition, Hallmark Insurance provides insurance predominately in connection with Latitude's payments, instalments and lending products, including price protection, merchandise protection, stolen card cover, and adverse life events (death, disability, unemployment).

Latitude has more than 2.6 million customer accounts and a transactional NPS of +45[37].

Figure 4 summarises the key metrics of L-Pay and L-Money products.

Figure 4: Key metrics

PAY

Payments and Instalments[(a)]

LatitudePay
Genoapay
GO Mastercard
Gem Visa
CreditLine

Jun-19 (A\$m for AU and NZ\$m for NZ)	AU	NZ
Total open accounts[(b)] ('000)	1,602	422
1H19 Volume	1,732	555
Gross receivables	3,569	1,011
1H19 Risk Adjusted Income ('RAI')[(c)] (pro forma)	188	53

MONEY

Lending[(a)]

28° Global
Infinity Rewards
Low Rate
Personal Loans
Motor Loans

Jun-19 (A\$m for AU and NZ\$m for NZ)	AU	NZ
Total open accounts[(b)] ('000)	550	55
1H19 Volume	1,813	300
Gross receivables	2,512	685
1H19 RAI[(c)] (pro forma)	100	36

(a) L-Pay and L-Money metrics include legacy portfolios that are currently in run-off.

(b) Total Open Accounts defined as active or dormant accounts, excluding bankruptcy, charge offs, Deceased, fraud, litigations, customer requested to close, transferred accounts, and accounts with LatitudePay and GenoaPay.

(c) RAI is calculated as total operating income less loan impairment expense and is measured by Latitude to evaluate the Risk adjusted margin on receivables after funding costs and the loan impairment expense (net charge offs and the associated expense for movements in provisions on Latitude's receivables) before the allocation of operating expenses. For insurance products, RAI is calculated as net premium income plus investment income less claims costs.

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[37] Transactional NPS refers to net promoter score that is recorded immediately after a specific customer interaction.

2.1.2. Latitude's industry environment

Latitude operates in Australia and New Zealand, both of which are relatively stable and attractive economies with positive GDP growth and stable unemployment levels. This provides a solid backdrop for consumer credit. Within this environment, major trends in digital technology, demography, consumer behaviour, and increased regulation are creating significant payment and finance industry change. This change is in turn leading to growth opportunities for Latitude. Some of the key changes include the following:

- There has been an increasing use of digital technology by customers. Most Australians and New Zealanders have a smart phone, and online retailing is growing quickly. While traditional bricks and mortar still comprises the majority of retail spending, opportunities to focus on digital products and eCommerce are significant;
- In the payments and instalments industry (covered by L-Pay products), new digital platform competitors have emerged capturing younger customers who are expressing a preference for non-credit-based instalments products. New digital only consumer finance providers are also emerging globally, with customer-driven personal finance management tools leveraging artificial intelligence and data; and
- The regulatory environment also continues to evolve in both Australia and New Zealand in a manner which impacts both the payments and instalments industry covered by L-Pay and the lending industry covered by L-Money. There has been increasing proactivity of regulators and a number of legislative changes that have been enacted or are contemplated, including those associated with the implementation of the recommendations of the Banking Royal Commission. Contemplated legislative change may soon alter the role of retailers in selling consumer finance in the event that the Point of Sale Exemption is removed in Australia. Further details are included in Section 2.5.4.

The Latitude strategy seeks to address these challenges and broader industry trends in payments and retailing.

Further detail on Latitude's macroeconomic, competitive and regulatory environments is provided in Section 2.5.

2.1.3. Latitude's strategy

In 2019, with the commencement of a new Chief Executive Officer (Ahmed Fahour), Latitude developed a revised business strategy focused on capturing growth opportunities in payments, instalments, and lending, by driving innovation in digital products, which are designed to be easy, transparent and inclusive. The Latitude 2.0 strategy includes four key pillars (see Figure 5).

Figure 5: Summary of Latitude's strategy

BUILD MOMENTUM

Ongoing focus on consumer and partner acquisition, serving and supporting future consumer needs
Continued governance of lending responsibilities and risks

L-PAY

Lead In Payments and Instalments:
Better for merchants

Payments **Instalments**

Grow LatitudePay and Genoapay as low cost consumer acquisition
Enhance digital experience for consumers and merchants
Extend into services and eCommerce sectors

L-MONEY

Grow In Lending Business:
Easy, transparent and inclusive

Credit Cards **Personal Loans** **Motor Loans**

Move to unified brand and enhance data marketing
Enhance digital experience in mobile and app
Develop new digital products and partnerships supporting financial wellness

L-ACCELERATOR

Develop the Digital Organisation

Ongoing investment in digital talent, technology and ways of working
Develop leadership to support customer centric and innovative technology organisation
Ongoing brand and culture focus on customer interests and ambition to help people live better with good money habits

Build Momentum

The first pillar of the Latitude strategy seeks to build on Latitude's established and profitable business model, by maintaining an organisational focus on the current products and building further momentum in customer acquisition and by servicing the customers' changing needs throughout their life. Ongoing focus on compliance with regulatory obligations and management of risks remains a constant part of this pillar.

Lead in Payments and Instalments (L-Pay)

Latitude is continuing product development to maintain its strength in payments and instalments, including by utilising the LatitudePay and Genoapay payments platform for customer acquisition. Over time, Latitude plans to evolve these individual products to become features of an integrated L-Pay experience on mobile. Latitude plans to support direct customer application for L-Pay products on mobile, both where the customer is on a merchant partner website and in their store. A combination of organic investment and acquisitions is driving Latitude's innovation and digitisation of Latitude's customer and merchant experience. There is also a focus on growing the Latitude merchant and commercial partner base in the services and eCommerce sectors.

Grow Lending Business (L-Money)

Latitude's lending strategy seeks to address customer expectations for easy, transparent and inclusive digital experiences and benefit from the emergence of open banking. The product offering is being unified under the Latitude brand in Australia (and under Gem in New Zealand). Refreshed branding, along with instant digital provisioning, is proposed for launch in late 2019, enhancing the customer experience and engagement. Latitude's product development roadmap plans for the incubation of new pure-digital line of credit services with a focus on end-to-end customer experience, pricing and transparency, and supporting good money habits for customers.

Latitude expects that its L-Pay customers will continue to have needs for lending as they age and their circumstances change. Latitude's strategy includes ongoing investment in data-driven marketing technologies for these customers to support personalised engagement.

The future option to white label or co-brand lending products with partners, in a manner similar to the Kiwibank partnership in New Zealand, also remains part of Latitude's strategy.

Develop the Digital Organisation (L-Accelerator)

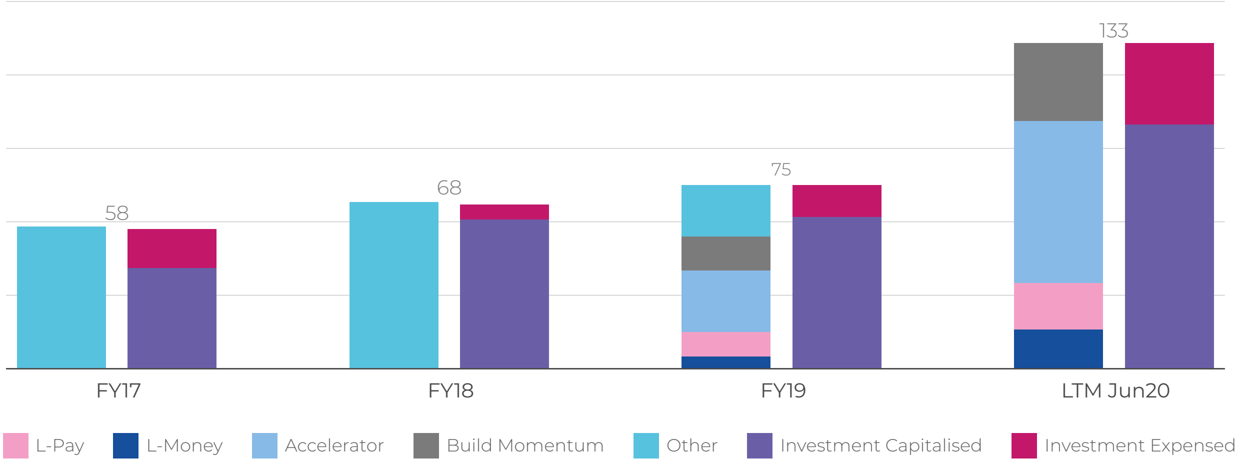
Latitude's operating model and culture are being adapted to foster a customer centric and innovative technology organisation. Investment in digital talent, technology and ways of working continues alongside Latitude's product development roadmap. This strategy is expected to provide a critical foundation to further enhance culture and customer outcomes. Latitude's technology is progressing to an end state two-speed architecture, which includes Latitude's legacy systems (which are subject to continual enhancement) and new digital systems that are designed to integrate Latitude's core product systems with an additional technology layer to facilitate rapid development cycles for improving user experiences. Brand and culture developments continue to focus on customer interests and Latitude's ambition to help people live better with good money habits.

Latitude's 2.0 investment program is comprised of a suite of initiatives that support the delivery and execution of the four pillars of Latitude's strategy. The program has been designed to both introduce new business and technology capability, while also taking steps to mitigate important operational and cyber security risks.

In the first 1H19, this program has delivered a number of important strategic improvements to Latitude's card processing and card originations platforms. Latitude also completed the relocation of its primary data centre which has enabled improvement in several important areas of Latitude's technology infrastructure. The Latitude 2.0 investment program will continue in 2H19 and 1H20 with further benefits and improvements expected to accrue to the business. See Section 4.3.2.1 for further detail in relation to the Latitude 2.0 investment program.

Figure 6 chart sets out Latitude's investment profile, both historical levels as well as the investment in the four strategic pillars.

Figure 6: Summary of Latitude's investment spend



FY20 is expected to be the peak of Latitude's investment envisaged in these four pillars with 1H20 being representative of this year. Beyond FY20, Latitude's investment profile is expected to begin to revert to more normal levels. However, Latitude will continue to explore opportunities to invest and create value for shareholders. All non-recurring investments (both capital expenditure and investment-related expenses), including those described above, are evaluated against return hurdles and expected to generate returns in excess of Latitude's cost of capital.

The investment in Latitude 2.0 comprises three components: 1) the investment in core technology that is capitalised; 2) core technology spend that is expensed; and 3) strategic execution costs associated with market deployment (e.g. brand launch, retailer integration and establishment costs). See Section 4.3.2.1 for further detail in relation to the Latitude 2.0 investment program and its accounting treatment.

2.1.4. Key capabilities

2.1.4.1. Technology and innovation

Latitude has invested significantly in its technology and systems since its acquisition in 2015. Latitude has implemented new systems which are integrated across front-end and back-end technology platforms.

Latitude's digital and technology team has a workforce of approximately 200 FTEs as of June 2019, and is also supported by outsourcing arrangements, to maintain and support its technology infrastructure, databases and software. Latitude's technology platform enables critical capabilities central to its strategy, as indicated in Figure 6.

Figure 7: Technology supports Latitude's business operations

Customer Experience	Merchant and Commercial Partner Integration	Risk Management	Operational Efficiencies
• New digital product development such as Latitude's payments product and digital wallet capabilities • Online customer self-servicing for L-Pay and credit card customers • Enhanced web and mobile user experience	• Integration with systems and processes of Latitude's merchant and other commercial partners, brokers and intermediaries • Customer insights to drive marketing initiatives and improve profitability	• Timely decision making and customer risk assessment capabilities • Credit decision engines supported by a dedicated specialist team that enable scorecards, policy rules, decision parameters	• Online customer management supports Latitude's scalable operating platform whereby customers can be serviced efficiently

Key areas of future focus for Latitude's technology strategy include developing:

- **An active customer engagement platform**, powered by artificial intelligence capabilities driving its customer acquisition and servicing platform;
- **An intelligent decisioning engine**, enabling improved customer sign-up and approval process with instant and accurate identity verification, as well as fraud, credit and serviceability checks for automated credit decisioning;
- **A partner application programming interface ('API') and marketplace**, delivering scale via digital ecosystems with merchants and retailers with the ability to white label seamlessly;
- **A real-time, secure lending platform**, enabling Latitude's products as individual features; and
- **An artificial intelligence engine named "Elie"**, developing a machine and deep learning engine that powers Latitude's customer experience and business operations.

Latitude believes that its digital platform enables ongoing improvement in user-friendly experiences for customers, merchants and other partners including online application functionality, automated decisioning, instant provisioning of digital cards, self-servicing across card products, and planned online and mobile servicing capabilities for personal and motor loans.

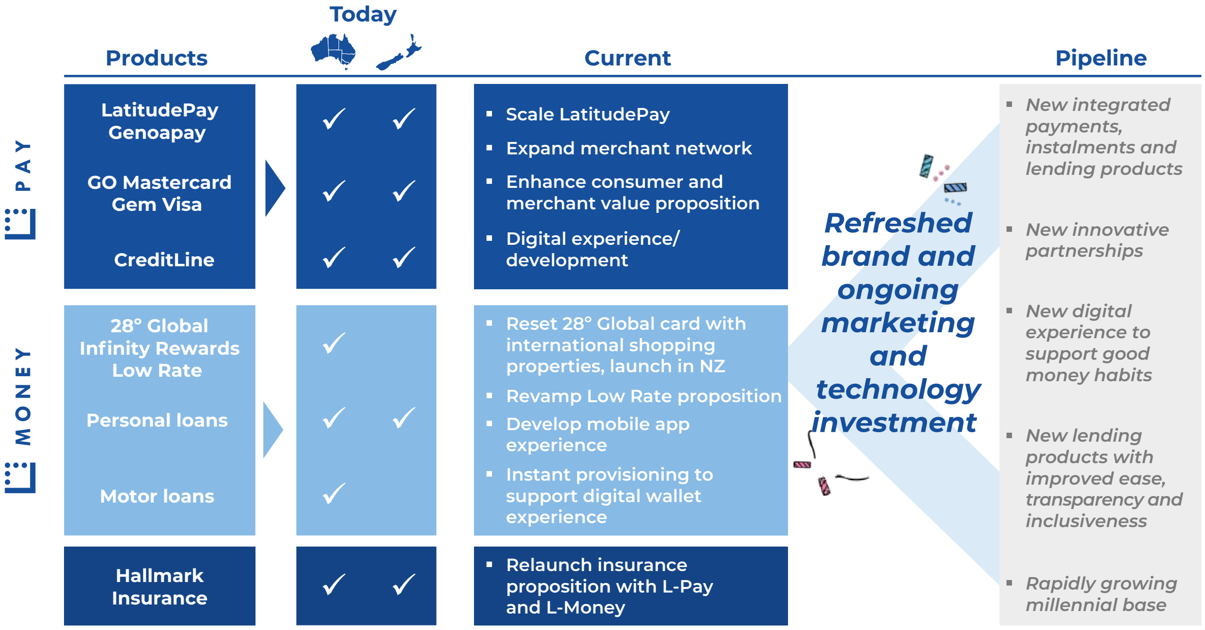
In addition to developing in-house, proprietary technology, Latitude reviews industry innovation and new technology capabilities from third-party suppliers which may further propel its digital-led strategy. As part of this review, Latitude has considered potential acquisition opportunities for companies which possess complementary capabilities. Latitude's recent acquisition of Auckland-based financial technology company Genoapay, as announced in December 2018, has enabled the payments product offering which Latitude launched as LatitudePay in Australia in August 2019. Additional details on Latitude's acquisition of Genoapay and its subsequent growth in New Zealand are provided in Case study 2 in Section 2.3.2.1.2.

Latitude intends to continue to partner with, and potentially invest in, third parties specialising in the regulation and financial technology industries to enhance Latitude's risk management processes, and to support an enhanced customer experience.

These organic and inorganic opportunities are intended to enable Latitude to offer end-to-end digital products and to innovate new experiences in digital payments, instalments and lending. The ongoing innovation and development of new customers centric experiences and products are designed to empower customers and attract new merchants and commercial partners.

Current product development plans are indicated in Figure 8 below.

Figure 8: Latitude's product roadmap driven by a focus on customer experience and digital innovation



	Products	Today		Current	Pipeline
PAY	LatitudePay Genoapay	✓	✓	▪ Scale LatitudePay ▪ Expand merchant network ▪ Enhance consumer and merchant value proposition ▪ Digital experience/ development	▪ *New integrated payments, instalments and lending products* ▪ *New innovative partnerships* ▪ *New digital experience to support good money habits* ▪ *New lending products with improved ease, transparency and inclusiveness* ▪ *Rapidly growing millennial base*
	GO Mastercard Gem Visa	✓	✓		
	CreditLine	✓	✓		
MONEY	28° Global Infinity Rewards Low Rate	✓		▪ Reset 28° Global card with international shopping properties, launch in NZ ▪ Revamp Low Rate proposition ▪ Develop mobile app experience ▪ Instant provisioning to support digital wallet experience	
	Personal loans	✓	✓		
	Motor loans	✓			
	Hallmark Insurance	✓	✓	▪ Relaunch insurance proposition with L-Pay and L-Money	

Refreshed brand and ongoing marketing and technology investment

2.1.4.2. Multi-channel distribution

Latitude has a multi-channel distribution network. Latitude's key acquisition channels are:

- **Merchant partnerships** – in-store and online;
- **Direct** – direct customer brands with data-driven marketing; and
- **Other commercial partnerships** – sale by third-party commissioned agents or under a white-label arrangement with a third-party brand.

Across all distribution channels, Latitude is committed to acting responsibly in all of its engagements with its customers, including engaging in responsible lending practices for its NCC and CCCFA regulated products.

The channels are aligned to the product type and intended end customer, as set out in Table 4.

Table 4: Distribution channels across products

			Third-party partnerships	
	Merchant partnerships	Direct	Accredited broker network	White-label
L-Pay				
Payments	✓	✓		
Instalments	✓	✓		
L-Money				
Credit Cards		✓		
Personal Loans		✓	✓	✓
Motor Loans		✓	✓	

Note: As of 30 June 2019. Future Hallmark Insurance propositions will also align to these channels.

02. Company Overview

Merchant partnerships – instore and online

Latitude offers its L-Pay products through an established network of over 1,950 merchant partners. These merchant partners operate more than 9,000 outlets alongside their online sales across Australia and New Zealand.

The B2B2C model joins Latitude and its merchant partners with their customers to create beneficial outcomes for each party. This model, and the quality of its merchant partners, is one of Latitude's key strengths.

Figure 9 outlines the range of Latitude merchant partners. For additional details on Latitude's merchant partners, see Section 2.2.2.

Figure 9: Selected Latitude's merchant partner base extends across various customer sectors

99 BIKES	ADRIATIC FURNITURE	ALPINE	AMART	AMERICAN SWISS	ANACONDA	ANGUS & COOTE	APPLE	ARL SPORTS & LEISURE	AT HOME FURNITURE	AUSTRALIAN CAREERS	AUTO BARN
BIKE FORCE	BBQ GALORE	BAY AUDIO	BAY LEATHER REPUBLIC	BBQ FACTORY	BEAUREPAIRES GOODYEAR	BEDS FOR BACKS	BEDS N DREAMS	BEDS R US	BEDSHED	BEST FURNITURE	BETTA
BEVILLES	BIG PICTURE PEOPLE	BIG SAVE FURNITURE	BIKE CONNECT	BILLIARD SHOP	BING LEE	BOB JANE T-MARTS	BRIDGESTONE	CAMERA HOUSE	CARNIVAL CRUISES	CARPET COURT	CARPET ONE
CATCH	CHANDLERS	CHOICES FLOORING	CITY HOLDEN	CLARK RUBBER	CLASSIC TIMBER FURNITURE	COMFORT STYLE	DANSKE MOBLER	DELL	DENTAL PARTNERS	DENTALCORP	DOLLAR CURTAINS & BLINDS
DREAMLAND	DRUMMOND GOLF	EARLY SETTLER	ECO TRAVEL	EUREKA STREET FURNITURE	EUROSOLAR	EVO CYCLES	FANTASTIC FURNITURE	FLOORING XTRA	FORTY WINKS	FREEDOM	FRONTLINE BRANDED
FUJITSU NZ	FURNITURE BAZAAR	FURNITURE COURT	FURNITURE GALORE	FURNITURE ONE	GODFREYS	GOLDMARK	GREENCROSS VETS	HARRISON CARPETS	HARVEY NORMAN	HEATHCOTE	HEWLETT PACKARD
HOME TIMBERS & HARDWARE	HORSELAND	IGNITE TRAVEL GROUP	JAX TYRES	JB HI-FI	JOHN COOTES FURNITURE	JUST FITNESS 4U	KOGAN.COM	LASER CLINICS AUSTRALIA	LEADING APPLIANCES	LEADING EDGE TECHNOLOGIES	LEARNING WITH TECHNOLOGIES
LENOVO	LOUNGES PLUS	LUXAFLEX	LUXURY ESCAPES TRAVEL	MAKIN MATTRESSES	MANNIX AIR	MATT BLATT	MAZZUCCHELLI'S	MICHAEL HILL	MITRE 10	MR FURNITURE	NATIONAL HEARING CARE
NATIONAL TILES	NEW IDEA FURNITURE	NORTH SOUTH	ONE STOP PINE	OZ DESIGN	PACIFIC FURNITURE	PALMERS	POOLWERX	PROUD FURNITURE	PROUDS THE JEWELLERS	PROVINCIAL HOME LIVING	REA GLOBAL
REBEL SPORTS	RT EDWARDS	SALERAS JEWELLERS	SAMSUNG	SCOOPON TRAVEL	SEELEY INTERNATIONAL	SHIELS JEWELLERS	SHOWCASE JEWELLERS	SLEEPING GIANT	SLEEPYS	SNOOZE	SONY AUSTRALIA
SPA WORLD	SPECIALIZED BICYLCLES	SPORTSMANS WAREHOUSE	STARSHOTS	STEELFORT ENGINEERING	STIHL	STRATCO	SUMITOMO RUBBER AUSTRALIA	SUMMIT FITNESS	TARGET FURNITURE	TEMPLE & WEBSTER	THE GOOD GUYS
THE HOMEMAKERS GROUP	THE OUTDOOR FURNITURE SPECIALIST	THE SINK WAREHOUSE	THE TYRE FACTORY GROUP	THE VAST INTERIOR	TIGER AIRWAYS AUSTRALIA	VISION GROUP	WEBJET	WINDOW TREATMENTS	WORKOUT WORLD	WEST COAST HI-FI	ZAMELS

Notes: Selected merchant and commercial partners in Australia and New Zealand shown. Not all brands operate in both markets.

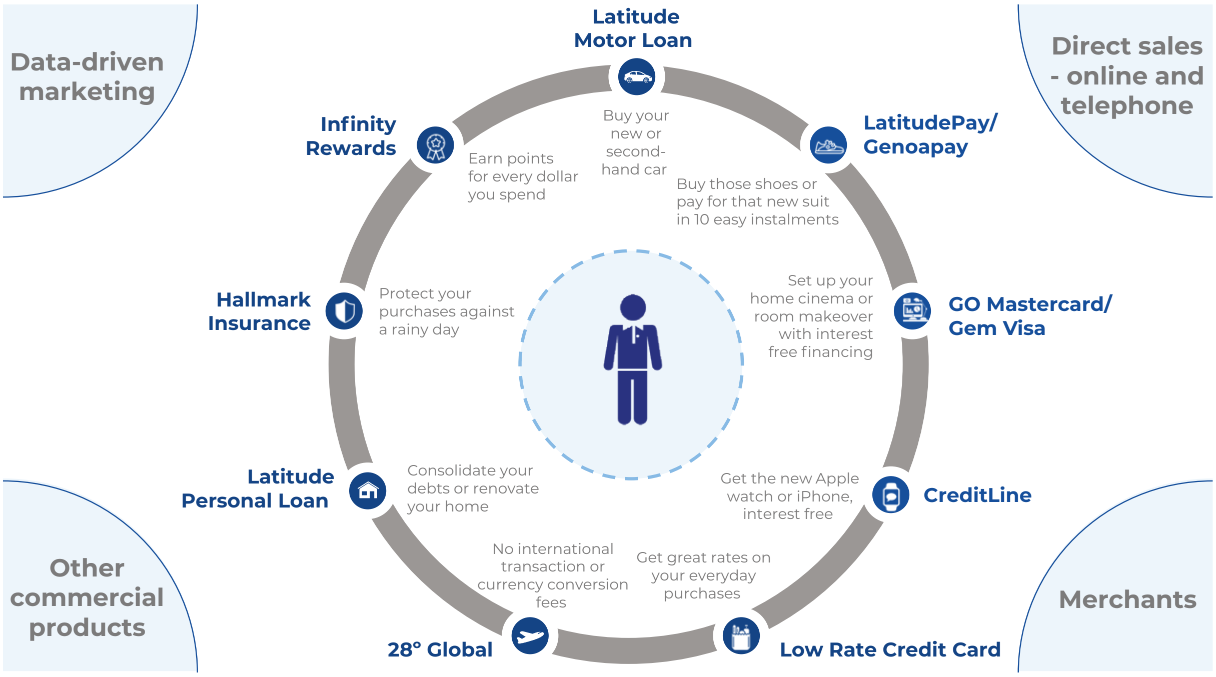
Direct customer brands with data-driven marketing

Latitude has recognised customer brands in Australia (the Latitude brand) and New Zealand (the Gem brand). Latitude continues to invest in these brands to acquire customers directly online and by phone.

In August 2019, Latitude commenced unification of its products in Australia under a refreshed Latitude brand to enable greater marketing scale and build higher awareness. In New Zealand, Latitude continues to invest in the Gem brand.

Latitude engages customers with data-enabled driven marketing to support their ongoing needs in payments, instalments and lending (while having regard to the financial situation of, and suitability of the product for, each customer), as demonstrated in Figure 9. Existing customers can benefit from their Latitude relationship as the approval process for new products is simplified via use of existing data. Engagement initiatives have regard to a customer's product stage and financial situation.

Figure 10: Latitude's platform can support a variety of customer needs



Latitude believes that its data-driven marketing leads to positive customer engagement and has been a key driver of its success. Figure 10 illustrates the percentage of instalments product customers who generate repeat or additional product sales, evidenced by:

- Significant percentages of customers making repeat interest free or Scheme credit card purchases. For example, 44% of customers who were issued with a GO Mastercard or Gem Visa in 2016 used the card for repeat interest free purchases within 24 months; while 50% of these customers used their card as a general purpose credit card within 24 months;
- 79% of total interest free instalment volume was generated from repeat purchases by existing customers in the 12 months to 30 June 2019; and
- Customers have also acquired additional Latitude products from its suite of credit cards, personal and motor loans.

Figure 11: Latitude's model of repeat engagement and sales of complementary products

Our instalments product customers repeatedly use us

50% reused their card as a general purpose credit card[(a)]

44% repeat interest free purchase[(a)]

19% made a cash withdrawal[(a)]

14% also have or have had a Latitude personal loan[(b)]

6% also have or have had a Latitude motor loan[(b)]

37% of personal loan volume came from instalments product and credit card customers[(c)]

(a) Repeat interest free, Scheme credit card purchases, cash withdrawals are based on Gem and GO instalments products originated in each month of 2016 and whose customers within 24 months acquired another Latitude product or undertook repeat engagement with Latitude.

(b) Personal loans and motor loans cross-sell represents the proportion of instalments product customers as at 31 December 2018 who have also had a Latitude personal or motor loan, whether opened pre or post the instalments products origination. For personal loans, this is based on Gem and GO instalments product customers for Australia and New Zealand. For motor loans, only Australia is used as Latitude does not offer motor loans in New Zealand at this time.

(c) Refers to the proportion of personal loan volume that comes from instalments product customers that have migrated to Latitude personal loan products.

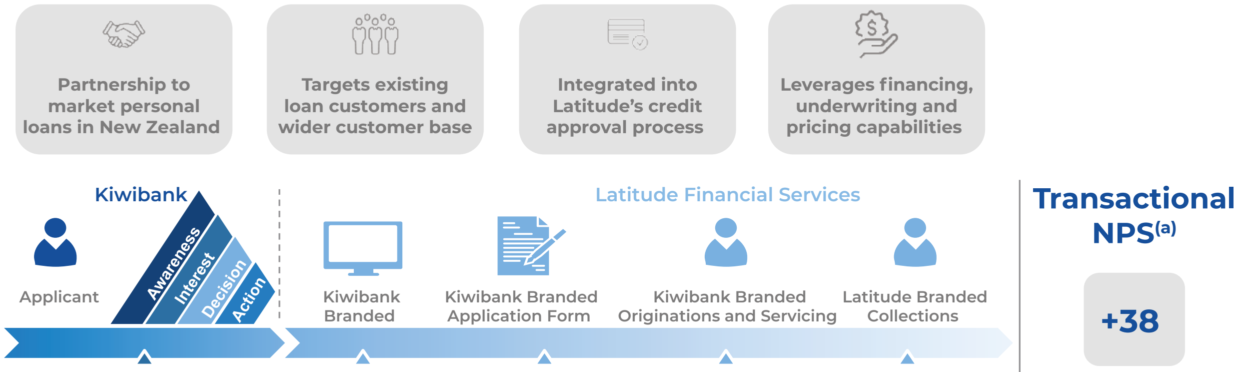
Other commercial partnerships

Latitude's personal and motor loans (Australia only) are distributed via a network of around 6,050 brokers in Australia (of whom ~1,450 transact regularly[38] with Latitude). Latitude does not currently have a broker network in New Zealand but is piloting the offer of personal loans with a small number of brokers.

In addition, in New Zealand, Latitude also has an agreement with Kiwibank to distribute personal lending products through Kiwibank's branch network and online platform (see Case study 1).

Figure 12: Case study 1: Latitude's relationship with Kiwibank

- In 2009, Latitude (then GE) entered into an agreement with Kiwibank to market personal loans in New Zealand that were underwritten by GE.
- Customers are able to apply for loans through Kiwibank's website, over the phone and through referrals from Kiwibank's national network of branches, with applications integrated into Latitude's credit approval systems and processes.
- Kiwibank markets its personal loan offering through targeted campaigns, ongoing brand advertising and offers to existing Kiwibank personal loan customers as well as Kiwibank's wider customer base.
- The relationship leverages Latitude's existing financing capacity, established underwriting and risk-based pricing capabilities.



Acquisition
- Above the line brand advertising drives enquiry
- Product-specific campaigns
- Cross-sell program to existing Kiwibank customers

Origination and Application
- Apply via online, phone, branch
- Instant decisioning

Kiwibank Personal/Motor Loan Call Centre
- Kiwibank branded call centre for enquiries, originations and servicing

(a) Source: Company analysis. Transactional NPS refers to net promoter score that is recorded immediately after a specific customer interaction. Period of measurement: 1 April 2019 – 30 June 2019.

Latitude also has agreements with peer-to-peer and marketplace lenders in Australia such as SocietyOne and RateSetter to refer potential customers to Latitude.

[38] As at 30 June 2019, a broker who transacts regularly is someone who has lodged or settled three or more transactions with Latitude in the last three months.

2.1.4.3. Operational efficiencies

In addition to delivering income growth, Latitude has improved its operational efficiency by streamlining its internal processes since its acquisition from GE in November 2015.

The main drivers of this improvement include:

- Streamlining of systems and processes post acquisition (e.g. exiting certain legacy technology systems);
- Closing of its branch network and a movement towards a centralised digital customer origination platform;
- Productivity initiatives within the operations area and broader restructuring activity across the organisation leading to a reduction in headcount; and
- Renegotiation of existing, and transfer to new, services contracts.

Latitude has also identified scope for further improvements in its cost to income ratio through targeted initiatives including:

- Benefits from capital investments made in scalable platforms, including a new cards receivables platform and human resources and finance systems;
- Productivity initiatives in the areas of information technology system and infrastructure, cost rationalisation and savings on printing and paper statements through the push to make statements available online; and
- Property consolidation.

Following the completion of the implementation of Latitude 2.0 (refer to Section 2.1.3), Latitude anticipates there will be changes to its workforce mix to align with its digital target operating model given the nature and scale of its investment agenda. This is expected to result in lower voice operating requirements with a corresponding increase in digital, technology, data and analytics resources due to higher levels of digitisation and higher self-service enablement. It is Latitude's ambition to migrate to an Adjusted Cost to income ratio to the mid 30 percent range over time given the scale benefits of its business.

2.1.4.4. Credit risk management

Latitude manages credit risk according to customer segments and product types across the customer lifecycle. Latitude's credit risk management function is responsible for developing and monitoring strategies to assess customer creditworthiness, allocate customer risk profiles (according to Latitude's proprietary risk scorecards) and determine risk-aligned collections activity, which is then the responsibility of the collections function. The credit risk management function works closely with Latitude's originations, fraud operations, servicing and collections teams.

Latitude's processes incorporate risk-based loan pricing and lending limits for its customers, allowing Latitude to approve credit to customers while also seeking to ensure adequate compensation for risk and maintain its net charge-offs and delinquencies in accordance with Latitude's target risk appetite.

For additional details on Latitude's approach to credit risk management, see Section 3.

2.1.5. Latitude's financial highlights

A summary of Latitude's key financial metrics is presented below. This summary data should be read in conjunction with the more detailed discussion of the historical (FY17 and FY18) and forecast (FY19 and LTM Jun-20) financial information set out in Section 4 (including the assumptions set out in Section 4) as well as the key risks set out in Section 5.

Figure 13: Total volume (A$ billion)

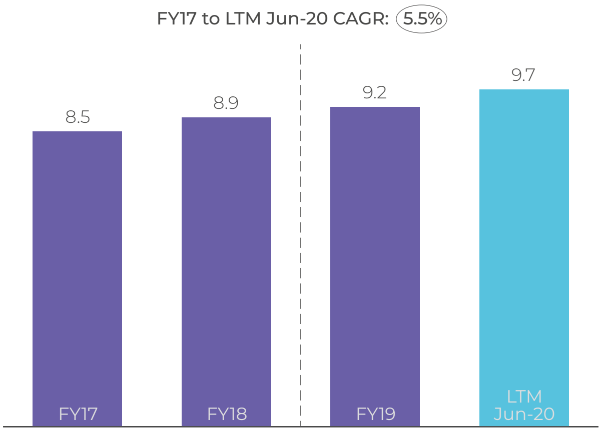


Figure 14: Gross loan receivables (A$ billion)

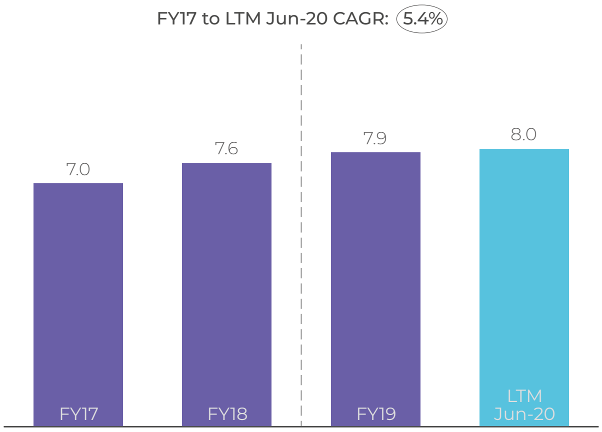


Figure 15: Operating income (A$ million)

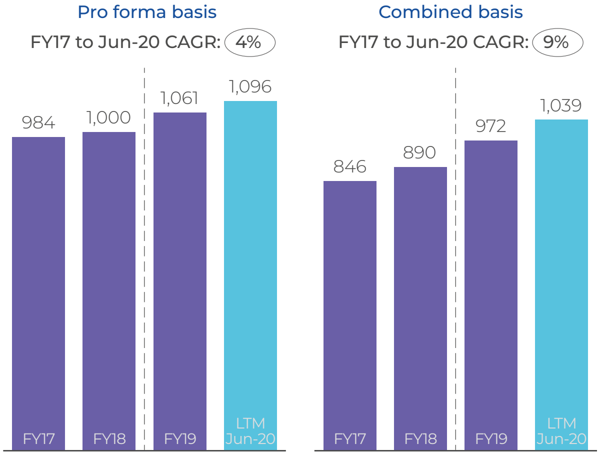
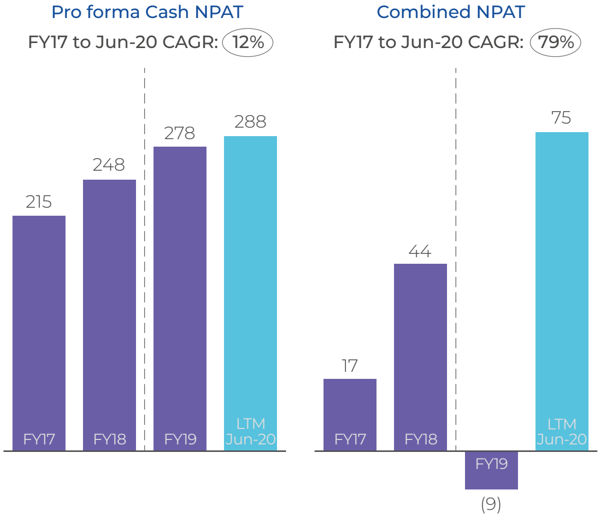


Figure 16: Cash NPAT (A$ million)



Notes: Data shown as years to 31 December, with the exception of the last 12 months ('**LTM Jun-20**') period to 30 June 2020. Growth rates shown on a compound annual growth rate ('**CAGR**') basis. Historical and forecast financial information in this Prospectus should be read in conjunction with, and qualified by, reference to the information contained in Sections 4 and 5.

2.1.6. Latitude's key strengths

A leading provider in the payments and instalment finance sector

- Latitude has a scaled customer and merchant and commercial partner base, with 2.6 million customer accounts, which conducted over 160 million transactions for the 12 months ended 30 June 2019 and A$7.7 billion of gross receivables at 30 June 2019.

Well positioned for compelling growth opportunities

- The Australian and New Zealand retail, services and finance sectors represent large and growing total addressable industries for Latitude's L-Pay and L-Money products.
- Latitude is well positioned to continue its track record of growth, with initiatives including:
  - Latitude's recent acquisition of Auckland-based financial technology company Genoapay, announced in December 2018, enabled Latitude's payments offering to drive Latitude's growing customer base with a low customer acquisition cost.
  - Opportunities to grow payments and instalments in the services sector, such as health and travel, and with eCommerce platforms.
  - Opportunities to grow lending with ongoing improvements in the digital experience.
  - Latitude continuing to partner with, and potentially invest in, third parties in the regulatory technology and financial technology industries to enhance Latitude's risk management.
  - Latitude otherwise continuing to focus on value accretive inorganic opportunities to accelerate its growth strategy, in existing and new markets, subject to achieving risk adjusted returns in addition to key commercial objectives.

Focused on technology investments in customer experience

- Latitude has the operating scale to compete and grow against large incumbents, and the specialist digital focus to innovate customer and merchant and other commercial partner experiences to compete with new financial technology companies.
- Technology underpins Latitude's innovation. For the 12-month period to 30 June 2020, Latitude has planned to grow its IT project capital expenditure to be nearly double its FY18 actual spend.
- Latitude has made substantial investments, and plans to continue to make ongoing investment, in its digital platform. This is core to optimising customer experience and response times, including enabling quick credit assessment and approval for eligible customers. Latitude's digital and technology team has a workforce of approximately 200 FTEs as of June 2019, and is also supported by outsourcing arrangements, to maintain and support its technology infrastructure, databases and software.
- These investments allow Latitude to offer end-to-end digital products and to innovate new experiences for the payments, instalments and lending products. The ongoing innovation and development of new customer centric products are designed to empower customers and attract new commercial partners.

Strong relationship proposition for commercial partners

- Latitude's history and operating model has been, and continues to be, focused on supporting commercial partners. It drives merchant and commercial partner sales and strengthens the relationship with their customers.
- As a result, Latitude has built a large and long-standing commercial partnership network, demonstrated by at least 15 years of partnership with 21 of its top 30 merchant partners (by instalments products volume), and the majority of its instalments products volumes were generated from exclusive merchant and commercial partnerships in the 12 months to 30 June 2019.
- Ongoing innovation and new product development (i.e. payments products) are designed to support Latitude's partnerships and also attract new partners.
- Latitude utilises a number of third-party intermediated origination channels, including a network of brokers in Australia for personal or motor loans and commercial partners who originate personal loans (currently Kiwibank in New Zealand) under their own brands.

Contemporary consumer brand and successful direct marketing operation

- Latitude has recognised brands in Australia (the Latitude brand) and New Zealand (the Gem brand). Latitude continues to invest in these brands with demonstrated success in acquiring customers directly online and by phone.
- In August 2019, Latitude commenced unification of its products in Australia under a refreshed Latitude brand to enable greater marketing scale and build higher awareness. In New Zealand, Latitude uses Gem as its customer facing brand. Latitude also engages merchant and partner acquired customers, along with those directly acquired, with data-driven marketing to support their ongoing needs in payments and finance (engagement initiatives have regard to a customer's product stage and financial situation).
- Latitude's data-driven engagement also supports Latitude in meeting new needs of customers as they age and their circumstances change.

Sophisticated risk management capability with proprietary customer data and risk scorecards

- Latitude utilises proprietary customer data and data analytics from its Internal Bureau to assist with its underwriting decisions and help predict customer behaviour. For each individual customer, Latitude can collect up to 1,000 unique data points to drive smarter credit decisions, better understand customer preferences, increase acceptance rates and generate targeted marketing.
- Leveraging its rich, proprietary, through-the-cycle data and analytics expertise over the last 20+ years, Latitude has created proprietary models to enable risk-based pricing and sizing of its loan products over a broad pricing range. It has an established credit risk management infrastructure and process which is informed by its years of experience through the Australian and New Zealand credit cycle. Latitude continues to update and improve its credit risk management capability and resultant credit decisions based on regular testing.
- Latitude expects its credit risk management capabilities to be further enhanced by CCR in Australia and New Zealand, which enable Latitude to access third-party data through a number of credit bureaus when assessing customer applications.
- Latitude's enterprise risk management framework and risk appetite statement aim to ensure that relevant risks in its business activities are appropriately identified, measured, monitored and controlled. It proactively seeks mitigating factors to ensure it is compliant with the evolving regulatory environment and able to address any changes with adverse impacts on the business.
- Latitude has invested in its technological platforms, which have been designed to both introduce new business and technology capability, while also taking steps to mitigate important operational and cybersecurity risks.

An experienced management team and board delivering on Latitude's business strategy

- Latitude's experienced management team has a demonstrated track record of executing transformation strategies and launching digital businesses. They have fostered a strong corporate culture driving employee satisfaction and engagement.
- Latitude management and board have overseen an ongoing transformation of Latitude's business.

Strong historical and forecast financial profile delivering growth and profitability

- Latitude is well positioned to deliver continued growth and performance in the near term and, in the 12 months to 30 June 2020, is expected to achieve Cash NPAT, Volume and Gross loan receivables growth.

An established treasury funding platform

- Latitude has established a funding platform with participants including global and domestic institutional financiers and capital markets access. Latitude's funding platform currently comprises a mix of Warehouse Facilities, five public ABS issuances, other corporate facilities and balance sheet cash.

2.2. Latitude's Customers and Merchant and Commercial Partners

As discussed in Section 2.1.4, Latitude's products and distribution channels have been designed to be aligned to the customer. Latitude's B2B2C and D2C distribution model enables customers to transact through Latitude's established network of merchants partners, directly, online and by phone.

For L-Pay's payments product and instalments products, customers are supported directly online for payments products and directly online and by phone for instalments products. Digital payments and instalments products customers are also introduced to Latitude through merchant partners, both in-store where L-Pay is integrated into merchants' point of sale systems and online either via the merchants' checkout or Latitude's website.

For L-Money's lending products (personal loans, motor loans and credit cards), customers are supported directly online and by phone and also through intermediaries, which include brokers and other commercial partners.

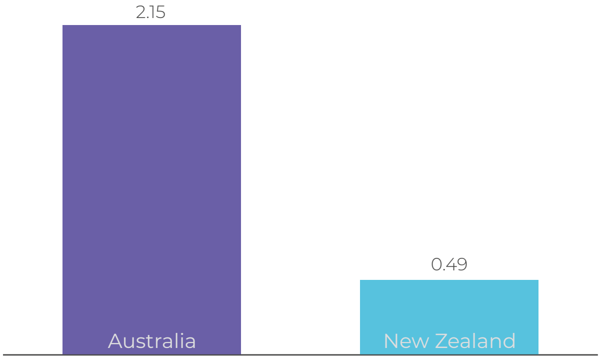
2.2.1. Latitude's customers

As at 30 June 2019, Latitude had 2.6 million customer accounts (across both L-Pay and L-Money), which conducted over 160 million transactions (or over 400,000 transactions daily) for the 12 months ended 30 June 2019.

Latitude does not target or approve credit to individuals under the age of 18 or to subprime[39] borrowers and does not offer payday lending[40] products.

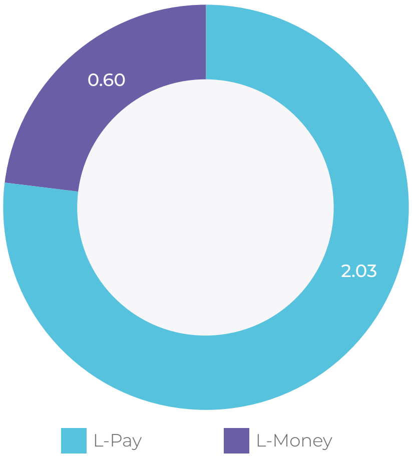
Latitude has data insights into its large customer base, and maintains detailed records spanning individual credit scores and transaction histories over the course of its relationships with customers. Figures 17 to 19 provide an outline of the current Latitude customer base.

Figure 17: Strong geographic presence across Australia and New Zealand



Notes: Data as at 30 June 2019.

Figure 18: Large customer base across L-Pay and L-Money



Notes: Data as at 30 June 2019.

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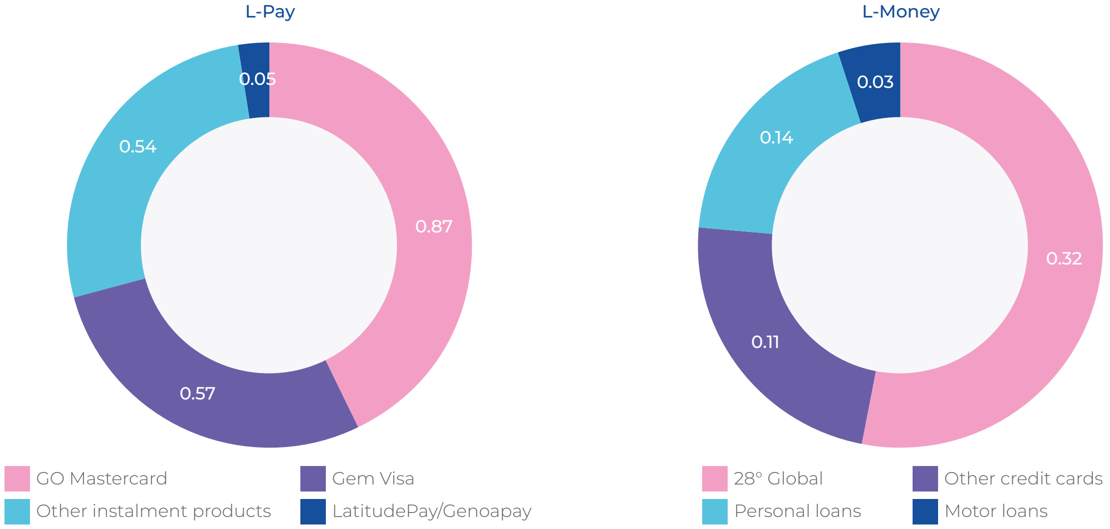
[39] While there is no Australian standard for subprime, Latitude considers subprime to be default rates in excess of 20%, which is outside Latitude's risk appetite. See Section 3.6.3 for further discussion.

[40] Payday lending typically refers to short-term, unsecured and high interest loans, which typically attract higher risk applicants.

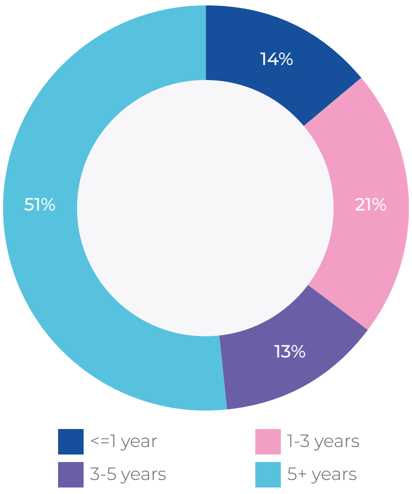
Figure 19: Diverse customer product holding



Notes: Data as at 30 June 2019.

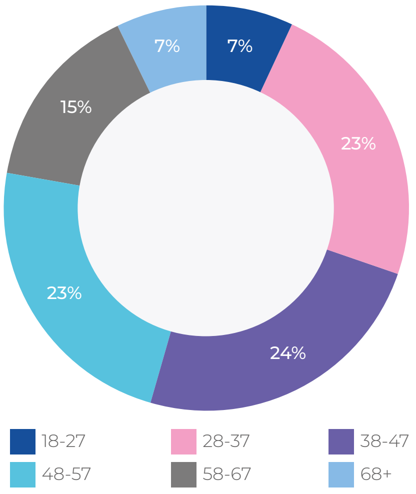
Latitude has built a large and diverse customer base across Australia and New Zealand with strong credit characteristics, as shown in Figures 20 to 24 below.

Figure 20: 51% of customer relationships 5+ years



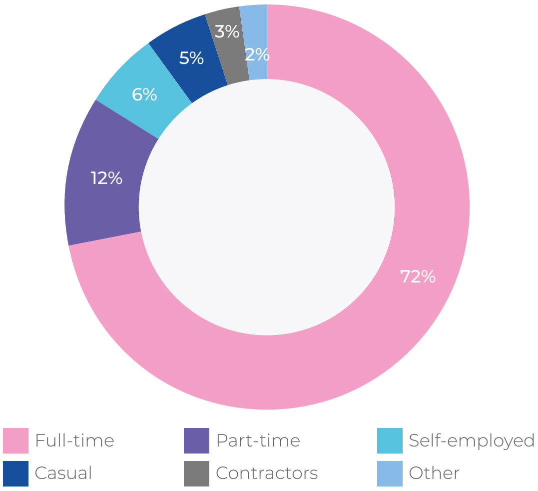
Notes: Data as at 30 June 2019.

Figure 21: Diverse range of customers across generations



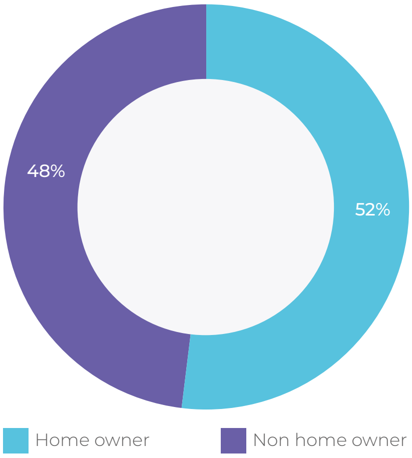
Notes: Data as at 30 June 2019.

Figure 22: 84% of customers are full time and part time employees



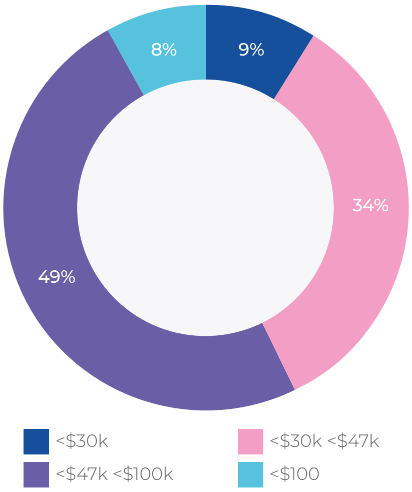
Notes: Data as at 30 June 2019; Australian and New Zealand instalments products and credit card customers with open accounts as at 30 June 2019.

Figure 23: 52% of customers are homeowners



Notes: Data as at origination for Australian instalments products, credit card and personal loan customers and New Zealand instalments products and personal loan customers with open accounts as at 30 June 2019.

Figure 24: 57% of customers earn in excess of median annual income



Notes: Annual post-tax income data as at 30 June 2019 for Australian and New Zealand instalments products and credit card customers. A$47,000 estimated median annual Australian post-tax disposable income and Latitude assumptions.

Latitude's customer proposition

- Latitude enables its customers to make purchases at the time of their choosing. Latitude aims to be available to the customer when needed and to make the process of payment, and choice of finance, simple and convenient. The core elements of the customer proposition are explained in Table 5.

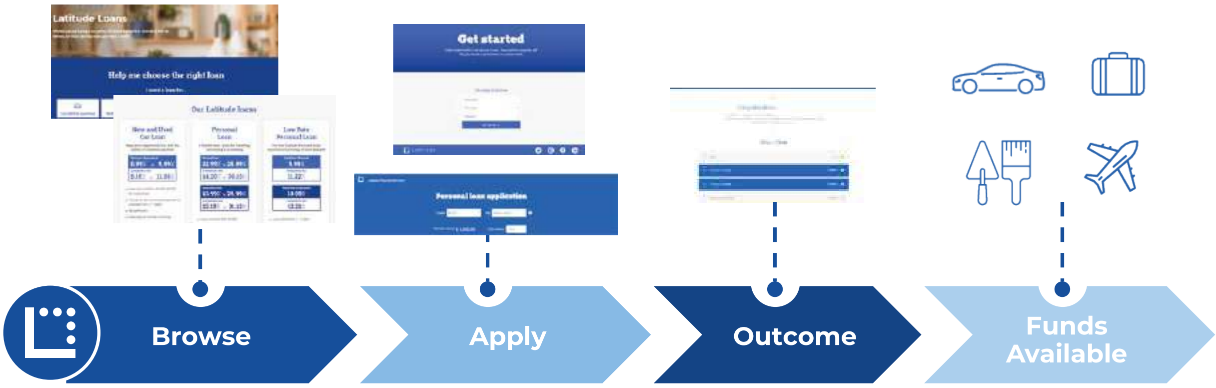
Table 5: Value proposition for Latitude's customers

Diverse range of payments product and lending options	• L-Pay offers no interest and interest free finance on goods or services and access to credit card schemes for everyday purchases. • L-Money offers finance flexibility with a range of personal loans, motor loans and credit cards.
Convenient applications and automated decisioning	• Digital application process that can be completed in under 10 minutes. • Online L-Pay and credit card applications, with new applications able to be conditionally credit approved within 60 seconds, should the customer meet the required credit checks and scoring criteria. • L-Money products, with new applications able to be conditionally credit approved within 60 seconds for personal loans and 90 seconds for motor loans.
Instant provisioning and use of funds	• Latitude's automated decisioning capability for L-Pay products allows approved customers to transact immediately and instantly access funds.
Online self-servicing	• Latitude's customers can use online servicing for L-Pay and credit card products. • Latitude is also investing in developing mobile capability for all digital customer experiences.
Digital wallet payments	• Latitude supports Samsung Pay, Apple Pay, Google Pay, Fitbit Pay, Garmin Pay and Visa Checkout, enabling customers to provision their card to a device or mobile phone[41].

An example of this value proposition is the speed and simplicity of the application process for customers, as illustrated in Figure 25.

Figure 25: Latitude is focused on delivering a user-friendly customer experience

Latitude Personal Loan Digital Application Customer Journey



Browse
- Product information
- Repayment calculator
- Product selection

Apply
- Enter personal details
- Takes around 10 minutes

Outcome
- Identity and income verification completed
- Internal and external credit bureau checks
- Response provided within 60 seconds(a)

Funds Available
- Loan contract can be accepted online
- Loans settled and funds dispersed

(a) Excludes motor loans which is 90 seconds.

(b) Immediate provisioning is enabled for certain instalments products, enabling customers to transact immediately upon approval.

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[41] Samsung Pay is not available in New Zealand.

2.2.2. Latitude's merchant partners

Latitude offers its L-Pay products through an established network of over 1,950 merchant partners, consisting of more than 650 merchant partners offering instalments products in-store and online and a further 1,300 partners offering payments product in-store and online through Genoapay.

These partners operate more than 9,000 outlets across Australia and New Zealand.

Figure 26: Large merchant partner base across L-Pay

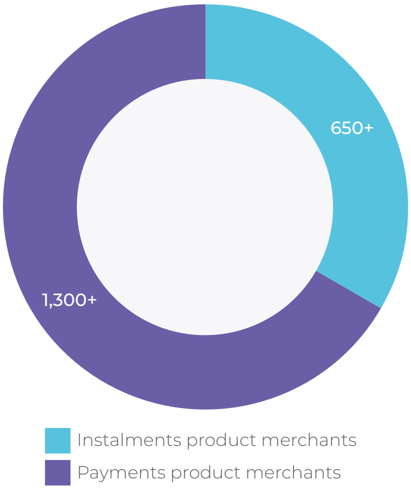
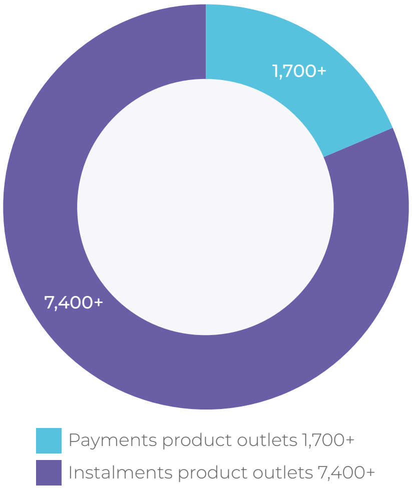


Figure 27: Over 9,000 outlets offering L-Pay



Notes: Reflects total number of merchant partners and outlets as of 30 June 2019.

- L-Pay products are offered through a network of some of Australia and New Zealand's leading retailers, including Apple, Harvey Norman and JB Hi-Fi.[42]
- L-Pay's no interest (payments products, LatitudePay and Genoapay) and interest free (instalments products) offerings can be integrated into merchants' point of sale system online at checkout, and in-store, via point of sale integration or by customers gaining approval online and purchasing in-store.
- Latitude's merchant base extends across multiple customer sectors. The merchant base across Australia and New Zealand covers major retailers providing a wide range of living and lifestyle goods, with the size of many individual purchases benefiting from financial support. A selected list of customer sectors and merchant partners is shown in Figure 28.

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[42] In respect of JB Hi-Fi stores in Australia only.

Figure 28: Latitude's merchant partner base extends across various customer sectors

Electronics and Entertainment	**Furniture and Homewares**	**Others**
Apple Bay Audio Bing Lee Dell Fujitsu Harvey Norman Hewlett Packard JB Hi-Fi Lenovo Samsung The Good Guys	Amart Domayne Forty Winks Freedom Furniture Galore Harrison Carpets Sleeping Giant Snooze Temple & Webster Wellington Beds	Bob Jane T-Marts Dental Partners Eco Travel Prouds the Jewellers Steelfort Engineering Tiger Airways Australia Webjet Workout World Zamels

- Latitude believes that the longevity of its merchant partnerships demonstrates its value proposition to merchants. Of Latitude's top 30 merchant partners (interest free instalments product volume in the 12 months to 30 June 2019), 21 have partnered with Latitude for 15 or more years. In the 12 months to 30 June 2019, 85% of Latitude's interest free instalments products volume was transacted with seven merchant partners signed to exclusive agreements with Latitude. Latitude's agreements with its merchant partners in respect of instalments products typically have contract terms ranging from three to five years, with some agreements providing for automatic renewal, subject to performance metrics being met. Latitude typically seeks to renew its merchant partner contracts in advance of their maturity dates. Refer to Additional Information in Section 10 for additional details on Latitude's material contracts.

A selection of Latitude's long-term merchant partners and relationship duration is shown in Table 6.

Table 6: Latitude has over 15 years of partnerships with major merchants

21/30 15 or more year partnerships with Latitude's top 30 merchants in Australia and New Zealand				
Harvey Norman 20+ years	**The Good Guys** 20+ years	**Amart Furniture** 19 years	**JB Hi Fi** 19 years	**Apple** 7 years
Freedom 20+ years	**Michael Hill** 20+ years	**Snooze** 20+ years	**Forty Winks** 20+ years	**Big Save Furniture** 12 years
BBQ Galore 20+ years	**Bob Jane T-Marts** 20+ years	**Kogan** 5 years	**House of Travel** 5 years	**Bing Lee** 19 years
Samsung 2 years	**Eco Travel** 3 years	**Luxury Escapes Travel** 1 year	**Evo Cycles** 6 years	**Mazzucchelli's** 20+ years
Harrison Carpets 19 years	**Mitre 10** 15 years	**Bed Shed** 19 years	**Narta Members** 20+ years	**Beds R Us** 19 years
Carpet Court 20+ years	**Clark Rubber** 20+ years	**Jax Tyres** 20+ years	**Betta** 20+ years	**Target Furniture** 10 years

Value proposition to merchant partners

Latitude designs its L-Pay's products to support long-standing, mutually beneficial relationships with merchant partners. Latitude believes these relationships drive customer acquisition by enabling both new and repeat customers to purchase goods and services with no interest (payments products) or interest free (instalments products) financing.

The broader benefits to merchant partners are summarised in Table 7.

Table 7: Value proposition for Latitude's merchants

Integrated, multi-channel offering	• Latitude systems provide customers with the ability to apply and buy online with partner website integration. • Retail partner origination is integrated with Latitude's credit approval processes to allow rapid processing of customer applications. • Approved customers are able to transact immediately.
Access to a large established customer base	• 2.0 million (as at 30 June 2019) instalments product account holders can transact interest free at any partner up to a pre-determined credit limit. • 44% of customers make a repeat interest free purchase within 24 months in Australia[43].
Sales and program support	• Latitude account managers (and sales representatives) are allocated to each major retailer to establish a direct and deep relationship between Latitude and its partners. • The account management sales team works directly with retail franchisees and staff, assisted by phone support. • The centralised program team assists in monitoring performance and designing campaigns to drive performance and build strategic alignment.
Data–driven marketing	• Data analytics professionals and data insight teams in Australia and New Zealand analyse customer profiles, sales and repeat purchase data by retailer, store, staff member, geography and entitlement. • Portfolio analytics insights are provided to major merchant partners to enable sales, marketing campaigns and customer engagement, and to support promotions. • Multi-channel campaigns are run to drive engagement and customer retention, which span the full customer lifecycle including onboarding, customer engagement, utilisation and retention across channels such as emails, statements, SMS, online service centre, websites, call centre and outbound interactive voice response.

2.3. Latitude's Products & Distribution

2.3.1. Product overview

As discussed in Section 2.1.3, Latitude's product offering in Australia and New Zealand is comprised of two product groupings: payments and instalments products (L-Pay) and lending (L-Money):

- **L-Pay:** provides access to convenient payment options for customers at the point of sale. L-Pay enables the customer to obtain the good or service they need, when they need it, and in doing so, facilitates the sale for the merchant. L-Pay allows the customer to pay for the purchase on a no-interest or interest free instalment basis. L-Pay products include payments product and instalment (up to 60 months interest free, combined with the provision of a Scheme enabled[44] credit card for everyday use). Given the linkage to the point of sale, L-Pay is closely aligned to its merchant and commercial partner distribution channels; and

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[43] Gem and GO customers originated in 2016 and who within 24 months acquired another product on interest free terms with a Latitude instalments product. See Figure 10 for additional detail.

[44] Scheme-enabled refers to Latitude's instalments products that can be used anywhere that Visa and Mastercard are accepted. Latitude currently has a suite of Scheme-enabled cards including: GO Mastercard and Gem Visa for L-Pay, and 28° Global, Infinity, Low Rate and Onecard Visa for L-Money.

- **L-Money:** provides customers with convenient access to an array of personal finance products, allowing the customer to choose a finance option best suited to their circumstances and needs at the time. L-Money encompasses credit cards, personal loans and motor finance. L-Money options are offered through a wide array of channels, including direct (online and by phone), third-party, and white-label partners.

In addition, Hallmark Insurance provides insurance (predominately to Latitude's customers) in connection with its payments, instalments and lending products, including price protection, merchandise protection, stolen card cover, and adverse life events (death, disability, unemployment).

Latitude believes that the combination of L-Pay and L-Money is synergistic for both Latitude and its customers. The products operate on the same operating infrastructure and services and, once customers are acquired, Latitude uses data-driven marketing to better support the customer's ongoing and future needs.

2.3.2. L-Pay

A summary of Latitude's L-Pay product offerings in Australia and New Zealand is provided in Table 8. Further detail is provided in the sections covering:

- An overview of the industry environment most relevant to the products;
- An overview of the product set, including some key features and numerical information; and
- Commentary on historical and forecast growth.

Table 8: Latitude's L-Pay product portfolio

Product category	**Payments products – LatitudePay, Genoapay**	**Instalments Products**(e)
Overview	The payments product platform allows customers to purchase goods and services on an instalment (no interest) basis with 10 equal weekly repayments, with limits up to A$1,500/NZ$1,500.[45]	Instalment allows a customer to purchase goods with long-term (up to 60 months) interest free credit(c) and use the card as a general purpose credit card if Scheme enabled.
		
Distribution	Latitude launched its New Zealand payments offering (Genoapay) in early 2019, with over 1,300 merchant and commercial partners offering this product in-store and online. Its Australian payments product offering (LatitudePay) was launched in August 2019. This is also available online and in-store.	Online and through over 7,400 physical outlets
Open Accounts(a)		2.0 million
1H19 Volume(b)		A$2.3 billion(d)
Gross loan receivables(a)		A$4.5 billion(d)
1H19 Risk adjusted income yield (%)(b)		10.55%
Section	Section 2.3.2.1.2	Section 2.3.2.1.3

Notes:

(a) Customers and Gross loan receivables as at 30 June 2019. Open customer accounts rounded to the nearest 100,000.

(b) Volume and Risk adjusted income yield for 6 months to 30 June 2019. Refer definitions of Volume and Risk adjusted income yield in Section 4.14.

(c) Customers pay various fees (examples include account keeping fee, annual fee and late fee).

(d) Instalment Gross loan receivables include subsequent general purpose credit card purchases and cash advances by customers of instalments products.

(e) These are the instalments products currently being originated by Latitude; however, Latitude has other instalments products which have historically been issued and which existing customers may still use at all participating merchants (e.g. Buyer's Edge).

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[45] Initial limit maximum is $1,000. Incremental increases up to a limit of $1,500 is possible on the successful completion of payment plans.

2.3.2.1. Payments and instalments platform

2.3.2.1.1. Industry overview

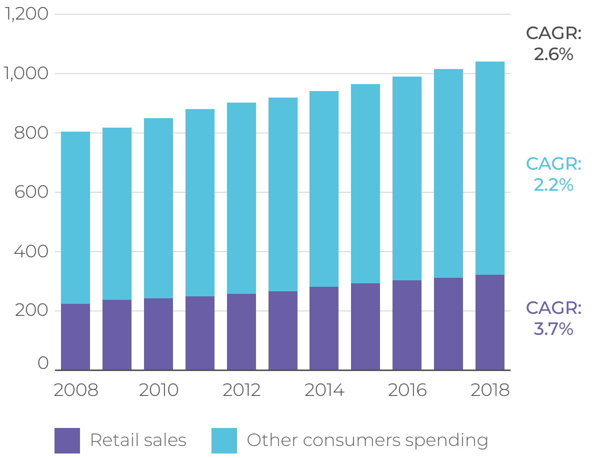
Consumer spending and retail sales

The use of consumer credit products is driven in part by overall consumer spending and retail sales.

According to the Australian Bureau of Statistics, total consumer spending in Australia was approximately A$1 trillion in 2018 and increased by a CAGR of 2.6% over the 10 years to 2018 (see Figure 28). Retail spending in Australia, a subset of total consumer spending, has increased more quickly at a CAGR of 3.7% over the same period to approximately A$321 billion in 2018.

In New Zealand, total consumer spending was approximately NZ$153 billion in 2018 and increased at a CAGR of 3.1% over the 10 years to 2018 (see Figure 30). Retail spending in New Zealand has increased more quickly, at a CAGR of 4.0% over the same period to approximately NZ$95 billion in 2018.

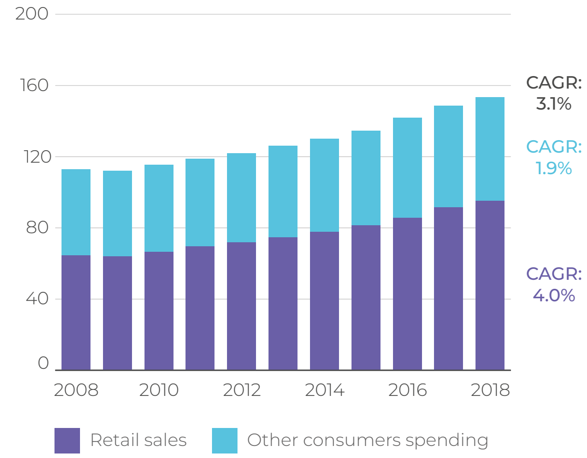
Figure 29: Total consumer spending, Australia (A$ billion)



Source: Australian Bureau of Statistics, Retail Trade (Category 8501, Series A3348585R), National Accounts: National Income, Expenditure and Product (Category 5206, Series A2303447K). Year ended September, seasonally adjusted.

Notes: Household final consumption expenditure calculated by the Australian Bureau of Statistics has been used as the measure of total consumer spending in Australia.

Figure 30: Total consumer spending, New Zealand (NZ$ billion)

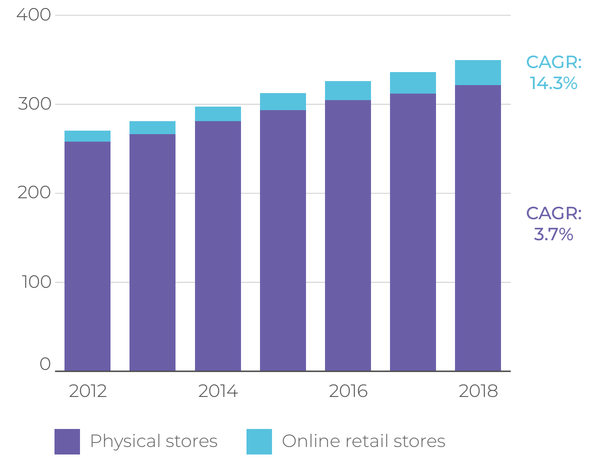


Source: Statistics New Zealand, Historical consumption data (M2), year ended December.

Notes: Private consumption expenditure calculated by Statistics New Zealand has been used as the measure of total consumer spending in New Zealand.

The majority of retail sales in Australia and New Zealand are made in physical stores. However, online sales represent a growing segment in the retail space with online retail sales increasing as a share of total retail sales over the past five years. Online sales accounted for an estimated 8.2% of total retail sales in Australia in 2018 (see Figure 31), growing at a significantly faster pace of 14.3% CAGR since 2012 than in-store sales at 3.7%. In New Zealand, online retail sales are estimated to account for 8% of total annual retail sales (for January 2019 – see Figure 32). Although Latitude has an established presence in physical retail and online retailers sites, its expansion into payments products are designed to further support retail purchases transacted online.

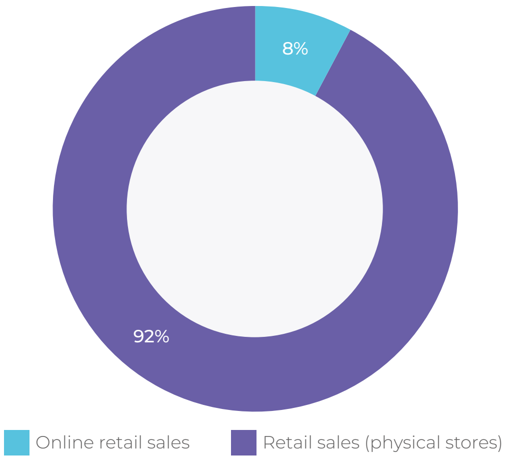
Figure 31: Total retail sales and online retail sales, Australia (A$ billion)



Source: Australian Bureau of Statistics, Retail Trade (Category 8501, Series A3348582J), National Australia Bank Online Retail Sales Index, year ended December.

Online retail sales estimates have been undertaken by Quantium using National Australia Bank transaction data.

Figure 32: Total retail sales and online retail sales, New Zealand



Source: Bank of New Zealand – Online Retail Sales Report, February 2019 (data for January 2019).

Notes: Online retail sales estimates undertaken by Marketview and Bank of New Zealand transaction data.

For information relating to the credit and charge card industry, see the industry review for credit cards at Section 2.3.3.1.1.

Buy now, pay later ('BNPL') sector in Australia and New Zealand

Based on ASIC's review of the Australian BNPL sector published in November 2018, which examined products comparable to the payments products offered by Latitude and Genoapay, the number of consumers who used at least one BNPL arrangement increased about five-fold from 400,000 consumers in the 2016 financial year to over two million consumers in the 2018 financial year, representing about 10% of the adult population in Australia.[46] A significant portion of consumers who had used a BNPL arrangement within the last 12 months planned to do so again. The substantial increase in the number and total value of transactions since 2016 is illustrated in Figures 33 and 34 below.

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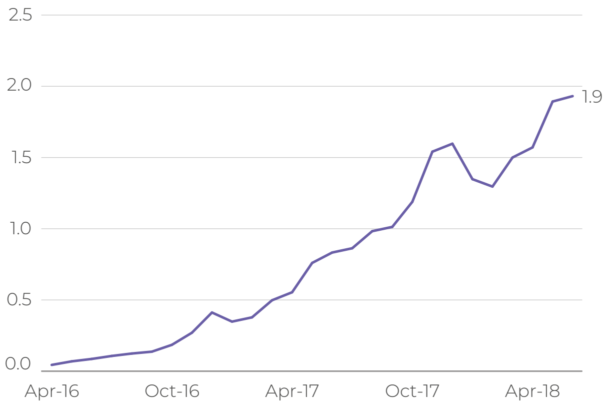
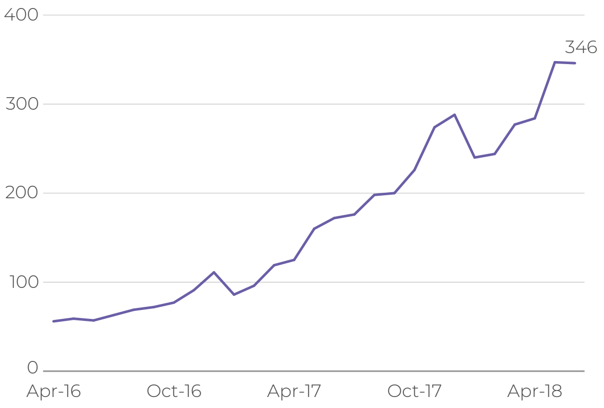
[46] ASIC Report 600 ("Review of buy now, pay later arrangements") published November 2018.

Figure 33: Monthly BNPL transactions in Australia (million)



Source: ASIC Report 600 ("Review of buy now pay later arrangements") published November 2018.

Figure 34: Monthly BNPL transaction value in Australia (A$ million)



Source: ASIC Report 600 ("Review of buy now pay later arrangements") published November 2018.

2.3.2.1.2. Latitude's payments products offering

Description of payments products

Latitude has started to offer payments products to its customers in Australia and New Zealand. Latitude acquired the New Zealand payments product provider Genoapay in December 2018. The Latitude payments product is branded as LatitudePay in Australia (launched in August 2019) and Genoapay in New Zealand.

Latitude's payments products, LatitudePay (Australia) and Genoapay (New Zealand), are not subject to regulation by the NCC in Australia and in New Zealand are only subject to the aspects of the CCCFA that relate to "credit contracts" generally (primarily, restrictions on oppressive terms and oppressive conduct), as opposed to the more onerous provisions that apply to "consumer credit contracts".

Both LatitudePay and Genoapay provide customers the ability to pay for certain purchases on a 10-week instalment plan, so customers can finance their purchases over time with no interest and no fees (assuming all instalments are paid on time). The first instalment is required when customers commit to a purchase, with the remaining balance being processed weekly in equal instalments over the agreed term.

Latitude has streamlined the application process for new LatitudePay and Genoapay customers. In line with its consistent commitment to act responsibly, Latitude conducts identity verifications and credit checks for all payments products customers prior to approval (see Figure 35).

Figure 35: Overview of LatitudePay and Genoapay customer journey

(a) Anticipated by October 2019.

New users of LatitudePay, if approved, are granted an initial credit line of up to A$1,000, which can be increased to A$1,500 as they build up their transaction and credit history.

02. Company Overview

Latitude believes that its payments products offer a compelling merchant and customer value proposition by enabling sales growth for merchants and customers to finance their purchases as explained in Figure 36.

Figure 36: Value proposition of Latitude's payments product offering to merchants and customers

Payments product economics

Latitude's payments product offering is a no interest product to customers. Customers are not charged any fees by Latitude if each instalment is repaid on time.

Latitude generates revenue from its payments products through the following mechanisms:

- **Merchant service fees:** The merchant pays Latitude a merchant service fee which is calculated on each discrete, approved order placed by the customer through the Latitude payments platform. Latitude's merchant service fee is generally charged based on a percentage of the order value plus a transaction fee. Latitude intends to target a compelling merchant proposition by charging merchant service fees which reflect the value of the cross-sell opportunities between its payments platform and L-Money; and
- **Late fees paid by the customer:** Customers pay late fees if they are unable to pay any payments on time, but do not pay any interest on the payments product transaction. Customers are currently charged a late payment fee of A$10 (for LatitudePay) and NZ$10 (for Genoapay) in relation to each payment missed, which is charged to the LatitudePay account after each payment deadline. These late payment fees are not intended to be a primary revenue component of Latitude's revenue model for the payments product, but serve as an incentive for customers to pay on time. In LatitudePay, the default fees are capped at a total of A$10 for purchases up to A$50, and a total of A$50 for purchases up to A$1,500. Genoapay is aligning with this policy in 2H19.

Growth strategy in Latitude's payments products

Latitude's strategy for customer acquisition for LatitudePay and Genoapay comprises multiple engagement points across both merchants and customers including:

- **Product offering to existing customers,** with eligible customers offered access to a pre-populated offer and enrolment;
- **Engagement with Latitude's merchant partners,** with offers targeted to merchant partners' customer database and loyalty programs;
- **Mass acquisition through joint marketing with strategic partners;** and
- **Broad-based direct customer acquisition programs,** via new Latitude corporate brand marketing.

In Australia, Latitude launched LatitudePay in all Harvey Norman stores and online in September 2019, and has plans to roll out the product across its existing merchant base and to new merchants.

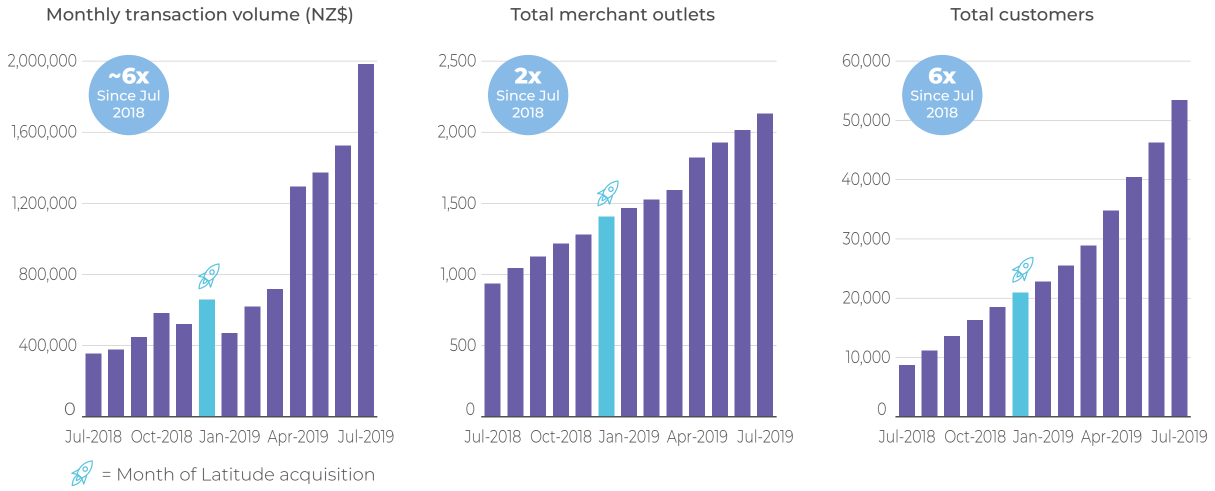
See Case study 2 for an overview of Latitude's acquisition of Genoapay (announced in December 2018) and launch of its payments products across New Zealand merchants.

Figure 37: Case study 2: Latitude's experience in its New Zealand payments product offering

- Since the announcement of its acquisition of Genoapay in December 2018, Latitude has actively leveraged its merchant partner base to roll out its payments product offering across New Zealand.
- Since the introduction of Genoapay, merchants have experienced significant benefits in New Zealand, as:
  - Merchants across multiple categories saw an average sales lift of 25% in their sales volume;
  - Online shoppers increased their average basket size by 21%; and
  - Customers were 27% more likely to complete the check out process both in-store and online.

Note: This sample is taken both from online and in-store merchants across multiple industry verticals and across 2-12 month periods over the 12 months ended 30 June 2019. The statistics above were an average provided to Genoapay by merchant partners (sample size of 4-9 merchants) using the platform.

- The Genoapay product has experienced strong growth across transaction volume, merchant partners and customers:



2.3.2.1.3. Latitude's instalments products offering

Description of instalments products

- Latitude's instalments products allow its customers to purchase selected items from Latitude's network of merchant partners on interest free credit, with an interest free period typically longer than that offered by a credit card (for Latitude, between three and 60 months). Interest free instalments product purchases are also typically larger in value and less frequent than average general purpose credit card transactions. The average value of a Latitude interest free instalments products transaction in LTM Jun-19 was A$1,571, which was significantly higher than the average Australian personal credit card transaction for that year.
- Latitude has A$4.5 billion of instalments products receivables from a base of more than two million customer accounts as of 30 June 2019. Approximately 55% of the receivables are in an interest free period.

In addition, Latitude's GO Mastercard and Gem Visa instalments products can be used for purchases wherever Mastercard and Visa cards are accepted and also for cash withdrawals via ATMs. For long term interest free instalments transactions, Latitude operates a 'closed loop' system whereby its systems link directly with the relevant merchant. Visa and Mastercard transactions settle via the Scheme network. A typical instalments products transaction involves:

- **Sale and credit application:** The merchant, either via advertising or in-store communications, offers sales 'interest free' at specified terms which will vary depending on the product sold. If the customer does not have an existing instalments products card, they can apply in-store or online. The customer is subject to credit assessment and additional checks, which for Latitude's offer can be credit approved within 60 seconds should the customer meet the required credit and identity checks and scoring criteria. Upon approval, customers are issued an account number with an approved credit limit for the interest free purchase. The credit limit may be for more than the value of the immediate item being acquired. A physical card will also be mailed to the customer. Once approved, the customer is able to use their approved product to make a purchase immediately;
- **Payment and fees:** Latitude settles the relevant transaction amount with the merchant less a merchant service fee that takes into account factors such as the interest free period and product category. The customer subsequently pays a monthly account keeping fee or an annual fee. Where a balance remains outstanding at the end of the interest free period, interest will be payable on that balance at that date. Late payment fees may also be charged if applicable; and
- **Repeat usage:** The customer can use the card to make further interest free or everyday credit card purchases at any time, subject to their credit limit. Interest free purchases can be made at any merchant offering interest free terms. Latitude's Scheme-enabled instalments products may be used as general purpose credit cards wherever Visa or Mastercard cards are accepted.

Latitude's instalments products (which include general credit card functionality where applicable) and its credit card products are part of the broader credit and charge card industry, as defined by the RBA and the RBNZ[47]. Over the decade to 2018, credit card transactions increased in Australia and New Zealand by 7.1% and 11% CAGR respectively which is two to three times growth in consumer spending[48]. Credit card balances have shown more modest growth over the same period.

Instalments product business model

- **The merchant pays Latitude a merchant service fee** which takes into account the length of the interest free period the merchant offers (currently anywhere between three and 60 months), and the average loss rates for the product type, individual retailer or the retailer's industry. This fee is received upfront, with Latitude recognising the revenue over the interest free period (for further information on Latitude's accounting policies, see Section 4).
- **The customer pays Latitude fees and interest (where relevant),** including an annual fee or monthly account keeping fee (in Australia) or establishment fee (in New Zealand), as well as late fees or cash withdrawal fees as applicable. Interest will be charged to the customer if the balance is not paid off within the relevant interest free period. Interest may also be charged on any general purpose credit card purchases (subject to the relevant credit card periods for statement cycles) and cash withdrawals.
- **An interchange fee:** received by Latitude where the Scheme instalments products card is used as a general purpose credit card.
- **Loss rates:** Latitude is fully responsible for the credit decisioning and collection process, and bears the loss for unpaid accounts.
- **Marketing:** the promotion of the instalments product would typically be made by the merchant to trigger the generation of their own revenue.

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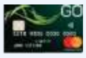
[47] Excluding closed loop (i.e. non-Scheme-enabled) card products.

[48] RBA, Credit and Charge Card Statistics –additional credit card statistics (Series CCCCSTTN); Statistics New Zealand, Electronic card transactions – credit cards (Table reference: ELTQ.S29AL).

Latitude's instalments products

The primary instalments products offered by Latitude are GO Mastercard and Gem Visa in Australia, and Gem Visa in New Zealand. CreditLine is only originated via Apple: however, existing CreditLine and Buyer's Edge customers may still use their cards at all participating merchants. The GO Mastercard and Gem Visa cards can be used as general purpose credit cards, subject to the customer's approved credit limit. The key features and distribution channels for Latitude's instalments products are summarised in Table 9.

Table 9: Instalments products overview(a)

Product	**GO Mastercard and Gem Visa**  	**CreditLine** 
Geography	Australia and New Zealand	Australia(b)*
Open accounts	1.4 million(c)	543,000(d)(e)
Distribution	• GO Mastercard issued exclusively through Harvey Norman in Australia. • Gem Visa is issued through more than 650 affiliated retailers, over 7,400 outlets, online stores and directly online Latitude's website in Australia and New Zealand.	• Exclusively originated through Apple retail and online stores.*
Current key features	• 3–60 months interest free at Latitude's merchant partners. • Six months interest free for general purpose purchases over A$250/NZ$250 on Gem Visa. • Can also be used for general purpose credit card purchases. • Both cards are digital wallet enabled. • All cards can be used at any participating merchant.	• 12 months interest free at Apple for purchases over A$300/NZ$300. • Access to EFTPOS network for cash credit card purchases at the point of sale or ATMs. • All cards can be used at any participating merchant.

Notes:

(a) These are the instalments products currently being originated by Latitude: however Latitude has other instalments products which have historically been issued and which existing customers may still use at all participating merchants (e.g. Buyer's Edge).

(b) CreditLine back-book includes customers across Australia and New Zealand. CreditLine is open for new applications in Australia only and exclusively via Apple Financial Services (with links to Latitude's online application process). It was previously originated at all merchant partners (Australia and New Zealand) prior to the introduction of the Gem Visa.

(c) Open customer accounts rounded to nearest 100,000. As at 30 June 2019.

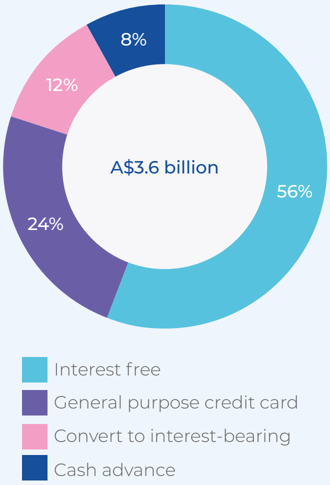
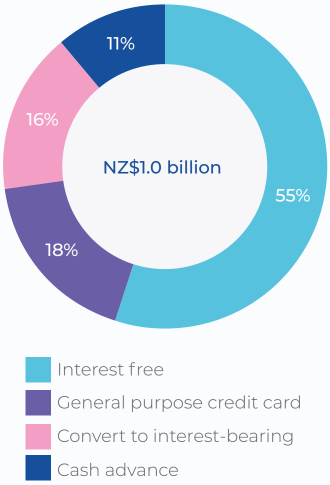
(d) Open customer accounts rounded to nearest 1,000. As at 30 June 2019. Includes Apple Financial Services originated CreditLine customers, and other back-book instalments products (including back-book CreditLine and Buyer's Edge) originated in Australia and New Zealand prior to the current exclusive origination arrangement via Apple Financial Services (see note (a) above).

(e) This includes non-Scheme enabled closed loop card products Latitude no longer originates.

* Does not apply to discontinued products.

A summary of the key operating metrics for Latitude's instalments products business is shown in Table 10.

Table 10: Latitude instalments products key metrics as at 30 June 2019

	Australia	New Zealand
Gross receivables (Split by type %[a])		
Operating income (1H19)	• A$247.8 million	• NZ$62.4 million
RAI yield (1H19)[b]	• 10.54%	• 10.58%
Open Accounts[c]	• 1.6 million	• 381,000
# transactions (LTM Jun 19)	• Interest free: 1.0 million General purpose card: 19.4 million	• Interest free: 0.3 million General purpose card: 4.6 million
Average interest free transaction size (LTM Jun 19)	• A$1,572	• NZ$1,549
90+ days delinquencies	• 1.67%	• 1.33%

Notes:

(a) Split of receivables shown on Average gross receivables for the month of June 2019.

(b) RAI yield calculated as the ratio of RAI to AGR on an annualised basis, where RAI is calculated as total operating income less loan impairment expense and is measured by Latitude to evaluate the Risk adjusted margin on receivables after funding costs and the loan impairment expense (net charge offs and the associated expense for movements in provisions on Latitude's receivables) before the allocation of operating expenses. For insurance products, RAI is calculated as net premium income plus investment income less claims costs, see Section 4.2.4.1.

(c) Open customer accounts rounded to nearest 100,000 (Australia) and 1,000 (New Zealand) and includes Latitude's closed loop (i.e. non-Scheme-enabled) card products.

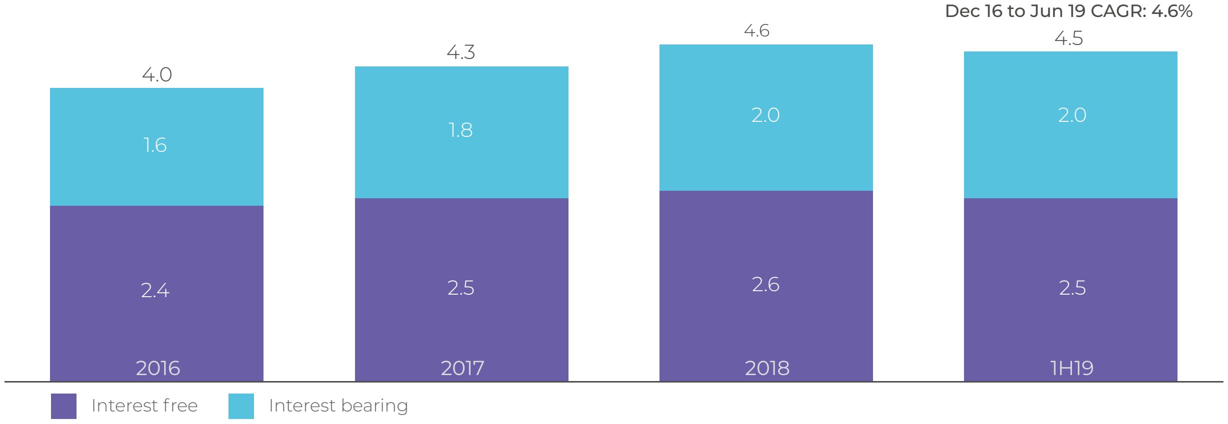
Growth in receivables

- Figure 38 illustrates the growth in Latitude's instalments products Gross loan receivables (split by interest-bearing and interest free receivables) over the financial reporting periods covered in this Prospectus.
- Latitude's instalments products Gross loan receivables increased by 12% in the two and a half years to 30 June 2019. This growth exceeded the broader industry growth in credit and charge card balances in Australia of 1.8% and in New Zealand of 3.1% over the 10 period to December 2018. For further information on the credit and charge card industry of either country, see Section 2.3.3.1.1.

Over the two and a half years to 30 June 2019, Latitude's growth in instalments products receivables was driven by:

- Growth from existing major partners including The Good Guys (re-signed to exclusivity in 2018), Apple and Amart, as well as a 2018 agreement with JB Hi-Fi to promote instalments product options which are exclusive to Latitude for new applications in Australia;[49]
- Increasing repeat usage of instalments products as general purpose credit cards as customers access the every day spend utility and improved functionality of the product, including digital wallet functionality such as Apple Pay, Google Pay, Samsung Pay, Garmin Pay, Fitbit Pay and Visa Checkout;
- Investment in technology, which has been a factor in new account growth, improved customer experiences including online application processing and digital wallet functionality; and
- Increasing customer accounts, with approximately 600,000 customer applications received in 2018 (47% approval rate).

Figure 38: Instalments product Gross loan receivables (A$ billion)



Notes: Data shown as years to 31 December with the exception of 1H19. Historical and forecast financial information in this Prospectus should be read in conjunction with, and qualified by reference to, the information contained in Sections 4 and 5.

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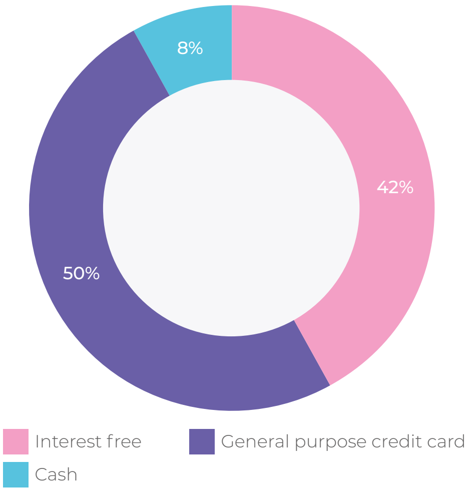
[49] See Section 9.11.1 for further details relating to this agreement.

At a product level, Latitude's instalments products volumes are diversified across new customer and existing customer interest free purchases, general purpose credit card purchases and cash advances (refer Figure 39), with electrical, computers, furniture and bedding making up the bulk of volume (refer Figure 40).

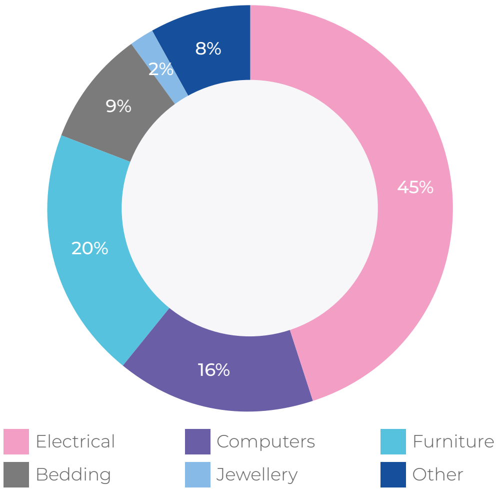
Latitude's instalments products can be used online and in-store, with online applications stable at 40% of approved applications in 1H19, from 41% in 2017.

Figure 39: Instalments product volume by source



Notes: LTM June 19.

Figure 40: Interest free volume by retail category



Notes: LTM June 19.

2.3.3. L-Money

A summary of Latitude's L-Money offerings in Australia and New Zealand is provided in Table 11. Further detail is provided in the subsequent sections covering:

- An overview of the industry environment most relevant to the products;
- An overview of the product set, including some key features and numerical information; and
- Commentary on historical and forecast growth[50].

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[50] The historical and forecast financial information in this Prospectus should be read in conjunction with, and qualified by reference to, the information contained in Sections 4 and 5.

Table 11: Latitude’s L-Money product portfolio

MONEY

Product category	**Credit cards**	**Personal loans**	**Motor loans**[c]
Overview	Credit cards allow customers to purchase goods and services on revolving credit	Personal loans provide finance to individuals for personal use (other than secured housing loans)	Motor loans are secured loans provided to customers for the purpose of purchasing a motor vehicle[d]
		Travel Debt consolidation Home Improvement Other	Car Motorbike Boat Caravan
Distribution product take-up	Direct to customer	Direct to customer, and via partnerships and brokers	Direct to customer and via brokers
Open Accounts[a]	434,000	144,000	26,000
1H19 Volume[b]	A$1.2 billion	A$720 million	A$149 million
Gross loan receivables[a]	A$477 million	A$2.2 billion	A$425 million
1H19 RAI yield (%)[b]	10.79%	9.26%	4.38%
Section	Section 2.3.3.1	Section 2.3.3.2	Section 2.3.3.3

Notes:

(a) Customer accounts to nearest 1,000 and Gross loan receivables as at 30 June 2019.

(b) Refer definitions of volume and RAI yield in Section 4.14.

(c) Latitude’s motor loan products are not currently offered in New Zealand. Latitude lends for car purchases through its personal loan product in New Zealand.

(d) Including cars, motorcycles and other recreational vehicles – see Section 2.3.3.3.

2.3.3.1. Credit cards

Credit cards allow a customer to make purchases on credit at the point of sale, up to a pre-determined credit limit and typically provide for a monthly or per statement interest free period, with balances unpaid or accruing after this time subject to interest.

In addition to general purpose credit cards issued in conjunction with its instalments products offer, Latitude issues Scheme-enabled credit card products in Australia and New Zealand which allow customers to purchase goods and/or services on short-term revolving credit. They are offered direct to customers online (28° Global, Infinity Rewards and Low Rate), as well as via partner credit card offerings (Countdown's Onecard Visa[51]).

Latitude's credit card products and instalments products are part of the broader credit and charge card industry, as defined by the RBA and the RBNZ[52].

2.3.3.1.1. Industry overview

Australian credit and charge card industry

- Use of card-based payment methods such as credit cards has increased in Australia over the last 10 years as customers transition to electronic payment methods[53]. Customer and retail spending has seen a shift towards digitised payment methods, with the emergence of digital wallets available on both mobile devices via apps and wearable devices. These digital wallets typically allow cardholders to aggregate cards onto a single device and facilitate payments using a tokenisation of the card to interact with payment terminals. Third-party digital wallet providers, including Apple Pay, Google Pay, Samsung Pay, Fitbit Pay, Garmin Pay and Visa Checkout, have established arrangements with individual financial institutions, including Latitude, to make cards available in these digital wallets. These arrangements provide an increasingly important avenue for lenders to access customers.
- In Australia, over the 10 years to 2018, the total number of electronic card payments (debit cards and credit cards including charge cards) grew at a CAGR of 12.5%[54].
- The number of personal credit card accounts in Australia increased to 15.9 million as at December 2018, representing a CAGR of 1.1% in the 10 years to 2018[55]. The number of personal credit and charge card transactions in Australia increased at over three times the rate of accounts growth, with a CAGR of 7.1% over the same period and totalling 2.9 billion transactions per year (see Figure 41).

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[51] The Countdown relationship in New Zealand which will cease on 31 December 2019, although the card accounts will remain active, Latitude intends to introduce an alternate credit card product for New Zealand.

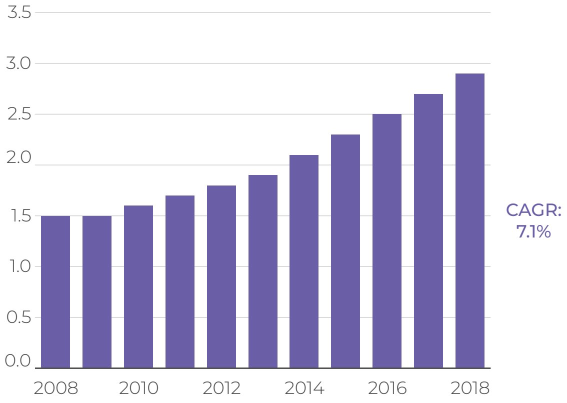
[52] Excluding Latitude's closed loop (i.e. non-Scheme-enabled) card products.

[53] Credit and charge card transactions in Australia have risen by a CAGR of 7.1% from December 2008 to December 2018. RBA (Series CCCCSTTN).

[54] RBA, Credit and Charge Card Statistics – additional credit card statistics (Series CCTTWIFN, CCTTWOIFN), Debit card statistics (Series CDCPTN), year ended December.

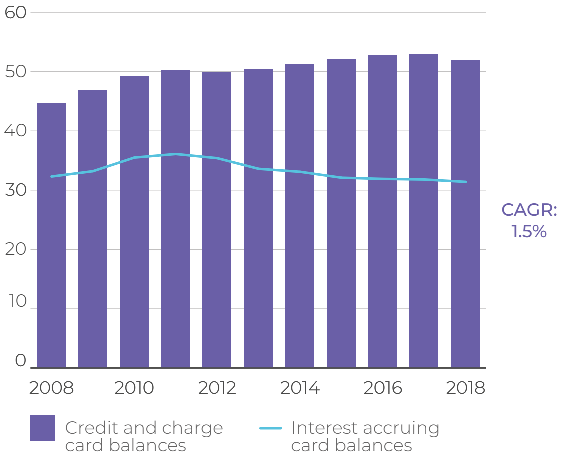
[55] RBA, Credit and Charge Card Statistics – credit and charge cards (Series CCCCSNA), based on 10 years ended December 2018.

Figure 41: Credit and charge card transactions, Australia[56] (A$ billion)



Source: RBA, Credit and Charge Card Statistics – additional credit card statistics (Series CCCCSTTN), year ended December.

Figure 42: Credit and charge card balances, Australia[57] (A$ billion)



Source: RBA, Credit and Charge Card Statistics (Series CCCCSBT), year ended December.

Notes: Data excludes 'closed loop' cards.

- In Australia, over the 10 years to 2018, total credit and charge card balances increased by a CAGR of 1.5% to approximately A$52 billion, with interest accruing credit card balances declining to A$31.4 billion since their peak in 2011 (see Figure 42).
- By comparison, Latitude's total credit card balances in Australia[58] increased by a CAGR of 8.1% over the same period to A$3.4 billion in 2018, and the Major Australian Banks' personal credit card balances increased by a CAGR of 1.9% over the same period to A$33.4 billion in 2018[59]. Additionally, over the five-year period to December 2018, total credit and charge card balances increased by a CAGR of 0.6%. By comparison, Latitude's total credit card balances in Australia increased by a CAGR of 9.3% over the same period.

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[56] Including personal cards (with and without interest free periods) issued by reporting financial institutions (Australian banks, foreign banks, most building societies, credit unions and certain other non-bank providers of credit services).

[57] Transactions on general purpose credit cards and charge cards issued to individuals or businesses by reporting financial institutions in Australia. Reporting financial institutions include most Australian banks, foreign banks operating in Australia, building societies, credit unions and certain other non-bank providers of card services.

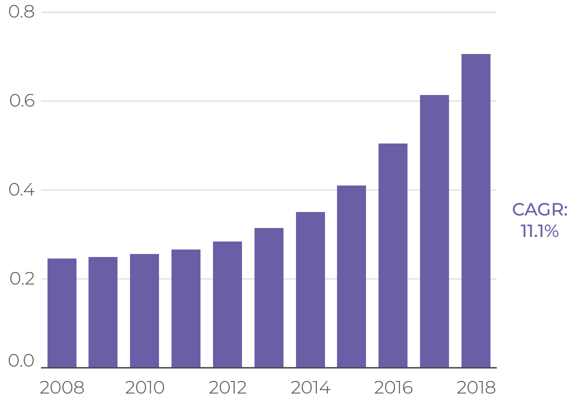
[58] Latitude card balances includes Scheme-enabled instalments products card and credit card balances.

[59] APRA (monthly banking statistics), December 2018.

New Zealand credit and charge card industry

- In New Zealand, the number of credit and charge card transactions has increased by a CAGR of 11.1% over the 10 years to 2018 (see Figure 43). Personal credit card balances increased by a CAGR of 3.1% to approximately NZ$7.0 billion over the same 10 years (see Figure 44) and a CAGR of 3.6% over the five years to 2018.
- By comparison, over the same five years to 2018, Latitude's total credit card balances in New Zealand increased by a CAGR of 17.4% to NZ$833 million over the same period[60] (see Figure 45).

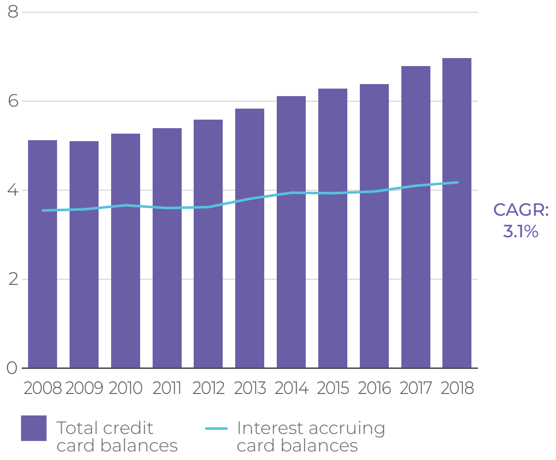
Figure 43: Credit and charge card transactions, New Zealand (billion)



Source: Statistics New Zealand, Electronic card transactions – credit cards (Table reference ECTQ.S29AW), year ended December.

Notes: Data includes charge cards.

Figure 44: Credit card balances, New Zealand (NZ$billion)

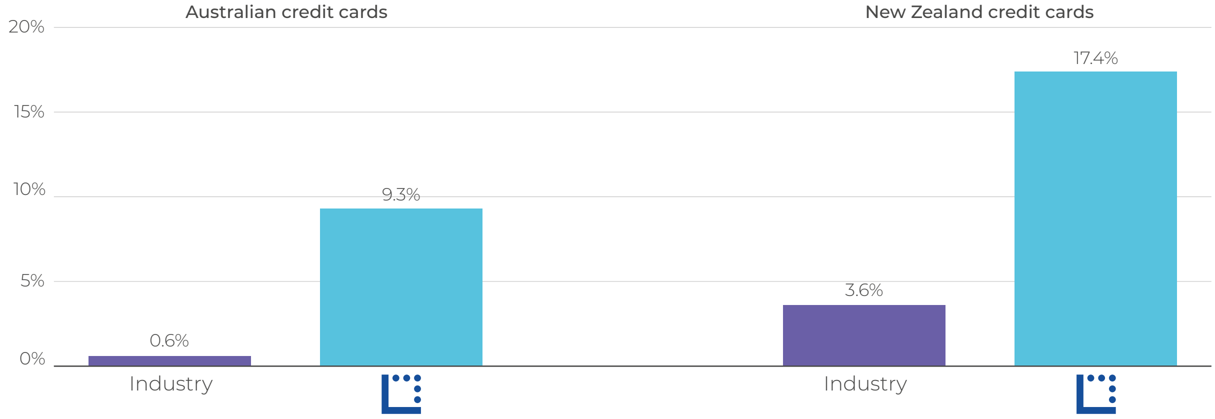


Source: RBNZ, Credit Card Balances (Series CRCD.MOA20 and CRCD.MOA21), year ended December.

Notes: Personal credit card balances only.

Interest accruing personal credit card balances in New Zealand have steadily increased since 2008 at a CAGR of 1.7% to approximately NZ$4.2 billion in 2018.

Figure 45: Above system growth in Australian and New Zealand credit cards[61]



Note: Growth rates represent year-end balance cumulative average growth rate from December 2013 to December 2018.

2.3.3.1.2. Latitude's credit cards offering

Latitude's primary credit cards (excluding those offered in conjunction with instalments products), along with their key features and distribution channels, are summarised in Table 12.

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[60] Latitude card balances includes Scheme enabled instalments products card and credit card balances.

[61] Latitude card balances includes Scheme-enabled instalments products card and credit card balances.

Table 12: Credit card product overview as at 30 June 2019 (excludes instalments products)[(a)]

	28° Global	**Infinity Rewards**	**Low Rate**	**Onecard[(b)]**
Product				
Geography	Australia	Australia	Australia	New Zealand
Open accounts[(c)]	320,000	67,000	9,000	10,000
Proposition	• No annual fee card for travel and online shopping	• Rewards card, with interest free period and uncapped points earning	• Lower interest rates, while maintaining a suite of benefits such as price and purchase protection as well as extended warranty	• Countdown supermarket chain branded card offering loyalty incentives under a partnership agreement
Distribution	• Direct to consumer (online)	• Direct to consumer (online)	• Direct to consumer (online)	• Partnership agreement with Countdown[(d)]
Current key features	• No annual fee with up to 55 days interest free • No international transaction fees • No currency conversion fees • Digital wallet enabled • Free global Wi-Fi via Boingo hotspots • Flight delay pass	• A$69 annual fee with up to 55 days interest free • Earn unlimited points with no expiry, with a wide range of redeemable awards • Digital wallet enabled	• A$69 annual fee with up to 55 days interest free • Lower interest rate for standard purchases compared to 28° Global and Infinity Rewards • No fee for additional cardholders • Digital wallet enabled	• NZ$65 annual fee with up to 55 days interest free • Onecard rewards programme

Notes:

(a) These are the credit card products currently being originated by Latitude, however, Latitude has other credit card products which have historically been issued and which existing customers may still use at all participating merchants (e.g. Eco and Latitude Mastercard).

(b) Onecard to be discontinued by the end of 2019 and replaced with a Gem branded card.

(c) Open customer accounts rounded to nearest 1,000 and exclude cards no longer originated by Latitude such as Eco Mastercard, Latitude Mastercard and Myer Black.

(d) Countdown (Woolworths New Zealand Limited) is a major supermarket brand in New Zealand, owned by Woolworths Limited. Latitude also supports customers for a range of everyday spend cards including Latitude Mastercard, and Latitude Eco Mastercard, which it no longer originates. Gem Visa is also marketed as a general purpose credit card in New Zealand.

The Latitude credit cards are positioned with value propositions that aim to be different to bank issued cards and their associated loyalty programmes. For example, 28° Global (Mastercard) has no annual fee or international transaction or currency conversion fees, provides up to 55 days interest free and offers free access to global Wi-Fi provided by Boingo. With these features, Latitude aims for 28° Global to be an attractive card for travel and online purchases for customers. In addition, cards issued under the Mastercard and Visa Schemes have been enabled for digital wallets including Samsung Pay[62], Apple Pay, Google Pay, Fitbit Pay, Garmin Pay and Visa Checkout. This is an area of significant growth with over 100,000 cards provisioned as at June 2019, compared to around 30,000 in January 2018.

Key operating metrics for Latitude's primary credit cards are summarised in Table 13. The metrics provided in this section exclude any credit card transactions on instalments products issued to customers originated via Latitude's merchant partners and reflected in Latitude's instalments product metrics. The Countdown partner credit card offering for Onecard will cease in December 2019 and, while issued cards will still be able to be used, Latitude intends to introduce an alternate credit card product for New Zealand.

Table 13: Latitude credit cards key metrics as at 30 June 2019 (excludes instalments products originated credit cards)

	Australia	New Zealand
Gross loan receivables	A$443.2 million	NZ$35.2 million
1H19 volume[(a)]	A$1.2 billion	NZ$53.5 million
1H19 operating income	A$29.6 million	NZ$2.7 million
1H19 RAI yield[(a)]	10.63%	12.19%
Open accounts[(b)]	395,000	10,000
90+ days delinquencies[(c)]	1.14%	2.68%

Notes:

(a) Refer definitions of volume and RAI yield in Section 4.14.

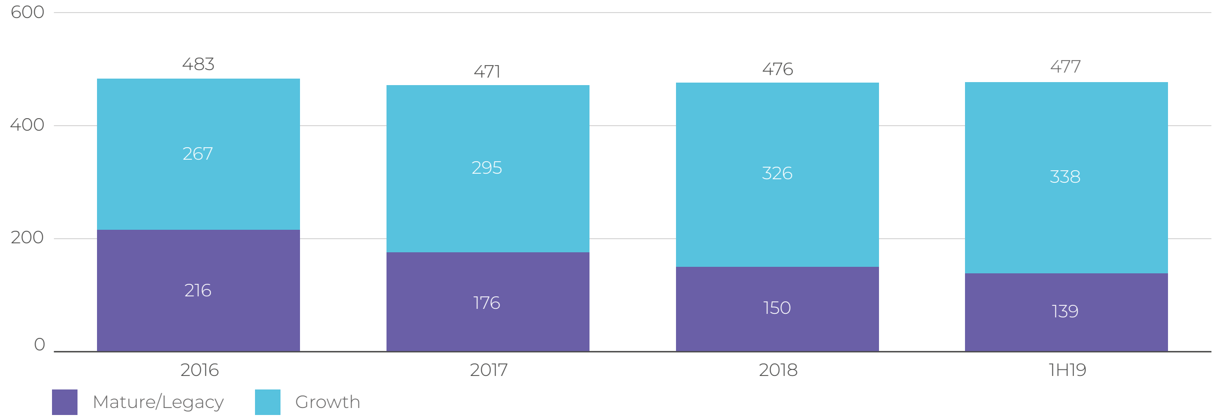
(b) Customer accounts at 30 June 2019 rounded to nearest 1,000 and exclude cards no longer originated by Latitude.

(c) Average 90+ days delinquency data shown calculated as average of the LTM Jun-19.

Growth in credit card receivables

Figure 46 illustrates the growth in Latitude's credit card receivables over the financial reporting periods covered in this Prospectus.

Figure 46: Credit card Gross loan receivables (A$ million)



Notes: Data shown as years to 31 December with the exception of 1H19. Growth segment includes 28° Global and Low Rate cards. Mature/Legacy segment includes Infinity Rewards Visa and credit cards that are no longer originating (including Latitude Mastercard, Latitude Eco Mastercard and Myer Black).

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62 Only available in Australia.

Latitude's credit card Gross loan receivables were flat in the two and a half years to 30 June 2019 at an aggregate level. Balances were impacted by a change in portfolio mix as the portfolio tilted towards the growing 28° Global portfolio (refer to Case Study 3) offset by the declining legacy credit cards (with no new customer acquisition) and the Latitude Infinity card product.

Latitude's initiatives to drive volume growth across the credit card portfolio include:

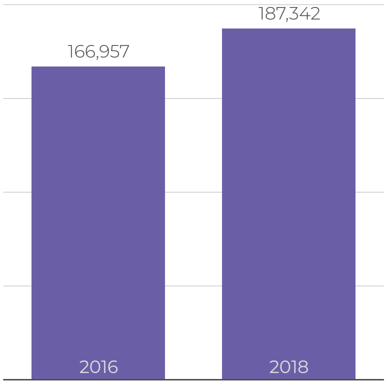
- Product innovation and new launches which leverage Latitude's investment in brand and marketing; this includes growth in general purpose credit card volume as a result of product migration and digital wallet enablement; and
- Development of enhanced customer origination processes aimed at driving faster customer applications.

The historical and forecast financial information in this Prospectus should be read in conjunction with, and qualified by reference to, the information contained in Sections 4 and 5.

Table 14: Case study 3: 28° Global credit card product launch

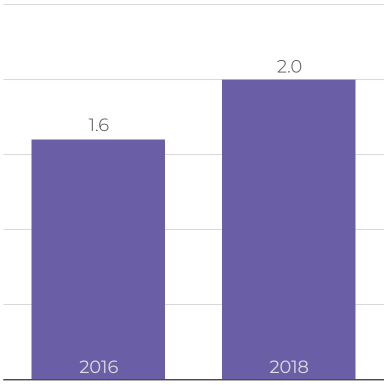
- Latitude identified an opportunity for a travel focused credit card with no international transaction fees and launched the 28° Global card in 2011.
- 28° Global was successful in meeting customer needs, recording a high NPS and winning multiple industry awards. 28° Global's NPS was +39 as at June 2018[63].
- Latitude has been successful in growing its 28° Global direct to consumer credit card volumes through both new customer accounts and increased usage (see Figures 47 to 49). Latitude has grown annual volumes for the 28° Global card from A$1.6 billion in 2016 to A$2.0 billion in 2018, a CAGR of 10%.
- Latitude also recently added digital wallet payment capability on 28° Global and all of its credit card products, enabling customers to provision their card to a wearable device or mobile phone.
- Latitude also offers customers additional features such as free global Wi-Fi access provided by Boingo and a flight delay pass for lounge access in certain circumstances where flights are delayed.

Figure 47: 28° Global active accounts 2016 – 2018



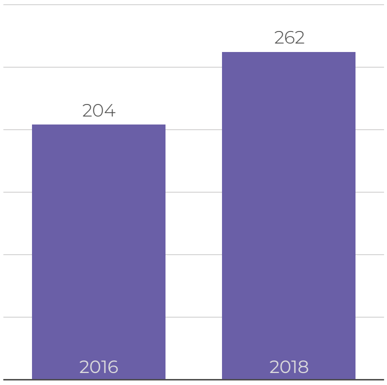
Note: Years to 31 December.

Figure 48: 28° Global volume (A$ billion) 2016 – 2018



Note: Years to 31 December.

Figure 49: 28° Global Gross loan receivables (A$ billion) 2016 – 2018



Note: Years to 31 December.

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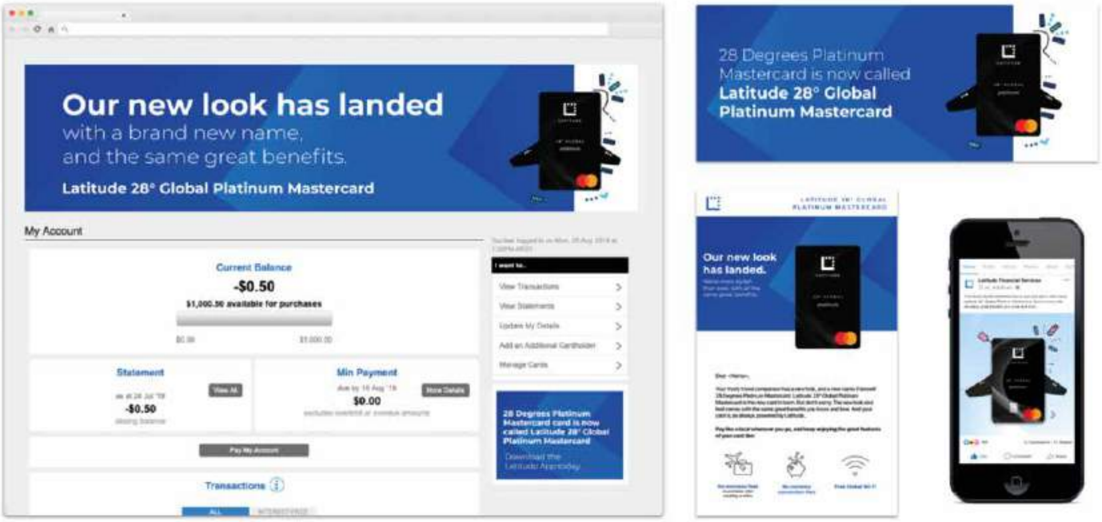
[63] Latitude 28° Global product NPS, as at 30 June 2018; Latitude CX Research by Nature Research, Cards – Australia (June 2018).

28° Global marketing material



2.3.3.2. Personal loans

Personal loans provide finance to individuals for personal purposes (other than secured housing purposes such as buying a home or investment property). Personal loans generally provide customers with finance for consolidating or refinancing other customer debts (such as existing credit cards or personal loans) and for a range of purposes and major purchases including buying a car, travelling, purchasing goods for around the home and undertaking small home renovations. Motor loans (fully secured by the vehicle being purchased) are discussed further in Section 2.4.5.

Providers of personal loans generate revenue through establishment fees, interest charged on outstanding balances and other fees and charges, including ongoing loan service fees. The interest rate charged by a personal loan provider varies depending on the credit quality of the applicant, the stated purpose of the loan and the term of the loan, among other factors.

Latitude's personal loans are provided on a fully amortising, fixed rate basis for a term of one to seven years, with the option of weekly, fortnightly or monthly repayments. Personal loans generate income for Latitude through interest payments and various account fees (relating to the establishment, servicing and termination of the loan).

2.3.3.2.1. Industry overview

As at November 2018, the annual volume of the fixed personal loans industry[64] in Australia was estimated to be A$46.7 billion[65], having grown at a CAGR of 2.0% over the 10 years to 2018. The historical annual volume of fixed personal loans in Australia is shown in Figure 49.

In New Zealand, the total balance of personal loans outstanding (for non-housing purposes) was estimated to be NZ$10.0 billion[66]. The outstanding balance of personal loans in New Zealand increased at a CAGR of 1.6% over the 10 years to 2018[67].

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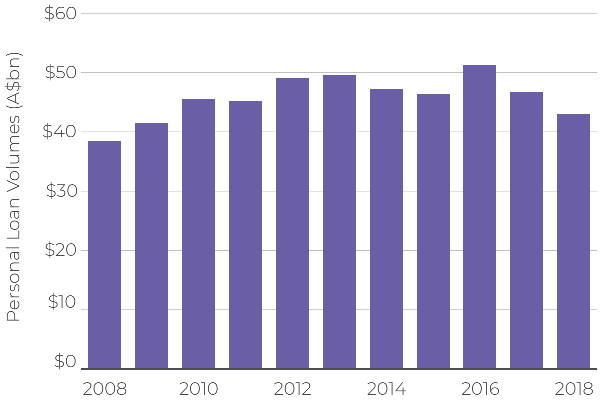
[64] All personal fixed loans – including unsecured housing loans and motor loans.

[65] Australian Bureau of Statistics – Lending Finance, Australia (Category 5671, series A2413428L).

[66] RBNZ – Sector lending (registered banks and non-bank lending institutions) (C5), Credit card balances (C12), year ended December 2018.

[67] RBNZ – Sector lending (registered banks and non-bank lending institutions) (C5), Credit card balances (C12), year ended December 2018.

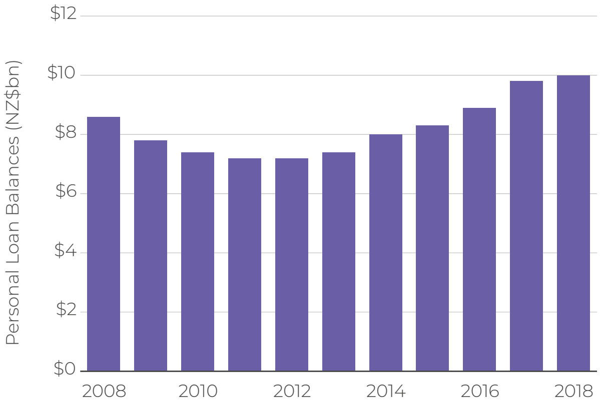
Figure 50: Personal fixed loan volumes – Australia (2008–2018[(a)])



Source: Australian Bureau of Statistics – Lending Finance, Australia (Category 5671, series A2420164A and A2420142L), year ended December.

Notes: (a) Fixed loan volume represents LTM to Nov-2018 (Australian Bureau of Statistics series discontinued resulting in unavailability of December data).

Figure 51: Personal loan balances outstanding – New Zealand (2008–2018)



Source: RBNZ – Sector lending (registered banks and non-bank lending institutions) (Series CRDS. MALP2), Credit card statistics: personal card balances outstanding (Series CRDS.MALP1), year ended December.

Notes: Personal consumer loan balances excluding total personal credit card advances outstanding have been used to calculate personal loan balances outstanding.

Continued growth in personal loans

Latitude's focus on the distribution of personal loans has seen growth in receivables in Australia and New Zealand since the start of 2017. Growth has been driven by a number of initiatives across the personal loan portfolio, including:

- Marketing campaigns for branded, direct to customer personal loans (which started in October 2016) to drive an increase in new customer applications and volumes;
- Improved digital loan application;
- Enhancing sales team processes to drive faster customer applications; and
- Continuing to improve and support broker distribution with a national team of relationship managers.

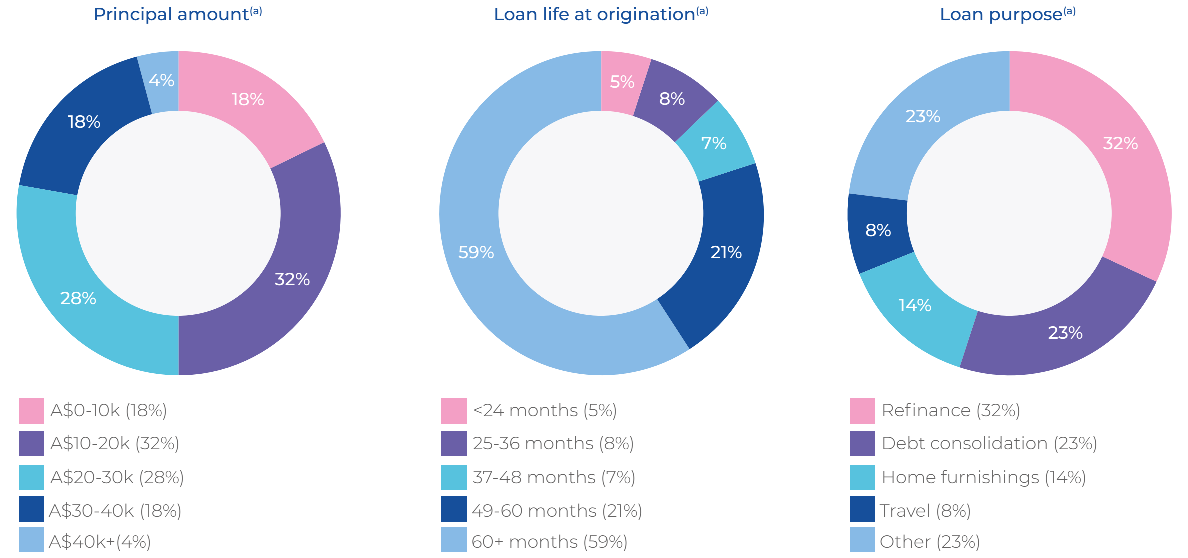
2.3.3.2.2. Latitude's personal loan offering

Latitude originates personal loans through both direct and indirect channels, including:

- A Latitude branded direct to customer offering in Australia;
- A Gem branded direct to customer offering in New Zealand; and
- Commercial partnerships with Kiwibank in New Zealand and SocietyOne in Australia.

A snapshot of Latitude's personal loan portfolio by loan size, loan life at origination and purpose is provided in Figure 52.

Figure 52: Personal loans portfolio overview



Note: (a) Split based on number of loans, as at 30 June 2019.

Latitude's share of Australia's personal loan industry has doubled over the past several years. From June 2016 to June 2019, Latitude's share of personal loan new commitments has increased from 5% to 13%, respectively.[68]

Key operating metrics for the personal loans portfolio is shown in Table 15.

Table 15: Personal loans key metrics as at 30 June 2019

	Australia	New Zealand
Gross loan receivables	A$1.6 billion	NZ$639.8 million
1H19 volume[a]	A$485 million	NZ$247 million
1H19 operating income	A$107.0 million	NZ$42.8 million
1H19 RAI yield[a]	8.77%	10.68%
Open Accounts[b]	100,000	45,000
90+ days delinquencies[c]	0.53%	0.41%

Note:

(a) Refer definitions of volume and RAI yield in Section 4.14.

(b) Open customer accounts at 30 June 2019 rounded to nearest 1,000.

(c) Average 90+ days delinquency data shown calculated as average of the LTM Jun-19.

Growth in personal loan receivables

Figure 53 illustrates the growth in Latitude's personal loan receivables over the financial reporting periods covered in this Prospectus.

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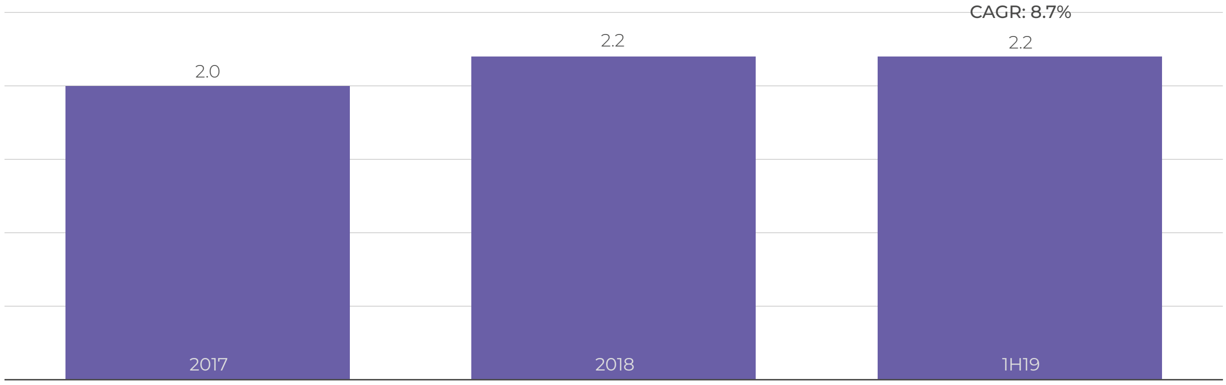
[68] Share is of a personal loan market subset. Source: RFi Group.

Figure 53: Personal loan Gross loan receivables (A$ billion), Australia and New Zealand)



Notes: Data for periods ended 31 December with the exception of 1H19.

Historical and forecast financial information in this Prospectus should be read in conjunction with, and qualified by reference to, the information contained in Sections 4 and 5.

Over the forecast period, a number of initiatives are planned to maintain growth, including:

- Building momentum as Latitude executes the L-Money strategy, including introducing new products and new pricing offers to attract new Latitude customers;
- Continuing to improve the customer experience with investments in digital;
- Further investment in systems, products and brand; and
- Simplification and improvement of the application experience to improve conversion of applications to settle loans.

Latitude does not currently have a broker network in New Zealand but is currently piloting personal loans with a small number of brokers.

The historical and forecast financial information in this Prospectus should be read in conjunction with, and qualified by reference to, the information contained in Sections 4 and 5.

2.3.3.3. Motor loans

The Australian motor loan industry forms a sub-sector of the personal loan industry[69] and comprises loans to individuals or businesses for the purpose of acquiring a new or used vehicle, such as a car or motorcycle, where that vehicle is used as security for the loan. Some lenders, such as Latitude, will also extend motor loan lending to finance the acquisition of other recreational vehicles (e.g. caravans, boats and off-road vehicles).

Providers of motor loans generate revenue through establishment fees, interest charged on outstanding balances and other fees and charges, including ongoing loan service fees. The interest rate charged by a motor loan provider varies depending on the age of the vehicle financed, term of the loan, size of the deposit and profile of the borrower, among other factors. As these loans are typically fully secured by the vehicle being financed, the interest rate charged by a lender will reflect this and will generally be lower than that for an unsecured personal loan.

Latitude provides loans for motor vehicles and other recreational vehicles, originating through direct to customer and broker channels in Australia. Latitude does not currently offer fully secured motor loans in New Zealand. Lending for motor vehicles in New Zealand is currently done as a personal loan. Where Latitude provides an unsecured loan to support the purchase of a motor vehicle, Latitude classifies these loans as personal loans. Latitude only offers fixed rate motor loans.

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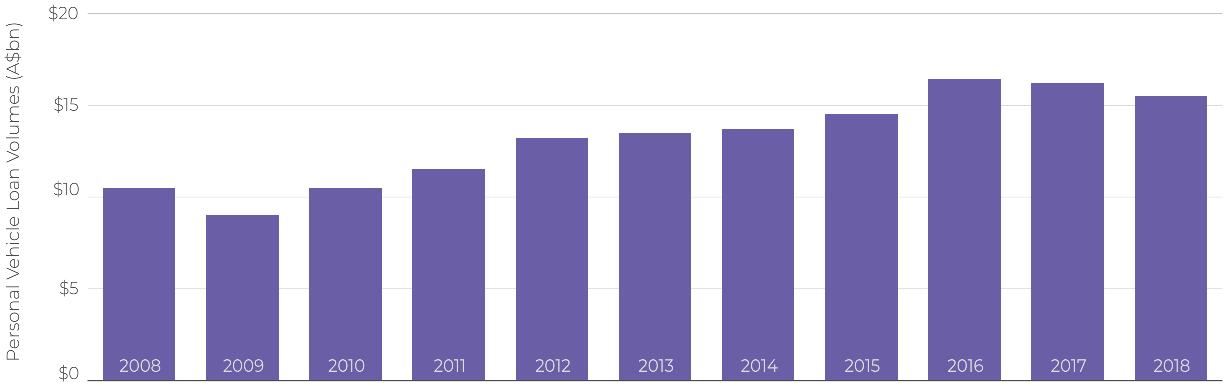
[69] As defined by the Australian Bureau of Statistics.

2.3.3.3.1. Industry overview

The total Australian motor loan industry (defined by the Australian Bureau of Statistics as 'vehicle finance') includes personal vehicle finance, commercial vehicle finance and other recreational vehicle leases. As at 30 November 2018, total vehicle financing volumes (excluding revolving credit) was estimated to be approximately A$35.6 billion per annum[70], having increased at a CAGR of 5.1% over the 10 years to 2018[71]. Personal vehicle fixed loan volumes (excluding revolving credit) were estimated to be approximately A$15.5 billion[72] as at 31 December 2018 and increased at a CAGR of 3.9% over the same period (refer Figure 54 below[73]).

Demand for vehicle financing is driven by the sale of new and used motor vehicles, which is in turn driven by general macroeconomic conditions such as GDP growth, unemployment and consumer confidence (see Section 2.5) – macroeconomic environment for further detail on these drivers).

Figure 54: Personal vehicle loan volume in Australia (2008–2018[(a)])



Source: Australian Bureau of Statistics, Finance Commitments for Motor Vehicles (Category 5671, Series A2414170J and A2414173R).

Notes: Includes both secured and unsecured lending; excludes revolving credit. Year ended 31 December.

(a) Personal vehicle loan volume represents LTM Nov 18 (December data not available).

2.3.3.3.2. Latitude's motor loan offering

Latitude secured motor loans are an Australia only offering, originating through direct to customer and broker channels. Latitude focuses on the used vehicle segment, which represents the majority of Latitude's motor loan volumes in Australia. In this segment, Latitude believes it can leverage its ability to offer competitive interest rates for risk and willingness to fund a broad range of vehicle types to drive growth in its share of financing of the A$15.4 billion personal vehicle finance industry[74]. By contrast, new vehicle financing is primarily provided by original equipment manufacturers and dealer integrated financing offers.

A Latitude motor loan has a term of between one and seven years. It has a fixed interest rate, and repayments can be made weekly, fortnightly or monthly. Latitude charges fees relating to the establishment, servicing and termination of the loan, as well as interest on outstanding balances.

Latitude re-entered the segment in June 2016, using the management team's prior experience and Latitude's systems and processes that were already in place. Latitude's strategy to grow in motor loans is to scale volume through origination via intermediaries (aggregators and brokers) and building a strong direct to customer proposition and experience to increase Latitude's share of this large market segment.

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[70] Australian Bureau of Statistics (Category 5671, Series A2414173R), November 2018. Data for 2018 is not available as reporting has been discontinued as of November 2018.

[71] Australian Bureau of Statistics (Category 5671, Series A2414173R), November 2018. Data for 2018 is not available as reporting has been discontinued as of November 2018.

[72] Australian Bureau of Statistics (Category 5671, Series A2414173R and A2414170J), 12 months to November 2018. Data for 2018 is not available as reporting has been discontinued as of November 2018.

[73] Including both secured and unsecured lending.

[74] Australian Bureau of Statistics (Category 5671, Series A2414173R and A2414170J), 12 months to November 2018. Data for 2018 is not available as reporting has been discontinued as of November 2018.

Latitude believes it is an attractive partner for brokers and other commercial partners, as it delivers a strong service proposition supported by a national team of experienced relationship managers and a commitment to fast loan application processing. Latitude has invested digitally in its loan application portal, which can be integrated with commercial partner platforms, as well as its capability to rapidly credit assess customers for new loans via streamlined application processes as well as automated decisioning processes. Latitude continues to streamline the application process, through the introduction of a decisioning process in under 90 seconds and real-time external identity verification. Latitude has also introduced a process for a full approval in advance of choosing the vehicle to further enhance its direct to customer proposition and appeal to customers who research financing before deciding on a vehicle purchase.

The launch of Latitude's direct to customer motor loan offering utilises Latitude's brand advocacy among its customer base[75], established operations across originations, credit risk management, technology and funding, and provides a cost-efficient platform to support growth. Latitude is focused on the direct to customer and broker origination channels to grow the motor loans business and does not intend to target the wholesale and dealer finance segments. Latitude plans to invest in the brand, execute motor-specific marketing campaigns, introduce new product propositions and make further investments in digital to enhance the customer experience over the next few years.

Key operating metrics for the motor loans portfolio are shown in Table 16.

Table 16: Motor loans key metrics as at 30 June 2019 (Australia)

Gross loan receivables	A$425 million
1H19 volume[(a)]	A$149 million
1H19 operating income	A$13.5 million
1H19 RAI yield[(a)]	4.38%
Open accounts[(b)]	26,000
90+ days delinquencies[(c)]	0.29%

Notes:

(a) Refer definitions of volume and RAI yield in Section 4.14.

(b) Open customer accounts at 30 June 2019 rounded to nearest 1,000.

(c) Average 90+ days delinquency data shown calculated as average of the LTM Jun-19.

Growth in motor loan receivables

Figure 55 illustrates the growth in Latitude's motor loan receivables over the financial reporting periods covered in this Prospectus. Latitude's motor loan receivables grew at a CAGR of 65% between 2017 and 1H19.

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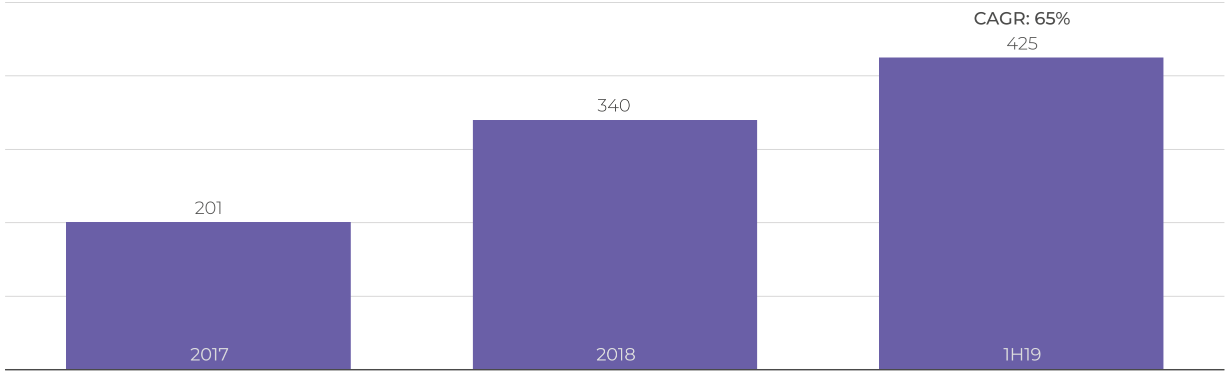
[75] As represented by Latitude's brand NPS score of +10 for whole of enterprise. Source: Latitude Customer Satisfaction 2017-18 NPS Topline May 2018, Nature Research.

Figure 55: Motor loan Gross loan receivables in Australia since re-launch (A$ million)



Notes: Data shown as years to 31 December with the exception of 1H19.

Historical and forecast financial information in this Prospectus should be read in conjunction with, and qualified by reference to, the information contained in Sections 4 and 5.

Growth has been driven by a combination of broker channel and direct customer sales, as Latitude continued its focus on its direct to consumer branding strategy and invested in its strategic partnerships with key aggregators and brokers. Growth in future periods is expected to be driven by:

- Continuation of the motor loan growth strategy in Australia;
- Latitude's continued focus on making it simpler, quicker and easier for brokers to transact with it; and
- Latitude's broader brand investment increasing brand recognition.

The historical and forecast financial information presented in this Section 2 should be read in conjunction with, and qualified by reference to, the information contained in Sections 4 and 5.

2.3.4. Hallmark Insurance

Hallmark Insurance provides insurance cover for Latitude's personal loans and credit card customers in Australia and New Zealand. The insurance cover mainly includes life, disability, involuntary unemployment and some variants of critical illness. Cover provided by Hallmark Insurance for Latitude's credit card customers includes additional benefits such as shopper's protection, which offers price protection, merchandise protection and stolen card cover, and each customer can claim up to A$15,200 worth of benefits under these areas of cover.

As a result of an industry regulatory review by ASIC (see Sections 2.5.4 and 5.2.1.3) Latitude has ceased selling its Hallmark Insurance product for credit cards as of September 2019 with the intention of making changes to the Hallmark Insurance product for credit cards before re-commencing selling of insurance. It continues to sell the Hallmark Insurance product for personal loans, with the product exclusively sold directly by Latitude. There are further industry wide changes proposed by ASIC and the Australian Government which are expected to impact the ways in which Latitude can sell its Hallmark Insurance product which are further detailed below.

2.3.4.1. Industry overview

Sales of CCI within the broader CCI industry are linked to sales of mortgages, personal loans and credit cards. Hallmark Insurance products are traditionally offered exclusively to Latitude's personal loan and credit card customers.

The provision of CCI continues to be a key area of regulatory interest in Australia and New Zealand. In addition to proposed changes around the structure of the product (see Section 2.5.3), both ASIC and the Australian Government are proposing to implement a ban on hawking of insurance products, which will include a ban on unsolicited phone sales of consumer credit insurance where the customer is not provided personal financial advice, and the introduction of a deferred sales model for CCI across all distribution channels (see Sections 2.5.4 and 5.2.1.3). As a result of the regulatory focus on CCI, there are no other current providers of CCI for credit cards in Australia and only a small number of providers of CCI for personal loans.

The regulatory environment associated with the provision of CCI is set out in Section 2.5.3, and a more detailed description of regulatory activities and proposed reforms as applicable to Latitude's business is set out in Sections 5.2.1.3 and 5.2.1.9.

2.3.4.2. Latitude's insurance offering

Latitude has historically offered a select range of insurance products exclusively to its loan and card customers in Australia and New Zealand[76] through Hallmark Insurance. Hallmark Insurance trace its history back to the 1970s and was acquired by GE in 1999. Hallmark Insurance has a prudent approach to its allocated capital and maintain a low risk investment strategy.

Latitude's core insurance products are summarised in Table 17.

Table 17: Latitude's insurance products

	Applicable to:		
Cover	**Loans**	**Cards**	**Details**
Involuntary unemployment, disability and death	✓	~*	• Covers regular repayments on the credit contract in the event of involuntary unemployment, disability and death • Pays the outstanding balance should the insured customer die or become totally and permanently disabled[77]
Price protection	–	~*	• Cover allows cardholders to receive a payment in the event that the purchased item drops in price within 12 months at any Australian retailer
Merchandise protection	–	~*	• Covers items purchased on an insured credit card from loss due to theft or damage for up to 12 months

* Notes: Latitude has ceased selling its credit card insurance product as of September 2019 and anticipates making changes to the credit card insurance product before sales re-commence. Details of the credit card insurance cover shown relate to the suspended product from which Hallmark Insurance continues to earn premiums from its existing portfolio.

The loan protection insurance product enables customers to select various cover combinations including life (NZ only), disability plus and involuntary unemployment covers. While life (NZ only) and disability plus covers can be purchased on their own, involuntary unemployment cover can only be purchased in conjunction with disability plus cover.

Latitude also has a small term life legacy portfolio of approximately 3,000 customers with reinsurance arrangements in place.

Product development

Following ASIC's release of Report 622 focused on the CCI industry in July 2019, Latitude conducted an internal review of its loan and credit card insurance products. While Latitude has suspended selling its credit card insurance product as of September 2019, it anticipates re-commencing sales, upon making necessary changes to ensure regulatory compliance. Given the expected ban on unsolicited phone sales of insurance, it is expected that the majority of Latitude's future sales of insurance offerings on both credit cards and personal loans will be online. In this respect, as discussed in Section 2.5.4, there has also been a recent proposal by the Australian Federal Department of Treasury following on from recommendations by ASIC and the Royal Commission to impose a four day deferral period for insurance sales, including in relation to online sales.

Latitude will continue investment in its insurance roadmap, with necessary safeguards against regulatory changes. The key initiatives in its insurance product roadmap include:

- Further enhancement of Hallmark Insurance's product, ensuring compliance into the future;
- Innovative and personalised insurance offering which is integrated into L-Pay and L-Money offers; and
- Evolving its insurance product into the non-typical consumer credit insurance space.

Key metrics for the insurance portfolio are shown in Table 18.

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[76] With the exception of existing insurance policies written to legacy Coles store card holders.

[77] Coverage for death no longer offered in relation to personal loans in Australia.

Table 18: Insurance key metrics as at 30 June 2019

1H19 gross written premium	A$40 million
1H19 net insurance income	A$28.4 million
Active policies	280,000[(a)]

Notes:

(a) As at 31 July 2019.

2.4. Latitude's Organisation Structure

Latitude is headquartered in Melbourne and is organised by geography in Australia and New Zealand with a total workforce of over 1600 FTE as at June 30, 2019. The Australian business led by Greg White, Chief Customer Officer Australia comprised over 1250 FTE at 30 June 2019. Latitude's New Zealand business, based in Auckland, is led by David Gelbak, Chief Customer Officer New Zealand comprised over 350 FTE at 30 June 2019.

Concurrently with the launch of Latitude 2.0 (see Section 2.1.3 – Figure 5), Latitude created the following product groups:

- L-Pay Products led by Paul Varro, EGM LatitudePay and Insurance; and
- L-Money Products led by Greg Sutherland, EGM Latitude Money & CMO.

See Section 2.3.1 for a description of Latitude's L-Pay and L-Money products.

Latitude's digital and technology strategy (including its investment in digital innovation) is led by Andrew Walduck, EGM Digital & Technology (see Section 2.1.4.1 for detail on our technology and data led approach to product and digital innovation).

Latitude has three key enterprise governance and support functions, namely:

- Finance – led by Adrienne Duarte, Chief Financial Officer;
- Corporate Services – led by Chris Blake, EGM Corporate Services; and
- Risk Management – led by Jo Mikleus, Chief Risk Officer.

Each of these executives reports to Ahmed Fahour, Managing Director and CEO, and together they form the Executive Committee of Latitude.

Latitude's new leadership team has driven corporate culture and improved employee satisfaction and engagement, as illustrated in Figure 56. Further details of Latitude's management team is set out in Section 6.

Figure 56: Employee satisfaction survey as of June 2019

	2018 to 2019 uplift
Overall Employee Engagement	+8%
"I am proud to work for Latitude"	+7%
"I would recommend Latitude as a great place to work"	+7%
"I rarely think about looking for a job at another company"	+8%
"I still see myself working at Latitude in two years' time"	+8%
"Latitude motivates me to go beyond what I would in a similar role elsewhere"	+9%

Source: Company survey conducted by Culture Amp. Uplift reflects comparison of surveys on Feb 2018 and Jun 2019.

2.5. Latitude's Macroeconomic, Competitive and Regulatory Environment

2.5.1. Macroeconomic environment

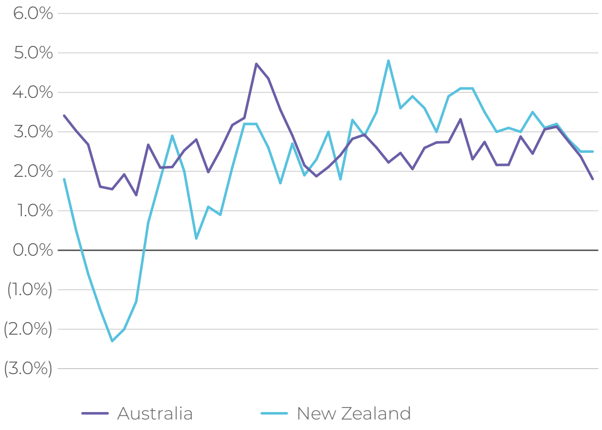
Latitude operates in Australia and New Zealand, both of which are relatively stable and attractive economies with positive GDP growth and stable unemployment levels.

GDP, retail sales and unemployment

Consumer demand for credit is influenced by general economic conditions including GDP growth and unemployment. Australia's general macroeconomic conditions have been favourable to demand for consumer finance products, with positive GDP growth each year since 1992[78]. The Organisation for Economic Co-operation and Development ('OECD') expects Australia's GDP to grow by 2.3% in 2019 and 2.5% in 2020[79]. The unemployment rate in Australia as at July 2019 was 5.2% according to the Australian Bureau of Statistics[80], in line with OECD forecasts of 5.1%.

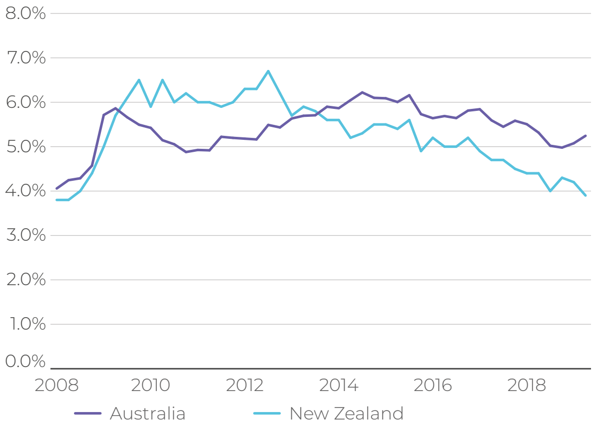
Macroeconomic conditions in New Zealand are similarly favourable to growth in consumer spending and consumer credit, with New Zealand real GDP growth exhibiting positive year on year growth since 2010[81]. The OECD expects New Zealand's GDP to grow by 2.6% in 2019 and 2.5% in 2020[82]. Positive economic growth has supported a low unemployment rate in New Zealand of 3.9% as at June 2019.[83]

Figure 57: Real GDP growth – Australia and New Zealand



Source: RBA, Gross Domestic Product and Income (Series GGDPCVGDPY), RBNZ, Gross Domestic Product, data to March 2019.

Figure 58: Unemployment rate – Australia and New Zealand



Source: Australian Bureau of Statistics, Labour Force (Category 6202, Series A84423050A), RBNZ, M9 Labour Market data to June 2019.

Consumer confidence

Consumer confidence is an aggregate measure of consumer expectations for economic conditions in the next 12 months and can be a leading indicator of strength in consumer transactions. Consumer confidence indices are at or above 100 in both Australia (see Figure 59, as at 31 August 2019) and New Zealand (see Figure 60, as at 30 June 2019), indicating the majority of consumers surveyed are more optimistic than pessimistic on upcoming economic conditions.

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[78] Australian Bureau of Statistics – National Accounts (Category 5206, Series GGDPCVGDPY).

[79] OECD Economic Outlook, Volume 2019 Issue 1.

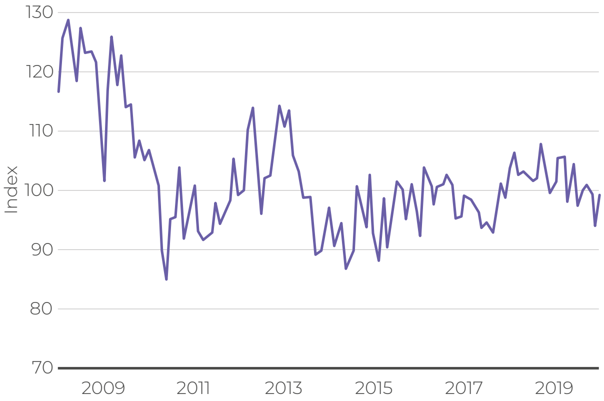
[80] Australian Bureau of Statistics, Category 6202, as at July 2019.

[81] RBNZ, M5 Gross Domestic Product, June 2019.

[82] OECD Economic Outlook 105 Database.

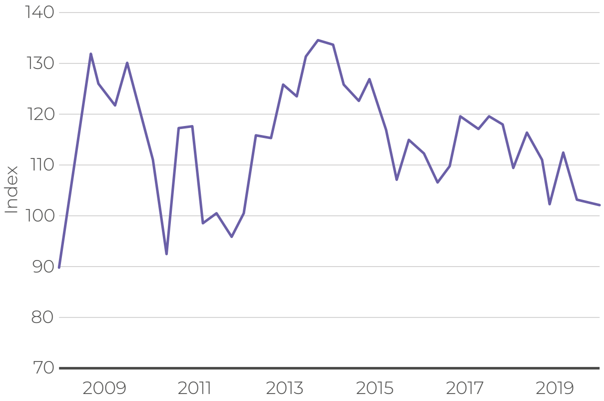
[83] RBNZ, M9 Labor Market data to June 2019.

Figure 59: Consumer Sentiment Index – Australia



Source: Westpac Consumer Sentiment Index as at August 2019.

Figure 60: Consumer Confidence Index – New Zealand



Source: Westpac McDermott Miller Consumer Confidence Index as at June 2019.

2.5.2. Competitive environment

The consumer finance and payments industry in Australia and New Zealand is serviced by a number of providers including banks and specialty finance institutions (including Latitude). Latitude's major competitors and the products offered by those competitors are summarised below.

ADIs, which are regulated as such in Australia by APRA, or in New Zealand under equivalent regulation by the Reserve Bank of New Zealand ('**RBNZ**'), include:

- Major Australian Banks, comprising ANZ, CBA, NAB and Westpac and their NZ subsidiaries;
- Other Australian banks such as Macquarie Bank, Bank of Queensland, Bendigo and Adelaide Bank and Suncorp;
- Credit unions, such as Credit Union Australia and Community First; and
- Foreign subsidiary banks and branches of foreign banks, such as Citigroup, HSBC and ING.

Specialty finance providers, which are not regulated as ADIs in Australia by APRA[84] or the equivalent in New Zealand by the RBNZ, include:

- Retail finance companies such as Afterpay, ZipCo, FlexiGroup and Finance Now;
- Personal loan providers and marketplace lenders, such as SocietyOne, RateSetter and Harmoney; and
- Motor loan providers, including original equipment manufacturer finance providers, such as Pepper, Toyota Financial Services and BMW Finance.

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[84] Note that some of these specialty financial institutions may remain regulated by APRA in certain other respects, as is the case for Latitude's insurance business (Hallmark Insurance). See Section 2.5.3 for more information.

Figure 61: Latitude's Competitive Environment, by Product, in Australia and New Zealand

PAY		MONEY		
Payment Product	**Instalments Product**	**Credit Cards**	**Personal Loans**	**Motor Loans**
		Major Australian Banks including their NZ subsidiaries		
Afterpay ZipCo	HSBC FlexiGroup	Bank of Queensland Bendigo and Adelaide Bank Citigroup	SocietyOne RateSetter Harmoney	Pepper Toyota Financial Services BMW Finance

Source: Selected players based on management views. Not all competitors operate in both markets.

Latitude's differentiation from competitors

Latitude is differentiated from its ADI competitors, particularly the Major Australian Banks including their New Zealand subsidiaries, due to Latitude's:

- Adoption of a "capital-light" business model when compared to capital requirements for ADIs in Australia (and equivalent requirements in New Zealand);
- Specialisation in payments, instalments and lending, with a single core focus on products, service and innovation in this area as opposed to multiple customer portfolios. The provision of consumer finance loans by the Major Australian Banks has fallen as a percentage of total gross loans and advances since 2008 (see Figure 61);
- Brand advocacy, as seen by Latitude's Australia and New Zealand enterprise NPS of +10[85];
- Origination of its direct to customer products online, without the associated costs of the national branch networks operated by the Major Australian Banks and their New Zealand subsidiaries; and
- Position as both a payments product and leading instalments products business providing a low cost customer acquisition channel through its integrated merchant partner base with over 650 merchants offering instalments products in-store and online, and a further 1,300 partners offering its payment products in-store and online through Genoapay, providing exposure to both the growing online retail and physical stores segments.

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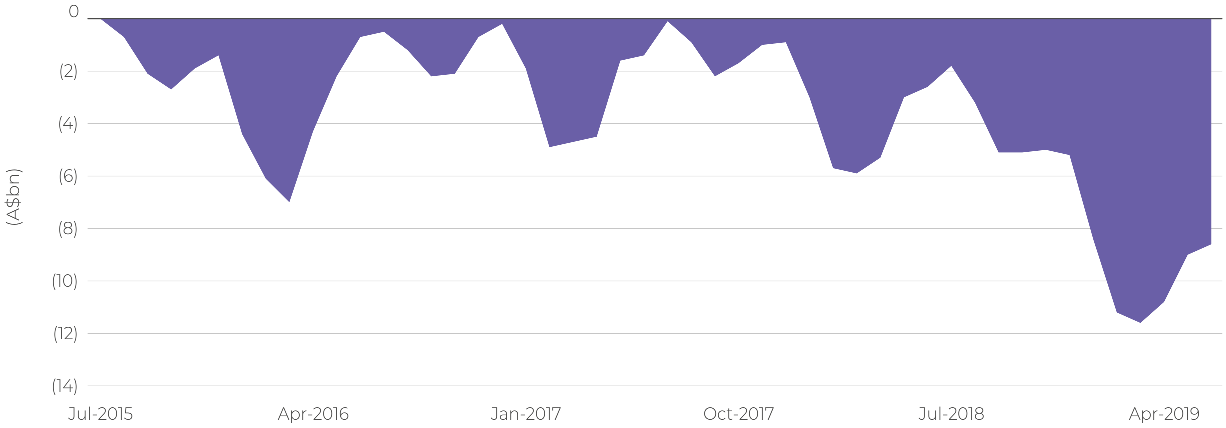
[85] Source: Latitude CX Research Cards – Australia, Latitude CX Research Cards – NZ, Latitude CX Research Loans – Australia, Latitude CS Research Loans – NZ (June 2018), Nature Research.

Figure 62: Major Australian gross personal loans outstanding (net change since July 2015)



Source: APRA Monthly Banking Statistics to August 2019.

Notes: APRA Monthly Banking Statistics data relates to transactions conducted with residents that are booked or recorded on the domestic books of licensed banks and is intended to show the banking activity of banks within the domestic industry only. Because of this revised scope, the statistics cannot be expected to reconcile with the published accounts of licensed banks. Personal loan products defined as all loans to household consumers excluding housing-related loans.

Latitude is differentiated from other specialty finance providers due to Latitude's:

- Scale, with 2.6 million open customer accounts conducting over 160[86] million transactions for the 12 month period as of 30 June 2019 and A$7.7 billion of gross receivables as at 30 June 2019;
- Broad product offering across the customer lifecycle, allowing multiple distribution opportunities, repeat customer engagement and opportunities to offer complementary Latitude products, attracting a diversified customer base across age bands and gender;
- Low customer acquisition cost from the payments and instalments products grouping, due to its integrated merchant partner base with long-standing relationships;
- Comparatively large capital investment in information technology infrastructure in order to fund growth;
- Proprietary and sophisticated customer data analytics, which enable effective credit risk management, inform Latitude's ongoing growth strategies and provide major merchant partners with insight into their customer base to help tailor their marketing and promotions;
- Broad and diversified funding base, with Latitude having established a public ABS programme that gives it access to a large debt capital pool; and
- Long and proven track record of performance and profitability through the Australian and New Zealand credit cycle, which sets it apart from many new specialty finance providers which may be yet to prove their business models over the longer term.

2.5.3. Regulatory environment

Licensed credit and insurance providers conducting business in Australia and New Zealand are required to comply with a number of key laws and regulations, including those specific to the provision of payments, instalments and lending, and insurance products.

Latitude's payments, instalments and lending activities are primarily regulated:

- In Australia, by ASIC as an Australian Credit Licensee under the *National Consumer Credit Protection Act 2009* (Cth) ('**NCCP Act**') and the NCC; and
- In New Zealand, by the Commerce Commission under the *Credit Contracts and Consumer Finance Act 2003* (NZ) ('**CCCFA**') and the Responsible Lending Code.

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[86] Latitude Financial Services, year to 30 June 2019, Australia and New Zealand. Transactions include all Latitude card products in 2019.

In Australia, Australian Credit Licensees are subject to general obligations under the NCCP Act, which include:

- Doing all things necessary to ensure that the credit activities authorised by the licence are engaged in efficiently, honestly and fairly; and
- Having proper arrangements for conflicts of interest, staff training and competency, and adequate resources and risk management.

The NCCP Act imposes a number of obligations on licensees in respect of responsible lending. These obligations are imposed in order to ensure that licensees do not provide, or suggest (or otherwise assist with) a credit contract or consumer lease that is unsuitable for a consumer.

One of the responsible lending requirements of the NCCP Act is that a licensee must take reasonable steps to verify the financial situation of its customer. The legislation does not outline what is specifically required to comply with this obligation. ASIC has been taking an increasingly proactive approach in respect of its compliance standards around verification of a customer's income and expenses, although a recent Australian Federal Court decision, now being appealed by ASIC, suggests that the approach necessary to comply with the obligations may be less prescriptive than the ASIC approach in some respects.

Another responsible lending requirement imposed by the NCCP Act is that licensees make reasonable enquiries about a customer's requirements and objectives in relation to a credit contract and not provide credit contracts to that customer that are unsuitable when assessed against the customer's requirements and objectives.

In New Zealand, similar obligations arise. Under the CCCFA and the Responsible Lending Code, providers of consumer credit are subject to certain requirements regarding the terms of their consumer credit contracts, as well as procedures that must be followed by the creditor over their duration.

The National Credit Code imposes a number of specific form, content and process requirements in relation to credit products.

Further discussion of recent developments in respect of responsible lending is set out at Section 2.5.4 below and the risk posed by these developments for Latitude is set out at Section 5.2.1.

Latitude is also regulated in New Zealand by the Financial Markets Authority ('**FMA**') under the *Financial Advisers Act 2008* (NZ) with respect to financial advice provided in connection with its payments, instalments and lending products.

In addition to its obligations in respect of its payments, instalments and lending activities, Latitude's insurance activities (being the issuance of insurance by Hallmark Insurance) are primarily regulated:

- In Australia, by ASIC as an AFSL holder and issuer of financial products under the Corporations Act and the *Insurance Contracts Act 1987* (Cth), which regulates contracts on insurance, as well as by APRA as an insurer under the *Insurance Act 1973* (Cth) ('**Insurance Act**') and the *Life Insurance Act 1995* (Cth) ('**Life Insurance Act**'), which provide the prudential framework for licensed general and life insurers respectively; and
- In New Zealand, by the Reserve Bank of New Zealand ('**RBNZ**') as insurers licensed under the *Insurance (Prudential Supervision) Act 2010* (NZ) ('IPSA') and the FMA under the *Financial Advisers Act 2008* (NZ).

The IPSA provides a prudential framework for licensed insurers under the supervision of the RBNZ.

Latitude is also subject to legislation in Australia common across similar businesses including (but not limited to) the *Privacy Act 1988* (Cth) (including the Privacy (Credit Reporting) Code 2014), the *Anti-Money Laundering and Counter Terrorism Financing Act 2006* (Cth), the *Competition and Consumer Act 2010* (Cth), the *Australian Securities and Investments Commission Act 2001* (Cth) ("**ASIC Act**"), as well as corresponding legislation in New Zealand. It is also signatory to the relevant General and Life Insurance codes of practice (Australia) and has opted to be subject to the Fair Insurance Code (NZ).

Outside of government regulatory bodies, Latitude is also required, as a provider of financial services and products to customers, to engage with the established consumer complaint bodies. In Australia, this body is the Australian Financial Complaints Authority ('**AFCA**'), the successor entity to the Australian Financial Ombudsman Service ('FOS'). In New Zealand, Latitude Financial Services Limited and Hallmark Insurance are members of the New Zealand Insurance & Financial Services Ombudsman Inc., and Latitude Innovation Holdings Limited is a member of Financial Services Complaints Limited.

2.5.4. Recent regulatory developments

There has been continued regulatory reform and other activity in both Australia and New Zealand in recent years focused on both the consumer finance and insurance elements of Latitude's business, and there are a number of pending changes and further proposed or potential reforms in different stages of development. The pace of regulatory change in Australia is currently very quick.

The Australian Government and regulators are implementing initiatives such as the Comprehensive Credit Reporting and Open Banking regimes, which are expected to benefit non-bank financial institutions and challengers (including Latitude) with enhanced data accessibility leading to improved customer experiences. Other changes in the regulatory environment may be more challenging for Latitude and other industry participants and as such, these changes represent risks associated with an investment in Latitude as set out in Section 5. Section 5 also details specific matters that are currently the subject of correspondence between Latitude and regulators.

The roles and powers of regulators

In Australia, there have been a number of recent legislative amendments that have increased the scope of powers of various regulatory bodies and established a new external dispute resolution scheme in AFCA. The approach of regulators to monitoring and assessing compliance matters is also changing. A description of recent and current key developments in the approach of regulators is set out below:

- **ASIC:** Legislation in Australia has been passed, which came into effect in April 2019, which extends the powers of ASIC to intervene and issue a "product intervention order". A product intervention order can require (amongst other things) the suspension of sale of a product or modification of its terms where ASIC determines that a financial product may result in significant detriment to consumers. This applies to both products that are regulated or exempt from the NCC as well as insurance products.

  ASIC has also recently clarified its approach to litigation as a component of its enforcement strategies, such that if it is satisfied that breaches of the law are more likely than not to have occurred, and the facts of a case show pursuing the matter would be in the public interest, then it will ask 'why not litigate?'. ASIC has noted that the approach does not suggest it will take every matter to court as the default option, or that it will pursue litigation where it would be inappropriate or not in the public interest to do so. ASIC has said that it will, in asking itself 'why not litigate?', consider a number of key factors including its model litigant obligations and the likelihood of achieving regulatory outcomes. However, ASIC has stated that it expects that its level of court-based enforcement action will increase against providers of financial services and products to consumers;

- **AFCA:** AFCA commenced operation in November 2018. AFCA is focused on customer fairness, and since its establishment, it has received an increased number of complaints involving the financial services sector. Latitude has seen an increase in the number of complaints by its customers to AFCA in respect of Latitude and its conduct over the same period.

  AFCA has jurisdiction to hear disputes between credit providers, financial service entities and their customers. AFCA's jurisdiction requires it to resolve these disputes on grounds including fairness. In making a determination, AFCA must have regard to legal principles, and good industry practice (as determined by AFCA). This means that AFCA may make an adverse finding against a member even if the member has complied with all legal requirements, where AFCA determines that good industry practice, or general considerations of fairness, would require another outcome. For example, AFCA may determine that it is good industry practice to apply certain responsible lending requirements from the NCCP Act to products that are not in fact regulated by it.

  If AFCA determines that an individual dispute or a dispute raises matters that may affect other customers, this may lead AFCA to classify the matter as a "systemic" issue which may result in AFCA referring the issue to ASIC. Unlike FOS before it, AFCA also has jurisdiction to conduct its own investigations into potential systemic issues, and may give directions regardless remediation in respect of its findings.

  ASIC may separately investigate or take action in response to an AFCA finding of systemic issues. Section 5 sets out a number of matters on which Latitude is currently subject to a review or referral by AFCA or ASIC in relation to a potential systemic issue; and

- **APRA:** There have been legislative amendments in Australia providing wider powers for the prudential regulator, APRA, to make rules regarding the lending activities of entities, like Latitude, that are not ADIs (non-ADI lenders). These amendments now enable APRA to monitor non-ADI lending practices in the mortgage and personal finance markets, and to impose penalties in relation to lending activities of non-ADI lenders (although these do not extend to mandating capital adequacy levels in relation to the lending activities of non-ADIs). There have also been extensions to APRA's enforcement and directions powers in relation to insurance companies and life insurance.

In New Zealand, in November 2017, the New Zealand Government announced it would undertake a review of the RBNZ Act 1989 to create a modern monetary and financial policy framework. Phase Two of this review is currently underway and one aspect being considered is the suitability of RBNZ's regulatory perimeter and whether this should be expanded to include wholesale non-bank lending institutions, like Latitude. This review is at a consultation stage and therefore it is not known whether, or to what extent, any expansion of the regulatory perimeter will occur.

Latitude is engaging with regulators and consumer bodies to ensure it is up to date with their approach to the industries in which Latitude is operating.

Developments in responsible lending

In recent years, ASIC has placed greater focus on responsible lending practices. Two major areas of concern with respect to responsible lending are:

- The extent to which licensed credit providers undertake independent verification of a potential customer's income (by way of checking payslips, tax returns, bank statements or equivalent); and
- The level of verification of a customer's expenses, including the level of reliance on benchmarks such as the Household Expenditure Measure ('HEM'), which is an index measure of the average expenditure of an individual or family on general household expenses, versus verification of the actual level of expenditure of a credit applicant.

Both these topics were also commented on in the findings of the Banking Royal Commission (see below), where concern was expressed about the use of benchmarks by credit providers in lieu of verification of actual expenses.

In February 2019, ASIC announced a review of its existing regulatory guide to responsible lending, RG 209, which includes the "reasonable" steps a licensee should take, and the types of inquiries it should make, to verify a consumer's financial situation. ASIC is currently consulting with industry participants in relation to the new proposed guidelines. This consultation process is expected to lead to further developments and expectations in responsible lending and other areas. The review is scheduled to conclude at the end of 2019 and a new RG 209 is expected to be issued at or around that time.

As part of its focus on the area of responsible lending, ASIC has obtained judgements against, and entered into agreements with, industry participants in relation to responsible lending practices in Australia, as courts and regulators continue to develop and refine their expectations on responsible lending, particularly in relation to financial inquiry and verification practices and assessment of customer requirements and objectives for products. While ASIC has been successful in a number of these cases, a recent court case appears to leave open the possible use of benchmarks in a more flexible way than has been envisaged by ASIC, and this has complicated the current accepted understanding of what the law requires in this area. ASIC has commenced an appeal. It is expected that ASIC will seek to clarify its expectations regarding the requirements of financial institutions in this area in the revised RG 209 referred to above.

In New Zealand, reforms were implemented to consumer credit legislation in 2015, including the introduction of responsible lending principles and a responsible lending code. It is expected that there will be a further tightening of the regulatory regime in this area, in particular:

- The New Zealand Ministry of Business, Innovation and Employment released a discussion paper on consumer credit regulation (discussed further at below at "Insurance industry"), which suggests, and sought feedback on, potential changes to lending requirements to further enhance the protections available to consumers;
- The New Zealand Commerce Commission has commenced proceedings against lenders with respect to alleged breaches of responsible lending and fees requirements;
- A draft bill to amend the CCCFA was introduced into the New Zealand Parliament on 9 April 2019. In respect of responsible lending, these proposed laws:
  - Require more detailed enquiry by lenders as to the suitability and affordability of credit products;

  - Impose more detailed record keeping obligations; and
  - Require lenders to verify information received from borrowers in more circumstances (repealing the current rules that allows for lenders to rely on information provided by customers unless they reasonably believe it to be unreliable).
- The changes also seek to enhance safeguards, facilitate enforcement and provide further clarity for compliance purposes across a range of areas including advertising practices, setting of fees, compliance oversight, as well as provide for increased enforcement penalties and outcomes. The draft bill must complete the Select Committee process and is due to report back to the New Zealand House of Representatives by 30 October 2019, with a commencement date of 1 March 2020.

Latitude is closely monitoring the proposed changes to responsible lending in both Australia and New Zealand and will implement changes to its operations and credit policies as required. Further discussion is set out in Section 5.2.1 in relation to risks which may impact Latitude around these changes.

Product design and distribution laws

The same legislation which introduced ASIC's product intervention powers also introduced a number of design and distribution obligations for issuers and distributors of financial products including regulated and unregulated credit products. These do not commence until April 2021 but will require:

- Issuers of relevant products to prepare a target market determination ('**TMD**') for each affected product that must be publicised and reviewed;
- Issuers and distributors of relevant products to take reasonable steps to ensure that the distribution of a product is consistent with the most recent TMD; and
- Additional marketing, record-keeping and reporting obligations will apply to both distributors and issuers.

Latitude is currently reviewing the implications of this legislation for its product suite, particularly its CCI products.

Royal Commission

On 14 December 2017, the Banking Royal Commission was established in Australia to investigate misconduct in Australia's banking, superannuation and financial services industry.

The Final Report of the Banking Royal Commission was tabled in the Australian Parliament on 4 February 2019 and included 76 recommendations across the Australian financial sector, including changes to the role and power of the sector's regulators. A number of the findings and recommendations may impact Latitude's business operations including:

- **Point of Sale Exemption:** The recommendation that the point of sale exemption under the National Credit Code, which facilitates the sale of Latitude's products at the stores of its merchant partners without the need for those merchant partners to be licensed, be abolished. Details with respect to Latitude's mitigation strategies in preparation for the potential removal of the exemption are set out at Section 3.3.3;
- **CCI:** Various recommendations impacting on the design and sale of CCI products, including:
  - A ban should be imposed on "hawking" of products (e.g. unsolicited telephone sales);
  - Unfair contract terms should apply to insurance contracts;
  - A deferred sales model should be introduced (whereby the sale of CCI would need to take place a number of days after sale of the primary product to which it relates);
  - The handling and settlement of insurance claims should no longer be excluded from the definition of a financial service; and
  - Insurance industry voluntary codes of conduct should be given legal status.
- **Broker commissions:** Recommendations relating to:
  - The abolition of broker commissions for credit, which could, depending on how it is implemented, apply to commissions payable by Latitude to brokers in relation to the sale of its personal loan product; and
  - A review of current exceptions for commissions in relation to insurance, which could apply to internal commissions paid to Latitude employees and commissions paid to other parties on the sale of CCI;

- **BEAR:** The extension of the Banking Executive Accountability Regime ('BEAR') to all APRA regulated insurers (such as Hallmark Insurance) and potentially other licence holders;
- **Remuneration:** Identification of the remuneration of front-line staff as a potential area for improvement; and
- **Industry Codes:** Recommendations as to the enforceability of voluntary industry codes.

The Australian Government has endorsed all of the recommendations of the Banking Royal Commission apart from the recommendation on abolishing mortgage broker commissions, and commenced taking steps to implement them. Under a timetable released by the Australian Government in August 2019, it has stated that it intends to implement, or have introduced before Parliament legislation to implement all of the recommendations above, by June 2020. In relation to the recommendation on mortgage broker commissions, the Australian Government has proposed draft regulations to establish a best interests duty and to prohibit campaign and volume-based commissions and otherwise regulate commissions, and has proposed a review to be conducted by the Council of Financial Regulators and the Australian Competition and Consumer Commission ('ACCC') in 2022 to determine if any changes should be made.

Latitude management has undertaken a business and financial review of the potential impact of these legislative changes on Latitude. Latitude is already implementing a range of strategies, including the ongoing digitisation of customer engagement, refinements in product design and developments in Latitude's governance frameworks in response to the proposed changes.

There is a reasonable likelihood the Commerce Commission in New Zealand will take the lead from the recommendations of the Banking Royal Commission to effectively align New Zealand laws and required practices with those in Australia over time.

Details with respect to the risks which the above recommendations from the Banking Royal Commission may pose to Latitude's business and financial performance are described in Section 5.2.1.

"Buy now, pay later" industry

With the rapid pace of development in the Australian BNPL sector, which encompasses products comparable to LatitudePay and Genoapay, the Australian and New Zealand governments and regulators have conducted reviews to identify potential risks and consider whether additional regulatory oversight is required.

On 28 November 2018, ASIC released ASIC Report 600 ('ASIC Review of BNPL Arrangements') which summarises its findings on the size, key trends and potential risks in the Australian BNPL industry, as well as its suggested approach towards regulating industry players. While ASIC considered that its proposed product intervention power should be extended to all credit regulated under the ASIC Act, it has not yet formed the view that it is necessary for BNPL providers to be required to comply with the NCPP Act.

An Australian Senate Economics References Committee report published in February 2019 recommended that consideration be given to implementing a regulatory framework for the BNPL sector and developing an industry code of practice. The Committee recommended further consultation with the Australian Government and ASIC regarding the proposed framework. Some aspects of the regulatory framework proposed by the Committee included some degree of responsible lending, internal and external dispute resolution, hardship requirements, disclosure requirements, and an overarching requirement that BNPL products provide value for money. ASIC is collecting additional data, including from Latitude, and have stated that an updated report is expected to be released in early 2020.

In June 2018 the MBIE released a discussion paper entitled "Review of Consumer Credit Regulation" ('**Discussion Paper**'). The Discussion Paper considered the impact of the 2015 amendments to the CCCFA, including the introduction of the "lender responsibility principles", and identified certain aspects which are working and certain aspects which are not. Currently "buy now, pay later" products are only captured by the aspects of the CCCFA that relate to credit contracts generally (primarily, restrictions on oppressive terms and oppressive conduct). The Discussion Paper addressed the introduction of new products into the New Zealand credit markets including BNPL products, although concluded that at this time did not consider that such products should be brought within the definition of "consumer credit contracts" in the CCCFA. However, in light of the rate of innovation in the credit markets, the MBIE did recommend the establishment of regulation-making powers to adjust the scope of the definition of "consumer credit contracts" in the CCCFA to address harms that arise from new, unregulated products in the future. The draft bill currently before the New Zealand Parliament to amend the CCCFA includes such a regulation-making power which, if passed in its current form, could be used in future to bring BNPL products and services within the ambit of the definition of "consumer credit contracts" in the CCCFA, making those products subject to some or all of the compliance obligations under the CCCFA that relate to "consumer credit contracts" (including the responsible lending principles and disclosure requirements).

Latitude has taken a responsible approach towards its LatitudePay product by undertaking a credit bureau check on all applicants. Latitude will continue to monitor the regulatory developments in this segment to ensure compliance with the latest regulations and requirements governing BNPL products in Australia and New Zealand.

Insurance industry

CCI has been an increasing focus of regulators in Australia and New Zealand over the past few years. The key risks regulators are focused on are concerns around mis-selling of the product and concerns that the product offers insufficient value to consumers.

In July 2019, ASIC released ASIC Report 622 Consumer Credit Insurance: Poor value products and harmful sales practices ('**CCI Report**'). The CCI report sets out ASIC's expectations of issuers and lenders in relation to CCI, which include that steps be taken to:

- Increase claims ratios for CCI products;
- Unbundle cover for CCI products to enable consumers to select specific coverage; and
- Otherwise ensure that CCI provides value for customers and is only sold to customers for whom it is appropriate.

The CCI Report also stated that a deferred sales model in relation to CCI, whereby the sale of CCI would need to take place a number of days after sale of the primary product to which it relates, should be adopted across all distribution channels and credit products. The Australian Federal Department of Treasury also released a proposal paper on "Reforms to the sale of add-on insurance products" in September 2019 ('**Treasury Proposal Paper**') proposing a four day deferral period for insurance sales, but with ASIC dealing with more problematic insurances, including potentially CCI, using its product intervention powers. Introduction of a deferred sales model requires changes to Latitude's personal loan CCI products and processes.

Shortly following the release of the CCI Report, in July 2019 ASIC released Consultation Paper 317 Unsolicited telephone sales of direct life insurance and consumer credit insurance. The paper proposes that ASIC will use its modification powers under the Corporations Act (which are distinct from its new product intervention powers) to ban unsolicited telephone sales of CCI from March 2020 to provide interim protections to consumers ahead of implementation by the Australian Government of the anti-hawking ban recommended by the Royal Commission. While ASIC acknowledges that they recognise the deferred sales model was a positive step, it states that it is of the view that it is necessary to prohibit unsolicited telephone sales to address its concerns identified in the CCI Report that consumers are being sold CCI policies which are not suitable for their needs. The proposed ban would apply to Latitude's sales of CCI on credit cards, personal loans and direct motor loans.

Latitude is considering how it will address the proposals raised in the CCI Report, the Treasury Proposal Paper and Consultation Paper 317. These changes will have an impact on Latitude's sale of CCI, with further detail set out in Section 5.2.1.

In New Zealand, a number of reforms have also been proposed in relation to the insurance industry. For example:

- The RBNZ has announced that it will re-commence its review of the IPSA. The review of the IPSA is expected to be comprehensive and look at all parts of the existing legislation. Based on the RBNZ's issues paper released in March 2017, the areas which had the most support from stakeholders for review included the scope of the legislation, extent of regulation of overseas insurers and treatment of branch operations. There has been no indication from the RBNZ of the changes which may result when the review re-commences;
- In April 2019 the MBIE released an options paper regarding the conduct of financial institutions (including insurers). Following consideration of the feedback on the options paper, on 25 September 2019 the New Zealand Government announced that legislation for a new conduct regime will be introduced to the New Zealand Parliament by the end of 2019. The proposed new conduct regime will require banks, insurers and non-bank deposit takers to be licensed by the FMA for their general conduct. Licensed institutions will be required to meet a fair treatment standard and to implement effective policies, processes, systems and controls to meet this standard. There will also be obligations in relation to designing remuneration and other sales incentives and a prohibition on sales incentives based on sales targets. Licensed institutions will be accountable for sales to consumers by contracted intermediaries who are not financial advice providers, including retailers selling add-on finance and insurance. The form of the legislation has yet to be released. It may impose additional obligations or vary from the current

regulatory proposals. On the basis of the information available, the new conduct regime will apply to the insurance related business of Latitude in New Zealand, but not to the non-insurance related aspects of the business. It is possible that the scope of this conduct regime could be expanded in the future to include lenders who are not non-bank deposit takers; and

- In April 2019, the MBIE released an options paper regarding a review of insurance contract law. The options paper proposes a range of changes to insurance contract law aimed at making contracts fairer and clearer. Proposals include changes to the duty of disclosure, prohibition of certain contract terms and presentation of insurance policy information. It is expected that the MBIE will make recommendations to the government with a view to introducing legislation to Parliament by mid-2020.

Latitude will continue to monitor the regulatory developments in this segment to ensure compliance with the latest regulations and requirements governing CCI products in Australia and New Zealand.

Comprehensive Credit Reporting ('CCR')

The Australian Government has mandated a CCR regime, requiring large ADIs to provide comprehensive credit information on open and active consumer credit accounts to licensed credit reporting bodies. Since October 2018, the Major Australian Banks have experienced increasing participation in the credit reporting system pending legislation enacting the mandate, and additional ADIs have progressively implemented the CCR regime in their systems.

The CCR regime requires the provision of information including credit limit related and repayment information history on loans and credit facilities. The information made available through CCR gives lenders such as Latitude access to a deeper, richer set of data and enables a better assessment of a borrower's creditworthiness and repayment ability.

Open Banking regime

The introduction of an Open Banking regime in Australia was announced as part of the 2017-2018 Federal Budget and commenced on a voluntary basis from 1 July 2019 in relation to product data only. One expected outcome of the regime is to enable greater access (including by entities such as Latitude and other non-ADIs) to customer data held by ADIs, subject to certain conditions (including accreditation and sharing, on a customer's request, specified customer data that the non-ADI entity holds in accordance with forthcoming consumer data rights rules). The "lock-down" version of the rules for Open Banking proposed by the ACCC contemplates that a phased implementation will be adopted in Australia to facilitate the roll-out of the regime in Australia, being that, for example:

- By 1 February 2020, the Major Australian Banks will be required to provide access to consumer, account and transaction data and product data for credit and debit cards, deposit accounts, and transaction accounts for products branded with the name of the Major Australian Bank (ANZ, CBA, NAB and Westpac);
- On and from 1 July 2020, the Major Australian Banks will be required to provide access to consumer, account and transaction data and product data for mortgage accounts for products branded with the name of the Major Australian Bank (ANZ, CBA, NAB and Westpac) (the Major Australian Banks may share specified CDR data relating to mortgage accounts from 1 February 2020 voluntarily);
- On and from 1 February 2021, the Major Australian Banks will be required to provide access to consumer, account and transaction data and product data for all remaining in-scope products for products branded with the name of the Major Australian Bank (ANZ, CBA, NAB and Westpac), including overdrafts, personal loans, business finance, leases, and asset finance; and
- All remaining in-scope banks and the Major Australian Banks for their other brands will be required to implement Open Banking for credit and debit cards, deposit accounts, and transaction accounts on and from 1 February 2021 but are otherwise subject to a 12-month delay on timelines compared to the Major Australian Banks. Additional timeframes, and conditions on timing, apply to voluntarily participating ADIs, accredited ADIs and accredited non-ADIs, and for product data requests and separate requests by customers themselves.

Under the Open Banking regime, Australian consumers should have greatly improved access to their own data in a usable form and be able to direct its secure transfer to trusted third parties, which is intended, in turn, to support the development of better and more convenient products and services tailored to individual needs. Latitude is acutely aware of the potential opportunities available as Open Banking becomes more prevalent, and has targeted its development of digital capabilities to best position itself particularly with respect to its customer acquisition strategy.

03.

Risk Management, Funding and Capital

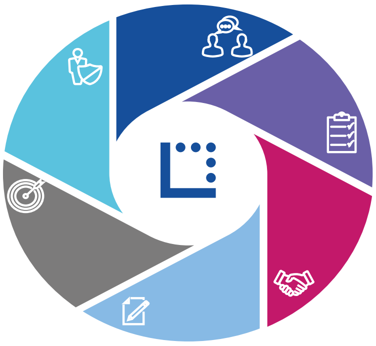
03. Risk Management, Funding and Capital

3.1. Risk Management

Risk management is fundamental to the success of Latitude. Latitude is continuing to invest in further developing its risk management capabilities as a result of, among other things, changes to strategy, the external environment and expectations, as well as Latitude's focus on customer conduct.

Latitude's enterprise risk management framework, risk appetite statement and supporting policies and processes are designed to ensure that relevant risks in business activities are identified, measured, monitored and managed.

Figure 63: Latitude's risk management approach is guided by the following principles



Individual accountability for taking responsibility and managing risk

Balance risk-reward in pursuing strategic objectives and target returns

Only pursue and accept risks we understand

Transparency and speed in communicating and managing risks and incidents

Integrity and quality of data and information to support decisions and oversight

Conduct with customers is fair and value-focused

Latitude's operating model for risk management is designed to:

- Maintain an effective system of internal controls commensurate with the scale and complexity of Latitude business and consistent with the three lines of defence principles[87]. This incorporates front-line management and staff leading and taking primary responsibility for managing risk; and
- Support the business in enabling growth and productivity whilst supporting operational reliability and resilience.

Latitude is combining its mature credit risk management competency with investments to further develop its conduct, regulatory and technology risk capabilities. Latitude sees its broad risk management capabilities as a core source of competitive advantage. Investing in continually enhancing risk management, particularly during times of change, will support the strategy and also support Latitude's focus on improved customer outcomes.

Latitude has policies and processes in place to manage and monitor the major categories of risk it encounters, building on well-established risk management capabilities developed during GE ownership. These risk areas include credit, strategic, operational (people, process, systems), technology, financial, fraud, product management, conduct and compliance risks.

Leadership and oversight of Latitude's risk management approach and culture are executed and formalised through an established governance structure (see Figure 64), risk assessment program and risk appetite metrics. Alignment and adherence to policies and procedures are monitored by management committees (under the direction of the Chief Executive Officer), the Board and Board committees. Each executive leads and attests to the appropriate completion of their Risk and Control Self-Assessment ('**RCSA**') process bi-annually. The results and observations are presented to the Risk, Audit and Asset and Liability Committee, with material results reported to the Risk Committee of the Board.

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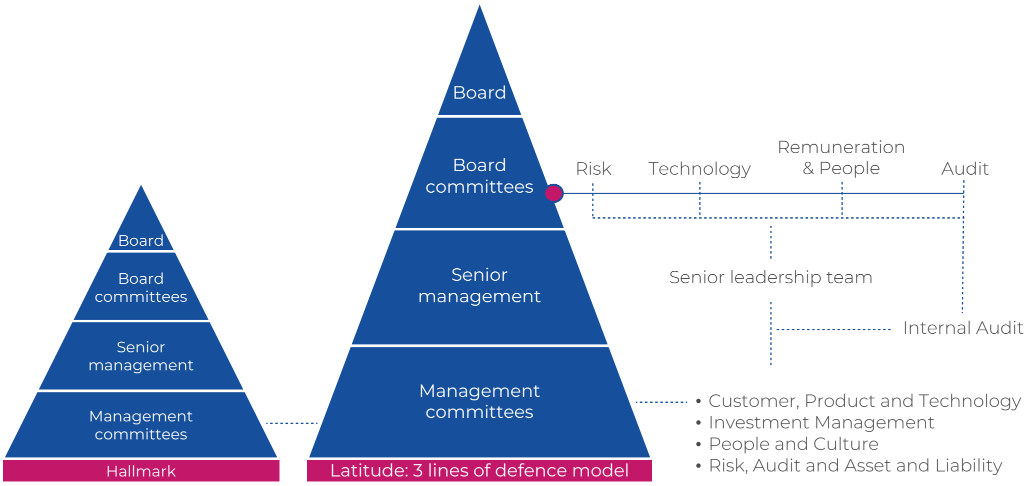
[87] Three lines of defence refers to the commonly adopted and regulatory endorsed approach to managing risk: Line 1: Ownership of risk and controls by the business line representative for the relevant process; Line 2: Oversight, support, training and challenge by risk management; and Line 3: Independent review by audit.

Figure 64: Latitude risk governance structure



Hallmark Insurance maintains a risk management framework that is designed to be compliant with APRA Prudential Standards. This includes both Hallmark Insurance-specific and Latitude shared policies, procedures and controls noting that Latitude owns and manages a number of processes and risks for Hallmark Insurance.

Hallmark Insurance maintains a separate board and committee governance structure operating in parallel to that of Latitude. However, the Risk, Audit and Asset and Liability Committee and Board Risk Committee of Latitude cover Hallmark Insurance.

The Internal Audit function also provides a level of objective, reliable and timely assurance on the effectiveness of Latitude's risk management, control and governance processes, and adherence to relevant regulatory guidelines.

The following sections focus on Latitude's:

- **Section 3.2: Technology Enabled Risk Management** – Approach to risk innovation to protect and drive value;
- **Section 3.3: Conduct and Regulatory Risk** – Approach to managing customer conduct risk;
- **Section 3.4: Operational and Change Risk** – Approach to managing operational risk in a period of business change;
- **Section 3.5: Credit Risk Management** – Proprietary credit risk assessment and management process;
- **Section 3.6: Asset Quality** – Approach to managing quality of assets;
- **Section 3.7: Funding and Liquidity** – Funding and liquidity framework; and
- **Section 3.8: Capital** – Approach to capital management and adequacy.

3.2. Technology Enabled Risk Management

Several areas of innovation in Latitude's risk management approach are being, and intended to be, pursued to leverage data and technology to enhance risk management and drive competitive advantage. Three of these areas are outlined below.

3.2.1. Leveraging Internal Bureau and customer data

Latitude's internal bureau is a proprietary tool that combines all customer data on repayment behaviour and transactional history with external credit bureau information ('**Internal Bureau**'). The combination of Latitude's proprietary data, customer insights and digital mechanisms will be used to:

- Enable enhanced risk-reward decisions on customer acquisition and management through our credit scoring;
- Increase approval and customer conversion rates;
- Support customer segmentation strategies;
- Facilitate responsible customer outcomes;

- Drive productivity in the customer interaction and improved customer experience; and
- Enable the development of machine learning initiatives (discussed below).

In Latitude's view, the benefits of an Internal Bureau can best be achieved by scale organisations that have large, well organised data sets sufficient to build and validate strong models. As a result of its long history and origins, Latitude currently has 2.6 million customer accounts featuring data across cards and lending. It is anticipated that this data will expand further as Genoapay and LatitudePay continue to grow, providing valuable insights on customers using these products.

3.2.2. Building and integrating machine learning

Latitude is progressing the use of machine learning to assist in enhancing credit management, productivity and conduct with customers. Two examples of this are:

- **Transactional fraud detection:** Enhance existing fraud detection analytic capability by deploying machine learning technologies. Latitude will focus on the development of algorithms to detect changes and inconsistencies in customer demographic profiles and combine it with patterns detected in transactional data; and
- **Inform the development of better customer engagement:** Latitude will use predictive detection capability to identify patterns present in data that can help identify potential areas to improve customer engagement and outcomes.

3.2.3. Partnering with third parties to enhance risk management

Latitude intends to continue to partner with third parties in the regulation and financial technology industries to enhance Latitude's risk management and agility and to support a leading approach towards customers. Two current examples of this are automated proof-of-income checks and digitally developed platforms to enhance collections performance and productivity.

Latitude is intending to establish a 'Risk Incubator' to foster an ecosystem of innovation to help enable its strategy and drive improved customer outcomes. Latitude intends to continue to seek opportunities to further enhance the Internal Bureau asset as well as being open to opportunities to partner with additional third parties.

3.3. Conduct and Regulatory Risk

3.3.1. Managing conduct risk

Latitude is aiming for a leading approach to its conduct with its customers that is fair and value-focused. Key mechanisms through which Latitude manages and monitors conduct risk include:

- **Tone from the top and organisational language:** Customer conduct is a regular focus within executive leadership communication, discussions and decision making. Investment in new roles has been made to further support efforts to manage conduct risk;
- **Policies and procedures:** A number of corporate policies and procedures outline requirements and expectations in areas relevant to internal and external conduct. An employee code of conduct sets the tone for expectations of staff;
- **Education:** A range of online and face-to-face employee and third-party training is conducted in areas that impact on the quality of customer engagement;
- **Customer feedback and continuous improvement:** There are a number of mechanisms through which the focus on, and behaviour towards, the customer is reinforced to facilitate continuous improvement:
  - Customer handling policies and processes;
  - Customer journey mapping;
  - Customer NPS feedback monitoring (quantitative and qualitative) which influences improvement strategies;
  - Customer complaint monitoring and management;
  - Enhancement of the control framework for management and monitoring of intermediaries; and
  - Implementation of enhancements to processes and controls based on feedback from independent and regulator reviews (e.g. enhancements to the training, monitoring and supervision of sales practices of merchant partners' staff);

- **Performance management and incentive structures:** Front-line staff performance evaluation and management oversight are in place to reinforce positive behaviours, reduce the risk of inappropriate behaviours and drive completion of mandatory training requirements. The performance of third parties is also monitored. Consequence management is applied should a third party, merchant or staff behaviour be inappropriate; and
- **Regulatory and industry engagement:** Latitude engages regularly with regulators and industry forums to inform its approach to driving continuous improvement.

3.3.2. Acting responsibly

Latitude conducts credit and identity checks for applicants on all payments, instalments and lending products with tailored limits granted depending on individual circumstances.

Latitude's responsible lending policy establishes the framework and standards that have been adopted to meet requirements which apply to certain of its products, and which are regulated by the NCCP Act in Australia and the CCCFA in New Zealand, as described in Section 2. Latitude's credit and operational procedures document how the policy settings are complied with and their compliance monitored. For example, in Australia:

1. **Issue specified documents to applicants:** Applicants are provided with documents such as the Key Fact Sheet, Credit Guide as well as other pre-contractual documents as part of the application process;
2. **Make reasonable inquiries about the applicants' requirements and objectives:** Applicants are asked about the purpose for the loan during the application process and the questions are product dependent;
3. **Make reasonable inquiries about the applicants' financial situation:** Applicants are asked a series of questions about their employment status, income amount and source, living expenses as well as other debt servicing obligations as part of the application process. Where stated living expenses are below the HEM benchmark, the HEM benchmark value with an added buffer is used and the higher of the applicant's stated living expenses and the benchmark (plus buffer) is taken. Latitude is taking steps to increase its level of inquiry by increasing the number of application fields when inquiring about an applicant's expenses;
4. **Take reasonable steps to verify the applicants' financial situation:** This approach is consistent with the concept of scalability and the general requirement to take reasonable steps expounded in the legislation, and is specifically referred to in the explanatory memorandum to the legislation and ASIC's original regulatory guide issued in 2014; and
5. **Conclude that the credit product will not be unsuitable or cause substantial hardship:** Applications that meet Latitude's credit eligibility criteria are assessed as being able to service the loan without substantial hardship. These applications will only be approved if the loan purpose also complies with Latitude's loan purpose policy. All approved loans are assessed as not being unsuitable.

Refer to Section 5.2.1.2 and 5.2.1.8 for information referring to recent regulatory developments relating to responsible lending requirements in Australia as applied to Latitude specifically and the industry generally.

3.3.3. Expected changes to Point of Sale Exemption – Australia

The provision of payments and instalment products by Latitude's merchant partners in Australia currently rely on a number of exemptions to the NCCP Act for new customers. Some of those exemptions include:

- Point of sale introducers – Regulation 23 of the *National Consumer Credit Protection Regulations 2010* (Cth) ('**NCCPR**'); and
- Credit cards co-branded with point of sale retail introducers – Regulation 23A of the NCCPR.

Access to the Point of Sale Exemption means that Latitude's merchant partners are not required to be licensed or authorised by a licensee. Latitude is responsible for the training and supervision of its merchant partners. Merchant partners assist customers in applying for Latitude products, without the requirement for the merchant partners to have the infrastructure and supporting processes in place to comply with the requirements of the NCCP Act. Compliance with the NCCP Act as it relates to the provision of credit to applicants by Latitude's merchant partners is Latitude's responsibility. The Point of Sale Exemption does not impact Latitude's credit decision making process.

It is currently proposed by the Australian Government that legislation addressing the Point of Sale Exemption will be introduced to Parliament by 30 June 2020.[88]

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[88] https://treasury.gov.au/sites/default/files/2019-08/399667_Implementation_Roadmap_final.pdf

The removal of the Point of Sale Exemption will affect the ability of merchant partner staff to assist new customers in applying for a Latitude product. Latitude estimates that approximately 9.4% of its instalments product volume that would have been generated by the merchant partners' in-store channel would be at risk in the first year of the reform.

Latitude is currently developing a number of strategies aimed at reducing the potential impact any prospective Point of Sale Exemption removal may have, including developing digital self-service tools so that customers can make applications in-store without or with only limited assistance from a sales representative, as well as exploring the use of advertising and other exemptions to deliver its products. Latitude plans to trial tools and approaches over a period of time to optimise alternative ways to retain customers' ability to access Latitude's products.

3.4. Operational and Change Risk

3.4.1. Operational risk

The Latitude enterprise risk management framework defines operational risk as a risk of loss due to inadequate or failed processes, people and systems or from external events or incidents. Latitude is maturing its RCSA process, enabling Latitude to assess, manage and monitor its operational risks and controls. The process is run bi-annually, and requires every Executive General Manager and their teams to assess their operational risks, assess the effectiveness of operating controls in managing the identified risks and/or determine if new or enhanced controls are required. The identified risks are assessed against Latitude's risk appetite framework to inform enhancements to controls.

Latitude continues to assess the current and expected environment for operational risk and makes changes and investments accordingly to enhance its focus on operational risk management.

Latitude has specific capabilities, policies and processes to manage and monitor the major areas of operational risk it faces including technology and business resilience, failure of people, processes and systems and fraud. Latitude is prioritising effort in a number of areas to enhance management and monitoring of key operational risks including those outlined below:

- Business resilience: The risk of disruption to Latitude's business activities, due to the failure of technology platforms and assets resulting in inability to obtain support to restore platforms or to obtain hardware that enables one or more business functions. Latitude is focusing on a program aimed at implementing the replacement of aged information technology platforms and enhancing disaster recovery capability for critical customer and revenue generating platforms;
- Cyber security: Recognising the size and complexity of the threat, Latitude has dedicated internal and external resources to operate and continually improve the maturity of its cyber security control framework. A recent independent review against internationally recognised frameworks has informed key priorities for Latitude's cyber security strategy;
- Fraud: Latitude has a fraud framework and policies in place and continues to evolve its strategies, processes, controls, tools and digital capability designed to manage, monitor and respond to the risk of application or transaction fraud committed by any party. This recognises the continuously evolving threat external fraud perpetuators pose to Latitude and the industry in general. Latitude also has in place an internal fraud policy and processes to detect and manage instances of internal fraud and continues to evolve and enhance fraud prevention and detection;
- Operational processes: Latitude is enhancing the control framework supporting the processes performed by its staff or third parties. This involves taking steps to address the likelihood of process errors, processing delays, reporting errors as a result of inaccurate data and enhancing data infrastructure; and
- Human resources: Specialist resources are required to support the execution of strategic priorities. Targeted recruitment, development and plans to retain key staff are being continually strengthened.

3.4.2. Technology and transformation change risk

Latitude is embarking on a new corporate digital transformation that will implement new, and replace and supplement, several legacy platforms across lending, collections, servicing and originations. At the same time, Latitude is maturing its risk management capability in this area. Key strategies to manage execution and transition risk include:

- **Policy guidance:** change management: Our policies include IT Asset Management Policy, Information Security Management, Procurement Management, Supplier Management, Vendor Management, Vulnerability and Patch Management;
- **Project portfolio management:** Estimation, prioritisation, scheduling and benefits management of strategically-aligned technology initiatives to build momentum and deliver business value;
- **Steering committees:** Governing and decision-making bodies responsible for providing guidance and leadership support (e.g. removal of impediments) designed to ensure projects are undertaken appropriately, adhere to regulatory obligations, and deliver agreed business benefits;
- **Project delivery methodology:** Latitude has methods that cover the processes, tasks and tools for project managers to lead, design, plan, implement and achieve project objectives; and
- **Resource management:** Strategies include project workforce management, ongoing monitoring of supply and demand to determine any capacity constraints, management of vendor relationships designed to ensure timely resourcing and onboarding, and timely recruitment into delivery roles.

3.5. Credit Risk Management

Credit risk management is a core feature of Latitude's capability. Latitude has developed and refined its credit risk management capabilities, inclusive of proprietary scorecards that support credit decision strategies and insights to foster prudent underwriting, portfolio management and effective controls.

These processes incorporate risk-based loan pricing and lending limits for its customers, allowing Latitude to approve credit to customers while also seeking to ensure adequate compensation for risk and maintain its net charge-offs and delinquencies[89] in accordance with Latitude's target risk appetite. Latitude has maintained broadly consistent credit risk appetite settings for its Australian and New Zealand aggregate portfolios, as illustrated by the stability of Latitude's annualised loss and delinquency rates over the last 10 years – see Figures 66 and 69. The risk appetite statement articulates the nature and quantum of risk that Latitude is willing and targeting to accept in pursuit of its strategic objectives and business plan. The risk appetite statement is reviewed and approved by the Board on a regular basis.

3.5.1. Credit risk lifecycle

Latitude manages credit according to customer segments and product types across the credit risk lifecycle (see Figure 65), with the credit risk management function working closely with Latitude's originations, fraud operations, servicing and collections teams. Latitude's credit risk management function is responsible for developing and monitoring strategies to assess customer creditworthiness, allocate customer risk profiles (according to Latitude's proprietary risk scorecards) and determine risk-aligned collections activity, which is then the responsibility of the collections function.

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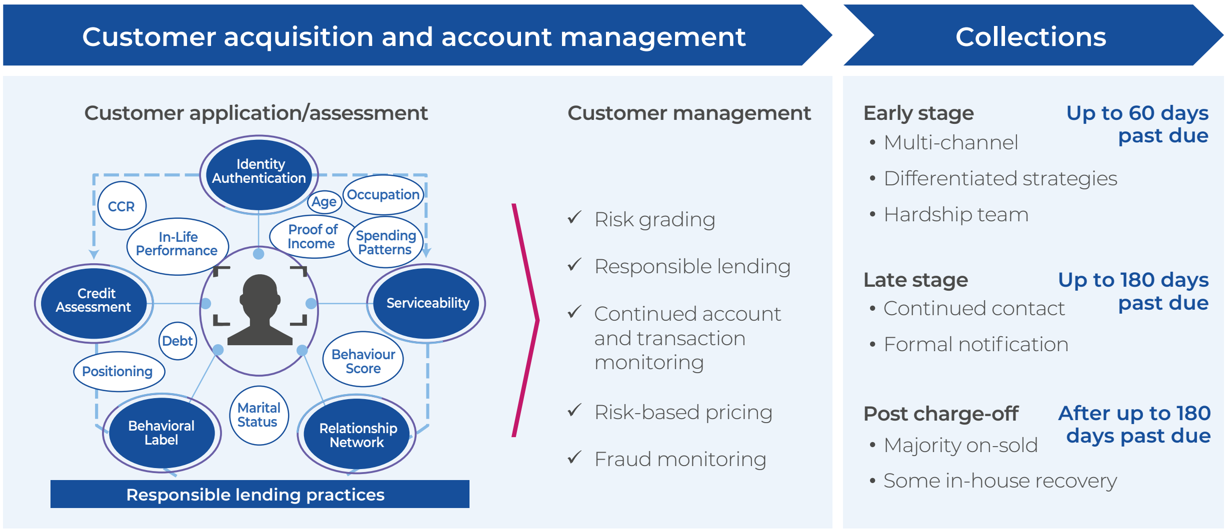
[89] When a customer does not meet their minimum monthly payment requirements, they are deemed delinquent on their contractual terms. A delinquency of more than 90 days past due means the customer has not met their contractual arrangements for more than 90 days (or is overdue four monthly payments or more). Customers that are more than 180 days delinquent (revolving products) or 120 days delinquent (personal and motor loans) are charged off (de-recognised from the balance sheet). For further information, see Section 3.6.

Figure 65: Latitude credit risk lifecycle



Latitude continues to refine its credit risk management approach as the business model, product offerings and regulatory environment evolve.

3.5.2. Customer origination for credit products

Latitude originates new business through multiple channels, including online, over the telephone, merchant partner stores and other third-party intermediaries. Origination occurs both at point of sale and, increasingly, in the form of an application online. Regardless of the channel, the credit approval decision to open a credit card or loan account is made in accordance with Latitude's applicable regulatory, credit risk and underwriting procedures.

In order to be approved for credit, a customer must meet the requirements of Latitude's credit risk policy and risk appetite statement, including compliance with Latitude's responsible lending obligations (Section 3.5.6 provides an overview of processes for the LatitudePay and Genoapay products). These requirements include:

- Score-driven criteria based on application form variables and existing customer behaviour;
- Customer identification checks;
- External credit bureau data incorporating CCR data;
- Capacity assessment based on income, expenditure, existing debt and other commitments;
- Risk-based verification of income for credit cards;
- Anti-money laundering checks;
- Fraud checks; and
- Credit approval by automatic decisioning, or manual decisioning through delegated authority based on rule-driven criteria.

The information captured at the point of application (applicant information, credit bureau record and existing customer history[90]) is electronically transmitted to Latitude's Internal Bureau and proprietary scoring models for risk quantification. The resulting scores then support a risk-based customer assessment to determine approvals and associated limits and, where applicable, loan price (for personal loans and motor loans). Latitude's automated processes also identify applications that require:

- Manual credit assessment, triggered through high exposure and/or high-risk system rules, which are decisioned via delegated authorities assigned to the central underwriting team;
- Assessment of potential fraud; and
- Referral to operational teams for data validation.

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[90] A manual process in place for motor loans.

Latitude uses an internal ratings scale to assign risk of default at the point of origination called the Credit Risk scale ('CR' scale). The score an applicant is assigned at the point of origination is mapped to a CR grade ranging from 1 (lowest risk) to 5 (highest risk). Consistent with Latitude's risk appetite statement and credit policy, Latitude does not approve any applications for credit that are rated as CR5.[91]

Latitude applies risk-based pricing for personal loans and motor loans and determines risk-based lending limits across its entire product suite. Where a customer requests a limit that is at or below the system recommended limit, the customer requested limit is applied. Latitude calculates a credit score for each applicant and determines each applicant's loan amount. For personal and motor loans, the score and loan amount are used by Latitude to determine a tailored interest rate from a parameterised pricing matrix. The interest rates in the matrix are determined from a pricing model that calculates the return based on loan amount, term and net charge offs. The approval rates and performance of loans made by Latitude are then analysed and adjustments made to pricing parameters. Latitude views this risk-based loan pricing capability as a key strength in the Australian and New Zealand markets.

Within each portfolio, Latitude seeks to refine credit settings on an ongoing basis through 'Champion/Challenger Testing'[92] for approval rates, loan pricing and amounts. This includes testing more conservative, as well as more expansive, credit settings.

Table 19 highlights the target probability of default associated with each CR grade at origination, with 64% of Latitude's current portfolio in the lowest risk categories CR1 and CR2 per Table 19. As at 30 June 2019, the three-year average probability of default in the portfolio at origination was 2.9%[93].

Table 19: Probability of an account going into default in 12 months from opening

CR scale	Risk descriptor	Probability of default range
CR1	Very low risk	0%–1.2%
CR2	Low risk	1.2%–3.0%
CR3	Medium risk	3.0%–7.0%
CR4	Moderate risk	7.0%–13.2%
CR5	High risk	13.2%+

Notes: Default is defined as any account which is 90+ days past due, charged off, or in an impaired state (defined internally). Probability of default range refers to the probability of an account going into default in 12 months from opening.

Latitude uses credit scoring to map both applicant and account risk ratings to a 1 to 5 scale; however, day-to-day management of the portfolio is not limited to these account groupings. Individual application or behaviour scores are used, which allows for more granular assignment of credit risk strategies. For example, within the broader CR4 category, an individual application score is used to determine a subset to approve and a subset to decline. Cut-off scores for all Latitude products are currently within the CR4 band.

New scorecards for originations are calibrated to the target default probability scale and assessed regularly for alignment. Where necessary, scorecards are re-calibrated or re-developed.

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[91] A trial for personal loans in NZ to underwrite <1% of originated accounts at CR5 was stopped for applications received on or after 6 March 2019. While not originating CR5 loans, some customers' rating may degrade to this level subsequent to application/approval (due to changes in customer circumstances); hence, the existence of some CR5s in the portfolio (see Table 20).

[92] Champion/Challenger Testing is the process through which new challenger credit strategies are trialled and compared against the current credit strategies in place (champion) by parallel testing on a random cohort. For example, the existing cut-off strategy might be retained for 80% of applicants but for a random 20% a new cut-off strategy is implemented, and the relative performance measured.

[93] Represents all accounts booked from July 2016 to June 2019.

3.5.3. CCR

The recent introduction of CCR in both Australia and New Zealand has materially changed the credit risk landscape. Latitude is a CCR participant in both markets, meaning Latitude can access positive and negative account conduct information for customers of all participating organisations, while contributing Latitude's customer data as required by the rules of reciprocity (noting strict regulations mandate that this data can only be used when making a credit decision).

CCR commenced in 2016 in New Zealand and Latitude was an early adopter. Sufficient volume and maturity of data have now accumulated to enable CCR data to be incorporated into New Zealand application scorecards.

A significant milestone in Australia was in October 2018 when the four major banks were mandated by government to contribute their data to CCR. Latitude's participation commenced in December 2018. Given recent commencement of CCR in Australia and lack of historical CCR data, Latitude is evaluating how the New Zealand experience can be leveraged to inform enhanced credit strategies in Australia.

The additional CCR information, which has predictive attributes, provides Latitude with enhanced credit information to allow Latitude to improve its scorecards and make more refined credit decisions. These improved scorecards allow risk appetite to be maintained at higher approval rates. CCR also helps to identify overcommitted applicants with previous undisclosed liabilities as well as the verification of an applicant's disclosed liabilities. Augmenting this data with Latitude's Internal Bureau strengthens the quality of the decision.

3.5.4. Customer account management

Ongoing account monitoring and management utilise behavioural scorecards incorporating individual customer history that aims to predict a customer's propensity to default in the future. This enables Latitude to regularly re-assess customer credit strength, behaviour and risks and utilise this for in-life decisions such as authorisation requests, limit increase requests, and collections actions. In addition, Latitude analyses credit card transactions for the likelihood of fraud requiring intervention, including the use of automated SMS confirmation requests to customers for suspicious transactions.

3.5.5. Collections

Latitude has an in-house collections function, with teams based at three sites across Australia and New Zealand. For accounts falling past due, the collections process comprises three main stages – early stage collections (1–59 days past due); late stage collections (60+ days past due) that can include legal action on some segments of the portfolio; and post charge off recovery activity including debt sale. Section 3.5.6 provides an overview of LatitudePay and Genoapay.

The collections activity through these stages is dependent on the customer risk profile, days past due, account balance and circumstances of the customer. Latitude uses a variety of channels to contact customers to discuss their arrears position and determine an appropriate arrangement to restore the account back to current. These channels include automated SMS and outbound interactive voice response in early stage delinquency, where customers can make an arrangement through self-service or connect to a collections specialist. Accounts that do not respond to early automated contact and high-risk accounts progress to an automated dialer for a phone conversation with a collections specialist.

Latitude seeks to limit exposure to delinquencies by limiting further transaction approvals that will increase a delinquent customer's balance. This is achieved by blocking accounts from further spending. A series of automated letters are sent to customers across the delinquency lifecycle, including default notifications and letters advising customers of Latitude's intention to default list for non-payment, with the credit bureau.

A customer in financial hardship is served by a dedicated hardship team to offer ongoing assistance and rehabilitation. In Australia, the hardship assessment process is interpreted as a re-contract and, as a consequence, approved customers have their delinquency reset to zero. Customers will become delinquent again if they miss the approved hardship repayment. In New Zealand, personal loan approvals are re-aged but credit cards and instalments products are not. In certain situations, Latitude may enter into arrangements to extend or change payment schedules, decrease interest rates and/or waive fees to assist customers through the hardship period. In some hardship circumstances that are assessed as permanent, Latitude may waive the debt. The collections team also attempts to locate customers with missing or invalid contact details. Latitude utilises external providers for recovery against deceased estates.

Latitude has contracted a third-party debt collections agency for a trial to provide a collections outsource/overflow capability. Based on performance, decisions will be taken as to the appropriate balance between in-house and out-sourced collections.

Latitude's collections processes automatically charge off accounts at either 120 days past due (personal and motor loans) or 180 days past due (credit cards and instalments products). However, accounts may be manually charged off prior to this for reasons such as confirmed fraud, a deceased estate and/or bankruptcy. Latitude sells eligible charged-off debts monthly under forward flow agreements to optimise recovery and realisation of funds. For debts retained in-house for debt recovery, periodic inventory sales are made to a range of debt purchasers.

3.5.6. LatitudePay and Genoapay

Latitude acquired Genoapay in New Zealand in December 2018 and launched LatitudePay in Australia in August 2019. These products, and approach to credit risk management, differ from Latitude's cards and lending products. LatitudePay is not regulated under the NCCP Act in Australia, and in New Zealand are only subject to the aspects of the CCCFA that relate to "credit contracts" generally (primarily, restrictions on oppressive terms and oppressive conduct), as opposed to the more onerous provisions that apply to "consumer credit contracts".

Latitude has developed a credit decision strategy that it believes to be appropriate for these products and supports Latitude's desire to act responsibly. The process includes accessing applicants' bureau scores and utilising internal bureau data.

As data and maturity accumulates, a tailored scorecard will be developed. As for other products, credit strategies will be dynamically maintained and updated as appropriate. For example, approval rates and associated cut-off scores will be monitored from launch. The short tenor means that the test and learn cycle time is materially shorter than for Latitude's other products.

Based on the score and number of successful transactions, a matrix is in place to support approvals to make further transactions that exceed the originally approved limit. This is important for customers that may have been onboarded with low limits but have demonstrated good conduct, responsible management of their facility and a desire to access further funds. Equally, customers that demonstrate poor repayment behaviour will have their limits reduced or cancelled.

Contact with customers that miss instalments is largely digitally-driven in the first 28 days and complies with relevant debt collection guidelines set by regulators[94]. Where overdue amounts extend beyond 28 days, either Latitude's in-house collections team or third-party debt collections agency will attempt contact with the customer to understand their circumstances and make arrangements to collect the unpaid instalments.

3.6. Asset Quality

When a Latitude customer does not meet their minimum monthly payment requirements, they are deemed by Latitude to be delinquent on their contractual terms.

Latitude experiences a seasonal effect in its financial performance between the first six months of Latitude's financial year from January to June and the second six months of Latitude's financial year from July to December. For example, demand for Latitude's products is typically higher during the 2H period in comparison to the 1H period as a result of increased customer spending in the lead up to the Christmas holiday period and post-Christmas sales. This causes an increase in volumes and receivables at the end of the 2H period. An increase in income from the higher 2H receivables balance is typically observed in 1H in the next financial year. Conversely, Latitude exhibits a counter seasonal impact with delinquencies rising in 1H following the December holiday period, as well as higher net charge offs in 1H, followed by increased repayment rates and improving delinquencies and charge offs in 2H as borrowers typically reduce indebtedness following the receipt of tax refunds after the end of the tax year.

Latitude makes provision for expected losses from the time of origination and thereafter each account is reassessed monthly under the IFRS 9 methodology. Customers that are more than 180 days delinquent (120 days for motor and personal loans) are charged off. Customers are also charged off where the debt is deemed uncollectable (e.g. due to a deceased estate, fraudulent activity or bankruptcy).

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[94] https://www.accc.gov.au/system/files/776_Debt%20collection%20guideline_July%202017_FA.PDF

3.6.1. Australia

3.6.1.1. Delinquencies

Figure 66 illustrates the long-term performance and stability of Latitude's credit risk management approach. During the GFC[95] (under the ownership of GE), Latitude undertook a number of steps to mitigate potential credit losses including setting higher application score cut-offs to increase credit quality and reducing credit limits and over-limit authorisations. During this period, the highest recorded rate of delinquencies was 2.3% in May 2009 for revolving products (the aggregate of instalments products and credit cards) and 0.9% for personal loans.

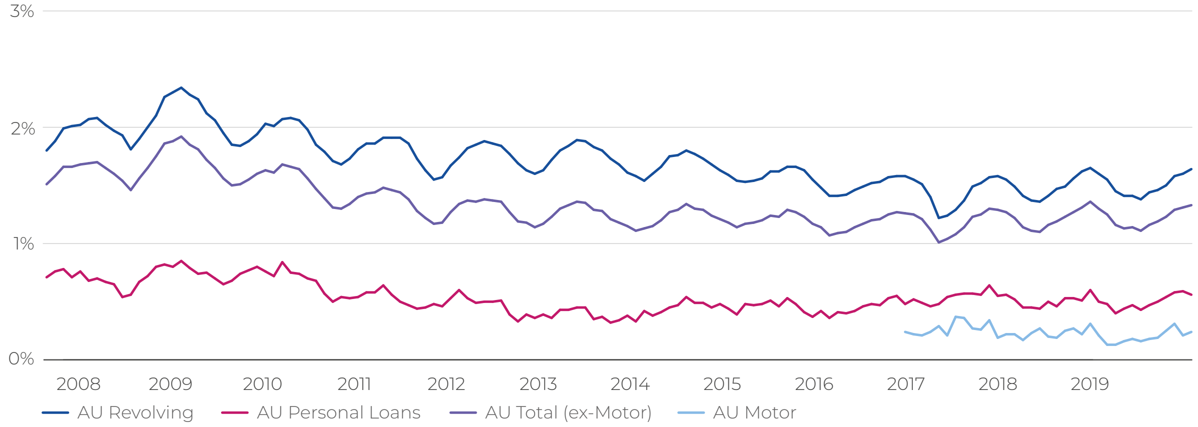
Since January 2008, delinquencies (90+ days past due) on Latitude's Australian portfolio have trended between a band of 1.2% and 2.3% for revolving products and 0.3% and 0.9% for personal loans. From January 2011, it has trended between 1.2% and 1.9%, and 0.3% and 0.6% respectively.

For personal loans, a conservative risk appetite was adopted prior to 2016. From 2016, Latitude has consciously re-risked the personal loan portfolio via a series of Champion/Challenger Tests that sought to optimise risk and return. This is evident in the higher delinquency rate observed from 2016.

The low point for Australian cards in late 2016 was influenced by a change in process for approved hardship cases where delinquency was re-aged to zero[96].

The motor portfolio delinquency and loss performance reflect that of a growth portfolio, where delinquency and loss lags asset growth[97]. Given that the underlying motor loan portfolio is secured, Latitude expects the loss rates to remain lower than those experienced on other portfolios. Latitude also expects that, once the motor loan portfolio matures, its delinquency and loss performance will stabilise consistent with the other portfolios.

Figure 66: Delinquencies (90+ days past due) by product, Australia



Notes: Time series data from January 2008 to 30 June 2019. Refer to Note 42 in Section 4.14 for 90+ days past due calculation methodology. Motor loans delinquency history captured from July 2016 which was when Latitude relaunched its Motor loan product.

3.6.1.2. Delinquencies by Australian state

As discussed in Section 3.5, Latitude monitors its risk appetite settings on a continuous basis. State or geography-specific credit strategies are generally not deployed by Latitude. Latitude believes that adverse risk at application or adverse account conduct trends are typically better managed at the individual applicant or account level via credit and behaviour scores.

However, Latitude does perform periodic geographic analysis by risk and concentration on the portfolio. These are typically triggered by regional economic trends.

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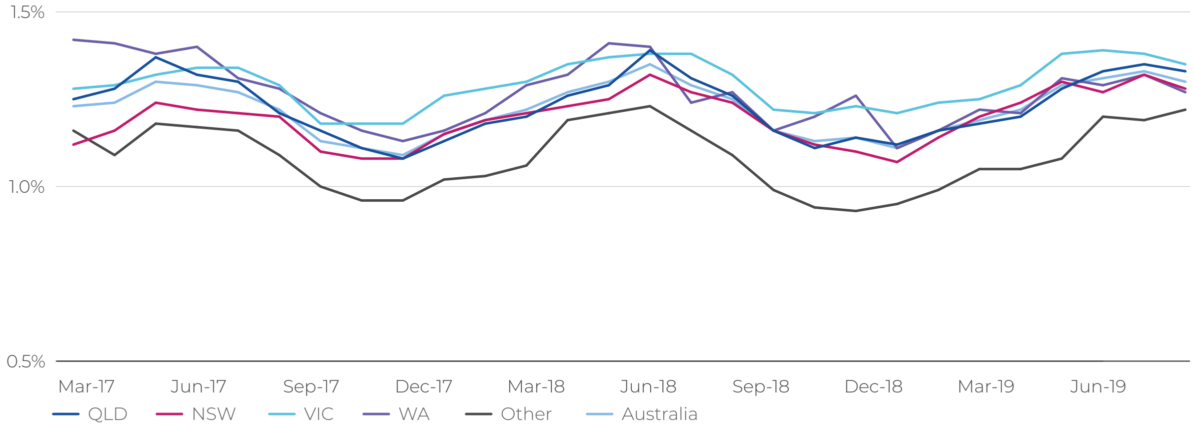
[95] The Global Financial Crisis ('GFC') refers to the period of extreme stress in global financial markets and banking systems between mid 2007 and early 2009, as defined by the RBA.

[96] The approach to hardship approval amounts to a re-contract.

[97] Motor loans delinquency performance trends shown in the graph commence from when Latitude re-launched its motor loans product.

For example, Western Australia experienced an economic downturn over 2016 and 2017 (portfolio represents 11% of Latitude's Australian revolving and personal loan receivables[98]). However, delinquency trends in Western Australia were consistent with typical seasonal behaviour and did not show a significant increase over the 2016 and 2017 downturn. Therefore, it was not considered necessary for Latitude to adopt any Western Australia-specific management actions.

Figure 67: Delinquencies (90+ days past due) by geography



Notes: Time series from March 2016 to June 2019.

3.6.1.3. Net charge-offs

Net charge-offs are a function of:

- Gross charged off bad debts: Balances are charged off at between 120 days past due (personal and motor loans) or 180 days past due (credit cards and instalments products); and
- Recoveries: Amounts received post charge-off, either from customers through in-house collections processes or through proceeds from the sale of charged off debt to third parties.

Annualised net charge-offs in Latitude's Australian portfolio have trended between a band of 2.9% and 5.9% for revolving products and 2.6% and 6.3% for personal loans since January 2008. From January 2011, it has been 2.9% and 4.8% and 2.6% and 5.6% respectively.

During the GFC, the highest recorded rate of annualised net charge-offs in Latitude's Australian portfolio was 5.9% in September 2009 for revolving products and 6.3% in January 2010 for personal loans.

Latitude's personal loan portfolios turn over more quickly than revolving portfolios, given the high refinance and amortising nature of a fixed term product contrasted by the ability to re-spend on a revolving product. For example, 52% of personal loan balances were originated in the 12 months to 30 June 2019 (including refinances); however, for cards this is significantly lower at 14%. This means that the performance of Latitude's personal loan portfolio responds at a faster rate to any change in risk appetite at origination. An example is the increase in Latitude's Australian personal loans loss rates observed from 2016 to 2017 which was the result of Champion/Challenger Testing to marginally increase credit risk appetite at an acceptable return, although experience was also negatively impacted as a result of operational issues associated with Latitude's collections processes during that time (as described in Section 4.6.2.2).

The motor loan portfolio loss performance reflects that of a growth portfolio, where loss lags asset growth.

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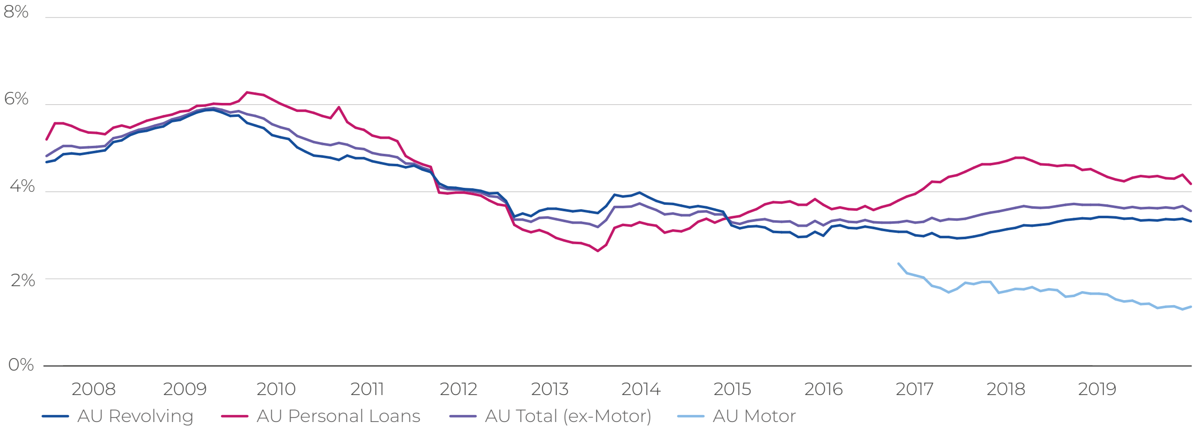
[98] As at June 2019 and excluding motor loans.

Figure 68: Rolling 12-month average annualised net charge-offs, Australia



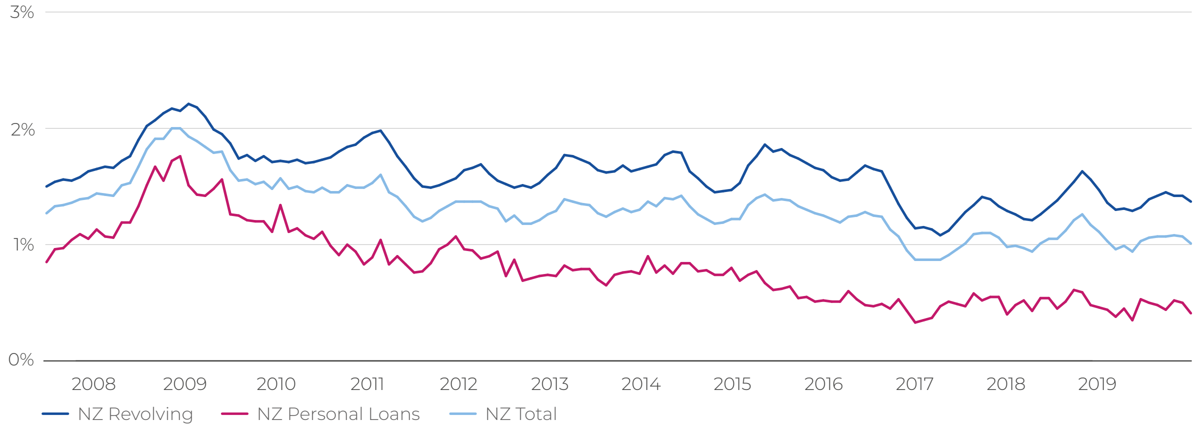
Notes: Rolling net charge offs time series from January 2008 to 30 June 2019. Motor loan write-off history captured from July 2016 which was when Latitude relaunched its motor product.

3.6.2. New Zealand

3.6.2.1. Delinquencies

Since January 2008, delinquencies in Latitude's New Zealand portfolio have trended between a band of 1.1% and 2.2% for revolving products and 0.3% and 1.8% for personal loans. From January 2011, it has trended between 1.1% and 2.0% and 0.3% and 1.1% respectively. During the GFC, Latitude's highest recorded rate of delinquencies was 2.2% in June 2009 for revolving products and 1.8% for personal loans in May 2009.

Figure 69: Delinquencies (90+ days past due) by product, New Zealand



Notes: Time series data from January 2008 to 30 June 2019.

3.6.2.2. Net charge-offs

Annualised net charge-offs in Latitude's New Zealand portfolio have trended between a band of 2.0% and 4.3% for revolving products, and 1.4% and 9.4% for personal loans over the last 10 years. From January 2011, it has trended between 2.0% and 2.8% and 1.4% and 5.9% respectively.

During the GFC, Latitude's highest recorded rate of annualised net charge-offs in New Zealand was 4.3% in August 2009 for revolving products and 9.4% for personal loans in December 2009.

The spike in Latitude's personal loan net charge-offs over 2009 was due to a broad economic downturn in New Zealand. The New Zealand economy entered recession in early 2008, compounded by the impact of the GFC. Economic activity fell sharply following the intensification of the GFC in September 2008, contracting 0.9% in the December quarter 2008 and 0.8% in the March quarter 2009, with production GDP driven by reductions in manufacturing, construction, and wholesale and retail trade[99].

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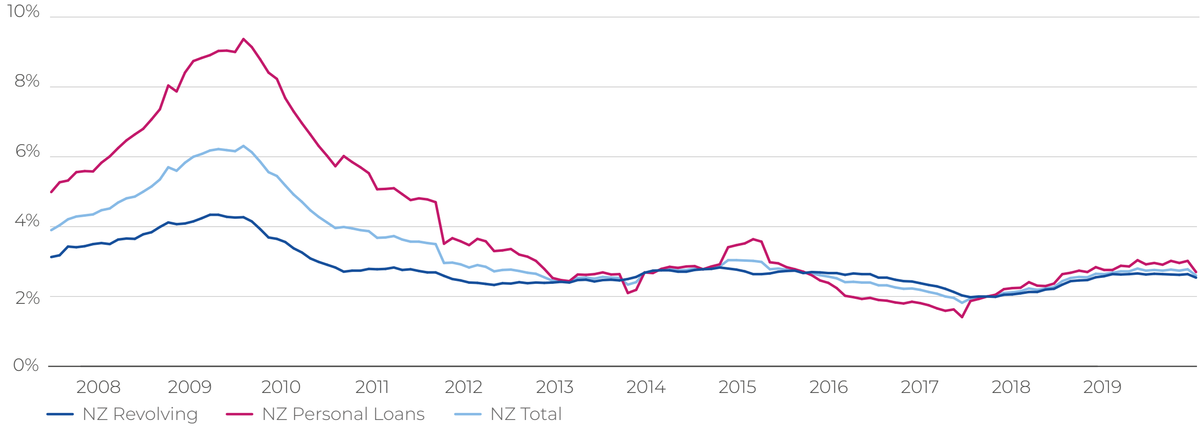
[99] New Zealand Economic and Finance Overview 2010, New Zealand Treasury Department.

Figure 70: Rolling 12-month average annualised net charge-offs, New Zealand



Notes: Rolling net charge off time series from January 2008 to 30 June 2019.

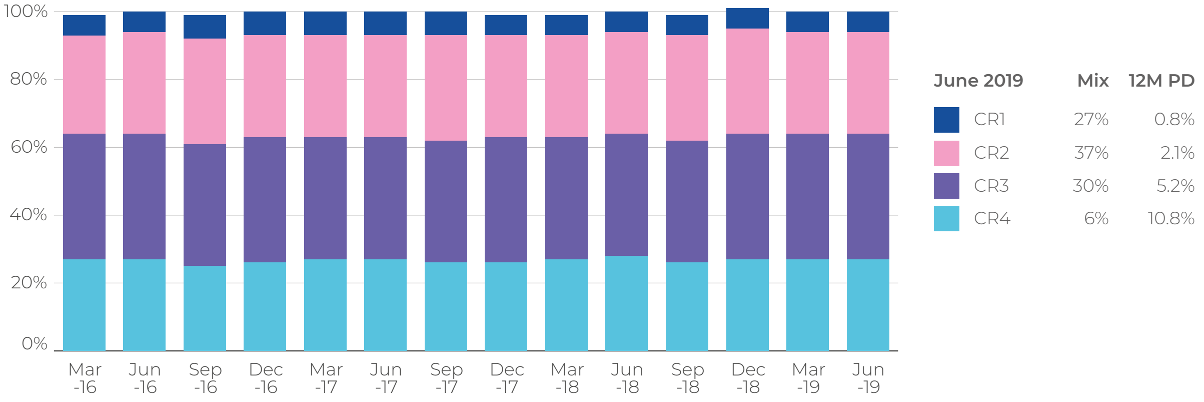
3.6.3. Risk grade characteristics

Latitude Australia and New Zealand's quality of new approvals has been relatively stable. This is important, as the quality of new loan bookings is a key factor in determining how the quality and performance of the total portfolio evolves over time.

Figure 71 shows the origination quality of approved and opened accounts over time. Latitude does not approve CR5 graded applicants, does not target or credit approve subprime[100] borrowers, and does not offer payday[101] lending products. Latitude has increased its risk appetite for Australian personal loans since the business was acquired from GE, with a subsequent tightening of risk appetite in 2017 as a result of Champion/Challenger Testing aimed at balancing approval rates and loan size. Such tests are an ongoing focus of credit risk portfolio management aimed at optimising portfolio performance.

Figure 71 also shows that the 12-month observed probability of default of CR grades 1 to 4 falls within Latitude's target 12-month probability of default ranges from Table 19. As at 30 June 2019, the three-year average probability of default in the portfolio at origination was 2.9%[102].

Figure 71: Risk grade characteristics of approved and opened customer accounts at origination, quarterly[103]



June 2019	Mix	12M PD
CR1	27%	0.8%
CR2	37%	2.1%
CR3	30%	5.2%
CR4	6%	10.8%

Notes: Time series from March 2016 to June 2019.

(a) 12MPD – 12-month probability of default refers to the observed 12-month probability of default to all accounts originated in Q2 2019.

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[100] Whilst there is no Australian market standard for subprime, Latitude considers subprime to be default rates in excess of 20%, which is outside Latitude's risk appetite.

[101] Payday lending typically refers to short-term, unsecured and high interest loans which typically attract higher risk applicants.

[102] Represents all accounts booked from July 2016 to June 2019.

[103] Note: Latitude does not approve CR5 graded products.

The risk profile of the Latitude portfolio as at 30 June 2019 including the performance of the credit risk grades is shown in Table 20.

Table 20: Risk grade characteristics of the portfolio

CR scale	Risk category	% of portfolio as at 30 June 2019[(a)]	90+ delinquency rate (%)[(b)]	Gross charge offs (%)[(b)]
CR1	Very low risk	35.3%	0.15%	0.27%
CR2	Low risk	28.3%	0.54%	0.92%
CR3	Medium risk	21.4%	1.30%	2.02%
CR4	Moderate risk	8.0%	3.00%	3.99%
CR5	High risk	7.0%	7.08%	12.69%

Notes:

(a) Receivable ($) excluding receivables that are 90+ days past due or charged off as at 30 June 2019.

(b) 90+ delinquency rate (%) and gross charge-offs (%) are calculated by taking all instances of delinquency and charge-offs between 1 July 2018 and 30 June 2019 divided by the population of active accounts as at 30 June 2019.

For approved applicants that subsequently open accounts, the risk is reassessed on a monthly basis using behaviour scoring based on account conduct variables such as customer transaction and payment performance. Similar to application scoring, a CR1 to 5 risk scale is used to summarise the risk distribution of the portfolio. The customer's risk grade may change from the point of application, and from month to month during the life of the loan, based on how they conduct their account. For example, a customer who was acceptable at the point of application may undergo life changing events (such as the loss of employment) and therefore may no longer be able to service the commitment, resulting in a potential re-rating of the quality of the credit. As a result of dynamically re-rating approved customers, and changes in customer circumstance and behaviour during their life as a Latitude customer, CR5 rated accounts are present in Latitude's portfolio but remain at levels typical of what it has seen historically across the portfolio, consistent with the mix in Table 20.

The dynamic re-rated scores are added to Latitude's Internal Bureau.

3.6.4. Provisioning process

Latitude maintains a credit loss provision based on its assessment of the future potential losses as a proportion of the overall portfolio of receivables. Latitude re-assesses the adequacy of its provision for future losses on a regular basis, including at each reporting date in line with its accounting policies. Changes in the estimation of the provision between each balance date are recognised in the income statement[104].

The provisioning process is governed through internal policies and procedures and is overseen by the Reserve Committee, which is chaired by the EGM Risk. Latitude uses proprietary models to estimate the required credit loss provisions. These models have been independently validated and are subject to the ongoing governance framework in Latitude's enterprise risk management framework as described further in Section 3.1. Latitude calculates the credit loss provision in accordance with the requirements of IFRS 9 Financial Instruments.

Further information on Latitude's assessment of the impact of IFRS 9 is contained in Section 4.2.

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[104] The initial adoption impact of IFRS 9 was recognised in retained earnings in accordance with accounting standards. For further information on Latitude's accounting policies, see Section 10.

3.7. Funding and Liquidity

Latitude's funding strategy aims to provide the business with funding diversity across multiple financiers, markets and facilities, and provides the business with scalability and stability with a balanced maturity profile. The funding program has established Latitude's brand in the public securitisation markets, with over 50 financiers across its funding programs, providing flexibility to scale the business and support future receivables growth.

The key features of Latitude's funding strategy are to:

- Maintain a diversified funding platform with a broad base of financiers and staggered durations, with typical revolving period tenors of three to five years and capacity of over $1.4 billion[105] to support future receivables growth;
- Manage incremental receivables funding capacity to have a minimum of 12 months of growth capacity on a forecast basis[106];
- Actively manage maturity profile and average tenor to reduce maturity concentrations in the future and continue to smooth the maturity profile as the portfolio funding program matures; and
- Manage foreign exchange rate risk by raising funds in the same currency as its loans to customers.

Execution of Latitude's current funding strategy resulted in a weighted average cost of funds of 4.07%[107] in FY18, which equates to interest expense/AGR of 3.76% on a pro forma basis for FY18 (combined Interest expense/AGR of 5.01% in FY18). The tenor of the revolving periods and committed nature of Latitude's warehouse arrangements facilitate its access to funding in periods of market disruption, without the need to constantly access capital markets.

Figure 72: Latitude's funding awards and global recognition[108]

Australian Securitisation Deal of the Year

Structured Finance Issue of the Year

Latitude was also awarded Best Debt Finance Deal, Most Innovative Deal and Issuer of the Year by FinanceAsia in 2017.

Latitude was the first organisation to issue a credit card master trust in Australia. Master trust structures are used globally to increase the flexibility of ABS funding. In 2017 and 2018, Latitude successfully conducted five public ABS issuances, raising A$2.8 billion:

- A$1.0 billion inaugural Australian credit card master trust ABS issuance with the deal including 36 financiers from Europe, Asia, Australia and New Zealand;
- A$500 million Australian credit card master trust ABS issuance leveraging demand and reverse enquiry from the inaugural deal and delivering a five-year revolving period;
- A$600 million Australian personal loan ABS issuance;
- A$500 million Australian credit card master trust ABS issuance; and
- NZ$200 million inaugural New Zealand credit card master trust ABS issuance introducing the ABS master trust in New Zealand.

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[105] As at 30 June 2019.

[106] Funding capacity is defined as the average number of months of planned receivables growth (based on Latitude's latest forecast) until the full utilisation of its debt facilities.

[107] External debt only.

[108] Latitude was also awarded Best Debt Finance Deal in 2017 by FinanceAsia, and Best Securitisation in 2017 by Global Capital Asia Awards.

It is Latitude's intention to continue to be a programmatic issuer in the capital markets to manage its funding profile and continue to diversify funding sources.

Latitude believes it has a balanced geographical funding mix, driven by its strategy to broaden and diversify its warehouse and securitisation investor base. This strategy has provided Latitude access to a deeper pool of international capital in addition to its continued domestic support.

3.7.1. Funding and liquidity framework

Latitude's principal sources of funding for the financing of its products comprise four Australian warehouse trusts, two New Zealand warehouse trusts, five Australian ABS issuances and one New Zealand ABS issuance. Latitude's sources of funding for general corporate purposes comprise cash generated from operations, cash on hand, corporate debt facilities and an overdraft facility[109].

In addition, Latitude has received a further A$150 million corporate debt facility. Latitude also has shareholder loan facilities provided by the shareholder consortium, which will be fully repaid upon Completion. Funding is diversified over a broad, global base of well recognised and experienced financiers. Latitude has the funding support of major Australian banks, as well as a number of international banks, nine of which are in the top 30 banks worldwide (by assets), along with a number of large Australian and offshore fund managers.

Latitude's principal sources of liquidity are borrowing capacity in its funding facilities (including undrawn commitments within each Warehouse Facility), surplus cash and cash flow generated from operations as well as capacity under its corporate debt facilities. Latitude believes it has sufficient liquidity in its funding arrangements to meet forecast growth targets and its business needs during the forecast period.

Latitude continues to explore other potential sources of funding, including debt and hybrid capital raising opportunities that will become available to it as a listed entity after Completion. Latitude may seek such funding at any time when market conditions are conducive.

Figure 73 illustrates Latitude's principal funding sources for customer receivables, and Figure 74 illustrates the regional distribution of Latitude's debt investor base.

Figure 73: Principal funding sources as at 30 June 2019

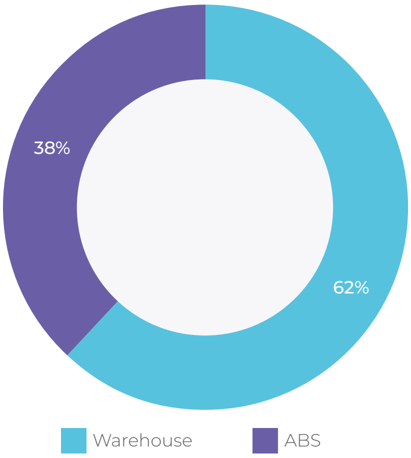
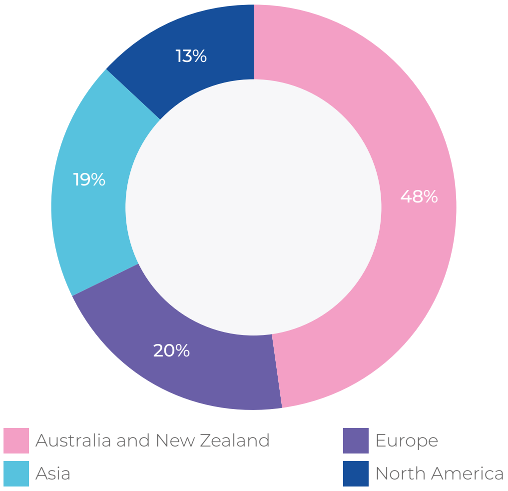


Figure 74: Diversified debt investor base geographically as at 30 June 2019



Notes: The investor split for ABS issuances is based on the profile at their respective issuance dates.

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[109] The limit of this overdraft facility is A$15 million in Australia and NZ$5 million in New Zealand.

Latitude monitors the following core metrics as part of its funding and liquidity risk appetite framework:

- Target funding capacity is defined as the average number of months of planned receivables growth (based on Latitude's latest forecast) until the full utilisation of its debt facilities. Latitude manages its funding capacity to have a minimum of 12 months of growth capacity on a forecast basis;
- Maturity concentration limits are used to ensure that Latitude does not have significant amounts of debt falling due and/or facilities maturing in the same calendar year. The maturity concentration for a given year is the total amount of current outstanding debt in respect of which the revolving period ends in that given year divided by the total debt outstanding[110];
- Warehouse and ABS funding performance metrics are used as early warning indicators to enable a forward-looking and dynamic view of the performance of each of the warehouse trusts. Each funding transaction has its own specific performance triggers and portfolio parameters which are monitored on a monthly basis; and
- Minimum cash requirement has been set to cover the higher of: (a) three months of corporate operating expenses, less senior servicer fees from the ABS transactions and warehouse trusts and any income not transferred to the trusts; and (b) the largest expected net cash outflow on the revolving credit card and lending facilities over three business days.

3.7.2. Debt maturity profile

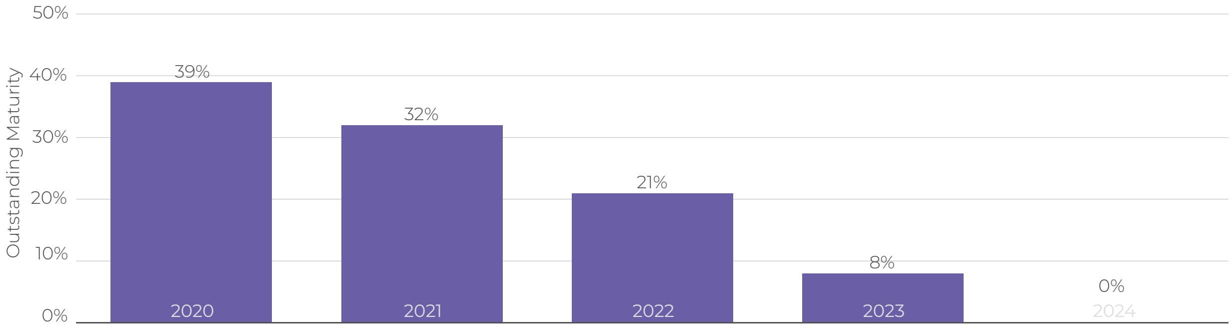
Since the establishment of its funding program in 2015, following the Acquisition, Latitude has been systematically working to smooth its maturity profile and bring the profile within its target range of no more that 33% of funding maturities in any given year. Figure 75 shows Latitude's debt maturity profile as at 30 June 2019.

Latitude is seeking to achieve this target state in the near term through two funding transactions, one that recently completed and one that is currently in progress, namely:

- Latitude completed an Australian ABS issuance of A$750 million for its instalments and credit card portfolios in September 2019. The outstanding balance within the *Australian Sales Finance and Credit Cards Trust* and the *Australian Sales Finance and Credit Cards No. 2 Trust* were reduced by A$500 million and A$250 million respectively on the completion of this new ABS issuance; and
- The *New Zealand Sales Finance and Credit Cards Trust* was refinanced effective on 23 September 2019 with an expected revolving period end date of 22 September 2022.

Figure 76 shows Latitude's debt maturity profile as at 30 June 2019 pro forma for the A$750 million ABS issuance completed on 13 September 2019.

Figure 75: Latitude debt maturity profile as at 30 June 2019



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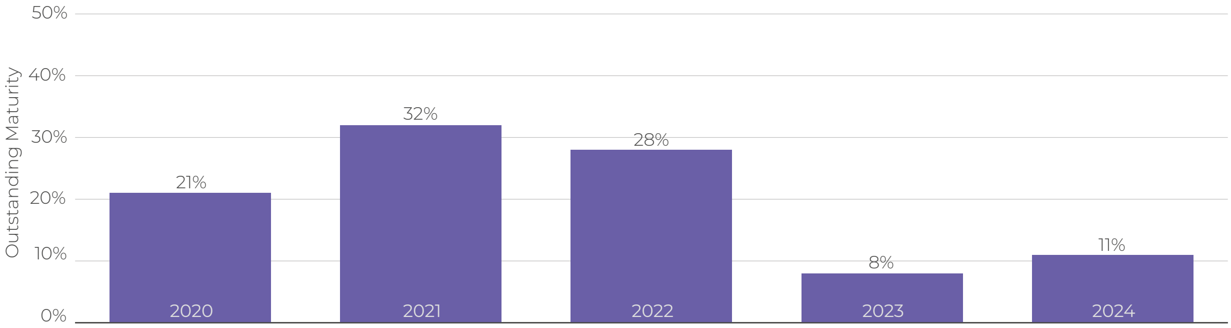
[110] For the purpose of calculating the maturity concentration limit, the *Latitude Australian Personal Loans Series 2017-1 Trust's* maturity amount is shown at the 10% clean-up call option date, expected in 2022. The Trust's revolving period ended in January 2019 and has entered an amortising, pass-through phase. The current outstanding debt of the Trust for this calculation is the expected debt outstanding at the expected 10% clean-up call option date. The 10% clean-up call option provides Latitude with an option to redeem all the notes outstanding when the balance of the underlying receivables is less than 10% of the original amount on the issue date.

Figure 76: Pro forma Latitude debt maturity profile as at 30 June 2019 (including ABS issuance and NZ warehouse refinance)[(a)(b)(c)]



Notes: Time series from 2020 to June 2024.

For the purpose of calculating the maturity concentration profile, the Latitude Australia Personal Loans Series 2017-1 Trust's maturity amount is shown at the 10% clean-up call option date, expected in 2022. The Trust's revolving period ended in January 2019 and has entered an amortising, pass-through phase during which principal repayments will be made to noteholders on a monthly basis, with the total amount of repayments expected to be A$122 million in 2H19, A$167 million in 2020, A$97 million in 2021 and A$63 million in 2022. The current outstanding debt of the Trust for this calculation is the expected debt outstanding at the expected 10% clean-up call option date.

(a) The outstanding maturity (%) referred to is the total outstanding debt adjusted for the portfolios in run off and personal loans portfolio. Refer to maturity concentration limits explanation in Section 3.7.1.

(b) Includes the ABS issuance of A$750 million completed in September 2019 which matures in 2024. The proceeds were used to pay down A$500 million from the Australian Sales Finance and Credit Cards Trust and A$250 million from the Australian Sales Finance and Credit Cards No 2 Trust.

(c) Includes the New Zealand Sales Finance and Credit Cards Trust which was refinanced effective on 23 September 2019.

3.7.3. Warehouse financing

Warehouse financing facilities comprise the majority of Latitude's funding sources. Latitude's warehousing facilities are based on receivables within specific product types and geographies. During 1H19, Latitude added new financiers and doubled the borrowing capacity of the Australian Motor Loans Trust. The size and key terms of Latitude's Warehouse Facilities are summarised in Table 21.

Table 21: Summary of warehouse facilities at 30 June 2019

(All amounts million)	Australian Sales Finance and Credit Cards Trust	Australian Sales Finance and Credit Cards No. 2 Trust	Australian Personal Loans Trust	Australian Motor Loans Trust	New Zealand Sales Finance and Credit Cards Trust	New Zealand Personal Loans Trust
Limit	A$1,227	A$1,112	A$1,200	A$760	NZ$864	NZ$610
Drawn	A$864	A$801	A$1,028	A$398	NZ$755	NZ$553
Headroom[(a)]	A$362	A$312	A$172	A$362	NZ$109	NZ$57
Revolving period end date	22 Sep 2020	22 Mar 2022	17 Feb 2021	19 Feb 2021	22 Sep 2020[(b)]	17 Feb 2021

(a) Total headroom of $1.44 billion includes Variable Funding Note (VFN) capacity for Australia of A$66 million and New Zealand of NZ$6 million as outlined in Table 22 footnote (a).

(b) The New Zealand Sales Finance and Credit Cards Trust was refinanced effective on 23 September 2019 with an expected revolving period end date of 22 September 2022. Refer to Section 3.7.2.

3.7.4. ABS issuance

Since April 2017, Latitude has issued a number of ABS transactions for Australian credit cards and personal loan receivables and one ABS transaction for New Zealand credit cards (further detail is included in Section 3.7.2). The Latitude Australia Credit Card Loan Note Trust – Series 2017-1 was the first ever Australian dollar denominated credit card master trust transaction and a new structure for the ABS market in Australia. Latitude has established itself as, and intends to remain, a programmatic issuer of ABS. As noted in 3.7.2, Latitude completed a further Australian ABS issuance of A$750 million on 13 September 2019. The size and key terms of Latitude's ABS issuances are summarised in Table 22 below.

Table 22: Summary of ABS at 30 June 2019[a][e]

	Latitude Australia Credit Card Loan Note Trust – Series 2017-1	Latitude Australia Credit Card Loan Note Trust – Series 2017-2	Latitude Australia Personal Loan Series 2017-1 Trust	Latitude Australia Credit Card Loan Note Trust – Series 2018-1	Latitude New Zealand Credit Card Loan Note Trust – Series 2018-1
Underlying segment receivables	Sales finance and credit card receivables	Sales finance and credit card receivables	Personal loans	Sales finance and credit card receivables	Sales finance and credit card receivables
Notes issued	A$1,000 million	A$500 million	A$600 million	A$500 million	NZ$200 million
Issue date	6-Apr-17	7-Sep-17	29-Nov-17	27-Mar-18	13-Dec-18
Revolving period end date	23-Mar-20	22-Aug-22	17-Jan-19	22-Mar-23	22-Nov-21
Expected call date[b]	23-Mar-20	22-Aug-22	17-Sep-22	22-Mar-23	22-Nov-21
Geographical distribution of noteholders[c]	Aus/NZ: 28% UK/Europe: 32% Asia: 33% Other: 7%	Aus/NZ: 16% UK/Europe: 27% Asia: 46% Other: 11%	Aus/NZ: 69% UK/Europe: 30% Asia: 0% Other: 1%	Aus/NZ: 15% UK/Europe: 29% Asia: 55% Other: 1%	Aus/NZ: 71% UK/Europe: 14% Asia: 15% Other: 0%
Financier type[c]	Banks: 49% Institutional financiers: 35% Official institutions[d]: 16%	Banks: 58% Institutional financiers: 26% Official institutions[d]: 16%	Banks: 9% Institutional financiers: 81% Official institutions[d]: 10%	Banks: 65% Institutional financiers: 35% Official institutions[d]: 0%	Banks: 76% Institutional financiers: 24% Official institutions[d]: 0%
# of financiers[c]	36	14	24	20	9

Notes:

(a) On 6 April 2017, a Series 2017-VFN note was also issued by the Latitude Australia Credit Card Loan Note Trust which has a limit of A$100 million. As at 30 June 2019, the drawn amount was A$34 million. The facility is available to the entire Australia master trust pool. On 13 December 2018, a Series 2018-VFN note was also issued by the Latitude New Zealand Credit Card Loan Note Trust which has a limit of NZ$20 million. As at 30 June 2019, the drawn amount was NZ$14 million. The facility is available to the New Zealand master trust pool.

(b) Series issued by Latitude Australia Credit Card Loan Note Trust are expected to be called at the issue amount; the Latitude Australian Personal Loans Series 2017-1 Trust is expected to be called at its expected 10% clean-up call date.

(c) As at issue date.

(d) Official institutions refer to institutions such as central banks and supranationals.

(e) Excludes the A$750 million Series 2019-1 Notes issued from the Latitude Australia Credit Card Master Trust, which as noted above completed in September 2019.

3.8. Capital

Latitude's capital management strategy is targeted at implementing an efficient and increasingly diverse capital structure focused on balancing shareholder returns and financial risk, with sufficient liquidity and flexibility to support its strategy and growth agenda. Latitude continues to seek opportunities, both organic and inorganic, to invest capital and generate risk adjusted returns in excess of its cost of capital, accelerate growth and, ultimately, enhance shareholder value.

As noted in Section 3.7.1, following Completion, Latitude intends to proactively explore other potential sources of funding that will become available to it as a listed entity if the market conditions are conducive to it doing so. Latitude's capital objectives have been developed in accordance with economic capital requirements and through stress testing scenarios similar to those run by prudential regulators and rating agencies. Latitude's intention is to hold a target capitalisation ratio of 6% to 7% Tangible Equity (TE) as a proportion of Net Receivables (TE to net receivables)[111].

Latitude's capital requirements are assessed with regard to a minimum capital limit not being triggered prior to any potential mitigation strategies. This reflects the desire to retain appropriate capital strength to maintain financial flexibility as well as protect against the impact of potential adverse scenarios.

Latitude's capital management objectives include the aggregate capital required for the payments, instalments and lending products of the business and the capital required for Hallmark Insurance, which is regulated by APRA[112]. Capital held within Hallmark Insurance is not available to support Latitude's non-insurance operations in the ordinary course and any reduction in Hallmark Insurance's capital base requires APRA approval.

Latitude seeks to hold a sufficient capital buffer to protect it against unexpected losses arising from risks such as credit risk, insurance risk, operational risk and market and interest rate risk with a sufficient buffer to meet the level of capital support required by its debt investors in its funding program. Latitude also includes an additional level of capital to act as a 'stress capital buffer', which is determined by undertaking ongoing internal stress testing by Latitude's risk management and treasury teams.

3.8.1. Capital stress testing

Latitude's capitalisation is based on levels that management believes are sufficient to provide the business with a buffer against unexpected losses. The stress testing framework has been utilised to determine the level of additional capital over and above the operational needs of the business, required to protect shareholders against elevated and prolonged credit losses that could be experienced during a severe economic downturn.

Latitude conducts stress testing to understand the impact of these scenarios on its capital position, including a scenario to assess the capital base required by Latitude to withstand the potential impact of a stressed credit environment. To determine whether Latitude has sufficient capital to withstand a prolonged downturn, Latitude's stress test minimum capital threshold is set at 4.5% of TE to net receivables.

Key macroeconomic assumptions used in the stress testing scenarios, for both Australia and New Zealand, include:

- an unemployment rate of up to approximately 10% in year one and year two and 8% in year three;
- cash rate falls to 0%;
- disruption to debt capital markets via increased margin on funding facilities, increased equity requirements; and
- negative GDP growth in Australia and New Zealand in year one and year two with a reversion to modest growth in year three.

The results represent hypothetical downturn scenarios and do not represent Latitude's actual forecast for expected losses or likely capital ratios.

Latitude's stress tests are designed to determine whether Latitude has sufficient capital strength during the economic downturn. Latitude believes that the business is capitalised to a sufficient level to be resilient during such adverse economic and credit conditions.

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[111] See capitalisation ratios and definitions in Section 4.4.1.

[112] Minimum regulatory capital for Hallmark Insurance as at 30 June 2019 was A$67.4 million; a total target capital of A$100.4 million was held, which was above the regulatory minimum.

04.

Financial Information

04. Financial Information

4.1 Introduction

As outlined in Section 1.1, Latitude's revenue is primarily generated from use of its digital payments, instalments and lending products, with a small component derived from insurance products. Key financial metrics are set out in Section 1.2. Financial highlights appear in Section 2.1.4 and other parts of Section 2. The financial information presented in those sections of this Prospectus is summary in nature and where presented on a pro forma basis reflects the position following the Restructure (as discussed in Section 9.4) as if the Restructure was completed on 1 January 2017.

This Section 4 presents historical and forecast financial information, on a combined and pro forma basis.

The Financial Information contained in Section 4 relates to Latitude which, following the Restructure and on Completion, will comprise:

- Latitude Financial Group Limited ('**Company**');
- KVD Australia HoldCo Pty Ltd and its controlled entities ('**KVDAH**'), which collectively comprise the Australian operations of Latitude; and
- Latitude Financial Services Limited and its controlled entities ('**LFSL**'), which collectively comprise the New Zealand operations of Latitude.

Following the Restructure and with effect from Completion, KVDAH and LFSL will be wholly-owned subsidiaries of the Company.

The financial information of Latitude contained in Section 4 includes historical financial information for the years ended 31 December 2017 ('**FY17**') and 31 December 2018 ('**FY18**'); the six months ended 30 June 2018 ('**1H18**'); the six months ended 30 June 2019 ('**1H19**'); the balance sheet as at 30 June 2019; and forecast financial information for the 12 months ending 31 December 2019 ('**FY19**'), incorporating 1H19 actual and six months of forecast, the six months ending 30 June 2020 ('**1H20**') and the 12 months ending 30 June 2020 ('**LTM Jun-20**'). The forecast for LTM Jun-20 represents the six month forecast results ending 31 December 2019 aggregated with the six month forecast results ending 30 June 2020, which has been prepared for the purposes of the Offer, and does not represent a financial reporting period Latitude expects to disclose in the future.

The financial information of Latitude contained in Section 4 is summarised in Figure 77.

Figure 77: Summary of financial information in Section 4

	Combined financial information	**Pro forma financial information**
Historical Financial Information	Combined historical financial information of KVDAH and LFSL comprising: • Combined historical income statements of KVDAH and LFSL for FY17, FY18, 1H18 and 1H19 ('**Combined Historical Income Statements**'); • Combined historical cash flows of KVDAH and LFSL for FY17, FY18, 1H18 and 1H19 ('**Combined Historical Cash Flows**'); and • Combined historical balance sheet of KVDAH and LFSL as at 30 June 2019 ('**Combined Historical Balance Sheet**') (together, '**Combined Historical Financial Information**').	Pro forma historical financial information of Latitude comprising: • Pro forma consolidated historical income statements of Latitude for FY17, FY18, 1H18 and 1H19 ('**Pro Forma Historical Income Statements**'); • Pro forma consolidated historical cash flows for Latitude for FY17, FY18, 1H18 and 1H19 ('**Pro Forma Historical Cash Flows**'); and • Pro forma consolidated historical balance sheet of Latitude as at 30 June 2019 ('**Pro Forma Historical Balance Sheet**') (together, '**Pro Forma Historical Financial Information**').
Forecast Financial Information	Combined forecast financial information of Latitude comprising: • Combined forecast income statements of Latitude for FY19, 1H20 and LTM Jun-20 ('**Combined Forecast Income Statements**'); and • Combined forecast statements of cash flows of Latitude for FY19, 1H20 and LTM Jun-20 ('**Combined Forecast Cash Flows**') (together, '**Combined Forecast Financial Information**').	Pro forma forecast financial information of Latitude comprising: • Pro forma consolidated forecast income statements of Latitude for FY19, 1H20 and LTM Jun-20 ('**Pro Forma Forecast Income Statements**'); and • Pro forma consolidated forecast statements of cash flows of Latitude for FY19, 1H20 and LTM Jun-20 ('**Pro Forma Forecast Cash Flows**') (together, '**Pro Forma Forecast Financial Information**').

The Combined Historical Financial Information and the Pro Forma Historical Financial Information are together referred to as the **Historical Financial Information** and the Combined Forecast Financial Information and the Pro Forma Forecast Financial Information are together referred to as the **Forecast Financial Information**. The Historical Financial Information and Forecast Financial Information are together referred to as the **Financial Information**.

A summary of the Financial Information contained in Section 4 and the Appendix is presented below.

Item	Section
Basis of preparation and presentation of the Financial Information	4.2
Historical and forecast income statements	4.3
Historical balance sheet	4.4
Historical and forecast cash flows	4.5
Management discussion and analysis of the Historical Financial Information	4.6
Forecast Financial Information	4.7
Management's discussion and analysis of the Forecast Financial Information	4.8
Sensitivity analysis	4.9
Dividend policy	4.10
Segment information	4.11
Financial risk management framework	4.12
Critical accounting estimates and judgements	4.13
Glossary of Financial Table Notes	4.14
Significant accounting policies	10
Full reconciliations of the Pro Forma Historical Income Statements to the Combined Historical Income Statements and the Pro Forma Historical Cash Flows to the Combined Historical Cash Flows	Appendix

The Financial Information should also be read in conjunction with the risk factors in Section 5 and other information contained in this Prospectus. Further information on Latitude's financing facilities is provided in Section 3.7. Investors should note that past results are not a guarantee of future performance.

All amounts disclosed in the tables are presented in Australian dollars ('**A$**' or '**$**') and, unless otherwise noted, are rounded to the nearest A$0.1 million. Percentage movements have been calculated from underlying source information and hence may not reconcile with rounded calculations.

Amounts translated from New Zealand dollars ('**NZ$**') have been converted at the average exchange rates (for income statements and cash flows) and spot exchange rates (for balance sheet items) set out in Table 66 in the Appendix (Section 11.3).

4.2 Basis of preparation and presentation of the Financial Information

4.2.1 Overview of the Financial Information

Accounting standards and segment reporting

The Financial Information has been prepared and presented in accordance with the recognition and measurement principles of International Financial Reporting Standards ('**IFRS**') as issued by the International Accounting Standards Board ('**IASB**'), as outlined in Section 4.2.2. IFRS is consistent with the accounting standards and interpretations issued by the Australian Accounting Standards Board ('**AASB**'), and New Zealand equivalent ('**NZ IFRS**'). The Financial Information is presented in an abbreviated form and does not include all the presentation and disclosures, statements or comparative information required by the Australian Accounting Standards ('**AAS**') and other mandatory professional reporting requirements applicable to general purpose financial reports prepared in accordance with the Corporations Act. Latitude's accounting policies have been consistently applied throughout the periods presented in the Financial Information (except in circumstances where Latitude has been required to adopt new accounting standards as described below). Latitude's significant accounting policies are set out in Section 10.

A description of the segments on which Latitude reports (under IFRS 8 *Operating Segments*) is set out in Section 4.11. Latitude's segments are: Australia, New Zealand and Other/unallocated. These segments are the same as the segments presented in Latitude's Combined Historical Financial Statements (as defined in Section 4.2.2) and are the segments that the Company expects to include in its financial statements following Completion.

Certain new accounting standards and interpretations have been published, including some which have become mandatory for Latitude to adopt within the period covered by the Historical Financial Information. An outline of these new standards and Latitude's assessment of the impact of these new standards on the Historical Financial Information and Forecast Financial Information is as follows:

- IFRS 9 *Financial Instruments* ('**IFRS 9**') replaces IAS 39 *Financial Instruments: recognition and measurement* ('**IAS 39**') and introduced a new forward-looking expected loss impairment model required in estimating provisions for losses on Latitude's receivables. IFRS 9 has been adopted by Latitude from 1 January 2018. The impact of the adoption of IFRS 9 resulted in an increase in Latitude's provision for impairment losses of $24.3 million (an increase in the Coverage ratio from 4.08% to 4.42%) and a reduction in retained earnings of $17.1 million (net of income taxes), as at 31 December 2017. The impact of the increased provision Coverage ratio is reflected in opening retained earnings in Latitude's Combined Forecast Financial Information (at 1 January 2018). Latitude's Forecast Financial Information has been prepared in accordance with the requirements of IFRS 9. Latitude's Pro Forma Historical Income Statements include an adjustment to reflect the impact of IFRS 9 as if it had been adopted on 1 January 2017. In addition to the above, IFRS 9 also introduces a new hedge accounting model and new requirements regarding classification and measurement of financial instruments. Latitude has not elected to adopt the hedging requirements in accordance with the terms set out in IFRS 9. The new classification and measurement elements contained within the standard have been assessed and there is no material impact;
- IFRS 15 *Revenue from Contracts with Customers* ('**IFRS 15**') replaces IAS 18 Revenue and is based on the principle that revenue is recognised when control of a good or service transfers to a customer. IFRS 15 has been adopted by Latitude from 1 January 2018. Latitude adopted this standard on a modified retrospective basis and recognised the cumulative effect of initially applying the standard as an adjustment to deferred income of $1.0 million and an adjustment to retained earnings of $0.8 million (net of income taxes) at the date of initial adoption on 1 January 2018. Latitude assessed the impact of IFRS 15 on the FY17 financial information and determined that the impact was immaterial and therefore a pro forma adjustment for IFRS 15 has not been taken into account in the FY17 financial information;
- IFRS 16 *Leases* ('**IFRS 16**') introduces a single, on-balance sheet lease accounting model for lessees. A lessee will recognise a right-of-use asset and a lease liability for the obligation to make lease payments. IFRS 16 has been adopted by Latitude from 1 January 2019. The main impact of adopting IFRS 16 has been the requirement, as a lessee, to recognise a lease liability and corresponding right-of-use asset on balance sheet for all leases with a term of more than 12 months, unless the underlying asset is of low value. On transition to IFRS 16, an additional $74.0 million of right-of-use assets and $80.5 million of lease liabilities were recognised by the group (as defined in Section 4.2.2 ('**Group**')). An additional $23.2 million of deferred tax assets and $22.2 million of deferred tax liabilities were recognised. The total net transitional difference of $2.29 million was recognised in equity as a reduction to opening retained earnings as of 1 January 2019. A pro forma adjustment has been applied to the FY17 and FY18 Pro Forma Historical Financial Information to reflect the impact of IFRS 16 across all periods consistently; and
- IFRIC 23 *Uncertainty over Income Tax Treatments* ('**IFRIC 23**') became effective in relation to the Group at 1 January 2019. The new interpretation clarifies the accounting for uncertainties in income taxes in relation to the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates. This has had an immaterial impact on the Group.

Latitude's critical accounting estimates and judgements are set out in Section 4.13.

The Financial Information includes non-IFRS financial measures that Latitude uses to manage and report on its business that are not recognised under AAS or IFRS, as described in Section 4.2.4. Investors are cautioned not to place undue reliance on any non-IFRS financial measures included in this Prospectus.

Restructure

Immediately prior to Completion, an internal restructure will take place in preparation for the listing of Latitude on the ASX ('**Restructure**', as outlined in Section 9.4). The Restructure results in a newly incorporated company becoming the legal parent of KVDAH and LFSL, conditional on Completion. The Company will conduct no business and will have no material assets or liabilities in the period prior to the Restructure. Further, KVDAH and LFSL are, and will continue to be until the Restructure, separate and distinct for accounting purposes, and each of those entities has prepared its own general purpose consolidated financial statements.

The Directors have elected to account for the Restructure at book value (rather than fair value). In the Directors' judgement, the continuation of the existing accounting values is consistent with what would have occurred if the assets and liabilities had already been in a corporate structure suitable for an initial public offering and most appropriately reflects the substance of the Restructure. As such, the consolidated financial statements of the Company from the date of the Restructure (which is expected to be on or about 23 October 2019) will be presented as a continuation of the pre-existing accounting values of assets and liabilities reported in the historical general purpose statutory financial statements of KVDAH and LFSL.

As part of the Restructure and the Offer, a number of arrangements with the shareholder consortium will be terminated. The impact of these arrangements has been set out and described in the Pro Forma Historical Financial Information and the Pro Forma Forecast Financial Information contained in Sections 4.2.2 and 4.2.3.

Historical Financial Information not necessarily indicative of prospective financial performance

The Directors believe that the Pro Forma Historical Financial Information and the Pro Forma Forecast Financial Information illustrate the historical and future performance of the business consistent with its ongoing operations following the Offer, but excluding the one-off impact of the Restructure and the Offer. However, the Pro Forma Historical Financial Information and the Pro Forma Forecast Financial Information do not reflect the actual or prospective financial performance, financial position or cash flows of Latitude for the periods indicated.

Seasonality

Latitude experiences a seasonal effect in its financial performance between the first six months of Latitude's financial year from January to June ('**1H**') and the second six months of Latitude's financial year from July to December ('**2H**').

For example, demand for Latitude's products is typically higher during the 2H period in comparison to the 1H period as a result of increased consumer spending in the lead up to the Christmas holiday period and post-Christmas sales. This causes an increase in volumes for, and receivables at the end of, the 2H period. An increase in income from the higher 2H receivables balance is typically observed in 1H in the next financial year. Conversely, Latitude exhibits a counter seasonal impact with delinquencies rising in 1H following the December holiday period, as well as higher net charge offs in 1H, followed by increased repayment rates and improving delinquencies and charge offs in 2H as borrowers typically reduce indebtedness following the receipt of tax refunds after the end of the tax year in June.

4.2.2 Preparation of the Combined Historical Financial Information and Pro Forma Historical Financial Information

The Combined Historical Financial Information has been extracted from the general purpose combined financial statements of the group (comprising KVDAH and LFSL and their respective subsidiaries) ('**Group**') for FY18 (which includes relevant comparative information for FY17) ('**FY18 Combined Historical Financial Statements**'). The Combined Historical Financial Information for 1H19 (which includes relevant comparative information for 1H18) and the Combined Historical Balance Sheet have been extracted from the Combined Interim Financial Report of KVDAH and LFSL for the six months ended 30 June 2019 ('**1H19 Combined Interim Financial Report**') (the FY18 Combined Historical Financial Statements and the 1H19 Combined Interim Financial Report together being the '**Combined Historical Financial Statements**').

Prior to the Restructure, KVDAH and LFSL were separate and distinct for accounting purposes. Each entity produced its own consolidated financial statements. The Group was not required to, and did not, prepare a single set of statutory financial statements on a consolidated basis. The Combined Historical Financial Statements have been prepared for the purposes of the Offer and for the disclosure of Historical Financial Information in this Prospectus. Because no parent company prepared consolidated financial statements for the Group prior to the Offer, in accordance with the accounting standards, these are referred to as 'combined' historical financial statements rather than 'consolidated' historical financial statements.

The FY18 Combined Historical Financial Statements have been prepared in accordance with the recognition, measurement and classification requirements of all applicable IFRS and other mandatory professional reporting requirements. The 1H19 Combined Interim Financial Report has been prepared in accordance with the recognition, measurement and classification requirements of IAS 34.

The Combined Historical Financial Statements have been prepared by aggregating the audited statutory consolidated financial statements of KVDAH and the audited statutory consolidated financial statements of LFSL for the relevant periods (eliminating inter-company transactions). There are no material differences between the historical financial statements of KVDAH and LFSL on a combined basis and the financial statements that would have been prepared on a consolidated basis (under IFRS 10 *Consolidated Financial Statements* if it had been a single Group).

The FY18 Combined Historical Financial Statements have been audited by KPMG in accordance with Australian Auditing Standards. KPMG issued an unqualified opinion in respect of the FY18 Combined Historical Financial Statements and its report includes an emphasis of matter paragraph which highlights the basis of preparation of those accounts.

The 1H19 Combined Interim Financial Report has been reviewed by KPMG in accordance with Australian Standards on Review Engagements. KPMG issued an unmodified conclusion in respect of the 1H19 Combined Interim Financial Report and its report includes an emphasis of matter paragraph which highlights the basis of preparation of that information. However, its report states that they did not complete an audit and they do not express an audit opinion on the 1H19 Combined Interim Financial Report. Accordingly, the degree of reliance on its report with respect to such information should be restricted in light of the limited nature of the review procedures applied.

The Pro Forma Historical Financial Information has been prepared solely for the purpose of inclusion in this Prospectus. The Pro Forma Historical Financial Information has been derived from the Combined Historical Financial Information, adjusted to reflect the:

- Removal of profit contribution from discontinued operations associated with servicing arrangements for a credit card portfolio that was terminated during FY15 and ceased in March 2018 and cancellation of a discrete commercial arrangement that was outside the ordinary course in 1H18 ('**Discontinued Operations**');
- Changes in the capital structure as a result of Completion, including the removal of shareholder loans and associated costs, removal of consulting and monitoring fees paid or payable to the shareholder consortium and removal of distributions to trust beneficiaries from trusts historically owned by the shareholder consortium which are to be purchased by Latitude as part of the Restructure;
- Impact of new accounting standards (IFRS 9 adopted from 1 January 2018 and IFRS 16 adopted 1 January 2019) as if such standards had been adopted as at 1 January 2017 (see Section 4.2.1);
- Removal of Transaction and Offer costs including the removal of transitional services costs associated with the Acquisition, costs associated with matters incurred under GE ownership that could not be recovered due to the expiration of legal recourse under the Acquisition share purchase agreement;
- Acquisition transaction costs associated with the Genoapay transaction and costs associated with the Offer;
- Inclusion of the estimated incremental public company costs associated with the Company being a listed company, including estimated Board costs, share registry, statutory and investor communications costs, as well as incremental audit, tax and compliance costs;
- Employee remuneration plans; and
- The pro forma effective income tax rate which would be applicable following Completion.

A reconciliation of (a) pro forma total operating income to combined total operating income and (b) pro forma net profit after tax ('**NPAT**') to combined NPAT is provided in Section 4.3.4 together with a detailed description of the pro forma adjustments that have been made to the Combined Historical Financial Information. Full reconciliations of (a) the Pro Forma Historical Income Statements to the Combined Historical Income Statements and (b) the Pro Forma Historical Cash Flows to the Combined Historical Cash Flows are presented in the Appendix (Section 11).

The Pro Forma Historical Financial Information presented in this Prospectus has been reviewed by KPMG Transaction Services, in accordance with the Australian Standard on Assurance Engagements ASAE 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information*, as stated in its Limited Assurance Investigating Accountant's Report (refer to Section 8). Investors should note the scope and limitations of the Limited Assurance Investigating Accountant's Report.

4.2.3 Preparation of the Forecast Financial Information

The Forecast Financial Information has been prepared solely for inclusion in this Prospectus. The Directors have prepared the Forecast Financial Information with due care and attention, and the Directors consider all General Assumptions and Specific Assumptions (collectively, '**Directors' Best Estimate Assumptions**'), when taken as a whole, to be reasonable at the time of preparing this Prospectus. However, this information is not fact, and Investors are cautioned not to place undue reliance on the Forecast Financial Information.

The Forecast Financial Information has been prepared by Latitude based on an assessment of current economic and operating conditions and on a number of assumptions, including the Directors' Best Estimate Assumptions which comprise the General Assumptions and Specific Assumptions set out in Sections 4.7.1 and 4.7.2, respectively.

This information is intended to assist Investors in assessing the reasonableness and likelihood of the assumptions occurring and is not intended to be a representation that the assumptions will occur. The assumptions upon which the Forecast Financial Information is based are, in their nature, subject to significant uncertainties and contingencies, many of which will be outside the control of Latitude, the Directors and Management, and are not reliably predictable. Accordingly, none of Latitude, its Directors and Management or any other person can give Investors any assurance that the outcomes disclosed in the Forecast Financial Information will arise.

Investors should be aware that the timing of actual events and the magnitude of their impact might differ from that assumed in preparing the Forecast Financial Information and that this may have a material positive or negative effect on Latitude's actual financial performance or financial position. Investors are advised to review the assumptions set out in Section 4.7, in conjunction with the sensitivity analysis set out in Section 4.9, the risk factors set out in Section 5, the Investigating Accountant's Report on the Forecast Financial Information set out in Section 8 and other information set out in this Prospectus.

The Combined Forecast Financial Information for FY19 and 1H20 is representative of the financial performance and cash flows that the Directors expect to report in Latitude's financial statements in respect of the year ending 31 December 2019 and the half year ending 30 June 2020, assuming that Completion takes place on or around 23 October 2019 and hence only reflecting a part year effect (for FY19) of the capital structure that will be in place following Completion. The Combined Forecast Financial Information has been prepared in a manner that is consistent with how the Combined Historical Financial Information has been prepared and how the consolidated financial statements of Latitude are expected to be prepared going forward.

In addition, the Forecast Financial Information for LTM Jun-20 included in this Prospectus has been prepared on a monthly basis. This information can also be derived mathematically by (a) subtracting the income statement and cash flow statement results contained in the Historical Financial Information for 1H19 from the income statement and cash flow statement results contained in the Forecast Financial Information for FY19, to produce income statement and cash flow statement results for the six months ending 31 December 2019 ('**2H19**'), and (b) adding such 2H19 results to the income statement and cash flow statement results contained in the Forecast Financial Information for 1H20. Investors should note that no financial information for 2H19 appears in this Prospectus.

In preparing the Pro Forma Forecast Financial Information, pro forma adjustments have been made to the Combined Forecast Financial Information, consistent with the pro forma adjustments (where appropriate) previously described in Section 4.2.2, as well as further adjustments to reflect:

- The removal of one-off costs incurred as a result of Completion (FY19 and 1H20 only); and
- The removal of the financial impact of the existing Pre-Completion Equity Plan ('**PCEP**') and replacement with the financial impact of the new employee remuneration plans as if the grants that are forecast to take place over the four years of the plans had been made on 1 January 2019.

The basis of preparation and presentation of the Pro Forma Forecast Financial Information is consistent with the basis of preparation for the Pro Forma Historical Financial Information.

The FY19 Combined Forecast Financial Information and the Pro Forma Forecast Financial Information incorporate the actual reviewed profits and cash flows for the six months to 30 June 2019.

The Forecast Financial Information presented in this Prospectus has been reviewed by KPMG Transaction Services, in accordance with the Australian Standard on Assurance Engagements ASAE 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information*, as stated in its Limited Assurance Investigating Accountant's Report on the Forecast Financial Information. Investors should note the scope and limitations of the Investigating Accountant's Report on the Forecast Financial Information. The Limited Assurance Investigating Accountant's Report on the Forecast Financial Information has been prepared solely in connection with the offer of Shares in Australia and New Zealand and has been omitted from the Institutional Offering Memorandum being distributed in the United States. The Directors have no intention to update or revise the Forecast Financial Information or other forward-looking statements following the issue of this Prospectus, or to publish prospective financial information in the future.

4.2.4 Explanation of non-IFRS and other financial measures

Latitude uses certain measures to manage and report on its business that are not recognised under AAS or IFRS. These measures are collectively referred to as 'non-IFRS financial measures' under ASIC Regulatory Guide 230 *Disclosing non-IFRS financial information*. Non-IFRS financial measures are intended to supplement the measures calculated in accordance with AAS or IFRS and not be a substitute for those measures. Because non-IFRS financial measures are not defined by the recognised body of accounting standards, they do not have a prescribed meaning and the way that Latitude calculates them may be different to the way that other companies calculate similarly-titled measures, which may limit their usefulness as a comparative measure.

Latitude uses these non-IFRS financial measures to evaluate the performance and profitability of its overall business, to make operational and investment decisions, for comparison with its business plan and operating budgets and for the allocation of resources.

The principal non-IFRS financial measures that are referred to in this Prospectus are described below. Latitude believes that providing Investors with these non-IFRS financial measures provides useful information to Investors (for the reasons described below).

4.2.4.1 Income statement non-IFRS financial measures

Risk adjusted income ('RAI')

RAI is calculated as total operating income less loan impairment expense and is measured by Latitude to evaluate the risk adjusted margin on receivables after funding costs and the loan impairment expense (net charge offs and the associated expense for movements in provisions on Latitude's receivables) before the allocation of operating expenses. For insurance products, RAI is calculated as net premium income plus investment income less claims costs.

RAI is considered useful by Latitude as it measures the risk adjusted contribution from receivables and insurance products.

It allows Latitude to have a consistent measure of performance and risk adjusted yields across its various segments and portfolios. RAI should not be considered as an alternative to Profit/(loss) before income tax and NPAT in considering the overall net profit of Latitude.

Some of the limitations of RAI include that this measure does not reflect:

- The direct operating expenses incurred by Latitude in generating RAI;
- The indirect costs associated with Latitude's business; and
- The approach of other companies in Latitude's industry which may calculate this measure differently from Latitude, thus limiting its usefulness as a comparative measure.

Refer to Table 52 in Section 4.11.2 where RAI is presented on a segment basis.

Profit/(loss) before income tax and Significant items

Profit/(loss) before income tax and Significant items is calculated by excluding expenses associated with Significant items and Amortisation of acquisition intangibles and structural changes from Profit/(loss) before income tax. Significant items and Amortisation of acquisition intangibles and structural changes are defined below and described further in Sections 4.3.2.1 and 4.3.2.2 respectively.

Latitude believes Profit/(loss) before income tax and Significant items is useful to help Investors understand the underlying performance of the business and its cash generation potential. However, it should not be considered as an alternative to measures of Profit/(loss) before income tax and NPAT, or cash flow from operations.

Some of the limitations of Profit/(loss) before income tax and Significant items include:

- It excludes Significant items which in their nature can be inherently large and volatile;
- It excludes Amortisation of acquisition intangibles and structural changes which by their nature are historical and can be inherently large; and
- Other companies in Latitude's industry may calculate this measure differently from Latitude, thus limiting its usefulness as a comparative measure.

Refer to Table 23 in Section 4.3.1 where pro forma Profit/(loss) before income tax and Significant items and pro forma NPAT is shown.

Cash NPAT

Cash NPAT is calculated by adding the after tax impact of Significant items and Amortisation of acquisition intangibles and structural changes (defined below) to pro forma NPAT.

Cash NPAT is measured by Latitude to evaluate the operating performance of the business without the impact of expenditure associated with Significant items and the non-cash expense associated with the Amortisation of acquisition intangibles.

Latitude uses Cash NPAT for its internal management reporting as Latitude believes it reflects what it considers to be the underlying performance of Latitude.

Some of the limitations of Cash NPAT include:

- It excludes Significant items and Amortisation of acquisition intangibles and structural changes which in their nature create a different profile to statutory profit;
- It is not representative of the free cash flow of Latitude's business (refer to Section 4.5 for this information); and
- Other companies in Latitude's industry may calculate this measure differently from Latitude, thus limiting its usefulness as a comparative measure.

Refer to Table 24 in Section 4.3.1 where Cash NPAT is reconciled to pro forma NPAT. Pro forma NPAT is reconciled to combined NPAT in Table 28 in Section 4.3.4.

Significant items

Significant items reflect expenses recorded in relation to: the analysis, establishment, the technology investment expense and execution costs of Latitude 2.0 and implementation of the digital target operating model; the original restructuring and replatforming costs following the Acquisition; and certain remediation activity required due to regulatory change or legacy issues, which are considered by Latitude to be outside the ordinary course of business.

Further detail on each of these programmes is provided in Section 4.3.2.1. Latitude separately reports Significant items as it believes it is useful to separately measure the non-capitalised component of investment-related expenditure on programmes which it considers are outside the ordinary course of business.

One of the limitations of Significant items is that other companies in Latitude's industry may calculate this measure differently from Latitude, thus limiting its usefulness as a comparative measure.

Amortisation of acquisition intangibles and structural changes

Amortisation of acquisition intangibles reflects the non-cash amortisation charges associated with intangible assets which were recognised by Latitude as part of the acquisition accounting when the business was acquired in 2015. Detail on these items is set out in Section 4.3.2.2. Latitude separately identifies the impact of these items as it believes it is helpful to Investors to understand the impact of non-cash amortisation charges that arose as a result of these acquisition intangible assets being recognised.

Amortisation of structural changes reflects the non-cash amortisation charges associated with the capitalised establishment costs from the set-up of securitisation funding vehicles as well as historical hedging arrangements which will be closed and re-hedged as part of pre-Completion restructuring steps.

One of the limitations of Amortisation of acquisition intangibles and structural changes is that other companies may classify the items that are included in this measure differently from Latitude, thus limiting its usefulness as a comparative measure.

Adjusted EBITDA

Adjusted EBITDA (as calculated on a pro forma basis) reflects Latitude's Profit/(loss) before income tax and Significant items, add back depreciation and amortisation expense. On a combined basis, Adjusted EBITDA is calculated as Profit/(loss) before income tax, add back depreciation and amortisation expense.

Latitude believes Adjusted EBITDA is useful to Investors as it monitors the profit before tax of the business before non-cash depreciation and amortisation charges.

One of the limitations of Adjusted EBITDA is that it does not represent the net profit after tax or cash flow of Latitude and that other companies may calculate Adjusted EBITDA differently from Latitude, thus limiting its usefulness as a comparative measure.

Full reconciliations of (a) pro forma Adjusted EBITDA to pro forma NPAT and (b) combined Adjusted EBITDA to combined NPAT are presented in the Appendix (Section 11).

4.2.4.2 Cash flow non-IFRS financial measures

Net cash flow before other financing activities

Net cash flow before other financing activities is calculated as net cash flow from operating and investing activities including cash flows associated with Latitude's securitisation funding facilities (which are described in Section 3.7.4) and transaction costs incurred by Latitude in establishing the securitisation funding facilities but before the effects of exchange rate changes on cash and cash equivalents, dividends and other cash flows related to the capital structure. Latitude believes that Net cash flow before other financing activities is a useful measure of the cash flow generated by the business before the impact of cash flows associated with Latitude's corporate financing and capital structure.

One of the limitations of this measure is that it does not include the impact of cash flows associated with Latitude's capital structure and dividend payments, and therefore does not represent Latitude's net cash flow position.

Refer to Table 35 in Section 4.5.1 and Table 36 in Section 4.5.2, where Net cash flow before other financing activities is reconciled to net cash flow from operating and investing activities on a pro forma and combined basis, respectively.

Net cash flow before dividends

Net cash flow before dividends is calculated as Net cash flow after all other financing activities, with the inclusion of all other net financing cash flows of the business but excluding the payment of dividends. Latitude measures Net cash flow before dividends as it believes it is a useful measure to report the cash flows generated by the business (which is one of the measures the Board considers in determining whether or not a dividend should be paid and the quantum of any dividend).

One of the limitations of this measure is that it does not include the impact of dividend payments, and therefore does not represent Latitude's net cash flow position.

Refer to Table 35 in Section 4.5.1 and Table 36 in Section 4.5.2, where Net cash flow before dividends is reconciled to net cash flow from operating and investing activities on a pro forma and combined basis, respectively.

4.2.4.3 Balance sheet non-IFRS financial measures

Restricted cash and cash equivalents

Restricted cash and cash equivalents comprise:

- Restricted cash and cash equivalents (securitisation funding facilities): cash that is required for the operations of the securitisation funding trusts;
- Restricted cash and cash equivalents (corporate): cash that is being held as security for cash withdrawals that Latitude customers make; and
- Cash and cash equivalents held in the Hallmark businesses to meet liquidity and target capital requirements.

Refer to Table 33 in Section 4.4.2 where Restricted cash and cash equivalents (for both securitisation funding facilities and corporate debt) are presented.

Unrestricted cash and cash equivalents

Unrestricted cash and cash equivalents are total cash and cash equivalents less Restricted cash and cash equivalents. Refer to Table 33 in Section 4.4.2 where Unrestricted cash and cash equivalents are presented.

Net securitisation funding

Net securitisation funding is calculated as total external borrowings in Latitude's Warehouse Facilities and asset-backed security ('**ABS**'), less Restricted cash and cash equivalents (securitisation funding facilities). Latitude measures Net securitisation funding as it believes it is useful to understand the net debt positions attributable to securitised funding vehicles.

One of the limitations of the Net securitisation funding measure is that it does not represent the complete net debt balance of Latitude, as it excludes Net corporate debt (as described below).

Refer to Table 33 in Section 4.4.2 where Net securitisation funding is presented.

Net corporate debt

Net corporate debt is calculated as total debt owing to shareholders plus any other debt facilities outstanding less Restricted cash and cash equivalents (corporate) and Unrestricted cash and cash equivalents. This does not include any overdraft facilities unless those facilities have been drawn. On Completion, the shareholder loans will be repaid. One of the limitations of Net corporate debt is that is does not represent the complete net debt balance of Latitude as it excludes Net securitisation funding (described above).

Refer to Table 33 in Section 4.4.2 where Net corporate debt is presented.

Total net debt

Total net debt is the sum of Net securitisation funding and Net corporate debt and it represents the net debt balance of Latitude.

Refer to Table 33 in Section 4.4.2 where Total net debt is presented.

Tangible equity ('TE')

TE is defined as total equity after deducting amounts attributable to goodwill and other intangible assets. Refer to Table 32 in Section 4.4.1 where TE is presented.

Tangible assets ('TA')

TA is defined as total assets after deducting amounts attributable to goodwill and other intangible assets. Refer to Table 32 in Section 4.4.1 where TA is presented.

4.2.4.4 Other non-IFRS measures

Latitude uses a number of other operating and financial metrics to assess business performance which are also non-IFRS measures. These include:

- Operating performance metrics such as Volume growth, gross receivables growth and Active accounts growth;
- Financial performance metrics such as Adjusted EBITDA growth and Cash NPAT growth;
- Operating efficiency metrics such as Adjusted Cost to income ratio;
- Asset quality metrics such as 90+ days past due, Coverage ratio and Net charge offs/AGR;
- Financial return metrics such as RAI yield and RAI per Active account, Adjusted Return on Equity ('**Adjusted ROE**'); and
- Balance sheet metrics such as TE/Net receivables and TE/TA.

The limitation of these metrics is that other companies in Latitude's industry may calculate these measures differently to Latitude, thus limiting their usefulness as comparative measures.

Latitude's operating and financial metrics can be found in Sections 4.3.5 and 4.11.4. Latitude's definitions of these metrics are included in the Glossary of Financial Table Notes in Section 4.14.

4.3 Historical and forecast income statements

4.3.1 Pro Forma Historical Income Statements, Pro Forma Forecast Income Statements and reconciliation of pro forma NPAT to Cash NPAT

Table 23 sets out the Pro Forma Historical Income Statements and the Pro Forma Forecast Income Statements for the periods discussed in Section 4.2. The Appendix in Section 11 provides a full reconciliation of the Pro Forma Historical Income Statements to the Combined Historical Financial Statements. The Pro Forma Forecast Income Statements are subject to the Directors' Best Estimate Assumptions which comprise the General Assumptions and the Specific Assumptions underlying the Forecast Financial Information (refer to Sections 4.7.1 and 4.7.2 for further detail).

Table 23: Pro Forma Historical Income Statements and Pro Forma Forecast Income Statements

		Historical		Forecast		Historical		Forecast
A$ million	**Note**	**FY17**	**FY18**	**FY19**	**LTM Jun-20**	**1H18**	**1H19**	**1H20**
Interest income	1	1,108.1	1,155.6	1,217.9	1,219.9	571.9	610.2	612.2
Interest expense	2	(245.6)	(272.7)	(263.9)	(235.5)	(133.4)	(141.5)	(113.1)
Net interest income		862.5	882.9	954.0	984.4	438.5	468.7	499.1
Other operating income	3	55.6	56.8	52.5	59.2	28.5	26.9	33.6
Net insurance income	4	65.7	60.2	54.7	51.9	31.5	28.4	25.6
Total other operating income		121.3	117.0	107.2	111.1	60.0	55.3	59.2
Total operating income		**983.8**	**999.9**	**1,061.2**	**1,095.5**	**498.5**	**523.9**	**558.3**
Loan impairment expense	5	(257.1)	(253.4)	(253.6)	(258.6)	(136.4)	(127.8)	(132.8)
Employee benefit expense	6	(168.5)	(175.9)	(207.4)	(227.5)	(86.7)	(93.5)	(113.7)
Other expenses	7	(217.1)	(195.3)	(186.9)	(175.3)	(96.5)	(102.1)	(90.4)
Depreciation and amortisation expense	8	(38.1)	(32.3)	(35.6)	(39.4)	(17.9)	(16.9)	(20.8)
Total operating expenses		(423.7)	(403.5)	(429.9)	(442.2)	(201.1)	(212.5)	(224.9)
Profit/(loss) before income tax and Significant items		**302.9**	**343.0**	**377.7**	**394.7**	**161.0**	**183.6**	**200.6**
Significant items	9	(28.8)	(24.4)	(89.4)	(76.7)	(3.5)	(50.0)	(37.3)
Amortisation of acquisition intangibles and structural changes	10	(99.9)	(80.0)	(71.8)	(78.5)	(50.0)	(34.4)	(41.1)
Profit/(loss) before income tax		**174.2**	**238.6**	**216.5**	**239.4**	**107.5**	**99.2**	**122.2**
Income tax (expense)/benefit	11	(50.3)	(63.8)	(52.1)	(61.3)	(32.1)	(26.9)	(36.1)
Pro forma NPAT		**123.9**	**174.8**	**164.4**	**178.2**	**75.4**	**72.3**	**86.1**

Notes: Refer to the Glossary of Financial Table Notes in Section 4.14.

Table 24 below sets out a reconciliation of pro forma NPAT to Cash NPAT. Cash NPAT is a non-IFRS measure and is defined in Section 4.2.4.1.

Table 24: Reconciliation of pro forma NPAT to Cash NPAT

		Historical		Forecast		Historical		Forecast
A$ million	**Note**	**FY17**	**FY18**	**FY19**	**LTM Jun-20**	**1H18**	**1H19**	**1H20**
Pro forma NPAT		**123.9**	**174.8**	**164.4**	**178.2**	**75.4**	**72.3**	**86.1**
Significant items		28.8	24.4	89.4	76.7	3.5	50.0	37.3
Amortisation of acquisition intangibles and structural changes		99.9	80.0	71.8	78.5	50.0	34.4	41.1
Tax effect of adjustments		(38.0)	(30.9)	(47.6)	(45.8)	(16.1)	(24.9)	(23.1)
Cash NPAT		**214.7**	**248.4**	**278.1**	**287.6**	**112.8**	**131.8**	**141.3**

4.3.2 Summary of Significant items and Amortisation of acquisition intangibles and structural changes

Table 25 below sets out a summary of Significant items and Amortisation of acquisition intangibles and structural changes.

Table 25: Significant items and Amortisation of acquisition intangibles and structural changes

		Historical		Forecast		Historical		Forecast
A$ million	**Note**	**FY17**	**FY18**	**FY19**	**LTM Jun-20**	**1H18**	**1H19**	**1H20**
Pro forma NPAT		**123.9**	**174.8**	**164.4**	**178.2**	**75.4**	**72.3**	**86.1**
Transition and Replatforming costs	12	16.4	5.7	3.1	–	3.5	3.1	–
Restructuring costs	13	12.4	–	4.7	–	–	4.7	–
Latitude 2.0 – Technology investment	14	–	–	13.5	33.3	–	–	19.7
Latitude 2.0 – Strategy execution	14		0.5	23.9	40.4		0.6	17.1
Asset impairment	15	–	7.2	20.3	–	–	20.3	–
Remediation	16	–	11.0	23.8	3.0	–	21.2	0.5
Significant items		28.8	24.4	89.4	76.7	3.5	50.0	37.3
Net fair value unwind	17	38.8	20.0	–	–	20.0	–	–
Amortisation of intangibles	18	48.2	48.2	48.4	48.4	24.1	24.2	24.2
Amortisation of transaction costs	19	12.9	11.9	23.4	30.1	5.9	10.2	16.9
Amortisation of acquisition intangibles and structural changes		99.9	80.0	71.8	78.5	50.0	34.4	41.1
Tax effect of adjustments		(38.0)	(30.9)	(47.6)	(45.8)	(16.1)	(24.9)	(23.1)
Cash NPAT		**214.7**	**248.4**	**278.1**	**287.6**	**112.8**	**131.8**	**141.3**

Notes: Refer to the Glossary of Financial Table Notes in Section 4.14.

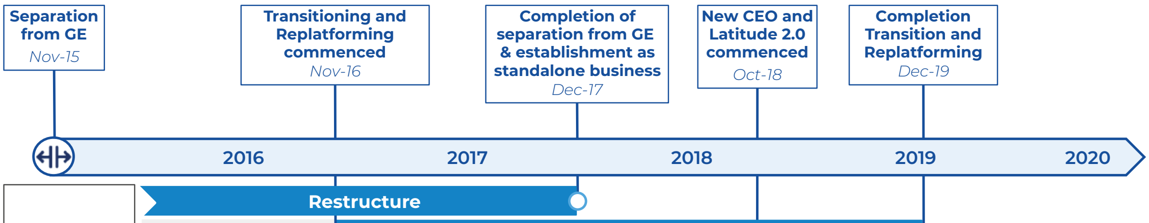
For a period to period comparison of the Significant items and Amortisation of acquisition intangibles and structural changes for FY18 compared to FY17, FY19 compared to FY18, 1H19 compared to 1H18 and 1H20 compared to 1H19, see Sections 4.6.2, 4.8.1, 4.6.4 and 4.8.3 respectively.

4.3.2.1 Summary of Significant items

The Pro Forma Historical Financial Information and the Pro Forma Forecast Financial Information include adjustments to reclassify certain items in the income statement that, due to their significant nature, Latitude believes should be separately identified.

A summary of the key programme milestones included within Significant items is set out below:

Summary of key programme milestones included within Significant items



	Restructure	Transition and Replatforming	Latitude 2.0*	Total:
Initiatives	Staff redundancies Branch closures Establishment of the warehouse funding structure	Upgrading Latitude's cards core system and its originations and digital servicing platforms Upgrading associated aged information technology infrastructure Enhancing automation (Internal Bureau, AML and compliance) and agility to react to market changes.	Hiring new digital skillsets Enhanced digital target operating model Enhanced use of AI for customer engagement, sign-up and decisioning.	
Impact on operating expenses (Significant items)	**FY17**: $12.4m	**FY17**: $16.4m **FY18**: $5.7m **FY19**: $3.1m **1H20**: $nil	**FY17**: n.a. **FY18**: $0.5m **FY19**: $37.4m (plus $4.7m of Restructure costs) **1H20**: $36.8m	**FY17**: $28.8m **FY18**: $6.2m **FY19**: $45.2m **1H20**: $36.8m
Impact on capital expenditure	**FY17**: $nil **FY18**: $nil **FY19**: $nil **1H20**: $nil	**FY17**: $24.3m **FY18**: $25.3m **FY19**: $13.6m **1H20**: $nil	**FY17**: $nil **FY18**: $nil **FY19**: $40.3m **1H20**: $59.2m	**FY17**: $24.3m **FY18**: $25.3m **FY19**: $53.9m **1H20**: $59.2m

*Includes both technology investment and strategy execution related investment (refer to Table 25).

- **Restructuring costs:** Following the Acquisition, Latitude undertook a series of restructuring activities which included staff redundancies, branch closures and the establishment of the warehouse funding structure. In FY19, an organisational restructure took place after the commencement of the new CEO and the implementation of the new executive team. As a result of these restructuring activities, Latitude incurred a number of restructuring costs which Latitude believes are outside the ordinary course of business (shown under Latitude 2.0 in the diagram above).
- **Transition and Replatforming costs:** In late FY16, Latitude commenced a transitional programme across several operational streams, which is focused on improving Latitude's technology capabilities. A key part of this programme is the consolidation and replatforming of a number of product platforms, expected to be completed in FY19, including upgrading Latitude's cards core system and its originations and digital servicing platforms, along with upgrading associated information technology infrastructure.
- **Latitude 2.0:** In 2019, the business underwent a strategic reset (referred to as Latitude 2.0), following the appointment of its new CEO in late 2018. The investment in Latitude 2.0 comprises three components, being the investment in core technology with one component that is capitalised as well as the second component related to core technology spend that is expensed. The third component of Latitude 2.0 is the strategic execution costs associated with market deployment (e.g. brand launch, retailer integration and establishment costs). Latitude believes that undertaking projects of this size and nature simultaneously are not part of its ordinary course of business. It does not include technology related expenditure incurred in the ordinary course, included in operating expenses and not treated as a Significant item. The accounting treatment of this incremental expenditure is subject to Latitude's accounting policies which include the policy to capitalise expenses which are expected to generate a future benefit, with the remainder of project expenditure recognised within Significant items in the pro forma income statements. Further detail with respect to the technology investment and expenditure undertaken in relation to Latitude 2.0 is contained in Section 2.1.3.

Included in Table 25 but not shown in diagram above:

- **Asset impairment:** As a result of the investment in digital capability, a number of legacy assets have had their useful life reduced, leading to impairment charges in FY18 and FY19; and
- **Remediation:** During FY18 and FY19, Latitude reviewed its customer remediation provisioning in response to changes in the regulatory landscape, current regulatory inquiries and outcomes of the Royal Commission (see Section 2.5.4 for further detail). Following its review, Latitude determined that it was appropriate to raise remediation provisions as disclosed in Table 25. These provisions cover remediation exposures that arose in prior periods but at the time were not yet known or that otherwise did not yet meet the criteria for recognition and primarily relate to the insurance business. These remediation provisions have been estimated based on the information available at the time of recognition and certain assumptions. They will be reviewed for appropriateness at each balance date. There can be no assurance that the assumptions upon which the provisions are based will not change over time.

4.3.2.2. Amortisation of acquisition intangibles and structural changes

Upon the Acquisition, a number of intangible assets (distinct from goodwill) were recognised as part of the acquisition accounting. These intangible assets have resulted in non-cash amortisation expenses being recognised over the useful life of the respective assets. Latitude has excluded the amortisation expenses associated with the acquisition intangible assets from Cash NPAT given they are non-cash in nature and arose as a function of the acquisition accounting treatment. Accordingly, these expenses have been separately reported in the Pro Forma Historical Income Statements. The expenses in relation to Amortisation of acquisition intangibles and structural changes can be broadly classified into the following three categories:

- Net fair value unwind: Relates to unwinding the fair value uplift adjustment that was recognised on the gross loan receivables compared to the carrying value as at the date of the Acquisition. The increase in fair value is amortised over the expected runoff profile of the book. The fair value uplift was fully amortised by 1H18;
- Amortisation of intangibles: Reflects the amortisation of customer lists and distribution agreements recognised as part of the acquisition accounting. Intangible customer lists and distribution agreements are amortised on a straight-line basis over nine years in Australia and seven years in New Zealand (ending in 2024 and 2022, respectively); and
- Amortisation of transaction costs: Reflects the amortisation of the capitalised portion of costs related to the initial establishment of the warehouse funding program and infrastructure following the Acquisition, as well as the amortisation of the historical hedging arrangements which will be closed and re-hedged as part of pre-Completion restructuring steps. The debt establishment costs are amortised over the life of the respective funding vehicles (which have a life of approximately five to seven years). Amortisation of the historical hedging arrangements, as reported within Amortisation of transaction costs, will be in line with the original life of the historical instrument and unwind of the historical cashflow hedge reserve.

4.3.3 Combined Historical Income Statements and Combined Forecast Income Statements

Table 26 below is set out in accordance with the format that the Company expects to report in its consolidated financial statements following Completion (except for LTM Jun-20 which is included for the purposes of this Prospectus). The Combined Historical Income Statements contain information which is extracted from the Combined Historical Financial Statements. The Combined Forecast Income Statements are subject to the Directors' Best Estimate Assumptions which comprise the General Assumptions and the Specific Assumptions underlying the Forecast Financial Information (see Sections 4.7.1 and 4.7.2).

Table 26: Summary of Combined Historical Income Statements and Combined Forecast Income Statements

		Historical		Forecast		Historical		Forecast
A$ million	**Note**	**FY17**	**FY18**	**FY19**	**LTM Jun-20**	**1H18**	**1H19**	**1H20**
Interest income	20	1,069.3	1,135.7	1,217.9	1,219.9	551.9	610.2	612.2
Interest expense	21	(344.8)	(363.2)	(353.3)	(292.3)	(179.8)	(191.0)	(130.0)
Net interest income		724.5	772.5	864.6	927.6	372.1	419.2	482.2
Other operating income	3	55.6	56.8	52.5	59.2	28.5	26.9	33.6
Net insurance income	4	65.7	60.2	54.7	51.9	31.5	28.4	25.6
Total other operating income		121.3	117.0	107.2	111.1	60.0	55.3	59.2
Total operating income		**845.8**	**889.5**	**971.8**	**1,038.7**	**432.1**	**474.5**	**541.4**
Loan impairment expense	22	(256.1)	(253.4)	(253.6)	(258.6)	(136.4)	(127.8)	(132.8)
Employee benefit expense	23	(154.3)	(173.0)	(237.5)	(254.4)	(83.8)	(94.7)	(111.5)
Other expenses	24	(269.5)	(262.3)	(323.7)	(304.6)	(127.2)	(146.8)	(127.7)
Depreciation and amortisation expense	25	(75.3)	(68.8)	(84.0)	(87.8)	(36.6)	(41.2)	(45.0)
Total operating expenses		(499.0)	(504.2)	(645.2)	(646.8)	(247.6)	(282.7)	(284.3)
Distribution to trust beneficiaries	26	(57.0)	(74.5)	(77.1)	(26.1)	(25.7)	(51.0)	–
Profit/(loss) before income tax		**33.6**	**57.5**	**(4.1)**	**107.2**	**22.4**	**13.0**	**124.3**
Income tax (expense)/benefit	27	(16.1)	(13.2)	(5.3)	(32.2)	(8.1)	(8.8)	(35.7)
Combined NPAT		**17.5**	**44.3**	**(9.4)**	**75.0**	**14.4**	**4.2**	**88.6**

Notes: Refer to the Glossary of Financial Table Notes in Section 4.14.

4.3.4 Pro forma adjustments to the Combined Historical Income Statements and Combined Forecast Income Statements

Tables 27 and 28 below reconcile pro forma total operating income and pro forma NPAT to combined total operating income and combined NPAT, respectively, for FY17, FY18, FY19, LTM Jun-20, 1H18, 1H19 and 1H20. The Appendix provides a full reconciliation of the Pro Forma Historical Income Statements to the Combined Historical Income Statements.

Table 27: Reconciliation of combined total operating income to pro forma total operating income

		Historical		Forecast		Historical		Forecast
A$ million	**Note**	**FY17**	**FY18**	**FY19**	**LTM Jun-20**	**1H18**	**1H19**	**1H20**
Combined total operating income		**845.8**	**889.5**	**971.8**	**1,038.7**	**432.1**	**474.5**	**541.4**
Reclassification of net fair value unwind	(a)	38.8	20.0	–	–	20.0	–	–
Reclassification of amortisation of transaction costs and structural changes	(b)	12.9	11.9	23.4	30.1	5.9	10.2	16.9
Changes in capital structure	(c)	87.7	81.4	66.0	26.7	41.8	39.3	–
Changes in accounting standards	(d)	(1.4)	(2.9)	–	–	(1.3)	–	–
Pro forma total operating income		**983.8**	**999.9**	**1,061.2**	**1,095.5**	**498.5**	**523.9**	**558.3**

Notes:

(a) Reclassification of net fair value unwind: Reported within combined total operating income is amortisation related to the fair value uplift on the receivables balance that Latitude booked as part of the purchase price accounting following the Acquisition accounting. For the purposes of the pro forma financial information, this balance has not been included in operating income but instead has been reclassified on the face of the income statement within Amortisation of acquisition intangibles and structural changes (refer to Section 4.6.2).

(b) Reclassification of amortisation of transaction costs and structural changes: Reported within combined interest expense and therefore impacting combined operating income is the amortisation charge associated with the capitalised establishment costs arising from the set-up of securitisation funding vehicles as well as historical hedging arrangements which will be closed and re-hedged as part of pre-Completion restructuring steps. For the purposes of the pro forma financial information, this balance has been reclassified on the face of the income statement to separately distinguish from Amortisation of acquisition intangibles and structural changes (refer to Section 4.6.2).

(c) Changes in capital structure: Refers to the impact of finance and corporate structures that will not exist following Completion, with adjustments to reflect the new capital structures in place on Completion as if the Offer had taken place on 1 January 2017. The adjustments include the removal of financing costs on shareholder loans reported within interest expense in the combined income statements that will be repaid in part from the proceeds of the Offer, and the removal of a one-off expense recognised in FY18 incurred in writing off the remaining balance of debt establishment costs associated with the shareholder loans.

(d) Changes in accounting standards: Reflects the impact to interest expense included within combined operating income as a result of the adoption of IFRS 16 Leases as if adoption had occurred on 1 January 2017. In addition to further interest expenses, IFRS 16 results in further depreciation expenses offset by lower rental expenses (reflected as a pro forma adjustment to combined NPAT).

Table 28: Reconciliation of combined NPAT to pro forma NPAT

		Historical		Forecast		Historical		Forecast
A$ million	**Note**	**FY17**	**FY18**	**FY19**	**LTM Jun-20**	**1H18**	**1H19**	**1H20**
Combined NPAT		**17.5**	**44.3**	**(9.4)**	**75.0**	**14.4**	**4.2**	**88.6**
Discontinued Operations	(a)	(15.5)	6.4	–	–	5.4	–	–
Changes in capital structure	(b)	152.0	162.2	170.0	76.5	70.6	93.5	–
Changes in accounting standards	(c)	(1.0)	(3.8)	–	–	(1.2)	–	–
Transaction and Offer costs	(d)	17.1	28.2	58.4	60.8	16.2	(2.4)	–
Incremental public company costs	(e)	(12.0)	(12.0)	(10.0)	(4.0)	(6.0)	(6.0)	–
Employee remuneration plans	(f)	–	–	2.2	(1.1)	–	1.1	(2.1)
Tax effect of adjustments		(34.1)	(50.5)	(46.8)	(29.1)	(24.0)	(18.1)	(0.4)
Pro forma NPAT		**123.9**	**174.8**	**164.4**	**178.2**	**75.4**	**72.3**	**86.1**

Notes:

(a) Discontinued Operations: Relates to the removal of the net contribution associated with Latitude servicing a unique contract for a third-party credit card portfolio (contract terminated during the year ended 31 December 2015 and servicing ceased in March 2018), as well as the removal of costs incurred in FY17 and 1H18 associated with the write-off of capitalised development expenditure in relation to a discontinued contract outside the ordinary course of Latitude's business.

(b) Changes in capital structure: Refers to the impact of finance and corporate structures that will not exist following Completion, with adjustments to reflect the new capital structures in place on Completion as if the Offer had taken place on 1 January 2017. The adjustment includes the removal of financing costs on shareholder loans that will be repaid using part of the proceeds of the Offer, removal of the break fees associated with the early repayment of the shareholder loans; the removal of an associated expense recognised in FY18 incurred in writing off the remaining balance of the debt establishment costs; the removal of costs associated with consulting and monitoring fees paid to the shareholder consortium which will not be incurred following Completion; as well as the removal of distributions to trust beneficiaries from trusts on Residual Income Units historically owned by the shareholder consortium which are to be purchased by Latitude as part of the Restructure.

(c) Changes in accounting standards: Relates to the adjustment to combined profit/(loss) before income tax for IFRS 9 and IFRS 16 as if Latitude had adopted IFRS 9 and IFRS 16 on 1 January 2017. IFRS 9 became mandatory for Latitude from 1 January 2018 and IFRS 16 became mandatory for Latitude on 1 January 2019. For FY17, the adoption of IFRS 9 is estimated to result in a $1.0 million reduction to combined profit/(loss) before income tax. For FY17 and FY18, the adoption of IFRS 16 is estimated to have a $nil and $3.8 million reduction to combined profit/(loss) before income tax, respectively. The Forecast Financial Information is prepared under the requirements of both IFRS 9 and IFRS 16. The pro forma financial information has been presented on a like-for-like basis across all years.

(d) Transaction and Offer costs: Relates to the removal of (i) non-business as usual transitional services costs incurred in FY17 ($15.5 million) as part of the separation of the Latitude business from GE; (ii) costs in relation to matters incurred under GE ownership that could not be recovered due to the expiration of legal recourse under the Acquisition share purchase agreement ($5.5 million in FY18 and $1.9 million in 1H18); (iii) third-party adviser costs incurred in FY18 ($0.3 million), 1H19 and FY19 ($0.9 million) associated with the acquisition of Genoapay which Latitude does not consider to be recurring; (iv) $26.5 million of the employee costs related to the discretionary equity grants to the Chairman and key executives as described in Section 6; and (v) one-off costs incurred and recognised in the income statement that are directly associated with the Offer ($22.4 million expensed during FY18 and $31.1 million expensed in FY19).

(e) Incremental public company costs: Reflects Latitude's estimate of the incremental annual costs that will be incurred as a result of the public listing adjusted to reflect the impact as if the Company had been a listed company from 1 January 2017. These costs include additional non-executive Director fees, listing fees, and costs associated with the annual reporting and shareholder communications required of a listed company. The costs are already included in Latitude's Combined Forecast Income Statement from the date of Completion.

(f) Employee remuneration plans: Relates to (i) the new employee remuneration plans (short-term and long-term incentives) to be established for certain Latitude employees; as well as (ii) a one-off employee share grant as part of Completion. The adjustment reflects the full-year incremental costs of the new plan compared to existing plans as if each annual grant under the new plan is made in full as well as the reversal of the one-off share grant provided to participants as part of Completion.

4.3.5 Latitude's key operating and financial metrics

Table 29 below provides a summary of Latitude's pro forma historical key operating and financial metrics for FY17, FY18, 1H18 and 1H19 and pro forma forecast key operating and financial metrics for FY19, LTM Jun-20 and 1H20.

Table 29: Latitude pro forma operating and financial metrics

		Historical		Forecast		Historical		Forecast
A$ million	**Note**	**FY17**	**FY18**	**FY19**	**LTM Jun-20**	**1H18**	**1H19**	**1H20**
Operating								
Volume	28	8,458.2	8,859.4	9,200.9	9,661.1	4,248.5	4,358.1	4,818.3
Gross loan receivables	29	7,030.9	7,575.4	7,861.9	8,023.2	7,252.4	7,702.6	8,023.2
AGR	30	6,801.6	7,253.0	7,676.0	7,821.0	7,170.3	7,642.7	7,934.7
Total accounts ('000)	31	2,608.6	2,591.1	2,731.0	2,928.8	2,588.4	2,587.5	2,928.8
Active accounts ('000)	32	1,839.8	1,854.6	1,925.2	2,074.5	1,849.3	1,835.7	2,074.5
Financial								
Operating income		983.8	999.9	1,061.2	1,095.5	498.5	523.9	558.3
RAI	33	726.7	746.5	807.6	836.9	362.1	396.1	425.5
Adjusted EBITDA	34	341.0	375.3	413.3	434.2	178.9	200.5	221.4
Cash NPAT		214.7	248.4	278.1	287.6	112.8	131.8	141.3
Operating growth rates (prior comparative period) ('PcP')								
Volume		n.a.	4.7%	3.9%	7.7%	n.a.	2.6%	10.6%
Gross loan receivables		n.a.	7.7%	3.8%	4.2%	n.a.	6.2%	4.2%
AGR		n.a.	6.6%	5.8%	4.5%	n.a.	6.6%	3.8%
Total accounts ('000)		n.a.	(0.7)%	5.4%	13.2%	n.a.	(0.0)%	13.2%
Active accounts ('000)		n.a.	0.8%	3.8%	13.0%	n.a.	(0.7)%	13.0%
Financial growth rates (PcP)								
Operating income		n.a.	1.6%	6.1%	6.8%	n.a.	5.1%	6.6%
RAI		n.a.	2.7%	8.2%	7.2%	n.a.	9.4%	7.4%
Adjusted EBITDA		n.a.	10.0%	10.1%	9.4%	n.a.	12.1%	10.4%
Cash NPAT		n.a.	15.7%	12.0%	7.6%	n.a.	16.8%	7.2%
Profitability								
Interest income/AGR	35	16.29%	15.93%	15.87%	15.60%	16.08%	16.10%	15.52%
Interest expense/AGR	36	(3.61)%	(3.76)%	(3.44)%	(3.01)%	(3.75)%	(3.73)%	(2.87)%
Net interest margin	37	12.68%	12.17%	12.43%	12.59%	12.33%	12.37%	12.65%
Operating income yield	38	14.46%	13.79%	13.82%	14.01%	14.02%	13.82%	14.15%
RAI yield	39	10.68%	10.29%	10.52%	10.70%	10.18%	10.45%	10.78%
RAI per Active account ($)	40	394.97	402.54	419.48	403.43	195.81	215.78	205.09
Adjusted Cost to income ratio	41	43.1%	40.4%	40.5%	40.4%	40.3%	40.6%	40.3%
Asset quality								
90+ days past due	42	1.10%	1.09%	1.04%	1.17%	1.23%	1.19%	1.17%
Net charge offs/AGR	43	3.29%	3.34%	3.26%	3.27%	3.57%	3.35%	3.36%
Coverage ratio	44	4.42%	4.29%	4.17%	4.09%	4.42%	4.23%	4.09%
Return								
Adjusted ROE	45	n.a.	n.a.	n.a.	20.7%	n.a.	n.a.	20.6%

Notes: Refer to the Glossary of Financial Table Notes in Section 4.14.

In respect of the prior comparative period used in calculating the pro forma operating and financial growth rates for LTM Jun-20 set out in Table 29 above, Investors should note that the prior comparative period refers to the 12-month period ended 30 June 2019. No financial information appears in this Prospectus for the 12-month period ended 30 June 2019. The financial data for the 12-month period ended 30 June 2019 ('**LTM Jun-19 PcP Data**') used in calculating the pro forma financial growth rates for LTM Jun-20 is unaudited and is presented on a pro forma basis. The LTM Jun-19 PcP Data has been derived arithmetically by (a) deducting the relevant pro forma financial measures in Latitude's pro forma income statement for 1H18 from the comparable pro forma financial measures in Latitude's pro forma income statement for FY18, to produce the relevant pro forma financial measures for the six months ended 31 December 2018, and (b) adding such data to Latitude's relevant financial measures in its pro forma income statement for 1H19. Investors should note that while the LTM Jun-19 PcP Data has been derived from the Pro Forma Historical Financial Information (which has been reviewed in accordance with the Australian Standard on Assurance Engagements ASAE 3450 Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information), and that such Pro Forma Historical Financial Information has been derived from the Combined Historical Financial Statements (which, in the case of the FY18 Combined Historical Financial Statements, has been audited in accordance with Australian Auditing Standards, and, in the case of the 1H19 Combined Interim Financial Report, has been reviewed in accordance with Australian Standards on Review Engagements). LTM Jun-19 has not been audited or reviewed, nor is it covered by KPMG Transaction Services' Limited Assurance Investigating Accountant's Report. In deriving the Pro Forma Historical Financial Information, the Combined Historical Financial Information is adjusted for the items set out in Sections 4.2 and 4.3.4. See Section 4.2.2 for additional information.

Table 30 below provides a summary of Latitude's combined historical key operating and financial metrics for FY17, FY18, 1H18 and 1H19 and combined forecast key operating and financial metrics for FY19, LTM Jun-20 and 1H20, to the extent they are different from pro forma key operating and financial metrics in Table 29. Key operating and financial metrics that are the same on a combined basis to those presented on a pro forma basis have been excluded from Table 30 below. Adjusted ROE is not measured on a combined basis (as Latitude's definition of each measure is calculated from Cash NPAT, as defined in Section 4.14) and is therefore not presented in Table 30 below. Similarly, Cash NPAT is not calculated on a combined basis, so it has been excluded from the below table.

Table 30: Latitude combined operating and financial metrics

		Historical		Forecast		Historical		Forecast
A$ million	**Note**	**FY17**	**FY18**	**FY19**	**LTM Jun-20**	**1H18**	**1H19**	**1H20**
Operating								
Operating income		845.8	889.5	971.8	1,038.7	432.1	474.5	541.4
RAI	33	589.7	636.2	718.2	780.1	295.7	346.7	408.6
EBITDA	34	108.9	126.3	79.9	195.0	59.1	54.1	169.3
Combined NPAT		17.5	44.3	(9.4)	75.0	14.4	4.2	88.6
Operating growth rates (PcP)								
Operating income		n.a.	5.2%	9.2%	11.5%	n.a.	9.8%	14.1%
RAI		n.a.	7.9%	12.9%	13.5%	(62.1)%	17.2%	17.9%
EBITDA		n.a.	16.0%	(36.8)%	60.7%	n.a.	(8.4)%	212.8%
Combined NPAT		n.a.	153.0%	(121.3)%	120.3%	n.a.	(71.1)%	2033.2%
Profitability								
Interest income/AGR	35	15.72%	15.66%	15.87%	15.60%	15.52%	16.10%	15.52%
Interest expense/AGR	36	(5.07)%	(5.01)%	(4.60)%	(3.74)%	(5.06)%	(5.04)%	(3.29)%
Net interest margin	37	10.65%	10.65%	11.26%	11.86%	10.46%	11.06%	12.22%
Operating income yield	38	12.44%	12.26%	12.66%	13.28%	12.15%	12.52%	13.72%
RAI yield	39	8.67%	8.77%	9.36%	9.97%	4.12%	4.54%	5.15%
RAI per active account ($)	40	320.52	343.02	373.05	376.04	159.90	188.84	196.94
Cost to income	46	50.7%	50.4%	60.8%	59.0%	49.7%	54.0%	50.9%
Asset quality								
Coverage ratio	47	4.08%	4.29%	4.17%	4.09%	4.42%	4.23%	4.09%

Notes: Refer to the Glossary of Financial Table Notes in Section 4.14.

In respect of the prior comparative period used in calculating the combined operating growth rates for LTM Jun-20 set out in Table 30 above, investors should note that the prior comparative period refers to the 12-month period ended 30 June 2019. Refer to the footnote to Table 29.

4.4 Historical balance sheet

4.4.1 Combined Historical Balance Sheet and Pro Forma Historical Balance Sheet

Table 31 below sets out the Combined Historical Balance Sheet and Pro Forma Historical Balance Sheet.

The Combined Historical Balance Sheet reflects the aggregated balance sheet of KVDAH and LFSL at 30 June 2019 as extracted from the 1H19 Combined Interim Financial Report.

The Pro Forma Historical Balance Sheet is based on the Combined Historical Balance Sheet at 30 June 2019, adjusted for certain pro forma adjustments, including the impact of certain post balance date events, the Restructure and the Offer, as if such events had occurred at 30 June 2019. The Pro Forma Historical Balance Sheet is provided for illustrative purposes only and is not represented as being necessarily indicative of Latitude's actual financial position upon Completion or at a future date.

Latitude has no off-balance sheet arrangements.

Table 31: Balance sheet as at 30 June 2019

			Pro forma adjustments			
A$ million	**Notes**	**Reviewed Combined 30 June 2019**	**Impact of post-balance date events[(a)]**	**Impact of Restructure[(b)]**	**Impact of Offer[(c)]**	**Pro forma**
Cash and cash equivalents		502.7	(45.1)	(32.9)	42.2	466.9
Current tax assets		5.1	–	–	–	5.1
Assets classified as held for sale		0.5	–	–	–	0.5
Derivative financial instruments		0.1	–	–	–	0.1
Loans and other receivables		7,233.3	–	–	–	7,233.3
Other assets		8.4	–	–	–	8.4
Deferred tax assets		204.3	–	2.5	10.3	217.1
Property, plant and equipment		75.6	–	–	–	75.6
Intangible assets	(d)	862.3	–	0.2	–	862.5
Total assets		**8,892.3**	**(45.1)**	**(30.3)**	**52.5**	**8,869.4**
Trade and other liabilities		302.6	(45.1)	(8.0)	–	249.5
Derivative financial instruments		24.7	–	(24.7)	–	(0.0)
Provisions		75.4	–	–	–	75.4
Gross insurance policy liabilities		73.7	–	–	–	73.7
Deferred tax liabilities		105.6	–	–	(6.5)	99.1
Borrowings		7,930.5	–	–	(908.9)	7,021.6
Total liabilities		**8,512.6**	**(45.1)**	**(32.7)**	**(915.4)**	**7,519.4**
Net parent investment/contributed equity and common control reserve		497.0	–	(11.4)	1,028.2	1,513.8
Reserves		15.5	–	(18.7)	(19.6)	(22.8)
Retained earnings		(108.4)	–	8.1	(40.7)	(141.0)
Capital and reserves attributable to owners of Latitude Financial Services Group		**404.1**	**–**	**(22.0)**	**967.9**	**1,350.0**
Non-controlling interests		(24.4)	–	24.4	–	–
Total net parent investment/total equity		**379.7**	**–**	**2.4**	**967.9**	**1,350.0**

Notes:

(a) Impact of post balance date events: Reflects the impact of the payment of existing distribution liabilities of $45.1 million on residual income units in the trusts held by the current shareholders as part of Completion.

(b) Impact of Restructure: Reflects the impact of the Restructure to the Combined Historical Balance Sheet, including (i) the acquisition of the Latitude brand name and trademarks held by companies outside of the Group but acquired at book value as part of the Restructure; (ii) the impact of the settlement of existing hedging arrangements reported within derivative liabilities which will be closed and re-hedged as part of pre-Completion restructuring steps ($32.9 million); and (iii) the impact of the settlement of the PCEP for the component that is settled with equity in the Company. The Restructure results in an increase to contributed equity to the market value of the Shares issued at Completion, with a corresponding adjustment reflected in the common control reserve to account for the Restructure at book values, as set out in Section 4.2.1.

(c) Impact of the Offer: Reflects the assumed cash proceeds received and the incremental equity raised in connection with the Offer ($1,061.6 million). The proceeds received will be used to settle shareholder loans and associated accrued interest ($908.9 million), break fees associated with the early repayment of the shareholder loans ($21.6 million), cash payments related to the settlement of the PCEP ($19.5 million), as well as the outstanding transaction costs associated with the Offer ($69.3 million). Of the transaction costs to be paid, $34.9 million relates to the issuance of new shares (as defined below ('**New Shares**') and will be capitalised within equity, with the remaining transaction costs (net of tax) expensed in the income statement as incurred with an adjustment to retained earnings reflected in the Pro Forma Historical Balance Sheet, and a corresponding increase in deferred tax assets. The adjustment includes the impact of a discretionary grant of shares to employees ($1.5 million).

(d) Intangible assets: Intangible assets at 30 June 2019 include goodwill $523.4 million, and amortising intangible assets related to: distribution agreements ($95.5 million); software ($71.3 million); capital works in progress ($18.5 million); customer relationships of $153.5 million; and trademarks of $0.1 million which will be acquired as part of the Restructure. Latitude's accounting policies, including relevant intangible asset amortisation periods, are presented in Section 10. Intangible assets are adjusted on a pro forma basis to reflect the impact of the acquisition of the net assets at net book value following the Restructure, at cost.

Impact of the Offer

On Completion, Latitude will use primary proceeds from the Offer to:

- Repay amounts owing by Latitude under the shareholder loans in place immediately prior to Completion including any associated fees and accrued interest;
- Pay other transaction advisory fees, costs and expenses arising in connection with the Offer, including cash required to settle the PCEP; and
- Establish an opening Group Total Equity position of at least $1,350 million.

The pro forma adjustments include assumptions relating to the Offer on matters not known at the Prospectus Date such as the Final Price and the number of Shares issued by Latitude on Completion ('**New Shares**').

Cash and cash equivalents

Cash and cash equivalents in the Pro Forma Historical Balance Sheet have been adjusted to reflect the impact of the Offer and the refinancing arrangements as if they took place at 30 June 2019, as required by ASIC Regulatory Guide 228 paragraph 92, and as such no adjustments have been made for various anticipated cash requirements of the business between 30 June 2019 and Completion.

After Completion, Latitude expects to have sufficient cash flow, including access to the undrawn portion of its Warehouse Facilities and ABS, as well as a corporate facility which was established in preparation for Completion to meet its operational needs and growth requirements during the forecast period. The details of Latitude's funding, liquidity and capital are set out in Sections 3.7 and 3.8.

Capitalisation ratios

Table 32 below sets out Latitude's total pro forma equity and capitalisation ratios calculated from the Pro Forma Historical Balance Sheet at 30 June 2019 (see Table 31).

As set out in Section 3.8, it is Latitude's intention to maintain a target capitalisation range of 6% to 7% of TE/Net receivables, with the intention to operate around the mid-point of the range. Based on the Pro Forma Historical Balance Sheet at 30 June 2019, Latitude would have had a pro forma capitalisation ratio of 6.7% TE/Net receivables at 30 June 2019.

At Completion, Latitude's capital structure will comprise ordinary equity, as well as equity reserves. Latitude intends to continuously review its capital structure and investigate alternative forms of capital instruments that could provide greater strategic flexibility. The impact of any other capital instruments has not been included in the Forecast Financial Information.

Table 32: Capitalisation ratios

A$ million	Note	Pro forma 30 June 2019
Total equity		1,350.0
Intangible assets		862.5
TE		**487.5**
Total assets		8,875.9
TA		**8,013.4**
Loans and other receivables		7,233.3
Metrics		
TE/Net receivables	48	6.7%
TE/TA	49	6.1%

Notes: Refer to the Glossary of Financial Table Notes in Section 4.14.

4.4.2 Indebtedness

Table 33 below sets out Latitude's indebtedness as at 30 June 2019 on a combined and pro forma basis. The Pro Forma Historical Balance Sheet as at 30 June 2019 has been adjusted to reflect the impact of the Offer.

Table 33: Combined and pro forma indebtedness as at 30 June 2019

A$ million	Note	Combined	Pro forma
Securitisation funding			
Warehouse facilities	50	4,364.9	4,364.9
ABS	51	2,687.8	2,687.8
Total securitisation funding	52	**7,052.7**	**7,052.7**
Less: Restricted cash and cash equivalents (securitisation funding facilities)	53	(98.4)	(98.4)
Net securitisation funding	**54**	**6,954.3**	**6,954.3**
Corporate debt			
Shareholder loans	55	908.9	-
Less: Restricted cash and cash equivalents (corporate)	56	(203.7)	(203.7)
Less: Unrestricted cash and cash equivalents	57	(200.6)	(164.8)
Net corporate debt	**58**	**504.6**	**(368.5)**
Total net debt		**7,458.9**	**6,585.8**

Notes: Refer to the Glossary of Financial Table Notes in Section 4.14.

For further detail in relation to Latitude's funding, liquidity and capital, see Sections 3.7 and 3.8.

On 13 September 2019, Latitude completed an Australian ABS issuance of $750 million for its instalments and credit card portfolios which has increased Latitude's ABS funding with a corresponding reduction to Warehouse Facilities funding, compared to the 30 June 2019 balances shown in Table 33.

4.4.3 Capital and contractual commitments

The material capital and contractual commitments of Latitude are outlined below:

- **Capital expenditure commitments:** As at 30 June 2019, Latitude had committed capital expenditure of $1.7 million in relation to Latitude 2.0;
- **Non-cancellable operating leases:** Latitude leases operational sites such as an office building, office space and equipment under non-cancellable operating leases with terms ranging from one year to in excess of five years. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated;
- **Commitment to undrawn credit facilities:** Latitude makes commitments to extend credit facilities on undrawn limits offered to its customers in the normal course of business, such as on Scheme-enabled cards;
- **Maturity of securitisation funding:** Latitude funds the business through securitisation funding; and
- **Shareholder loans:** Latitude has also funded the business through shareholder loans. These loans will be fully repaid upon Completion and will no longer be a commitment thereafter.

Table 34 below summarises Latitude's capital and contractual commitments as at 30 June 2019, on a pro forma and combined basis.

Table 34: Capital and contractual commitments*

A$ million	Note	<1 year	1 – 5 years	>5 years	Total
Capital expenditure commitments	59	1.7	0.0	0.0	1.7
Non-cancellable operating leases	60	13.4	42.1	32.3	87.9
Commitment to undrawn credit facilities	61	9,297.6	0.0	0.0	9,297.6
Maturity of securitisation funding facilities	62	678.3	6,915.7	0.0	7,594.0
Total pro forma		**9,991.0**	**6,957.9**	**32.3**	**16,981.2**
Shareholder loans	63	79.0	939.9	0.0	1,018.9
Total combined		**10,070.0**	**7,897.8**	**32.3**	**18,000.1**

Notes: Refer to the Glossary of Financial Table Notes in Section 4.14.

* Amounts include expected future interest and principal payments on the debt outstanding as at 30 June 2019.

4.4.4 Contingent liabilities

Latitude is subject to a number of obligations which, if not discharged, may give rise to potential claims. Where some loss from non-performance of an obligation is more likely than not and can be reliably estimated, provisions have been made. The Group considers that the outcome of any specific enquiry which is underway as at 30 June 2019, and has not been provided for, is not likely to affect its financial position in any material way, either individually or in aggregate. The tax affairs of the Group are subject to review by the Australian Taxation Office ('**ATO**') as well as the revenue offices of the various Australian states and territories from time to time. In particular, the ATO is completing assurance reviews of the top 1,000 companies in Australia. In February 2019, the ATO completed an assurance review of the Group and provided an assurance report which raised a number of matters that the ATO may consider further. As yet, the ATO has not sought further engagement on these matters. Accordingly, any potential outcomes and total costs associated with any such activities remain uncertain at this time. One of these matters relates to the pre-Restructure ownership of the Group and distributions made as part of that ownership. Should the Group be subject to a future tax obligation arising from those distributions, the Selling Shareholders have agreed to an effective sales proceeds adjustment, backed by cash or cash equivalent security, to reduce the Group's possible exposure to that issue to an immaterial amount. The Group considers that the residual risk stemming from the items raised in the report is not likely to materially affect its financial position, either individually or in aggregate.

4.5 Historical and forecast cash flows

4.5.1 Pro forma historical and pro forma forecast net cash flows

Table 35 below sets out the Pro Forma Historical Cash Flows and the Pro Forma Forecast Cash Flows. The Pro Forma Forecast Cash Flows are subject to the Directors' Best Estimate Assumptions which comprise the General Assumptions and Specific Assumptions underlying the Forecast Financial Information (refer to Sections 4.7.1 and 4.7.2 for further detail).

Table 35: Pro Forma Historical Cash Flows and Pro Forma Forecast Cash Flows

		Historical		Forecast		Historical		Forecast
A$ million	**Note**	**FY17**	**FY18**	**FY19**	**LTM Jun-20**	**1H18**	**1H19**	**1H20**
Profit/(loss) before income tax		174.2	238.6	216.5	239.4	107.5	99.2	122.2
Depreciation and amortisation	64	86.3	80.6	84.0	87.8	42.0	41.2	45.0
Change in receivables	65	(389.1)	(544.5)	(286.5)	(320.5)	(221.5)	(127.2)	(161.2)
Movement in balance sheet and working capital	66	110.0	72.5	(27.3)	(17.2)	15.6	(5.7)	4.4
Income taxes	67	(49.8)	(94.2)	(91.0)	(64.4)	(80.0)	(72.3)	(45.7)
Net cash from operating activities		**(68.4)**	**(247.1)**	**(104.3)**	**(74.8)**	**(136.4)**	**(64.8)**	**(35.4)**
Capital expenditure	68	(41.2)	(61.3)	(61.6)	(99.7)	(20.9)	(21.1)	(59.3)
Net cash flow from operating and investing activities		**(109.6)**	**(308.4)**	**(165.9)**	**(174.6)**	**(157.3)**	**(86.0)**	**(94.6)**
Changes in securitisation funding facilities	69	363.0	524.4	256.6	309.0	187.2	99.9	152.3
Net inflow from share-based payments		–	(2.1)	4.8	–	–	4.8	–
Payment of lease liabilities	70	(12.4)	(10.8)	(10.3)	(10.0)	(5.6)	(5.1)	(4.8)
Transaction costs	71	(17.4)	(4.9)	(3.8)	(9.4)	(3.3)	(0.4)	(5.9)
Net cash flow before other financing activities		**223.6**	**198.2**	**81.4**	**115.1**	**21.0**	**13.3**	**47.0**
Effects of exchange rate changes on cash and cash equivalents	72	(2.5)	0.9	0.3	–	(0.6)	0.3	–
Net cash flow before dividends		**221.1**	**199.1**	**81.7**	**115.1**	**20.4**	**13.5**	**47.0**

Notes: Refer to the Glossary of Financial Table Notes in Section 4.14.

4.5.2 Combined historical and combined forecast net cash flows

Table 36 below sets out the Combined Historical Cash Flows and the Combined Forecast Cash Flows.

Table 36: Combined Historical Cash Flows and Combined Forecast Cash Flows

		Historical		Forecast		Historical		Forecast
A$ million	**Note**	**FY17**	**FY18**	**FY19**	**LTM Jun-20**	**1H18**	**1H19**	**1H20**
Profit/(loss) before income tax		33.6	57.5	(4.1)	107.2	22.4	13.0	124.3
Depreciation and amortisation	25	75.3	68.8	84.0	87.8	36.6	41.2	45.0
Change in receivables	65	(389.1)	(544.5)	(286.5)	(320.5)	(221.5)	(127.2)	(161.2)
Movement in balance sheet and working capital	66	125.2	94.9	(36.6)	(44.9)	35.6	10.5	2.3
Income taxes	67	(6.3)	(54.8)	(48.3)	(21.3)	(42.6)	(31.7)	(4.7)
Net cash flow (used in) operating activity		**(161.3)**	**(378.1)**	**(291.6)**	**(191.7)**	**(169.5)**	**(94.3)**	**5.6**
Capital expenditure	68	(41.2)	(61.3)	(61.6)	(99.7)	(20.9)	(21.1)	(59.3)
Payment reimbursed in relation to acquisition of business		–	–	–	–	–	–	–
Net cash flow from operating and investing activities		**(202.5)**	**(439.4)**	**(353.2)**	**(291.4)**	**(190.4)**	**(115.4)**	**(53.7)**
Changes in securitisation funding facilities	69	363.0	524.4	256.6	309.0	187.2	99.9	152.3
Net inflow from share based payments		–	(2.1)	4.8	–	–	4.8	–
Payment of lease liabilities	70	–	–	(10.3)	(10.0)	–	(5.1)	(4.8)
Transaction costs	71	(17.4)	(4.9)	(3.8)	(9.4)	(3.3)	(0.4)	(5.9)
Net cash flow before other financing activity		**143.1**	**78.0**	**(105.9)**	**(1.8)**	**(6.5)**	**(16.2)**	**87.9**
Closure of historical hedging arrangement	74			(32.9)	(32.9)			–
Proceeds from the Offer	75			1,061.6	1,061.6			–
Repayment of shareholder loans	76			(909.9)	(909.9)			–
Capitalised costs associated with the Offer	77			(34.9)	(34.9)			–
Cash settlement of PCEP	78			(19.5)	(19.5)			–
Employee costs related to the discretionary equity grants				–	–			–
Effects of exchange rate changes on cash and cash equivalents	72			0.3	–			–
Net cash flow before dividends				**(41.3)**	**62.5**			**87.9**

Notes: Refer to the Glossary of Financial Table Notes in Section 4.14.

4.5.3 Pro forma adjustments to the combined historical Net cash flow before other financing activities

Table 37 below sets out the pro forma adjustments and a reconciliation between combined Net cash flow before other financing activities to pro forma Net cash flow before other financing activities for FY17, FY18, 1H18 and 1H19.

Table 37: Pro forma adjustments to the Combined Historical Cash Flows

		Historical			
A$ million	**Note**	**FY17**	**FY18**	**1H18**	**1H19**
Combined Net cash flow before other financing activities		**143.1**	**78.0**	**(6.5)**	**(16.2)**
Discontinued Operations	(a)	(15.5)	(2.9)	(2.9)	–
Changes in capital structure	(b)	134.4	152.8	64.0	75.1
Transaction and Offer costs	(c)	17.1	21.7	9.7	0.9
Incremental public company costs	(d)	(12.0)	(12.0)	(6.0)	(6.0)
Changes in legal entity structure	(e)	(43.5)	(39.4)	(37.4)	(40.5)
Pro forma Net cash flow before other financing activities		**223.6**	**198.2**	**21.0**	**13.3**

Notes:

(a) Discontinued Operations: Represents the adjustment to Combined Historical Cash Flows as a result of removing the net cash contribution associated with Latitude's discrete servicing contract for a third-party credit card portfolio (contract terminated during FY15 and servicing ceased in March 2018).

(b) Changes in capital structure: Represents the change in net cash flows as a result of Latitude's change in corporate structure as a result of the Restructure and the Offer. The adjustment includes the removal of cash costs associated with loans to related parties, fees paid to related parties for consulting services, as well as distributions from Latitude's Trusts beneficiaries on Residual Income Units historically owned by third parties and to be acquired by Latitude as part of the Restructure.

(c) Transaction and Offer costs: Represents the historical cash outflows associated with Latitude's expenditure on non-business as usual transitional services costs and other one-off costs incurred directly in relation to the separation of the Latitude business from GE following the Acquisition, as well as the impact of third-party adviser fees in relation to the Offer.

(d) Incremental public company costs: Reflects Latitude's estimate of the incremental annual costs that will be incurred as a result of the public listing adjusted to reflect the impact as if Latitude had been a listed company from 1 January 2017. These costs include additional non-executive Director fees, listing fees, and costs associated with the annual reporting and shareholder communications required of a listed company, and are included in Latitude's Combined Forecast Income Statements from Completion.

(e) Changes in legal entity structure: Represents the change in non-operating expense estimated by Latitude as a result of the Restructure and Completion, as if the Offer had completed on 1 January 2017.

4.5.4 Pro forma adjustments to the combined forecast Net cash flow before dividends

Table 38 below sets out the pro forma adjustments and a reconciliation between combined Net cash flow before dividends to pro forma Net cash flow before dividends for FY19, LTM Jun-20 and 1H20.

Table 38: Pro forma adjustments to the Combined Forecast Cash Flows

		Forecast		
A$ million	**Note**	**FY19**	**LTM Jun-20**	**1H20**
Combined Net cash flow before dividends		**(41.3)**	**62.5**	**87.9**
Discontinued Operations		–	–	–
Changes in capital structure	(a)	204.8	129.6	–
Transaction and Offer costs	(b)	70.1	69.3	–
Incremental public company costs	(c)	(10.0)	(4.0)	–
Proceeds from the Offer	(d)	(1,061.6)	(1,061.6)	–
Repayment of shareholder loans	(e)	909.9	909.9	–
Changes in legal entity structure	(f)	(42.7)	(43.1)	(41.0)
Cash settlement of PCEP	(g)	19.5	19.5	–
Closure of historical hedging arrangement	(h)	32.9	32.9	–
Pro forma Net cash flow before dividends		**81.7**	**115.1**	**47.0**

Notes:

(a) Changes in capital structure: Refer to note (b) in Table 37 above.

(b) Transaction and Offer costs: In FY19 reflects the removal of total transaction costs Latitude expects to incur in relation to the Offer.

(c) Incremental and public company costs: Refer to note (d) in Table 37 above.

(d) Proceeds from the Offer: Reflects the adjustment to remove cash proceeds received of $1,061.6 million in connection with the offer of New Shares.

(e) Repayment of shareholder loans: Reflects the adjustment to remove cash outflows associated with the repayment of shareholder loans from proceeds of the offer of New Shares.

(f) Changes in legal entity structure: Refer to note (e) in Table 37 above.

(g) Cash settlement of PCEP: Cash payments related to the settlement of the PCEP from proceeds of the Offer as well as external adviser costs incurred to wind up the PCEP.

(h) Closure of historical hedging arrangement: reflects the adjustment to remove the cost of closure of historical hedging arrangements settled as part of pre-Completion restructuring steps.

4.6 Management discussion and analysis of the Historical Financial Information

4.6.1 Key factors affecting the operating results

Set out below is a list of key factors that impacted Latitude's operating and financial performance in FY17, FY18, 1H18 and 1H19.

The discussion of these factors which follows is intended to provide a general and brief summary only and does not detail all factors that affected Latitude's historical operating and financial performance, nor everything that may affect Latitude's operational or financial performance in the future. It should be noted that in addition to the specific items detailed below, Latitude's operating results are generally affected by broader economic and retail sector growth, the level of consumer spending, the commercial outlook for Latitude's commercial partners, planned new product development and promotional activity across the Latitude product suite, as well as regulatory developments.

4.6.1.1 Key factors affecting total operating income

The components of Latitude's total operating income are outlined below.

Interest income

- Interest income is based on an effective interest rate methodology and is comprised of:
  - Interest charged on outstanding customer balances; plus
  - Fees and charges that are considered an integral part of the loan, net of origination costs.
- **Interest charged on outstanding customer balances** is a function of the number of active customers and their utilisation of Latitude's products, the contracted interest rate on, and the size of, interest-bearing receivables and the revolve rate. Some of these items are described in more detail below.
  - **Contracted interest rate** varies depending on Latitude's product terms and risk appetite.
  - **Interest-bearing receivables** are a function of:
    - The volume of customer spend on instalments and lending products (which is a function of the credit limits offered to customers and the number and size of commercial partners; offering Latitude products and the product volumes during the period) and the subsequent transition to interest-bearing status for balances that are unpaid at the end of the interest free period;
    - Day-to-day purchases by customers using Scheme-enabled instalments and lending products;
    - Customer scheme usage and interest free spend levels are related to broader factors such as retail spending (including macroeconomic conditions), the underlying performance and strategies of key commercial partners, and the continued trend towards electronic payment methods;
    - Cash advances undertaken by customers on Latitude's Scheme-enabled products; and
    - The volume of, and interest rates charged on, Latitude's personal loan and motor loan products.
  - **Revolve rates** are a function of the rate at which borrowing balances are repaid by customers and the timing of those repayments.
- **Fees and charges:** Latitude charges a variety of fees to its customers and merchants that are considered an integral part of the loan agreement and it also incurs costs to originate new loans. Fees and charges are a function of the contracted rates of fees associated with the provision of services to customers and merchants and comprise:
  - **Establishment, account keeping, annual and late fees,** which are charged with respect to digital payments, instalments and lending products provided by Latitude;
  - **Merchant income,** which comprises merchant service fees charged to commercial partners for transactions in relation to digital payments and instalments purchases, with income deferred upfront on the balance sheet and amortised and recognised in the income statement over the interest free period using the blended portfolio payment curve. Merchant service fees are a function of interest free volume and the merchant service fee percentage; and
  - **Origination costs,** which include commission paid to third parties for introducing new business to Latitude and amortisation of operating expenses incurred as a consequence of originating a new loan.

Interest expense

- Interest expense is the cost of borrowings incurred by Latitude, primarily to fund its receivables. This is a function of total borrowings and the contracted interest rate on borrowings, which are dependent on the:
  - Volume, mix and nature of receivables financed;
  - Debt and equity funding mix adopted by Latitude and the quantum of unutilised headroom in funding facilities; and
  - Contracted interest payments and costs (including establishment fees) under Latitude's funding facilities.

- **Contracted interest payments** are a function of:
  - The applicable base funding rates specified in the facilities and the mix of facilities utilised by Latitude. The base component for Australian funding sources is linked to both the Bank Bill Swap Bid Rate (‘**BBSY**’) and Bank Bill Swap Rate (‘**BBSW**’) and for New Zealand funding sources is linked to the Bank Bill Benchmark Rate (‘**BKBM**’);
  - The margin applied towards warehouse and ABS funding vehicles at the time of contracting, which is driven by the underlying loan performance, such as repayment rates, product yield and historical loss experience, the funders’ perceived risk of Latitude as a borrower (including the diversity of Latitude’s debt investor base and its reputation in the debt capital markets) and their level of risk appetite and funding capacity and macro factors such as general market liquidity and conditions at the time of issuance and margins on other funding products; and
  - The applicable rates payable under interest rate swap arrangements utilised by Latitude for the purposes of hedging its fixed rate portfolios such as personal loans and motor loans.
- Interest expense also includes the cost of securing hedging instruments to offset any increase in funding costs and the costs of overdrafts and standby letters of credit.
- See Section 3.7 for further detail in relation to Latitude’s funding model.

Other operating income

- Latitude’s other operating income is earned from a variety of transactional fees it charges its customers and income it receives on Scheme purchases. Fee income is a function of the contracted rates of fees associated with the provision of services to customers throughout the course of a loan or revolving balance. The key other operating income components include:
  - **Customer income,** comprising transactional fees, including in relation to cash advances, international transactions, paper statements, payment handling and early termination fees; and
  - **Scheme income,** comprising interchange fees which are fees received for purchases on Scheme-enabled cards issued by Latitude. These fees are a function of interchange revenue net of Scheme fees.

Net insurance income

- Net insurance income comprises the premium income earned from Hallmark Insurance after the deduction of associated costs that are not general operating expenses of Hallmark Insurance, such as claims expense, refunds (relating to the refund of premiums to customers due to loan refinancing or cancellation) and customer acquisition costs. The core components are outlined below.
  - **Premium income** is a function of gross written premium (‘**GWP**’) received, less refunds. GWP is driven by the penetration rate of insurance product add-ons for instalments and lending products and the level of premium charged per insurance policy.
  - **Movement in unearned premium** (to the extent there are single premium policies) is the deferral of the unearned portion of single premium insurance products and the earn-out of premiums over the life of the loan products.
  - **Credit insurance claims** comprise claims settled by Hallmark Insurance with its customers in relation to credit insurance cover provided.
  - **Refunds** comprise refunds to insurance customers based upon early termination of contracts.
  - **Investment income** is the return earned on capital and technical reserves held to meet APRA’s capital requirements with respect to the insurance business.

4.6.1.2 Key factors affecting loan impairment expense

Latitude's loan impairment expense consists of three main components:

- **Gross charged off bad debts:** Personal loan and motor loan customers are automatically charged off at 120 days past due with instalments and lending product balances automatically charged off at 180 days past due. Charge off occurs earlier for bankruptcy, fraud or deceased customers and the overall AGR in each year also impacts gross charged off bad debts.
- **Recoveries:** Amounts received post charge off, either from customers through in-house collections processes, or through proceeds from the sale of charged off debt to third parties.
  - Gross charged off bad debts less recoveries equals Net charge offs (refer to Note 79 in Section 4.14).
  - Changes in the delinquency profile of Latitude's AGR, the rate of bankruptcy, fraud or deceased customers as well as total recoveries impact Latitude's net charge off rate (Net charge offs/AGR). Net charge offs are also impacted by the changes in AGR in each period as described in Section 4.6.2.2 and 4.6.4.2.
- **Provision movements:** Latitude's assessment of future potential losses as a percentage of gross loan receivables ('Coverage ratio') from the underlying credit risk profile of the broader portfolio. Changes in both Coverage ratio and Gross loan receivables at each period end impact the loan loss provision and in turn the expense recognised for provision movements, as described in Section 4.6.2.2 and 4.6.4.2. The assessment of the Coverage ratio is based on reserve models compliant with IFRS which use loss and recovery distribution curves.

Loan impairment expense is a function of:

- Underlying credit quality inherent in each of Latitude's product portfolios;
- Latitude's ability to adequately assess default risk when underwriting a product for a customer;
- Macroeconomic factors such as unemployment, underemployment, and cost of living pressures on consumers;
- Latitude's management of delinquencies, including collection strategies and systems and the effectiveness of Latitude's collections processes;
- The portfolio performance over time which drives the inputs into the calculation of Latitude's proprietary risk models and inform estimates for loan impairment coverage levels for future expected losses; and
- The quantum and frequency of the sale of aged debt to third parties and other recoveries achieved by Latitude.

4.6.1.3 Key factors affecting operating expenses

Latitude manages operating expenses centrally across the Australian and New Zealand segments. Operating expenses are accounted for and managed as part of the Other/unallocated segment. Operating expenses are reported under the following categories:

- **Employee benefit expense** represents salaries and wages, bonuses, superannuation, long and short-term incentive plans and other employee related expenses for Latitude employees. Employee numbers are driven by business growth, offset by productivity initiatives including the use of technology and outsource/offshore service providers;
- **Other expenses** cover all other expenses incurred by Latitude, including, but not limited to, goods and services supplied by third parties, brand and marketing activities, professional services (such as audit, tax and legal services), occupancy costs, technology services, travel and entertainment costs and other costs associated with extending credit such as performing background checks; and
- **Depreciation and amortisation expense** reflects the depreciation and amortisation of information technology systems, infrastructure and software, property and leasehold improvements and office equipment.

4.6.1.4 Capital expenditure

Capital expenditure principally relates to investment in information technology infrastructure, software and licence assets, general office infrastructure, furnishings and equipment.

4.6.1.5 Other factors influencing performance

In addition to the components of income, expense and capital expenditure described above, there are key project initiatives that have historically impacted Latitude's performance, or are anticipated to impact Latitude's performance during the forecast period.

These include Transition and Replatforming costs, Restructuring costs, investment related-expenses with Latitude 2.0, Asset impairment and Remediation. Refer to Sections 2 and 4.3.2.1 for further detail.

Seasonality

Latitude experiences a seasonal effect in its financial performance between the first six months of Latitude's financial year from January to June ('**1H**') and the second six months of Latitude's financial year from July to December ('**2H**').

For example, demand for Latitude's products is typically higher during the 2H period in comparison to the 1H period as a result of increased consumer spending in the lead up to the Christmas holiday period and during post-Christmas sales. This causes an increase in volumes for, and receivables at the end of, the 2H period. An increase in income from the higher 2H receivables balance is typically observed in 1H in the next financial year. Conversely, the Latitude portfolio exhibits a counter seasonal impact with delinquencies rising in 1H with over indebtedness following the December holiday period as well as higher net charge offs in 1H, followed by increased repayment rates and improving delinquencies and charge offs in 2H as borrowers typically reduce indebtedness following the end of the tax year in June upon the receipt of tax refunds.

4.6.2 Pro forma and combined income statements: FY18 compared to FY17

Table 39 below sets forth the Pro Forma Historical Income Statements and the Combined Historical Income Statements for FY18 compared to FY17.

Table 39: Comparison of Pro Forma Historical Income Statements and Combined Historical Income Statements for FY17 and FY18

		Pro Forma				Combined			
A$ million	**Note**	**FY17**	**FY18**	**PcP Change ($)**	**PcP Change (%)**	**FY17**	**FY18**	**PcP Change ($)**	**PcP Change (%)**
Interest income	1, 20	1,108.1	1,155.6	47.6	4.3%	1,069.3	1,135.7	66.4	6.2%
Interest expense	2, 21	(245.6)	(272.7)	(27.1)	(11.0)%	(344.8)	(363.2)	(18.4)	(5.3)%
Net interest income		862.5	882.9	20.4	2.4%	724.5	772.5	48.0	6.6%
Other operating income	3	55.6	56.8	1.2	2.1%	55.6	56.8	1.2	2.1%
Net insurance income	4	65.7	60.2	(5.5)	(8.4)%	65.7	60.2	(5.5)	(8.3)%
Total other operating income		121.3	117.0	(4.3)	(3.5)%	121.3	117.0	(4.3)	(3.5)%
Total operating income		**983.8**	**999.9**	**16.1**	**1.6%**	**845.8**	**889.5**	**43.7**	**5.2%**
Loan impairment expense	5, 22	(257.1)	(253.4)	3.8	1.5%	(256.1)	(253.4)	2.7	1.1%
Employee benefit expense	6, 23	(168.5)	(175.9)	(7.4)	(4.4)%	(154.3)	(173.0)	(18.8)	(12.2)%
Other expenses	7, 24	(217.1)	(195.3)	21.8	10.0%	(269.5)	(262.3)	7.2	2.7%
Depreciation and amortisation expense	8, 25	(38.1)	(32.3)	5.8	15.3%	(75.3)	(68.8)	6.4	8.5%
Total operating expenses		**(423.7)**	**(403.5)**	**20.2**	**4.8%**	**(499.0)**	**(504.2)**	**(5.1)**	**(1.0)%**
Distribution to trust beneficiaries	26	–	–	–	–	(57.0)	(74.5)	(17.5)	(30.6)%
Profit/(loss) before income tax and Significant items		**302.9**	**343.0**	**40.1**	**13.2%**	**33.6**	**57.5**	**23.9**	**71.0%**
Significant items	9	(28.8)	(24.4)	4.4	15.3%	n.a.	n.a.	n.a.	n.a.
Amortisation of acquisition intangibles and structural changes	10	(99.9)	(80.0)	19.8	19.9%	n.a.	n.a.	n.a.	n.a.
Profit/(loss) before income tax		**174.2**	**238.6**	**64.3**	**36.9%**	**33.6**	**57.5**	**23.9**	**71.0%**
Income tax (expense)/benefit	11, 27	(50.3)	(63.8)	(13.5)	(26.8)%	(16.1)	(13.2)	2.9	18.0%
NPAT		**123.9**	**174.8**	**50.9**	**41.0%**	**17.5**	**44.3**	**26.8**	**153.0%**
Reconciliation to Cash NPAT									
Significant items		28.8	24.4	(4.4)	(15.3)%	n.a.	n.a.	n.a.	n.a.
Amortisation of acquisition intangibles and structural changes		99.9	80.0	(19.8)	(19.9)%	n.a.	n.a.	n.a.	n.a.
Tax effect of adjustments		(38.0)	(30.9)	7.1	18.6%	n.a.	n.a.	n.a.	n.a.
Cash NPAT		**214.7**	**248.4**	**33.7**	**15.7%**	**n.a.**	**n.a.**	**n.a.**	**n.a.**
Key performances and operating metrics									
Volume	28	8,458.2	8,859.4	401.2	4.7%	8,458.2	8,859.4	401.2	4.7%
AGR	30	6,801.6	7,253.0	451.4	6.6%	6,801.6	7,253.0	451.4	6.6%
Interest income/AGR (%bps)	35	16.29%	15.93%	n.a.	(36)bps	15.72%	15.66%	n.a.	(6)bps
Net charge offs/AGR (%bps)	43	3.29%	3.34%	n.a.	5bps	3.29%	3.34%	n.a.	5bps
Adjusted Cost to income ratio (%bps)	41, 46	43.07%	40.35%	n.a.	(272)bps	50.72%	50.42%	n.a.	(30)bps

Notes:

(a) Refer to the Glossary of Financial Table Notes in Section 4.14.

(b) PCP changes both in $ terms and as a % reflect a favourable movement if positive and an unfavourable movement if negative.

4.6.2.1 Total operating income

Total operating income, on a pro forma basis, increased by $16.1 million or 1.6%, from $983.8 million in FY17 to $999.9 million in FY18. Total operating income, on a combined basis, increased by $43.7 million or 5.2%, from $845.8 million in FY17 to $889.5 million in FY18.

Over the same period (on a pro forma and combined basis):

- Volumes increased by $401.2 million (comprising $266.3 million in Australia and $134.9 million in New Zealand) or 4.7% in total (3.8% in Australia and 9.0% in New Zealand), from $8,458.2 million in FY17 to $8,859.4 million in FY18; and
- AGR increased by $451.4 million (comprising $259.5 million in Australia and $191.9 million in New Zealand) or 6.6% in total (4.7% in Australia and 15.0% in New Zealand), from $6,801.6 million in FY17 to $7,253.0 million in FY18.

This increase in total operating income was primarily driven by the factors below.

- **Interest income** increased on a pro forma basis, by $47.6 million or 4.3%, from $1,108.1 million in FY17 to $1,155.6 million in FY18. On a combined basis, interest income increased by $66.4 million, from $1,069.3 million to $1,135.7 million. The increases on a pro forma and combined basis were due to:
  - Interest-bearing asset growth in both Australia (8.4%) and New Zealand (19.1%) from:
    - Prior years' volume growth in instalments products across both Australia and New Zealand as customers continue to transition from interest free plans to interest-bearing receivables as interest free promotional periods expired in line with historic trends; and
    - New and existing instalments product customers in both Australia and New Zealand expanding the use of available credit lines to Scheme purchases;
  - Personal loans volume growth in both Australia (10.9%) and New Zealand (13.6%). This followed strong volume growth in FY17 (8.7% in Australia and 28.0% in New Zealand) and reflected Latitude's ongoing marketing programme in both Australia and New Zealand and increasing broker engagement in Australia. The growth in personal loan volume was partially offset by the impact of new volume being written at lower yields compared to the historical back-book;
  - Motor loan volume growth in Australia of 73%, reflecting the full-year benefits of strategic partnerships entered into with key aggregators and brokers and the direct to consumer offering launched during FY17. Average loan size in FY18 increased by 4%, while applications increased from ~19,000 in FY17 to ~28,000 in FY18; and
  - Select fee increases that were executed in the fourth quarter of FY18.

The above factors were offset partially by a decrease in interest income from direct to consumer credit card portfolios. While strong performance continued in current credit card portfolios such as the 28° Global credit card, this was offset by the runoff of legacy books and the transition of Myer cards to the new Infinity Rewards Card which resulted in declining volume and receivables as some of the existing Myer customer base did not transition to the new product.

In addition to the factors discussed above, interest income on a combined basis increased by a further $18.8 million (compared to on a pro forma basis) due to a reduction in charges associated with the unwind of the fair value uplift to receivables from $38.8 million in FY17 to $20.0 million in FY18. On a combined basis, the non-cash expense associated with the fair value unwind is reflected in interest income. Year on year movements reflect the fair value amortisation, which is unwound over the expected runoff profile of the book that was in place at the time of Acquisition. The fair value uplift to receivables was unwound in full during FY18.

- **Interest income yield (Interest income/AGR)** decreased 36bps on a pro forma basis, from 16.29% to 15.93%, due to changes in product and channel mix, notably the increasing impact of growth in AGR in both Latitude's motor and personal loan channels. On a combined basis, interest income yield decreased by 6bps, from 15.72% to 15.66% as a result of the same factors and the impact of the decrease in the net fair value unwind described above.

- **Interest expense** increased on a pro forma basis by $27.1 million or 11.0%, from $245.6 million in FY17 to $272.7 million in FY18. On a combined basis, interest expense increased by $18.4 million or 5.3%. Interest expense and funding requirements on a pro forma and combined basis are directly linked to receivables growth (AGR growth of 6.6% between FY17 and FY18) and movements in market interest rates. Interest expense/AGR increased by 15bps from an average of 3.61% in FY17 to 3.76% in FY18 as a result of a period of temporarily elevated BBSW.
  - Pro forma interest expense includes the impact of IFRS 16 as if it had been applied on 1 January 2017, resulting in a $1.5 million increase in interest expense between FY17 and FY18 on a pro forma basis. IFRS 16 is applied in the combined accounts from 1H19 onwards.
  - The combined increase of $18.4 million in interest expense reflects the factors discussed above offset by a $8.7 million reduction in interest costs comprised of a $9.1 million reduction in interest costs incurred on the shareholder loans as a result of principal repayments that occurred in late FY17, a decrease in transaction cost amortisation of $1.0 million related to the funding structures established following the Acquisition, offset by a write off of $2.8 million of capitalised debt establishment costs related to the shareholder loans incurred in FY18, as well as the exclusion of the pro forma adjustment related to IFRS 16 which resulted in additional interest expenses of $1.5 million in FY18 on a pro forma basis only.
- **Other operating income** increased on a pro forma and combined basis by $1.2 million or 2.1% from $55.6 million in FY17 to $56.8 million in FY18. The FY18 increase reflects a one-off reduction in loyalty costs which are accounted for in other operating income, as a result of a review of the loyalty programme as well as the transition of Myer cards to the new Latitude Infinity Card.
- **Net insurance income** decreased on a pro forma and combined basis by $5.5 million or 8.4% on a pro forma basis and 8.3% on a combined basis, from $65.7 million in FY17 to $60.2 million in FY18 due to the decision to pause sales of life cover within the personal loans product portfolio (as discussed in Section 5.2.1.5).

4.6.2.2 Loan impairment expense

Loan impairment expense, on a pro forma basis, decreased by $3.8 million or 1.5%, from $257.1 million in FY17 to $253.4 million in FY18. Loan impairment expense, on a combined basis, decreased by $2.7 million or 1.1%, from $256.1 million in FY17 to $253.4 million in FY18. The $1.0 million difference between movement in pro forma and combined loan impairment expense reflects the impact of provision estimates under IFRS 9. Latitude adopted IFRS 9 from 1 January 2018 (refer to Section 4.2.1) and its impact is therefore not reflected in the Combined Historical Income Statements for FY17. The pro forma expense reflects the impact of the adoption of IFRS 9 (a 34bps change in provision coverage for FY17) as if it had occurred on 1 January 2017.

Table 40 below provides a breakdown of the key drivers of the change in the loan impairment expense between FY17 and FY18 on a pro forma and combined basis.

Table 40: Comparison of pro forma historical loan impairment expense and combined historical loan impairment expense for FY17 and FY18

		Pro Forma				Combined			
A$ million	**Note**	**FY17**	**FY18**	**PcP Change ($)**	**PcP Change (%)**	**FY17**	**FY18**	**PcP Change ($)**	**PcP Change (%)**
Net charge offs	79								
Prior period total Net charge off expense		(192.7)	(223.6)	(30.9)	(16.0)%	(192.7)	(223.6)	(30.9)	(16.0)%
Impact growth in AGR		(12.2)	(14.7)	(2.5)	(20.5)%	(12.2)	(14.7)	(2.5)	(20.5)%
Impact of change in net charge off rate		(18.7)	(3.7)	15.0	80.1%	(18.7)	(3.7)	15.0	80.1%
Total Net charge offs		**(223.6)**	**(242.0)**	**(18.4)**	**(8.2)%**	**(223.6)**	**(242.0)**	**(18.4)**	**(8.2)%**
Provision movement	80								
Impact of growth in gross loan receivables		(16.4)	(24.1)	(7.7)	(47.1)%	(15.0)	(24.1)	(9.1)	(60.5)%
Impact of change in Coverage ratio		(15.5)	10.2	25.6	n.m.	(15.9)	10.2	26.1	n.m.
Total expense for movement in provisions		**(31.8)**	**(13.9)**	**17.9**	**56.3%**	**(30.9)**	**(13.9)**	**17.0**	**55.0%**
Foreign exchange rate impact		(1.8)	2.5	4.2	n.m.	(1.6)	2.5	4.1	n.m.
Total Loan impairment expense		**(257.1)**	**(253.4)**	**3.8**	**1.5%**	**(256.1)**	**(253.4)**	**2.7**	**1.1%**
Selected operating and financial metrics									
Gross loan receivables	29	7,030.9	7,575.4	544.5	7.7%	7,030.9	7,575.4	544.5	7.7%
AGR	30	6,801.6	7,253.0	451.4	6.6%	6,801.6	7,253.0	451.4	6.6%
Net charge offs/AGR	43	3.29%	3.34%	n.a.	5bps	3.29%	3.34%	n.a.	5bps
Coverage ratio	44, 47	4.42%	4.29%	n.a.	(13)bps	4.08%	4.29%	n.a.	21bps

Notes: Refer to the Glossary of Financial Table Notes in Section 4.14. On a combined basis, Coverage ratios in FY17 are estimated in accordance with IFRS 39. Latitude adopted IFRS 9 on 1 January 2018 with an opening coverage ratio of 4.42%. On a pro forma basis, Coverage ratios at all historical balance dates have been restated to represent the impact of IFRS 9 as if it had been adopted on 1 January 2017. Refer to Section 4.3.4 for a reconciliation of Pro Forma Historical Financial Information to Combined Historical Financial Information.

The primary factors impacting pro forma and combined loan impairment expense from FY17 to FY18 (and their contribution to the year on year increase) are summarised below:

- **Growth in AGR**. AGR increased by $451.4 million, or 6.6%, from $6,801.6 million in FY17 to $7,253.0 million in FY18, resulting in an increase in net charge off expense of $2.5 million in FY18 (calculated assuming no change in the net charge off rate of 3.29% from FY17) on both a pro forma and combined basis;
- **Growth in gross loan receivables**. Gross loan receivables increased by $544.5 million or 7.7%, from $7,030.9 million in FY17 to $7,575.4 million in FY18 and resulted in an increase in provision costs of $24.1 million on a pro forma basis and combined basis;
- **An increase in net charge off rate**. Net charge off rate increased by 5bps from 3.29% in FY17 compared to 3.34% in FY18, resulting in an additional $3.7 million net charge off expense in FY18, as a result of the flow through of the losses associated with operational risk events as described below. The net charge off rate began to improve during late 2H18;

- **Changes in the Coverage ratio**.
  - On a pro forma basis, the Coverage ratio reduced from 4.42% in FY17 to 4.29% for FY18 and resulted in a reduction in loan impairment expense of $10.2 million; and
  - On a combined basis, the Coverage ratio increased from 4.08% in FY17 (under IAS 39) to 4.29% for FY18 (under IFRS 9). Whilst the coverage ratio increased, the impact of adopting IFRS 9 on 1 January 2018 is reflected in opening retained earnings. The FY18 income statement impact reflects the movement from the 1 January 2018 coverage ratio of 4.42% (under IFRS 9) to the 31 December 2018 coverage ratio of 4.29% (under IFRS 9), resulting in a $10.2 million reduction in loan impairment expense.
  - Coverage ratios under both IFRS 9 and IAS 39 reflect the increases in receivables 90+ days past due across the portfolio. The elevated delinquency levels in FY17 were primarily caused by operational issues in Latitude's collection processes that directly impacted delinquency roll rates and charge off expenses in the portfolio and the other factors referred to above. The impact of the operational issues on net charge offs was $15.1 million. Latitude's pro forma Coverage ratio at 31 December 2017 increased by 22bps to reflect the impact of these known issues as they would have been incorporated under IFRS 9 outlook requirements.
  - The operational issues started in November 2016, when Latitude migrated from a collection dialling system (which was end of life) and telephony system (which was only available under a transitional service arrangement) to a new telephony system and automated customer collection dialling system. During the migration, there were several issues that impacted collections call centre effectiveness in both Australia and New Zealand with some customers with late and delinquent balances not being captured in the normal debt recovery procedures (e.g. not receiving late payment notifications and phone calls). This was rectified by the third quarter of FY17, with improvements in delinquency levels observed in the fourth quarter of FY17. However, given the 12-month rolling nature of Latitude's provisioning models, the full impact of the improvement in delinquency levels as a result of the resolution of this issue was not reflected in the Coverage ratio at 31 December 2017.
  - Further operational issues occurred in the fourth quarter of FY17 primarily as a result of systems instabilities which occurred following systems upgrades as well as the relocation of Latitude's head office, which led to a disruption in the collections call centre efficiency, impacting delinquency levels particularly in Latitude's instalment and credit card portfolios. Given the relative size of the impacted portfolios, the elevated delinquencies and consequential provision increases outweighed the underlying improvement in the Australian personal loans portfolio observed in the fourth quarter of FY17.
  - Each of the operational issues described above occurred as a result of the significant levels of transition activities and investment in new systems which took place following the Acquisition. The operational issues were resolved during 1H18 resulting in improvements in charge off and delinquency levels and consequently in gradual improvements in the Coverage ratio during the second half of FY18 given the 12-month rolling nature of Latitude's provisioning models. These issues have not reoccurred during subsequent replatforming and data centre migration activity due to increased management vigilance and improvement in technology change control processes as well as management focus on improvements in collections efficiency; and
- **Foreign exchange difference**. Resulted in a decrease in loan impairment expense of $2.5 million.

4.6.2.3 Total operating expenses

Total operating expenses, on a pro forma basis, decreased by $20.2 million or 4.8%, from $423.7 million in FY17 to $403.5 million in FY18. Over the same period, the pro forma Adjusted Cost to income ratio decreased 272bps from 43.1% in FY17 to 40.4% in FY18.

On a combined basis, total operating expenses increased by $5.1 million or 1.0%, from $499.0 million in FY17 to $504.2 million in FY18. Over the same period, the combined Adjusted Cost to income ratio decreased 30bps from 50.7% in FY17 to 50.4% in FY18.

The primary factors that drove the change in the pro forma and combined operating expenses are outlined below:

- Employee benefit expense increased by $7.4 million or 4.4%, from $168.5 million in FY17 to $175.9 million in FY18. This was driven by several factors including average salary increases of 2.5%, an investment in digital and marketing capability, partly offset by productivity reductions in the operational areas;

- Other expenses decreased by $21.8 million or 10.0%, from $217.1 million in FY17 to $195.3 million in FY18. The decrease reflects the benefits of multiple cost saving initiatives undertaken across FY17 and FY18. These include benefits of property consolidation, improvements in fraud recovery processes, and specific efficiency improvements reducing IT costs across infrastructure and data management. These reductions were partially offset by an increase in marketing costs from $39.2 million in FY17 to $40.6 million in FY18;
- Depreciation and amortisation expense decreased by $5.8 million or 15.3%, from $38.1 million in FY17 to $32.3 million in FY18. The decrease was primarily due to the timing of the retirement of legacy systems (fully depreciated in FY17) and the commissioning of new systems throughout the course of FY18; and
- The Adjusted Cost to income ratio also benefited from operating leverage as the business grew in scale.

In addition to the factors discussed above, Latitude's combined total operating expenses increased by a further $25.3 million compared to the pro forma total operating expenses decrease over the same period (from FY17 to FY18) largely as a result of:

- An increase of $21.9 million following the cessation of a third-party servicing contract and other discontinued contracts;
- An increase in Transaction and Offer costs of $11.1 million, comprising an increase in transaction costs in FY18 of $21.5 million in relation to the Offer, offset by a decrease in costs of $10.4 million as a result of a reduction in transitional service agreement and other expenditure incurred in FY17 in relation to the Acquisition; and
- The following factors which reduced Significant items by $4.4 million and are reported within total operating expenses in the combined income statement (refer Section 4.3.2):
  - An increase of $7.2 million in relation to Asset impairment costs incurred in FY18 as a result of systems which have had their useful lives reduced as a result of new systems being built and introduced as part of Latitude's Transition and Replatforming programme;
  - An increase of $11.0 million in customer remediation cost to address historical issues; partially offset by:
  - A decrease of $10.7 million in relation to Transition and Replatforming costs relating to the upgrading of Latitude's IT systems following the Acquisition (as described in Section 4.3.2); and
  - A decrease of $12.4 million in relation to Restructuring costs incurred in FY17 following the Acquisition, not incurred in FY18.

4.6.2.4 Profit/(loss) before income tax

Profit before income tax increased on a pro forma basis by $64.3 million or 36.9%, from $174.2 million in FY17 to $238.6 million. On a combined basis, Profit before income tax increased by $23.9 million or 71.0%, from $33.6 million in FY17 to $57.5 million in FY18.

The changes in pro forma Profit before income tax are impacted by the factors described above, including:

- The items which resulted in a $4.4 million reduction to Significant items which are reported within total operating expenses on a combined basis (described in Section 4.6.2.3); and
- Amortisation of acquisition intangibles and structural changes which decreased by $19.8 million or 19.9%, from $99.9 million in FY17 to $80.0 million in FY18, reflecting the runoff of the net fair value unwind recognised on gross loan receivables (as described in Section 4.3.2.2). The Amortisation of acquisition intangibles and structural changes is reported within Total operating income and Total operating costs on a combined basis, as previously described.

The combined Profit before income tax was also impacted by a $17.5 million increase in distributions to trust beneficiaries from $57.0 million in FY17 to $74.5 million in FY18.

4.6.2.5 NPAT

NPAT, on a pro forma basis, increased by $50.9 million, from $123.9 million in FY17 to $174.8 million in FY18, due to the above-mentioned factors and the impact of pro forma income tax expense. Pro forma income tax is calculated assuming the Restructure took place on 1 January 2017 and is therefore on a consistent basis for FY17 and FY18.

On a combined basis, NPAT increased by $26.8 million, from $17.5 million in FY17 to $44.3 million in FY18, also due to the above-mentioned factors and the actual effective income tax rates of the Group on a combined basis.

Tax expense on both a pro forma and combined basis includes the impact of permanent differences arising from amended assessments, research and development benefits and non-deductible PCEP expenses. Accordingly, the pro forma tax expense, as a proportion of pro forma Profit/(loss) before income tax, reduced the effective tax rate from FY17 to FY18.

4.6.2.6 Cash NPAT

Cash NPAT, on a pro forma basis, increased by $33.7 million or 15.7%, from $214.7 million in FY17 to $248.4 million in FY18. Cash NPAT reflects the movements in pro forma NPAT discussed above after adding back the post-tax impact of Significant items and Amortisation of acquisition intangibles and structural changes as set out in Section 4.3.2.2.

4.6.3 Pro forma and combined cash flows: FY18 compared to FY17

Table 41 below compares the pro forma and combined cash flows for FY18 and FY17.

Table 41: Comparison of Pro Forma Historical Cash Flows and Combined Historical Cash Flows for FY17 and FY18

		Pro Forma				Combined			
A$ million	**Note**	**FY17**	**FY18**	**PcP Change ($)**	**PcP Change (%)**	**FY17**	**FY18**	**PcP Change ($)**	**PcP Change (%)**
Profit/(loss) before income tax		174.2	238.6	64.3	36.9%	33.6	57.5	23.9	71.0%
Depreciation and amortisation	64	86.3	80.6	(5.7)	(6.7)%	75.3	68.8	(6.4)	(8.5)%
Change in receivables	65	(389.1)	(544.5)	(155.4)	(40.0)%	(389.1)	(544.5)	(155.4)	(40.0)%
Movement in balance sheet and working capital	66	110.0	72.5	(37.4)	(34.0)%	125.2	94.9	(30.3)	(24.2)%
Income taxes	67, 73	(49.8)	(94.2)	(44.4)	(89.3)%	(6.3)	(54.8)	(48.5)	(770.1)%
Net cash flow from operating activities		**(68.4)**	**(247.1)**	**(178.7)**	**(261.4)%**	**(161.3)**	**(378.1)**	**(216.8)**	**(134.4)%**
Capital expenditure	68, 74	(41.2)	(61.3)	(20.1)	(48.8)%	(41.2)	(61.3)	(20.1)	(48.8)%
Net cash flow from operating and investing activities		**(109.6)**	**(308.4)**	**(198.8)**	**(181.5)%**	**(202.5)**	**(439.4)**	**(236.9)**	**(117.0)%**
Changes in securitisation funding facilities	69	363.0	524.4	161.4	44.5%	363.0	524.4	161.4	44.5%
Net inflow from share-based payments		–	(2.1)	(2.1)	n.m.	–	(2.1)	(2.1)	n.m.
Payment of lease liabilities	70	(12.4)	(10.8)	1.6	13.0%	n.a.	n.a.	n.a.	n.a.
Transaction costs	71	(17.4)	(4.9)	12.5	71.9%	(17.4)	(4.9)	12.5	71.9%
Net cash flow before other financing activities		**223.6**	**198.2**	**(25.4)**	**(11.4)%**	**143.1**	**78.0**	**(65.1)**	**(45.5)%**
Effects of exchange rate changes on cash and cash equivalents	72	(2.5)	0.9	3.4	n.m.	n.a.	n.a.	n.a.	n.a.
Net cash flow before dividends		**221.1**	**199.1**	**(22.0)**	**(9.9)%**	**n.a.**	**n.a.**	**n.a.**	**n.a.**

Notes: Refer to the Glossary of Financial Table Notes in Section 4.14.

4.6.3.1 Net cash flow from operating and investing activities

Net cash outflow from operating and investing activities, on a pro forma basis, increased by $198.8 million, from a $109.6 million outflow in FY17 to $308.4 million outflow in FY18.

On a combined basis, net cash outflow from operating and investing activities increased by $236.9 million from $202.5 million outflow in FY17 to $439.4 million outflow in FY18.

The primary factors that impacted the change in net cash outflow from operating and investing activities, on both a pro forma and combined basis were:

- The $64.3 million growth in pro forma Profit before income tax and the $23.9 million increase in combined Profit before income tax both discussed in Section 4.6.2;
- A net increase in cash outflows for change in receivables of $155.4 million as discussed in Section 4.6.2. The change in receivables includes a cash outflow of $174.2 million to fund the growth in receivables as discussed in Section 4.6.2, offset by a $18.8 million reduction in non-cash charges associated with the unwinding of the fair value uplift from $38.8 million in FY17 to $20.0 million in FY18 (refer Section 4.3.2);
- A decrease in the adjustment for the movement in balance sheet and working capital on a pro forma basis of $37.4 million from $110.0 million in FY17 to $72.5 million in FY18. On a combined basis, the decrease in the movement in balance sheet and working capital was $30.3 million from $125.2 million in FY17 to $94.9 million in FY18. The movement in balance sheet and working capital includes the non-cash impact of revenues and expenses recognised in the income statement. The pro forma and combined movement was largely a result of:
  - A decrease in the non-cash expense incurred on the provision for impairment losses on receivables in FY18 compared to FY17, attributable to the factors discussed in Section 4.6.2.2; offset by
  - An increase in the non-cash costs in the income statement in FY18 compared to FY17 related to provisions for remediation, as discussed in Section 4.3.2;
  - An increase in non-cash costs in the income statement during FY18 related to the impairment of assets as part of the retirement and reducing the remaining estimated useful life of legacy systems as a result of the Transition and Replatforming programme in FY18; and
  - Changes in deferred merchant service fees and working capital balances and timing of payments in relation to prepayments, other receivables, other liabilities and employee provisions.

  The combined changes in balance sheet and working capital were also impacted by accrued but unpaid distributions on trust profits to the current shareholders;
- An increase in tax paid on a pro forma basis by $44.4 million from $49.8 million in FY17 to $94.2 million in FY18, and on a combined basis by $48.5 million from $6.3 million in FY17 to $54.8 million in FY18; and
- Increased capital expenditure on a pro forma and combined basis of $20.1 million in FY18 compared to FY17, primarily relating to an increase in investment in new IT systems as part of the Transition and Replatforming programme ($25.3 million) (refer to Section 4.3.2).

On a combined basis, in addition to the factors above, net cash flow from operating and investing activities was also impacted by the following key items:

- An increase in the distributions to trust beneficiaries in FY18 of $28.5 million, from $39.4 million in FY17 to $67.9 million in FY18;
- An increase in transaction costs paid of $15.0 million in relation to the Offer;
- The cessation of cash received in relation to a third-party servicing contract which ceased during FY18;
- A $9.1 million reduction in interest paid on the shareholder loans; and
- A reduction in transitional services costs of $15.5 million incurred in FY17 following the Acquisition, not incurred in FY18.

4.6.3.2 Net cash flow before other financing activities

Net cash flow before other financing activities, on a pro forma basis decreased by $25.4 million or 11.4%, from $223.6 million in FY17 to $198.2 million in FY18.

On a combined basis, Net cash flow before other financing activities decreased by $65.1 million or 45.5%, from $143.1 million in FY17 to $78.0 million in FY18.

The decrease in Net cash flow before other financing activities, on a pro forma and combined basis, is primarily a result of the changes in Net cash flow before operating and investing activities, described above in Section 4.6.3.1, as well as the following factors:

- An increase (on a pro forma and combined basis) in cash from securitisation funding facilities (net of the cash for notes funded directly by Latitude in the funding facilities) of $161.4 million, from $363.0 million in FY17 to $524.4 million in FY18 to fund the growth in receivables in FY18; and
- A decrease (on a pro forma and combined basis) of $12.5 million in transaction costs in FY18 as a result of lower fees incurred in relation to ABS issuances and warehouse refinancing activity.

4.6.3.3 Net cash flow before dividends

Pro forma Net cash flow before dividends decreased by $22.0 million from $221.1 million to $199.1 million, due to the factors described above and the impact of foreign exchange differences on closing cash balances.

4.6.4 Pro forma and combined income statements: 1H19 compared to 1H18

Table 42 below sets forth the Pro Forma Historical Income Statements and the Combined Historical Income Statements for 1H19 compared to 1H18.

Table 42: Comparison of Pro Forma Historical Income Statements and Combined Historical Income Statements for 1H18 and 1H19

	Pro Forma				Combined			
A$ million	**1H18**	**1H19**	**PcP Change ($)**	**PcP Change (%)**	**1H18**	**1H19**	**PcP Change ($)**	**PcP Change (%)**
Interest income	571.9	610.2	38.3	6.7%	551.9	610.2	58.3	10.6%
Interest expense	(133.4)	(141.5)	(8.1)	(6.1)%	(179.8)	(191.0)	(11.2)	(6.2)%
Net interest income	438.5	468.7	30.2	6.9%	372.1	419.2	47.1	12.7%
Other operating income	28.5	26.9	(1.6)	(5.7)%	28.5	26.9	(1.6)	(5.7)%
Net insurance income	31.5	28.4	(3.1)	(9.8)%	31.5	28.4	(3.1)	(9.8)%
Total other operating income	60.0	55.3	(4.7)	(7.8)%	60.0	55.3	(4.7)	(7.8)%
Total operating income	**498.5**	**523.9**	**25.5**	**5.1%**	**432.1**	**474.5**	**42.4**	**9.8%**
Loan impairment expense	(136.4)	(127.8)	8.5	6.3%	(136.4)	(127.8)	8.5	6.3%
Employee benefit expense	(86.7)	(93.5)	(6.8)	(7.9)%	(83.8)	(94.7)	(10.9)	(13.0)%
Other expenses	(96.5)	(102.1)	(5.6)	(5.8)%	(127.2)	(146.8)	(19.7)	(15.5)%
Depreciation and amortisation expense	(17.9)	(16.9)	1.0	5.5%	(36.6)	(41.2)	(4.5)	(12.3)%
Total operating expenses	**(201.1)**	**(212.5)**	**(11.4)**	**(5.7)%**	**(247.6)**	**(282.7)**	**(35.1)**	**(14.2)%**
Distribution to trust beneficiaries	–	–	–	–	(25.7)	(51.0)	(25.3)	(98.7)%
Profit/(loss) before income tax and Significant items	**161.0**	**183.6**	**22.6**	**14.0%**	**22.4**	**13.0**	**(9.5)**	**(42.2)%**
Significant items	(3.5)	(50.0)	(46.5)	n.m.	n.a.	n.a.	n.a.	n.a.
Amortisation of acquisition intangibles and structural changes	(50.0)	(34.4)	15.7	31.3%	n.a.	n.a.	n.a.	n.a.
Profit/(loss) before income tax	**107.5**	**99.2**	**(8.3)**	**(7.7)%**	**22.4**	**13.0**	**(9.5)**	**(42.2)%**
Income tax (expense)/benefit	(32.1)	(26.9)	5.2	16.1%	(8.1)	(8.8)	(0.8)	(9.5)%
NPAT	**75.4**	**72.3**	**(3.1)**	**(4.1)%**	**14.4**	**4.2**	**(10.2)**	**(71.1)%**
Reconciliation to Cash NPAT								
Significant items	3.5	50.0	46.5	n.m.	n.a.	n.a.	n.a.	n.a.
Amortisation of acquisition intangibles and structural changes	50.0	34.4	(15.7)	(31.3)%	n.a.	n.a.	n.a.	n.a.
Tax effect of adjustments	(16.1)	(24.9)	(8.8)	(54.7)%	n.a.	n.a.	n.a.	n.a.
Cash NPAT	**112.8**	**131.8**	**19.0**	**16.8%**	**n.a.**	**n.a.**	**n.a.**	**n.a.**
Key performances and operating metrics								
Volume	4,248.5	4,358.1	109.6	2.6%	4,248.5	4,358.1	109.6	2.6%
AGR	7,170.3	7,642.7	472.4	6.6%	7,170.3	7,642.7	472.4	6.6%
Interest income/AGR (%bps)	16.08%	16.10%	n.a.	2bps	15.52%	16.10%	n.a.	58bps
Net charge offs/AGR (%bps)	3.57%	3.35%	n.a.	(22)bps	3.57%	3.35%	n.a.	(22)bps
Adjusted Cost to income ratio (%bps)	40.3%	40.6%	n.a.	22bps	49.7%	54.0%	n.a.	428bps

Notes: Refer to the Glossary of Financial Table Notes in Section 4.14.

4.6.4.1 Total operating income

Total operating income, on a pro forma basis, increased by $25.5 million or 5.1%, from $498.5 million in 1H18 to $523.9 million in 1H19. Total operating income, on a combined basis, increased by $42.4 million or 9.8%, from $432.1 million in 1H18 to $474.5 million in 1H19.

Over the same period (on a pro forma and combined basis):

- Volumes increased by $109.6 million (comprising $86.3 million in Australia and $23.3 million in New Zealand) or 2.6% in total (2.5% in Australia and 2.9% in New Zealand) from $4,248.5 million in 1H18 to $4,358.1 million in 1H19; and
- AGR increased $472.4 million (comprising $298.1 million in Australia and $174.3 million in New Zealand) or 6.6% in total (5.2% in Australia and 12.1% in New Zealand), from $7,170.3 million in 1H18 to $7,642.7 million in 1H19.

The increase in Total operating income is primarily driven by the factors below.

- **Interest income** increased, on a pro forma basis, by $38.3 million or 6.7%, from $571.9 million in 1H18 to $610.2 million in 1H19. On a combined basis, interest income increased by $58.3 million or 10.6%, from $551.9 million to $610.2 million. The increases on a pro forma and combined basis were due to growth in interest-bearing assets in both Australia and New Zealand arising from:
  - The benefits of volume growth from FY18 and a continued change in product mix towards interest-bearing receivables;
  - Alignment of select fees to market rates in the fourth quarter of FY18;
  - Continued utilisation of GO Mastercard and Gem Visa in line with levels achieved in FY18. This was further underpinned by continuing growth in Scheme volumes and increased average Scheme transaction frequency on instalment cards. This increase in Scheme usage was driven by increasing customer awareness on Scheme capability, increased frequency of card use due to digital wallet capability such as Apple Pay, Samsung Pay, Garmin Pay and Fitbit Pay and an increase in approved credit limits;
  - An increase in the growth in personal loans as a result of continued investment and initiatives executed during the second half of FY18. Personal loans AGR increased to $2,193.3 million in 1H19, up from $2,007.8 million in 1H18, an increase of 9.2%; and
  - Continuation of the motor loan growth strategy in Australia with a 1H19 AGR of $383.1 million, up from $225.9 million in 1H18, an increase of 69.6% mostly via broker channels; offset by
  - Regulatory changes (interest simplification changes and the removal of grandfathering of pre-Fairer Simpler Banking (‘**FSB**’) products part way through 1H19). Interest simplification does not allow interest to be charged from the date of purchase, but instead from the date payment was due. This only applies to accounts that are not currently accruing interest. Grandfathering of pre-FSB products only applied to some instalments and lending products and resulted in changes to the payment hierarchy so that payments were first applied to the balances incurring the highest rate of interest.

In addition to the factors discussed above, interest income on a combined basis increased by a further $20.0 million (compared to on a pro forma basis) due to a reduction in charges associated with the unwind of the fair value uplift to receivables from $20.0 million in 1H18 to $nil million in 1H19, which is reported within interest income on a combined basis.

- **Interest income yield (Interest income/AGR)** remained flat on a pro forma basis between 1H18 (16.08%) and 1H19 (16.10%) with an increase in merchant fee revenue associated with new contracts that commenced in the second half of FY18 and improving yield offset by regulatory changes outlined above, changing channel mix driven by growth in the lower margin motor loan channel and the competitive environment for personal loans. On a combined basis, Interest income/AGR increased from 15.52% to 16.10% as a result of the same factors and the impact of the decrease in the net fair value unwind described above.
- **Interest expense** increased on a pro forma basis by $8.1 million or 6.1%, from $133.4 million in 1H18 to $141.5 million in 1H19. Interest expense increased on a combined basis by $11.2 million or 6.2%, from $179.8 million in 1H18 to $191.0 million in 1H19. Interest expense and funding requirements on a pro forma and combined basis are directly linked to receivables growth (AGR growth of 6.6% between 1H18 and 1H19) and movements in market rates. Interest expense/AGR decreased by 2bps from an average of 3.75% in 1H18 to 3.73% in 1H19.

  On a combined basis, the additional $3.0 million increase in interest expense movement relates to an increase in interest expense of $4.2 million in relation to the amortisation of transaction costs reported within Amortisation of acquisition intangibles and structural changes on a pro forma basis and a further $1.3 million increase in interest costs in 1H19 as a result of the adoption of IFRS 16, offset by a $2.5 million reduction in interest costs on shareholder loans.
- **Other operating income** decreased on a pro forma and combined basis by $1.6 million or 5.7%, from $28.5 million in 1H18 to $26.9 million in 1H19 due to a reduction in customer fees as more customers move to accessing online statement and fee free payment channels.
- **Net insurance income** decreased on a pro forma and combined basis by $3.1 million or 9.8% from $31.5 million in 1H18 to $28.4 million in 1H19 due to the decision to pause sales of life cover within the personal loans product portfolio (as discussed in Section 5).

4.6.4.2 Loan impairment expense

Loan impairment expense, on a pro forma and combined basis, decreased by $8.5 million or 6.3%, from $136.4 million in 1H18 to $127.8 million in 1H19.

Table 43 below provides a breakdown of the key drivers of the change in the loan impairment expense between 1H18 and 1H19 on a pro forma and combined basis.

Table 43: Comparison of pro forma historical loan impairment expense and combined historical loan impairment expense for 1H18 and 1H19

		Pro Forma				Combined			
A$ million	**Note**	**1H18**	**1H19**	**PcP Change ($)**	**PcP Change (%)**	**1H18**	**1H19**	**PcP Change ($)**	**PcP Change (%)**
Net charge offs	79								
Prior period total Net charge off expense		(111.5)	(126.9)	(15.4)	(13.8)%	(111.5)	(126.9)	(15.4)	(13.8)%
Impact of growth in AGR		(6.9)	(8.4)	(1.5)	(21.4)%	(6.9)	(8.4)	(1.5)	(21.4)%
Impact of change in net charge off rate		(8.5)	8.2	16.7	n.m.	(8.5)	8.2	16.7	n.m.
Total Net charge offs		**(126.9)**	**(127.0)**	**(0.2)**	**0.2%**	**(126.9)**	**(127.0)**	**(0.2)**	**0.2%**
Provision movement	80								
Impact of growth in gross loan receivables		(9.8)	(5.5)	4.3	44.3%	(9.8)	(5.5)	4.3	44.3%
Impact of change in Coverage ratio		(0.1)	4.4	4.6	n.m.	(0.1)	4.4	4.6	n.m.
Total expense for movement in provisions		**(9.9)**	**(1.0)**	**8.9**	**89.7%**	**(9.9)**	**(1.0)**	**8.9**	**89.7%**
Foreign exchange rate impact		0.4	0.3	(0.2)	(39.7)%	0.4	0.3	(0.2)	(39.7)%
Total Loan impairment expense		**(136.4)**	**(127.8)**	**8.5**	**6.3%**	**(136.4)**	**(127.8)**	**8.5**	**6.3%**
Selected operating and financial metrics									
Gross loan receivables	29	7,252.4	7,702.6	450.2	6.2%	7,252.4	7,702.6	450.2	6.2%
AGR	30	7,170.3	7,642.7	472.4	6.6%	7,170.3	7,642.7	472.4	6.6%
Net charge offs/AGR	43	3.57%	3.35%	n.a.	(22)bps	3.57%	3.35%	n.a.	(22)bps
Coverage ratio – Opening	44	4.42%	4.29%	n.a.	(13)bps	4.42%	4.29%	n.a.	(13)bps
Coverage ratio – Closing		4.42%	4.23%	n.a.	(19)bps	4.42%	4.23%	n.a.	(19)bps
Coverage ratio – Period movement		0.00%	(0.06)%	n.a.	(6)bps	0.00%	(0.06)%	n.a.	(6)bps

Notes: Refer to the Glossary of Financial Table Notes in Section 4.14. On a combined basis, Coverage ratios in 1H17 are estimated in accordance with IFRS 39. Latitude adopted IFRS 9 on 1 January 2018. On a pro forma basis, Coverage ratios at all historical balance dates have been restated to represent the impact of IFRS 9 as if it had been adopted on 1 January 2017. Refer to Section 4.3.4 for a reconciliation of Pro Forma Historical Financial Information to Combined Historical Financial Information.

The primary factors impacting loan impairment expense from 1H18 to 1H19 (and their contribution to the period on period reduction) are summarised below:

- **Growth in AGR**. AGR increased by $472.4 million, from $7,170.3 million in 1H18 to $7,642.7 million in 1H19, resulting in an increase in net charge off expense of $8.4 million. The period on period impact in loan impairment expense from 1H18 to 1H19 due to volume growth was $16.8 million;
- **Growth in gross loan receivables**. Gross loan receivables increased $450.2 million from $7,252.4 million in 1H18 to $7,702.6 million in 1H19 and resulted in an increase in provisions of $5.5 million. The equivalent increase as a result of growth in gross loan receivables in 1H18 is $9.8 million, equating to a $4.3 million decrease in loan impairment expense as set out in the summary above;
- **A reduction in the net charge off rate**. Net charge off rate as a % of AGR decreased by 22bps from 3.57% in 1H18 to 3.35% in 1H19, resulting in a $8.2 million decrease in net charge off expense in 1H19 compared to 1H18. This reflects elevated net charge off rates in 1H18 as a result of the specific operational issues described in Section 4.6.2.2 which was not present in 1H19. 1H19 reflected a more typical loan impairment expense profile;

- **A reduction in the Coverage ratio**. Coverage ratio reduced 6bps in the 6 months to 1H19 (from 4.29% to 4.23%) compared to flat in 1H18 (from 4.42% to 4.42%), resulting in a decrease in loan impairment expense of $4.4 million in 1H19. The improvement in both the Coverage ratio and net charge offs reflects the resolution of operational issues experienced at the end of FY17 and during 1H18 and resolved by the end of FY18 (see Section 4.6.2.2 for further information); and
- **Foreign exchange difference** resulted in a decrease in loan impairment expense of $0.3 million.

4.6.4.3 Total operating expenses

Total operating expenses, on a pro forma basis, increased by $11.4 million or 5.7%, from $201.1 million in 1H18 to $212.5 million in 1H19. Over the same period, the Adjusted Cost to income ratio increased 22bps from 40.3% in 1H18 to 40.6% in 1H19.

On a combined basis, total operating expenses increased by $35.1 million or 14.2%, from $247.6 million in FY17 to $282.7 million in FY18. Over the same period, the combined Adjusted Cost to income ratio increased 428bps from 49.7% in 1H18 to 54.0% in 1H19.

The key factors that drove this increase on both a pro forma and combined bases were:

- Employee benefit expense increased by $6.8 million or 7.9%, from $86.7 million in 1H18 to $93.5 million in 1H19. This was driven by several factors including the implementation of the refreshed management team, the recruitment of new staff to enhance the organisational skillset to deliver Latitude 2.0, coupled with an average salary increase of 2.5% across the enterprise labour force;
- Other expenses increased $5.6 million or 5.8%, from $96.5 million in 1H18 to $102.1 million in 1H19. This primarily reflects an increase in marketing spend of $4.6 million to support customer growth initiatives; and
- Depreciation and amortisation expense decreased by $1.0 million or 5.5%, from $17.9 million in 1H18 to $16.9 million in 1H19. This represents ongoing retirement of legacy systems and depreciation and amortisation associated with the new systems commissioned throughout the course of 1H18.

In addition to the factors discussed above, Latitude's combined total operating expenses increased by a further $23.7 million compared to the pro forma total operating expenses increase over the same period as a result of:

- An increase of $1.1 million in costs in 1H19 associated with the PCEP resulting from recent new management hires;
- A decrease of $5.4 million relating to 1H18 costs incurred as a result of discontinued contracts, not subsequently incurred in 1H19;
- A decrease of $18.6 million in Transaction and Offer costs; and the following factors which are reported within Significant items on a pro forma basis; and
- The following factors which increased Significant items by $46.5 million and are reported within total operating expenses in the combined income statement:
  - An increase of $4.7 million in Restructuring costs due to changes made to the organisational structure and executive teams following the commencement of the new CEO;
  - An increase of $20.3 million in relation to Asset impairment costs incurred in FY18 as a result of systems decommissioned as Latitude undertook its Transition and Replatforming (refer Section 4.3.2); and
  - An increase of $21.2 million in customer remediation cost to address historical issues and recent regulatory activity.

4.6.4.4 Profit/(loss) before income tax

Profit before income tax decreased on a pro forma basis by $8.3 million or 7.7%, from $107.5 million in 1H18 to $99.2 million in 1H19. On a combined basis, Profit before income tax decreased by $9.5 million, from $22.4 million in 1H18, to $13.0 million in 1H19.

The changes in pro forma Profit before income tax are impacted by the factors described above, including:

- Significant items increased by $46.5 million from $3.5 million in 1H18, to $50.0 million in 1H19 (as described in Section 4.6.4.3). Significant items are reported within total operating expenses on a combined basis; and

- Amortisation of acquisition intangibles and structural changes decreased by $15.7 million from $50.0 million in 1H18 to $34.4 million in 1H19, reflecting completion of the runoff of the net fair value unwind recognised on gross loan receivables in 1H18 and the continued amortisation of customer lists and distribution agreements and transaction costs in relation to the establishment of funding vehicles following the Acquisition.

The combined Profit before income tax was also impacted by a $25.3 million increase in distribution to trust beneficiaries from $25.7 million in 1H18 to $51.0 million in 1H19.

4.6.4.5 NPAT

NPAT, on a pro forma basis, decreased by $3.1 million, from $75.4 million in 1H18 to $72.3 million in 1H19, driven by the above-mentioned factors and the impact of pro forma income tax expense.

On a combined basis, NPAT decreased by $10.2 million, from $14.4 million in 1H18 to $4.2 million in 1H19, also driven by the above-mentioned factors and the actual effective income tax rates of the Group on a combined basis. The tax expense on both a pro forma and combined basis includes the impact non-deductible PCEP expenses.

4.6.4.6 Cash NPAT

Cash NPAT, on a pro forma basis, increased by $19 million or 16.8%, from $112.8 million in 1H18 to $131.8 million in 1H19. Cash NPAT reflects the movements in pro forma NPAT discussed above after adding back the post-tax impact of Significant items and Amortisation of acquisition intangibles and structural changes as set out in Section 4.3.2.

4.6.5 Pro forma and combined cash flows: 1H19 compared to 1H18

Table 44 below compares the pro forma and combined cash flows for 1H19 and 1H18.

Table 44: Comparison of Pro Forma Historical Cash Flows and Combined Historical Cash Flows for 1H18 and 1H19

	Pro Forma				Combined			
A$ million	**1H18**	**1H19**	**PcP Change ($)**	**PcP Change (%)**	**1H18**	**1H19**	**PcP Change ($)**	**PcP Change (%)**
Profit/(loss) before income tax	107.5	99.2	(8.3)	(7.7)%	22.4	13.0	(9.5)	(42.2)%
Depreciation and amortisation	42.0	41.2	(0.9)	(2.1)%	36.6	41.2	4.5	12.3%
Change in receivables	(221.5)	(127.2)	94.3	42.6%	(221.5)	(127.2)	94.3	42.6%
Movement in balance sheet and working capital	15.6	(5.7)	(21.3)	(136.7)%	35.6	10.5	(25.1)	(70.4)%
Income taxes	(80.0)	(72.3)	7.7	9.6%	(42.6)	(31.7)	10.9	25.5%
Net cash flow from operating activities	**(136.4)**	**(64.8)**	**71.6**	**52.5%**	**(169.5)**	**(94.3)**	**75.2**	**44.3%**
Capital expenditure	(20.9)	(21.1)	(0.2)	(1.1)%	(20.9)	(21.1)	(0.2)	(1.1)%
Net cash flow from operating and investing activities	**(157.3)**	**(86.0)**	**71.3**	**45.3%**	**(190.4)**	**(115.4)**	**74.9**	**39.4%**
Changes in securitisation funding facilities	187.2	99.9	(87.3)	(46.7)%	187.2	99.9	(87.3)	(46.7)%
Net inflow/(outflow) from share-based payments	–	4.8	4.8	n.m.	–	4.8	4.8	n.m.
Payment of lease liabilities	(5.6)	(5.1)	0.5	8.9%	–	(5.1)	(5.1)	n.m.
Transaction costs	(3.3)	(0.4)	2.9	89.3%	(3.3)	(0.4)	2.9	89.3%
Net cash flow before other financing activities	**21.0**	**13.3**	**(7.8)**	**(36.9)%**	**(6.5)**	**(16.2)**	**(9.7)**	**(151.0)%**
Effects of exchange rate changes on cash and cash equivalents	(0.6)	0.3	0.9	n.m.	n.a.	n.a.	n.a.	n.a.
Net cash flow before dividends	**20.4**	**13.5**	**(6.9)**	**(33.6)%**	**n.a.**	**n.a.**	**n.a.**	**n.a.**

Notes: Refer to the Glossary of Financial Table Notes in Section 4.14.

4.6.5.1 Net cash flow from operating and investing activities

Net cash outflow from operating and investing activities, on a pro forma basis, decreased by $71.3 million from $157.3 million in 1H18 to $86.0 million in 1H19.

On a combined basis, net cash outflow from operating and investing activities decreased by $74.9 million from $190.4 million outflow in 1H18 to $115.4 million outflow in 1H19.

The primary factors that resulted in the change in net cash flow from operating and investing activities, on both a pro forma and combined basis were:

- The $8.3 million decrease in pro forma Profit/(loss) before income tax on a pro forma basis and the $9.5 million decrease in Profit/(loss) before income tax on a combined basis, each described in Section 4.6.4;
- A net increase in the change in receivables of $94.3 million, from $221.5 million in 1H18 to $127.2 million in 1H19. The change in receivables includes a reduction in the cash outflow to fund growth in receivables as discussed in Section 4.6.4.1, offset by a $20.0 million reduction in non-cash charges associated with the unwinding of the fair value uplift which was fully written off in 1H18 (refer to Section 4.3.2);
- A decrease of $21.3 million in the adjustment for the movement in balance sheet and working capital from $15.6 million in 1H18 to $5.7 million in 1H19 on a pro forma basis, and of $25.1 million on a combined basis from $35.6 million in 1H18 to $10.5 million in 1H19. The pro forma and combined movement is primarily a result of:
  - A decrease in the non-cash expense incurred on the provision for impairment losses on receivables in 1H19 compared to 1H18, attributable to the factors discussed in Section 4.6.4.2; offset by
  - Changes in deferred merchant service fees, working capital balances and timing of payments in relation to prepayments, other receivables, other liabilities and employee provisions.

On a combined basis, the working capital balance was also impacted by an increase in payables which related to trust distributions paid to the current shareholders associated with the capital structure in place prior to the Restructure.

- A decrease of $7.7 million in income tax paid on a pro forma basis ($10.9 million on a combined basis) due to the timing of the PAYG instalments and top-up payment in 1H18 as compared to 1H19 and the lower Profit/(loss). On a combined basis, Australian corporate tax payable in FY18 was also lower than Australian corporate tax payable for FY17, before income tax earned in 1H19 compared to 1H18 on both a pro forma and combined basis; and
- Capital expenditure was largely consistent across 1H18 and 1H19 and includes capital expenditure related to Latitude's Transition and Replatforming programmes as described in Section 4.3.2.

On a combined basis, net cash flow from operating activities was also impacted by the following factors:

- An increase in the distributions to trust beneficiaries in 1H19 of $10.8 million, from $21.9 million in 1H18 to $32.6 million in 1H19; and
- A decrease in transaction costs paid of $7.8 million in relation to the Offer.

4.6.5.2 Net cash flow before other financing activities

Net cash flow before other financing activities, on a pro forma basis, decreased by $7.8 million or 36.9% from $21.0 million in 1H18 to $13.3 million in 1H19.

On a combined basis, Net cash flow before other financing activities decreased by $9.7 million, from a $6.5 million outflow in 1H18 to a $16.2 million outflow in 1H19.

The decrease in Net cash flow before other financing activities on pro forma and combined basis was primarily the result of the changes in Net cash flow used in operating and investing activities described in Section 4.6.5.1 and due to the following factors:

- A decrease in cash from securitisation funding facilities (net of the cash for notes funded directly by Latitude in the funding facilities) of $87.3 million, from $187.2 million in 1H18 to $99.9 million in 1H19 in line with lower relative growth in receivables period on period;
- Net cash received in 1H19 ($4.8 million) from new participants in Latitude's PCEP; and
- A decrease in transaction costs from $3.3 million in 1H18 to $0.4 million in 1H19, which was a reduction of $2.9 million following the issuance of a number of new finance facilities in 1H18 (with fewer issuances in 1H19).

4.7 Forecast Financial Information

The basis of preparation for the Forecast Financial Information is detailed in Section 4.2. This Section 4.7 outlines the key assumptions underpinning Latitude's Forecast Financial Information for FY19, 1H20 and LTM Jun-20 and includes the Directors' Best Estimate Assumptions which comprise the General Assumptions and the Specific Assumptions adopted in preparing the Forecast Financial Information.

4.7.1 General Assumptions

The following General Assumptions are relevant to the Forecast Financial Information:

- No material change in the competitive and operating environments in which Latitude operates;
- No material change in applicable IFRS (consistent with AAS and NZ IFRS) that would have a material impact on Latitude's accounting policies, financial reporting or disclosure requirements;
- No material adverse change in current market and economic conditions in the Australian and New Zealand markets in which Latitude and its key commercial partners operate, with economic stimulus from tax cuts and monetary policy providing support to consumer and business confidence to prevent further deterioration with modest return to consumer spending;
- No material change to global economic or geopolitical conditions which would result in changes in debt market access or funding costs;
- No material change in the legislative regimes (including taxation) and/or regulatory requirements and environment in which Latitude and its customers operate;
- No material losses of Latitude customers, commercial partners or material contracts other than any known as at the date of the Prospectus;
- No material amendment to any material agreement relating to Latitude's business other than as disclosed in this Prospectus;
- No significant disruptions to the operations of Latitude and no other material changes in Latitude's business;
- No material acquisitions by Latitude;
- No material change to Latitude's corporate and funding structure other than as set out in, or contemplated by, this Prospectus;
- No loss of key management personnel and Latitude will maintain the ongoing ability to recruit and retain required personnel;
- No material regulatory changes being implemented;
- No material litigation will arise or be settled to the benefit or detriment of Latitude;
- No material contingent liabilities will arise or be realised to the detriment of Latitude;
- The Offer proceeds in accordance with the Offer timetable; and
- None of the risks set out in Section 5 occur.

4.7.2 Specific Assumptions

In addition to the General Assumptions, the Forecast Financial Information is based on various Specific Assumptions, of which the key assumptions are set out below. The assumptions are a summary only and do not represent all factors that may affect Latitude's financial performance. This information is intended to assist Investors in assessing the reasonableness and likelihood of the assumptions occurring and is not intended to be a representation that the assumptions will occur. It should be read in conjunction with the basis of preparation of the Forecast Financial Information set out in Section 4.2, the General Assumptions set out in Section 4.7.1, the risk factors set out in Section 5 and the Limited Assurance Investigating Accountant's Report on the Forecast Financial Information in Section 8.

Macroeconomic and key product assumptions

The core macroeconomic assumption is that there is no material adverse change in current market and macroeconomic conditions in the Australian and New Zealand markets in which Latitude provides services to its customers. Some of the macroeconomic themes (and underlying assumptions) considered by Latitude across Australia and New Zealand in preparing the Forecast Financial Information were:

- For Australia, a stable outlook over the forecast period, including:
  - GDP growth of 2% to 3%;
  - Unemployment rate remaining stable;
  - No change in the RBA cash rate until the fourth quarter of FY19 when the cash rate is expected to reduce to 0.75% per annum;
  - Real retail turnover growth remaining at the FY18 growth rate of 2%; and
  - Personal credit card balances continuing to decline at 3% to 4% per annum.
- For New Zealand, a stable retail sales environment with demand stabilising for credit cards and personal loans over the forecast period, including:
  - GDP growth of 2-3%;
  - Unemployment rate remaining stable;
  - RBNZ Official Cash Rate remains at 1%;
  - Retail sales remaining at the FY18 growth rate of 4% to 5%; and
  - Personal credit card total balances stabilising with growth below GDP growth.

Interest income

Key assumptions underpinning the forecast FY19 and 1H20 interest income are:

- Gross loan receivables increasing from $7.6 billion in FY18 to $7.9 billion in FY19 and to $8.0 billion in 1H20;
- An increase in total volume of $341.5 million to $9,200.9 million in FY19 and $460.2 million to $4,818.3 million in 1H20 driven by:
  - A continuation of actual run rate and growth momentum experienced across FY18 and 1H19;
  - Observed seasonality profiles in line with historical trends;
  - Targeted marketing campaigns; and
  - Rebalancing of the portfolio from interest free transactions to Scheme usage credit card transactions in line with historical experience;
- The average rate of loan repayments by customers remains consistent with historical performance;
- No material change to current merchant service fee arrangements, nor the manner in which they are accounted for and amortised over the life of an instalment product;
- Digital payments and instalment merchant partner contracts are those in place as at 30 June 2019 (including no material wins/losses) and there are no material changes to current merchant service fee arrangements (other than already agreed) nor the manner in which they are accounted for and amortised over the life of an instalment product; and
- New product launch in the digital payments and instalments market segment to complement Latitude's existing range of products. Latitude has incurred and has forecast to incur expenditure in relation to the launch of this product ahead of forecast growth in volume and Active accounts. The incremental volume in 1H20 is not forecast to result in significant NPAT in the forecast period due to the requirement to recognise a provision for future losses in advance of receiving full revenue benefits.

Other operating income

Key assumptions underpinning the forecast FY19 and 1H20 other operating income are:

- Growth in Scheme related income including higher Scheme transaction volumes and growth incentives;
- Growth in Active account numbers; and
- Trends in customer behaviour in respect to receiving paper statements and the channels by which repayments are made.

Interest expense and funding

Key assumptions underpinning the forecast FY19 and 1H20 interest expense are:

- External borrowings increasing from $7.0 billion as at 30 June 2019 to $7.4 billion as at 30 June 2020;
- Base funding rates in Australia (BBSW), which fell in 1H19, continue to fall in the second half of FY19 in line with an assumed decrease in RBA cash rates to 0.75% per annum. In 1H20, interest rates in Australia (BBSW) moderate on the assumption of the spread between the RBA cash rate and BBSW reverts to historical averages and partially reflects a further decrease in the RBA cash rate at the end of the forecast period;
- Interest rates in New Zealand (BKBM), which have been falling in 2019, remain stable during the second half of FY19. In 1H20, interest rates in New Zealand (BKBM) moderate on the assumption of the spread between the RBNZ cash rate and BKBM reverts to historical averages and partially reflects a further decrease in the RBNZ cash rate at the end of the forecast period;
- A funding model consistent with historical arrangements and on materially similar terms to recent transactions throughout the course of the forecast period;
- The interest rate swap hedges on personal loans and motor loans warehouses will be closed and re-hedged to align with market interest rates as part of pre-Completion restructuring steps. The forecast reflects the lower interest rate swap pay rate for fixed portfolios; and
- Total funding limits increase from $8.5 billion as at 30 June 2019 to $8.85 billion by 30 June 2020, with facilities maturing during the forecast being refinanced and any new facilities assumed to be priced at levels substantially similar to those already in place (refer to Section 3.7).

Loan impairment expense

Key assumptions underpinning the forecast FY19 and 1H20 loan impairment expense are as follows:

- No material change in credit risk appetite for new accounts;
- Charge off rates and delinquency roll rates remain in line with those in 2H18 and 1H19. More specifically:
  - Net charge offs perform in line with the second half of FY18 and 1H19;
  - The Coverage ratio improves in the second half of FY19 as a result of the unwind of the impact of the operational issues from FY18 and ongoing improvements to delinquency levels due to the lower interest rate environment;
  - Pricing for the sale of aged receivables remains stable over the forecast period; and
  - The operational issues described in Section 4.6.2.2 do not reoccur.

Total operating expenses

Key assumptions underpinning the forecast FY19 and 1H20 operating expenses are:

- Latitude 2.0 continues to be delivered in line with the proposed programme which results in incremental investment-related expenditure outside ordinary operating expense and which is reported as a Significant item (refer to Section 4.3.2.1);
- Employee benefit expense includes the full period impact of the implementation of the refreshed management team, the continued recruitment of new staff to enhance the organisational skillset to delivery of Latitude 2.0 and the associated ways of working (mindset) enhancements, coupled with average salary increases of 3% per annum;
- Productivity benefits from capital investments;
- Other expenses are positively impacted by productivity initiatives in the areas of IT system and infrastructure cost rationalisation, reduced use of temporary and contract labour, and digital saving in printing and paper statements. However, these savings are partially offset by increased marketing and customer acquisition costs to support new and ongoing product growth; and
- Depreciation and amortisation expense is calculated using the straight-line method and consists of the depreciation of the existing asset base plus new investments in technology, products and digital capability. Where a project has a contractually defined life (e.g. the length of a licence or length of an associated cloud service arrangement), this will represent the amortisation period.

4.8 Management discussion and analysis of the Forecast Financial Information

Management discussion and analysis is presented on a pro forma basis in respect of the Pro Forma Forecast Financial Information, and not on a combined basis in respect of the Combined Forecast Financial Information. This is because Management believes that the Pro Forma Forecast Financial Information reflects the underlying business of Latitude that will exist following Completion, and is therefore more useful to Investors in evaluating the underlying performance of Latitude's business.

When reviewing the Management discussion and analysis set forth below, Investors should consider the Combined Forecast Financial Information set out in Section 4.3.3, as well as the pro forma adjustments to the Combined Forecast Financial Information and the reconciliation of the Pro Forma Forecast Financial Information to the Combined Forecast Financial Information, as set forth in Tables 27 and 28 in Section 4.3.4, as well as further reconciliations included in the Appendix. In addition, Investors should note that the Pro Forma Forecast Financial Information for FY19 and 1H20 may not be representative of the financial performance and cash flows that the Directors expect to report in Latitude's financial statements in respect of FY19 and 1H20, and Latitude's actual financial performance and its consolidated financial statements for FY19 and 1H20 may vary from the Pro Forma Forecast Financial Information, and any such variation may be material.

4.8.1 Pro Forma Forecast Income Statements: FY19 compared to FY18

Table 45 below sets out the summary Pro Forma Forecast Income Statements for FY19 and FY18. For the Combined Forecast Income Statements, refer to the reconciliation in Section 4.3.4 and the Appendix (Section 11).

Table 45: Comparison of Pro Forma Forecast Income Statement for FY19 and Pro Forma Historical Income Statement for FY18

A$ million	Note	FY18	FY19	PcP Change ($)	PcP Change (%)
Interest income	1	1,155.6	1,217.9	62.2	5.4%
Interest expense	2	(272.7)	(263.9)	8.8	3.2%
Net interest income		882.9	954.0	71.1	8.0%
Other operating income	3	56.8	52.5	(4.4)	(7.7)%
Net insurance income	4	60.2	54.7	(5.5)	(9.1)%
Total other operating income		117.0	107.2	(9.8)	(8.4)%
Total operating income		**999.9**	**1,061.2**	**61.3**	**6.1%**
Loan impairment expense	5	(253.4)	(253.6)	(0.2)	(0.1)%
Employee benefit expense	6	(175.9)	(207.4)	(31.4)	(17.9)%
Other expenses	7	(195.3)	(186.9)	8.4	4.3%
Depreciation and amortisation expense	8	(32.3)	(35.6)	(3.3)	(10.3)%
Total operating expenses		(403.5)	(429.9)	(26.3)	(6.5)%
Profit/(loss) before income tax and Significant items		**343.0**	**377.7**	**34.7**	**10.1%**
Significant items	9	(24.4)	(89.4)	(65.0)	(266.3)%
Amortisation of acquisition intangibles and structural changes	10	(80.0)	(71.8)	8.2	10.3%
Profit/(loss) before income tax		**238.6**	**216.5**	**(22.1)**	**(9.2)%**
Income tax (expense)/benefit	11	(63.8)	(52.1)	11.7	18.4%
Pro forma NPAT		**174.8**	**164.4**	**(10.4)**	**(5.9)%**
Reconciliation to Cash NPAT					
Significant items		24.4	89.4	65.0	266.3%
Amortisation of acquisition intangibles and structural changes		80.0	71.8	(8.2)	(10.3)%
Tax effect of adjustments		(30.9)	(47.6)	(16.7)	(53.9)%
Cash NPAT		**248.4**	**278.1**	**29.7**	**12.0%**
Key performances and operating metrics					
Volume	28	8,859.4	9,200.9	341.5	3.9%
AGR	30	7,253.0	7,676.0	423.0	5.8%
Interest income/AGR (%bps)	35	15.93%	15.87%	n.a.	(7)bps
Net charge offs/AGR (%bps)	43	3.34%	3.26%	n.a.	(7)bps
Adjusted Cost to income ratio (%bps)	41	40.4%	40.5%	n.a.	15bps

Notes: Refer to the Glossary of Financial Table Notes in Section 4.14.

4.8.1.1 Pro forma total operating income

Total operating income, on a pro forma basis, is forecast to increase by $61.3 million or 6.1%, from $999.9 million in FY18 to $1,061.2 million in FY19. Over the same period:

- Volumes are forecast to increase by $341.5 million (comprising $240.1 million in Australia and $101.4 million in New Zealand) or 3.9% in total (3.3% in Australia and 6.2% in New Zealand), from $8,859.4 million in FY18 to $9,200.9 million in FY19; and
- AGR is forecast to increase by $423.0 million (comprising $265.2 million in Australia and $157.8 million in New Zealand) or 5.8% in total (4.6% in Australia and 10.7% in New Zealand), from $7,253.0 million in FY18 to $7,676.0 million in FY19.

This forecast increase in total operating income is expected to be primarily driven by the factors below:

- **Interest income** is forecast to increase by $62.2 million or 5.4%, from $1,155.6 million in FY18 to $1,217.9 million in FY19 due to:
  - Interest-bearing asset growth in both Australia (7.1%) and New Zealand (7.1%) from:
    - Increased Scheme spend from commercial partner channels. In FY19, Scheme volumes are forecast to increase by 8.1% to $2.5 billion, primarily due to growth in spend per card, coupled with new accounts. This compares to 7.2% volume growth observed in FY18; and
    - Increased Scheme volume per account facilitated by continued improvements in customer awareness of Scheme availability and the introduction of digital wallet capabilities such as Apple Pay, Samsung Pay, Fitbit Pay and Garmin Pay on customer devices driving increases in frequency of Latitude Scheme use;
  - Growth in personal loans AGR across Australia and New Zealand of $176.4 million per RAI or 8.6% from $2,049.5 million in FY18 to $2,225.9 million per RAI in FY19; and
  - Continuation of the motor loan growth strategy in Australia with motor loan AGR growing $164.9 million or 62.9% in FY19 compared to FY18. Applications are forecast to increase from ~28,000 in FY18 to approximately 37,000 in FY19; and
  - Select fee increases that were executed in the fourth quarter of FY18.

  The above factors driving interest income growth are offset partially by:
  - Regulatory changes due to interest simplification implemented on 1 January 2019 and the removal of grandfathering of pre-FSB products in 1H19; and
  - The forecast decrease in merchant service fees due to changing merchant volume mix towards larger retailers.
- **Interest income yield** is forecast to decrease 7bps, from 15.93% to 15.87%, due to changes in product mix and the greater contribution of personal and motor loans.
- **Interest expense** is forecast to decrease by $8.8 million or 3.2%, from $272.7 million in FY18 to $263.9 million in FY19. Interest expense and funding requirements are directly linked to forecast receivables growth (AGR growth of 5.8% between FY18 and FY19) and movements in market interest rates. Interest expense to AGR is forecast to decrease by 32bps from an average of 3.76% in FY18 to 3.44% in FY19. The majority of this decrease occurred during the first six months of trading to June 2019.
- **Other operating income** is forecast to decrease by $4.4 million or 7.7%, from $56.8 million in FY18 to $52.5 million in FY19. The FY19 forecast reflects a reduction in customer fees as more customers move to accessing online statements and fee free payment channels.
- **Net insurance income** is forecast to decrease by $5.5 million or 9.1%, from $60.2 million in FY18 to $54.7 million in FY19 due to the decision to pause sales of certain consumer credit insurance products (as discussed in Section 5).

4.8.1.2 Pro forma loan impairment expense

Loan impairment expense, on a pro forma basis, is forecast to increase by $0.2 million or 0.1%, from $253.4 million in FY18 to $253.6 million in FY19.

Table 46 below provides a breakdown of the key drivers of the change in the loan impairment expense between FY18 and FY19 on a pro forma basis.

Table 46: Comparison of pro forma loan impairment expense for FY18 and FY19

A$ million	Note	FY18	FY19	PcP Change ($)	PcP Change (%)
Net charge offs	79				
Prior period total Net charge off expense		(223.6)	(242.0)	(18.4)	(8.2)%
Impact of growth in AGR		(14.7)	(14.3)	0.4	2.6%
Impact of change in net charge off rate		(3.7)	5.8	9.6	256.6%
Total Net charge offs		**(242.0)**	**(250.4)**	**(8.4)**	**(3.5)%**
Provision movement	80				
Impact of growth in gross loan receivables		(24.1)	(12.2)	11.9	49.4%
Impact of change in Coverage ratio		10.2	9.0	(1.2)	(11.7)%
Total expense for movement in provisions		**(13.9)**	**(3.2)**	**10.7**	**77.0%**
Foreign exchange rate impact		2.5	0.0	(2.5)	n.m.
Total Loan impairment expense		**(253.4)**	**(253.6)**	**(0.2)**	**(0.1)%**
Selected operating and financial metrics					
Gross loan receivables	29	7,575.4	7,861.9	286.5	3.8%
AGR	30	7,253.0	7,676.0	423.0	5.8%
Net charge offs/AGR	43	3.34%	3.26%	n.a.	(7)bps
Coverage ratio	44	4.29%	4.17%	n.a.	(12)bps

Notes: Refer to the Glossary of Financial Table Notes in Section 4.14.

The primary factors impacting loan impairment expense from FY18 to FY19 (and their contribution to the year on year increase) are summarised below:

- **Growth in AGR**. AGR is forecast to increase by $423.0 million, or 5.8%, from $7,253.0 million in FY18 to $7,676.0 million in FY19, resulting in an increase in net charge off expense of $14.3 million in FY19. The year on year increase in loan impairment expense from FY18 to FY19 due to the volume growth is forecast to be $18.0 million;
- **Growth in gross loan receivables**. Gross loan receivables are forecast to increase by $286.5 million or 3.8%, from $7,575.4 million in FY18 to $7,861.9 million in FY19 and result in provision coverage costs reported within the FY19 loan impairment expense of $12.2 million assuming a Coverage ratio of 4.17%;
- **A reduction in net charge off rate**. Net charge off rate is forecast to reduce by 7bps from 3.34% in FY18 compared to 3.26% in FY19, resulting in a decrease of $5.8 million net charge off expense in FY19. The equivalent impact of the change in net charge off rates in FY18 was an increase of $3.7 million; and
- **A reduction in the Coverage ratio**. Coverage ratio is forecast to reduce by 12bps from 4.29% in FY18 to 4.17% in FY19, resulting in a decrease in loan impairment expense by $9.0 million in FY19 compared to FY18.
  - The forecast reduction in the Coverage ratio is due to the improvement in the portfolio delinquency levels following the resolution of the operational issues that were experienced in FY18. The improvements in net charge offs and delinquencies are also due to the implementation of various initiatives in collections processes as well as the current environment, and are expected to result in a gradual improvement in the Coverage ratio during the second half of FY19 as a result of the unwind of the impact of the operational issues from FY18 and ongoing improvements to delinquency levels due to the lower interest rate environment. In addition, further investment in testing environments has commenced to provide additional testing and assurance capacity to prevent further operational issues going forward.
- **Foreign exchange difference** is forecast to result in an increase in loan impairment expense of $2.5 million from FY18 to FY19.

4.8.1.3 Pro forma total operating expenses

Total operating expenses, on a pro forma basis, are forecast to increase by $26.3 million or 6.5%, from $403.5 million in FY18 to $429.9 million in FY19. This incorporates the full-year benefits of prior year cost savings which had only commenced part way through the prior year. Over the same period, the Adjusted Cost to income ratio is forecast to increase 15bps from 40.4% in FY18 to 40.5% in FY19.

- **Employee benefit expense** is forecast to increase by $31.4 million or 17.9%, from $175.9 million in FY18 to $207.4 million in FY19. This is driven by several factors including the implementation of the refreshed management team and the continued recruitment of new staff to deliver Latitude 2.0, coupled with an average salary increase of 3% per annum and the introduction of a long-term incentive plan for Management. The impacts of these are offset in part by a decrease in costs associated with the continued reshaping of Latitude's labour force in line with the target digital operating model.
- **Other expenses** are forecast to decrease by $8.4 million or 4.3%, from $195.3 million in FY18 to $186.9 million in FY19. This includes a reduction in temporary and contract labour due to the increases in permanent headcount described above and an improvement in fraud losses. These reductions are partially offset by a forecast increase in marketing costs from $40.6 million in FY18 to $42.1 million in FY19. Specific marketing campaigns are forecast to support volume and customer growth and include a mix of targeted product-specific campaigns, general brand awareness, direct marketing to Latitude's existing customer base to support cross-sell initiatives and marketing initiatives for L-Pay.
- **Depreciation and amortisation expense** is forecast to increase by $3.3 million or 10.3%, from $32.3 million in FY18 to $35.6 million in FY19. The increase is primarily due to the commissioning of new investment in digital capability and other systems partly offset by the retirement of legacy systems.

4.8.1.4 Pro forma Profit before income tax

Pro forma Profit before income tax is forecast to decrease by $22.1 million or 9.2%, from $238.6 million in FY18 to $216.5 million in FY19, driven by the following factors (in addition to the items listed above):

- Significant items are forecast to increase by $65.0 million or 266.3%, from $24.4 million in FY18 to $89.4 million in FY19. Refer to Section 4.3.2.1 for further detail; and
- Amortisation of acquisition intangibles and structural changes is forecast to decrease by $8.2 million or 10.3%, from $80.0 million in FY18 to $71.8 million in FY19, reflecting the runoff of the net fair value unwind recognised on gross loan receivables, offset by higher transaction cost amortisation in relation to the establishment of funding vehicles following the Acquisition and amortisation of the historical hedging arrangements.

4.8.1.5 Pro forma NPAT

NPAT is forecast to decrease by $10.4 million or 5.9%, from $174.8 million in FY18 to $164.4 million in FY19, driven by the above factors and the impact of pro forma income tax expense. The reduction in effective tax rate from FY18 to FY19 is largely due to a higher research and development benefit forecast for FY19 as a result of increased investment.

4.8.1.6 Cash NPAT

Pro forma Cash NPAT is forecast to increase by $29.7 million or 12.0%, from $248.4 million in FY18 to $278.1 million in FY19. Cash NPAT reflects the movements in pro forma NPAT discussed above after adding back the post-tax impact of Significant items and Amortisation of acquisition intangibles and structural changes.

A reconciliation of combined NPAT to pro forma NPAT is included in Table 28 in Section 4.3.4.

4.8.2 Pro Forma Forecast Cash Flows: FY19 compared to FY18

Table 47 below sets out the summary Pro Forma Forecast Cash Flows for FY19 and Pro Forma Historical Cash Flows for FY18.

Table 47: Comparison of Pro Forma Forecast Cash Flows for FY19 and Pro Forma Historical Cash Flows for FY18

A$ million	Note	FY18	FY19	PcP Change ($)	PcP Change (%)
Profit/(loss) before income tax		**238.6**	**216.5**	**(22.1)**	**(9.2)%**
Depreciation and amortisation	64	80.6	84.0	3.4	4.2%
Change in receivables	65	(544.5)	(286.5)	258.0	47.4%
Movement in balance sheet and working capital	66	72.5	(27.3)	(99.8)	(137.6)%
Income taxes	67	(94.2)	(91.0)	3.2	3.4%
Net cash flow from operating activities		**(247.1)**	**(104.3)**	**142.8**	**57.8%**
Capital expenditure	68	(61.3)	(61.6)	(0.3)	(0.5)%
Net cash flow from operating and investing activities		**(308.4)**	**(165.9)**	**142.5**	**46.2%**
Changes in securitisation funding facilities	69	524.4	256.6	(267.8)	(51.1)%
Net inflow from share-based payments		(2.1)	4.8	6.9	331.7%
Payment of lease liabilities	70	(10.8)	(10.3)	0.5	4.9%
Transaction costs	71	(4.9)	(3.8)	1.1	21.8%
Net cash flow before other financing activities		**198.2**	**81.4**	**(116.8)**	**(58.9)%**
Effects of exchange rate changes on cash and cash equivalents	72	0.9	0.3	(0.6)	(68.9)%
Net cash flow before dividends		**199.1**	**81.7**	**(117.4)**	**(59.0)%**

Notes: Refer to the Glossary of Financial Table Notes in Section 4.14.

4.8.2.1 Pro forma net cash flow from operating and investing activities

Net cash outflow from operating and investing activities, on a pro forma basis, is forecast to decrease by $142.5 million, from a $308.4 million outflow in FY18 to a $165.9 million outflow in FY19. The key factors impacting the movement are:

- Decreased cash outflows to fund receivables of $258.0 million as a result of the lower relative growth in receivables year on year due to the forecast factors discussed in Section 4.7.2;
- A decrease in Profit/(loss) before income tax in FY19 compared to FY18, as described in Section 4.8.1, in addition to:
- A decrease in the adjustment for the movement in balance sheet and working capital items as a result of:
  - A $10.7 million decrease in the non-cash expense (added back to cash flow) incurred on the provision for impairment losses on receivables in FY18 compared to FY19, attributable to the factors discussed in Section 4.8.1.2;
  - An increase in cash outflows in FY19 which related to payments to Scheme partners from FY18 which were unsettled and reflected in trade and other payables in the 31 December 2018 balance sheet (FY18 year end) as a result of the year end falling close to a weekend;
  - The forecast increase in cash outflows relating to the settlement of provisions for remediation raised during FY18 and 1H19, expected to be settled in 2H19 (and 1H20); and
  - Changes in unearned income and working capital balances and timing of payments in relation to prepayments, other receivables, other liabilities and employee provisions;
- A decrease in tax payments largely due to lower overall tax payable in relation to FY17 profits (paid in FY18) to FY18 (paid in FY19) compared to tax payable in relation to FY18 profits (paid in FY19); and
- Capital expenditure largely consistent during FY18 and FY19. FY18 capital expenditure includes the Transition and Replatforming activity described in Section 4.3.2 ($25.3 million), as well as capital expenditure on existing systems. Capital expenditure in FY19 primarily relates to further Transition and Replatforming activity in 1H19 and the forecast capital expenditure in relation to the commencement of Latitude 2.0 also described in Section 4.3.2.

4.8.2.2 Pro forma Net cash flow before dividends

Net cash flow before dividends, on a pro forma basis, is forecast to reduce by $117.4 million or 59.0% from $199.1 million in FY18 to $81.7 million in FY19, primarily as a result of the items discussed above in Section 4.8.2.1 as well as the following factors:

- A decrease in inflows relating to cash from securitisation funding facilities (net of the cash for notes funded directly by Latitude in the funding facilities) of $267.8 million or 51.1%, from $524.4 million in FY18 to $256.6 million in FY19 to fund the forecast growth in receivables in FY19, which are expected to grow at a slower rate in FY19 relative to FY18 (refer to Section 4.8.1.1); and
- A forecast decrease in transaction costs in FY19 due to fewer than expected funding transactions being completed in FY19 compared to FY18.

4.8.3 Pro Forma Forecast Income Statements: 1H20 compared to 1H19

Table 48 below sets out the summary Pro Forma Forecast Income Statement for 1H20 and Pro Forma Historical Income Statement for 1H19. For the Combined Forecast Income Statements, refer to the reconciliation in Section 4.3.4 and the Appendix (Section 11).

The movements described between 1H19 and 1H20 Financial Information are the same movements relevant to the FY19 and LTM Jun-20 Financial Information.

Table 48: Comparison of Pro Forma Forecast Income Statement for 1H20 and Pro Forma Historical Income Statement for 1H19

A$ million	Note	1H19	1H20	PcP Change ($)	PcP Change (%)
Interest income	1	610.2	612.2	2.0	0.3%
Interest expense	2	(141.5)	(113.1)	28.4	20.1%
Net interest income		468.7	499.1	30.4	6.5%
Other operating income	3	26.9	33.6	6.7	25.0%
Net insurance income	4	28.4	25.6	(2.8)	(9.8)%
Total other operating income		55.3	59.2	3.9	7.1%
Total operating income		**523.9**	**558.3**	**34.3**	**6.6%**
Loan impairment expense	5	(127.8)	(132.8)	(5.0)	(3.9)%
Employee benefit expense	6	(93.5)	(113.7)	(20.1)	(21.5)%
Other expenses	7	(102.1)	(90.4)	11.7	11.4%
Depreciation and amortisation expense	8	(16.9)	(20.8)	(3.9)	(22.8)%
Total operating expenses		(212.5)	(224.9)	(12.3)	(5.8)%
Profit/(loss) before income tax and Significant items		**183.6**	**200.6**	**17.0**	**9.3%**
Significant items	9	(50.0)	(37.3)	12.7	25.3%
Amortisation of acquisition intangibles and structural changes	10	(34.4)	(41.1)	(6.7)	(19.6)%
Profit/(loss) before income tax		**99.2**	**122.2**	**22.9**	**23.1%**
Income tax (expense)/benefit	11	(26.9)	(36.1)	(9.2)	(34.2)%
Pro forma NPAT		**72.3**	**86.1**	**13.7**	**19.0%**
Reconciliation to Cash NPAT					
Significant items		50.0	37.3	(12.7)	(25.3)%
Amortisation of acquisition intangibles and structural changes		34.4	41.1	6.7	19.6%
Tax effect of adjustments		(24.9)	(23.1)	1.7	7.0%
Cash NPAT		**131.8**	**141.3**	**9.6**	**7.2%**
Key performances and operating metrics					
Volume	28	4,358.1	4,818.3	460.2	10.6%
AGR	30	7,642.7	7,934.7	292.0	3.8%
Interest income/AGR (%bps)	35	16.10%	15.52%	n.a.	(58)bps
Net charge offs/AGR (%bps)	43	3.35%	3.36%	n.a.	1bps
Adjusted Cost to income ratio (%bps)	41	40.6%	40.3%	n.a.	(28)bps

Notes: Refer to the Glossary of Financial Table Notes in Section 4.14.

4.8.3.1 Pro forma total operating income

Total operating income, on a pro forma basis, is forecast to increase by $34.3 million or 6.6%, from $523.9 million in 1H19 to $558.3 million in 1H20. Over the same period, volume is forecast to increase by $460.2 million (comprising $360.5 million in Australia and $99.7 million in New Zealand) or 10.6% in total (10.2% in Australia and 12.3% in New Zealand) from $4,358.1 million in 1H19 to $4,818.3 million in 1H20. The 1H20 forecast includes volume from Latitude's new BNPL channel which is expected to launch in Australia in 2H19. AGR is forecast to increase by $292.0 million (comprising $206.0 million in Australia and $86.0 million in New Zealand) or 3.8% in total (3.4% in Australia and 5.3% in New Zealand), from $7,642.7 million in 1H19 to $7,934.7 million in 1H20.

This is primarily driven by the factors below:

- **Interest income** is forecast to increase by $2.0 million or 0.3%, from $610.2 million in 1H19 to $612.2 million in 1H20 driven by:
  - Introduction of a new digital payments product to the Australian market in 2H19. This new product is forecast to drive strong volume growth in 1H20 of $127.6 million, with a focus on establishing new merchant partnerships. In addition to the launch of Latitude's Australian product, the New Zealand digital payments product continues its growth trajectory. Whilst the revenue associated with the new digital payments products is reported within interest income, the volume and gross loan receivables are not interest-bearing;
  - Growth in interest-bearing assets from Latitude's traditional instalments channel with increased credit card utilisation. This is underpinned by continuing growth in Scheme volumes and increased average Scheme transaction frequency on instalment cards, which is driven by increasing customer awareness on Scheme capability, increased frequency of card use due to digital wallet capabilities such as Apple Pay, Samsung Pay, Garmin Pay and Fitbit Pay. Interest free volume growth in Latitude's traditional instalments channel is forecast to be benign in a challenging retail environment;
  - Growth in personal loans AGR of $115.5 million for Australia and New Zealand together with 1H19 AGR of $2,193.3 million forecast to increase to $2,308.8 million in 1H20;
  - Continuation of the motor loan growth strategy in Australia which forecasts 1H20 AGR of $549.2 million, up from $383.1 million in 1H19, an increase of 43.4%; and
  - Partially offsetting the above are significant one-off issues including the following:
    - A revised payment allocation methodology for pre-FSB grandfathered instalment accounts was implemented in April 1H19. The full-year impact of this change is in the 1H20 forecast compared to a partial impact in 1H19;
    - Reduced revenue from fee increases introduced in late FY18. The fee changes resulted in a strong increase in interest revenue in 1H19 as the fee was newly implemented; however, as customers become accustomed to the fee change and behaviour is adjusted, the impact normalises. This behaviour is factored into the forecast in 1H20; and
    - Annual percentage rate reductions on selected card products forecast to take effect from January 2020.
- **Interest income** yield is forecast to decrease by 58bps from 16.10% in 1H19 to 15.52% in 1H20 due to the revised payment methodology described above for pre-FSB grandfathered instalment accounts, normalising behaviour of fee changes implemented late FY18 increases and card annual percentage rate reductions. In addition, channel and product mix driven by growth in the motor loan channel will continue to decrease yield, and personal loans yield is forecast to reduce due to the lower rate reflecting the heightened competitive environment.
- **Interest expense** is forecast to decrease by $28.4 million or 20.1%, from $141.5 million in 1H19 to $113.1 million in 1H20. The reduction is due to cash rate changes implemented by both the RBA and RBNZ in FY19 with a further RBA decrease factored into 2H19, and costs on lower interest on the fixed rate book due to new hedging arrangements. This is partially offset by AGR growth of $292.0 million from $7,642.7 million in 1H19 to $7,934.7 million in 1H20.
- **Other operating income** is forecast to increase by $6.7 million or 25.0%, from $26.9 million to $33.6 million in 1H20 due to an increase in Scheme related income including higher Scheme transaction volumes and growth incentives.
- **Net insurance income** is forecast to decrease by $2.8 million or 9.8% from $28.4 million in 1H19 to $25.6 million in 1H20 due to the decision to pause sales of Australian life cover within the personal loans product portfolio and sales of CCI (as discussed in Section 5.2.1.1).

4.8.3.2 Pro forma loan impairment expense

Loan impairment expense, on a pro forma basis, is forecast to increase by $5.0 million or 3.9%, from $127.8 million in 1H19 to $132.8 million in 1H20.

Table 49 below provides a breakdown of the key drivers of the change in the loan impairment expense between 1H19 and 1H20 on a pro forma basis.

Table 49: Comparison of pro forma loan impairment expense for 1H19 and 1H20

A$ million	Note	1H19	1H20	PcP Change ($)	PcP Change (%)
Net charge offs	79				
Prior period total Net charge off expense		(126.9)	(127.0)	(0.2)	(0.2)%
Impact growth in AGR		(8.4)	(4.9)	3.5	41.9%
Impact of change in net charge off rate		8.2	(0.5)	(8.7)	n.m.
Total Net charge offs		**(127.0)**	**(132.4)**	**(5.4)**	**(4.2)%**
Provision movement	80				
Impact of growth in gross loan receivables		(5.5)	(6.7)	(1.3)	(23.3)%
Impact of change in Coverage ratio		4.4	6.3	1.9	42.7%
Total expense for movement in provisions		**(1.0)**	**(0.4)**	**0.6**	**59.9%**
Foreign exchange rate impact		0.3	–	(0.3)	n.m.
Total Loan impairment expense		**(127.8)**	**(132.8)**	**(5.0)**	**(3.9)%**
Selected operating and financial metrics					
Gross loan receivables	29	7,702.6	8,023.2	320.5	4.2%
AGR	30	7,642.7	7,934.7	292.0	3.8%
Net charge offs/AGR	43	3.35%	3.36%	n.a.	1bp
Coverage ratio – Opening		4.29%	4.17%	n.a.	(12)bps
Coverage ratio – Closing		4.23%	4.09%	n.a.	(14)bps
Coverage ratio – Period movement		(0.06)%	(0.08)%	n.a.	(2)bps

Notes: Refer to the Glossary of Financial Table Notes in Section 4.14.

The primary factors impacting loan impairment expense from 1H19 to 1H20 (and their contribution to the period on period increase) are summarised below:

- **Growth in AGR**. AGR is forecast to increase by $292.0 million, from $7,642.7 million in 1H19 to $7,934.7 million in 1H20, resulting in an increase in net charge off expense of $4.9 million. The period on period increase in loan impairment expense from 1H19 to 1H20 due to volume growth is forecast to be $3.3 million;
- **Growth in gross loan receivables**. Gross loan receivables are forecast to increase by $320.5 million from $7,702.6 million in 1H19 to $8,023.2 million in 1H20 and result in an increase in provisions of $6.7 million;
- **An increase in the net charge off rate**. Net charge off rate is forecast to increase by 1bp from 3.35% in 1H19 to 3.36% in 1H20, resulting in a $0.5 million additional change in net charge off expense in 1H20 compared to 1H19;
- **A reduction in the Coverage ratio**. Coverage ratio is forecast to reduce 8bps in 1H20 (from 4.17% to 4.09%) compared to a decrease in 1H19 (from 4.29% to 4.23%), resulting in a decrease in loan impairment expense of $6.3 million in 1H20; and
- **Foreign exchange difference**. No foreign exchange difference is forecast to impact loan impairment expense from 1H19 to 1H20.

4.8.3.3 Pro forma total operating expenses

Total operating expenses, on a pro forma basis, are forecast to increase by $12.3 million or 5.8%, from $212.5 million in 1H19 to $224.9 million in 1H20. Over the same period, the Adjusted Cost to income ratio is forecast to decrease 28bps from 40.6% in 1H19 to 40.3% in 1H20.

Key factors expected to drive this increase are outlined below.

- **Employee benefit expense** is forecast to increase by $20.1 million or 21.5%, from $93.5 million in 1H19 to $113.7 million in 1H20. This is driven by several factors including the full-period impact of the implementation of the refreshed management team, the continued recruitment of new staff to enhance the organisational skillset to deliver Latitude 2.0, coupled with an average salary increase of 3.0% per annum and the introduction of the new Management long-term incentive plan;
- **Other expenses** are forecast to decrease by $11.7 million or 11.4%, from $102.1 million in 1H19 to $90.4 million in 1H20. The forecast decrease primarily reflects the benefits of a reduction in temporary and contract labour in Latitude's digital and technology team as certain roles are transferred to FTE; and
- **Depreciation and amortisation expense** is forecast to increase by $3.9 million or 22.8%, from $16.9 million in 1H19 to $20.8 million in 1H20. The increase is primarily due to the commissioning of new investment in digital capability (including Latitude 2.0 investment once deployed) and other systems partly offset by the retirement of legacy systems.

4.8.3.4 Pro forma profit before income tax

Pro forma Profit before income tax is forecast to increase by $22.9 million or 23.1%, from $99.2 million in 1H19 to $122.2 million in 1H20, primarily driven by the following factors (in addition to the items listed above):

- Significant items are forecast to decrease from $50.0 million in 1H19 to $37.3 million in 1H20, a decrease of $12.7 million. Significant items relate to Transition and Replatforming programme spend in 1H19 and 1H20. See Section 4.3.2.1 for further detail; and
- Amortisation of acquisition intangibles and structural changes are forecast to increase by $6.7 million from $34.4 million in 1H19 to $41.1 million in 1H20, reflecting the amortisation of the historical hedging arrangements settled at Completion offset by the completion of the runoff of the net fair value unwind recognised on gross loan receivables in 1H19 and the continued amortisation of customer lists and distribution agreements and transaction costs in relation to the establishment of funding vehicles following the Acquisition.

4.8.3.5 Pro forma NPAT

As a result of the above, pro forma NPAT is forecast to increase by $13.7 million or 19.0%, from $72.3 million in 1H19 to $86.1 million in 1H20, driven by the above factors and the impact of pro forma income tax expense.

4.8.3.6 Pro forma Cash NPAT

Pro forma Cash NPAT is forecast to increase by $9.6 million or 7.2%, from $131.8 million in 1H19 to $141.3 million in 1H20. Cash NPAT reflects the movements in pro forma NPAT discussed above after adding back the post-tax impact of Significant items and Amortisation of acquisition intangibles and structural changes.

4.8.4 Pro Forma Forecast Cash Flows: 1H20 compared to 1H19

Table 50 below sets out the summary Pro Forma Forecast Cash Flows for 1H20 and Pro Forma Historical Cash Flows for 1H19.

Table 50: Comparison of Pro Forma Forecast Cash Flows for 1H20 and Pro Forma Historical Cash Flows for 1H19

A$ million	Note	1H19	1H20	PcP Change ($)	PcP Change (%)
Profit/(loss) before income tax		99.2	122.2	22.9	23.1%
Depreciation and amortisation	64	41.2	45.0	3.9	9.4%
Change in receivables	65	(127.2)	(161.2)	(34.0)	(26.8)%
Movement in balance sheet and working capital	66	(5.7)	4.4	10.1	176.8%
Income taxes	67	(72.3)	(45.7)	26.6	36.8%
Net cash flow from operating activities		**(64.8)**	**(35.4)**	**29.5**	**45.4%**
Capital expenditure	68	(21.1)	(59.3)	(38.1)	(180.4)%
Net cash flow from operating and investing activities		**(86.0)**	**(94.6)**	**(8.7)**	**(10.1)%**
Changes in securitisation funding facilities	69	99.9	152.3	52.5	52.5%
Net inflow from share-based payments		4.8	–	(4.8)	(100.0)%
Payment of lease liabilities	70	(5.1)	(4.8)	0.3	5.2%
Transaction costs	71	(0.4)	(5.9)	(5.5)	n.m.
Net cash flow before other financing activities		**13.3**	**47.0**	**33.7**	**n.m.**
Effects of exchange rate changes on cash and cash equivalents	72	0.3	–	(0.3)	n.m.
Net cash flow before dividends		**13.5**	**47.0**	**33.4**	**n.m.**

Notes: Refer to the Glossary of Financial Table Notes in Section 4.14.

4.8.4.1 Pro forma net cash flow from operating and investing activities

Net cash outflow from operating and investing activities, on a pro forma basis, is forecast to increase by $8.7 million or 10.1% from $86.0 million outflow in 1H19 to $94.6 million outflow in 1H20, as a result of:

- The forecast increase in cash outflows to fund receivables of $34.0 million due to the higher relative growth in receivables in 1H20 compared to receivables growth in 1H19 expected to result from the forecast factors discussed in Section 4.8.3;
- A forecast increase in capital expenditure as a result of the ongoing investment in Latitude 2.0 which includes forecast capital expenditure of $59.3 million in 1H20 (discussed in Section 4.3.2.1); offset by:
- A forecast decrease in tax paid largely due to a higher final tax payment for FY18 made in 1H19 compared to the final tax payment for FY19 to be made in 1H20;
- The forecast increase in Profit/(loss) before income tax in 1H20 compared to 1H19, discussed in Section 4.8.3; and
- A forecast increase of $10.1 million in the adjustment for the movement in balance sheet and working capital items as a result of:
  - Changes in unearned income and working capital balances based on the timing of payments in relation to prepayments, other receivables, other liabilities and employee provisions; offset by:
  - Cash outflows in relation to the ongoing settlement of provisions for remediation raised in 1H19 and settled over the course of 2H19 and 1H20 (refer to Section 4.3.2.1).

4.8.4.2 Pro forma Net cash flow before dividends

Net cash flow before dividends, on a pro forma basis, is forecast to increase by $33.4 million from $13.5 million in 1H19 to $47.0 million in 1H20, primarily as a result of the items discussed in Section 4.8.4.1 as well as the forecast increase in cash from securitisation funding facilities (net of the cash for securitisation loan notes funded directly by Latitude in the funding facilities) of $52.5 million, from $99.9 million in 1H19 to $152.3 million in 1H20 to fund the forecast growth in receivables which is expected to increase by a larger amount in 1H20 compared to 1H19 as a result of higher volumes, as described in Section 4.8.3.1.

4.9 Sensitivity analysis

The Forecast Financial Information is based on a number of estimates and assumptions that are subject to business, economic and competitive uncertainties and contingencies, many of which are beyond the control of Latitude, its Directors and Management, and depends upon assumptions with respect to future business developments, which are subject to change.

Investors should be aware that future events cannot be predicted with certainty and as a result, deviations from the amounts forecast in this Prospectus are to be expected. To assist Investors in assessing the impact of these assumptions on the forecasts, set out below is a summary of the sensitivity of certain Forecast Financial Information to changes in a number of key variables.

The changes in the key variables as set out in the sensitivity analysis are not intended to be indicative of the complete range of variations that may be experienced.

The sensitivity analysis is intended as a guide only and variations in actual performance could exceed the ranges shown. In addition, the FY19 sensitivity excludes the impact during the six months' actual trading to June 2019. Interest expense/loan notes sensitivity ignores the impact of hedging arrangements. Sensitivity to changes in the borrowing rate (BBSW and BKBM) assumes there is no impact to Latitude's personal loans and motor loans portfolios given the existing hedging arrangements (hedged portfolio amounting to A$2.0 billion in Australia and A$0.6 billion in New Zealand as at 30 June 2019) and that new originations would be re-priced to reflect the borrowing rate changes. These hedged portfolios are excluded from the impact analysis. Refer to Section 4.12 for details of Latitude's financial risk management framework.

Table 51: Sensitivity analysis on FY19, 1H20 and LTM Jun-20 pro forma Profit/(loss) before income tax impact[(a)]

			FY19 (a)	1H20	LTM Jun-20
	Note	Variance	Profit/(loss) before income tax Impact	Profit/(loss) before income tax Impact	Profit/(loss) before income tax Impact
Receivables growth rate	(b)	+100bps	(0.2)	3.5	3.3
Interest income/AGR		+10bps	3.9	3.9	7.8
Interest expense/loan notes		+10bps	(3.6)	(3.6)	(7.2)
Change in borrowing rate – BBSW (Australia)	(c)	+10bps	(2.0)	(2.0)	(4.0)
Change in borrowing rate – BKBM (New Zealand)	(d)	+10bps	(0.5)	(0.5)	(1.0)
Net charge offs/AGR	(e)	+10bps	(3.9)	(3.9)	(7.8)
Adjusted Cost to income ratio		+100bps	(5.4)	(5.6)	(11.0)
AUD/NZD exchange rate		+100bps	(0.5)	(0.6)	(1.1)

Notes:

(a) FY19 sensitivity excludes the impact during the six months' actual trading to 30 June 2019. Sensitivity impact for 1H20 includes the cumulative impact of the sensitivity in FY19 (2H19). Sensitivity calculations shown highlight the impact of an increase in each of the variables – a decrease in each variable would result in an equal and opposite impact to FY19, 1H20 and LTM Jun-20 Profit/(loss) before income tax.

(b) Receivables growth rate: The impact factors in the net interest margin and net charge off impact, assuming the yield remains in line with the portfolio for the given period. It also includes additional provision movements based on the sensitised gross loan receivables which are recognised fully in the period in which the incremental receivables are assumed to be generated. Whereas the impact on profitability of the incremental gross receivables is recognised based on a rolling AGR and assuming the yield remains in line with the portfolio for the given period. Impact does not include any additional operating expense.

(c) Change in borrowing rate – BBSW (Australia): Sensitivity to changes in the borrowing rate (BBSW) assumes there is no impact to Latitude's personal loans and motor loans portfolios given the existing hedging arrangements and that new originations would be re-priced to reflect the borrowing rate changes. These hedged portfolios are excluded from the impact analysis.

(d) Change in borrowing rate – BKBM (New Zealand): Sensitivity to changes in the borrowing rate (BKBM) assumes there is no impact to Latitude's personal loans portfolio given the existing hedging arrangements and that new originations would be re-priced to reflect the borrowing rate changes. These hedged portfolios are excluded from the impact analysis.

(e) Net charge offs/AGR: Net charge offs/AGR sensitivity does not assume that the level of provisions changes as a result (to reflect a higher charge off). Latitude re-assesses the adequacy of its provision for future losses on a regular basis, consistent with accounting standards and industry practices (as outlined in Section 3.6.4).

Care should be taken in interpreting these sensitivities. The estimated impact of changes in each of the variables has been calculated in isolation from changes in other variables, in order to illustrate the likely impact on the forecast. In practice, changes in variables may offset each other or be additive, and it is likely that Latitude's management would respond to any adverse change in one variable by seeking to minimise the net effect on Latitude's earnings and cash flows.

4.10 Dividend policy

Subject to future business conditions, available profits and franking credits and the financial position of Latitude, it is the current intention of Latitude to pay dividends.

The Directors anticipate that the first dividend to Shareholders will be determined in respect of the six-month period to 30 June 2020 with reference to available profits within this period and the financial position of Latitude.

The planned future dividend payout ratio range is 55% to 75% of Latitude's Cash NPAT.

Assuming a 1H20 result consistent with the Forecast Financial Information, the Directors anticipate the first dividend will be consistent with the mid-point of the range stated above, equivalent to approximately 5 cents per Share payable in October 2020 representing the six-month period to 30 June 2020.

At Completion, Latitude will have a zero franking account balance but will generate franking credits as income tax is paid in Australia. Its ability to pay, and the extent of, franked dividends in the future will evolve as the franking credits are generated.

In assessing the dividend payment in future periods, the Directors at their discretion may consider a number of factors, including the general business environment, the operating results and financial condition of Latitude, future funding requirements, capital management initiatives, tax considerations (including the level of franking credits available), any contractual, legal or regulatory restrictions on the payment of dividends by Latitude, and any other factors the Directors may consider relevant. Latitude may contemplate the inclusion of a Dividend Reinvestment Programme ('**DRP**').

No assurances can be given by any person, including the Directors, about the payment of any dividend and the level of franking on such dividends. Please read the Forecast Financial Information as set out in Section 4.7, in conjunction with the assumptions underlying its preparation as set out in Sections 4.7.1 and 4.7.2, the sensitivities set out in Section 4.9, and the risk factors as set out in Section 5.

Investors who are not tax residents of Australia and who acquire Shares may be subject to Australian withholding tax on dividends or other distributions paid in respect of the Shares. Such Investors should consult with their own tax advisers regarding the application of the Australian withholding or other taxes to their particular situations as well as any additional tax consequences resulting from purchasing, holding or disposing of the Shares.

4.11 Segment information

4.11.1 Reporting segments

In accordance with IFRS 8 *Operating Segments*, Latitude has determined that its reporting segments comprise: Australia, New Zealand and Other/unallocated. These segments represent the manner in which Latitude expects to report in future periods in accordance with IFRS 8 *Operating Segments*.

The segments presented below are the same as the segments presented in the Combined Historical Financial Information.

Table 52 in Section 4.11.2 sets out the segment pro forma historical and forecast RAI for the Australian and New Zealand segments, as well as segment Profit/(loss) before income tax for the Other/unallocated segment. Table 52 also sets out Group pro forma NPAT and Cash NPAT.

Table 53 in Section 4.11.3 sets out the segment combined historical and forecast RAI for the Australian and New Zealand segments, as well as segment Profit/(loss) before income tax for the Other/unallocated segment. Table 53 also sets out combined Group NPAT.

4.11.1.1 Australia

The Australian segment includes the RAI associated with Latitude's Australian digital payments, instalments and lending products as described in Section 2.

4.11.1.2 New Zealand

The New Zealand segment includes the RAI associated with Latitude's New Zealand digital payments, instalments and lending products. New Zealand operates under separate brands and does not offer motor loans.

4.11.1.3 Other/unallocated

The Other/unallocated segment includes the net insurance income associated with Latitude's insurance business, as well as all of Latitude's operating expenses, Significant items and Amortisation of acquisition intangibles and structural changes as these are not allocated on a segment basis (see Table 52 in Section 4.11.2 below). As defined in Note 4 in Section 4.14, net insurance income represents GWP, movement in unearned premium ('**UEP**') and investment income, offset by claims expenses, refunds (relating to the refund of premiums to customers due to loan refinancing or cancellation), external commissions and customer acquisition costs. GWP represents the insurance premiums received for personal loans and instalment and credit card policies. Personal loans GWP is a function of the number of new loans, the penetration rate, and the mix of policies issued. Instalment and credit cards GWP is a function of the number of accounts, the penetration rate and average value of outstanding balances. On a segment basis net insurance income also includes internal commissions that are paid to the Australian and New Zealand segments. The above should be read in conjunction with Section 2.

4.11.2 Segment Pro Forma Historical Income Statements and Pro Forma Forecast Income Statements

Table 52 below sets out the Pro Forma Historical Income Statements and the Pro Forma Forecast Income Statements by segment for the Australian, New Zealand and Other/unallocated segments. A reconciliation of Cash NPAT to pro forma NPAT is presented in Section 4.3.1. The Pro Forma Forecast Income Statements by segment are subject to the Directors' Best Estimate Assumptions which comprise the General Assumptions and the Specific Assumptions underlying the Forecast Financial Information (refer to Sections 4.7.1 and 4.7.2 for further detail).

Table 52: Segment Pro Forma Historical Income Statements and Pro Forma Forecast Income Statements

		Historical		Forecast		Historical		Forecast
A$ million	**Note**	**FY17**	**FY18**	**FY19**	**LTM Jun-20**	**1H18**	**1H19**	**1H20**
Australia								
Interest income		891.5	914.9	954.9	952.2	454.1	480.7	478.0
Interest expense		(195.5)	(215.5)	(204.2)	(183.0)	(105.5)	(108.8)	(87.6)
Net interest income		696.0	699.4	750.7	769.2	348.5	371.9	390.4
Other operating income		62.0	58.9	56.5	61.4	31.5	28.4	33.2
Total operating income		**758.0**	**758.3**	**807.2**	**830.6**	**380.0**	**400.2**	**423.6**
Loan impairment expense		(213.6)	(209.0)	(214.7)	(215.0)	(110.4)	(109.6)	(109.9)
Inter-segment RAI		(9.4)	(6.7)	(8.0)	(7.3)	(4.6)	(4.2)	(3.5)
Segment RAI		**535.0**	**542.5**	**584.5**	**608.3**	**265.0**	**286.4**	**310.2**
New Zealand								
Interest income		216.6	240.7	263.0	267.6	117.8	129.5	134.2
Interest expense		(48.6)	(54.4)	(56.7)	(52.5)	(26.5)	(29.8)	(25.5)
Net interest income		168.0	186.4	206.3	215.2	91.3	99.7	108.6
Other operating income		7.0	8.2	7.8	9.5	3.6	4.3	6.0
Total operating income		**175.0**	**194.6**	**214.0**	**224.6**	**95.0**	**104.1**	**114.7**
Loan impairment expense		(43.5)	(44.4)	(38.9)	(43.6)	(25.9)	(18.2)	(22.9)
Inter-segment RAI		(3.9)	(4.5)	(4.0)	(4.1)	(2.1)	(2.0)	(2.1)
Segment RAI	**(a)**	**127.6**	**145.6**	**171.1**	**176.9**	**66.9**	**83.9**	**89.7**
Other/unallocated								
Interest income		(0.0)	0.0	–	–	0.0	–	–
Interest expense		(1.5)	(2.9)	(2.9)	–	(1.3)	(2.9)	–
Net insurance income		52.3	48.9	42.6	40.3	24.8	22.2	20.0
Other operating income		(0.0)	1.1	0.3	–	–	0.3	–
Total operating income		**50.8**	**47.1**	**39.9**	**40.3**	**23.4**	**19.6**	**20.0**
Inter-segment RAI		13.3	11.3	12.0	11.5	6.7	6.2	5.7
Operating expenses		(423.7)	(403.6)	(429.9)	(442.2)	(201.1)	(212.5)	(224.9)
Distribution to trust beneficiaries		–	0.0	0.0	0.0	0.0	0.0	–
Segment Profit/(loss) before income tax and Significant items	(b)	**(359.6)**	**(345.2)**	**(377.9)**	**(390.4)**	**(171.0)**	**(186.8)**	**(199.3)**
Significant items		(28.8)	(24.4)	(89.4)	(76.7)	(3.5)	(50.0)	(37.3)
Amortisation of acquisition intangibles and structural changes		(99.9)	(80.0)	(71.8)	(78.5)	(50.0)	(34.4)	(41.1)
Segment Profit/(loss) before income tax		**(488.3)**	**(449.6)**	**(539.1)**	**(545.7)**	**(224.5)**	**(271.1)**	**(277.7)**
Group								
Total pro forma Profit/(loss) before income tax		**174.2**	**238.6**	**216.5**	**239.4**	**107.5**	**99.2**	**122.2**
Income tax (expense)/benefit		(50.3)	(63.8)	(52.1)	(61.3)	(32.1)	(26.9)	(36.1)
Total pro forma NPAT		**123.9**	**174.8**	**164.4**	**178.2**	**75.4**	**72.3**	**86.1**
Significant items		28.8	24.4	89.4	76.7	3.5	50.0	37.3
Amortisation of acquisition intangibles and structural changes		99.9	80.0	71.8	78.5	50.0	34.4	41.1
Tax effect of adjustments		(38.0)	(30.9)	(47.6)	(45.8)	(16.1)	(24.9)	(23.1)
Cash NPAT		**214.7**	**248.4**	**278.1**	**287.6**	**112.8**	**131.8**	**141.3**

Notes:

(a) Segment RAI: Pro forma segment RAI in FY17 and FY18 includes a pro forma adjustment for the impact of IFRS 9. Refer to Section 4.3.4 for detailed information on the pro forma adjustments applied to the Combined Historical Financial Information.

(b) Segment Profit/(loss) before income tax and Significant items: Reflects pro forma adjustments to Other/unallocated segment Profit/(loss) before income tax on a combined basis to remove the impact of (i) Discontinued Operations; (ii) changes in capital structure; (iii) changes in accounting standards; (iv) Transaction and Offer costs; (v) incremental public company costs; and (vi) the impact of new employee remuneration plans following Completion as well as the non-recurring employee share offer. Detailed information on pro forma adjustments applied to Combined Historical Financial Information is set out in Section 4.3.4.

4.11.3 Segment Combined Historical Income Statements and Combined Forecast Income Statements

Table 53 below sets out the Combined Historical Income Statements and Combined Forecast Income Statements by segment for the Australian, New Zealand and Other/unallocated segments. The Combined Forecast Income Statements by segment are subject to the Directors' Best Estimate Assumptions which comprise the General Assumptions and the Specific Assumptions underlying the Forecast Financial Information (refer to Sections 4.7.1 and 4.7.2 for further detail).

Table 53: Segment Combined Historical Income Statements and Combined Forecast Income Statements

	Historical		Forecast		Historical		Forecast
A$ million	**FY17**	**FY18**	**FY19**	**LTM Jun-20**	**1H18**	**1H19**	**1H20**
Australia							
Interest income	891.5	914.9	954.9	952.2	454.1	480.7	478.0
Interest expense	(195.5)	(215.5)	(204.2)	(183.0)	(105.5)	(108.8)	(87.6)
Net interest income	696.0	699.4	750.7	769.2	348.5	371.9	390.4
Other operating income	62.0	58.9	56.5	61.4	31.5	28.4	33.2
Total operating income	**758.0**	**758.3**	**807.2**	**830.6**	**380.0**	**400.2**	**423.6**
Loan impairment expense	(219.2)	(209.0)	(214.7)	(215.0)	(110.4)	(109.6)	(109.9)
Inter-segment RAI	(9.4)	(6.7)	(8.0)	(7.3)	(4.6)	(4.2)	(3.5)
Segment RAI	**529.3**	**542.5**	**584.5**	**608.3**	**265.0**	**286.4**	**310.2**
New Zealand							
Interest income	216.5	240.7	263.0	267.6	117.8	129.5	134.2
Interest expense	(48.6)	(54.4)	(56.7)	(52.5)	(26.5)	(29.8)	(25.5)
Net interest income	167.9	186.4	206.3	215.2	91.3	99.7	108.6
Other operating income	7.0	8.2	7.8	9.5	3.6	4.3	6.0
Total operating income	**174.9**	**194.6**	**214.0**	**224.6**	**95.0**	**104.1**	**114.7**
Loan impairment expense	(36.9)	(44.4)	(38.9)	(43.6)	(25.9)	(18.2)	(22.9)
Inter-segment RAI	(3.9)	(4.5)	(4.0)	(4.1)	(2.1)	(2.0)	(2.1)
Segment RAI	**134.2**	**145.6**	**171.1**	**176.9**	**66.9**	**83.9**	**89.7**
Other/unallocated							
Interest income	(38.8)	(20.0)	-	-	(20.0)	-	-
Interest expense	(100.6)	(93.3)	(92.3)	(56.8)	(47.7)	(52.4)	(16.9)
Net insurance income	52.3	48.9	42.6	40.3	24.8	22.2	20.0
Other operating income	-	1.1	0.3	-	-	0.3	-
Total operating income	**(87.1)**	**(63.3)**	**(49.4)**	**(16.5)**	**(43.0)**	**(29.8)**	**3.1**
Inter-segment RAI	13.3	11.3	12.0	11.5	6.7	6.2	5.7
Operating expenses of the enterprise	(499.0)	(504.2)	(645.2)	(646.8)	(247.6)	(282.7)	(284.3)
Distribution to trust beneficiaries	(57.0)	(74.5)	(77.1)	(26.1)	(25.7)	(51.0)	-
Segment profit/(loss) before income tax	**(629.8)**	**(630.7)**	**(759.7)**	**(677.9)**	**(309.5)**	**(357.3)**	**(275.5)**
Group							
Total combined profit/(loss) before income tax	**33.6**	**57.5**	**(4.1)**	**107.2**	**22.4**	**13.0**	**124.3**
Income tax (expense)/benefit	(16.1)	(13.2)	(5.3)	(32.2)	(8.1)	(8.8)	(35.7)
Total NPAT	**17.5**	**44.3**	**(9.4)**	**75.0**	**14.4**	**4.1**	**88.6**

4.11.4 Segment key operating and financial metrics

Tables 54 and 55 below sets out the pro forma historical key operating and financial metrics for FY17 and FY18 and the pro forma forecast key operating and financial metrics by segment for FY17, FY18, FY19, LTM Jun-20, 1H18, 1H19 and 1H20 for the Australian and New Zealand segments respectively.

Table 54: Segment pro forma historical and forecast operating and financial metrics – Australia

		Historical		Forecast		Historical		Forecast
A$ million	**Note**	**FY17**	**FY18**	**FY19**	**LTM Jun-20**	**1H18**	**1H19**	**1H20**
Australia Operating								
Volume	28	6,961.6	7,227.9	7,468.0	7,828.4	3,458.6	3,544.9	3,905.4
Gross loan receivables	29	5,661.9	5,980.9	6,176.4	6,316.0	5,794.5	6,081.3	6,316.0
AGR	30	5,521.3	5,780.8	6,046.0	6,149.6	5,733.1	6,031.3	6,237.3
Total accounts ('000)	31	2,169.8	2,156.2	2,253.4	2,388.7	2,143.8	2,151.6	2,388.7
Active accounts ('000)	32	1,481.9	1,490.9	1,520.2	1,636.1	1,486.9	1,470.9	1,636.1
Australia Financial								
Operating income		758.0	758.3	807.2	830.6	380.0	400.2	423.6
RAI	33	535.0	542.5	584.5	608.3	265.0	286.4	310.2
Operating growth rates (PcP)								
Volume		n.a.	3.8%	3.3%	7.0%	n.a.	2.5%	10.2%
Gross loan receivables		n.a.	5.6%	3.3%	3.9%	n.a.	4.9%	3.9%
AGR		n.a.	4.7%	4.6%	3.8%	n.a.	5.2%	3.4%
Total accounts ('000)		n.a.	(0.6)%	4.5%	11.0%	n.a.	0.4%	11.0%
Active accounts ('000)		n.a.	0.6%	2.0%	11.2%	n.a.	(1.1)%	11.2%
Financial growth rates (PcP)								
Operating income		n.a.	0.0%	6.5%	6.7%	n.a.	5.3%	5.8%
RAI		n.a.	1.4%	7.7%	7.9%	n.a.	8.1%	8.3%
Profitability								
Interest income/AGR	35	16.15%	15.83%	15.79%	15.48%	15.97%	16.07%	15.41%
Interest expense/AGR	36	(3.54)%	(3.73)%	(3.38)%	(2.98)%	(3.71)%	(3.64)%	(2.82)%
Net interest margin	37	12.61%	12.10%	12.42%	12.51%	12.26%	12.43%	12.59%
Operating income yield	38	13.73%	13.12%	13.35%	13.51%	13.37%	13.38%	13.66%
RAI per Active account ($)	40	361.03	363.90	384.47	371.78	178.22	194.71	189.59
RAI yield	39	9.69%	9.39%	9.67%	9.89%	9.32%	9.58%	10.00%
Asset quality								
90+ days past due	42	1.12%	1.11%	1.06%	1.19%	1.25%	1.24%	1.19%
Net charge offs/AGR	43	3.54%	3.50%	3.47%	3.47%	3.74%	3.55%	3.55%
Coverage ratio	44	4.63%	4.49%	4.43%	4.33%	4.59%	4.48%	4.33%

Notes: Refer to the Glossary of Financial Table Notes in Section 4.14.

Table 55: Segment pro forma historical and forecast operating and financial metrics – New Zealand

		Historical		Forecast		Historical		Forecast
A$ million	**Note**	**FY17**	**FY18**	**FY19**	**LTM Jun-20**	**1H18**	**1H19**	**1H20**
New Zealand Operating								
Volume	28	1,496.7	1,631.6	1,732.9	1,832.7	789.9	813.2	913.0
Gross loan receivables	29	1,369.0	1,594.6	1,685.5	1,707.2	1,457.9	1,621.3	1,707.2
AGR	30	1,280.3	1,472.3	1,630.0	1,671.4	1,437.2	1,611.4	1,697.5
Total accounts ('000)	31	438.7	434.9	477.6	540.0	444.6	435.9	540.0
Active accounts ('000)	32	357.9	363.7	405.0	438.4	362.4	364.8	438.4
New Zealand Financial								
Operating income		175.0	194.6	214.0	224.6	95.0	104.1	114.7
RAI	33	127.6	145.6	171.1	176.9	66.9	83.9	89.7
Operating growth rates (PcP)								
Volume		n.a.	9.0%	6.2%	10.7%	n.a.	2.9%	12.3%
Gross loan receivables		n.a.	16.5%	5.7%	5.3%	n.a.	11.2%	5.3%
AGR		n.a.	15.0%	10.7%	7.4%	n.a.	12.1%	5.3%
Total accounts ('000)		n.a.	(0.9)%	9.8%	23.9%	n.a.	(2.0)%	23.9%
Active accounts ('000)		n.a.	1.6%	11.3%	20.2%	n.a.	0.7%	20.2%
Financial growth rates (PcP)								
Operating income		n.a.	11.2%	10.0%	10.3%	n.a.	9.6%	10.2%
RAI		n.a.	14.1%	17.5%	8.8%	n.a.	25.4%	6.9%
Profitability								
Interest income/AGR	35	16.92%	16.35%	16.13%	16.01%	16.53%	16.20%	15.89%
Interest expense/AGR	36	(3.80)%	(3.69)%	(3.48)%	(3.14)%	(3.72)%	(3.72)%	(3.02)%
Net interest margin	37	13.12%	12.66%	12.65%	12.87%	12.81%	12.48%	12.87%
Operating income yield	38	13.67%	13.21%	13.13%	13.44%	13.32%	13.02%	13.59%
RAI per Active account ($)	40	356.50	400.41	422.60	403.53	184.75	230.05	204.56
RAI yield	39	9.97%	9.89%	10.50%	10.58%	9.39%	10.50%	10.62%
Asset quality								
90+ days past due	42	1.01%	1.03%	0.96%	1.11%	1.16%	1.01%	1.11%
Net charge offs/AGR	43	2.21%	2.70%	2.50%	2.53%	2.87%	2.61%	2.66%
Coverage ratio	44	3.57%	3.52%	3.22%	3.21%	3.76%	3.31%	3.21%

Notes: Refer to the Glossary of Financial Table Notes in Section 4.14.

In respect of the prior comparative period used in calculating the pro forma operating growth rates and financial growth rates for LTM Jun-20 set out in Table 55, Investors should note that the prior comparative period refers to the 12-month period ended 30 June 2019. No financial information appears in this Prospectus for the 12-month period ended 30 June 2019. The financial data for the 12-month period ended 30 June 2019 ("LTM Jun-19 PcP Data") used in calculating the pro forma financial growth rates for LTM Jun-20 is unaudited and is presented on a pro forma basis. The LTM Jun-19 PcP Data has been derived arithmetically by (a) deducting the relevant pro forma financial measures in Latitude's pro forma income statement for 1H18 from the comparable pro forma financial measures in Latitude's pro forma income statement for FY18, to produce the relevant pro forma financial measures for the six months ended 31 December 2018, and (b) adding such data to Latitude's relevant financial measures in its pro forma income statement for 1H19. Investors should note that while the LTM Jun-19 PcP Data has been derived from the Pro Forma Historical Financial Information (which has been reviewed in accordance with the Australian Standard on Assurance Engagements ASAE 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information*, and that such Pro Forma Historical Financial Information has been derived from the Combined Historical Financial Statements (which, in the case of the FY18 Combined Historical Financial Statements, has been audited in accordance with Australian Auditing Standards, and, in the case of the 1H19 Combined Interim Financial Report, has been reviewed in accordance with Australian Standards on Review Engagements). LTM Jun-19 has not been audited or reviewed, nor is it covered by KPMG Transaction Services' Limited Assurance Investigating Accountant's Report. See Section 4.2.2 for additional information.

Coverage ratios on a pro forma basis for FY17, FY18 and 1H18 include a pro forma adjustment for the impact of IFRS 9. Refer to Section 4.3.4 for detailed information on the pro forma adjustments applied to the Combined Historical Financial Information.

Table 56 below provides a summary of the combined key operating and financial metrics for the Australian and New Zealand segments, where they differ from the pro forma key operating and financial metrics in Tables 54 and 55. Key operating and financial metrics that are the same on a combined basis to those presented on a pro forma basis have been excluded from Table 56 below.

Table 56: Segment combined operating and financial metrics

		Historical		Forecast		Historical		Forecast
A$ million	Note	FY17	FY18	FY19	LTM Jun-20	1H18	1H19	1H20
Australia Asset quality								
RAI	33	529.3	542.5	584.5	608.3	265.0	286.4	310.2
RAI yield	39	9.59%	9.39%	9.67%	9.89%	9.32%	9.58%	10.00%
Coverage ratio	47	4.34%	4.49%	4.43%	4.33%	4.59%	4.48%	4.33%
New Zealand Asset quality								
RAI	33	134.2	145.6	171.1	176.9	66.9	83.9	89.7
RAI yield	39	10.48%	9.89%	10.50%	10.58%	9.39%	10.50%	10.62%
Coverage ratio	47	2.99%	3.52%	3.22%	3.21%	3.76%	3.31%	3.21%

Notes:

(a) Refer to the Glossary of Financial Table Notes in Section 4.14.

(b) In respect of the prior comparative period used in calculating the combined operating growth rates for LTM Jun-20, Investors should note that the prior comparative period refers to the 12-month period ended 30 June 2019.

(c) Coverage ratios on a combined basis for FY17 reflect the application of IFRS 39. Coverage ratios on a combined basis for FY18, FY19, LTM Jun-20, 1H18, 1H19 and 1H20 reflect the application of IFRS 9.

4.12 Financial risk management framework

Latitude is exposed to a variety of financial risks including market risk, interest rate risk, credit risk and liquidity risk. Latitude's overall risk management programme includes a focus on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of Latitude.

Latitude identifies, evaluates and hedges financial risks in accordance with the three lines of defence principles (refer to Section 3.1). Treasury provides overall financial risk management, covering specific areas, such as interest rate risk, foreign currency risk, use of derivative financial instruments and non-derivative financial instruments in accordance with the facilities agreements and Latitude's Warehouse Facilities and policies.

Latitude uses derivative financial instruments such as interest rate swaps and foreign exchange contracts to hedge certain risk exposures. Derivatives are exclusively used for economic hedging purposes and not as trading or speculative instruments.

Latitude uses different methods to measure types of risk to which it is exposed. These methods include sensitivity analysis for interest rate risk, net gap exposure for foreign exchange risk, and ageing analysis for credit risk. Latitude's financial risk governance framework for specific risks is described below.

- **Market risk:** Latitude has exposures primarily to the changes in value of non-AUD and NZD currency assets and liabilities and forecast transactions. Material currency exposures are hedged where they are highly probable excluding NZD. Latitude uses forward foreign exchange contracts to manage its foreign exchange risk.
- **Interest rate risk:** Latitude's main interest rate risk arises from mismatches in the interest rate characteristics of the fixed interest financial assets and corresponding variable liability funding. Latitude uses interest rate swaps where Latitude agrees with swap counterparties to exchange, at specified intervals (mainly monthly), the difference between fixed and floating rate amounts calculated by reference to the agreed notional principal amounts. Swaps currently in place cover variable rate securitisation liabilities relating to fixed rate motor loans and personal loans sold into securitisation trusts. All funding facilities are floating rate instruments prior to entering into swap contracts.
- **Credit risk:** Latitude bears the risk of financial loss if a customer fails to meet their contractual obligations, arising principally from Latitude's loans to customers. The maximum exposure of Latitude is represented by the carrying amount of loans and advances in the consolidated balance sheet. Latitude has strategies in place to optimise risk versus return via a process of continual review and refinement. New strategies are implemented to take appropriate timely action if adverse trends occur. All credit risk activities are managed on a day-to-day basis by the enterprise risk function.
- **Liquidity risk:** Latitude ensures it has access to liquidity and has the resources to meet its contractual financial obligations during the normal course of business and in periods of stress. This includes maintaining sufficient cash and other liquid assets, overdraft facilities and flexibility in funding through committed credit lines. Funding is monitored on a regular basis and risk management includes forecasts and modelling including moderate and severe stress testing scenarios (refer to Section 3.8.1).

4.13 Critical accounting estimates and judgements

Preparing financial statements in accordance with IFRS requires Latitude to make estimates, judgements and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both the current and future periods.

Judgements made by Latitude in the application of accounting standards that have significant effects on the financial statements and estimates with a significant risk of material adjustments in the next year are disclosed, where applicable, in the relevant notes to the financial statements. Refer to the significant accounting policies of this Prospectus (Section 10).

Management judgement is required in the following areas:

- **Recoverability of loans and receivables:** Prior to 1 January 2018, Latitude applied IAS 39 for collective provisioning, and after this date, Latitude adopted IFRS 9.
  - IAS 39: Financial assets are grouped based on similar credit risk characteristics and collectively assessed for impairment. When evidence of impairment exists, the allowance for losses is based upon historical loss experience for portfolios with similar payment history and judgements about probable effects of observable data.
  - IFRS 9: Loss provisioning is based on a three-stage approach to measure expected credit losses based on the change in credit quality of financial assets since initial recognition. Expected credit losses are derived from probability weighted estimated loss measures taking account of possible outcomes, the time value of money and current and future economic conditions. Latitude updates its assumptions and makes estimates periodically, to reflect current conditions.
- **Estimation of insurance claims liability:** An actuary estimates the value of outstanding claims. This involves analysing available past experience to determine expected future payments. The provision for the outstanding claims liability also contains a risk margin to reflect the inherent uncertainty in the central estimate. The risk margin increases the probability that the net liability is adequately provided for to a 90% confidence level.
- **Recoverability of goodwill and other intangible assets:** Intangible assets are tested for impairment at financial reporting period ends or more frequently if events or changes in circumstances indicate that they might be impaired. The goodwill impairment testing calculations use discounted cash flow projections based on management approved financial budgets covering a five-year period. Cash flows are extrapolated using a terminal growth rate to yield a value appropriate to each cash generating unit. Other intangible assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.
- **Estimated useful life of intangible assets:** For intangible assets that were recognised as part of the Acquisition (customer lists and distribution agreements), the useful life was determined initially by actuarial valuation. Management performs an assessment at reporting periods to ensure the useful life remains appropriate. Goodwill is assessed for impairment rather than amortised. Capitalised software and development costs are recorded as intangible assets and amortised on a straight-line basis from the point at which the asset is ready for use, over the assessed useful life of the intangible.
- **Recognition of deferred tax assets for carried forward tax losses:** Deferred tax assets relating to unused tax losses are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

4.14 Glossary of Financial Table Notes

Note	Description
1: Interest income	Interest income is based on an effective interest rate methodology and comprises interest charged on outstanding customer balances plus fees and charges that are considered an integral part of the loan, net of origination costs. Outstanding customer balances include revolving credit card balances (including interest-bearing sales finance products), personal loan products and motor loan products. Fees and charges include merchant service fees (for sales finance) which Latitude earns from retail partners for financing interest free sales, establishment fees, annual fees, account keeping fees, late fees and third-party commission expenses.
2: Interest expense	Interest expense incurred by Latitude to finance Latitude's receivable assets inclusive of interest margin, base rate interest, commitment fees, guarantee fees, interest rate swap interest expense and amortisation expenses associated with capitalised costs incurred in the establishment of new trusts from FY17 onwards.
3: Other operating income	Includes interchange income, statement fees and other fees and charges. Other operating income is offset by direct costs including Scheme and related fees, partner loyalty fees and customer loyalty fees.

Note	Description
4: Net insurance income	Represents gross written premium (GWP), movement in unearned premium (UEP) and investment income, offset by claims expenses, refunds (relating to the refund of premiums to customers due to loan refinancing or cancellation), and acquisition costs.
5: Loan impairment expense	Represents losses from loan receivables charged off in the period and the movement in the provision for impairment losses (estimated in accordance with IFRS 9) (excluding movement in transaction fraud losses), net of recoveries of amounts previously written off.
6: Employee benefit expense	Employee benefit expense (as defined in Note 23). Pro forma employee benefit expenses excludes specific incremental and temporary costs associated with Latitude's Transition and Replatforming and Restructuring and Latitude 2.0 programmes which have been presented separately in Significant items (refer to Section 4.3.2.1).
7: Other expenses	Other expenses (as defined in Note 24), excluding specific expenses associated with Latitude's Transition and Replatforming and Restructuring programmes and Latitude 2.0 as these costs have been excluded and presented separately in Significant items (refer to Section 4.3.2.1).
8: Depreciation and amortisation expense	Depreciation of property, plant and equipment and amortisation of distribution agreements, software and customer contracts. excluding Amortisation of acquisition intangibles (refer to Section 4.3.2.2).
9: Significant items	Includes costs relating to Transition and Replatforming, Restructuring, Latitude 2.0, Asset impairment and Remediation. See Section 4.3.2.1 for detailed information on Significant items.
10: Amortisation of acquisition intangibles and structural changes	See Section 4.3.2.2 for detailed information.
11: Income tax (expense)/benefit	Reflects the pro forma income tax expense at the estimated effective tax rate for Latitude based on the corporate structure post Completion.
12: Transition and Replatforming costs	Refer to Section 4.3.2.1.
13: Restructuring costs	Refer to Section 4.3.2.1.
14: Latitude 2.0	Refer to Section 2.1.3.
15: Asset impairment	Refer to Section 4.3.2.1.
16: Remediation	Refer to Section 4.3.2.1.
17: Net fair value unwind	Refer to Section 4.3.2.2.
18: Amortisation of intangibles	Refer to Section 4.3.2.2.
19: Amortisation of transaction costs	Refer to Section 4.3.2.2.
20: Interest income (combined)	Interest income (as defined in Note 1) as well as the impact of the net fair value unwind of receivables (refer to Section 4.3.2.2).
21: Interest expense (combined)	Interest expense (as defined in Note 2) as well as the amortisation of transaction costs (refer to Section 4.3.2.2) and shareholder loan interest.
22: Loan impairment expense (combined)	Represents losses from loan receivables charged off in the period and the movement in the provision for impairment losses (estimated in accordance with IFRS 39 for FY17 and IFRS 9 for all subsequent periods) (excluding movement in transaction fraud losses), net of recoveries of amounts previously written off.

Note	Description
23: Employee benefit expense (combined)	Relates to employee salary, incentive and related on-costs. Employee benefit expenses excludes employee costs associated with Latitude's Transition and Replatforming and Restructuring programmes (refer to Section 4.3.2.1), which, on a combined basis, are included within Other expenses.
24: Other expenses (combined)	Primarily relates to marketing costs, IT costs, outside services costs, rental expenses for Latitude's offices and other general operating costs. On a combined basis, it also includes all expenses associated with Latitude's Transition and Replatforming and Restructuring programmes and Latitude 2.0.
25: Depreciation and amortisation expense (combined)	Depreciation and amortisation expense (as defined in Note 8), as well as Amortisation of acquisition intangibles (refer to Section 4.3.2.2).
26: Distribution to trust beneficiaries	Distribution expense to be paid to the beneficial interest owners of the securitisation and PCEP trusts.
27: Income tax (expense)/benefit (combined)	Reflects the actual income tax (expense)/benefit or the estimated income tax (expense)/benefit at the estimated effective tax rate for Latitude on a combined basis, assuming Completion on or about 23 October 2019.
28: Volume	Key lead indicator monitored by the business. It represents all principal receivables lent by the business in the relevant period. It shows customer spending habits, future income levels, effectiveness of top-line initiatives implemented and Latitude's lending appetite.
29: Gross loan receivables	Represent the total outstanding receivables balance across all products at the end of the period excluding the net fair value unwind (refer to Section 4.3.2.2).
30: Average gross receivables ('AGR')	Average gross monthly receivables balance during the period (e.g. calculated based on the 13-month average across the period for a financial year. AGR is a key driver of earnings for the business.
31: Total accounts	Total number of accounts (both active and inactive).
32: Active accounts	Number of Active accounts that either: (a) had a balance as at the balance date of the relevant period under consideration; or (b) have had activity during the most recent relevant month. Note that one customer can hold more than one Active account if they hold more than one product.
34: Adjusted EBITDA	Pro forma Profit/(loss) before income tax and Significant items plus the add back of amortisation and depreciation. It includes interest income earned on Latitude's receivables and interest expense incurred as a cost of funding receivables. On a combined basis, Adjusted EBITDA is Profit/(loss) before income tax plus the add back of amortisation and depreciation. It includes interest income earned Latitude's receivables and interest expense incurred as a cost of funding receivables.
35: Interest income/ AGR	Interest income divided by AGR for the relevant period and expressed on an annualised basis (where presented for half-year periods, the measure is pro rated based on the number of days to present an annualised figure).
36: Interest expense/AGR	Interest expense divided by AGR for the relevant period and expressed on an annualised basis (where presented for half-year periods, the measure is pro rated based on the number of days to present an annualised figure).
37: Net interest margin	Net Interest divided by AGR for the relevant period and expressed on an annualised basis (where presented for half-year periods, the measure is pro rated based on the number of days to present an annualised figure).

Note	Description
38: Operating income yield	Operating Income divided by AGR for the relevant period and expressed on an annualised basis (where presented for half-year periods, the measure is pro rated based on the number of days to present an annualised figure).
39: Risk adjusted income ('RAI') yield	Risk adjusted income divided by AGR for the relevant period and expressed on an annualised basis (where presented for half-year periods, the measure is pro rated based on the number of days to present an annualised figure).
40: Risk adjusted income ('RAI') per Active account	Risk adjusted income divided by Active accounts for the relevant period.
41: Adjusted Cost to income ratio	Represents the ratio of operating expenses to operating income, excluding net fair value unwind (refer to Note 17), amortisation of transaction costs (refer to Note 19) and changes in capital structure and changes in accounting standards (refer to Section 4.3.4).
42: 90+ days past due	Total amount of receivables 90+ days past due divided by gross loan receivables. Excludes Latitude's closed secured personal loans portfolio which is in run off and is not material to Latitude's NPAT.
43: Net charge offs/AGR	Net charge offs divided by AGR for the relevant period and expressed on an annualised basis (where presented for half-year periods, the measure is pro rated based on the number of days to present an annualised figure).
44: Coverage ratio	Represents the ratio of provisions for expected losses to gross loan receivables in accordance with IFRS 9.
45: Adjusted ROE	RoE for the LTM Jun-20 period is calculated as LTM Jun-20 Cash NPAT divided by the average of total equity as at 30 June 2019 and the forecast total equity as at 30 June 2020. Total equity as at 30 June 2019 includes the impact of the Restructure and impact of the Offer as described in Table 31. Forecast equity as at 30 June 2020 is calculated by taking total equity as at 30 June 2019, adding the combined forecast LTM Jun-20 NPAT. RoE for the 1H20 period is calculated as 1H20 Cash NPAT divided by the average of forecast total equity as at 31 December 2019 and the forecast total equity as at 30 June 2020. Forecast total equity as at 31 December 2019 is calculated by taking total equity at 30 June 2019 (refer above) and adding the combined forecast NPAT for the second half of FY19 (6 months ended 31 December 2019). The combined forecast NPAT for the second half of FY19 can be calculated by deducting the combined forecast NPAT for 1H20 from the combined forecast NPAT for the LTM Jun-20 period. Forecast equity as at 30 June 2020 is calculated consistently with the RoE for the LTM Jun-20 period described above (1H20 ROE is pro-rated based on the number of days to present on annualised figures).
46: Adjusted Cost to income ratio (combined)	Represents the ratio of operating expenses to operating income, excluding net fair value unwind, amortisation of transaction costs and changes in capital structure and changes in accounting standards. On a combined basis, Adjusted Cost to income ratio includes costs reported as Significant items (outlined in Section 4.3.2.1), as well as the impact of pro forma adjustments to total operating expenses – refer to the Appendix (Section 11).
47: Coverage ratio (combined)	Represents the ratio of provisions for expected losses to gross loan receivables in accordance with IFRS 39 in FY17 and in accordance with IFRS 9 in FY18, 1H18 and 1H19.
48: TE/Net receivables	Calculated as TE divided by gross loans and receivables less loan provisions for impairments, deferred income and customer acquisition costs.
49: TE/TA	Calculated as TE divided by total assets less intangible assets (including goodwill).
50: Warehouse Facilities	As at 30 June 2019, Latitude operated six syndicated Warehouse Facilities.

Note	Description
51: ABS	As at 30 June 2019, Latitude had four ABS across Australia credit cards and Australia personal loans.
52: Total securitisation funding	Total securitisation funding represents the aggregate values of Warehouse Facilities and ABS.
53: Restricted cash and cash equivalents (securitisation funding facilities)	Reflect all cash and cash equivalents in bank accounts owned by Latitude's Warehouse Facilities and ABS.
54: Net securitisation funding	Total securitisation funding facilities less restricted cash and cash equivalents in Latitude's securitisation funding facilities.
55: Shareholder loans (incl. accrued interest)	Represent the shareholder loans balance (including accrued interest).
56: Restricted cash and cash equivalents (corporate)	Includes the cash held within Latitude's Hallmark Insurance business to maintain target surplus capital requirements and cash held as security for cash withdrawals that Latitude customers make.
57: Unrestricted cash and cash equivalents	All cash and cash equivalents other than restricted cash and cash equivalents (corporate).
58: Net corporate debt	Shareholder loans less all corporate cash and cash equivalents (unrestricted and restricted). Note that Latitude operates with access to two overdraft facilities to fund any short-term working capital requirements that cannot be funded through cash. In Australia, this facility has a A$15 million limit and in New Zealand, this facility has a NZ$5.0 million limit. As at 30 June 2019, both these facilities were undrawn. In addition, Latitude has established a further $150 million corporate debt facility that will be in place and undrawn at Completion.
59: Capital expenditure commitments	Represent contractual commitments with third parties that are not recognised on the balance sheet.
60: Non-cancellable operating leases	Primarily represent leases for buildings which under IFRS 16 are recorded on Latitude's Combined Historical Balance Sheet and Pro Forma Historical Balance Sheet.
61: Commitment to undrawn credit facilities	Relevant to instalments and credit card products and are the undrawn limits in the credit card portfolio.
62: Maturity of securitisation funding facilities	Represents the future contractual payments of principal and future interest relating to Warehouse Facilities and ABS.
63: Shareholder loans	Reflect the future contractual payments of shareholder loan principal and interest put in place at the time of the Acquisition, which will be paid in full upon Completion.
64: Depreciation and amortisation	Represent the impact of depreciation and amortisation charges recognised on property, plant and equipment as well as the amortisation of intangibles (refer to Section 4.3.2.2).
65: Change in receivables	Represents the impact of cash outflows arising from increases or decreases in Latitude's receivables portfolio.
66: Movement in balance sheet and working capital	Represents the non-cash impact of the change in the fair value uplift of receivables, changes in provisions for losses on receivables, changes in deferred merchant service fees and the impact of changes in working capital, employee provisions and employee remuneration plans.
67: Income taxes	Represent income taxes paid assuming Completion in October 2019 on a pro forma basis.

Note	Description
68: Capital expenditure	Represents the cash expenditure incurred by Latitude on items which qualify for recognition as intangible assets in accordance with Latitude's accounting policies. Capital expenditure includes the expenditure on Latitude's Transition and Replatforming and Latitude 2.0 programmes which are described in Section 4.3.2.1.
69: Changes in securitisation funding facilities	Represent the cash inflow from the change in externally held notes in Latitude's securitisation funding vehicles in line with funding receivables, net of the deferred transaction costs associated with the establishment of the funding facilities.
70: Payment of lease liabilities	IFRS 16 requires cash payments for the principal portion of the lease liability to be shown within financing activities.
71: Transaction costs	Represent cash outflows in relation to adviser fees incurred in Latitude's funding programme.
72: Effects of exchange rate changes on cash and cash equivalents	Represent the impact of converting the NZD cash into Australian dollars.
73: Income taxes (combined)	Represent income taxes paid assuming Completion in October 2019 on a combined basis.
74: Closure of historical hedging arrangement	Represents the expense associated with the closure of historical hedging arrangements, which will be closed and re-hedged as part of pre-Completion restructuring steps.
75: Proceeds from the Offer	Reflect the cash proceeds received in connection with the offer of New Shares.
76: Repayment of shareholder loans	Represents the repayment of the shareholder loan from the proceeds of the Offer.
77: Capitalised costs associated with the Offer	In connection with the Offer, Latitude forecasts to incur transaction costs of $77.0 million (including GST), of which $48.1 million are recognised as an expense within the income statement and $28.9 million are directly associated with the issue of New Shares as part of the Offer and are capitalised within total equity.
78: Cash settlement of PCEP	Cash payment related to the settlement of the PCEP from proceeds of the Offer as well as external adviser costs incurred to wind up the PCEP.
79: Net charge offs	Net charges offs are the difference between gross charge offs and any subsequent recoveries of charged off debt.
80: Provision movement	Represents the movement in the provision for impairment losses, estimated in accordance with IFRS 9 (excluding movement in transaction fraud losses).

05.

Investment Risks

05. Investment Risks

5.1. Investment Risks

There are a number of risk factors both specific to Latitude and of a more general nature which may, either individually or in combination, affect the future operating and financial performance, or financial condition, of Latitude and the value of an investment in the Shares. This Section 5 describes the most significant risks.

Each risk set out in this Section 5 could, if it eventuates (or a combination of the risks set out in this Section 5, if they eventuate), have a material adverse impact on Latitude's business, prospects, operating and financial performance, financial condition and results of operations.

Investors should be aware that this Section 5 does not purport to list every risk that may be associated with an investment in Latitude or the Shares now, or in the future, and many of the risks described below are partially or fully outside the control of Latitude and its Directors and Management. Investors should also be aware that there is no guarantee or assurance that the importance of different risks will not change or that other risks will not emerge. Similarly, there is no guarantee or assurance that any mitigation measures Latitude takes will succeed.

This Section 5 should be read in conjunction with other information disclosed in this Prospectus. There can be no guarantee that Latitude will achieve its stated objectives or that any forward-looking statements or forecasts will eventuate.

Before applying for Shares, you should satisfy yourself that you have a sufficient understanding of the risks described in this Section 5 and of all other information set out in this Prospectus. You should consider whether Shares are a suitable investment for you, having regard to your own investment objectives, financial situation and particular needs (including financial and tax issues). If you do not understand any part of this Prospectus, or are in any doubt as to whether to invest in Shares, you should seek professional guidance from your stockbroker, solicitor, accountant, tax adviser or other independent and qualified professional adviser.

The risks in this Section 5 have been separated into risk factors specific to Latitude (see Section 5.2 below) and general risk factors (see Section 5.3 below).

5.2. Risks Specific to an Investment in Latitude and the Sectors in which it Operates

5.2.1. Evolving regulatory requirements

5.2.1.1. Regulatory compliance

As discussed in Sections 2.5.3 and 2.5.4, Latitude is subject to a range of laws and regulations in Australia and New Zealand, the jurisdictions in which it currently conducts its business. Failure to comply with laws or regulations in these jurisdictions (or in other jurisdictions in which Latitude may operate in the future) could adversely impact Latitude's business.

In both Australia and New Zealand, Latitude must comply with statutory obligations in relation to, licensing, responsible lending, CCI, mis-selling, anti-money laundering, privacy and disclosure. Among other things, Latitude must maintain robust internal processes to ensure that it and its employees and representatives comply with these obligations and must maintain systems that enable Latitude to conduct its business in a manner consistent with these obligations. If Latitude does not comply with these obligations, there is a risk that Latitude may cease to be authorised or licensed to undertake its business, may be subject to penalties, may be unable to recover fees, charges or interest, or may have to waive existing loan balances or refund funds repaid to it by customers under loan contracts, insurance premiums, amounts representing an overcharging of fees, interest payments, or other amounts. This may negatively impact the performance of Latitude's portfolio, its future origination activities and its ability to maintain its current funding or attract new funding.

There is also a risk that Latitude could face other legal or regulatory sanctions or reputational damage as a result of any failure to comply with (or comply with developing interpretations of) applicable laws, regulations, codes of conduct and standards of good practice, including in relation to licensing, responsible lending, CCI mis-selling, anti-money laundering, privacy and disclosure. Any non-compliance by Latitude could result in a negative impact on customers and other stakeholders' trust in Latitude, fines, penalties, the payment of compensation, remediation orders, the cancellation or suspension of Latitude's ability to carry on certain activities or businesses, or class actions from customers. There is also a risk that non-compliance may negatively impact Latitude's distribution channels and product development opportunities.

Latitude may also be adversely affected by the impact of laws on the enforceability of its customer contracts. For example, under Australian and New Zealand unfair contract terms legislation, certain terms in standard form consumer contracts which could cause a significant imbalance in the parties' rights and obligations arising under the contract, and which are not reasonably necessary in order to protect the legitimate interests of the party who would be advantaged by the term, and which would cause detriment (whether financial or otherwise) to a party if they were to be relied on, may be declared void. As it is not always certain how a court may interpret such provisions, it is possible that certain terms in Latitude's standard form of customer contracts may be rendered void.

The New Zealand government has recently announced that it is proposing to extend protections for businesses and consumers from unfair commercial practices, including a new prohibition on conduct that is 'unconscionable' and an extension of current protections against unfair contract terms in standard form consumer contracts to apply to business contracts with a value below $250,000. The proposed reform is still at initial stages. However, the trend of increasing legislative protections relating to unfair commercial practices may, in future, increase the risk of certain terms in Latitude's customer contracts being rendered void.

Performance of industry participants in the finance services sector in complying with regulatory requirements typically impacts the overall regulatory regime underpinning the sector and the regulatory requirements for other individual industry participants such as Latitude. In the event that one or more market participants have major and/or repeated instances of non-compliance with their regulatory requirements, this may have flow-on effects for Latitude by impacting the reputation of the sector or product, or causing increases in or changes to regulatory requirements which apply to Latitude.

5.2.1.2. Responsible lending

As noted in Section 2.5.4, ASIC has been increasingly concerned with the extent to which licensed credit providers undertake independent verification of a potential customer's income (by way of checking payslips, tax returns, bank statements or equivalent) and has also expressed concern in respect of verification of customer expenses, including use of benchmarks such as the Household Expenditure Method ('**HEM**').

Latitude is currently subject to certain ongoing investigations by regulators in respect of its responsible lending practices. In particular:

- ASIC is currently investigating the application of Latitude's processes and practices to certain groups of Latitude's customers which ASIC considers to be vulnerable. This investigation arose out of concerns that credit contracts had been approved for certain indigenous customers from remote communities on the basis of inadequately verified information, some of which had been misrepresented to Latitude. Latitude is undertaking, and has provided for, remediation measures as a result of these concerns. To date, Latitude has remediated approximately $1.55 million of customer balances and expects to remediate at least a further $1 million in respect of this matter based on current investigation outcomes, assuming that there are no further customers requiring remediation identified. At ASIC's request, Latitude also engaged an independent third party to review the remediation program and Latitude's compliance measures. The review is channel and geography specific and is focused on sales finance loan origination. The independent reviewer has made a number of recommendations and Latitude is executing on a program of work agreed with the independent reviewer. ASIC also required Latitude to provide it with documents detailing its approach to complying with its responsible lending obligations. The possibility remains that ASIC may choose to take further enforcement action against, or impose further penalties on, Latitude relating to this matter; and
- FOS (AFCA's predecessor) referred what it considered to be a possible systemic issue in relation to Latitude's responsible lending procedures to ASIC. This matter concerns a failure to verify the income of two customers. AFCA is also currently investigating another two potential systemic issues involving an alleged failure to take reasonable steps to verify a customer's financial situation (including in respect of a non-resident's restricted employment capacity). FOS and AFCA consider that these alleged failures to verify income in a limited number of cases may be indicative of a systemic issue with respect to responsible lending. Latitude does not agree with the allegations made by FOS or AFCA but both investigations remain open as at the Prospectus Date.

As set out in Section 3.3.2, Latitude currently adopts a scalable and risk-based approach to income verification. ASIC in recent years has expressed concerns about the concept of scalability as it is being applied by some industry participants. Latitude has been taking steps to increase the level of independent income verification that it undertakes across its customer base in light of the changing regulatory and industry environment around expectations on the level of income verification. However, there is a risk that ASIC or AFCA, following from the above investigations or otherwise, may form the view that Latitude's income verification practices are insufficient or that Latitude has inappropriately applied the concept of scalability in the past and as a result breached responsible lending requirements.

As also set out in Section 3.3.2, in Australia Latitude currently uses the HEM benchmark to assess the minimum living expenses of applications for Latitude's products (the HEM plus a buffer is used when it is greater than the customer's disclosed living expenses), in line with what has been common and established industry practice historically. Latitude does not always verify the level of fixed expenses (such as for other loans and housing) which are provided by an applicant. There is risk that ASIC or AFCA may form the view that Latitude's expense verification practices are insufficient or ASIC may impose new rules under its regulatory guide to responsible lending, RG 209, which it is currently revising (discussed further in Section 2.5.4 and 5.2.1.9), requiring a different approach to expense verification than currently undertaken by Latitude.

If ASIC or AFCA were to take issue with Latitude's current approach, or the income or expense verification approach that Latitude has historically used, or if the revised regulatory guide for responsible lending, RG 209, sets out a higher standard for the income and expense verification than currently undertaken by Latitude, Latitude's current or proposed policies and processes may be required to change or Latitude may be required to undertake remediation of customers that ASIC or AFCA view as potentially at risk of loss or disadvantage as a result of Latitude's approach to verification. ASIC or AFCA may also seek to impose enforcement actions or penalties on Latitude. If any these possible outcomes were required or sought, it may increase Latitude's costs and negatively impact the performance of Latitude's portfolio and reputation, its future origination activities, customer conversion rates and its ability to attract new funding. Recent and planned changes to Latitude's processes and technology platforms are designed to ameliorate the risk of increases in costs or a reduction in loan volumes, but there is no assurance that these changes will be successful.

As set out in Section 2, there are a number of developments in relation to responsible lending in New Zealand which largely mirror developments in Australia. The outcomes of these developments could require changes to Latitude's processes and procedures which could increase Latitude's costs and negatively impact the performance of Latitude's portfolio and reputation, its future origination activities, customer conversion rates and its ability to maintain its current funding or attract new funding in New Zealand.

5.2.1.3. Insurance

Latitude's insurance products are sold within the CCI industry. The CCI industry has been an increasing focus of regulators in Australia and New Zealand over the past few years. The key risks that regulators are focused on are concerns around mis-selling of the product and concerns that the product offers insufficient value to consumers. As a result of this focus, all other major providers of insurance for credit cards in the Australian market have ceased offering the product to new customers and only a few other providers of insurance for personal loans in Australia (including Latitude) are continuing to offer the product. As a result, the focus on Latitude could become more concentrated.

ASIC has procured premium refunds from Latitude and certain other market participants in connection with historic mis-selling of personal loan and credit card insurance. Latitude is undertaking ongoing remediation in respect of these matters and, at this time, has provided for up to $3,700,000 compensation associated with this remediation. The exact number of affected customers has not yet been determined and the investigation into this matter is ongoing. Further, while Latitude has focused on improving its insurance selling practices, there is a risk that ASIC or AFCA may challenge those practices in the future. For example, AFCA has recently commenced a potential systemic issues investigation in relation to Latitude's sale of credit card CCI, which Latitude is currently responding to.

As set out in Section 2.5.4, ASIC has recently issued a CCI Report setting out its expectations of issuers and lenders in relation to CCI. The CCI Report provides that a deferred sales model in relation to CCI, whereby the sale of CCI would need to take place a number of days after sale of the primary product to which it relates, should be adopted across all distribution channels. The Australian Federal Department of Treasury also released the Treasury Proposal Paper in September 2019 proposing a four day deferral period for insurance sales but with ASIC dealing with more problematic insurances, including potentially CCI, using its product intervention powers. Introduction of a deferred sales model requires changes to Latitude's personal loan insurance products and processes. In conjunction with a proposal for ASIC to use its modification power to amend the rules relating to unsolicited telephone sales in the Corporations Act (as described further in Section 2.5.4), the deferred sales model will prevent unsolicited phone and in person sales of CCI for both credit cards and personal loans. This is likely to limit Latitude's ability to continue to sell its insurance products. As set out in Section 4, Latitude's net insurance income was $28.4m in 1H19.

The CCI Report also addressed product suitability. In this respect, ASIC cited a number of lenders in its CCI Report as having low claims ratios on CCI, used as a criterion for judging suitability for customer needs, including Latitude in relation to its credit card insurance product. ASIC has required all lenders mentioned in the CCI Report, including Latitude, to conduct a review to address and remediate any consumer harm. ASIC also stated that it expects lenders to cease selling insurance products which do not comply with its expectations.

In response to the CCI Report, Latitude has suspended selling bundled insurance products (where a customer may acquire a number of heads of cover, only some of which it is eligible to claim against) on credit cards to new customers in Australia and New Zealand as of September 2019 while it designs unbundled products that better reflect the needs and interests of its customers. It anticipates that these new insurance products will be launched in the first half of 2020. In the meantime, Hallmark Insurance will continue servicing existing credit card insurance customers and Latitude will continue to sell insurance on its non-credit card products. While the financial impact on Latitude of the temporary suspension of sale of insurance on credit cards is not expected to be material, there remains the risk that ASIC may form the view that Latitude's historical credit card insurance practices have been, or its new products yet to be launched are, insufficient. ASIC may take enforcement action against Latitude, may require Latitude to remediate customers for past insurance practices, or may use its product intervention powers (see Section 2.5.4) to require Latitude to increase the claims ratio on its products, and hence reduce profitability to Latitude from offering its insurance products.

A number of the same issues with respect to personal loan and credit card insurance which were previously remediated in Australia were identified as part of the FMA and RBNZ review of conduct and culture in New Zealand life insurers ('**New Zealand Life Insurer Review**') and Latitude has provided for their remediation. More generally, the New Zealand Life Insurer Review stated that the regulators consider that insurers should have a genuine focus on improving customer outcomes, rather than simply doing the minimum required to comply with the law. For example, the FMA and RBNZ expect insurers to remove or substantially revise sales incentives, even though there is no legislative restriction on having sales incentives. Latitude has modified sales incentives from its New Zealand credit card and personal loan repayment protection insurance products in response to the review. It is possible that further changes will need to be made by Latitude and Hallmark Insurance, such as changes to the group's incentives structure.

Issues relating to insurance are expected to continue to evolve. A number of ASIC's expectations are consistent with the recommendations of the Banking Royal Commission as described at Section 5.2.1.9 below. New legislation related to product design and distribution was recently passed in Australia (discussed below in Section 5.2.1.8), which may also require changes to Latitude's insurance products.

5.2.1.4. BNPL

LatitudePay and Genoapay are not subject to regulation by the NCC in Australia and in New Zealand are only subject to the aspects of the CCCFA that relate to "credit contracts" generally (primarily, restrictions on oppressive terms and oppressive conduct), as opposed to the more onerous provisions that apply to "consumer credit contracts". If the law changes in Australia or New Zealand, this may not continue to be the case. The risk associated with proposals to specifically regulate BNPL products is discussed in Section 5.2.1.8.

LatitudePay is not currently regulated under the NCC on the basis that it does not involve charging the customer for credit. Latitude charges late payment fees on its products. While Latitude does not believe that this is a charge for credit, courts may disagree and take a contrary position, in which case there is a risk that Latitude may be found to be in breach of the NCC.

Further, if a merchant inflates the price of goods or services purchased with the LatitudePay products, there is a risk that this may constitute a charge for credit under the NCC which might bring that specific use of the product into the scope of NCC regulation. ASIC has announced that it is considering the legal implications of price inflation practices by merchants generally. Latitude's standard contractual requirements with its merchant partners for LatitudePay require that there must be no price inflation. However, there may be bespoke exceptions for certain merchant partners where some inflation is permitted, which may attract the attention of regulators and expose Latitude to breach of the NCC.

5.2.1.5. Life insurance regulation

Latitude is a member of the Financial Services Council ('**Council**'), which in 2016 published the 'Life Insurance Code of Practice' ('**Life Code**') with the intention of establishing a framework to govern the professional behaviour and responsibilities of its members. Compliance with the Life Code is monitored by an independent committee which can sanction members of the Council for breaches of the Life Code. Latitude self-reported an area of non-compliance with the Life Code in respect of a non-financed option to purchase insurance for its personal loan products and has suspended all sales in relation to life insurance for personal loans (in addition to the suspension of sale of insurance on credit cards as set out above). Compliance with the Life Code may continue to impact Latitude's products and processes in relation to Latitude's insurance offering. There are also proposals for the Life Code, or parts of it, which are currently voluntary, to become enforceable at law, but the details of how this would apply, and any potential consequences for Latitude, are not yet known.

In New Zealand, Latitude is currently participating in an ongoing life insurance review by regulators. On 29 January 2019, the FMA and the RBNZ released their joint report: 'Life Insurer Conduct and Culture – findings from an FMA and RBNZ review of conduct and culture in New Zealand life insurers'. Hallmark Insurance was not included in this review. After the report was published, the FMA asked Hallmark Insurance and other life insurers that were not included in the initial review to respond to the FMA and the RBNZ in a similar manner. Hallmark Insurance provided its response to the FMA and RBNZ on 31 July 2019, which included a plan of key actions that Hallmark Insurance has taken in the recent past or is planning to take to improve customer outcomes.

No response from the FMA or RBNZ has been received to date. It is possible that the FMA or RBNZ will investigate further or require remediation in respect of matters reported by Hallmark Insurance. The regulators may also require further information to be provided by Hallmark Insurance.

5.2.1.6. Other investigations

Latitude is currently subject to further investigations by ASIC and AFCA (in addition to those issues discussed above), which demonstrate the increasingly active supervisory roles which these regulators are taking.

ASIC commenced a car finance industry review in September 2018. ASIC served notices requesting relevant policies and procedures, written statements, and data from industry participants. Information is in the process of being provided to ASIC. ASIC is investigating the customer files provided to it by Latitude under notice and the outcome of the review remains pending.

ASIC is also currently investigating Latitude's records of telephone conversations with customers in relation to the remediation of CCI, including its call monitoring program and hardship application remediation procedures, for compliance with relevant laws. This investigation has not yet been finalised.

In addition to the responsible lending and insurance related issues discussed above:

- AFCA has asserted another three possible systemic issues relating to various customer on-boarding processes and procedures, insufficient policies and procedures in relation to the provision of written copies of agreed repayment arrangements, and insufficient processes in relation to the protection of customers' privacy and/or not robustly ensuring adherence to current processes. Two of these matters have now been closed without a finding of a systematic issue, and the other matter remains open; and
- FOS (prior to its replacement by AFCA) referred an alleged systemic issue to ASIC involving Latitude's collection practices in a specific set of customer circumstances, which FOS considered should have been temporarily suspended.

While Latitude disagrees with AFCA's and FOS' conclusions, particularly that the specific circumstances being investigated which are applicable to a limited number of customers may constitute systemic compliance issues, the outcome of these matters, and any impact on Latitude, is yet to be determined.

Any adverse determination in respect of any of these investigations may have an adverse impact on Latitude's business or financial performance.

5.2.1.7. General licensing risks

As discussed in Section 2.5.3, Latitude is required to be licensed by, and/or registered with, various government regulators in order to offer a number of its products across Australia and New Zealand.

If any licence holder does not comply with its licences or meet other regulatory requirements (including with respect to responsible lending), the licence holder could be subject to penalties, more onerous licence conditions, the imposition of licence restrictions or the loss of its licences. If Latitude is unable to retain its current licences, authorisations and/or registrations, or renew them on favourable terms when they become due, Latitude may not be able to continue to operate its business, or aspects of its business, in its current form. Additionally, the loss of certain licences, authorisations or registrations may impact Latitude's ability to obtain securitisation and other funding. If this occurred, Latitude would be required to seek funding from alternative sources, which may not have as favourable terms as those historically enjoyed by Latitude.

A combination of three recent legal changes has greatly increased the risk associated with any non-compliance with licence conditions by Latitude in Australia:

- Civil penalties for licence non-compliance have been significantly increased;
- Civil penalties now apply to a number of general licence obligations that were previously not subject to penalty. These obligations include the obligation to act honestly, efficiently and fairly, the obligation to ensure customers

are not disadvantaged by conflicts of interest, and obligations in relation to training, compliance arrangements and adequate resourcing; and

- ASIC has adopted a "why not litigate" stance, which promotes the consideration of the prosecution and assessment of penalties through court action, as opposed to private settlement and has been commencing proceedings in relation to some matters which have been on foot for extended periods (and have since been subject to remediation).

These developments may increase Latitude's exposure to civil penalties for non-compliance with licences which may adversely impact Latitude's reputation and financial condition.

5.2.1.8. Recent regulatory change

There are a number of recent regulatory changes or public announcements on regulator expectations which have been made which may impact Latitude's business, where the consequences of these changes for Latitude's business may not yet be fully known or realised. For example:

- As set out in Section 2.5.4, there has been a recent expansion in the power of regulators, including APRA's powers to make rules regarding the lending activities of non-ADIs and ASIC's new product intervention powers. AFCA has also been recently established with a broad jurisdiction to resolve disputes on the basis of fairness even where there has been no breach of law. There is a risk that these new powers may be exercised in a manner which is adverse to Latitude. In the CCI Report discussed above, ASIC mentions the possibility of using a product intervention order, which can require the suspension of sale of a product, or modification of the terms on which it is sold, in relation to CCI if its proposed standards are not met. ASIC's first proposal to use the product intervention power is to impose cost controls on short term credit, an exemption under the NCC which could be the basis on which BNP products are offered (although this is not the exemption that Latitude's BNPL product is based on). It is possible that APRA, ASIC or AFCA's exercise of their powers may, with time, extend to Latitude's products and this may have an adverse effect on Latitude's business or financial performance.
- As also set out in Section 2.5.4, design and distribution obligations for financial products received Royal Assent in Australia in April 2019 and will take effect in April 2021. Latitude will consider the potential impact of these obligations. There is no assurance that Latitude might not, as a result of this review, be required to make changes to its products that adversely impact its business or financial performance.
- In addition to changes resulting from evolving interpretations and an increased focus on responsible lending practices generally, there has also been increased regulator focus, as well as actual and proposed legislative reform, on specific aspects of the regulation of credit cards and the provision of consumer credit in Australia. These include the ASIC Credit Card Report, released in July 2018, which sets out the outcome of ASIC's review of credit card lending in Australia. The ASIC Credit Card Report and the follow up to this report also set out ASIC's expectations in respect of the standards to be applied by credit card providers and the reforms or regulatory oversight which ASIC proposes to ensure that credit card providers operate in a manner consistent with ASIC's expectations. In response to the findings in the ASIC Credit Card Report, Latitude made changes to the way it assesses an applicant's capacity to repay a credit card limit when an applicant proposes a credit card limit. Latitude's capacity calculation for Australian credit cards now allows for the customer to repay the entire limit within three years (as opposed to five years previously). Latitude continues to assess the financial and operational impact of adhering to ASIC's other expectations as detailed in the ASIC Credit Card Report. The changes which ASIC will ultimately adopt, and the enforcement approach it will ultimately take in respect of the changes, remain uncertain. The changes, or ASIC's approach to enforcement of the changes, could be different to what Latitude expects or has assumed and this may, in turn, impact on Latitude's ability to approve new applicants and originate new loans.

5.2.1.9. Possible future regulatory changes and risks

The legislative and regulatory environment in which Latitude operates is subject to change, which may impact Latitude's business model. While Latitude keeps abreast of potential and actual changes to the legislative and regulatory environment, and engages with various regulators and government stakeholders, Latitude cannot predict what legislative or regulatory changes may be made in the future or the impact of future legislative or regulatory change on its business, particularly in circumstances where the financial services industry in Australia and New Zealand is under enhanced scrutiny following the Banking Royal Commission. If, for example, there are changes to the regulatory environment, such changes could necessitate Latitude ceasing to provide certain of its current suite of products or necessitate changes to Latitude's processes or procedures, and take-up of Latitude's products could decline. Moreover, additional and increasingly complex new regulation may increase the cost of compliance (and the risk of non-compliance) for Latitude or compel Latitude to prioritise the implementation of systems or processes for compliance reasons, thereby delaying or impeding the implementation of other customer oriented or revenue generating initiatives. Pricing changes could also be necessary due to regulatory changes.

There are a number of legislative initiatives and regulatory reviews which have recently been completed or are underway in Australia and New Zealand which may impact Latitude's business, such as the following:

- Banking Royal Commission recommendations (many of which the Australian Government intends to consult on and introduce legislation in respect of by 30 June 2020) including:
  - The abolition of the Point of Sale Exemption. The Australian Government has indicated that it accepts this recommendation and proposes to consult on and introduce legislation by 30 June 2020, but it is not yet clear precisely what form the implementation of this recommendation will take, in particular, whether the point of sale exemption will be retained in part, and when the reform will be enacted or come into force. It is also not clear if the related exemption for co-branded credit cards (which Latitude also uses) will be affected. These exemptions facilitate the sale of Latitude's products at the stores of its merchant partners without the need for those merchant partners to be licensed. If these exemptions are cancelled or restricted, the manner in which, and the cost at which, Latitude distributes its products could be negatively impacted. While Latitude is exploring a number of options to mitigate the impact of any change as set out in Section 3.3, until the precise form of the reform or abolition of the point of sale exemption is confirmed, the impact of any change remains uncertain.
  - As discussed in Section 2.5.4, various recommendations that may impact on the design and sale of insurance products. These have each been supported by the Australian Government and by ASIC in its CCI Report, and a number of recommendations of the Banking Royal Commission which overlap with the CCI Report are already being implemented (see further Section 5.2.1.3 above). However, while the Government has proposed to introduce legislation in relation to a number of these matters by 30 June 2020, the banning of insurance sales by unsolicited calls may commence earlier via an exercise of ASIC's modification powers, and the overall implementation time frame for legislative change is unclear. In addition, as noted above in Section 5.2.1.3, while the financial impact of the temporary suspension of sale of insurance on credit cards is not expected to be material, until the precise form of the legislative changes in respect of insurance arising out of the Banking Royal Commission is known, the overall impact of the changes on Latitude remains uncertain.
  - Extending the Banking Executive Accountability Regime ('**BEAR**') to APRA regulated insurers and potentially other licence holders. This will impact Hallmark Insurance in the short term (over the next 12 months) and might also impact Latitude. Work has commenced to prepare Hallmark Insurance for the new regime, however there is uncertainty about the manner in which the BEAR regime will be implemented for non-ADIs, and until the final form of the regime is known, there remains uncertainty about its impact on Latitude. The Australian Government intends to consult on and introduce legislation by the end of 2020.
  - In relation to the model for the remuneration of front-line staff, which was identified as an area for improvement. Latitude has made changes to the remuneration model for its front-line staff through the introduction of a balanced scorecard that has financial performance capped at 50% of the assessment criteria. However, it is possible that a regulator may take the view that Latitude's remuneration models remain insufficient.
  - To create enforceable provisions of voluntary codes. Latitude currently belongs to several voluntary codes (including the Life Code as discussed above). Depending on precisely which codes and which provisions will have the effect of law, implementing additional compliance mechanisms within Latitude may have an adverse financial or operational impact on Latitude.
- As noted in Section 2.5.4, there is also a reasonable likelihood that the Commerce Commission in New Zealand will take the lead from the recommendations of the Banking Royal Commission to effectively align New Zealand laws and required practices with those in Australia over time.
- As noted in Section 5.2.1.4, LatitudePay and Genoapay are not currently specifically regulated in Australia or New Zealand outside of regulation applicable to businesses generally (including anti-money laundering and credit reporting regulation) and, in New Zealand, the aspects of the CCCFA that relate to "credit contracts" generally (primarily, restrictions on oppressive terms and oppressive conduct), as opposed to the more onerous provisions that apply to "consumer credit contracts". An Australian Senate Economics References Committee report recently recommended that some regulation of BNPL products be considered, including some degree of responsible lending, internal and external dispute resolution, hardship requirements, disclosure requirements, and a requirement that such products provide value for money. ASIC's product intervention power could also be

used to implement certain aspects of these recommendations without changes to the law. There are also proposals for regulation-making powers in New Zealand which could bring such products within the scope of "consumer credit contract" regulation. There is a risk that a number of laws and regulations may be adopted with respect to these products covering such issues as user privacy, pricing, the content and quality of products and services, intellectual property rights and information security which could impact on Latitude's business model for these products. Latitude's BNPL products may become subject to greater regulation and higher costs in one or both of Australia or New Zealand which may adversely impact Latitude's business and financial performance.

- As noted in Section 2.5.3 and above at Section 5.2.1.2, ASIC's review of its existing regulatory guide into responsible lending, RG 209, is expected to be completed towards the end of 2019 with a revised RG 209 issued at or around that time. If this sets out a higher standard for income or expense verification than Latitude currently applies or is expecting in the future to apply, this may increase Latitude's costs and negatively impact the performance of Latitude's portfolio and reputation, its future origination activities, customer conversion rates and its ability to attract new funding.
- In New Zealand, as discussed in Section 2.5.4, a draft bill to amend the CCCFA was introduced into Parliament on 9 April 2019. In addition to enhanced safeguards in respect of responsible lending, the changes also seek to enhance safeguards, facilitate enforcement and provide further clarity for compliance purposes across a range of areas including advertising practices, setting of fees, compliance oversight, as well as provide for increased enforcement penalties and outcomes. There are also a number of current reviews and options papers in respect of the roles of regulators and the regulation of the credit card and insurance industries discussed in Section 2.5.4 where the outcomes are currently unknown but could potentially have an adverse impact on Latitude's business in New Zealand. If, for example, non-bank lending institutions such as Latitude were brought into the regulatory scope of the RBNZ (in whole or in part) in the same way as other regulated entities, then this could impact Latitude's business in New Zealand with respect to requirements to hold regulatory capital, seek and maintain ratings and implement additional governance.
- As discussed in Section 2.5.4, the New Zealand Government has announced that a new statutory conduct regime will apply to banks, insurers (which includes Hallmark Insurance) and non-bank deposit takers in New Zealand, including a requirement to be licensed by the FMA for their conduct. It is possible that the scope of this conduct regime could be expanded in the future to include lenders who are not non-bank deposit takers.

Latitude holds a significant amount of personal information about its customers. Laws relating to data privacy are evolving across all jurisdictions. If data privacy standards are adopted in Australia and New Zealand which are more stringent than those which Latitude's systems are currently designed to comply with, then this could lead to additional costs and negatively impact Latitude's financial performance.

Each of the above initiatives has, either in themselves or through their potential consequences or effects, the potential to adversely affect Latitude's business in Australia and New Zealand.

5.2.2. Information technology

5.2.2.1. Reliance on technology

The financial services industry as a whole relies heavily on information technology and Latitude's ability to provide reliable services, pricing and accurate and timely reporting for its customers is dependent upon the ongoing performance of its information systems, software and telecommunications equipment which include specialised and proprietary software systems, third-party suppliers (including of software), IT infrastructure and back-end data processing systems. Latitude's technology platform may be disrupted, become outdated or cease to function efficiently for both Latitude and its customers. Latitude currently has a relatively high ratio of legacy infrastructure and systems which carry a risk of suboptimal function or system failure. This, in turn, places a high degree of importance on Latitude's disaster recovery capability which at this stage is still developing.

Latitude has completed multiple material technology initiatives and upgrades and has a program in respect of future material systems changes. The implementation of such technology changes and upgrades has caused, and may continue to cause, interruptions, transaction processing errors and system conversion delays, all of which could have an adverse effect on Latitude's business.

Latitude's core technologies and other systems also face risks including damage or interruption from systems failures, computer viruses, cyber-attacks and data theft (as to which, see Section 5.2.2.3) and other events.

Any systemic failure, cybersecurity breach or sustained disruption to the effective operation of Latitude's technology platform could damage Latitude's reputation and its ability to generate new business or retain existing business, and directly impair Latitude's ability to comply with its regulatory and contractual obligations, assess credit risk and undertake collection management and maintain its operations and customer service levels. It could also necessitate increased expenditure on technology or generally across the business. These risks are particularly acute during times of material system change, which Latitude continues to address (having made considerable progress over the last three years).

The risk of disruption to Latitude's business activities, due to the failure of aged technology platforms and assets resulting in an inability to obtain support to restore platforms or to obtain hardware that enables one or more business functions to operate, is being focused on. This also includes incomplete and untested disaster recovery capability for critical customer and revenue generating platforms.

To the extent that Latitude utilises software and other information technology under contract with third-party suppliers, the use of such software is also subject to the additional risks described in Section 5.2.11 below.

5.2.2.2. New technologies and business processes

Latitude expects that new technologies and business processes applicable to the financial services industry will continue to emerge, and these new technologies and business processes may be better than those Latitude currently uses. Latitude's future success will depend, in part, on the effective use of technology to increase efficiency and to enable Latitude to better serve customers and reduce costs. The pace of technological change is high, and the financial services industry is intensely competitive. To manage this risk, a key focus of Latitude's strategy is substantial investment in enhancing its technology and digital platforms and tools to improve its products and customer experience, and lower its costs. Oversight of the execution of this strategy is and will receive significant focus of Latitude's resources.

Despite this, there is no guarantee that return on investment will meet expectations and Latitude cannot be sure that it will be able to sustain its investment in new technology as critical systems and applications become obsolete and better ones become available. A failure to maintain current technology and business processes could also cause disruptions in Latitude's operations or cause Latitude's products and services to be less competitive. A failure of Latitude to achieve scale in its new technology could also lead to a failure to achieve Latitude's overall strategic objective (see further in Section 5.2.4).

In addition, the business of providing products and services through digital mechanisms is dynamic and highly competitive. Latitude must keep pace with rapid technological change, consumer use habits, internet security risks, risks of system failure or inadequacy, and governmental regulation and taxation, and each of these factors, if not appropriately addressed, could adversely impact Latitude's business model.

5.2.2.3. Cybersecurity

In the normal course of business, Latitude collects, processes and retains personal, sensitive and confidential information regarding its partners and its customers. Latitude also has arrangements in place with its partners and other third parties through which it shares and receives information about their customers who are, or may become, Latitude's customers.

Latitude devotes significant resources and management focus to ensuring the integrity of its systems through information security and business continuity programmes. Notwithstanding this, Latitude's facilities and systems, and those of its partners and third-party service providers, are subject to the risk of external or internal security breaches, cyber-attacks, data theft, acts of vandalism, computer viruses, misplaced or lost data, programming or human errors, or other similar events. It is possible that the measures taken by Latitude (including firewalls, encryption of client data, privacy policy, and policies to restrict access to data to authorised employees) will not be sufficient to detect or prevent unauthorised access to, or disclosure of, personal or confidential information, whether malicious or inadvertent.

While Latitude maintains insurance policies in respect of such risks, cyber-attacks and other security breach events could interrupt Latitude's business or operations, result in significant legal and financial exposure and loss of intellectual property and confidential information, cause breaches of Latitude's obligations under applicable laws and regulatory standards (e.g. data privacy laws, APRA Prudential Standard CPS 234 – Information Security) or client agreements, or lead to supervisory liability or a loss of confidence in the security of Latitude's systems, products and services which may, in turn, have an adverse impact on Latitude's reputation.

5.2.3. Changing consumer preferences and competitive threats

The industry in which Latitude operates is subject to changing consumer trends, demands and preferences. Responding to new market trends can require significant investment. A failure by Latitude to anticipate, identify and react to these changes in a timely manner could lead to reduced demand and margins for Latitude's products.

In this respect, there has been an increased preference of customers for debit over credit products and a decline in demand for unsecured personal lending. It is therefore key that Latitude focuses on developing new, and enhancing existing, products to provide an attractive payments offering to its existing and new merchants, as well as customers. An example is the recent launch of LatitudePay, which is a payment product that will be made available to existing, as well as new, merchant partners. Latitude is also focusing significant resources on enhancing the digitally-enabled customer experience for its new and existing products. However, there is no certainty that these initiatives will be successful in achieving their goals. Accordingly, should the trend away from credit to debit and other payment products increase exponentially or faster than Latitude anticipates, there could be adverse or positive impacts on Latitude's business and financial performance.

In addition, the financial services industry is subject to rapid and significant changes in technologies, products and services, including continually changing ways for merchants and consumers to obtain access to credit and make and process payments. A key part of Latitude's continuing financial success will depend on its ability to develop and commercialise new products and services or enhancements to existing products and services. Latitude's ability to develop, acquire or commercialise competitive technologies, products or services on acceptable terms or at all may also be limited by intellectual property rights that third parties, including competitors and potential competitors, may assert. In addition, success is dependent on factors such as partner and customer acceptance, adoption and usage, competition, the effectiveness of marketing programmes, the availability of appropriate technologies and business processes and regulatory approvals, none of which can be guaranteed. Further, because Latitude's products and services typically are marketed through merchant partners, if merchant partners are unwilling or unable to effectively implement Latitude's new technologies, products, services or enhancements, Latitude may be unable to grow its business. Latitude's failure to successfully develop and commercialise new or improved products, services or enhancements, including new ways for customers to obtain access to credit and make and process payments, could have an adverse effect on its business and results of operations.

Latitude's industry is competitive. Actions by existing competitors or new entrants to the market could result in reductions in Latitude's lending volumes, reduced margins and/or loss of market share. The entry of new external providers of consumer finance or payments technology into the Australian or New Zealand market, or the introduction of new credit or payment products or more aggressive credit, premium rates or other competitive behaviour by competitors has increased and could potentially further increase competition in the industry, which may result in Latitude having to reduce its rates and/or may have an adverse impact on Latitude's profitability or financial condition.

5.2.4. Execution risk on initiatives and strategies

There is no guarantee that any of Latitude's growth initiatives will be successfully implemented or that Latitude will deliver the expected returns arising from those initiatives. Latitude has implemented a number of significant initiatives designed to improve Latitude's risk management systems, enhance its services and new products provided to customers, and improve the efficiency of its business, including investing in technology to achieve its strategic objectives, meet changing customer expectations and respond to competitive pressures.

Latitude has been working to implement its Latitude 2.0 strategy, including marketing its L-Pay and L-Money products and launching LatitudePay, Latitude's BNPL product in Australia. There is a risk that the benefits of these initiatives or other initiatives currently being pursued may be subject to unexpected delays, that costs may overrun or that the initiatives, such as new product launches or potential acquisitions, may not generate the financial returns that are intended or that the failure to adequately execute these changes, particularly in an environment of intense change across Latitude's business, may increase operational and compliance risks or adversely impact customers.

Latitude will also continue to consider, and may pursue, options with respect to inorganic growth, including by way of potential acquisitions by Latitude of other businesses. Genoapay in New Zealand is a recent example of a business that Latitude has acquired with the aim of facilitating growth for Latitude. However, there is no certainty that any future acquisitions will be successful or will not expose Latitude's business to additional risk.

5.2.5. Macroeconomic conditions

Macroeconomic factors such as unemployment, underemployment, interest rates, lack of income growth, the amount of consumer spending, business investment, government spending, government policy, the volatility and strength of the global and Australian and New Zealand capital markets, currency value, exchange rates and inflation (particularly of essential items) all affect the business and economic environment and, ultimately, the volume and profitability of Latitude's business.

Global factors such as the uncertainty regarding the exit of the United Kingdom from the EU (commonly referred to as 'Brexit'), geopolitical tensions, global trade developments relating to the imposition or threatened imposition of trade tariffs by the United States, China and other countries, slowing global growth and growing recessionary concerns, and capital market volatility, all have the potential to lead to extended periods of economic uncertainty and volatility in financial markets.

Given the concentration of Latitude's business in Australia and New Zealand, it is particularly exposed to changes in macroeconomic conditions in those countries. Further, whilst interest rates are expected to stay low in the short to medium term, in the event of higher interest rates or inflation, or deterioration in Australian and New Zealand economic conditions, this may increase the likelihood that borrowers will become unemployed or have insufficient income to pay their debts. It may also decrease underlying consumer spending that drives demand for Latitude's products. Further, consumer confidence and spending may not necessarily correspond with levels of unemployment or inflation, as consumer confidence and spending has waned even in the absence of such conditions against the backdrop of global uncertainty and slowdown.

Likewise, as noted in Section 5.2.6, if interest rates in respect of Latitude's funding were to rise – and, in particular, if they were to rise materially over a sustained period of time – and if Latitude was unable to raise its interest rates, merchant service fees or other customer fees in a sufficient and timely manner, or at all, Latitude's operating income and NPAT could be adversely impacted.

An adverse change in any or all macroeconomic factors may adversely affect the demand for consumer finance loans, and could negatively impact the Australian and New Zealand personal loan and motor vehicle finance markets, decreasing the demand for Latitude's products, and potentially impacting the ability of Latitude to dispose of impaired debt.

One or a combination of the factors described above could lead to an increased frequency of delinquent loans, an increase in the proportion of non-performing loans to performing loans and decreased demand for insurance.

A divergence from the macroeconomic and market assumptions set out in Section 4.7.2 or an expectation that macroeconomic conditions may deteriorate may require Latitude to increase its reserves, which could result in an unexpected change to NPAT in FY19 forecast and LTM 20. Refer to Section 4.7.

5.2.6. Access to, and cost of, funding

Latitude's funding platform currently comprises a mix of Warehouse Facilities, Term Securitisations, corporate debt facilities and balance sheet cash. As noted in Section 3.7.1, Latitude depends on these sources to fund originations and for the funding of receivables and therefore may face funding risks. As detailed below, a loss of, or adverse impact on or in relation to, one or more of Latitude's funding sources (including the terms of such a funding arrangement), without access to alternative funding sources on comparable terms, could limit Latitude's ability to write new business or to write business on favourable terms, or to refinance expiring Warehouse Facilities and other facilities or meet additional requirements of capital to grow its business and invest in new product lines.

5.2.6.1. Warehouse Facilities and Term Securitisations

There is a risk that a default or other event under Latitude's Warehouse Facilities and Term Securitisations may impact the profitability, financial position and prospects of Latitude. A default or other event may arise from Latitude's breach of its servicing or management obligations or representations that Latitude gives in connection with the origination of assets (such as in relation to Latitude's compliance with its responsible lending obligations and other laws). These may also arise from factors outside Latitude's control, such as a deterioration in the credit quality or performance of the pool of loans funded under the relevant Warehouse Facility or Term Securitisation.

If a condition precedent to funding under a Warehouse Facility is not satisfied, Latitude may be unable to draw on the Warehouse Facility to fund the origination of new loans. A more serious event in a Warehouse Facility or Term Securitisation may cause an amortisation event or an event of default. Under an amortisation event or an event of default, the obligation of lenders to provide any further funding is terminated, the interest rates accruing on the notes may increase and there will be no residual income available to Latitude from the trust until senior ranking debtors are repaid or the event is remedied. Depending on the trigger event, senior financers may also have the option to replace Latitude as servicer and manager and may enforce their security over and sell the pool of loans held by the relevant Funding Vehicle.

There is a risk that Latitude may not be able to renew a Warehouse Facility when it is due for renewal. If the Warehouse Facilities are not renewed, and Warehouse Facilities do not continue on, or are not renewed on, terms as favourable to Latitude as the current terms, this could materially impact Latitude's ability to fund new loans.

There is a risk that Latitude may be restricted from refinancing an existing Warehouse Facility through a Term Securitisation because it is unable to obtain the consent of the Warehouse Facility lenders (which will be required if various performance tests in the Warehouse Facility are not satisfied) and/or because of general market conditions in the capital markets.

There is a risk that, although the recourse of the financiers to Warehouse Facilities and Term Securitisations is typically limited to the pool of assets backing that facility, Latitude may be exposed to losses incurred by financiers where those losses are due to breaches by Latitude of representations made with respect to those assets, breaches of obligations by Latitude under the transactions or limited indemnities relating to certain events.

Latitude may also suffer losses incurred on subordinated facilities that it provides to Warehouse Facilities and Term Securitisations if there are losses incurred on the funded assets or associated with the repurchase of underperforming assets from certain Warehouse Facilities and Term Securitisations. If certain performance triggers occur under the Warehouse Facilities, Latitude may be required to provide additional subordinated funding. Latitude may also decide to repurchase underperforming assets or to provide additional subordinated funding, each using unrestricted cash or cash equivalents, to mitigate the risk of such a performance trigger being breached. This could adversely impact Latitude's financial performance.

If the performance of a Warehouse Facility or Term Securitisation deteriorates, it is possible that a rating by a credit rating agency may be downgraded or withdrawn. This may have an impact on the pricing of future Latitude funding transactions and negatively impact on the willingness of financiers to extend Warehouse Facilities or participate in new funding transactions.

Latitude's business is heavily reliant on securitised funding, and if a major disruption occurs in the capital markets or if financial institutions become less willing or unable to provide Warehouse Facilities, Latitude may experience difficulties financing its business. Latitude's business may also be similarly impacted by a fall in demand for its Term Securitisations.

5.2.6.2. Corporate debt facilities

There is a risk that, due to an event of default or a review event, Latitude's corporate debt providers may either demand repayment of or cancel the facility provided by it, fail to renew its facility following its maturity, or renew the facility only in part or on less favourable terms.

As a result, Latitude is subject to a risk that it may be unable to refinance its corporate debt facility upon acceleration or maturity, or may be unable to do so on as favourable terms, and consequently may face greater funding costs or be unable to obtain sufficient facilities to fund its growth activities.

5.2.6.3. Increased cost of funding

Latitude earns interest income and associated revenue from providing gross loan receivables (e.g. interest income from customers, merchant services fees received from respective retailers, and other fixed rate fees), offset by funding costs relating to the funding of those receivables through its Warehouse Facilities and Term Securitisations. Latitude, other than for personal and auto loans, does not generally enter into interest rate hedges to protect itself against increases in interest rates. If wholesale market interest rates rise, then Latitude's cost of borrowing will similarly rise. Latitude may be exposed to increased funding costs (including as a result of interest rate rises) on its existing or new Warehouse Facilities or Term Securitisations as part of the renewal process or increased wholesale interest rates which may not be able to be immediately passed on to existing customers or merchant partners.

Compared to historical averages, current base interest rates across Australia and New Zealand are low. There is a risk that in a rising interest rate environment, or if credit market volatility returns creating a widening margin between the cash rate and wholesale market rates, Latitude will be exposed to increasing funding costs and the ability of Latitude to pass on any interest rate or other margin increases on its Warehouse Facilities to existing customers or merchant partners may be impacted by factors such as:

- The nature of Latitude's instalments product, which provides periods of interest free lending to customers, that result in Latitude being unable to pass on any increase in funding costs for the duration of the interest free period for that portion of the loan;
- Competitive pressures preventing Latitude increasing headline pricing on core products;

- Political pressures on other market participants to absorb increased funding costs; and
- Inability to renegotiate higher merchant fees from key merchant partnership agreements.

Any material increases in funding costs and an inability to pass these increased costs on to customers and merchants may have a material impact on Latitude's future funding costs, adversely affecting Latitude's financial performance, net earnings and/or new sales volumes.

5.2.7. Risk management

Latitude's risk management processes and procedures seek to appropriately balance risk and return and mitigate risks. Latitude has established processes and procedures intended to identify, measure, monitor and control the types of risk to which Latitude is subject, including strategic, financial market, insurance, credit, liquidity, compliance, HR resourcing (quality and quantity), workplace, health and safety, information security and cybersecurity, business disruption, processing errors, conduct and product development risk. There may also be risks that exist, or that develop in the future, that Latitude has not appropriately anticipated, identified or mitigated including when processes are changed, or new products and services are introduced. If Latitude's risk management framework does not effectively identify and control these risks, Latitude could suffer unexpected losses or be adversely affected.

5.2.7.1. Operational and conduct risk

Operational risk relates to the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events which affect Latitude's business. Latitude is exposed to operational risks including process error, internal and external fraud, system failure, failure of communications technology and failure of security and physical protection systems. Latitude also faces conduct risk – being the risk to the delivery of fair customer outcomes, or to market integrity. Loss from operational risk events could adversely affect Latitude's financial results, as well as divert staff away from their core roles to remediation activity. Such losses could include fines, penalties, loss or theft of funds or assets, legal costs, customer compensation, loss of shareholder value, reputational loss, loss of life or injury to people, and loss of property and/or information. In the last three years, Latitude has spent time upgrading and migrating from certain of its predecessor's systems and processes, where such systems have become outdated. As a result, Latitude has had to, and will need to continue to, manage backlogs, enhancements, remediation and platforms shifts which, in certain cases, could adversely impact Latitude's business.

Latitude's operational and conduct risks also include its reliance on salespeople – who in some cases are employees of Latitude's merchant partners (or broker partners) and not Latitude – to comply with Latitude's operational systems and processes when offering its products. There is a risk of failure (accidental or intentional) by salespeople (either Latitude employees or the employees of Latitude's merchant or broker partners) to comply with Latitude's operational systems and processes. Non-compliance with proper systems and processes may expose Latitude to operational risks including process error and system failure, and regulatory non-compliance, and may result in loss or damage to Latitude. The potential impact of these risks could be increased to the extent that certain aspects of Latitude's growth strategy involves expansion through new merchant and broker partnerships.

Latitude provides training and support to salespeople of its merchant and broker partners to act according to Latitude's processes and is strengthening the training content, allocation and monitoring of completion of training by salespeople. Further, Latitude has recently implemented enhancements to controls required of its merchant and broker partners (in Australia) and monitoring of these controls. Latitude continues to assess and develop additional ways of training for and monitoring the sales practices of its merchant or broker partners. However, while Latitude has sales monitoring controls in place, it has no direct supervisory control over salespeople employed by merchant or broker partners and there is a risk of inappropriate conduct leading to adverse financial, customer and/or reputational impacts.

It is also possible that Latitude could be exposed to reputational risk in connection with the business conduct of third-party services providers (including IT service providers and providers of operational and business process support). They may not comply with Latitude's processes and procedures and/or the terms of the distribution or contractual agreements in place with Latitude. The use of such services or products under contract is subject to other risks described in Section 5.2.11 below, including failure on the part of the service provider to adequately provide the service in accordance with its terms or to Latitude's requirements.

5.2.7.2. Credit risk

Latitude is exposed to its customers' ability and willingness to meet their payment obligations during the term of their contracts. Latitude's business model recognises that a certain proportion of its customers will default on their payments, and Latitude has systems in place to monitor credit risk and likelihood of default, as well as collections processes. Latitude also has responsible lending obligations, which are discussed in Section 5.2.1.2. However, the level of defaults could be higher than that assumed by Latitude or experienced by Latitude historically, or could result from agreed remediation outcomes arising from regulatory investigations.

In addition, Latitude must maintain an allowance for loan losses compliant with the IFRS 9 accounting standard (a reserve established through a provision for losses charged to expense) that Latitude believes is appropriate to provide for expected losses in its loan portfolio. Latitude may underestimate its future expected losses and fail to maintain an allowance for loan losses sufficient to account for these losses.

Further, IFRS 9 is a relatively new global standard adopted in 2018 subject to methodology change as views of best practice emerge. Methodology changes may increase or decrease provisions; however, Latitude has calculated a provision in accordance with the requirements of IFRS 9 that adequately accounts however such risks.

There is no guarantee that Latitude's credit underwriting and risk management strategies will enable it to avoid high charge-off levels or delinquencies relative to those experienced historically, or that Latitude's allowance for loan losses will be sufficient to cover actual losses.

In addition, as Latitude executes its growth strategy, it expects to attract customers with more diverse credit profiles and risks than currently (potentially both higher and lower). This could be the result of new product design and launch, marketing activity, broader brand awareness, channel mix and the mix of new versus repeat Latitude customers applying for finance. There is a risk that default levels will rise beyond Latitude's expectations. An historical example of Latitude's net charge-off rates rising beyond Latitude's expectations resulted from iterative Champion/Challenger Testing with regard to risk/return is discussed in Section 4.6.2.2.

5.2.7.3. Fraud risk

Latitude is exposed to the risk that customers, employees, partners, individual borrowers and other third parties may seek to commit fraud against Latitude or in connection with the products and services that Latitude provides. Fraudulent behaviours could include individual borrowers or other parties conspiring to misrepresent their ability to service loans, overstating the value of their collateral, or undertaking identity theft in order to obtain loans.

Latitude's products may be susceptible to application fraud (such as the fraudulent behaviour of customers because, among other things, it provides immediate access to the credit line at the time of approval for some product lines. Latitude's business is also subject to the risk of transaction fraud, for example where those in possession of stolen or falsified credit cards or compromised card information attempt to transact.

Latitude may continue to experience variations in, or levels of, fraud-related expense that are different to or higher than experienced by Latitude in the past, or to that experienced by Latitude's competitors or the industry generally.

Latitude relies on its systems and processes, as well as certain external providers and processes, to identify fraud and minimise its impact should it occur. Failure of these controls and the subsequent underwriting of fraudulent loans could result in damage to Latitude's reputation or standing with funding providers or impact Latitude's ability to attract new customers. Further, increased fraud beyond historic levels may have an adverse impact on the financial performance and prospects of Latitude.

5.2.7.4. Reliance on models

Latitude relies extensively on models in managing many aspects of its business, including stress testing, forecasting, cash flow, customer selection, credit and other risk management, pricing and collections management.

As an example of the importance of Latitude's models, Latitude's proprietary credit models automatically filter applications and determine those to approve, the applicable credit limit and interest rate charged for products (including personal loans and auto loans). The scoring process also identifies applications that require manual review (e.g. for proof of income checking) and underwriting in line with the scalable approach to responsible lending adopted by Latitude.

Models may prove in practice to be less predictive than Latitude expects for a variety of reasons, including as a result of errors in constructing, interpreting or using the models or the use of inaccurate assumptions (including failures to update assumptions appropriately or in a timely manner) or in the case of credit scorecards a shift in the profile of new applicants. Latitude's assumptions may be inaccurate for many reasons, including that they often involve matters that are inherently difficult to predict and beyond Latitude's control (e.g. macroeconomic conditions and their impact on partner and customer behaviours) or due to system or control errors. The errors or inaccuracies in Latitude's models may be material, and could lead Latitude to make wrong or sub-optimal decisions in managing Latitude's business.

5.2.8. Reliance on commercial partnerships

Latitude distributes its products through a number of channels and intermediaries, including merchant partners for its payments and instalments products and brokers and white-label arrangements for its credit card and personal loan products. As a result, Latitude's future financial performance, prospects and financial condition depend in part on its ability to retain existing commercial partners, and attract new commercial partners, on acceptable terms.

In particular, Latitude is dependent on merchant partners as a key origination channel for new instalments product customers who are acquired through the offer of merchant partner products on an interest free basis at the retail point of sale and online. Given the nature of the Australian retail landscape, there are a number of merchant partners who are important distribution channels for Latitude. In the 12 months to 30 June 2019, 85% of Latitude's interest free instalments products volume was transacted with seven merchant partners signed to exclusive agreements with Latitude. Customer interest free volume generated from Latitude's top three merchant partners collectively accounted for approximately 15.9% of Latitude's total sales volume in FY18.

Latitude's financial performance, reputation and prospects depend, in part, on the operational and financial strength and integrity of these merchant partners. Accordingly, new entrants to, or new trends impacting, the markets of Latitude's merchant partners (such as online retailing) could result in reductions in the number of financing transactions such merchant partners facilitate, resulting in reduced margins and/or loss of market share for Latitude. Further, as a linked credit provider of its merchant partner, Latitude could suffer financial and/or reputational damage due to the failure of its merchant partners to deliver on their customer undertakings.

The terms of the distribution agreements with each of its merchant and other commercial partners vary, and there is no guarantee that Latitude will be able to negotiate new distribution agreements with any of its current merchant or other distribution partners on terms acceptable to Latitude upon expiry of those terms. If one or more merchant or other commercial partners were to terminate their agreements for any reason, if their agreements were renewed on terms less favourable to Latitude, or if one or more merchant or other commercial partners were to default on their agreement, become insolvent, lose market share or cease to sell or broker products financed by Latitude (reducing the Latitude distribution network), Latitude's financial performance, prospects and financial condition could be adversely impacted. If Latitude fails to retain a number of its existing merchant or other distribution partner relationships, this could have a material adverse effect on Latitude's results of operations (including growth rates) and financial condition to the extent that Latitude does not acquire new merchant or other commercial partners of similar size and profitability or otherwise grow Latitude's business.

Latitude's ability to retain existing and attract new merchant and other commercial partners ultimately depends on Latitude's ability to offer attractive products which merchants, brokers and white-label partners consider appropriate to the needs and preferences of their own customers. Latitude's ability to attract these commercial partners will therefore be dependent on its ability to keep pace with changes in the financial services and retail industries and end-consumer preferences as discussed further at Section 5.2.3.

5.2.9. Brands and reputation

Latitude's business relies, to a large extent, on relationships and its reputation to attract and retain customers and merchant and other commercial partners. Maintaining the Latitude brand is important to attracting and expanding Latitude's customer base, solidifying Latitude's business relationships and reputation and implementing Latitude's business strategy. Risks relating to legal and regulatory requirements, compliance matters, responsible lending and sales practices, potential conflicts of interest, litigation, privacy laws, cybersecurity and ethical issues may cause harm to Latitude's reputation. Any adverse perception of Latitude's reputation or image (or of others engaged in a similar business or activities) on the part of customers, partners, funding providers, rating agencies, regulators, investors and other counterparties, whether or not accurate, could adversely affect Latitude's business, operating and financial performance, and financial condition.

5.2.10. Recruitment and retention of key employees

Latitude's successful operation relies on its ability to attract and retain experienced and high-performing employees with specialist skills (including, in particular, a highly experienced team of senior managers and executives). There is a risk that a failure to retain certain senior management and executives or other employees could lead to the loss of, or a change in the conditions attached to, Latitude's AFSLs and/or ACLs. Failure to appropriately recruit and retain senior management and executives may adversely affect Latitude's ability to develop and implement its business strategies and result in a material increase in the costs of obtaining experienced senior management and executives and the potential irreplaceable loss of important subject matter expertise and knowledge unique to Latitude.

Latitude's digitisation project is also reliant on scaling up its workforce of skilled information technology and digital specialists. If Latitude does not attract and retain personnel with such skills, this may impact on its ability to achieve its strategic goals.

5.2.11. Reliance on supplier contracts and other agreements

There are a number of risks associated with Latitude's existing contracts and agreements (outside of the merchant partner distribution agreements described above), including those related to key information technology contracts with third-party suppliers. There is a risk that the Latitude's existing contracts may be terminated, lost or impaired or renewed on less favourable terms. Some of Latitude's contracts can be terminated without cause or on short notice periods (depending on the termination event or circumstances), and although the relevant parties may continue to operate on existing commercial terms, a number of Latitude's existing contracts have expired or will shortly expire.

A number of Latitude's contracts, including property leases, IT sourcing agreements and the Mastercard and Visa scheme agreements contain change of control provisions which will be triggered by the Offer. In the event that consent to the change of control is not obtained from the relevant counterparty, there is a risk that the contract could be terminated.

Further, Latitude is exposed to the risk that one or more of its third-party suppliers (including broker partners, IT service providers and providers of operational and business process support) may have failures in or interruptions to their operational processes and controls, default on their agreement with Latitude, become insolvent, lose market share or otherwise cease to be able to provide products or services to Latitude at its previous standards or in accordance with Latitude's performance requirements.

Additionally, Latitude is subject to a number of ongoing contractual obligations to counterparties, including obligations to make certain payments and to comply with certain regulatory (including industry) requirements, which the failure to comply with may lead, in certain circumstances, to termination of the relevant agreement. Latitude is also subject to various levels of potential liability under indemnity provisions in a number of its contracts and agreements. There is a risk that agreements may be terminated, or Latitude may be unable to meet its existing obligations or unable to adequately fund its exposure to damages or compensation owed to an indemnified party.

5.2.12. Impairment of intangible assets

As a result of the acquisition of what is now the Latitude business from GE in 2015, Latitude has a substantial value of acquisition related intangible assets on its balance sheet relating to goodwill and identifiable intangible assets in addition to other identifiable intangible assets. Under accounting standards, goodwill must be tested annually for impairment.

Other identifiable intangible assets are amortised and assessed for any indicator of impairment in each reporting period. Impairment of goodwill will result from a permanent diminution in value indicated by a decrease in cash flows below the level that supports the value of the asset. Impairment of other identifiable intangible assets will be made if any indicators of impairment are present. This may be caused by a range of factors, including a failure to achieve expected profit growth, higher than expected expenses, loss of customers, loss of key employees, or the impact of unforeseen events. In the event that the value of any of Latitude's intangible assets is found to be impaired to a level below its carrying value, Latitude would need to write down the value of the intangible asset. This would result in an expense in the income statement and reduced profit for Latitude.

5.2.13. Currency risks

Latitude's financial reports are prepared in Australian dollars. However, revenue, expenditure and cash flows, and assets and liabilities, from Latitude's New Zealand operations are denominated in New Zealand dollars. Latitude does not currently hedge exchange rate risk associated with New Zealand dollar earnings or assets. As a result, movements in the AUD/NZD exchange rate could affect Latitude's business, operating and financial performance.

5.2.14. Intellectual property risk

Competitors or other third parties may allege that Latitude, or consultants or other third parties retained or indemnified by Latitude, infringe on their intellectual property rights. Latitude also may face allegations that Latitude's employees have misappropriated intellectual property of their former employers or other third parties. Given the complex, rapidly changing and competitive technological and business environment in which Latitude operates, and the potential risks and uncertainties of intellectual property related litigation, an assertion of an infringement claim against Latitude may cause it to spend significant amounts to defend the claim, pay significant money damages, lose significant revenues, be prohibited from using the relevant systems, processes, technologies or other intellectual property, cease offering certain products or services, or incur significant licence, royalty or technology development expenses. Even in instances where Latitude believes that claims and allegations of intellectual property infringement against Latitude are without merit, defending against such claims is time consuming and expensive and could result in the diversion of time and attention of Management and employees. In addition, although in some cases a third-party may have agreed to indemnify Latitude for such costs, such indemnifying party may refuse or be unable to uphold its contractual obligations.

Moreover, Latitude relies on a variety of measures to protect Latitude's intellectual property and proprietary information, including its proprietary credit and fraud scoring models, which it uses for pricing loans. These include copyrights, trademarks, trade secrets and controls on access and distribution. These measures may not prevent misappropriation or infringement of Latitude's intellectual property or proprietary information and a resulting loss of competitive advantage, and in any event, Latitude may be required to litigate to protect Latitude's intellectual property and proprietary information from misappropriation or infringement by others, which is expensive, could cause a diversion of resources and may not be successful. Third parties may challenge, invalidate or circumvent Latitude's intellectual property, or Latitude's intellectual property may not be sufficient to provide Latitude with competitive advantages. Latitude's competitors or other third parties may independently design around or develop similar technology, or otherwise duplicate Latitude's services or products such that Latitude could not assert Latitude's intellectual property rights against them. In addition, Latitude's contractual arrangements may not effectively prevent disclosure of Latitude's intellectual property or confidential and proprietary information or provide an adequate remedy in the event of an unauthorised disclosure.

5.2.15. Interchange fees

Interchange fees are fees that merchants pay as part of the acquirer fees for the use of the network infrastructure and payment acceptance. The fees are paid to the issuer to compensate them for the risk they bear in facilitating financial transactions.

Merchants, trying to decrease their operating expenses, have sought to, and have had some success at, lowering interchange rates. Several events in 2018 (including the release of the Productivity Commission's report into Competition in the Australian Financial System) indicate a continuing increase in focus on interchange by both regulators and merchants.

Beyond pursuing litigation, legislation and regulation, merchants are also pursuing alternate payment platforms as a means to lower payment processing costs. To the extent that interchange fees are reduced or banned, one of Latitude's current competitive advantages with Latitude's merchant partners – that Latitude does not charge interchange fees when Latitude's instalments products are used to purchase Latitude's merchant partners' goods and services – may be reduced. Latitude's income from those fees (earned on products other than its instalments products) will also be lower (or cease). These factors could have an adverse impact on the profitability of Latitude's business.

5.2.16. Litigation

Latitude is not currently involved in any material litigation as a defendant and is not aware of any facts or circumstances that may give rise to any material litigation commenced against it. However, given the nature and scope of Latitude's activities and the wide range of parties it deals with, Latitude may be exposed to potential claims or litigation from third parties such as customers, regulators, employees and business associates, including merchant partners. In addition, to the extent that these risks are not covered by Latitude's insurance policies, litigation and the costs of responding to any threats of legal action or investigation may have an adverse impact on the financial performance or prospects of Latitude.

5.3. General Investment Risks

5.3.1. Price of Shares may fluctuate

Once Latitude becomes a publicly listed company on the ASX, it will become subject to the general market risk that is inherent in all securities listed on a stock exchange. This may result in fluctuations in the Share price that are not explained by the fundamental operations and activities of Latitude.

The price of Shares as quoted on the ASX may fluctuate due to a range of factors. These include the number of potential buyers or sellers of Shares on the ASX at any given time, fluctuations in the domestic and international market for listed stocks (and for financial services or insurance stocks in particular), interest rates, inflation rates, exchange rates, changes to government fiscal, monetary or regulatory policies, recommendations by brokers or analysts and the inclusion in or removal of Latitude from major market indices.

5.3.2. Trading in Shares may not be liquid

Prior to the Offer, there has been no public market for the Shares. Once the Shares are quoted on the ASX, there can be no guarantee that an active trading market for the Shares will develop or that the price of the Shares will increase. There may be relatively few potential buyers or sellers of the Shares on the ASX at any time. This may increase the volatility of the market price of the Shares and may prevent investors from acquiring more Shares. It may also affect the prevailing market price at which Shareholders are able to sell their Shares. This may result in Shareholders receiving a market price for their Shares that is less than the price that those Shareholders paid.

The Escrowed Shareholders will hold 65.0% of the Shares following Completion, which may impact liquidity. Further details are set out in Sections 5.3.3 and 5.3.4.

5.3.3. Existing Investors will retain a stake in Latitude post Listing

Following Completion of the Offer, the Existing Investors will hold Escrowed Shares constituting approximately 54% of the Shares on issue, which will reduce the size of the free float of Shares and may also impact on liquidity. In addition, each Existing Investor will have the right to nominate a Director to the Board of the Company so long as the relevant Existing Investor's Escrowed Shares represent at least 10% of the Shares on issue or at least 5% of the Shares on issue while an Existing Investor's Shares are subject to a voluntary escrow with the Company.

The Existing Investors have entered into voluntary escrow arrangements in relation to Escrowed Shares. A summary of the escrow arrangements in relation to the Offer is set out in Section 9.8.1. The absence of any sale of Escrowed Shares by the Existing Investors during the relevant escrow period may impact liquidity in the market for the Shares.

Following the expiration of the relevant escrow period (or the application of limited exceptions), Shares held by the Existing Investors will be able to be freely traded on the ASX. A significant sale of Shares by an Existing Investor, or the perception that such sale might occur, could impact the Share price. Alternatively, the absence of any sale of Shares by the Existing Investors in the period following the escrow period may impact liquidity in the market for the Shares.

These factors combined could affect the prevailing market price at which Shareholders are able to sell their Shares.

5.3.4. Minority Investors will retain a stake in Latitude post Listing

Following Completion of the Offer, approximately 9% of the Shares on issue will be held by the Minority Investors pursuant to the Restructure. The Minority Investors consist of a range of investors.

Each of the Minority Investors has agreed to enter into a voluntary escrow arrangement with the Company in relation to the Escrowed Shares they will hold immediately following Completion of the Offer which have been issued to them pursuant to the Restructure, whereby they are restricted from selling their Escrowed Shares until after 29 January 2020. A summary of the escrow arrangements in relation to the Offer is set out in Section 9.8. The absence of any sale of Escrowed Shares by the Minority Investors during the relevant escrow period may impact liquidity in the market for the Shares.

Following the expiration of the relevant escrow period (or the application of limited exceptions), Shares held by the Minority Investors will be able to be freely traded on the ASX. A significant sale of Shares by a material number of those Minority Investors, or the perception that such a sale might occur, could impact the Share price.

These factors combined could affect the prevailing market price at which Shareholders are able to sell their Shares.

5.3.5. Exposure to changes in tax rules or their interpretation

Tax laws in Australia and New Zealand are complex and are subject to change periodically, as is their interpretation by the courts and the tax revenue authorities. Significant reforms and current proposals for further reforms to Australia and New Zealand's tax laws, as well as new and evolving interpretations of existing laws, give rise to uncertainty.

The precise scope of many of the new and proposed tax laws is not yet known. Any change to the taxation of shares (including the taxation of dividends) and the taxation of companies (including the existing rate of company income tax) may adversely impact on Shareholder returns, as may a change to the tax payable by Shareholders in general. Any other changes to Australian tax law and practice that impact Latitude, or Latitude's industry generally, could also have an adverse effect on Shareholder returns.

Any past or future interpretation of the taxation laws by Latitude which is contrary to that of a revenue authority in Australia or New Zealand may give rise to additional tax payable. In order to minimise this risk, in areas of uncertainty, Latitude obtains external expert advice on the application of the tax laws to its operations (as applicable); however, there is no certainty that the interpretations of tax revenue authorities will accord with that advice.

5.3.6. Change to accounting standards or their interpretation

Australian Accounting Standards ('**AAS**') are issued by the AASB and are not within the control of Latitude and its Directors. Any changes to AAS or to the interpretation of those standards may have an adverse effect on the reported financial performance and position of Latitude.

The AASB introduced revised AAS which applies from the 2018 financial year, which may affect future measurement and recognition of key income statement and balance sheet items, including revenue and receivables.

For example, as discussed in Section 4.2.1, Latitude implemented AAS equivalent for IFRS 9 (referred to as IFRS 9 or AASB 9) in January 2018, which introduced a new forward-looking expected loss impairment model for expected losses on Latitude's receivables. The interpretation of this standard is still in the process of evolving across the global financial services industry, and, as a result, the market is still developing consistent application and standard industry conventions for variables (including the expected life of a financial instrument (e.g. credit card) to consider the loss) are yet to be harmonised and Latitude may be required to modify its application of IFRS 9 in the future as standard industry interpretations are established. As a result of the adoption of IFRS 9, the pro-cyclicality of Latitude's statutory loan impairment provisions may also increase, which will result in more volatile movements in Latitude's loan impairment expense. For example, during times of weakening economic and credit conditions, Latitude is likely required to recognise larger statutory provisions more quickly than under its previous methodology, which would result in an increase in loan impairment expense and potentially statutory losses for that period. While changes to the statutory provisions from IFRS 9 are non-cash, the intention of the provision is to estimate the eventual cash loss. In addition, Latitude implemented the AAS equivalent of IFRS 16 in 2019 which introduced the requirement, as a lessee, to recognise a lease liability and corresponding right-of-use asset on its balance sheet for all leases with a term of more than 12 months, unless the underlying asset is of low value.

There is also a risk that interpretations of existing AAS, including those relating to the measurement and recognition of key income statement and balance sheet items, including revenue and receivables, may differ. Changes to AAS issued by the AASB or changes to the commonly held views on the application of those standards could adversely affect the financial performance and position reported in Latitude's consolidated financial statements.

5.3.7. Inability to make dividend distributions

Latitude's ability to pay dividends or make other distributions in the future is contingent on its solvency and profits.

Moreover, to the extent that Latitude pays any dividends, its ability to offer fully franked dividends is contingent on it making taxable profits. Latitude's taxable profits may be volatile, making the forecasting and payment of dividends difficult and unpredictable.

At Completion, Latitude will have a zero franking account balance but will generate franking credits as income tax is paid in Australia. Its ability to pay, and the extent of, franked dividends in the future will evolve as the franking credits are generated.

The value and availability of franking credits to a Shareholder will differ depending on the Shareholder's particular tax circumstances. Shareholders should also be aware that the ability to use franking credits, either as a tax offset or to claim a refund after the end of the income year, will depend on the individual tax position of each Shareholder.

5.3.8. Acquisitions and dilution

In the future, Latitude may elect to issue Shares or engage in fundraisings, or to fund, or raise proceeds, for acquisitions that Latitude may decide to make, whether in Australia, New Zealand or other jurisdictions, or for other strategic reasons both in its current or other markets. The successful implementation of acquisitions will depend on a range of factors including funding arrangements, cultural compatibility and operational integration. To the extent that any acquisitions are not successfully integrated with Latitude's existing business, the business, operating or financial performance of Latitude could be adversely affected.

Shareholder interests may be diluted, and Shareholders may experience a diminution in value of their equity, if Latitude issues Shares as consideration for acquisitions, if Latitude funds acquisitions through raising equity capital by placing Shares with new investors or if Latitude engages in fundraisings for any other reason, including the repayment of debt. While Latitude will be subject to the constraints of the ASX Listing Rules regarding the percentage of its capital that it is able to issue within a 12-month period (other than where exceptions apply), Shareholder interests may be diluted as a result of such issues of Shares and fundraisings.

5.3.9. Force majeure events

Events may occur within or outside the economies in which Latitude operates that could impact upon those economies, the operations of Latitude and the price of the Shares. The events include but are not limited to acts of terrorism, an outbreak of international hostilities, fires, floods, earthquakes, labour strikes, civil wars, natural disasters, outbreaks of disease or other natural or man-made events or occurrences that can have an adverse effect on the demand for Latitude's products and its ability to conduct business. Latitude has only a limited ability to insure against some of these risks.

5.3.10. Uncertainty of forecasts and other forward-looking information

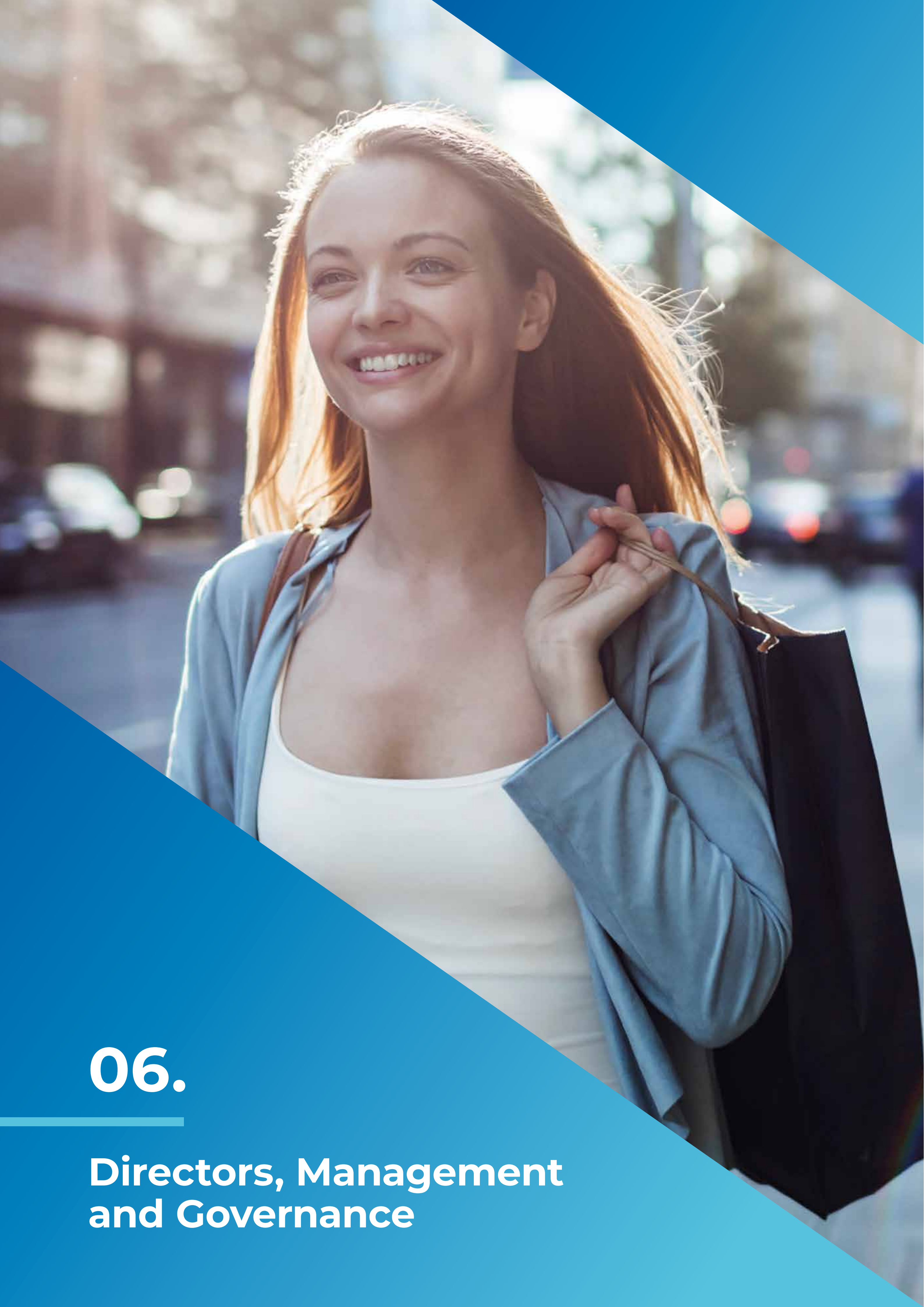
The forward-looking statements, opinions and estimates provided in this Prospectus, including the Forecast Financial Information, are based on assumptions, some of which are set out in Section 4. Various factors, both known and unknown, may impact Latitude's performance and cause actual performance to vary significantly from what was expected. There can be no guarantee that Latitude will achieve its stated objectives or that any forward-looking statement or forecast will eventuate.

5.3.11. No guarantee in respect of investment

The above list of risk factors should not be taken as an exhaustive list of the risks faced by Latitude or by investors in Latitude.

The above factors, and others not specifically referred to above, may materially affect the financial performance of Latitude and the value of the Shares under the Offer. The Shares issued under the Offer carry no guarantee in respect of profitability, dividends, return of capital or the price at which they may trade on the ASX. Furthermore, there is no guarantee that the Shares will remain continuously quoted on the ASX, which could impact the ability of prospective Shareholders to sell their Shares.

Investors should consult their professional adviser before deciding whether to apply for Shares under the Offer.



06.

Directors, Management and Governance

06. Directors, Management and Governance

6.1. Overview

6.1.1. Board of Directors

The Directors of the Company bring to the Board the relevant skills and experience across a range of commercial industries including banking, private equity, insurance, consumer finance, brand management, corporate governance and consulting.

Director and Experience

Michael Tilley

Independent Non-Executive Chairman

- Michael has been the independent Chairman of Latitude since 2015.
- Michael served as CEO of Challenger Financial Services from 2004 to 2008, having previously been Deputy Chairman.
- Prior to Challenger, Michael was Chairman and CEO of Merrill Lynch Australia.
- Michael was also a Non-Executive Director of ASX-listed Orica Limited from 2003 to 2013.
- Michael is currently Chairman of Hotel Property Investments Limited and ASX-listed Tubi Limited.

Ahmed Fahour

Managing Director & Chief Executive Officer

- Ahmed was appointed MD and CEO of Latitude Financial Services in October 2018.
- Throughout his 30-year career, Ahmed has served in senior executive roles across banking and financial services, management consulting and postal services, including as MD and CEO of Australia Post, MD and CEO of the National Australia Bank's Australian operations, CEO of Citigroup Alternative Investments in New York and as a Partner at Boston Consulting Group.
- Ahmed is also an active member of Australia's Muslim community, where he has served as an Australian Special Envoy to the Organisation of Islamic Cooperation and was a founder of the Islamic Museum of Australia.
- Ahmed was appointed an Officer of the Order of Australia in January 2017. He holds a Bachelor of Economics and Honorary Doctorate from La Trobe University and an MBA from Melbourne Business School.

Mark Joiner

Independent Non-Executive Director

- Mark joined Latitude as an independent Non-Executive director in March 2017.
- Prior to this, Mark was the CFO of National Australia Bank from 2008 to 2013.
- Mark also previously worked for Citigroup in the United States and as a management consultant with the Boston Consulting Group in Australia and the United States.
- Mark is also currently a director on the Board of National Australia Bank's asset management business and QBE Group's Australian and New Zealand subsidiaries.

Alison Ledger

Independent Non-Executive Director

- Alison joined Latitude as an independent Non-Executive Director in March 2017.
- Previously, Alison spent eight years with Insurance Australia Group in senior strategic and operational roles. As EGM for Product, Pricing & eBusiness and COO of online only The Buzz Insurance, Alison led the digital transformation of the direct to consumer business. Prior to this, Alison was a partner with McKinsey & Company in the United Kingdom and Australia and as a banker with Chase Investment Bank and Bankers Trust.
- Alison is currently also a director on the board of ASX-listed Audinate Group Ltd and CountPlus Ltd.

Director and Experience

Scott Bookmyer

Non-Executive Director
Shareholder Representative Director – KKR

Scott joined Latitude as a Non-Executive Director in 2017.

- Scott currently serves as the Head of KKR's Australia business. Scott also serves on KKR's Asia Private Equity Investment Committee and the Asia Portfolio Management Committee.
- Before joining KKR, Scott served in several senior roles in KKR Capstone's North America and Asia business. Scott has also previously worked in brand management with Procter & Gamble and with the Boston Consulting Group.
- Scott's other board roles include MYOB and Laser Clinics Australia.

Haseeb Malik

Non-Executive Director
Shareholder Representative Director – Värde Partners

- Haseeb joined Latitude as a Non-Executive Director in 2015.
- Haseeb currently serves as Partner and Head of Asia Corporate & Traded Credit at entities associated with Värde Partners Inc., which he joined in 2006.
- Prior to joining the broader Värde Partners organisation, Haseeb worked as an associate at global private equity fund Ripplewood Holdings and as an investment banking analyst at Salomon Smith Barney.

James Corcoran

Proposed Non-Executive Director
Shareholder Representative Director – Värde Partners

- James is proposed to join Latitude as a Non-Executive Director in 2019 upon completion of the Offer.[113]
- Prior to this, James was the Chief Executive Officer of NewDay in the United Kingdom.
- James also previously served in various senior management roles with Washington Mutual, HBOS, Bank One and Citibank.
- James is currently a director on the board of NewDay and an adviser to CreditShop in the United States.

Beaux Pontak

Non-Executive Director
Shareholder Representative Director – Deutsche Bank

- Beaux joined Latitude as a Non-Executive Director in 2015.
- He currently serves as the Co-Head for Deutsche Bank's Global Credit Trading business in Asia Pacific.
- Prior to joining Deutsche Bank in 2005, Beaux worked with Ernst & Young as a Senior Manager in the Transaction Advisory division.

The composition of the Board committees and a summary of its key corporate governance policies are set out in Section 6.4.

Each Director above has confirmed that he or she anticipates being available to perform their duties as a Non-Executive Director, or Executive Director, as the case may be, of the Company without constraint from other commitments.

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[113] It is intended that Haseeb Malik will resign and be replaced by James Corcoran as the Shareholder Representative Director for Värde Partners with effect immediately from Completion.

6.1.2. Leadership team

Following the appointment of Ahmed Fahour in October 2018, a revised Latitude Operating Model was established in January 2019 to further strengthen and align accountabilities to the refreshed strategic direction. The revised operating model has continued to evolve and be enhanced through the development of cross-functional teams to accelerate key initiatives, in parallel with the development of the organisation strategy, (Latitude 2.0).

Profiles of Latitude's senior management team are set out below.

	Senior Executive and Experience
	**Ahmed Fahour** Managing Director & Chief Executive Officer • See Section 6.1.1.
	**Adrienne Duarte** Chief Financial Officer • Adrienne joined Latitude as CFO in July 2017 from the Bank of New Zealand, where she served as the bank's first female CFO, a position she held for five years. • Adrienne previously held several general manager roles at National Australia Bank Group, where she spent 12 years. • Prior to this, Adrienne worked in corporate finance and strategy consulting at KPMG consulting, Marakon Associates, London and Coopers & Lybrand. • Adrienne has over 19 years of experience in financial services across Australia, New Zealand and the UK.
	**Greg White** Chief Customer Officer, Australia • Greg joined GE Capital in 2001 and has held his current position with Latitude since January 2019. • Greg held a number of senior leadership positions at GE Capital, including Integration Leader for the retail financial business (2001), General Manager, Sales (2003), MD, Retail Finance (2005), MD, GE Money New Zealand (2006), MD, Retailer Solutions (2010), Managing Director, Custom Fleet and Equipment finance (2011) and COO, GE Capital (2013), MD, New Zealand and Director, Sales LFS (2015). • Prior to GE Capital, Greg held several senior management roles in the consumer and commercial businesses at Westpac Bank and AGC. • Greg has over 33 years of consumer and commercial finance experience.

	Senior Executive and Experience
	**David Gelbak** Chief Customer Officer, New Zealand • David joined GE Capital in 2008 and has held his current position with Latitude since January 2019. • In this role, David has responsibility for all New Zealand business operations as well as Latitude's product portfolio including Sales Finance, Credit Cards, Personal Loans and Genoapay. • Prior to his current role, David held the role of MD (Commercial) and was responsible for Latitude's digital function, product development, business development, marketing and commercial partnership management across Australia and New Zealand. • David has previously held General Manager roles at Latitude and GE across the consumer portfolio range, and also previously led the digital practice. • David previously served as Chairman of the GE Innovation Committee ANZ and also served as a Non-Executive Director of the Youth Substance Advocacy Service (YSAS) in Victoria from 2011 to 2015. • David has over 20 years of experience across general management, sales, digital, product and marketing roles.
	**Andrew Walduck** Executive General Manager, Digital & Technology • Andrew joined Latitude in January 2019 and leads the Digital and Technology business unit that is responsible for enabling the profound change and growth of Latitude through transformative technology, culture and innovation. • Andrew is an entrepreneurial executive with deep experience in building domestic and global organisations to take advantage of the transformative potential of technology and customer orientation. • Andrew's career spans more than 25 years in multiple disciplines including sales, marketing, product management, digital, innovation and technology leadership roles. It includes executive leadership roles in tier 1 corporations including leading Australia Post's digital transformation, roles in global corporations such Accenture, where he was a Partner in the Communications and High-tech Practice, as well as marketing leadership roles in small growing businesses. • Andrew's expertise lies in leading companies in technology-intensive industries to build the business strategy, capabilities, culture and change momentum needed to address digital disruption, build commercial growth and improve operating performance. This includes leading people and culture change at scale and implementing new ways of working (iterative delivery methods) critical for building adaptive, change ready organisations.

Senior Executive and Experience

Chris Blake

Executive General Manager, Corporate Services

- Chris joined Latitude in February 2019 and is responsible for developing and implementing a refreshed strategy, brand and culture to capture the growth opportunities that exist in the rapidly changing financial services landscape.
- Prior to this role, Chris spent eight years at Australia Post as EGM Corporate Services where he played a leading role in the transformation of the strategy and culture of one of Australia's most iconic companies from a Government-owned postal business in decline to an innovative eCommerce business with significant growth options. The Corporate Services portfolio that Chris led at Australia Post included the management of the $8 billion APSS Superannuation Fund.
- Prior to joining Australia Post Chris spent four years at the National Australia Bank firstly as EGM People & Organisational Development and then as EGM Business Strategy & People – Wholesale Banking.
- Chris spent 19 years at PwC, including 10 years as a Partner.
- Chris has 30+ years of experience in financial, government and professional services sectors.

Paul Varro

Executive General Manager, LatitudePay & Insurance

- Paul joined GE Capital in 2000 and has held his current position at Latitude since August 2019.
- In this role, Paul has responsibility for LatitudePay (our new consumer and merchant acquisition strategy) and Latitude's insurance business.
- Prior to his current role Paul was responsible for Latitude's suite of products across all cards, retail finance, personal loans, motor loans and insurance. Paul has been the Group Treasurer, leading Latitude's Treasury operations, funding programs and debt capital market relationships.
- Paul has over 20 years of global experience across several industries.

Jo Mikleus

Chief Risk Officer

- Jo joined Latitude in June 2019 as Executive General Manager, Risk.
- Jo is a growth focused and customer orientated C-Suite executive with over 25 years' experience in business and financial services globally. This has given her the opportunity to successfully lead people through business cycles, technology, social and regulatory change.
- Having led a diverse range of large businesses at ANZ, been CEO of fast-growing tech scale-up at RUBIX, and now Chief Risk Officer at Latitude, Jo has demonstrated strengths and skills in: driving growth, improving shareholder value (in public, private and PE-backed companies), risk and governance, strategy development, stakeholder management, organisational and cultural change; and business innovation. She consistently outperforms by cleverly integrating data analytics and machine learning (AI) with business strategy, to achieve strong commercial outcomes.
- Jo is a keen supporter of entrepreneurialism, growth, disruptive innovation, business leadership, global expansion, customer and employee experience, as well as culture, inclusion, diversity, and wellbeing.

Senior Executive and Experience

Greg Sutherland

Executive General Manager, Latitude Money & Chief Marketing Officer

- Greg joined Latitude in February 2019 as Group Manager, Marketing & Strategy. In August 2019 Greg was appointed to the role of Executive General Manager, Latitude Money & Chief Marketing Officer.
- In this role, Greg will have responsibility for LatitudeMoney which is Latitude's new digital graduation platform for the future of finance.
- Greg is a proven business strategist, marketer, and creator with 25 years of experience in strategy, brand, innovation and new business creation. Greg brings together the experience of advising and leading the transformation programs, of major global companies, as a former Partner and Director of The Boston Consulting Group with the deep executive experience of leading strategy, marketing and innovation efforts for National Australia Bank and Australia Post as they responded to digital disruption.

6.2. Interests and Benefits

Section 6.2.1 sets out the nature and extent of the interests and fees of certain persons involved in the Offer. Other than as set out below or elsewhere in this Prospectus (including Section 9.10), no:

- Director or proposed director of the Company;
- Person named in this Prospectus and who has performed a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Prospectus;
- Promoter of the Company; or
- Underwriter to the Offer,

holds at the time of lodgement of this Prospectus with ASIC, or has held in the two years before lodgement of this Prospectus with ASIC, an interest in:

- The formation or promotion of the Company;
- Property acquired or proposed to be acquired by the Company in connection with its formation or promotion, or in connection with the Offer; or
- The Offer,

and no amount (whether in cash, Shares or otherwise) has been paid or agreed to be paid, nor has any benefit been given or agreed to be given to any such persons for services in connection with the formation or promotion of the Company or the Offer or to any Director or proposed Director to induce them to become, or qualify as, a Director of the Company.

6.2.1. Interests of advisers

The Company has engaged the following professional advisers:

- Goldman Sachs, Macquarie Capital and UBS have acted as Joint Lead Managers and Joint Bookrunners to the Offer. The Company has agreed to pay Goldman Sachs, Macquarie Capital and UBS the fees described in Section 9.10.1 for these services.
- Bell Potter Securities, Morgans Financial Limited and Wilsons Corporate Finance Limited have acted as Co-Lead Managers in relation to the Offer and will each receive from the Joint Lead Managers:
  - a base fee of $250,000;
  - an incentive fee of up to $200,000 dependent on the value of Shares for which it submits a binding and irrevocable bid under the Broker Firm Offer (‘**Broker Firm Bid**’); and
  - if applicable, a fee of 1.5% of the value of Shares in its allocation under the Broker Firm Offer.
- Commonwealth Securities Limited, Craigs Investment Partners Limited, Crestone Wealth Management Limited, Escala Partners Limited, Evans and Partners Pty Limited, Macquarie Equities Limited, National Australia Bank Limited and Ord Minnett Limited have acted as Co-Managers in relation to the Offer and will each receive from the Joint Lead Managers:
  - an incentive fee of up to $200,000 dependent on the value of Shares for which it submits a Broker Firm Bid; and
  - if applicable, a fee of 1.5% of the value of Shares in its allocation under the Broker Firm Offer.
- King & Wood Mallesons has acted as Australian legal adviser to the Company in relation to the Offer. The Company has paid, or agreed to pay, approximately $2.4 million (excluding disbursements and GST) for these services up until the Prospectus Date. Further amounts may be paid to King & Wood Mallesons in accordance with its normal time-based charges.
- KPMG Transaction Services (a division of KPMG Financial Advisory Services (Australia) Pty Ltd) has acted as the Investigating Accountant, and performed work in relation to the Financial Information included in Section 4 and its Investigating Accountant’s Report included in Section 8. The Company has paid, or agreed to pay, approximately $2.4 million (excluding disbursements and GST) for these services up until the Prospectus Date.
- Ernst & Young has acted as tax adviser to the Company in relation to the Offer. The Company has paid, or agreed to pay, approximately $1.1 million (excluding disbursements and GST) for these services up until the Prospectus Date. Further amounts may be paid to Ernst & Young in accordance with its normal time-based charges.

These amounts, and other expenses of the Offer, will be paid by the Company out of funds raised under the Offer or available cash. Further information on the use of proceeds and payment of expenses of the Offer is set out in Section 7.3.

6.2.2. Directors’ interests and remuneration

6.2.2.1. Managing Director and Chief Executive Officer remuneration

Ahmed Fahour is employed in the position of Managing Director and Chief Executive Officer of the Company. The Company has entered into an employment contract with Ahmed Fahour to govern his employment. Refer to Section 6.2.4 for further details.

6.2.2.2. Non-Executive Director remuneration

Under the Constitution, the Board may decide the total amount paid to each Director as remuneration from the Company for his or her services as a director of the Company. However, under the ASX Listing Rules, the total amount of fees payable to all Directors for their services (excluding for these purposes the salary of any Executive Director) must not exceed, in aggregate in any Financial Year, the amount approved by the Shareholders in a general meeting. This amount has been fixed by the Company at $2.2 million per annum. Any change to that aggregate annual sum needs to be approved by Shareholders. Directors may seek approval of the Shareholders from time to time, as appropriate.

The following annual base and committee fees are payable to Directors (these will take effect from Completion):

Director fees	$
Chairman	475,000
Non-Executive Director	170,000

Committee fees	Chairman fee ($)	Member fee ($)
Audit Committee	30,000	15,000
Remuneration & People Committee	30,000	15,000
Risk Committee	20,000	10,000
Technology Committee	20,000	10,000

The Board Chairman does not receive any additional fees for membership of committees of the Board. All Directors' fees include superannuation payments required by law to be made by the Company.

In addition to the above fees, Alison Ledger is also paid additional fees of $60,000 per annum as a director of Hallmark Insurance.

Ahmed Fahour does not receive any Director fees.

6.2.2.3. Deeds of access, indemnity and insurance for Directors and officers

Pursuant to the Constitution, the Company has entered into a deed of access, indemnity and insurance with each existing Director which provides for the Director's right of access to certain books and records and requires the Company to indemnify, to the extent permitted by law, each Director in respect of certain losses and liabilities (including legal expenses) which the Director may incur in their capacity as an officer of the Company or of any subsidiary of the Company.

Pursuant to the Constitution, the Company may pay or agree to pay, whether directly or through an interposed entity, a premium for a contract insuring a person who is or has been a director or secretary or officer of the Company or of a subsidiary of the Company against liability incurred by the person in that capacity, including a liability for legal costs, to the extent permitted by law. Under the deeds of access, indemnity and insurance, the Company must, to the extent permitted by law, use its reasonable endeavours to ensure that the Director is insured under a D&O Policy while the Director is an officer of the Company or an officer of any wholly-owned subsidiary of the Company, and for seven years after a Director ceases to hold office as a director of the Company. This seven-year period can be extended where certain proceedings or investigations commence before the seven-year period expires.

6.2.2.4. Other information and interests

Directors may also be reimbursed for travel and other expenses reasonably incurred in attending to the Company's affairs. Non-Executive Directors may be paid additional or special remuneration as the Directors decide is appropriate, where a Non-Executive Director performs extra work or services which are not in the capacity as Non-Executive Director of the Company or a subsidiary of the Company. There are no retirement benefit schemes for Directors, other than statutory superannuation contributions.

6.2.2.5. Discretionary Equity Grant to Chairman

The Chairman Michael Tilley may be awarded, a discretionary equity grant in the event of a successful listing of the Company on the ASX. The value of any discretionary equity grant which may be awarded to Mr Tilley will be determined by the Board in its absolute discretion and the value may not exceed $2 million.

In the event that any such equity grant is awarded, it will be granted as Rights. The number of Rights to be granted to Mr Tilley will be determined by dividing the value of the discretionary equity grant, as determined by the Board, by the Final Price. Whilst the ultimate value of the Rights to be granted is subject to the discretion of the Board, based on the Mid-Point Final Price, the maximum number of Rights granted in respect to Mr Tilley's discretionary equity grant would be approximately 0.9 million Rights.

Any Rights awarded in relation to the discretionary equity grant will be fully vested at grant and will automatically convert to Shares following release of the Company's results for the FY19. Shares allocated in respect of the Rights will be subject to a three-year holding period, during which time the Shares cannot be disposed of, unless Mr Tilley ceases to be a Director. In any event, Shares acquired on conversion of the Rights will be subject to the escrow arrangements described in Section 9.8.

6.2.2.6. Directors' interests in Shares

The Directors are not required by the Constitution to hold any Shares. Based on the mid-point of the Bookbuild range, the Directors' interests in Shares as at the Completion Date are set out below:

Shareholders[114]	Shares expected to be held on Completion (m)	% of Shares expected to be held on Completion
Michael Tilley[115]	4.5	0.3%
Mark Joiner	0.7	0.0%
Alison Ledger	0.1	0.0%
Ahmed Fahour	12.6	0.7%

Directors may hold their interests in Shares shown above directly or indirectly through holdings by companies or trusts.

The Directors are entitled to apply for Shares under the Offer. The table above reflects the Shares anticipated to be granted in accordance with the arrangement set out in Section 6.3.2 and does not take into account any Shares the Directors may acquire under the Offer or under the arrangements referred to in Section 6.2.2.5 or 6.2.4D. Final Directors' shareholdings will be notified to the ASX on Completion.

6.2.3. Executive remuneration

The executive remuneration arrangements to be operated by the Company as at Completion are outlined below.

6.2.4. Managing Director and Chief Executive Officer

Ahmed Fahour is employed in the position of Managing Director and Chief Executive Officer and has entered into an employment agreement with Latitude Financial Services Australia Holdings Pty Ltd. Details of Mr Fahour's annual remuneration arrangements are outlined below.

Total Fixed Remuneration	Target Short-Term Incentive	Long-Term Incentive	Total Target Remuneration
$1,800,000	$1,800,000*	$1,240,000*	$4,840,000
37%	37%	26%	100%

* The STI and LTI arrangements will be effective 1 January 2020. Details of Mr Fahour's STI opportunity for 2019 are outlined below. Information on the Pre-Completion Equity Plan in which Mr Fahour participates is provided in Section 6.3.2, and the associated limited recourse loan is discussed at Section 6.2.4E. Mr Fahour may also receive a discretionary equity grant in the event of a successful listing on the ASX. Further details of the discretionary equity grant are provided in Section 6.2.4D.

A. Total fixed remuneration

Under the terms of his employment, Mr Fahour is entitled to receive annual total fixed remuneration ('**TFR**') of $1,800,000 (inclusive of base salary and statutory superannuation contributions).

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[114] The Existing Investors will, conditional on Listing occurring, on or about Completion, sell, or cause KVDS to sell, all of the shares in KVD HoldCo and Latitude Financial Services Limited to the Company in exchange for Shares in accordance with the Restructure steps described in Section 9.4. Shares of Michael Tilley, Mark Joiner, Alison Ledger, Ahmed Fahour and other Management Shareholders are to be issued on or about Completion pursuant to the Pre-Completion Equity Plans described in Section 6.3.2. The number of Shares set out for each Management Shareholder assumes that a mid-point in the Indicative Price Range will be achieved as the Final Price.

[115] Michael Tilley was the sole shareholder of the Company at incorporation and as at the Prospectus Date he holds one Share.

B. Short-term incentive

For the performance period ending 31 December 2019, Mr Fahour's annual target short-term incentive ('**STI**') opportunity is approximately 100% of TFR, payable in cash (subject to the achievement of performance conditions and continued employment with Latitude).

From 1 January 2020, Mr Fahour is eligible under his employment agreement to receive an STI with an annual target STI opportunity of approximately 100% of TFR (up to a maximum of 125% of target STI opportunity for outperformance), subject to the achievement of performance conditions and continued employment with Latitude. To the extent the performance conditions are met, and Mr Fahour remains employed with the Company, approximately 67% of the STI is payable in cash and approximately 33% will be delivered in equity (the deferred STI component). The deferred STI component will be delivered as Restricted Shares, with 50% vesting approximately 12 months after allocation, and the remaining 50% vesting approximately 24 months after allocation.

From 1 January 2021, it is intended that 50% of Mr Fahour's STI will be delivered in cash and 50% will be delivered in Restricted Shares (with 50% vesting approximately 12 months after allocation, and the remaining 50% vesting approximately 24 months after allocation).

C. Long-term incentive

From 1 January 2020, Mr Fahour is also eligible to receive a long-term incentive ('LTI'), under the Long-Term Incentive Plan ('**LTIP**'), and may be granted awards at the discretion of the Board. It is intended that Mr Fahour will receive an LTI grant on an annual basis. Further details of the LTIP, including the key terms and conditions applicable to the grant of awards to Mr Fahour (e.g. the vesting period and performance conditions), are outlined in Section 6.3.1.

In respect to the 2020 LTI component of his remuneration, the Company intends to grant Mr Fahour, in or around March 2020 (and, in any event, no later than 12 months from Listing), Rights equivalent to his 2020 LTI grant value of approximately $1,240,000, being approximately 69% of TFR. The number of Rights to be granted to Mr Fahour will be determined by dividing his 2020 LTI grant value by the reference price for a Share (being the volume weighted average price ('**VWAP**') of the Shares over the five trading days following the release of the Company's FY19 results). Subject to Mr Fahour's continued employment with Latitude, the 2020 LTI award may vest to the extent the Company's:

- ROE meets or exceeds the annual ROE target set by the Board over the relevant period – applicable to 50% of Rights granted; and
- Growth in cash EPS meets or exceeds targets set by the Board over the relevant period – applicable to 50% of the Rights granted.

Subject to meeting the applicable ROE and EPS performance conditions, the 2020 LTI award may vest after a three-year performance period (comprising of the 2020, 2021 and 2022 financial years). To the extent the ROE or EPS performance hurdles are not met over the performance period, the relevant portion of awards will lapse. There is no re-testing of performance in respect of either performance condition. To the extent the ROE or EPS performance hurdles are met over the performance period and Rights vest, 50% of Shares allocated in respect of vested Rights will be subject to a 12-month holding period (during which time the Shares cannot be disposed of).

D. Discretionary equity grant

Mr Fahour may be awarded a discretionary equity grant in the event of a successful listing on the ASX. The value of any discretionary equity grant which may be awarded to Mr Fahour will be determined by the Board in its absolute discretion and the value may not exceed $22.5 million.

In the event that any such equity grant is awarded, it will be granted as Rights. The number of Rights to be granted to Mr Fahour will be determined by dividing the value of the discretionary equity grant, as determined by the Board, by the Final Price. Whilst the ultimate value of the Rights to be granted is subject to the discretion of the Board, based on the Mid-Point Final Price, the maximum number of Rights granted in respect to Mr Fahour's discretionary equity grant would be approximately 10.6 million Rights.

Any Rights awarded in relation to the discretionary equity grant will be fully vested at grant and will automatically convert to Shares following release of the Company's results for the FY19. Shares allocated in respect of the Rights will be subject to a three-year holding period, during which time the Shares cannot be disposed of, unless Mr Fahour ceases employment or the Board otherwise determines that the disposal restrictions should cease. In any event, Shares acquired on conversion of the Rights will be subject to the escrow arrangements described in Section 9.8.

E. Limited recourse loan

Mr Fahour has been granted a limited recourse loan in connection with his subscription for units in the Pre-Completion Equity Plan. While, as described in Section 6.3.2, each other Management Shareholder will have their loan extinguished as part of the unwind of the Pre-Completion Equity Plan, Mr Fahour's loan will remain on foot following Completion. The total amount anticipated to be outstanding on the loan as at the Completion Date is $17.5 million and the loan will not be interest bearing following the Completion Date. If Mr Fahour disposes of any of his Shares, the amount referable to the sale of those Shares will become due and payable, and the total outstanding amount of the loan will become due and payable, among other events, if Mr Fahour's employment with Latitude ceases or, if not required to be repaid earlier, on 14 February 2029. Recourse against Mr Fahour in respect of any outstanding amount is, with a small number of exceptions, limited to his Shares or proceeds obtained in respect of those Shares.

F. Other information

Upon Listing, Mr Fahour will be subject to a minimum shareholding requirement under which he will be expected to hold Shares equivalent in value to at least 100% of his TFR. The new policy will be phased in over three to five years from the date of Listing to allow executives time to transition to the minimum shareholding requirement.

The Board has the ability to impose malus and/or clawback in respect of STI and LTI awards granted to Mr Fahour, including the lapsing or forfeiture of unvested awards, to ensure that no unfair benefit is obtained under the incentive arrangements as a result of an act which, in the Board's opinion:

- Constitutes fraud, dishonesty or gross misconduct;
- Brings the Latitude (or any member of the group) into disrepute;
- Is in breach of Mr Fahour's obligations to Latitude (including compliance with any applicable Latitude policy);
- Does not adhere to Latitude's values or risk framework; or
- Has the effect of delivering strong Company performance in a manner which is unsustainable or involves unacceptably high risk, and results or is likely to result in a detrimental impact on Company performance in the longer term.

Under his employment contract, Mr Fahour may receive additional benefits, including car parking and an additional week of annual leave (covered by the Take 5 policy).

Mr Fahour's employment may be terminated by either the Company or Mr Fahour providing at least 12 months' notice, in writing, before the proposed date of termination. In certain circumstances (including serious misconduct), Latitude may terminate Mr Fahour's employment immediately and without notice.

In certain circumstances, Mr Fahour will be subject to restraints after termination of his employment for a period of up to 12 months (as detailed in his employment contract).

6.2.5. Chief Financial Officer

Adrienne Duarte is employed in the position of Chief Financial Officer and has entered into an employment agreement with Latitude Financial Services Australia Holdings Pty Ltd. Details of Ms Duarte's annual remuneration arrangements are outlined below.

TFR	STI	LTI	TTR
$750,000	$562,500*	$562,500*	$1,875,000
40%	30%	30%	100%

* The STI and LTI arrangements will be effective 1 January 2020. Details of Ms Duarte's STI opportunity for 2019 are outlined below. Information on the Pre-Completion Equity Plan in which Ms Duarte participates is provided in section 6.3.2. Ms Duarte may also receive a discretionary equity grant in the event of a successful listing on the ASX. Further details of the discretionary equity grant are provided in Section 6.2.5D.

A. Total fixed remuneration

Under the terms of her employment, Ms Duarte is entitled to receive annual TFR of $750,000 (inclusive of base salary and statutory superannuation contributions).

B. Short-term incentive

For the performance period ending 31 December 2019, Ms Duarte's annual target STI opportunity is approximately 75% of TFR, payable in cash (subject to the achievement of performance conditions and continued employment with Latitude). Approximately 67% of the STI is payable in cash after completion of the performance period and approximately 33% will be payable in or around 12 months later subject to Ms Duarte's continued employment with Latitude.

From 1 January 2020, Ms Duarte is eligible under her employment agreement to receive an STI with an annual target STI opportunity of approximately 75% of TFR (up to a maximum of 125% of target STI opportunity for outperformance), subject to the achievement of performance conditions and continued employment with Latitude. To the extent the performance conditions are met, and Ms Duarte remains employed with the Company, approximately 67% of the STI is payable in cash and approximately 33% will be delivered in equity (the deferred STI component). The deferred STI component will be delivered as Restricted Shares, with 50% vesting approximately 12 months after allocation, and the remaining 50% vesting approximately 24 months after allocation.

From 1 January 2021, it is intended that 50% of Ms Duarte's STI will be delivered in cash and 50% will be delivered in Restricted Shares (with 50% vesting approximately 12 months after allocation, and the remaining 50% vesting approximately 24 months after allocation).

C. Long-term incentive

From 1 January 2020, Ms Duarte is also eligible to receive an LTI under the LTIP, and may be granted awards at the discretion of the Board. It is intended that Ms Duarte will receive an LTI grant on an annual basis. Further details of the LTIP, including the key terms and conditions applicable to the grant of awards to Ms Duarte (e.g. the vesting period and performance conditions), are outlined in Section 6.3.1.

In respect to the 2020 LTI component of her remuneration, the Company intends to grant Ms Duarte, in or around March 2020 (and, in any event, no later than 12 months from Listing), Rights equivalent to her 2020 LTI grant value of approximately $562,500, being approximately 75% of TFR. The number of Rights to be granted to Ms Duarte will be determined by dividing her 2020 LTI grant value by the reference price for a Share (being the volume weighted average price ("VWAP") of the Shares over the five trading days following the release of the Company's FY19 full-year results). Subject to Ms Duarte's continued employment with Latitude, the 2020 LTI award may vest to the extent the Company's:

- ROE meets or exceeds the annual ROE targets set by the Board over the relevant period – applicable to 50% of Rights granted; and
- Growth in cash EPS meets or exceeds targets set by the Board over the relevant period – applicable to 50% of the Rights granted.

Subject to meeting the applicable ROE and EPS performance conditions, the 2020 LTI award may vest after a three-year performance period (comprising of the 2020, 2021 and 2022 financial years). To the extent the ROE or EPS performance hurdles are not met over the performance period, the relevant portion of awards will lapse. There is no re-testing of performance in respect of either performance condition. To the extent the ROE or EPS performance hurdles are met over the performance period and Rights vest, 50% of Shares allocated in respect of vested Rights will be subject to a 12-month holding period (during which time the Shares cannot be disposed of).

D. Discretionary equity grant

Ms Duarte may be awarded a discretionary equity grant in the event of a successful listing on the ASX. The value of any discretionary equity grant which may be awarded to Ms Duarte will be determined by the Board in its absolute discretion and the value may not exceed $2 million.

In the event that any such equity grant is awarded, it will be granted as Rights. The number of Rights to be granted to Ms Duarte will be determined by dividing the value of the discretionary equity grant, as determined by the Board, by the Final Price. Whilst the ultimate value of the Rights to be granted is subject to the discretion of the Board, based on the Mid-Point Final Price, the maximum number of Rights granted in respect to Ms Duarte's discretionary equity grant would be approximately 0.9 million Rights.

Any Rights awarded in relation to the discretionary equity grant will be fully vested at grant and will automatically convert to Shares following release of the Company's results for the 2019 financial year. Shares allocated in respect of the Rights will be subject to a three-year holding period, during which time the Shares cannot be disposed of, unless Ms Duarte ceases employment or the Board otherwise determines that the disposal restrictions should cease. In any event, Shares acquired on conversion of the Rights will be subject to the escrow arrangements described in Section 9.8. Other customary terms, including malus/clawback provisions, that will apply to the Rights (which will be granted under the Latitude Equity Plan) are outlined in Section 6.3.1.

E. Other information

Upon Listing, Ms Duarte will be subject to a minimum shareholding requirement under which she will be expected to hold Shares equivalent in value to at least 50% of her TFR. The new policy will be phased in over 3 to 5 years from the date of Listing to allow executives time to transition to the minimum shareholding requirement.

The Board has the ability to impose malus and/or clawback in respect of STI and LTI awards granted to Ms Duarte, including the lapsing or forfeiture of unvested awards, to ensure that no unfair benefit is obtained under the incentive arrangements as a result of an act which, in the Board's opinion:

- Constitutes fraud, dishonesty or gross misconduct;
- Brings the Latitude (or any member of the group) into disrepute;
- Is in breach of Ms Duarte's obligations to Latitude (or any member of the group) (including compliance with any applicable Latitude policy);
- Does not adhere to Latitude's values or risk framework; or
- Has the effect of delivering strong Company performance in a manner which is unsustainable or involves unacceptably high risk, and results or is likely to result in a detrimental impact on Company performance in the longer term.

Under her employment contract, Ms Duarte may receive additional benefits, including car parking and an additional week of annual leave (covered by the Take 5 policy).

Ms Duarte's employment may be terminated by either the Company or Ms Duarte providing at least six months' notice, in writing, before the proposed date of termination. In certain circumstances (including serious misconduct), Latitude may terminate Ms Duarte's employment immediately and without notice.

In certain circumstances, Ms Duarte will be subject to restraints after termination of her employment for a period of up to six months (as detailed in her employment contract).

6.2.6. Other key management personnel

Other key management are employed by Latitude Financial Services Australia Holdings Pty Ltd or Latitude Financial Services Limited and have entered into individual employment agreements. Excluding the MD & CEO and CFO, details of the aggregate annual remuneration arrangements for the remaining seven key management personnel are outlined below:

TFR	STI	LTI	TTR
$4,450,000	$3,337,500*	$3,337,500*	$11,125,000
40%	30%	30%	100%

* The STI and LTI arrangements will be effective 1 January 2020. Details of the STI opportunity for 2019 are outlined below. Information on the Pre-Completion Equity Plan in which other key management participate is provided in Section 6.3.2.

A. Total fixed remuneration

Under their individual employment agreements, other key management are entitled to receive annual TFR packages (inclusive of base salary and statutory superannuation contributions).

B. Short-term incentive/long-term incentive

For the performance period ending 31 December 2019, the Company's other key management personnel are individually eligible for an annual target STI opportunity of approximately 75% of TFR, payable in cash (subject to the achievement of performance conditions and continued employment with Latitude). Approximately 67% of the STI is payable in cash after completion of the performance period and approximately 33% will be payable in or around 12 months later subject to continued employment with Latitude.

From 1 January 2020, other key management personnel are eligible under their employment agreements to receive an STI with an annual target STI opportunity of approximately 75% of TFR (up to a maximum of 125% of target STI opportunity for out-performance), subject to the achievement of performance conditions (and continued employment with Latitude). To the extent the performance conditions are met, and the other key management personnel, approximately 67% of the STI is payable in cash and approximately 33% will be delivered in equity (the deferred STI component). The deferred STI component will be delivered as Restricted Shares, with 50% vesting approximately 12 months after allocation, and the remaining 50% vesting approximately 24 months after allocation.

From 1 January 2021, it is intended that 50% of the STI will delivered in cash and 50% will be delivered in Restricted Shares (with 50% vesting approximately 12 months after allocation, and the remaining 50% vesting approximately 24 months after allocation).

Other key management personnel are also eligible, at the Board's discretion, to receive a grant of LTI awards.

C. Other information

Upon Listing, other key management personnel will be subject to a minimum shareholding requirement under which they will be expected to hold Shares equivalent in value to at least 50% of individual TFR. The new policy will be phased in over three to five years from the date of Listing to allow key management time to transition to the minimum shareholding requirement.

Other key management personnel's employment may be terminated by either the Company or the individual providing at least six months' notice, in writing, before the proposed date of termination. In certain circumstances (including serious misconduct), Latitude may terminate the individual's employment immediately and without notice.

In certain circumstances, other key management personnel will be subject to restraints after termination of their employment for a period of up to 12 months (as detailed in the individual's employment contract).

6.3. Employee Incentive Arrangements

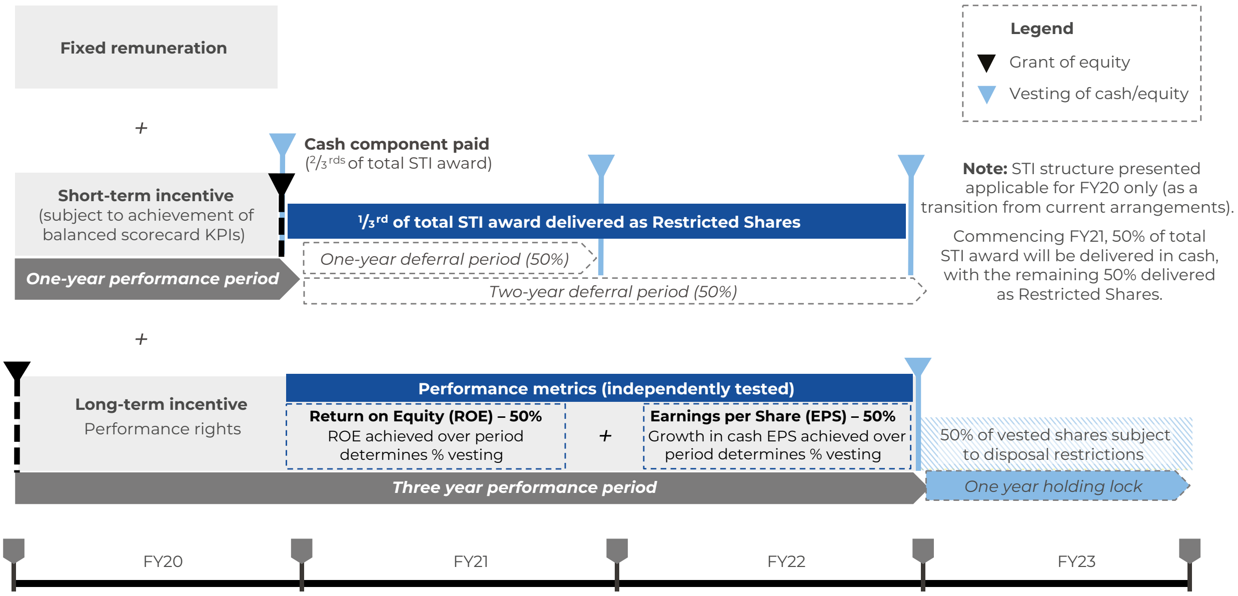
6.3.1. Latitude Equity Plan

The Company has established the Latitude Equity Plan ('**LEP**') to assist in the motivation, retention and reward of key management, and other senior leaders. The LEP is designed to align participants' interests with the interests of Shareholders by providing participants the opportunity to receive Shares through the granting of Restricted Shares and Rights in respect of the deferred STI and LTI components of remuneration respectively, and in respect of IPO Grants made to selected employees. The LEP also provides for cash awards to be made in respect of the STI component.

Excluding the Rights under any discretionary equity grants for Mr Fahour and Ms Duarte (detailed in Sections 6.2.4 and 6.2.5), nine members of key management will be offered Rights in respect of the 2020 LTI award. The number of 2020 LTI awards granted will be determined in or around March 2020 based on the reference price (VWAP of the Shares over the five trading days following the release of the Company's FY19 full-year results). The number of Restricted Shares in respect of the deferred component of the 2020 STI will be determined in early 2021, based on the STI awards earned for FY20.

Three members of key management will be offered Rights under an IPO Grant with an aggregate value of $2.6 million, granted on Listing based on the Final Price. An additional pool with an aggregate value of $2.6 million has been approved by the Board for potential grants to other employees, outside of the other key management personnel outlined in Section 6.2.6.

The graphic below summarises the 2020 remuneration framework applicable to the senior executives who will participate in the LEP (refer below for key terms of the Rights and Restricted Shares granted under the LEP):



Awards granted under the LEP will only vest where the conditions (if any) determined by the Board, and advised to the participant, have been satisfied. Vesting conditions may include the participant remaining employed by Latitude for a particular period of time (i.e. the vesting period) and the applicable performance conditions being met.

Following the initial grant of Rights under the LTIP, to be made in or around March 2020, the Board may determine to offer additional awards under the LEP on similar or different terms and/or operate different equity incentive schemes for employees over time.

The key terms of the LEP and the proposed grant of Rights and Restricted Shares in respect of the deferred STI and LTI components of remuneration for 2020, and in respect of IPO Grants made to selected employees, are set out in the table below

Feature	Key terms of the Rights and Restricted Shares granted under the LEP
Eligibility	• Eligibility to participate in the LEP and the number of Rights and Restricted Shares offered to each participant will be determined by the Board. An Executive Director may participate in the LEP; however, Non-Executive Directors will not be eligible to participate in the LEP.
Offers under the LEP	• Under the rules of the LEP, cash awards, Rights and Restricted Shares (collectively known as '**Awards**') may be offered to eligible participants in respect of their STI, deferred STI and LTI components of remuneration respectively from time to time. Grants of Rights will also be offered to selected employees in respect of IPO Grants. • Terms and conditions of offers will be set at the Board's discretion and will appear in individual offer documents.

Feature	Key terms of the Rights and Restricted Shares granted under the LEP
Grants of Awards	**Rights** • Participants are granted Rights, which are rights to acquire Shares at no cost, subject to the satisfaction of specific vesting conditions. Subject to meeting the vesting conditions, Rights will be automatically exercised (at no cost) and the participant will be allocated an equivalent number of Shares or Restricted Shares (i.e. on a one-for-one basis). **Restricted Shares** • Participants are granted (or allocated) Restricted Shares, which are Shares that are subject to a restriction on disposal such that the participant cannot deal in (i.e., sell or transfer) the Restricted Shares until the end of the relevant vesting period. The Company will implement such arrangements (including holding the Restricted Shares in an employee share trust) as it determines necessary to enforce this restriction. If the vesting conditions are not met, the Restricted Shares will generally be forfeited.
Vesting periods of Awards	**2020 deferred STI component** • The initial grant of Restricted Shares to be made following finalisation of the full-year results for FY2020 (expected to be in or around March 2021) will have vesting periods commencing on the date of grant and ending on: – The day following release of full-year results for FY21 (expected to be in or around March 2022) in respect of 50% of the Restricted Shares; and – The day following release of full-year results for FY22 (expected to be in or around March 2023) in respect of 50% of the Restricted Shares. • Although the LEP provides the Board with flexibility to determine different vesting periods for each award of Restricted Shares, it is expected that future deferred STI awards will have similar one-year and two-year vesting periods. • The Board also retains the flexibility to determine that a different proportion of the STI award should be delivered as Restricted Shares. From 1 January 2021, it is intended that 50% of the STI will be delivered in cash and 50% will be delivered in Restricted Shares (subject to the vesting periods outlined above). **2020 LTI** • The initial grant of LTI Rights in or around March 2020 will have vesting/performance periods commencing on 1 January 2020 and ending on 31 December 2022. • The LEP provides the Board with flexibility to determine different performance/ vesting periods for each award of Rights. However, it is expected that future LTI grants will have three-year performance/vesting periods. **IPO Grant** • IPO Grant Rights will have a vesting period commencing on the date of grant (at or around Listing). Following conversion of the Rights to Restricted Shares in or around March 2020, the Restricted Shares will have a vesting period ending on the third anniversary of Listing.

<table>
<tr><th>Feature</th><th>Key terms of the Rights and Restricted Shares granted under the LEP</th></tr>
<tr><td>Vesting conditions of Awards</td><td>
2020 deferred STI component
Restricted Shares will vest subject to the participant remaining employed by the Company until the end of the relevant vesting period.
2020 LTI

LTI Rights will vest subject to the participant remaining employed by the Company until the end of the relevant vesting period, and satisfaction of performance conditions. The performance conditions will be tested over the performance period and must be satisfied in order for Rights to vest.
The performance conditions for the initial grant of LTI Rights in or around March 2020 are as follows:

ROE hurdle: 50% of Rights may vest subject to a performance condition based on the Company’s average ROE over the performance period; and
EPS hurdle: 50% of Rights may vest subject to a performance condition based on the Company’s growth in cash EPS over the performance period.

The Board can adjust the performance conditions in exceptional circumstances to ensure participants are neither advantaged nor disadvantaged by matters outside management’s influence that materially affect the Company’s performance. Further details of the two performance conditions are outlined below.

IPO Grant
Following conversion of the IPO Grant Rights to Restricted Shares in or around March 2020, Restricted Shares will vest subject to the participant remaining employed by the Company over the vesting period.
</td></tr>
<tr><td>Performance conditions for Rights – ROE hurdle</td><td>
2020 LTI
The percentage of LTI awards subject to the ROE hurdle that vest, if any, will be based on the Company’s average ROE performance achieved over the performance period relative to the average of annual ROE targets set by the Board, as set out in the following vesting table:
<table>
<tr><th>ROE achieved over the performance period</th><th>% of LTI Awards subject to the ROE hurdle that vest</th></tr>
<tr><td>At or above maximum ROE targets</td><td>100%</td></tr>
<tr><td>Between threshold and maximum ROE targets</td><td>Straight-line pro rata vesting between 50% and 100%</td></tr>
<tr><td>At threshold ROE targets</td><td>50%</td></tr>
<tr><td>Below threshold ROE targets</td><td>0%</td></tr>
</table>

The ROE hurdle for each LTI award will be set by the Board prior to grant of the award, taking into account the Company’s budget and forecasts for the performance period. The ROE hurdle for the 2020 LTI awards will be disclosed in the Company’s 2020 Remuneration Report within the 2020 Annual Report.
Any Rights that remain unvested at the end of the performance period due to the ROE performance targets not being achieved will lapse immediately.

</td></tr>
</table>

Feature	Key terms of the Rights and Restricted Shares granted under the LEP
Performance conditions of Awards – EPS hurdle	**2020 LTI** • The percentage of LTI awards subject to the EPS hurdle that vest, if any, will be based on the Company's aggregate cash EPS achieved over the performance period, relative to the aggregate of annual cash EPS targets set by the Board, as set out in the following vesting table: Growth in cash EPS achieved over the performance period → % of LTI Awards subject to the EPS hurdle that vest: At or above **maximum** EPS growth target: 100% Between **threshold** and aggregate of **maximum** EPS targets: Straight line pro rata vesting between 50% to 100% At **threshold** EPS growth target: 50% Below **threshold** EPS targets: 0% • The cash EPS targets for each financial year will be set by the Board at the outset of each year, taking into account the Company's budget and forecasts for the relevant year. The threshold and maximum EPS growth targets for 2020 will be disclosed in the Company's 2020 Remuneration Report within the 2020 Annual Report. • Any Rights that remain unvested at the end of the performance period due to the EPS performance targets not being achieved will lapse immediately.
Restrictions on dealing of Awards	• A participant must not sell, transfer, encumber, hedge or otherwise deal with unvested Awards except with prior approval of the Board or in certain circumstances by force of law. **2020 deferred STI component/IPO Grant** • Following vesting and cessation of applicable disposal restrictions, no disposal restrictions apply to Shares held by participants, other than the restrictions that apply under the Company's share trading policy. **2020 LTI** • Following vesting, 50% of Shares allocated in respect of vested Rights will be subject to a 12-month holding period (during which time the Shares cannot be disposed of). Following cessation of applicable disposal restrictions (i.e. at the end of the 12-month holding period), no disposal restrictions apply to Shares held by participants, other than the restrictions that apply under the Company's share trading policy.
Cessation of employment	• If a participant ceases employment due to misconduct or on summary dismissal for cause, any unvested Awards will lapse (unless the Board determines otherwise). Unvested Awards will normally also lapse if a participant ceases employment due to voluntary resignation. • In all other circumstances, unvested Awards will remain on foot and, where applicable, be subject to the original performance conditions and vesting period, unless the Board exercises its discretion to apply a different treatment. Any Rights which vest at the end of the original vesting period will be automatically exercised at the vesting date.

Vesting table (2020 LTI):

Growth in cash EPS achieved over the performance period	% of LTI Awards subject to the EPS hurdle that vest
At or above **maximum** EPS growth target	100%
Between **threshold** and aggregate of **maximum** EPS targets	Straight line pro rata vesting between 50% to 100%
At **threshold** EPS growth target	50%
Below **threshold** EPS targets	0%

Feature	Key terms of the Rights and Restricted Shares granted under the LEP
Change of control impact on Awards	• In the event of a takeover or change of control, or other event which the Board determines should be treated as a change of control, the treatment of unvested Awards will be as follows: – Restricted Shares granted in respect of the deferred STI component or IPO Grant will vest in full (and disposal restrictions will cease to apply); and – Rights granted in respect of the LTI component will vest pro-rata for time and performance (as determined by the Board in its discretion at the time of the change of control event), subject to Board discretion to determine an alternative treatment.
Capital restructures	• In the event of a capital restructure, subject to the ASX Listing Rules, the Board may adjust the number of Awards issued pursuant to an offer under the LEP as the Board deems appropriate.
Employee share trust	• The Company may establish an employee share trust to assist with the operation of the LEP, including holding of Restricted Shares on behalf of participants and facilitating the provision of Shares to participants when Rights are exercised.
Other terms for Rights	• Rights granted under the LEP may be satisfied in either Shares (where the applicable exercise price is paid, if any) or an equivalent cash amount, as determined by the Board normally at the time the Rights are automatically exercised. • Rights do not carry any dividends or voting rights prior to vesting.
Other terms for Restricted Shares	• In general, Restricted Shares will rank equally in all respects with Shares in the Company (i.e. participants will have dividend and voting rights even while Restricted Shares are subject to vesting conditions and restrictions on disposal).
Malus/clawback	• The LEP contains provisions which give the Board the ability to impose malus/clawback, including the lapsing of unvested Rights or forfeiture of Restricted Shares, to ensure that no unfair benefit is obtained by a participant as a result of an act which, in the Board's opinion: – Constitutes fraud, dishonesty or gross misconduct; – Brings Latitude (or any member of the group) into disrepute; – Is in breach of an individual's obligations to Latitude (or any member of the group) (including compliance with any applicable Latitude policy); – Does not adhere to Latitude's values or risk framework; or – Has the effect of delivering strong Company performance in a manner which is unsustainable or involves unacceptably high risk, and results or is likely to result in a detrimental impact on Company performance in the longer term.

6.3.2. Pre-Completion Equity Plans

In addition to their remuneration as described above, certain Management Shareholders and certain Minority Investors associated with KKR are participants under current equity plans with Latitude ('**Pre-Completion Equity Plans**').

Entitlements under the Pre-Completion Equity Plans will vest and be settled in Shares and/or cash on or about Completion if the Offer proceeds. The Pre-Completion Equity Plans will be discontinued on Completion and no further entitlements will arise under the Pre-Completion Equity Plans for any participant.

As part of the Restructure described in Section 9.4, shares and cash will be provided to Management Shareholders under the Pre-Completion Equity Plans, as consideration for the Company and KVD Australia's acquisition of a number of units, which each Management Shareholder currently holds (or which are held on behalf of participants) in certain trusts associated with the Pre-Completion Equity Plans ('**Pre-Completion Equity Plan units**') in accordance with the terms of the Pre-Completion Equity Plans.

If a Management Shareholder (other than Ahmed Fahour, MD & CEO) has an outstanding loan owed to KVD Australia (or another group member) in connection with the relevant Pre-Completion Equity Plan, this loan will be repaid by way of a redemption of some of the Pre-Completion Equity Plan units on or around the Completion Date. As discussed at Section 6.2.4D, Mr Fahour's outstanding loan owed to KVD Australia (or another group member) in connection with the Pre-Completion Equity Plan will continue post the Completion Date.

A cash component will also be provided to Management Shareholders (other than Ahmed Fahour) by way of a redemption of further Pre-Completion Equity Plan units. The intent of the cash component is to facilitate discharge of any potential associated tax liabilities which may arise from the redemption process. The cash amount for Michael Tilley will be between $3.8 million and $4.4 million, for Mark Joiner between $0.6 million and $0.7 million, for Alison Ledger approximately $0.1 million, for Adrienne Duarte between $1.4 million and $1.8 million and a further $11.7 million to $14.5 million will be provided in aggregate to all other Management Shareholders in the Pre-Completion Equity Plans, in each case depending on the Final Price. No cash component will be provided to Mr Fahour and his entire Pre-Completion Equity Plan interest will be converted to Shares held on Completion (included in the aggregate number shown in Section 6.2.2.5). The value of any remaining Pre-Completion Equity Plan units will be reflected in the number of shares issued to Management Shareholders. Section 7.4 sets out detail of the number of the Shares that will be issued to Management Shareholders in the Pre-Completion Equity Plans.

Minority Investors will receive the value of their entitlements under the Pre-Completion Equity Plans partially in cash and the remaining in Shares. Section 7.4 sets out detail of the number of the Shares that will be issued to Minority Investors.

Shares in connection with the unwind of the Pre-Completion Equity Plans will be issued to Management Shareholders and Minority Investors under this Prospectus at the Final Price and be subject to certain voluntary escrow arrangements described in Section 9.8.

6.4. Corporate Governance

This Section 6.4 explains how the Board oversees the management of the Company's business. The Board is responsible for the overall corporate governance of the Company, including providing leadership and strategic guidance for the Company and its related entities. The Board monitors the operational and financial position and performance of Latitude and oversees the implementation of Latitude's strategic objectives, including approving operating budgets and significant expenditure. The Board is committed to maximising performance, generating appropriate levels of Shareholder value and financial return and sustaining the growth and success of Latitude. The Board seeks to ensure that Latitude is properly managed to protect and enhance Shareholder interests, and that the Company and its Directors, officers and personnel operate in an environment of appropriate corporate governance. The Board has created a framework for managing Latitude, including adopting relevant internal controls, risk management processes and corporate governance policies and practices which it believes are appropriate for Latitude's business and which are designed to promote the responsible management and conduct of Latitude.

The Company is seeking listing on the ASX. The ASX Corporate Governance Council has published the Corporate Governance Principles and Recommendations ('**ASX Recommendations**') for entities listed on the ASX in order to promote investor confidence and to assist companies in meeting stakeholder expectations. The ASX Recommendations are not prescriptions, but guidelines. Under the ASX Listing Rules, the Company will be required to provide a corporate governance statement in its annual report or a URL of the page on its website where a corporate governance statement is located, disclosing the extent to which it has followed the ASX Recommendations in the reporting period. If the corporate governance statement is not provided in its annual report, the Company must also give the ASX a copy of its corporate governance statement at the same time as it gives its annual report to the ASX.

Where the Company does not follow a recommendation, it must identify the recommendation that has not been followed and give reasons for not following it. The Company intends to comply with all of the ASX Recommendations from the time of Listing, with the exception of the following:

- ASX Recommendation 2.1 regarding the existence of a Nomination Committee, which is discussed in Section 6.4.3;
- ASX Recommendation 2.4 regarding a majority of independent Directors on the Board, which is discussed in Section 6.4.1.2;
- ASX Recommendation 7.1 regarding a majority of independent Directors on the Risk Committee, which is discussed in Section 6.4.3; and

- ASX Recommendation 8.1 regarding a majority of independent Directors on the Remuneration & People Committee, which is discussed in Section 6.4.3.

6.4.1. Board of Directors

6.4.1.1. Composition of the Board

The Board is comprised of six Non-Executive Directors (three of whom are independent, including the Chairman), and one Executive Director, being the Managing Director and Chief Executive Officer. Detailed biographies of the Directors are provided in Section 6.1.1.

6.4.1.2. Independence of the Board

Each Director must bring an independent view and judgement to the Board and must declare all actual or potential conflicts of interest on an ongoing basis. Any issue concerning a Director's ability to properly act as a Director must be discussed at a Board meeting as soon as practicable.

The Board considers an independent Director to be a Non-Executive Director who is not a member of Management and who is free of any business or other relationship that could materially interfere with or reasonably be perceived to interfere with the independent and unfettered exercise of their judgement. The Board has adopted a definition of independence that is based on the definition set out in the ASX Recommendations. The Board will consider the materiality of any given relationship on a case-by-case basis.

The Board considers that each of Michael Tilley, Mark Joiner and Alison Ledger is free from any interest, position, association or relationship that might influence or reasonably be perceived to influence, the independent exercise of the Director's judgement and that each of them is able to fulfil the role of independent Director for the purpose of the ASX Recommendations.

Ahmed Fahour is considered by the Board not to be independent on the basis that he is the Managing Director & CEO of the Company. In addition, Scott Bookmyer, Haseeb Malik,[116] James Corcoran and Beaux Pontax (each a Shareholder Representative Director) are not currently considered by the Board to fulfil the role of independent Director.

Accordingly, upon Listing, the Board will not consist of a majority of independent Directors as recommended in Recommendation 2.4 of the ASX Recommendations. Despite this, the Board has considered the Company's immediate requirements as it transitions to an ASX-listed company and is satisfied that the composition of the Board reflects an appropriate range of corporate memory, independence, skills and experience for the Company after Listing. The Board has formally considered the independence of each of Scott Bookmyer, Haseeb Malik,[117] James Corcoran and Beaux Pontak. It has concluded for each of these Directors that their relationships as Shareholder Representatives does not compromise their ability to bring an independent judgment to bear on matters before the Board.

The Board believes that each of the Shareholder Representative Directors brings objective and unbiased judgement to the Board's deliberations and, additionally, that each of the Shareholder Representative Directors will make invaluable contributions to Latitude through their deep understanding of its business and the industry in which it operates.

The Board will regularly review the independence of each Director, and any subsequent Directors appointed, in light of interests disclosed to the Board and will disclose any change to the ASX, as required by the ASX Listing Rules.

6.4.2. Board Charter

The Board has adopted a written charter to provide a framework for the effective operation of the Board, which sets out:

- The roles and responsibilities of the Board, which include:
  - Culture and responsible decision making (e.g. setting Latitude's values and standards of conduct, promoting ethical and responsible decision making and monitoring its compliance with legal and regulatory requirements);
  - Strategy and performance (e.g. setting the strategy objectives of Latitude and approving major corporate initiatives);

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[116] It is intended that Haseeb Malik will resign and be replaced by James Corcoran as the Shareholder Representative Director for Värde Partners with effect immediately from Completion.

[117] It is intended that Haseeb Malik will resign and be replaced by James Corcoran as the Shareholder Representative Director for Värde Partners with effect immediately from Completion.

  - Oversight of Management (e.g. overseeing Management's implementation of Latitude's objectives and approving executive remuneration packages);
  - Risk management and compliance (e.g. overseeing the enterprise risk management framework to ensure that material financial and non-financial risks are identified, and monitoring Latitude's risk culture);
  - Oversight of financial and capital management (e.g. approving accounting policies, monitoring financial results and determining the dividend policy of Latitude);
  - Information technology (e.g. overseeing Latitude's IT and data strategy, and monitoring IT operational performance);
  - People and diversity (e.g. approving Latitude's material people related policies and overseeing executive succession planning);
  - Board nominations (e.g. reviewing the appropriate size and composition of the Board and its committees, and overseeing the implementation of a Director induction program and ensuring that there are appropriate opportunities for Directors to develop and maintain their skills); and
  - Security holders (e.g. promoting effective engagement with security holders in providing them with appropriate information and monitoring the Company's process for making timely and balanced disclosure of all material information);
- The role and responsibilities of the Chairman and company secretary;
- The delegations of authority of the Board to the committees of the Board, the CEO and other management of the Company;
- The membership of the Board, including in relation to the Board's composition and size, and the process of selection and re-election of Directors, independence of Directors and conduct of individual Directors;
- Board processes, including how the Board meets; and
- The Board's performance evaluation processes, including in respect of its own performance, and the performance of the Board committees, individual Directors and the leadership team.

The Board will review the Company's Board Charter from time to time, and make amendments, as necessary. A copy of the Company's Board Charter will be made available on the Company's website.

6.4.3. Board committees

The Board may from time to time establish appropriate committees to assist in the discharge of its responsibilities. As set out below, the Board has established four standing committees to facilitate and assist the Board in fulfilling its responsibilities. The Board may also establish other committees from time to time to assist in the discharge of its responsibilities.

In accordance with the ASX Recommendations and ASX Listing Rules, the Audit Committee comprises at least three Non-Executive Directors, a majority of whom are independent, and an independent chair who is not the Chairman of the Board.

The Risk Committee, Remuneration & People Committee and Technology Committee will each comprise at least three Non-Executive Directors and an independent chair who is not the Chairman of the Board. However, each of these Committees will not initially be made up of a majority of independent Directors as required by ASX Recommendations 7.1 (with respect to the Risk Committee) and 8.1 (with respect to the Remuneration & People Committee). There is no specific recommendation that the Technology Committee have a majority of independent directors. The Board has considered the Company's immediate requirements as it transitions to an ASX-listed company and is satisfied that the composition of the Board and its committees reflects an appropriate range of, skills, diversity and experience for the Company after Listing to enable it to discharge its duties and responsibilities effectively.

The Company acknowledges ASX Recommendation 2.1 that the Company have a nomination committee, and notes that the Board will not initially establish a separate nomination committee. The Board will itself be responsible for nomination responsibilities, including succession and ensuring that the Board has an appropriate balance of skills, knowledge, experience, independence and diversity to enable it to perform its role effectively. Executive succession planning will also be addressed by the Remuneration & People Committee. The Board believes that it will be able to discharge these responsibilities and deal effectively with Board composition and succession issues, without a separate committee undertaking this function. The Board will review these arrangements periodically, having regard to the Board's renewal program and workload.

Each committee has the responsibilities described in the relevant committee charter adopted by the Company (each of which has been prepared having regard to the ASX Recommendations). Copies of the charters for the above committees will be made available on the Company's website.

Committee	Roles and Responsibilities	Initial Composition
Audit Committee	• Responsible for monitoring and advising the Board on Latitude's financial reporting framework. • Key roles of this committee include overseeing: 1. The adequacy of Latitude's corporate reporting processes and the integrity of the Company's accounting and financial statements; 2. Latitude's external audit processes, including the appointment, independence, management and removal of the Company's external auditor; 3. Latitude's internal audit processes, including appointment of the head of internal audit and audit planning; and 4. Latitude's tax risk and tax governance arrangements.	• Mark Joiner (Chair, independent Non-Executive Director) • Alison Ledger (independent Non-Executive Director) • Haseeb Malik (Non-Executive Director, Shareholder Representative Director)[118]
Risk Committee	• Responsible for monitoring and advising the Board on Latitude's risk management responsibilities under Latitude's policies, plans and programs, and the law. • Key roles of this committee include overseeing: 1. Latitude's enterprise-wide risk management; 2. Risk and risk related activities, including the adequacy of controls established by senior management to identify and manage areas of potential risk and to safeguard the assets of Latitude; 3. Compliance with legal and regulatory requirements and Latitude's policies and codes of conduct; and 4. Treasury performance and related risks.	• Mark Joiner (Chair, independent Non-Executive Director) • Beaux Pontak (Non-Executive Director, Shareholder Representative Director) • Haseeb Malik (Non-Executive Director, Shareholder Representative Director)[119]

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[118] It is intended that Haseeb Malik will resign and be replaced by James Corcoran as the Shareholder Representative Director for Värde Partners with effect immediately from Completion.

[119] It is intended that Haseeb Malik will resign and be replaced by James Corcoran as the Shareholder Representative Director for Värde Partners with effect from immediately from Completion.

Committee	Roles and Responsibilities	Initial Composition
Remuneration & People Committee	• Responsible for monitoring and advising the Board on appropriate people and remuneration strategies and policies consistent with business requirements. • Key roles of this committee include: 1. Overseeing the development and implementation of Latitude's people and culture strategy; 2. Reviewing and evaluating the Company's occupational health and safety policies and procedures and monitoring occupational health and safety incidents; 3. Overseeing Latitude's diversity and inclusion strategy, policy and performance; 4. Overseeing the Company's remuneration arrangements and incentive schemes; and 5. Overseeing the Company's executive succession planning.	• Alison Ledger (Chair, independent Non-Executive Director) • Scott Bookmyer (Non-Executive Director, Shareholder Representative Director) • Beaux Pontak (Non-Executive Director, Shareholder Representative Director)
Technology Committee	• Responsible for monitoring and advising the Board on related matters. • Key roles of the committee include overseeing: 1. IT and data strategy, including reviewing technology related policies and monitoring significant emerging technology and trends; 2. Significant technology related investment, including reviewing IT projects and recommending technology related investments for Board approval, and monitoring the progress of significant technology related projects; 3. Latitude's cybersecurity program and IT risk management; and 4. IT operational performance, including the performance of third-party system and service providers.	• Alison Ledger (Chair, independent Non-Executive Director) • Beaux Pontak (Non-Executive Director, Shareholder Representative Director) • Scott Bookmyer (Non-Executive Director, Shareholder Representative Director)

6.4.4. Corporate governance policies

The Company has also adopted the following policies, each of which has been prepared having regard to the ASX Recommendations and will be made available on the Company's website. The Company's corporate governance polices will continue to be reviewed regularly and will continue to be developed and refined as required to meet the needs of the Company.

6.4.4.1. Disclosure and Communication Policy

From Listing, the Company will be required to comply with the continuous disclosure requirements of the ASX Listing Rules and the Corporations Act. Subject to the exceptions contained in the ASX Listing Rules, the Company will be required to immediately disclose to the ASX any information concerning Latitude which a reasonable person would expect to have a material effect on the price or value of the Shares. The Company is committed to observing its disclosure obligations under the ASX Listing Rules and the Corporations Act.

The Board has adopted a Disclosure and Communication Policy, to take effect from Listing, which establishes procedures aimed at ensuring that Directors, Management and other staff are aware of and fulfil their obligations in relation to the timely disclosure of material price sensitive information. Under the Disclosure and Communication Policy, the Company has established a Disclosure Committee, comprised of the Company Secretary, the CEO, the CFO and the Head of Investor Relations. The responsibilities of the Disclosure Committee include ensuring that the Company complies with its disclosure obligations and has the relevant procedures in place, making decisions on information to be disclosed to the market, seeking to ensure that announcements are made in a timely manner and are not misleading, and monitoring disclosure processes and reporting.

6.4.4.2. Trading Policy

The Board has adopted a Trading Policy, to take effect from Listing, which explains the prohibited type of conduct in relation to dealings in securities under the Corporations Act and is intended to establish a best-practice procedure in relation to Directors', officers', key management personnel's, employees', contractors' and their families and associates' dealings in Shares.

The Trading Policy sets out the restrictions that apply to dealing with Company securities (as defined in the Policy) including 'prohibited periods', during which certain designated persons are generally not permitted to deal with securities, along with a procedure under which designated persons are required to submit a request and obtain written confirmation prior to dealing in securities outside the prohibited periods.

The Policy further provides that Directors, certain restricted employees and their connected persons must not deal in the Company's securities on a short-term or speculative trading basis, or enter into transactions which limit the economic risk related to a person's remuneration. The policy also sets out a process for maintaining the confidentiality of relevant information.

6.4.4.3. Conduct policies

The Board recognises the need to observe the highest standards of corporate practice and business conduct. Accordingly, the Board has adopted a number of policies which, together, set standards of conduct in relation to the operation of the Company. These policies are to be followed by the Board along with all employees, officers, contractors, consultants and other persons that act on behalf of the Company and associates of the Company. The framework of policies includes, among others, the following policies:

- 'Our Compass' Code of Conduct;
- Environment, Health and Safety Policy;
- Drug and Alcohol Policy;
- Workplace Behaviour Policy;
- Managing Performance and Conduct Policy;
- Conflicts of Interest Policy;
- Concern Raising Whistleblower Policy;
- External Privacy and Credit Reporting Policy;
- Financial Crime Compliance Policy;
- Fraud Management Policy;
- Gift and Entertainment Policy; and
- Records and Information Management Policy.

These and other associated policies set out the Company's approach to various matters including obligations to act honestly, fairly, professionally and respectfully; conflicts of interest; appropriate use of the Company's property; anti-bribery and giving or acceptance of gifts; dealings with politicians and government officials in the context of the giving or acceptance of gifts; confidentiality; privacy; discrimination, bullying, harassment and vilification; health and safety of employees; insider trading; and whistleblower protections; and compliance with laws and regulations in respect of these matters.

6.4.4.4. Diversity Policy

The Board has formally approved a Diversity Policy in order to, among other matters, provide a framework by which the Company will support and facilitate an environment of diversity and inclusion across the organisation.

The Board will establish measurable objectives for diversity and inclusion, including gender, at all levels of the Company and will include in the annual report each year a summary of the Company's progress towards achieving the measurable objectives set under the Diversity Policy for the year to which the annual report relates and details of the measurable objectives set under the Diversity Policy for the subsequent financial year.

6.4.4.5. Risk management

The Board is responsible for overseeing and approving the Company's enterprise risk management framework. The Company has also established a Risk Management Committee which will assist the Board's Risk Committee and Board in overseeing the implementation of an effective system of risk management. For further detail, see Section 3.1.

07.

Details of the Offer and How to Apply

07. Details of the Offer and How to Apply

7.1. The Offer

This Prospectus relates to the Offer. The Offer is a sale of approximately 622.4 million Shares by SaleCo (including both Primary Shares and Secondary Shares) at the Final Price. The Final Price will be determined at the conclusion of the Bookbuild and may be set at a price below, within or above the Indicative Price Range.

The Shares transferred to Successful Applicants under the Offer will comprise:

- Primary Shares to be issued by the Company to SaleCo for sale under the Offer; and
- Secondary Shares, which are to be issued by the Company to the Selling Shareholders under the Restructure and then subsequently transferred to SaleCo for sale under the Offer (see Section 9.4 for further details of the Restructure),

in a ratio determined by SaleCo in its absolute discretion. Both the issue of Shares by the Company and the sale of Shares by SaleCo in connection with the Offer will occur under this Prospectus. The Shares being offered under the Offer will in aggregate represent 35.0% of the issued Shares on Completion.

As part of the Restructure and the associated unwind of the Pre-Completion Equity Plans (as described in Sections 9.4 and 6.3.2 respectively), the Existing Investors, Minority Investors and Management Shareholders will, in aggregate, hold 65.0% of the Shares at Completion. These Shares will be issued under this Prospectus at the Final Price and be subject to certain voluntary escrow arrangements described in Section 9.8. See Section 7.4 for further details of these shareholdings.

The Offer is expected to raise approximately $1,244.8 million to $1,400.4 million, assuming the Final Price is within the Indicative Price Range. Proceeds from the sale by SaleCo of:

- Primary Shares[120] will be approximately $1,058.2 million to $1,065.0 million (being 529.1 million and 473.3 million Shares respectively); and
- Secondary Shares[121] will be approximately $186.6 million to $335.4 million (being 93.3 million and 149.1 million Shares respectively),

assuming the Final Price is within the Indicative Price Range.

Following Completion of the Offer, the total number of Shares on issue will be approximately 1,778.2 million, assuming the Final Price is within the Indicative Price Range. All Shares will, once issued, rank equally in all respects with each other. A summary of the rights and liabilities attaching to the Shares is set out in Section 7.17. The Offer is made on the terms, and subject to the conditions, set out in this Prospectus.

Where the Company and/or SaleCo are expressed to have a discretion (including an absolute discretion) in respect of an aspect of the Offer described in this Section 7, they will only exercise such discretion after engagement with the Existing Investors.

7.2. Structure of the Offer

The Offer comprises:

- The Broker Firm Offer: which is open to Australian and New Zealand resident retail and sophisticated non-institutional investors who:
  - Have a registered address in Australia or New Zealand respectively;
  - Are a client of a participating Broker and have received an invitation from that Broker to acquire Shares under this Prospectus; and
  - Are not in the United States.
- The Institutional Offer: which is an offer to Institutional Investors in Australia, New Zealand, and certain other jurisdictions in the world (made under this Prospectus and, in New Zealand, under the New Zealand Mutual Recognition Regime), and the United States (made under the Institutional Offering Memorandum).

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[120] The number of Primary Shares varies because more Shares are issued at the low end of the Indicative Price Range and less Shares are issued at the high end of the Indicative Price Range. The range in proceeds raised from Primary Shares reflects funding the costs of the Offer that are themselves dependent on the Offer size (including ASX listing fees and the fees payable to the Joint Lead Managers).

[121] The number of Secondary Shares sold will depend on the Final Price (see Section 7.11.2 for further details on the Bookbuild). The proceeds raised from Secondary Shares is the Final Price multiplied by the number of Secondary Shares sold by SaleCo (the low end of the range is approximately 93.3 million Shares multiplied by the low end of the Indicative Price Range and the high end of the range is approximately 149.1 million Shares multiplied by the high end of the Indicative Price Range).

No general public offer of Shares will be made under the Offer.

All shares offered to investors in New Zealand under the Offer are being offered under the New Zealand Mutual Recognition Regime. No Offer of Shares is being made to investors in New Zealand until such time as the relevant notice and accompanying documents required to be lodged under the New Zealand Mutual Recognition Regime have been lodged.

The allocation of Shares between the Broker Firm Offer and the Institutional Offer (and to participants within the Institutional Offer and Brokers within the Broker Firm Offer) will be determined by the Company and SaleCo in their absolute discretion after having consulted with the Joint Lead Managers and having regard to the allocation policies outlined in Sections 7.8.6 and 7.11.5.

The Offer has not been underwritten. However, the Joint Lead Managers will be providing settlement support for the Broker Firm Offer and the Institutional Offer. A summary of the Offer Management Agreement is set out in Section 9.10.

7.3. Purpose of the Offer and Use of Funds

The Offer is expected to raise approximately $1,244.8 million to $1,400.4 million, assuming the Final Price is within the Indicative Price Range.

The purpose of the Offer is to:

- Provide Latitude with access to the public equity capital markets, which will allow it to reduce leverage, pursue further growth opportunities and improve its financial flexibility;
- Allow the Existing Investors to realise a portion of their investment in Latitude (including full repayment of Shareholder Loans); and
- Provide a liquid market for its Shares and an opportunity for others to invest in Latitude.

Assuming the Final Price is the Mid-Point Final Price and that SaleCo sells approximately 122.8 million Secondary Shares, the proceeds of the Offer will be applied as set out in the table below:

Sources of Funds	$m	%
Gross cash proceeds received from issue of Primary Shares	1,061.6	80.3%
Gross cash proceeds received from the sale of Secondary Shares	261.0	19.7%
Total sources	**1,322.6**	**100.0%**

Uses of Funds	$m	%
Payment to or at the direction of Selling Shareholders	261.0	19.7%
Repayment of Shareholder Loans, payment of break fees and accrued interest	930.5	70.4%
Settlement of cash component of Pre-Completion Equity Plan entitlements	19.5	1.5%
Payment of costs of the Offer	69.3	5.2%
Cash to balance sheet	42.2	3.2%
Total uses	**1,322.6**	**100.0%**

7.4. Shareholding Structure

As at the Prospectus Date, 100% of Latitude (but not the Company) is held by the Existing Investors through their holdings in KVDS. Deutsche Bank holds 30% and Värde Partners and KKR each hold 35% of KVDS.

Details of the Company's ownership structure as at the Prospectus Date and on Completion of the Offer (assuming the Final Price is the Mid-Point Final Price[122]) are set out below:

Shareholders	% of shares held in KVDS at Prospectus Date[123]	Illustrative economic ownership at Prospectus Date (%)[124]	Shares expected to be held on Completion (m)	% of Shares Held on Completion
KKR	35.0%	34.3%	364.0	20.5%
Värde Partners	35.0%	34.5%	365.9	20.6%
Deutsche Bank[125]	30.0%	21.6%	229.2	12.9%
Minority Investors		9.7%	161.9	9.1%
Michael Tilley[126]			4.5	0.3%
Mark Joiner			0.7	0.0%
Alison Ledger			0.1	0.0%
Ahmed Fahour			12.6	0.7%
Adrienne Duarte			1.8	0.1%
Other Management Shareholders[127]			14.4	0.8%
Employee Share Acquisition Plan[128]			0.7	0.0%
New Shareholders			**622.4**	**35.0%**
Total	**100.0%**	**100.0%**	**1,778.2**	**100.0%**

At Completion, 65.0% of the Shares (those to be issued to the Selling Shareholders, the Minority Investors and Management Shareholders and not to be transferred to SaleCo) will be subject to voluntary escrow arrangements. See Section 9.8 for further information.

7.5. Control Implications of the Offer

The Directors do not expect that any Shareholder will control (as defined by section 50AA of the Corporations Act) the Company on Completion.

7.6. Potential Effect of the Fundraising on the Future of the Company

The Directors believe that, on Completion, Latitude will have sufficient working capital available from the proceeds of the Offer and its operations to fulfil the purposes of the Offer and meet Latitude's stated business objectives.

[122] Assumes the Final Price is the Mid-Point Final Price. The number of Primary Shares issued by the Company depends on the Final Price given the Company requires a certain amount of proceeds from the issuance of Primary Shares.

[123] Represents legal ownership of shares in KVDS.

[124] Represents the impact of Minority Investors who, as at the date of the Prospectus, have an economic interest in Latitude via the Existing Investors and who are anticipated to realise this economic interest though receipt of Shares pursuant to the Restructure.

[125] Some of the shares held by Deutsche Bank in KVDS at the Prospectus Date are subject to risk participation arrangements that have the effect of transferring the economic exposure to those shares to certain wealth management and institutional investors. As a result of these participation arrangements while Deutsche Bank has a legal interest in 30% of KVDS shares at the Prospectus Date, its economic exposure to those shares is around 21.6%. The details of the Shares to be held by Deutsche Bank on Completion do not include any Shares it or an affiliate may be allocated under the Offer on an arm's length basis in the ordinary course of its asset management or equities business activities.

[126] Michael Tilley was the sole shareholder of the Company at incorporation and as at the Prospectus Date he holds one Share.

[127] Shares of Michael Tilley, Mark Joiner, Alison Ledger, Ahmed Fahour, Adrienne Duarte and other Management Shareholders are to be issued on or about Completion pursuant to the Pre-Completion Equity Plans described in Section 6.3.2. The number of Shares set out for each Management Shareholder assumes the Mid-Point Final Price will be achieved as the Final Price.

[128] Shares granted under the Employee Gift Offer will be allocated to participating eligible employees approximately two to four weeks (or as soon as practicable thereafter) after Completion. Shares allocated to an eligible employee under the Employee Share Acquisition Plan cannot generally be disposed of for a period of three years from the date of allocation (for further detail see Section 9.12).

7.7. Key Terms and Conditions of the Offer

What is the Type of Security Being Offered?	• Shares, being fully paid ordinary shares in the capital of the Company
What are the Rights and Liabilities Attached to the Security Being Offered?	• A description of the Shares, including the rights and liabilities attached to them, is set out in Section 7.17
What is the Price of Shares Under the Offer and How will the Price be Determined?	• The Indicative Price Range for the Offer is $2.00 to $2.25 per Share • All Successful Applicants under the Offer will pay the Final Price • The Final Price will be determined by the Company and SaleCo in their absolute discretion, after having consulted with the Joint Lead Managers, at the conclusion of the Bookbuild and may be set below, within or above the Indicative Price Range. Therefore, Applicants under the Broker Firm Offer will apply for a set dollar value of Shares. Accordingly, those Applicants will not know the number of Shares they will receive at the time they make their investment decision, nor will they know the Final Price
What is the Offer Period?	• The key dates, including details of the Offer Period relating to each component of the Offer, are set out on page 4 • The timetable is indicative only and may change. Unless otherwise indicated, all times are stated in AET • The Company, after having consulted with the Joint Lead Managers, reserves the right to change any and all of the times and dates of the Offer without notice in its absolute discretion including (subject to the ASX Listing Rules and the Corporations Act) to close the Offer early, to extend the Offer Period relating to any component of the Offer and to accept late Applications, either generally or in particular cases, in each case without notifying any recipient of this Prospectus or any Applicants • The Company or SaleCo may cancel or withdraw the Offer before allocation and transfer of Shares to Successful Applicants has occurred, in each case without notifying any recipient of this Prospectus or any Applicants • If the Offer is cancelled or withdrawn before the allocation and transfer of Shares to Successful Applicants, then all Application Monies will be refunded in full (without interest) as soon as practicable in accordance with the requirements of the Corporations Act • No Shares will be issued or transferred on the basis of this Prospectus later than the Expiry Date
What are the Cash Proceeds to be Raised?	• Approximately $1,244.8 million to $1,400.4 million is expected to be raised under the Offer • Assuming a Mid-Point Final Price, $1,322.6 million is expected to be raised under the Offer if it proceeds. Of this amount, $1,061.6 million (being the proceeds of the sale of Primary Shares) will be paid to or at the direction of the Company and $261.0 million (being the proceeds of the sale of the Secondary Shares) will be paid to or at the direction of the Selling Shareholders
Is the Offer Underwritten?	• No. The Offer is not underwritten
Who are the Joint Lead Managers?	• The Joint Lead Managers and Joint Bookrunners are Goldman Sachs, Macquarie Capital and UBS

07. Details of the Offer and How to Apply

What is the Minimum and Maximum Application Size Under the Offer?	• The minimum Application under the Broker Firm Offer is $2,000 of Shares in aggregate. There is no maximum Application size under the Broker Firm Offer; however, the Company and SaleCo reserve the right to treat any Applications in the Broker Firm Offer that are from persons who they believe may be Institutional Investors as bids in the Institutional Offer, or to reject those Application(s). The Company and SaleCo also reserve the right to aggregate any Applications that they believe may be multiple Applications from the same person and to reject or scale back any Applications (or aggregation of Applications) in the Broker Firm Offer which are for more than $250,000 of Shares (after having consulted with the Joint Lead Managers) • There is no maximum Application size under the Institutional Offer • The Company and SaleCo reserve the right to reject or scale back any Applications in their absolute discretion (after having consulted with the Joint Lead Managers). For more information, see Section 7.8.3 and 7.8.6
What is the Allocation Policy?	• The allocation of Shares between the Broker Firm Offer and the Institutional Offer will be determined by the Company and SaleCo in their absolute discretion after having consulted with the Joint Lead Managers and having regard to the allocation policies outlined in Sections 7.8.6 and 7.11.5 • In respect of the Broker Firm Offer, each Broker will decide how it allocates Shares among its retail and sophisticated non-institutional clients, and it (and not the Company, SaleCo or the Joint Lead Managers) will be responsible for ensuring that retail or sophisticated non-institutional clients who have received an allocation from it receive the relevant Shares • The allocation of Shares under the Institutional Offer (including to broker sponsored bids) will be determined by the Company and SaleCo in their absolute discretion after having consulted with the Joint Lead Managers and having regard to the allocation policies outlined in Sections 7.8.6 and 7.11.5 • The Company and SaleCo may in their absolute discretion, after having consulted with the Joint Lead Managers, reject any Application, or allocate fewer Shares to a Successful Applicant than the number or the equivalent dollar amount applied or bid for
When will I Receive Confirmation that My Application has been Successful?	• It is expected that initial holding statements will be despatched to Successful Applicants by standard post on or about 24 October 2019
When will I Receive a Refund?	• Refunds (without interest) to Applicants who make an Application and receive an allocation of Shares, the value of which is smaller than the amount of the Application Monies they have paid, will be made as soon as practicable after Completion • No refunds will be made where the overpayments relate solely to rounding at the Final Price • For more information, see Section 7.10
Will the Shares be Quoted on the ASX?	• The Company will apply to ASX for its admission to the Official List and quotation of Shares on the ASX (which is expected to be under the code "LFS"). It is anticipated that quotation will initially be on a conditional and deferred settlement basis • The transfer of Shares and therefore Completion is conditional on ASX approving this application. If permission is not granted for the official quotation within three months after the Prospectus Date (or any later date permitted by law), the Offer may be withdrawn and all Application Monies received by the Company will be refunded (without interest), as soon as practicable in accordance with the requirements of the Corporations Act

When are the Shares Expected to Commence Trading?	• It is expected that trading of the Shares on the ASX will commence on or about 18 October 2019, initially on a conditional and deferred settlement basis • If the Offer is withdrawn after Shares have commenced trading on a conditional and deferred settlement basis, all contracts for the sale of the Shares on the ASX will be cancelled and any Application Monies received would be refunded as soon as possible (without interest) • Conditional trading will continue until the Company has advised the ASX that Settlement has occurred, which is expected to be on or about 22 October 2019 • Trading on the ASX will then be on an unconditional but deferred settlement basis until the Company has advised the ASX that initial holding statements have been despatched to Shareholders, which will be on or about 24 October 2019. The initial holding statements will set out the number of Shares transferred to the relevant Shareholder • Trading on the ASX on a normal settlement basis is expected to commence on or about 25 October 2019 • If Settlement has not occurred within 14 days (or such longer period as ASX allows) after the day Shares are first quoted on the ASX, the Offer and all contracts arising on acceptance of Applications will be cancelled and of no further effect, and all Application Monies will be refunded (without interest). In these circumstances, all purchases and sales made through the ASX participating organisations during the conditional trading period will be cancelled and of no effect • It is the responsibility of each Successful Applicant to confirm their holding before trading in Shares by contacting their Broker or the Latitude IPO Offer Information Line, or by reviewing their holding statement. Applicants who sell Shares before they receive an initial statement of holding do so at their own risk • The Company, SaleCo, the Existing Investors, the Selling Shareholders, the Share Registry and the Joint Lead Managers disclaim all liability, whether in negligence or otherwise, to persons who sell or trade Shares before receiving an initial holding statement, even if such person received confirmation of allocation from the Latitude IPO Offer Information Line or confirmed their allocation through a Broker • For more information, see Section 7.15.3
Are There Any Escrow Arrangements?	• Yes. Details are provided in Section 9.8
Has Any ASIC Relief or ASX Waiver or Confirmation Been Sought, Obtained or Relied on?	• Yes. Details are provided in Section 9.17
Are There Any Brokerage, Commission or Stamp Duty Considerations?	• No brokerage, commission or stamp duty should be payable by Applicants on acquisition of Shares under the Offer
Are There Any Tax Considerations?	• Summaries of certain Australian tax consequences of participating in the Offer and investing in the Shares are set out in Section 9.14. The tax consequences of any investment in the Shares will depend upon an Applicant's particular circumstances. Applicants should obtain their own tax advice prior to deciding whether to invest

Will the Offer be Extended into New Zealand?	• Yes. Shares offered to investors in New Zealand under the Offer will be offered under this Prospectus and the New Zealand Mutual Recognition Regime
What Should You do With Any Enquiries?	• All enquiries in relation to this Prospectus should be directed to the Latitude IPO Offer Information Line on 1300 384 651 (within Australia) or +61 3 9415 4328 (outside Australia) between 8:30am and 5:00pm (AET), Monday to Friday (excluding public holidays) • All enquiries in relation to the Broker Firm Offer should be directed to your Broker • All enquiries in relation to the Institutional Offer should be directed to the Joint Lead Managers • If you have any questions about whether to invest in the Company, you should seek professional guidance from your stockbroker, solicitor, accountant, financial adviser or other independent professional adviser before deciding whether to invest

7.8. Broker Firm Offer

7.8.1. Who may apply

The Broker Firm Offer is open to Australian and New Zealand resident retail and sophisticated non-institutional clients of Brokers who have a registered address in Australia or New Zealand respectively and who have received an invitation from a Broker to acquire Shares under this Prospectus and, in New Zealand, the New Zealand Mutual Recognition Regime, and are not in the United States. You should contact your Broker to determine whether you can receive an allocation of Shares from them under the Broker Firm Offer.

7.8.2. How to apply

If you have received an invitation to apply for Shares from your Broker and wish to apply for those Shares under the Broker Firm Offer, you should contact your Broker for information about how to submit your Broker Firm Offer Application Form and for payment instructions. Your Broker can also provide you with a copy of the Prospectus and a Broker Firm Offer Application Form, or you can download a copy at www.latitudeipo.com.au.

Your Broker will act as your agent and it is your Broker's responsibility to ensure that your Broker Firm Offer Application Form and Application Monies are received before 5:00pm (AET) on 14 October 2019 or any earlier closing date as determined by your Broker. Applicants under the Broker Firm Offer must not send their Application Forms to the Share Registry.

The Broker Firm Offer opens at 9:00am (AET) on the Opening Date and is expected to close at 5:00pm (AET) on the Closing Date. The Company and SaleCo may elect to close the Broker Firm Offer or any part of it early, extend the Broker Firm Offer or any part of it, or accept late Applications either generally or in particular cases, without further notice. Your Broker may also impose an earlier closing date. Applicants are therefore encouraged to submit their Applications as early as possible after the Offer opens. Please contact your Broker for instructions.

If you are an Investor applying under the Broker Firm Offer, you should complete and lodge your Broker Firm Offer Application Form with the Broker from whom you received your invitation to participate in the Broker Firm Offer. Broker Firm Offer Application Forms must be completed in accordance with the instructions given to you by your Broker and the instructions set out on the Application Form.

If you are unclear in relation to any matter or are uncertain as to whether Shares are a suitable investment for you, you should seek professional guidance from your stockbroker, solicitor, accountant, financial adviser or other independent professional adviser before deciding whether to invest.

By making an Application, you declare that you were given access to this Prospectus, together with an Application Form. The Corporations Act prohibits any person from passing an Application Form to another person unless it is attached to, or accompanied by, a hard copy of this Prospectus or the complete and unaltered electronic version of this Prospectus.

None of Latitude, SaleCo, the Existing Investors, the Selling Shareholders, the Share Registry and the Joint Lead Managers take any responsibility for any acts or omissions committed by your Broker in connection with your Application.

7.8.3. Minimum and maximum Application size

The minimum Application size under the Broker Firm Offer is $2,000 of Shares in aggregate.

There is no maximum Application size under the Broker Firm Offer; however, the Company and SaleCo reserve the right to not accept Applications in the Broker Firm Offer that are from persons they believe may be Institutional Investors or to reject or scale back any Applications (or aggregation of Applications) in the Broker Firm Offer which are for more than $250,000 of Shares (after having consulted with the Joint Lead Managers).

The Company and SaleCo may determine a person to be eligible to participate in the Broker Firm Offer, and may amend or waive the Broker Firm Offer application procedures or requirements, in their absolute discretion in compliance with applicable laws.

7.8.4. Final Price

The Final Price will be determined by the Company and SaleCo in their absolute discretion (after having consulted with the Joint Lead Managers) at the conclusion of the Bookbuild process and may be set below, within or above the Indicative Price Range. Therefore, Applicants under the Broker Firm Offer will apply for an Australian dollar value of Shares. Accordingly, those Applicants will not know the number of Shares they will receive at the time they make their investment decision, nor will they know the Final Price.

7.8.5. Payment methods

Applicants under the Broker Firm Offer must pay their Application Monies to their Broker in accordance with instructions provided by that Broker.

7.8.6. Allocation policy under the Broker Firm Offer

The allocation of Shares between the Broker Firm Offer and the Institutional Offer will be determined by the Company and SaleCo in their absolute discretion, after having consulted with the Joint Lead Managers.

Shares which have been allocated to Brokers for allocation to their Australian or New Zealand resident retail and sophisticated non-institutional clients will be transferred to the Applicants nominated by those Brokers (subject to the right of the Company and SaleCo, in their absolute discretion having consulted with the Joint Lead Managers to reject or scale back Applications). It will be a matter for the Brokers to determine how they allocate Shares among their retail clients, and they (and not the Company, SaleCo or the Joint Lead Managers) will be responsible for ensuring that retail clients who have received a firm allocation from them receive the relevant Shares.

7.8.7. How to confirm your allocation

Applicants in the Broker Firm Offer will be able to call the Latitude IPO Offer Information Line on 1300 384 651 (within Australia) or +61 3 9415 4328 (outside Australia) between 8:30am and 5:00pm (AET), Monday to Friday (excluding public holidays) to confirm their allocation. Applicants under the Broker Firm Offer will also be able to confirm their allocation through the Broker from whom they received their allocation.

However, if you sell Shares before receiving a holding statement, you do so at your own risk, even if you obtained details of your holding from the Latitude IPO Offer Information Line or confirmed your allocation through the Broker from whom you received your allocation. See also Section 7.15.3.

7.9. Acceptance of Applications Under the Broker Firm Offer

An Application in the Broker Firm Offer is an offer by the Applicant to SaleCo to apply for the Australian dollar amount of Shares specified in the Application Form at the Final Price on the terms and conditions set out in this Prospectus (including any supplementary or replacement Prospectus) and the Application Form. To the extent permitted by law, an Application by an Applicant under the Broker Firm Offer may not be varied and is irrevocable.

An Application may be accepted by the Company or SaleCo in respect of the full amount, or any amount lower than that specified in the Application Form, without further notice to the Applicant.

The Company and SaleCo reserve the right to decline any Application if they believe any provisions or procedures in this Prospectus, the Application Form or other laws or regulations may not be complied with in relation to the Application. The Company and SaleCo also reserve the right to reject any Application which is not correctly completed or which is submitted by a person whom they believe is ineligible to participate in the Broker Firm Offer, or to waive or correct any errors made by the Applicant in completing their Application.

Successful Applicants in the Broker Firm Offer will be transferred Shares at the Final Price. Acceptance of an Application will give rise to a binding contract, conditional on settlement and quotation of Shares on ASX on an unconditional basis.

7.10. Application Monies

The Company and SaleCo reserve the right to decline any Application in whole or in part, without giving any reason.

Application Monies received under the Broker Firm Offer will be held in a special purpose bank account until Shares are transferred to the Successful Applicants. Applicants under the Broker Firm Offer whose Applications are not accepted, or who are allocated a lesser number of Shares than the Australian dollar amount applied for, will receive a refund of all or part of their Application Monies, as applicable.

Applicants whose Applications are accepted in full will receive the whole number of Shares calculated by dividing the Application Monies by the Final Price. Where the Final Price does not divide evenly into the Application Monies, the number of Shares to be allocated will be rounded down to the nearest whole number. No refunds solely pursuant to rounding will be provided.

Interest will not be paid on any monies refunded and any interest earned on Application Monies pending the allocation or refund will be retained by Latitude. You should ensure that sufficient funds are held in the relevant account(s) to cover the amount of your payment. If the amount in your relevant account(s) is less than the amount specified on the Application Form, you may be taken to have applied for such lower dollar amount of Shares at the Final Price or your Application may be rejected.

7.11. Institutional Offer

7.11.1. Invitations to bid

The Company, SaleCo and the Joint Lead Managers will invite certain Institutional Investors to bid for Shares in the Institutional Offer.

The Institutional Offer is comprised of four parts:

- An invitation to Australian and New Zealand resident Institutional Investors – made under this Prospectus and, in New Zealand, the New Zealand Mutual Recognition Regime;
- An invitation to Brokers who elect to bid for Shares at the Final Price under the Institutional Offer on behalf of Australian and New Zealand resident retail or sophisticated non-institutional clients – made under this Prospectus and, in New Zealand, the New Zealand Mutual Recognition Regime;
- An invitation to Institutional Investors in the United States to bid for Shares made under the Institutional Offering Memorandum; and
- An invitation to Institutional Investors in other eligible jurisdictions to bid for Shares made under the Prospectus.

7.11.2. Bookbuild and the Indicative Price Range

The Institutional Offer will be conducted via a Bookbuild managed by the Joint Lead Managers. Full details of how to participate in the Bookbuild, including bidding instructions, will be provided to eligible Institutional Investors by the Joint Lead Managers in due course.

Institutional Investors can only bid into the Bookbuild for Shares through the Joint Lead Managers. They may bid for Shares at specific prices or at the Final Price. Institutional Investors may bid above, within or below the Indicative Price Range, which is $2.00 to $2.25 per Share. Under the terms of the Offer Management Agreement, the Final Price will be determined by the Company and SaleCo, in their absolute discretion, having consulted with the Joint Lead Managers, after the close of the Bookbuild as described in Section 9.10. All Successful Applicants in the Institutional Offer will pay the Final Price for each Share allocated to them.

The Institutional Offer is expected to open on 15 October 2019 and close on 16 October 2019.

The Company and SaleCo reserves the right to vary the times and dates of the Offer (after having consulted with the Joint Lead Managers), including to close the Offer early, extend the Closing Date and accept late Applications or bids, either generally or in particular cases, without notification.

Bids in the Institutional Offer may be amended or withdrawn at any time up to the close of the Institutional Offer. Any bid not withdrawn at the close of the Institutional Offer is an irrevocable offer by the relevant bidder to subscribe or procure subscribers for the Shares bid for (or such lesser number as may be allocated) at the price per Share bid or at the Final Price, where this is below the price per Share bid, on the terms and conditions set out in this Prospectus (including any supplementary or replacement prospectus) and in accordance with any bidding instructions provided by the Joint Lead Managers to participants.

Bids can be accepted or rejected in whole or in part without further notice to the bidder. Acceptance of a bid will give rise to a binding contract on allocation of Shares to Successful Applicants, conditional on settlement and quotation of Shares on ASX on an unconditional basis.

Details of the arrangements for notification and settlement of allocations applying to participants in the Institutional Offer will be provided to Institutional Investors in the Bookbuild process.

In connection with the Bookbuild, one or more Institutional Investors may elect to acquire an economic interest in the Shares ("**Economic Interest**"), instead of subscribing for or acquiring the legal or beneficial interest in those Shares. One or more of the Joint Lead Managers (or their affiliates) may, for their own account, write derivative transactions with those investors relating to the Shares to provide the Economic Interest, or otherwise acquire shares in the Company in connection with the writing of such derivative transactions in the Bookbuild and/or the secondary market. As a result of such transactions, one or more of the Joint Lead Managers (or their affiliates) may be allocated, subscribe for or acquire Shares in the Bookbuild and/or the secondary market, including to hedge those derivative transactions, as well as hold long or short positions in such Shares. These transactions may, together with other shares in the Company acquired by the Joint Lead Managers (or their affiliates) in connection with their ordinary course sales and trading, principal investing and other activities, result in the Joint Lead Managers (or their affiliates) disclosing a substantial holding and earning fees.

7.11.3. Maximum Application size

There is no maximum Application size under the Institutional Offer; however, the Company and SaleCo reserve the right to reject or scale back any Applications in their absolute discretion (after having consulted with the Joint Lead Managers).

7.11.4. Final Price

The Bookbuild will be used to determine the Final Price. Under the terms of the Offer Management Agreement, the Final Price will be determined by the Company and SaleCo in their absolute discretion, after having consulted with the Joint Lead Managers.

It is expected that the Final Price will be announced to the market on or about 16 October 2019. In determining the Final Price, consideration will be given to, but will not be limited to, the following factors:

- The level of demand for Shares under the Institutional Offer at various prices;
- The level of demand for Shares under the Broker Firm Offer;
- The objective of maximising the proceeds of the Offer; and
- The desire for an orderly secondary market for the Shares.

The Final Price will not necessarily be the highest price at which Shares could be sold. The Final Price may be set below, within or above the Indicative Price Range. All Successful Applicants under the Offer will pay the Final Price.

Applicants under the Institutional Offer will apply for an Australian dollar value of Shares. Accordingly, Applicants will not know the number of Shares they will receive at the time they make their investment decision, nor will they know the Final Price. Except as required by law, Applicants cannot withdraw their Applications once the Company, SaleCo, the Joint Lead Managers, the Share Registry or a Broker receives an Application Form for the Institutional Offer.

7.11.5. Allocation policy under the Institutional Offer

The allocation of Shares among Applicants in the Institutional Offer will be determined by the Company and SaleCo in their absolute discretion, after having consulted with the Joint Lead Managers.

The initial determinant of the allocation of Shares under the Institutional Offer will be the Final Price. Bids lodged at prices below the Final Price will not receive an allocation of Shares.

The allocation policy will also be influenced by, but not constrained by, the following factors:

- The price and number of Shares bid for by particular Applicants;
- The timeliness of the bid by particular Applicants;
- The Company's desire for an informed and active trading market in Shares following Listing;
- The Company's desire to establish a wide spread of institutional Shareholders;
- The overall anticipated level of demand under the Broker Firm Offer and Institutional Offer;
- The size and type of funds under the management of particular Applicants;
- The likelihood that particular Applicants will be long-term Shareholders;
- Any credit risk presented by the Applicant having regard to the amount of its bid; and
- Any other factors that the Company and SaleCo in their absolute discretion (having consulted with the Joint Lead Managers) consider appropriate.

7.12. Acknowledgements

Each Applicant under the Offer will be deemed to have:

- Agreed to have become a member of the Company and to be bound by the terms of the Constitution and the terms and conditions of the Offer;
- Acknowledged having personally received a printed or electronic copy of this Prospectus (and any supplementary or replacement prospectus) including or accompanied by the Application Form and having read them all in full;
- Declared that all details and statements in their Application Form are complete and accurate;
- Declared that the Applicant(s), if a natural person, is/are over 18 years of age;
- Acknowledge that, except as required by law, once the Company, SaleCo, the Joint Lead Managers, the Share Registry or a Broker receives an Application Form for the Broker Firm Offer, it may not be withdrawn;
- Applied for the Australian dollar amount of Shares shown on the front of their Application Form;
- Agreed to being allocated and transferred the number of Shares equivalent to the Australian dollar amount applied for (or a lower number allocated in a way described in this Prospectus), or no Shares at all;
- Authorised the Company, SaleCo, the Joint Lead Managers, the Co-Lead Managers, the Co-Managers and their respective officers or agents, to do anything on behalf of the Applicant(s) necessary for the Shares to be allocated to the Applicant(s), including to act on instructions received by the Share Registry upon using the contact details in the Application Form;
- Acknowledged that, in some circumstances, the Company may not pay dividends, or that any dividends paid may not be franked;
- Acknowledged that the information contained in this Prospectus (or any supplementary or replacement prospectus) is not financial product advice or a recommendation that Shares are suitable for the Applicant(s) and that it does not take into account the investment objectives, financial situation or particular needs (including financial and taxation issues) of the Applicant(s);
- Declared that the Applicant(s) is/are a resident of Australia or New Zealand (except as applicable to the Institutional Offer);
- Acknowledged and agreed that the Offer may be withdrawn by the Company or SaleCo or may otherwise not proceed in the circumstances described in this Prospectus; and
- Acknowledged and agreed that if Listing or Completion does not occur for any reason, the Offer will not proceed.

Each Applicant in the Broker Firm Offer and Institutional Offer will be taken to have represented, warranted and agreed the acknowledgements under Section 7.13 (Restrictions on Distribution), as well as the below:

- It understands that the Shares have not been, and will not be, registered under the US Securities Act or the securities laws of any state or other jurisdiction of the United States and may not be offered, sold or resold in the United States, except in a transaction exempt from, or not subject to, the registration requirements of the US Securities Act and any applicable state securities laws;
- It is not in the United States;
- It has not sent and will not send this Prospectus or any other material relating to the Offer to any person in the United States; and
- It will not offer, sell, transfer or resell the Shares in the United States or in any other jurisdiction outside Australia except in transactions exempt from or not subject to the registration requirements of the US Securities Act and in compliance with all applicable laws in the jurisdiction in which Shares are offered and sold.

7.13. Restrictions on Distribution

No action has been taken to register or qualify this Prospectus, the Shares or the Offer or otherwise to permit a public offering of the Shares in any jurisdiction outside Australia or New Zealand.

This Prospectus does not constitute an offer or an invitation to subscribe for or purchase Shares in any jurisdiction in which, or to any person to whom, it would not be lawful to make such an offer or invitation or issue this Prospectus. It is the responsibility of any Investor to ensure compliance with the laws of any country (outside Australia) relevant to their Application.

This Prospectus does not constitute an offer to sell, or a solicitation of an offer to buy, securities in the United States. In particular, the Shares have not been, and will not be, registered under the US Securities Act or the securities laws of any state of the United States and may not be offered or sold, directly or indirectly, in the United States except in transactions exempt from, or not subject to, the registration requirements of the US Securities Act and any other applicable US securities laws. Offers to any persons in the United States are only being made pursuant to, and in accordance with the terms described in the Institutional Offering Memorandum.

This Prospectus may not be distributed in the United States, unless it is attached to, or constitutes part of, the Institutional Offering Memorandum that further describes selling restrictions applicable in the United States.

Each Applicant under the Institutional Offer will be required to make certain representations, warranties and covenants as set out in the confirmation of allocation letter distributed to it.

7.14. Discretion Regarding the Offer

The Company or SaleCo may withdraw the Offer at any time before transfers of Shares to Successful Applicants under the Offer have occurred. If the Offer, or any part of it, does not proceed, all relevant Application Monies will be refunded (without interest).

The Company and SaleCo also reserve the right to close the Offer (or any part of it) early, extend the Offer (or any part of it), accept late Applications either (generally or in particular cases), reject any Application, or allocate to any Applicant fewer Shares than those applied for (after having consulted with the Joint Lead Managers).

7.15. ASX Listing, Registers and Holding Statements, and Conditional and Deferred Settlement Trading

7.15.1. Application to the ASX for the Listing of the Company and quotation of Shares

The Company will apply to the ASX for admission to the Official List and quotation of the Shares on the ASX within seven days of the Prospectus Date. The Company's ASX code is expected to be "LFS".

The ASX takes no responsibility for this Prospectus or the investment to which it relates. The fact that the ASX may admit the Company to the Official List is not to be taken as an indication of the merits of the Company or the Shares offered for subscription.

If the Company does not make such an application within seven days after the Prospectus Date, or if permission is not granted for the official quotation of the Shares on the ASX within three months after the Prospectus Date (or any later date permitted by law), the Offer may be withdrawn and all Application Monies received by the Company will be refunded (without interest) as soon as practicable in accordance with the requirements of the Corporations Act.

The Company will be required to comply with the ASX Listing Rules, subject to certain conditions (including any waivers obtained by the Company from time to time).

7.15.2. CHESS and issuer sponsored holdings

The Company will apply to participate in the ASX's Clearing House Electronic Subregister System ('**CHESS**') and will comply with the ASX Listing Rules and the ASX Settlement Operating Rules. CHESS is an electronic transfer and settlement system for transactions in securities quoted on the ASX under which transfers are effected in an electronic form.

When the Shares become approved financial products (as defined in the ASX Settlement Operating Rules), holdings will be registered in one of two subregisters, being an electronic CHESS subregister or an issuer sponsored subregister.

For all Successful Applicants, the Shares of a Shareholder who is a participant in CHESS or a Shareholder sponsored by a participant in CHESS will be registered on the CHESS subregister. All other Shares will be registered on the issuer sponsored subregister.

Following Completion, Shareholders will be sent an initial holding statement that sets out the number of Shares that have been transferred to them. This statement will also provide details of a Shareholder's Holder Identification Number for CHESS holders or, where applicable, the Securityholder Reference Number of issuer sponsored holders. Shareholders will subsequently receive statements showing any changes to their shareholding. Certificates will not be issued.

Shareholders will receive subsequent statements during the first week of the following month if there has been a change to their holding on the register and as otherwise required under the ASX Listing Rules and the Corporations Act. Additional statements may be requested at any other time either directly through the Shareholder's sponsoring broker in the case of a holding on the CHESS subregister or through the Share Registry in the case of a holding on the issuer sponsored subregister. The Company and the Share Registry may charge a fee for these additional issuer sponsored statements.

7.15.3. Conditional and deferred settlement trading and selling Shares on-market

It is expected that the Shares will commence trading on the ASX on or about 18 October 2019, initially on a conditional and deferred settlement basis.

The contracts formed on acceptance of Applications and bids will be conditional on the ASX agreeing to quote the Shares on the ASX, and on Settlement. Trades occurring on the ASX before Settlement will be conditional on Settlement occurring.

If the Offer is withdrawn before Shares have commenced trading on an unconditional basis, all contracts for the sale of the Shares on the ASX will be cancelled and any Application Monies received will be refunded as soon as practicable (without interest).

Conditional and deferred settlement trading will continue until the Company has advised the ASX that (i) the Restructure has completed and (ii) Settlement has occurred under the Offer, which is expected to be on or about 22 October 2019. Trading will then be on an unconditional but deferred settlement basis until the Company has advised the ASX that initial holding statements have been despatched to Shareholders, which is expected to be on or about 24 October 2019. The initial holding statements will set out the number of Shares to be transferred to the relevant Successful Applicant under the Offer. Trading on the ASX is expected to commence on a normal settlement basis (i.e. on a T+2 basis) on or about 25 October 2019.

If completion of the Restructure and Settlement have not occurred within 14 days (or such longer period as the ASX allows) after the day the Shares are first quoted on the ASX, the Offer and all contracts arising on acceptance of Applications and bids will be cancelled and of no further effect. All Application Monies received will be refunded to Applicants (without interest). In these circumstances, all purchases and sales made through the ASX participating organisations during the conditional trading period will be cancelled and of no effect.

Refunds (without interest) to Applicants who make an Application and receive an allocation of Shares, the value of which is smaller than the amount of the Application Monies they have paid, will be made as soon as practicable after Completion.

To assist Applicants in determining their allocation prior to receipt of an initial holding statement, the Company intends to announce details of pricing and basis for allocations on the Company's website.

It is the responsibility of each Applicant to confirm their holding before trading in Shares by contacting their Broker or the Latitude IPO Offer Information Line, or by reviewing their holding statement. Applicants who sell Shares before they receive an initial holding statement do so at their own risk. To the maximum extent permitted by law, the Company, SaleCo, the Existing Investors, the Selling Shareholders, the Share Registry and the Joint Lead Managers disclaim all liability, whether in negligence or otherwise, to persons who sell or trade Shares before receiving their initial holding statement, even if such person received a confirmation of allocation from the Latitude IPO Offer Information Line or confirmed their allocation with their Broker.

7.16. Settlement Support Arrangements

The Offer is not underwritten. The Company, SaleCo, KVD Australia and the Joint Lead Managers have entered into an Offer Management Agreement under which the Joint Lead Managers have been appointed as lead managers and bookrunners of the Offer. The Joint Lead Managers agree, subject to certain conditions and termination events, to provide settlement support for the Broker Firm Offer and Institutional Offer. The Offer Management Agreement sets out a number of circumstances under which the Joint Lead Managers may terminate the Offer Management Agreement and their respective settlement support obligations.

A summary of certain terms of the Offer Management Agreement and settlement support arrangements, including the termination provisions, is provided in Section 9.10.

7.17. Summary of Rights and Liabilities Attaching to Shares and Other Material Provisions of the Constitution

The rights and liabilities attaching to the ownership of the Shares arise from a combination of the Constitution, statute, the ASX Listing Rules and general law.

A summary of the significant rights, liabilities and obligations attaching to the Shares and a description of other material provisions of the Constitution are set out below. This summary is not exhaustive nor does it constitute a definitive statement of the rights and liabilities of Shareholders. The summary assumes that the Company is admitted to the Official List.

7.17.1. Voting at a general meeting

At a general meeting of the Company, every Shareholder who is eligible to vote and is present in person or by proxy, representative or attorney has, on a poll, one vote for each Share held by the Shareholder and one vote on a show of hands.

7.17.2. Meetings of members

Each Shareholder is entitled to receive notice of, attend, and vote at, general meetings of the Company and to receive all notices, accounts and other documents required to be sent to Shareholders under the Constitution, the Corporations Act and the ASX Listing Rules.

7.17.3. Dividends

The Board may determine or declare that a dividend is payable, fix the amount and the time for payment and authorise the payment or crediting by the Company to, or at the direction of, each Shareholder entitled to that dividend.

See Section 4.10 for further information in respect of the Company's proposed dividend policy.

7.17.4. Transfer of Shares

Subject to the Constitution and the ASX Listing Rules, Shares may be transferred by a proper transfer effected in accordance with the operating rules of a relevant clearing and settlement facility or by any other method of transfer which is required or permitted by the Corporations Act and the ASX.

If permitted by the ASX Listing Rules, the Board may request the operator of a relevant clearing and settlement facility to apply a holding lock to prevent transfer of shares in the Company from being registered, or otherwise refuse to register a transfer of shares in any of the circumstances permitted by the ASX Listing Rules. The Board must refuse to register a transfer of shares when required to do so by the ASX Listing Rules or where the transfer is in breach of the ASX Listing Rules or a restriction agreement.

7.17.5. Issue of further Shares

Subject to the Corporations Act, the ASX Listing Rules, the Constitution and any special rights conferred on holders of any shares or class of shares, the Directors may issue, allot and cancel, or dispose of, Shares on terms determined from time to time by the Directors. The Directors' power under the Constitution includes the power to grant options over unissued Shares. The Company may also issue preference shares provided certain rights of preference shareholders are as set out in the Constitution or as otherwise approved by a resolution of the Company in accordance with the Corporations Act.

7.17.6. Winding up

Without prejudice to the rights of the holders of shares issued on special terms and conditions, if the Company is wound up, the liquidator may, with the sanction of a special resolution of the Company, divide among the shareholders in kind all or any of the Company's assets; and for that purpose, set such value as the liquidator considers fair on any property to be so divided and may determine how the division is to be carried out as between shareholders or different classes of shareholders.

7.17.7. Non-marketable parcels

Where the Company complies with the relevant procedure outlined in the Constitution, the Company may sell the Shares of a Shareholder who holds less than a marketable parcel of Shares.

7.17.8. Share buy-backs

Subject to the Corporations Act and the ASX Listing Rules, the Company may buy shares in the Company on terms and at times determined by the Board.

7.17.9. Variation of class rights

At Completion, the Company's only class of securities on issue will be Shares. The rights attached to any class of Shares may be varied in accordance with the Corporations Act.

7.17.10. Dividend Reinvestment Programme

Subject to the ASX Listing Rules, the Directors may establish a plan under which Shareholders may elect to reinvest cash dividends paid by the Company on such terms and conditions as the Directors think fit. The Directors have no current intention to establish a dividend reinvestment plan.

7.17.11. Directors – appointment and rotation

Under the Constitution, the minimum number of Directors that may comprise the Board is 3 and the maximum number of Directors is 10 unless determined otherwise by the Company in a general meeting. Directors are elected at general meetings of the Company. Retirement will occur on a rotational basis so that no Director (excluding any Executive Directors) holds office without re-election beyond the third annual general meeting following the meeting at which the Director was last elected or three years, whichever is longer. The Directors may also appoint a Director to fill a casual vacancy on the Board or in addition to the existing Directors, provided the total number of Directors does not exceed the prescribed maximum, who will then hold office until the conclusion of the next annual general meeting of the Company.

7.17.12. Directors – voting

Questions arising at a meeting of the Board will be decided by a majority of votes of the Directors present at the meeting and entitled to vote on the matter. Subject to the ASX Listing Rules, in the case of an equality of votes on a resolution, the chairperson of the meeting does not have a casting vote in addition to a deliberative vote. The Directors may pass a resolution without a Directors' meeting being held if all of the Directors entitled to vote on the resolution have consented to the resolution by signing a document that sets out the terms of the resolution and contains a statement to the effect that the Director is in favour of the resolution.

7.17.13. Directors – remuneration

The Directors, other than an Executive Director, will be paid by way of fees for services up to the maximum aggregate sum per annum as may be approved from time to time by the Company in a general meeting. The current maximum aggregate sum is $2.2 million per annum, with the initial remuneration of the Non-Executive Directors set out in Section 6.2.2.2. Any change to that maximum aggregate sum needs to be approved by Shareholders. Pursuant to the Constitution, Directors may also be paid all travelling, accommodation and other expenses incurred by them in attending and returning from meetings of the Directors or any committee of the Directors or when otherwise engaged on the business of the Company.

7.17.14. Indemnities

The Company, to the extent permitted by law, will indemnify any person who is or has been a director, and may indemnify any person who is or has been an officer, of the Company against any liability incurred by that person in that capacity (including liabilities incurred by that person as a director or officer of a subsidiary of the Company), and legal costs incurred by that person in that capacity (including such legal costs incurred by that person as a director or officer of a subsidiary of the Company). The Company may enter into an agreement with any director or officer of the Company to give effect to those matters outlined in this paragraph.

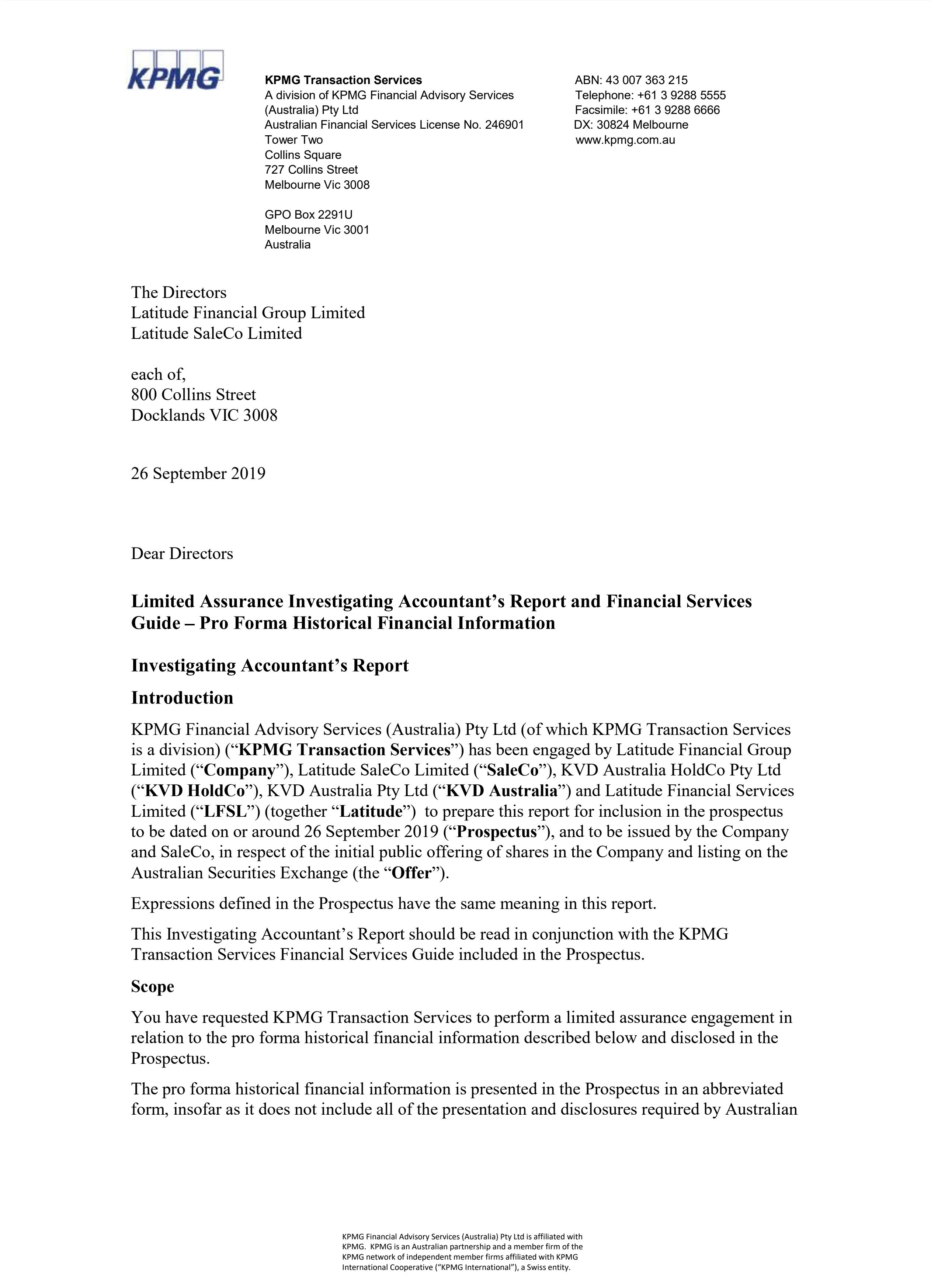
The Company, to the extent permitted by law, may pay a premium for a contract insuring a person who is or has been a Director or officer against liability incurred by that person in that role.

7.17.15. Amendment

The Constitution may be amended only by special resolution passed by at least three quarters of the votes cast by Shareholders present (in person or by proxy) and entitled to vote on the resolution at a general meeting of the Company.

08.

Investigating Accountant's Report



KPMG Transaction Services
A division of KPMG Financial Advisory Services
(Australia) Pty Ltd
Australian Financial Services License No. 246901
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www.kpmg.com.au

The Directors
Latitude Financial Group Limited
Latitude SaleCo Limited

each of,
800 Collins Street
Docklands VIC 3008

26 September 2019

Dear Directors

Limited Assurance Investigating Accountant's Report and Financial Services Guide – Pro Forma Historical Financial Information

Investigating Accountant's Report

Introduction

KPMG Financial Advisory Services (Australia) Pty Ltd (of which KPMG Transaction Services is a division) ("**KPMG Transaction Services**") has been engaged by Latitude Financial Group Limited ("**Company**"), Latitude SaleCo Limited ("**SaleCo**"), KVD Australia HoldCo Pty Ltd ("**KVD HoldCo**"), KVD Australia Pty Ltd ("**KVD Australia**") and Latitude Financial Services Limited ("**LFSL**") (together "**Latitude**") to prepare this report for inclusion in the prospectus to be dated on or around 26 September 2019 ("**Prospectus**"), and to be issued by the Company and SaleCo, in respect of the initial public offering of shares in the Company and listing on the Australian Securities Exchange (the "**Offer**").

Expressions defined in the Prospectus have the same meaning in this report.

This Investigating Accountant's Report should be read in conjunction with the KPMG Transaction Services Financial Services Guide included in the Prospectus.

Scope

You have requested KPMG Transaction Services to perform a limited assurance engagement in relation to the pro forma historical financial information described below and disclosed in the Prospectus.

The pro forma historical financial information is presented in the Prospectus in an abbreviated form, insofar as it does not include all of the presentation and disclosures required by Australian

Accounting Standards and other mandatory professional reporting requirements applicable to general purpose financial reports prepared in accordance with the *Corporations Act 2001 (Cth)*.

Our limited assurance engagement has not been carried out in accordance with auditing or other standards and practices generally accepted outside Australia and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

Pro Forma Historical Financial Information

You have requested KPMG Transaction Services to perform limited assurance procedures in relation to the pro forma historical financial information of the Company (the responsible party) included in the Prospectus.

The pro forma historical financial information has been derived from the combined historical financial statements of KVD HoldCo and LFSL, after adjusting for the effects of pro forma adjustments described in sections 4.2.2, 4.3.4, 4.4.1, 4.5.3 and 4.5.4 of the Prospectus. The pro forma historical financial information consists of the Company’s:

- pro forma consolidated historical balance sheet as at 30 June 2019 as set out in table 31 of section 4.4.1 of the Prospectus;
- pro forma consolidated historical income statements for the years ended 31 December 2017 and 31 December 2018 as set out in table 23 of section 4.3.1 of the Prospectus;
- pro forma consolidated historical income statement for the six months ended 30 June 2018 and 30 June 2019 as set out in table 23 of section 4.3.1 of the Prospectus;
- pro forma consolidated historical cash flows for the years ended 31 December 2017 and 31 December 2018 as set out in table 35 of section 4.5.1 of the Prospectus; and
- pro forma consolidated historical cash flows for the six months ended 30 June 2018 and 30 June 2019 as set out in table 35 of section 4.5.1 of the Prospectus,

  (along with the related notes set out in section 4.14 of the Prospectus, collectively the “**Pro Forma Historical Financial Information**”).

The basis on which the Company has compiled the Pro Forma Historical Financial Information is specified in section 4.2 of the Prospectus.

The stated basis of preparation is the recognition and measurement principles contained in Australian Accounting Standards applied to the historical financial information and the event(s) or transaction(s) to which the pro forma adjustments relate, as described in section 4.2 of the Prospectus. Due to its nature, the Pro Forma Historical Financial Information does not represent the Company’s actual or prospective financial position, financial performance, and/or cash flows.

The Pro Forma Historical Financial Information has been compiled by the Company to illustrate the impact of the events and transactions described in section 4.2.2, of the Prospectus on the Company’s financial position as at 30 June 2019, the Company’s financial performance and cash flows for the years ended 31 December 2017 and 31 December 2018, and the six months ended 30 June 2018 and 30 June 2019 as described in 4.4.1, section 4.3.4, section 4.5.3, section 4.5.4 and Appendix A1. As part of this process, information about the Company's financial position, financial performance and cash flows has been extracted by the Company from the audited general purpose combined financial statements of the group (comprising of KVD HoldCo and LFSL and their respective subsidiaries) (the "**Group**") for the year ended 31 December 2018 (which include the relevant comparative information for the year ended 31 December 2017) and the reviewed general purpose combined financial statements of the Group for the six months ended 30 June 2019 (which include the relevant comparative information for the six months ended 30 June 2018).

The combined financial statements of the Group, for the year ended 31 December 2018 (which include the relevant comparative information for the year ended 31 December 2017) were audited by KPMG in accordance with Australian Auditing Standards.

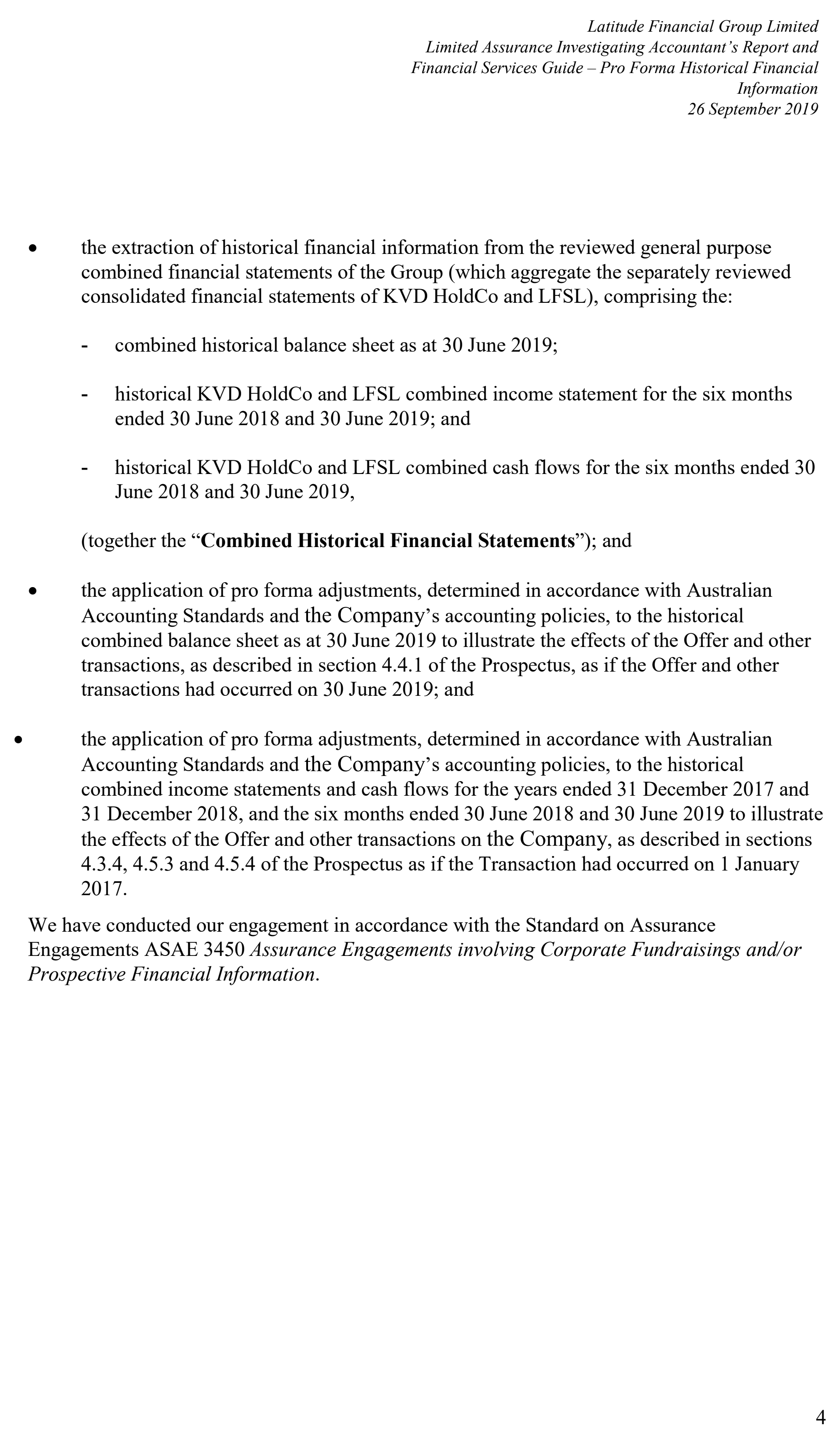
The audit opinions issued to the Directors of KVD HoldCo and LFSL relating to those financial statements were unqualified and included an emphasis of matter paragraph which highlights the basis of preparation of those accounts.

The combined financial statements of the Group, for the six months ended 30 June 2019 (which include the relevant comparative information for the six months ended 30 June 2018) were reviewed by KPMG in accordance with Australian Auditing Standards.

The review opinions issued to the Directors of KVD HoldCo and LFSL relating to those financial statements were unqualified and included an emphasis of matter paragraph which highlights the basis of preparation of those accounts.

For the purposes of preparing this report we have performed limited assurance procedures in relation to Pro Forma Historical Financial Information in order to state whether, on the basis of the procedures described, anything comes to our attention that would cause us to believe that the Pro Forma Historical Financial Information is not prepared or presented fairly, in all material respects, by the Directors in accordance with the stated basis of preparation as set out in section 4.2 of the Prospectus. As stated in section 4.2 of the Prospectus the stated basis of preparation is:

- the extraction of historical financial information from the audited general purpose combined financial statements of the Group (which aggregate the separately audited consolidated financial statements of KVD HoldCo and LFSL), comprising the:
    - combined historical income statements for the years ended 31 December 2017 and 31 December 2018; and
    - combined historical cash flows for the years ended 31 December 2017 and 31 December 2018,



- the extraction of historical financial information from the reviewed general purpose combined financial statements of the Group (which aggregate the separately reviewed consolidated financial statements of KVD HoldCo and LFSL), comprising the:

  - combined historical balance sheet as at 30 June 2019;

  - historical KVD HoldCo and LFSL combined income statement for the six months ended 30 June 2018 and 30 June 2019; and

  - historical KVD HoldCo and LFSL combined cash flows for the six months ended 30 June 2018 and 30 June 2019,

  (together the "**Combined Historical Financial Statements**"); and

- the application of pro forma adjustments, determined in accordance with Australian Accounting Standards and the Company's accounting policies, to the historical combined balance sheet as at 30 June 2019 to illustrate the effects of the Offer and other transactions, as described in section 4.4.1 of the Prospectus, as if the Offer and other transactions had occurred on 30 June 2019; and

- the application of pro forma adjustments, determined in accordance with Australian Accounting Standards and the Company's accounting policies, to the historical combined income statements and cash flows for the years ended 31 December 2017 and 31 December 2018, and the six months ended 30 June 2018 and 30 June 2019 to illustrate the effects of the Offer and other transactions on the Company, as described in sections 4.3.4, 4.5.3 and 4.5.4 of the Prospectus as if the Transaction had occurred on 1 January 2017.

We have conducted our engagement in accordance with the Standard on Assurance Engagements ASAE 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information*.

The procedures we performed were based on our professional judgement and included:

Combined Historical Financial Information

- consideration of work papers, accounting records and other documents relating to the Combined Historical Financial Information, including those dealing with the extraction of the Combined Historical Financial Information from the Combined Historical Financial Statements of the Group for the years ended 31 December 2017 and 31 December 2018 and the six months ended 30 June 2018 and 30 June 2019, and the balance sheet as at 30 June 2019, and consideration of the acceptability of the accounting policies and the time frame covered;

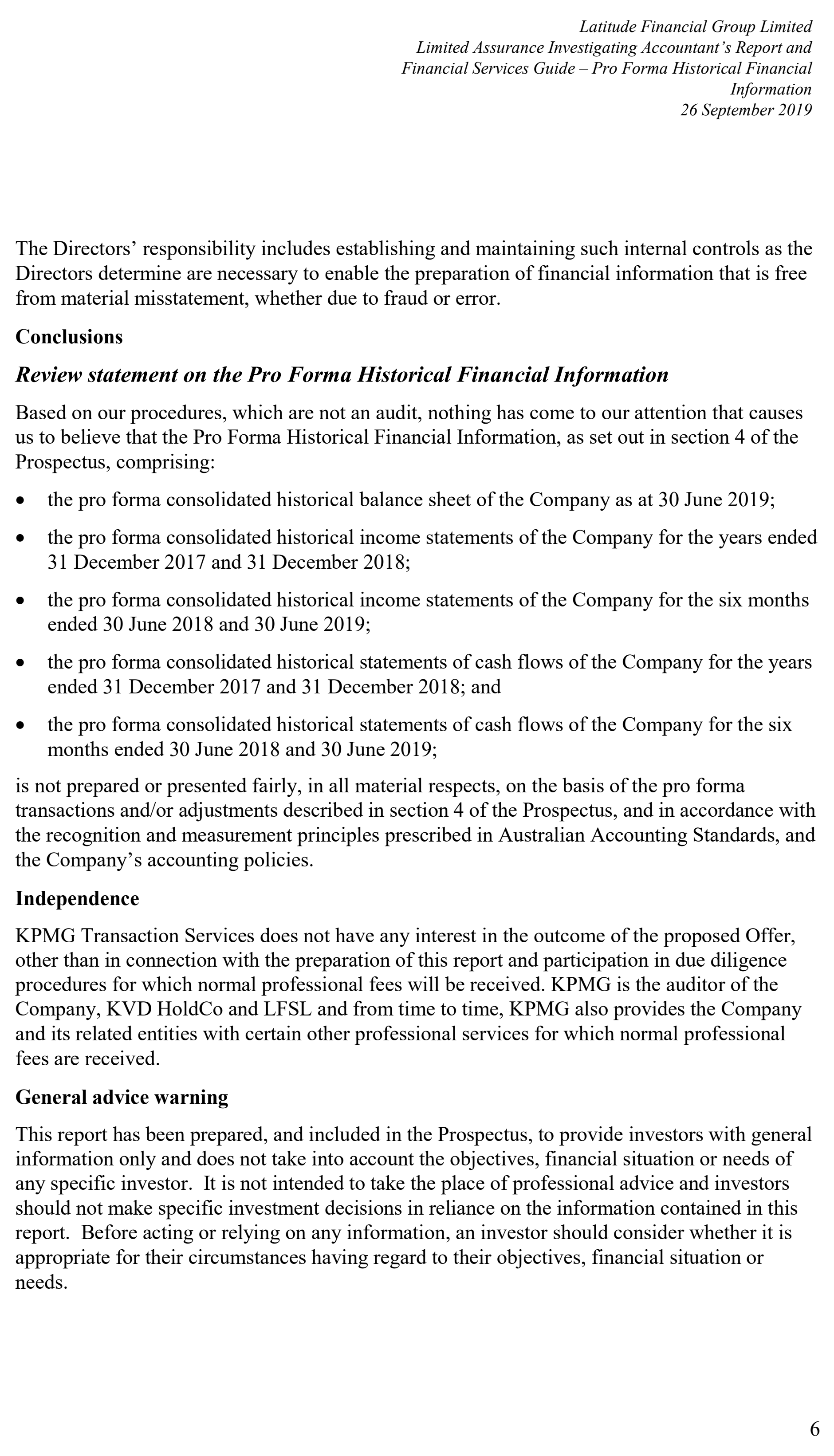
Pro forma adjustments:

- consideration of the pro forma adjustments described in the Prospectus;
- enquiry of Directors, management, personnel and advisors;
- the performance of analytical procedures applied to the Pro Forma Historical Financial Information; and
- a review of accounting policies for consistency of application in the preparation of the pro forma adjustments.

The procedures performed in a limited assurance engagement vary in nature from, and are less in extent than for, an audit. As a result, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had we performed an audit. Accordingly, we do not express an audit opinion about whether the Pro Forma Historical Financial Information is prepared, in all material respects, by the Directors in accordance with the stated basis of preparation.

Directors' responsibilities

The Directors of the Company are responsible for the preparation of the Pro Forma Historical Financial Information, including the selection and determination of the pro forma transactions and/or adjustments made to the historical financial information and included in the Pro Forma Historical Information.



The Directors’ responsibility includes establishing and maintaining such internal controls as the Directors determine are necessary to enable the preparation of financial information that is free from material misstatement, whether due to fraud or error.

Conclusions

Review statement on the Pro Forma Historical Financial Information

Based on our procedures, which are not an audit, nothing has come to our attention that causes us to believe that the Pro Forma Historical Financial Information, as set out in section 4 of the Prospectus, comprising:

- the pro forma consolidated historical balance sheet of the Company as at 30 June 2019;
- the pro forma consolidated historical income statements of the Company for the years ended 31 December 2017 and 31 December 2018;
- the pro forma consolidated historical income statements of the Company for the six months ended 30 June 2018 and 30 June 2019;
- the pro forma consolidated historical statements of cash flows of the Company for the years ended 31 December 2017 and 31 December 2018; and
- the pro forma consolidated historical statements of cash flows of the Company for the six months ended 30 June 2018 and 30 June 2019;

is not prepared or presented fairly, in all material respects, on the basis of the pro forma transactions and/or adjustments described in section 4 of the Prospectus, and in accordance with the recognition and measurement principles prescribed in Australian Accounting Standards, and the Company’s accounting policies.

Independence

KPMG Transaction Services does not have any interest in the outcome of the proposed Offer, other than in connection with the preparation of this report and participation in due diligence procedures for which normal professional fees will be received. KPMG is the auditor of the Company, KVD HoldCo and LFSL and from time to time, KPMG also provides the Company and its related entities with certain other professional services for which normal professional fees are received.

General advice warning

This report has been prepared, and included in the Prospectus, to provide investors with general information only and does not take into account the objectives, financial situation or needs of any specific investor. It is not intended to take the place of professional advice and investors should not make specific investment decisions in reliance on the information contained in this report. Before acting or relying on any information, an investor should consider whether it is appropriate for their circumstances having regard to their objectives, financial situation or needs.

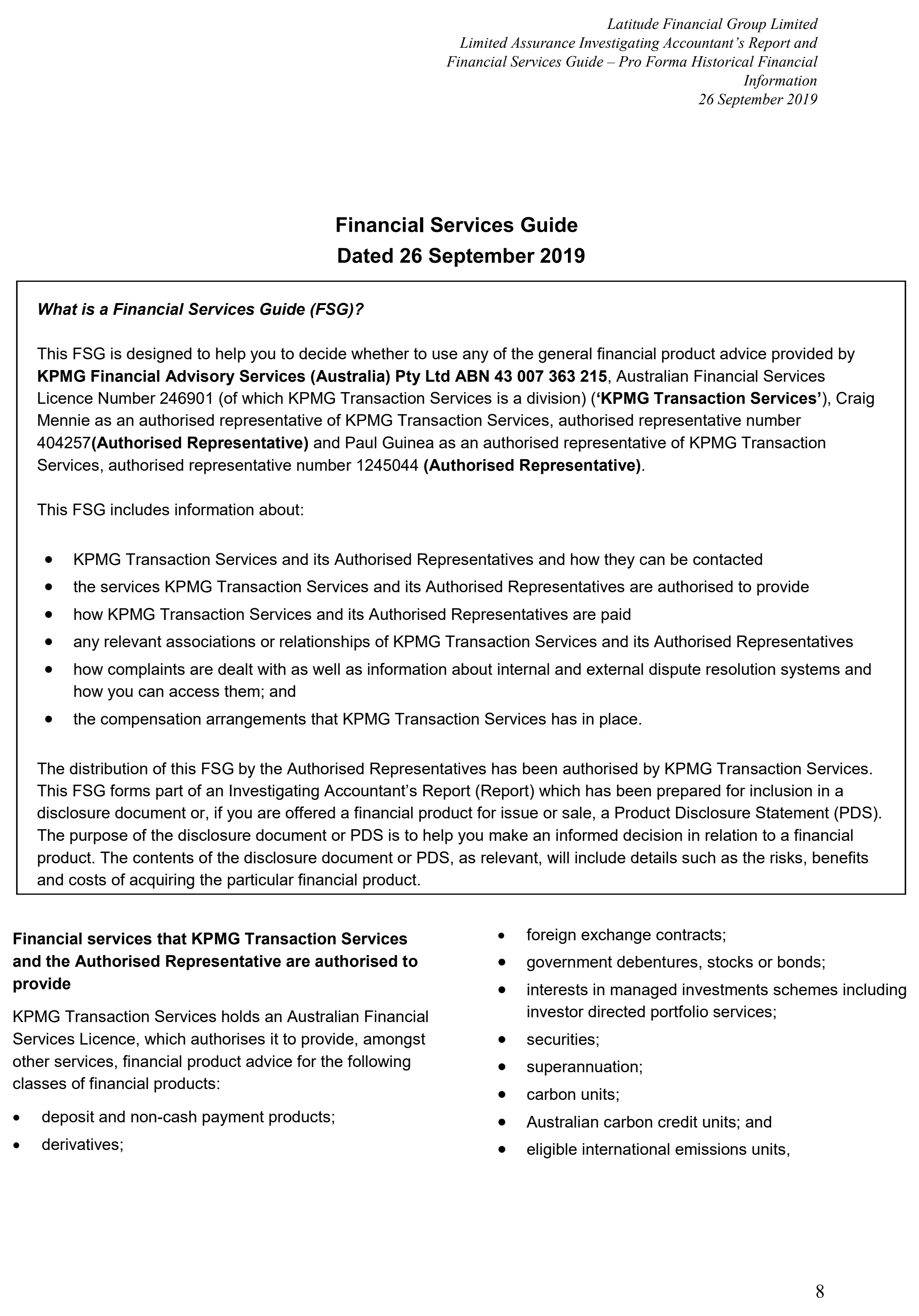
Restriction on use

Without modifying our conclusions, we draw attention to section 4.2.2 of the Prospectus, which describes the purpose of the financial information, being for inclusion in the Prospectus. As a result, the financial information may not be suitable for use for another purpose. We disclaim any assumption of responsibility for any reliance on this report, or on the financial information to which it relates, for any purpose other than that for which it was prepared.

KPMG Transaction Services has consented to the inclusion of this Investigating Accountant's Report in the Prospectus in the form and context in which it is so included, but has not authorised the issue of the Prospectus. Accordingly, KPMG Transaction Services makes no representation regarding, and takes no responsibility for, any other statements, or material in, or omissions from, the Prospectus.

Craig Mennie

Craig Mennie	Paul Guinea
Authorised Representative	*Authorised Representative*



Financial Services Guide
Dated 26 September 2019

What is a Financial Services Guide (FSG)?

This FSG is designed to help you to decide whether to use any of the general financial product advice provided by **KPMG Financial Advisory Services (Australia) Pty Ltd ABN 43 007 363 215**, Australian Financial Services Licence Number 246901 (of which KPMG Transaction Services is a division) (**‘KPMG Transaction Services’**), Craig Mennie as an authorised representative of KPMG Transaction Services, authorised representative number 404257**(Authorised Representative)** and Paul Guinea as an authorised representative of KPMG Transaction Services, authorised representative number 1245044 **(Authorised Representative)**.

This FSG includes information about:

- KPMG Transaction Services and its Authorised Representatives and how they can be contacted
- the services KPMG Transaction Services and its Authorised Representatives are authorised to provide
- how KPMG Transaction Services and its Authorised Representatives are paid
- any relevant associations or relationships of KPMG Transaction Services and its Authorised Representatives
- how complaints are dealt with as well as information about internal and external dispute resolution systems and how you can access them; and
- the compensation arrangements that KPMG Transaction Services has in place.

The distribution of this FSG by the Authorised Representatives has been authorised by KPMG Transaction Services. This FSG forms part of an Investigating Accountant’s Report (Report) which has been prepared for inclusion in a disclosure document or, if you are offered a financial product for issue or sale, a Product Disclosure Statement (PDS). The purpose of the disclosure document or PDS is to help you make an informed decision in relation to a financial product. The contents of the disclosure document or PDS, as relevant, will include details such as the risks, benefits and costs of acquiring the particular financial product.

Financial services that KPMG Transaction Services and the Authorised Representative are authorised to provide

KPMG Transaction Services holds an Australian Financial Services Licence, which authorises it to provide, amongst other services, financial product advice for the following classes of financial products:

- deposit and non-cash payment products;
- derivatives;
- foreign exchange contracts;
- government debentures, stocks or bonds;
- interests in managed investments schemes including investor directed portfolio services;
- securities;
- superannuation;
- carbon units;
- Australian carbon credit units; and
- eligible international emissions units,

to retail and wholesale clients. We provide financial product advice when engaged to prepare a report in relation to a transaction relating to one of these types of financial products. The Authorised Representatives are authorised by KPMG Transaction Services to provide financial product advice on KPMG Transaction Services' behalf.

KPMG Transaction Services and the Authorised Representative's responsibility to you

KPMG Transaction Services has been engaged by Latitude Financial Group Limited (the Company), Latitude SaleCo Limited (SaleCo), KVD Australia HoldCo Pty Ltd, KVD Australia Pty Ltd and Latitude Financial Services Limited (together, the Client) to provide general financial product advice in the form of a Report to be included in the Prospectus (Document) prepared by the Company and SaleCo in relation to the initial public offering of shares in the Company (Transaction).

You have not engaged KPMG Transaction Services or the Authorised Representatives directly but have received a copy of the Report because you have been provided with a copy of the Document. Neither KPMG Transaction Services nor the Authorised Representatives are acting for any person other than the Client.

KPMG Transaction Services and the Authorised Representatives are responsible and accountable to you for ensuring that there is a reasonable basis for the conclusions in the Report.

General Advice

As KPMG Transaction Services has been engaged by the Client, the Report only contains general advice as it has been prepared without taking into account your personal objectives, financial situation or needs.

You should consider the appropriateness of the general advice in the Report having regard to your circumstances before you act on the general advice contained in the Report.

You should also consider the other parts of the Document before making any decision in relation to the Transaction.

Fees KPMG Transaction Services may receive and remuneration or other benefits received by our representatives

KPMG Transaction Services charges fees for preparing reports. These fees will usually be agreed with, and paid by, the Client. Fees are agreed on either a fixed fee or a time cost basis. In this instance, the Client has agreed to pay KPMG Transaction Services $620,000 for preparing the Report. KPMG Transaction Services and its officers, representatives, related entities and associates will not receive any other fee or benefit in connection with the provision of the Report.

KPMG Transaction Services officers and representatives (including the Authorised Representatives) receive a salary or a partnership distribution from KPMG's Australian professional advisory and accounting practice (the KPMG Partnership). KPMG Transaction Services' representatives (including the Authorised Representatives) are eligible for bonuses based on overall productivity. Bonuses and other remuneration and benefits are not provided directly in connection with any engagement for the provision of general financial product advice in the Report.

Further details may be provided on request.

Referrals

Neither KPMG Transaction Services nor the Authorised Representatives pay commissions or provide any other benefits to any person for referring customers to them in connection with a Report.

Associations and relationships

Through a variety of corporate and trust structures KPMG Transaction Services is controlled by and operates as part of the KPMG Partnership. KPMG Transaction Services' Directors and Authorised Representatives may be partners in the KPMG Partnership. The Authorised Representatives are partners in the KPMG Partnership. The financial product advice in the Report is provided by KPMG Transaction Services and the Authorised Representatives and not by the KPMG Partnership.

From time to time KPMG Transaction Services, the KPMG Partnership and related entities (KPMG entities) may provide professional services, including audit, tax and financial advisory services, to companies and issuers of financial products in the ordinary course of their businesses.

No individual involved in the preparation of this Report holds a substantial interest in, or is a substantial creditor of, the Client or has other material financial interests in the transaction.

Complaints resolution

Internal complaints resolution process

If you have a complaint, please let either KPMG Transaction Services or the Authorised Representatives know. Formal complaints should be sent in writing to The Complaints Officer, KPMG, PO Box H67, Australia Square, Sydney NSW 1213. If you have difficulty in putting your complaint in writing, please telephone the Complaints Officer on 02 9335 7000 and they will assist you in documenting your complaint.

Written complaints are recorded, acknowledged within 5 days and investigated. As soon as practical, and not more than 45 days after receiving the written complaint, the response to your complaint will be advised in writing.

External complaints resolution process

If KPMG Transaction Services or the Authorised Representative cannot resolve your complaint to your satisfaction within 45 days, you can refer the matter to the Australian Financial Complaints Authority (AFCA). AFCA is an independent company that has been established to provide free advice and assistance to consumers to help in resolving complaints relating to the financial services industry.

Further details about AFCA are available at the AFCA website www.afca.org.au or by contacting them directly at:

Address: Australian Financial Complaints Authority Limited, GPO Box 3, Melbourne Victoria 3001

Telephone:	1300 56 55 62
Facsimile:	(03) 9613 6399
Email:	info@afca.org.au.

The Australian Securities and Investments Commission also has a freecall infoline on 1800 931 678 which you may use to obtain information about your rights.

Compensation arrangements

KPMG Transaction Services has professional indemnity insurance cover as required by the Corporations Act 2001(Cth).

Contact Details

You may contact KPMG Transaction Services or the Authorised Representative using the contact details:

KPMG Transaction Services
A division of KPMG Financial Advisory Services (Australia) Pty Ltd
Level 38, Tower Three
300 Barangaroo Avenue
Sydney NSW 2000
PO Box H67
Australia Square
NSW 1213
Telephone: (02) 9335 7000
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Craig Mennie
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Telephone: (02) 9335 7000
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Paul Guinea
C/O KPMG
GPO Box 2291U
Melbourne
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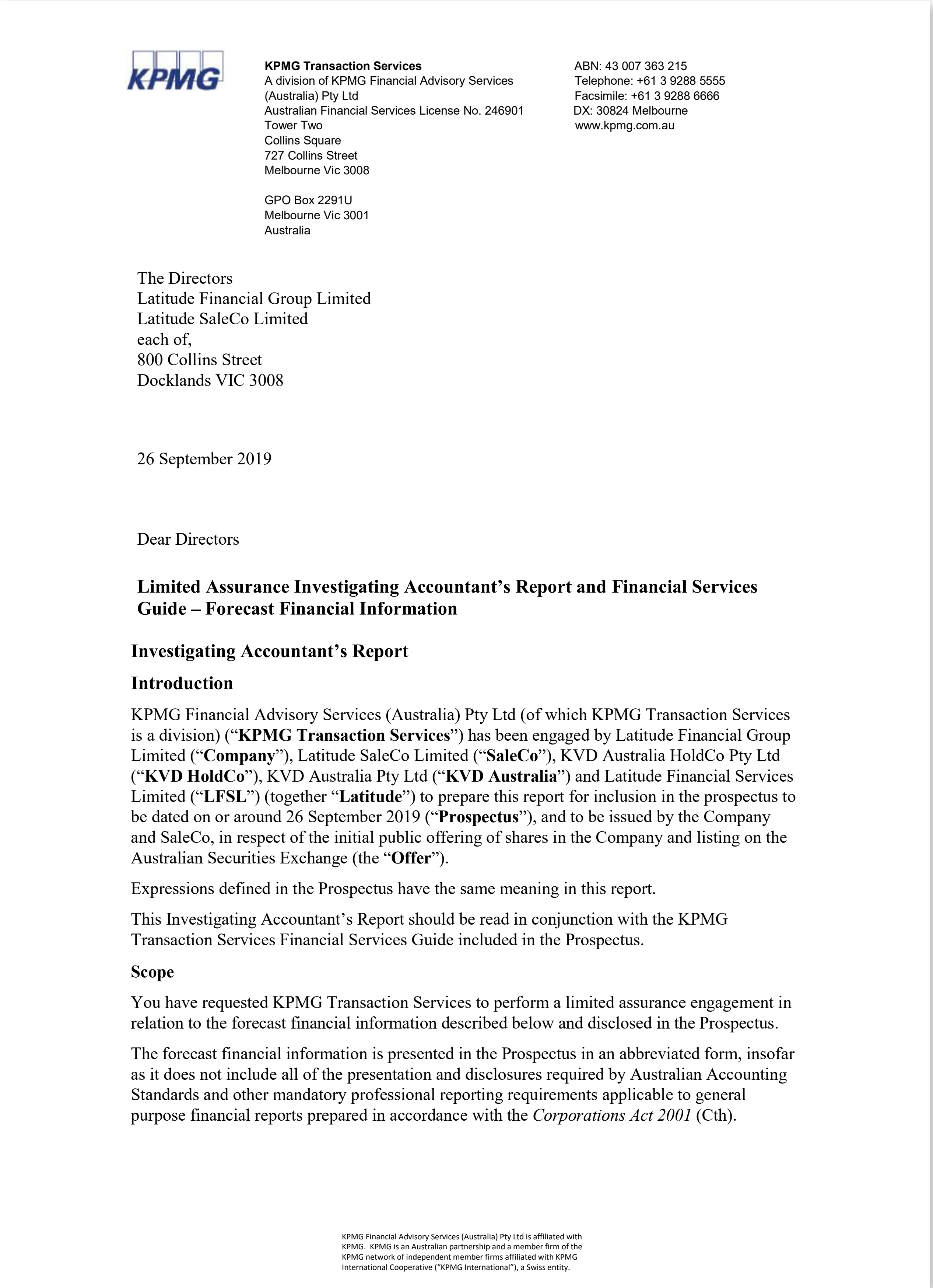
Telephone: (03) 9288 5555
Facsimile: (03) 9288 6666



KPMG Transaction Services
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Facsimile: +61 3 9288 6666
DX: 30824 Melbourne
www.kpmg.com.au

The Directors
Latitude Financial Group Limited
Latitude SaleCo Limited
each of,
800 Collins Street
Docklands VIC 3008

26 September 2019

Dear Directors

Limited Assurance Investigating Accountant’s Report and Financial Services Guide – Forecast Financial Information

Investigating Accountant’s Report

Introduction

KPMG Financial Advisory Services (Australia) Pty Ltd (of which KPMG Transaction Services is a division) (“**KPMG Transaction Services**”) has been engaged by Latitude Financial Group Limited (“**Company**”), Latitude SaleCo Limited (“**SaleCo**”), KVD Australia HoldCo Pty Ltd (“**KVD HoldCo**”), KVD Australia Pty Ltd (“**KVD Australia**”) and Latitude Financial Services Limited (“**LFSL**”) (together “**Latitude**”) to prepare this report for inclusion in the prospectus to be dated on or around 26 September 2019 (“**Prospectus**”), and to be issued by the Company and SaleCo, in respect of the initial public offering of shares in the Company and listing on the Australian Securities Exchange (the “**Offer**”).

Expressions defined in the Prospectus have the same meaning in this report.

This Investigating Accountant’s Report should be read in conjunction with the KPMG Transaction Services Financial Services Guide included in the Prospectus.

Scope

You have requested KPMG Transaction Services to perform a limited assurance engagement in relation to the forecast financial information described below and disclosed in the Prospectus.

The forecast financial information is presented in the Prospectus in an abbreviated form, insofar as it does not include all of the presentation and disclosures required by Australian Accounting Standards and other mandatory professional reporting requirements applicable to general purpose financial reports prepared in accordance with the *Corporations Act 2001* (Cth).

Our limited assurance engagement has not been carried out in accordance with auditing or other standards and practices generally accepted outside Australia and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

Forecast Financial Information and directors' best-estimate assumptions

You have requested KPMG Transaction Services to perform limited assurance procedures in relation to the Company's combined and pro forma consolidated forecast income statement and statement of cash flows for the:

- 12 months ending 31 December 2019 ("**FY19F**");
- 12 months ending 30 June 2020 ("**LTM June 20F**"); and
- 6 months ending 30 June 2020 ("**1HFY20F**"),

as set out in table 23 of section 4.3.1, table 26 of section 4.3.3, table 35 of section 4.5.1 and table 36 of section 4.5.2 of the Prospectus including related notes (the "**Forecast Financial Information**").

The directors' best-estimate assumptions underlying the Forecast Financial Information are described in section 4.7.1 and 4.7.2 of the Prospectus. As stated in section 4.2.3 of the Prospectus, the basis of preparation of the Forecast Financial Information is the recognition and measurement principles contained in Australian Accounting Standards and the Company's accounting policies.

We have performed limited assurance procedures in relation to the Forecast Financial Information, set out in section 4 of the Prospectus, and the directors' best-estimate assumptions underlying it in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that:

- the directors' best-estimate assumptions do not provide reasonable grounds for the Forecast Financial Information;
- in all material respects the Forecast Financial Information is not:
  - prepared on the basis of the directors' best-estimate assumptions as described in the Prospectus; and
  - presented fairly in accordance with the recognition and measurement principles contained in Australian Accounting Standards and the Company's accounting policies; and
- the Forecast Financial Information itself is unreasonable.

We have conducted our engagement in accordance with the Standard on Assurance Engagements ASAE 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information.*

Our limited assurance procedures consisted primarily of:

- comparison and analytical review procedures;
- discussions with management and directors of the Company, KVD HoldCo and LFSL of the factors considered in determining their assumptions;
- consideration of the accounting treatments applied to the pro forma adjustments described in the Prospectus;
- examination, on a test basis, of evidence supporting:
  - the assumptions and amounts in the Forecast Financial Information; and
  - the evaluation of accounting policies used in the Forecast Financial Information

The procedures performed in a limited assurance engagement vary in nature from, and are less in extent than for, an audit. As a result, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had we performed an audit. Accordingly, we do not express an audit opinion.

Directors' responsibilities

The directors of the Company are responsible for the preparation of the Forecast Financial Information, including the directors' best-estimate assumptions on which the Forecast Financial Information is based and the sensitivity of the Forecast Financial Information to changes in key assumptions.

The directors' responsibility includes establishing and maintaining such internal controls as the directors determine are necessary to enable the preparation of financial information that is free from material misstatement, whether due to fraud or error.

Conclusions

Forecast Financial Information and the directors' best-estimate assumptions

Based on our procedures, which are not an audit, nothing has come to our attention which causes us to believe that:

- the directors' best-estimate assumptions used in the preparation of the Forecast Financial Information do not provide reasonable grounds for the Forecast Financial Information;
- in all material respects, the Forecast Financial Information:
  - is not prepared on the basis of the directors' best-estimate assumptions as described in section 4.7 of the Prospectus; and
  - is not presented fairly in accordance with the recognition and measurement principles contained in Australian Accounting Standards, and the Company's accounting policies; and
- the Forecast Financial Information itself is unreasonable.

The Forecast Financial Information has been prepared by the Group management and adopted and disclosed by the directors in order to provide prospective investors with a guide to the potential financial performance of the Company for the year ending 31 December 2019, the 12 months ending 30 June 2020 and the half year ending 30 June 2020.

There is a considerable degree of subjective judgement involved in preparing forecasts since they relate to event(s) and transaction(s) that have not yet occurred and may not occur. Actual results are likely to be different from the Forecast Financial Information since anticipated event(s) or transaction(s) frequently do not occur as expected and the variation may be material. The directors' best-estimate assumptions on which the Forecast Financial Information is based relate to future event(s) and/or transaction(s) that management expect to occur and actions that management expect to take and are also subject to uncertainties and contingencies, which are often outside the control of the Company and Group. Evidence may be available to support the directors' best-estimate assumptions on which the Forecast Financial Information is based however such evidence is generally future-oriented and therefore speculative in nature. We are therefore not in a position to express a reasonable assurance conclusion on those best-estimate assumptions, and accordingly, provide a lesser level of assurance on the reasonableness of the directors' best-estimate assumptions. The limited assurance conclusion expressed in this report has been formed on the above basis.

Prospective investors should be aware of the material risks and uncertainties in relation to an investment in the Company, which are detailed in the Prospectus, and the inherent uncertainty relating to the Forecast Financial Information. Accordingly, prospective investors should have regard to the investment risks and sensitivities as described in section 5 of the Prospectus. The sensitivity analysis described in section 4.9 of the Prospectus demonstrates the impact on the Forecast Financial Information of changes in key best-estimate assumptions. We express no opinion as to whether the Forecast Financial Information will be achieved.

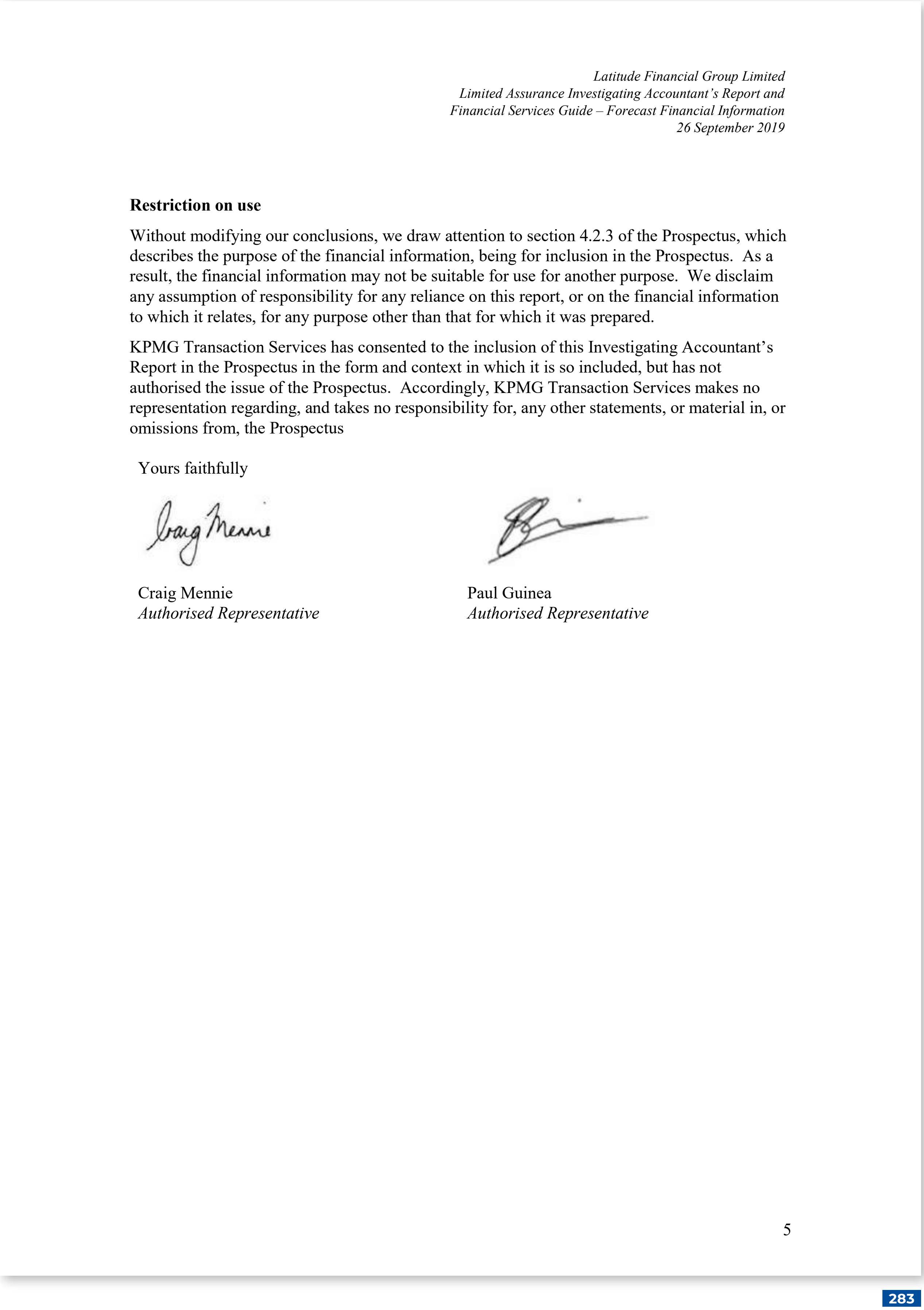
We have assumed, and relied on representations from certain members of management of the Group, that all material information concerning the prospects and proposed operations of the Company has been disclosed to us and that the information provided to us for the purpose of our work is true, complete and accurate in all respects. We have no reason to believe that those representations are false.

Independence

KPMG Transaction Services does not have any interest in the outcome of the proposed Offer other than in connection with the preparation of this report and participation in due diligence procedures for which normal professional fees will be received. KPMG is the auditor of the Company and the Group and from time to time, KPMG also provides the Company and the Group with certain other professional services for which normal professional fees are received.

General advice warning

This report has been prepared, and included in the Prospectus, to provide investors with general information only and does not take into account the objectives, financial situation or needs of any specific investor. It is not intended to take the place of professional advice and investors should not make specific investment decisions in reliance on the information contained in this report. Before acting or relying on any information, an investor should consider whether it is appropriate for their circumstances having regard to their objectives, financial situation or needs.



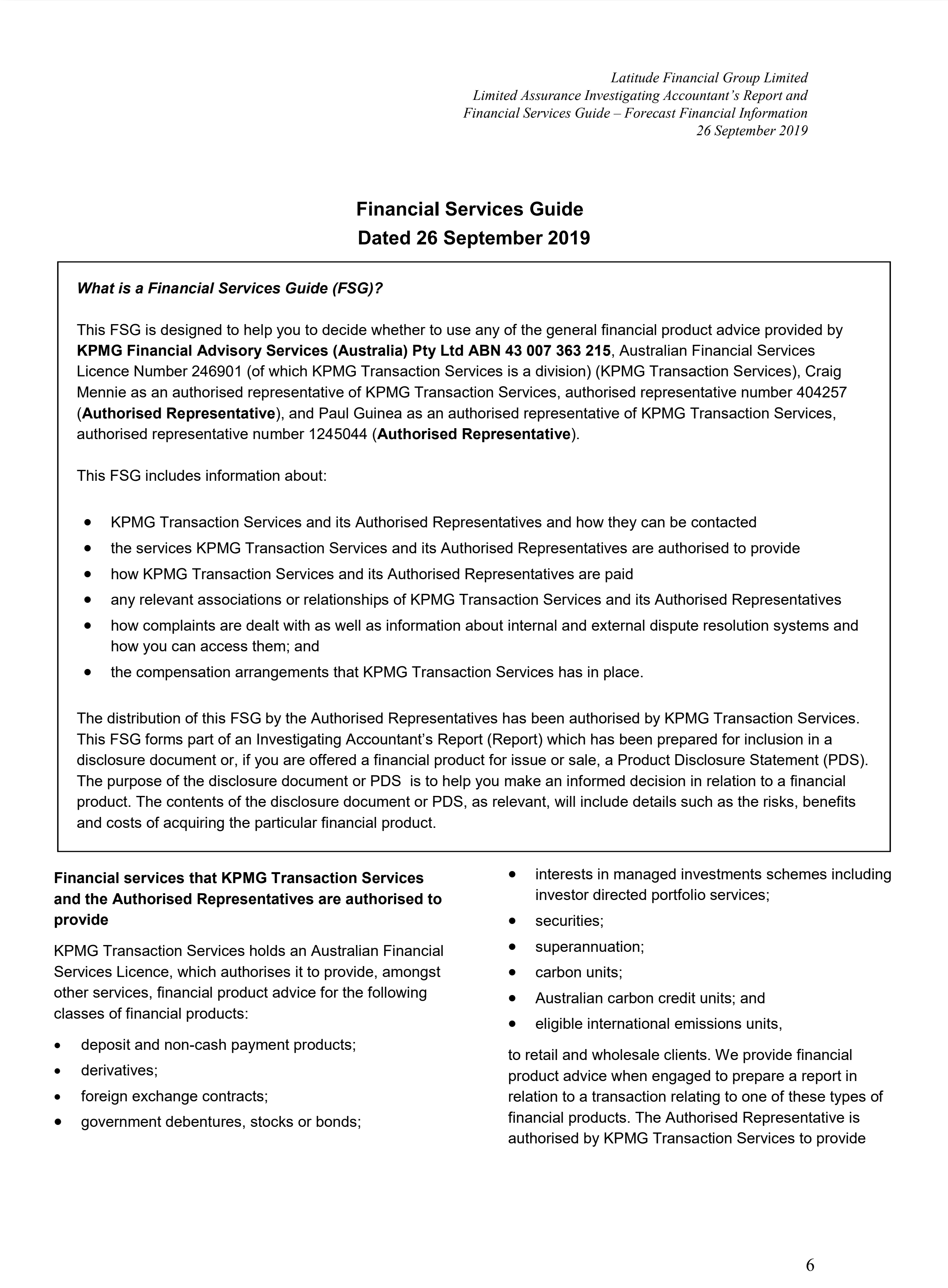
Restriction on use

Without modifying our conclusions, we draw attention to section 4.2.3 of the Prospectus, which describes the purpose of the financial information, being for inclusion in the Prospectus. As a result, the financial information may not be suitable for use for another purpose. We disclaim any assumption of responsibility for any reliance on this report, or on the financial information to which it relates, for any purpose other than that for which it was prepared.

KPMG Transaction Services has consented to the inclusion of this Investigating Accountant's Report in the Prospectus in the form and context in which it is so included, but has not authorised the issue of the Prospectus. Accordingly, KPMG Transaction Services makes no representation regarding, and takes no responsibility for, any other statements, or material in, or omissions from, the Prospectus

Yours faithfully

Craig Mennie	
Craig Mennie *Authorised Representative*	Paul Guinea *Authorised Representative*



Financial Services Guide
Dated 26 September 2019

What is a Financial Services Guide (FSG)?

This FSG is designed to help you to decide whether to use any of the general financial product advice provided by **KPMG Financial Advisory Services (Australia) Pty Ltd ABN 43 007 363 215**, Australian Financial Services Licence Number 246901 (of which KPMG Transaction Services is a division) (KPMG Transaction Services), Craig Mennie as an authorised representative of KPMG Transaction Services, authorised representative number 404257 (**Authorised Representative**), and Paul Guinea as an authorised representative of KPMG Transaction Services, authorised representative number 1245044 (**Authorised Representative**).

This FSG includes information about:

- KPMG Transaction Services and its Authorised Representatives and how they can be contacted
- the services KPMG Transaction Services and its Authorised Representatives are authorised to provide
- how KPMG Transaction Services and its Authorised Representatives are paid
- any relevant associations or relationships of KPMG Transaction Services and its Authorised Representatives
- how complaints are dealt with as well as information about internal and external dispute resolution systems and how you can access them; and
- the compensation arrangements that KPMG Transaction Services has in place.

The distribution of this FSG by the Authorised Representatives has been authorised by KPMG Transaction Services. This FSG forms part of an Investigating Accountant’s Report (Report) which has been prepared for inclusion in a disclosure document or, if you are offered a financial product for issue or sale, a Product Disclosure Statement (PDS). The purpose of the disclosure document or PDS is to help you make an informed decision in relation to a financial product. The contents of the disclosure document or PDS, as relevant, will include details such as the risks, benefits and costs of acquiring the particular financial product.

Financial services that KPMG Transaction Services and the Authorised Representatives are authorised to provide

KPMG Transaction Services holds an Australian Financial Services Licence, which authorises it to provide, amongst other services, financial product advice for the following classes of financial products:

- deposit and non-cash payment products;
- derivatives;
- foreign exchange contracts;
- government debentures, stocks or bonds;
- interests in managed investments schemes including investor directed portfolio services;
- securities;
- superannuation;
- carbon units;
- Australian carbon credit units; and
- eligible international emissions units,

to retail and wholesale clients. We provide financial product advice when engaged to prepare a report in relation to a transaction relating to one of these types of financial products. The Authorised Representative is authorised by KPMG Transaction Services to provide financial product advice on KPMG Transaction Services' behalf.

KPMG Transaction Services and the Authorised Representative's responsibility to you

KPMG Transaction Services has been engaged by Latitude Financial Group Limited (the Company), Latitude SaleCo Limited (SaleCo), KVD Australia HoldCo Pty Ltd, KVD Australia Pty Ltd and Latitude Financial Services Limited (together, the Client) to provide general financial product advice in the form of a Report to be included in the Prospectus (Document) prepared by the Company and SaleCo in relation to the initial public offering of shares in the Company (Transaction).

You have not engaged KPMG Transaction Services or the Authorised Representatives directly but have received a copy of the Report because you have been provided with a copy of the Document. Neither KPMG Transaction Services nor the Authorised Representatives are acting for any person other than the Client.

KPMG Transaction Services and the Authorised Representatives are responsible and accountable to you for ensuring that there is a reasonable basis for the conclusions in the Report.

General Advice

As KPMG Transaction Services has been engaged by the Client, the Report only contains general advice as it has been prepared without taking into account your personal objectives, financial situation or needs.

You should consider the appropriateness of the general advice in the Report having regard to your circumstances before you act on the general advice contained in the Report.

You should also consider the other parts of the Document before making any decision in relation to the Transaction.

Fees KPMG Transaction Services may receive and remuneration or other benefits received by our representatives

KPMG Transaction Services charges fees for preparing reports. These fees will usually be agreed with, and paid by, the Client. Fees are agreed on either a fixed fee or a time cost basis. In this instance, the Client has agreed to pay KPMG Transaction Services $925,000 for preparing the Report. KPMG Transaction Services and its officers, representatives, related entities and associates will not receive any other fee or benefit in connection with the provision of the Report.

KPMG Transaction Services officers and representatives (including the Authorised Representatives) receive a salary or a partnership distribution from KPMG's Australian professional advisory and accounting practice (the KPMG Partnership). KPMG Transaction Services' representatives (including the Authorised Representatives) are eligible for bonuses based on overall productivity. Bonuses and other remuneration and benefits are not provided directly in connection with any engagement for the provision of general financial product advice in the Report.

Further details may be provided on request.

Referrals

Neither KPMG Transaction Services nor the Authorised Representatives pay commissions or provide any other benefits to any person for referring customers to them in connection with a Report.

Associations and relationships

Through a variety of corporate and trust structures KPMG Transaction Services is controlled by and operates as part of the KPMG Partnership. KPMG Transaction Services' directors and Authorised Representatives may be partners in the KPMG Partnership. The Authorised Representatives are partners in the KPMG Partnership. The financial product advice in the Report is provided by KPMG Transaction Services and the Authorised Representatives and not by the KPMG Partnership.

From time to time KPMG Transaction Services, the KPMG Partnership and related entities (KPMG entities) may provide professional services, including audit, tax and financial advisory services, to companies and issuers of financial products in the ordinary course of their businesses.

No individual involved in the preparation of this Report holds a substantial interest in, or is a substantial creditor of, the Client or has other material financial interests in the transaction.

Complaints resolution

Internal complaints resolution process

If you have a complaint, please let either KPMG Transaction Services or the Authorised Representatives know. Formal complaints should be sent in writing to The Complaints Officer, KPMG, PO Box H67, Australia Square, Sydney NSW 1213. If you have difficulty in putting your complaint in writing, please telephone the Complaints Officer on 02 9335 7000 and they will assist you in documenting your complaint.

Written complaints are recorded, acknowledged within 5 days and investigated. As soon as practical, and not more than 45 days after receiving the written complaint, the response to your complaint will be advised in writing.

External complaints resolution process

If KPMG Transaction Services or the Authorised Representatives cannot resolve your complaint to your satisfaction within 45 days, you can refer the matter to the Australian Financial Complaints Authority (AFCA). AFCA is an independent company that has been established to provide free advice and assistance to consumers to help in resolving complaints relating to the financial services industry.

Further details about AFCA are available at the AFCA website www.afca.org.au or by contacting them directly at:

Address: Australian Financial Complaints Authority Limited, GPO Box 3, Melbourne Victoria 3001

Telephone:	1300 56 55 62
Facsimile:	(03) 9613 6399
Email:	info@afca.org.au.

The Australian Securities and Investments Commission also has a freecall infoline on 1800 931 678 which you may use to obtain information about your rights.

Compensation arrangements

KPMG Transaction Services has professional indemnity insurance cover as required by the Corporations Act 2001(Cth).

Contact Details

You may contact KPMG Transaction Services or the Authorised Representative using the contact details:

KPMG Transaction Services
A division of KPMG Financial Advisory Services (Australia) Pty Ltd
Level 38, Tower Three
300 Barangaroo Avenue

Sydney NSW 2000
PO Box H67
Australia Square
NSW 1213
Telephone: (02) 9335 7000
Facsimile: (02) 9335 7200

Craig Mennie
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PO Box H67
Australia Square
NSW 1213
Telephone: (02) 9335 7000
Facsimile: (02) 9335 7200

Paul Guinea
C/O KPMG
GPO Box 2291U
Melbourne
VIC 3001
Telephone: (03) 9288 5555
Facsimile: (03) 9288 6666

09.

Additional Information

09. Additional Information

9.1. Registration

The Company was registered in Victoria, Australia on 30 April 2018 as a public company limited by shares.

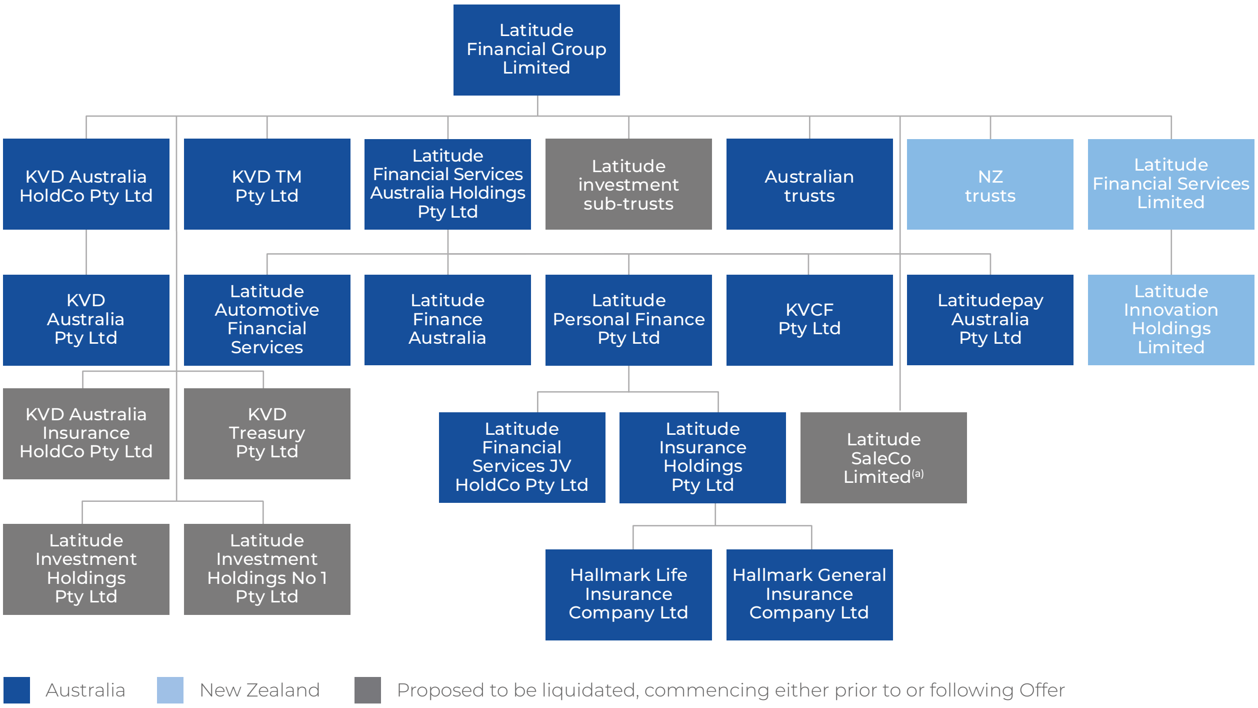
SaleCo was incorporated in Victoria, Australia on 30 April 2018 as a public company limited by shares. The sole shareholder of SaleCo is Michael Tilley. The directors of SaleCo are Michael Tilley, Mark Joiner and Alison Ledger.

9.2. Company Tax Status and Financial Year

The Company will be taxed in Australia at the corporate tax rate. The Company's financial year ends on 31 December annually.

9.3. Corporate Structure

The below chart sets out the proposed structure of Latitude following the Restructure and associated steps described in Section 9.4:



(a) Latitude SaleCo Limited will be acquired by the Company following the Offer.

Note: There are other group entities which are not included in this structure chart which are no longer material to the operations of Latitude and are proposed to commence liquidation or deregistration prior to the Offer.

The role of the key entities is as follows:

- **Latitude Financial Services Australia Holdings Pty Ltd** – The primary operating entity (and employer) in Australia;
- **Latitude Finance Australia** – The originator of instalments products and credit cards in Australia;
- **Latitude Personal Finance Pty Ltd** – The originator of personal loans in Australia;
- **Latitude Automotive Financial Services** – The originator of motor loans in Australia;
- **Latitudepay Australia Pty Ltd** – The originator of the payments product, LatitudePay, in Australia;
- **Latitude Financial Services Limited** – The primary operating entity, employer and originator of payments, instalments and lending products in New Zealand;
- **Latitude Innovation Holdings Limited** – The originator of the payments product, Genoapay, in New Zealand.
- **KVD TM Pty Ltd** – The trust manager of the Australian trusts;

- **Australian trusts and NZ trusts** – The special purpose trusts established as funding vehicles for the Term Securitisation and Warehouse Facilities (discussed further in Section 9.11.2);
- **Hallmark Life Insurance Company Ltd** – The licensed provider of the life insurance component of the Hallmark Insurance products offered in Australia and New Zealand; and
- **Hallmark General Insurance Company Ltd** – The licensed provider of the general insurance component of the Hallmark Insurance products offered in Australia and New Zealand.

9.4. Pre-Listing Restructure

As at the Prospectus Date, KVDS, a Singapore company owned jointly by the Existing Investors, is the ultimate holding company of Latitude.

In connection with the Offer, Latitude will be restructured so that the Company is the ultimate holding company of Latitude on Completion.

The Company and the Existing Investors have entered and will enter into a series of arrangements to implement the Restructure, under which the Company has agreed to buy all of the issued share capital of KVD HoldCo (the current holding company of Latitude's Australian business) and LFSL (the current holding company of Latitude's New Zealand business) from KVDS and Deutsche Bank in exchange for Shares.[129] The Company will also acquire the beneficial interests in the Australian and New Zealand securitisation trusts from the Existing Investors (or related entities of those parties).

As part of the Restructure and the associated unwind of the Pre-Completion Equity Plans, the Minority Investors and the Management Shareholders will also acquire Shares. Further details regarding the unwinding of the Pre-Completion Equity Plans are provided in Section 6.3.2.

As part of the Restructure, the Shareholder Loans with Existing Investors will be fully repaid using proceeds of the Offer. It is also proposed that there will be further restructure steps undertaken that will involve the liquidation of, and the intra-group transfer of, certain entities. Following these steps, it is anticipated that the final corporate structure will be represented by the structure chart in Section 9.3.

Certain parties will, as a result of the sequence of the implementation of the steps associated with the Restructure, temporarily acquire a relevant interest in 20% or more of Latitude. The maximum relevant interest that each of these parties will hold during the implementation of the Restructure is 47.4% for KVDS and 35.0% for Ahmed Fahour. Latitude has sought relief from ASIC to permit these parties to acquire these relevant interests which would otherwise be in breach of the Corporations Act. These percentage relevant interests will ultimately be reduced during the course of the Restructure and as a result of the Offer. The final number of Shares which each of these parties is anticipated to hold following Completion is set out in Section 7.4.

The pre-Offer steps of the Restructure is scheduled to take effect on 23 October 2019. Completion of the Restructure is a condition to the commencement of unconditional and deferred settlement trading. If the Restructure does not complete, the Offer will not complete.

Shares issued pursuant to the Restructure will be issued under this Prospectus.

9.5. Sale of Shares by SaleCo

SaleCo is a special purpose vehicle that has been established to enable the Selling Shareholders and the Company to sell Primary Shares and Secondary Shares.

Each Selling Shareholder has executed a deed in favour of SaleCo under which it will irrevocably offer to sell Secondary Shares to SaleCo free from encumbrances and third-party rights, conditional upon the commencement of conditional and deferred settlement trading of Shares on the ASX and certain Restructure steps. Likewise, the Company has executed a deed in favour of SaleCo under which it irrevocably offers to issue Primary Shares to SaleCo free from encumbrances and third-party rights, conditional upon the commencement of conditional and deferred settlement trading of Shares on the ASX and certain Restructure steps.

The Shares that SaleCo obtains from the Selling Shareholders and the Company will be transferred to Successful Applicants, so far as possible (subject to rounding), in proportion to the total number of Primary Shares and Secondary Shares at the Final Price. The price payable by SaleCo to the Selling Shareholders and the Company respectively for each of these Secondary Shares is the Final Price.

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[129] As an interim Restructure step, Deutsche Bank will briefly hold shares in KVD HoldCo and LFSL directly, prior to selling these shares to the Company in exchange for Shares.

SaleCo has no material assets, liabilities or operations other than its interests in and obligations under the deeds described above and the Offer Management Agreement. The sole shareholder of SaleCo is Michael Tilley. The directors of SaleCo are Michael Tilley, Mark Joiner and Alison Ledger. The Company has indemnified SaleCo and its directors, for any loss which SaleCo or an undemnified party may incur as a consequence of the Offer.

9.6. Description of the Syndicate

The Joint Lead Managers and Joint Bookrunners to the Offer are Goldman Sachs, Macquarie Capital and UBS.

The Co-Lead Managers are Bell Potter Securities Limited, Morgans Financial Limited and Wilsons Corporate Finance Limited and the Co-Managers are Commonwealth Securities Limited, Craigs Investment Partners Limited, Crestone Wealth Management Limited, Escala Partners Limited, Evans and Partners Pty Ltd, Macquarie Equities Limited, National Australia Bank Limited and Ord Minnett Limited.

9.7. Termination and Continuance of Pre-Completion of Arrangements Relating to the Existing Investors

9.7.1. Shareholder Loans

KVD Australia and LFSL have entered into Shareholder Loans with the Existing Investors (or their related entities) under which certain funding facilities are made available. These facilities will be fully discharged on their present terms using the proceeds of the Offer.

9.7.2. Consulting and monitoring agreements

KVD Australia and LFSL have entered into consulting and monitoring agreements with the Existing Investors (or their related entities) under which they pay certain fees to the Existing Investors (or their related entities) in exchange for management, monitoring and consulting services. These agreements will be terminated with effect from Completion of the Offer, subject to any terms expressed to survive termination.

9.7.3. Deutsche Bank as party to Warehouse Facilities and Term Securitisations

Deutsche Bank is a current financier and investor under the Warehouse Facilities and Term Securitisations (the terms of which are described further in Section 9.11.2). After Completion, Deutsche Bank will continue to be a financier and investor under these Warehouse Facilities and Term Securitisations. These arrangements are, and will continue to be on, arm's length commercial terms.

9.7.4 Indemnity of Existing Investors by Company

The Company and KVD Australia have entered into arrangements under which they indemnify each of the SaleCo and its directors, and the Existing Investors and their related entities and each of their respective directors, officers and employees, and each of their respective heirs, executors, successors and assigns ('**Indemnified Parties**') for certain liabilities, including liabilities relating to:

- Information contained in the Prospectus and any materials distributed in connection with the Offer, and any misleading, deceptive, untrue or allegedly untrue statement in this Prospectus or such materials, as well as the distribution of this Prospectus and the making of the Offer;
- A breach by KVD Australia, the Company or any member of the Group or any of their affiliates of an agreement, arrangement or obligation in respect of this Prospectus or the Offer;
- Any third party claims related to the operation by KVD Australia, the Company or any member of the Group or any of their affiliates of any past, current or future businesses, irrespective of when the facts giving rise to the claim arose; and
- Any failure by KVD Australia, the Company, any member of the Group or any other person to pay, perform or otherwise properly discharge any liability of KVD Australia, the Company or any member of the Group or any of their affiliates, whether prior to or after Completion.

The Company and KVD Australia will ensure (and procure that each member of the Group ensures) that no claim is made by KVD Australia, the Company or any member of the Group against an Indemnified Party, and provide a release in relation to any act, omission, fact, or matter occurring or failing to occur on or before Completion.

The indemnity provided by the Company and KVD Australia is subject to limitations. This includes where losses arise as a result of fraud, wilful misconduct or conduct not in good faith and, with respect to the Existing Investors, where any losses arise as a result of a statement or omission contained in this Prospectus attributable to that Existing Investor, as a result of any restructure step implemented in accordance with the Implementation Deed or where such loss is recoverable by Latitude from that Existing Investor.

9.8. Escrow Arrangements

At Completion, 65.0% of the Shares will be subject to voluntary escrow arrangements.

Shareholders[130]	Number of Escrowed Shares (on Completion) (in millions)	Percentage of Escrowed Shares (on Completion) (in millions)
KKR[131]	364.0	20.5%
Värde Partners[132]	365.9	20.6%
Deutsche Bank[133]	229.2	12.9%
Minority Investors	161.9	9.1%
Michael Tilley[134]	4.5	0.3%
Mark Joiner[134]	0.7	0.0%
Alison Ledger[134]	0.1	0.0%
Ahmed Fahour[134]	12.6	0.7%
Adrienne Duarte[134]	1.8	0.1%
Other Management Shareholders[134]	14.4	0.8%
Total	**1,155.1**	**65.0%**

The specific terms of the Escrow Deeds for the various Escrowed Shareholders are set out in Sections 9.8.1 to 9.8.3. The common terms of the Escrow Deeds for the Escrowed Shareholders are set out in Section 9.8.4.

9.8.1. Terms of Escrow Deeds for Existing Investors

Approximately 54% of the Shares on issue at Completion will be held by the Existing Investors and be subject to escrow arrangements. Each of the Existing Investors have entered into an Escrow Deed with the Company which, subject to customary exceptions set out in Section 9.8.4, prevents Existing Investors from dealing with their Escrowed Shares until the start of the second trading day after the date on which the Company releases its financial results with respect to the half year ending 30 June 2020.

Under the Escrow Deeds, each Existing Investor must provide the Company with full details of any changes to its voting power in the Company.

9.8.2. Terms of Escrow Deeds for Minority Investors

Approximately 9% of the Shares on issue at Completion will be held by the Minority Investors and be subject to escrow arrangements. Each of the Minority Investors will enter into an Escrow Deed with the Company which, subject to the customary exceptions set out in Section 9.8.4, prevents the Minority Investors from dealing with their Escrowed Shares until after 28 January 2020.

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[130] Does not include Shares allocated to eligible employees under the Employee Share Acquisition Plan. Shares allocated under the Employee Share Acquisition Plan cannot generally be disposed of for a period of three years from the date of allocation (for further detail see Section 9.12).

[131] Värde Partners and KKR will initially hold their Shares through KVDS. However, it is intended that, immediately prior to Completion, Värde Partners and KKR will implement certain Restructure steps which will result in these parties holding their Shares directly.

[132] Värde Partners and KKR will initially hold their Shares through KVDS. However, it is intended that, immediately prior to Completion, Värde Partners and KKR will implement certain Restructure steps which will result in these parties holding their Shares directly.

[133] The details of the Shares to be held by Deutsche Bank on Completion referred to above do not include any Shares it or an affiliate may be allocated under the Offer on an arm's length basis in the ordinary course of its asset management or equities business activities.

[134] Shares of Michael Tilley, Mark Joiner, Alison Ledger, Ahmed Fahour, Adrienne Duarte and other Management Shareholders are to be issued on or about Completion pursuant to the Pre-Completion Equity Plans described in Section 6.3.2. The number of Shares set out for each Management Shareholder assumes the Mid-Point Final Price will be achieved as the Final Price.

9.8.3. Terms of Escrow Deeds for Management Shareholders

Approximately 2% of the Shares on issue at Completion will be held by the Management Shareholders and be subject to escrow arrangements.

Under the terms of the voluntary escrow arrangements, subject to certain customary exceptions, the Escrowed Shares held by Ahmed Fahour will be subject to the following escrow restrictions:

- (**initial release**) in respect of 50% of the Escrowed Shares held by Ahmed Fahour at Completion, until the start of the second trading day after the date on which the Company releases its annual financial results of the Company for the period ending 31 December 2020 have been released to the ASX; and
- (**final release**) in respect of any remaining Escrowed Shares held by Ahmed Fahour, until the start of the second trading day after the date on which the Company releases its financial results for the half year ending 30 June 2021 to the ASX.

Each of the other Management Shareholders will enter into an Escrow Deed with the Company which, subject to the customary exceptions set out in Section 9.8.4, prevents the Management Shareholders from dealing with their Escrowed Shares until:

- (**Initial release**) in respect of 50% of the Escrowed Shares held by each of the Management Shareholders at Completion, until the start of the second trading day after the date on which the Company releases its financial results with respect to the half year ending 30 June 2020 to the ASX ('**Initial Management Shareholder Release Date**'); and
- (**Final release**) in respect of the remaining Escrowed Shares held by the Management Shareholders, until the start of the second trading day after the date which falls 12 months after the Initial Management Shareholder Release Date.

9.8.4. Common terms of Escrow Deeds for Escrowed Shareholders

The restriction on dealing will be broad and includes, among other things, selling, assigning, transferring, or otherwise disposing of the Escrowed Shares, entering into an option which would enable or require the Escrowed Shares to be sold, assigned, transferred, or otherwise disposed of, creating, writing, taking, closing out or terminating any derivative or similar interest in the Escrowed Shares, creating or agreeing to create or permit a security interest over the Escrowed Shares, or agreeing or agreeing to offer to do any of the above.

However, during the escrow periods described above, the Escrowed Shareholders are permitted to deal in their Escrowed Shares in the following manner:

- (**Security interest**) to grant a security interest over any or all of their Escrowed Shares to a bona fide unrelated or unaffiliated third-party financial institution, provided that the security interest does not in any way constitute a direct or indirect disposal of the economic interests, or decrease an economic interest that the Escrowed Shareholder has, in any of its Escrowed Shares, and no Escrowed Shares may be transferred or delivered to the financial institution or any other person in connection with the security interest (with the documentation for the security interest making clear that the Escrowed Shares remain in escrow and subject to the terms of the relevant Escrow Deed as if the financial institution were a party to the relevant Escrow Deed);
- (**Court order**) pursuant to a court order compelling the Escrowed Shares to be disposed of or a security interest to be granted over them;
- (**Death or incapacity**) if the Escrowed Shareholder dies or becomes incapacitated, provided the transferee of the Escrowed Shares has agreed to be bound by an escrow deed on substantially the same terms as the Escrow Deed;
- (**Insolvency**) pursuant to the winding up, deregistration or insolvency of the Escrowed Shareholder, or the entity holding the relevant Escrowed Shares;
- (**Takeover bid**) to allow the acceptance of an offer made under a takeover bid provided holders of not less than 50% of the non-escrowed Shares have accepted the offer and the takeover bid is unconditional (or conditional only on "prescribed occurrences") or all conditions to the takeover bid have been satisfied or waived;

- (**Bid acceptance facility**) to allow an Escrowed Shareholder to tender any of their Escrowed Shares into a bid acceptance facility established in connection with a takeover bid provided that holders of not less than 50% of the non-escrowed Shares have either accepted the takeover bid or tendered (and not withdrawn) their Shares into the bid acceptance facility; or
- (**Reorganisation**) to allow the transfer or cancellation of Escrowed Shares as part of an equal access share buy-back, pro rata capital return, pro rata reduction of capital or other similar reorganisation, a merger being implemented by way of a scheme of arrangement or a pro rata acquisition of share capital which has received all necessary approvals.

If for any reason any or all Escrowed Shares are not transferred or cancelled in accordance with a takeover bid, bid acceptance facility or reorganisation, as described above, the escrow restrictions in the Escrow Deeds will continue to apply and the holding lock will be reapplied to all Escrowed Shares that are not transferred or cancelled.

9.9. Relationship Deed

The independent Directors have approved the Company entering into a Relationship Deed with each of the Existing Investors to govern the relationship between the Company and each Existing Investor while each Existing Investor holds Retained Shares (being shares in the Company held directly or indirectly by Existing Investors (or an affiliate) which were initially subject to escrow arrangements whether or not they remain subject to escrow). The Relationship Deed has the following key terms:

- The obligations of the parties to the Relationship Deed are conditional on Completion;
- The parties to the Relationship Deed agree to certain procedures for the management of conflicts of interest and appropriate use of confidential information;
- Each Existing Investor may nominate one Director to the Board for so long as the Existing Investor holds Retained Shares which represent at least 10% of the Shares on issue or at least 5% of the Shares on issue while an Existing Investor's Shares are subject to a voluntary escrow arrangement with the Company;
- A nominee Director may appoint an alternate director for the nominee Director on an ad hoc basis. Each Existing Investor also has the right to appoint a Board observer, in accordance with the Constitution and the Company's Board Charter. The alternate director is not entitled to attend any board meeting attended by the nominee Director unless the alternate director is designated as the Existing Investor's observer for that meeting;
- Subject to any applicable fiduciary duties, conflicts of interest, confidentiality restrictions and information barrier protocols and other customary exceptions, an Existing Investor's nominee Director may disclose information obtained in their capacity as a Director to the relevant Existing Investor, provided the recipients ensure the information disclosed is only used for purposes permitted under the deed and kept confidential, subject to customary carve-outs;
- Each Existing Investor with a right to propose a nominee Director may also access certain accounting and financial information in the Company's possession which is reasonably required by an Existing Investor or certain affiliates or advisers of the Existing Investor for the purposes permitted under the deed, subject to applicable confidentiality restrictions and information barrier protocols;
- If an Existing Investor is a deemed a "controller" of the Company for the purposes of the Corporations Act, the Company will provide market disclosure (subject to certain conditions) to facilitate a disposal of Shares by that Existing Investor during certain time periods.

The Relationship Deed terminates if:

- Completion does not occur by 13 December 2019; or
- An Existing Investor ceases to hold Retained Shares following Completion.

9.10. Offer Management Agreement

The Company, SaleCo, KVD Australia and the Joint Lead Managers have entered into an Offer Management Agreement.

The Offer is being managed by the Joint Lead Managers pursuant to the Offer Management Agreement. The Joint Lead Managers have agreed to act as joint lead managers and bookrunners for, and to manage and provide settlement support for, the Offer.

The Joint Lead Managers have not agreed to underwrite the Offer nor do they guarantee that the Offer will be successful.

To the extent that any discretion needs to be exercised by the Company or SaleCo under the Offer Management Agreement, that will only occur following engagement with the Existing Investors.

9.10.1. Fees, costs and expenses

If the Offer has not been withdrawn and the Offer Management Agreement has not been terminated, a Joint Lead Manager acting as settlement agent under that agreement is authorised to withhold by 4:00pm on the date of Settlement of the Offer, a management and settlement fee equal to an aggregate of 1.8% of the Offer proceeds (being the total number of Shares offered under the Offer multiplied by the Final Price). This management and settlement fee is to be released by the settlement agent:

- if the Offer has not been withdrawn and the Offer Management Agreement has not been terminated, to each Joint Lead Manager in equal proportions promptly after 9.00am on the Allotment Date and before 4.00pm on the Allotment Date; or
- in any other circumstance, to the Share Registry to refund all Application Monies received from Applicants, whether by cheque or otherwise.

If the Offer has not been withdrawn and the Offer Management Agreement has not been terminated, the Company may also pay an incentive fee to one or more of the Joint Lead Managers of up to an aggregate of 0.7% of the Offer proceeds. The amount of the incentive fee and the allocation of it between the Joint Lead Managers will be determined by the Company in its absolute discretion following engagement with the Existing Investors. If the Company elects to pay the incentive fee, it will be paid within 7 days of the day of Settlement of the Offer.

The Joint Lead Managers will pay any commission and fees due to any Brokers to the Offer. See section 6.2.1 for further details.

In addition to the fees described above, the Company has agreed to pay or reimburse the Joint Lead Managers for all reasonable out of pocket expenses and other costs, including legal expenses and travel costs, incurred by the Joint Lead Managers in connection with the Offer.

9.10.2. Termination events and withdrawal of the Offer

SaleCo may withdraw the Offer, and SaleCo and the Company may withdraw this Prospectus and certain other Offer documents, by SaleCo making a decision to do so at any time prior to determination of the Final Price and if it does so, SaleCo, the Company and KVD Australia may terminate the Offer Management Agreement.

SaleCo may also withdraw the Offer, and SaleCo and the Company may withdraw this Prospectus and certain other Offer Documents, by SaleCo making a decision to do so at any time after determination of the Final Price up until 9:00am on the Allotment Date in circumstances where:

- regulatory action is brought in relation to the Offer or this Prospectus or certain other Offer documents, or a regulatory event occurs that could have a material adverse effect on the Latitude group's operations (taken as a whole) ('**Regulatory Event**'); and
- in SaleCo and the Company's bona fide reasonable opinion after consultation with the Joint Lead Managers (each acting reasonably and in good faith), that Regulatory Event:
  - has, or is likely to have, a materially adverse effect on the success or marketing or (prior to the date of Settlement of the Offer) the ability to settle the Offer; or
  - has given, or is likely to give rise to, a material liability for the Company or SaleCo under the Corporations Act or other applicable law; or a material contravention by the Company or SaleCo of, or the Company or SaleCo being involved in a contravention of, the Corporations Act or any other applicable law,

and if it does so SaleCo, the Company and the Guarantor may terminate the Offer Management Agreement.

Each Joint Lead Manager may, at any time before all of the Shares have been transferred by SaleCo under the Offer, terminate its obligations under the Offer Management Agreement without cost or liability to that Joint Lead Manager, on the occurrence of one or more customary termination events, including (among others):

- (**disclosures**) a statement in this Prospectus or certain other Offer documents (excluding the Institutional Offering Memorandum and pricing disclosure package) is or becomes false, misleading or deceptive (including by omission) or likely to mislead or deceive (including having regard to sections 710, 711 and 716 of the Corporations Act);
- (**disclosures in the Institutional Offering Memorandum or the pricing disclosure package**) the Institutional Offering Memorandum or the pricing disclosure package includes an untrue statement of a material fact or omits to state a material fact necessary to make statements within them, in light of the circumstances under which they were made, not misleading;
- (**forecasts**) this Prospectus or certain other Offer documents include any forecast, expression of opinion, belief, intention or expectation which is not, or ceases to be, in all material respects, based on reasonable grounds, taken as a whole, or is or becomes incapable of being met, or in the reasonable opinion of the relevant Joint Lead Manager, is unlikely to be met in the projected timeframe;
- (**supplementary prospectus or other documents**) the Company and SaleCo issue, or in the relevant Joint Lead Manager's reasonable opinion, become required to issue a supplementary prospectus under section 719(1) of the Corporations Act, or become required to amend or supplement, in any material respect, the Institutional Offering Memorandum or the pricing disclosure package;
- (**unable to issue or transfer**) the Shares are unable to be issued or transferred within the required time;
- (**change in management**) the Company's Chairman, CEO or CFO vacate their office or resign or change their position;
- (**prosecution**) the Company's Chairman, CEO or CFO is charged with an indictable offence, or is disqualified from managing a corporation under Part 2D.6 of the Corporations Act, or a government agency commences any public action, or announces that it intends to take such action, against the Company or SaleCo or the Company's Chairman, CEO or CFO;
- (**fraud**) the Company or any of its directors or officers engage, or have engaged in any fraudulent conduct or activity whether or not in connection with the Offer;
- (**insolvency**) the Company or another member of the Latitude group or KVD Australia is or becomes, or is likely to become, insolvent;
- (**timetable**) the Offer timetable is delayed by more than 5 business days up to the pricing of the Offer, or is delayed by more than 2 business days from pricing until all of the Shares have been transferred by SaleCo under the Offer, other than in limited circumstances;
- (**regulatory acts**) certain regulatory approvals required to conduct the Offer are withdrawn, revoked or amended in an adverse manner or certain regulatory actions are taken;
- (**listing approval and quotation**) the Company's admission to the Official List or the quotation of all of the Shares on ASX is refused;
- (**mutual recognition**) SaleCo is prohibited from making the Offer under the New Zealand Mutual Recognition Regime;
- (**escrow**) any Escrow Deed of the Existing Investors or the Minority Investors is terminated, rescinded, materially altered or materially breached, provided that this termination event will not be treated as having been triggered if the Escrow Deeds of the Minority Investors holding less than 0.5% (in aggregate) of the Shares that are expected to be on issue at the time when all of the Shares have been transferred by SaleCo under the Offer, are terminated, rescinded, materially altered or materially breached;
- *(**provision of information**) certain information supplied by or on behalf of the Company to the Joint Lead Managers in relation to the Latitude group or KVD Australia or the Offer is or becomes false, misleading or deceptive or likely to mislead or deceive, including by way of omission;
- *(**new circumstances**) there occurs a new circumstance that arises after this Prospectus is lodged, that would have been required to be included in this Prospectus if it had arisen before lodgement;
- *(**prosecution**) any director or officer of the Company or SaleCo is charged with an indictable offence;

- *(**breach**) the Company or SaleCo defaults on one or more of its obligations or breaches one of its representations, warranties or undertakings under the Offer Management Agreement;
- *(**hostilities**) there is an outbreak or a major escalation of hostilities (whether war is declared or not) involving any one or more of Australia, New Zealand, the United States or the United Kingdom, or the declaration by any of these countries of a war;
- *(**change of law**) there is introduced into the Parliament of the Commonwealth of Australia or any State of Australia or the New Zealand Parliament a law, or there is any announcement that such a law will be introduced, except where such law is announced prior to the date of the Offer Management Agreement;
- *(**disruption in financial markets**) any of the following occurs:
  - trading in all securities quoted or listed on ASX, the New York Stock Exchange or the London Stock Exchange is suspended or limited in a material respect for 2 or more consecutive days (or a substantial part of one day) on which that exchange is open for trading; or
  - a general moratorium on commercial banking activities in Australia, the United States or the United Kingdom is declared by the relevant central banking authority in those countries, or there is a disruption in commercial banking or security settlement or clearance services in any of those countries;
- *(**mutual recognition**) the Company or SaleCo fails to comply with the requirements of the NZ FMCA or the Financial Markets Conduct Regulations 2014 of New Zealand to enable the Offer to proceed on the basis of this Prospectus under the New Zealand Mutual Recognition Regime; or
- *(**Restructure**) one or more of certain Restructure agreements are terminated, rescinded, materially altered or materially breached, or the Restructure becomes incapable of being implemented substantially in the manner described in this Prospectus.

The termination events marked with an asterisk (*) will only give rise to a right to terminate if, in the bona fide reasonable opinion of the relevant Joint Lead Manager, the event:

- has, or is likely to have, a materially adverse effect on the success of the Offer, the ability of the Joint Lead Managers to market, promote or settle the Offer or the likely price at which the Shares the subject of the Offer will trade on ASX; or
- has given, or is likely to give rise to, a material liability for that Joint Lead Manager under the Corporations Act or any other applicable law, or to a material contravention by that Joint Lead Manager of, or that Joint Lead Manager being involved in a contravention of, the Corporations Act or any other applicable law.

9.10.3. Conditions, representations, warranties and undertakings

The Offer Management Agreement contains certain customary representations, warranties and undertakings provided by the Company, SaleCo and KVD Australia to the Joint Lead Managers, as well as customary conditions precedent.

The representations, warranties and undertakings relate to matters such as the conduct of the Company and SaleCo (including in respect of disclosure and compliance with applicable laws and the ASX Listing Rules), the Company's business, litigation, licences, insurance and information in this Prospectus.

The Company has undertaken that it will not, without the prior consent of the Joint Lead Managers (which may not be unreasonably withheld or delayed), at any time after the date of the Offer Management Agreement and up to 120 days after all of the Shares have been transferred by SaleCo under the Offer, allot or agree to allot or indicate in any way that it may or will allot or agree to allot any equity securities or securities that are convertible or exchangeable into equity, or that represent the right to receive equity, of the Company or any member of the Group or KVD Australia from time to time, other than:

- pursuant to the Offer, this agreement or any employee share plan, non-underwritten dividend reinvestment plan or bonus share plan in place at the date of the Offer Management Agreement; or
- as otherwise contemplated in this Prospectus, the Institutional Offering Memorandum or the pricing disclosure package, or as could not reasonably be expected to result in a material adverse effect.

A number of standard representations and warranties are also given by each Joint Lead Manager to the Company and SaleCo.

9.10.4. Indemnity

Subject to certain exclusions relating to, among other things, wilful misconduct, fraud or negligence by an indemnified party, the Company undertakes to keep the Joint Lead Managers and certain of their respective affiliated parties indemnified from and against, and hold them harmless from and against, all losses paid or required to paid to a third party relating to or arising out of or in connection with, directly or indirectly, the Offer (other than the U.S. offer, for which an indemnity also applies) and/or the appointment of each Joint Lead Manager under the Offer Management Agreement. KVD Australia has guaranteed the respective obligations of the Company and SaleCo to each Joint Lead Manager, including the indemnity (which is also guaranteed for certain of the Joint Lead Managers' respective affiliated parties).

9.11. Material Contracts

9.11.1. Harvey Norman, Amart Furniture and JB Hi-Fi & The Good Guys

As discussed in Section 5.2.8, Latitude has entered into agreements with each of Harvey Norman Holdings Limited ('**Harvey Norman**'), Harvey Norman Franchisees (defined below) and Harvey Norman Stores (N.Z.) Pty Ltd ('**Harvey Norman NZ**'), Amart Furniture Pty Ltd ('**Amart**') and JB Hi-Fi and The Good Guys (collectively, the '**Merchant Partners**') under which Latitude exclusively provides instalments products to the customers of these Merchant Partners as described further below.

Under the Merchant Partner agreements, Latitude provides interest free payment options to customers purchasing the products from the Merchant Partners, both in-store and online, through Latitude instalments products.

9.11.1.1. Service fee

Latitude generates revenue by charging each Merchant Partner a service fee for supplying credit to the Merchant Partner's customers. The service fee is calculated as a percentage of each transaction made through Latitude's products. If the customer does not make necessary repayments within stipulated interest free periods under the terms of their arrangement, then Latitude will also charge the customer interest on the credit provided to that customer.

9.11.1.2. Exclusivity

Latitude has exclusivity arrangements with Harvey Norman in Australia and with Harvey Norman NZ in New Zealand. In New Zealand, Harvey Norman NZ operates through corporate stores and has conferred exclusivity benefits on Latitude in relation to the promotion and provision of credit facilities. In Australia, subsidiaries of Harvey Norman grant separate franchises to franchisees who carry on retail businesses in Australia ('**Harvey Norman Franchisees**'). Each Harvey Norman Franchisee is independently owned and operated and carries on its business at one of the 195 Harvey Norman® complexes ('**Harvey Norman Complexes**') throughout Australia. At each Harvey Norman Complex Latitude provides interest free instalments options to customers who purchase goods or services from certain Harvey Norman Franchisees at each Harvey Norman Complex in Australia. Latitude provides interest free products to customers of Harvey Norman Franchisees throughout Australia.

The agreement with Amart contains an exclusivity provision that requires Amart to ensure its retailers only promote Latitude credit facilities in Australia for purchases above a certain transaction value. Amart is not to promote the credit facilities of a competitor except for unregulated credit facilities below a certain transaction value or if the customer has declined or refused Latitude credit facilities or informs Amart that it already has a competitor credit facility and wishes to use that.

The agreement with JB Hi-Fi/The Good Guys contains an exclusivity provision under which JB Hi-Fi/The Good Guys agree not to promote similar credit facilities of a competitor of Latitude which offer promotional interest-free terms for purchases with a transaction value above a certain transaction value in JB Hi-fi/The Good Guys stores (subject to allowing existing customers to use their existing competitor credit products if they wish to do so).

9.11.1.3. Term and termination

The Harvey Norman agreement was entered into in 2005 with an original term of 10 years. In 2015, the Harvey Norman agreement was extended to 1 December 2025. There is a review right on 1 December 2020 with respect to certain terms of the Harvey Norman agreement, in relation to changes for the period from that date until 1 December 2025. In addition, each of Harvey Norman and Latitude have an option to terminate the Harvey Norman agreement on 1 December 2020 by giving the other party written notice at least 90 days before (but no earlier than 180 days before) 1 December 2020.

The Amart agreement commenced in 2015 and has an initial term of five years continuing until 10 May 2020, but may be terminated by Amart within 45 days of Latitude changing the service fee charged under the agreement by more than 75 bps during any rolling 12-month period.

Further, Amart can terminate the agreement if:

- Following a performance review, Amart believes that changes to Latitude's business have had a material adverse effect on Amart's business;
- Amart's approval percentage falls by a substantial amount in each of three consecutive months and such falls have a material adverse effect on the volume of Amart's sales in those months, leading to a performance review; or
- Changes in responsible lending laws/ASIC guidelines prohibit or discourage Latitude's exclusivity to provide Amart customers with credit facilities under the agreement.

The agreement with JB Hi-Fi/The Good Guys commenced on 1 July 2018 and has an initial term of four years. Thereafter, the agreement will continue until terminated by either party on 30 days' written notice.

Further, JB Hi-Fi/The Good Guys may terminate the agreement if Latitude commits a material breach of its obligations under the agreement and fails to remedy the breach, becomes insolvent or unilaterally varies any provision of the agreement in certain circumstances.

9.11.2. Term Securitisation and Warehouse Facilities

The Australian and New Zealand Warehouse Facility and Term Securitisation arrangements are governed by a number of material contracts including:

- **Master trust or trust deeds:** These documents provide for the creation of special purpose trusts as Funding Vehicles which are established to enter into the applicable Warehouse Facility or Term Securitisation arrangements. The trustee of each Funding Vehicle is a professional trustee company independent of Latitude. At Completion, Latitude will be sole beneficiary of these Funding Vehicles and these documents provide the terms of the beneficiary's entitlements and, in particular, its entitlement to residual income;
- **Origination and sale documents:** These documents govern the terms and conditions under which Latitude transfers loan assets into a Funding Vehicle (see Section 9.11.2.1 for more detail);
- **Management documents:** These documents govern the terms and conditions under which Latitude is appointed to manage and direct the respective Funding Vehicles in carrying on their day-to-day business. The manager receives fees in exchange for the provision of those services (see Section 9.11.2.2 for more detail);
- **Servicing documents:** These documents govern the terms and conditions under which Latitude is appointed to service the assets of the respective Funding Vehicles by interfacing with customers (as applicable) and collecting payments under the receivables. The servicer receives fees in exchange for the provision of those services (see Section 9.11.2.3 for more detail); and
- **Term Securitisation and Warehouse Facility specific agreements:** These documents contain the terms, conditions and other arrangements specific to the relevant Term Securitisation or Warehouse Facility, including:
  - Funding facility documents entered into with funders for Warehouse Facilities, liquidity facilities, back-up servicer agreements or note issuance and subscription documents entered into with dealers for the placement of notes in connection with Term Securitisations;
  - Security trust deeds and security documents, which establish the security over the asset pool, and establish a security trust for the benefit of the Funding Vehicle's creditors; and
  - Hedging arrangements.

9.11.2.1. Origination and sale documents

The origination and sale documents establish the terms on which Latitude may transfer assets into a particular Funding Vehicle.

For Term Securitisations, Latitude will give representations and warranties in respect of the origination and sale of the relevant assets to the relevant Funding Vehicle, including as to whether the assets comply with the eligibility criteria applicable to the Term Securitisation and that the transactions are enforceable and in compliance with law and Latitude's policies. For Warehouse Facilities, if assets do not meet the eligibility criteria, they will cease to form part of the borrowing base that is able to be funded by that Warehouse Facility.

In the event of a breach of these requirements, Latitude may be obliged to repurchase or find alternative funding for (including by way of subscribing for notes issued by) a Funding Vehicle in an amount equal to the unpaid balance of the relevant assets.

9.11.2.2. Management documents

The terms of the management documents set out Latitude's obligations as manager of the relevant Funding Vehicles and circumstances or defaults following the occurrence of which (and any applicable grace period) Latitude may be required to cease acting as the manager of the Funding Vehicle. These include (but are not limited to):

- Latitude becomes insolvent;
- Latitude ceases to maintain its necessary authorisations and this has a material adverse effect in relation to the Warehouse Facility or Term Securitisation; or
- Certain breaches of Latitude's obligations or representations under the applicable transaction documents occur and this has a material adverse effect in relation to the Warehouse Facility or Term Securitisation.

If the manager is forced to retire in these circumstances, a replacement manager will be appointed to the Funding Vehicle and be entitled to the relevant fees.

In addition to Latitude's replacement as manager following default, the occurrence of such events (and any applicable grace period) would typically have other consequences under the transaction documentation, which may include, depending on the transaction, an 'amortisation' event or an event of default.

Latitude as manager of a Funding Vehicle also typically gives limited indemnities in relation to the accuracy of disclosure documents prepared by it in connection with Term Securitisations.

9.11.2.3. Servicing documents

The terms of the servicing documents set out Latitude's obligations as servicer of the asset pool for the relevant Warehouse Facility or Term Securitisation and circumstances or defaults following the occurrence of which (and any applicable grace period) Latitude may be required to cease acting as the servicer of the Funding Vehicle. These include (but are not limited to):

- It becomes insolvent;
- It ceases to maintain its necessary authorisations and this has a material adverse effect in relation to the Warehouse Facility or Term Securitisation; or
- Certain breaches of its obligations or representations under the applicable transaction documents occur and this has a material adverse effect in relation to the Warehouse Facility or Term Securitisation.

In addition to Latitude's replacement as servicer following default, the occurrence of such events (and any applicable grace period) would typically have other consequences under the transaction documentation, which may include, depending on the transaction, an 'amortisation' event. For further details on 'amortisation' events refer to Section 9.11.2.4.3.

A third-party service provider has entered into arrangements with the Funding Vehicles to act as back-up servicer and step into the role in the event of the removal of Latitude as servicer. The back-up servicer or any replacement servicer upon appointment as servicer, will be entitled to the relevant fees.

Latitude as servicer of the asset pool also typically gives indemnities in respect of any losses arising from events or breaches of its obligations as servicer (which include the servicing of the asset pool in accordance with applicable law and Latitude's servicing policies) which result in a servicer termination event. Refer to Section 9.11.2.4.3.

9.11.2.4. Funding terms

The funding documents for the Warehouse Facilities and Term Securitisations contain the terms and conditions of the funding provided by the funders pursuant to those arrangements, including interest and repayment terms, the criteria that must be satisfied by assets in the asset pool and certain performance triggers (such as gross loss rates and net interest margins) which, if breached, may lead to an 'amortisation' event, and/or net interest being diverted to pay down third-party funders under the relevant Warehouse Facility or Term Securitisation.

In addition, the funding documents for Warehouse Facilities contain a number of additional terms dealing with the availability of those facilities to fund new assets on an ongoing basis as discussed below.

The key funding terms for Latitude's Warehouse Facilities are summarised below:

Commitment	Committed funding for the facilities is provided by a range of Australian and international banks and professional institutional investors. Drawing under the facilities is subject to certain conditions. For example, the external notes cannot be above a certain percentage of the trust's borrowing base (which is predominantly comprised of the balance of eligible receivables); the percentages range from 87.5% to 95%. Latitude provides first loss funding to support the trusts by subscribing to the most junior notes in the capital structure; the junior notes range from a minimum of 12.5% to 5% of the trust capital structure.
Funding Costs	These comprises the cost of establishing and managing the warehouses, plus the cost of the funding provided to the warehouses, which is made up of: • A variable market reference rate as its base rate (e.g. the one month BBSY) plus a margin for each note class (which may be renegotiated at the end of the revolving period as part of the process of renewing the funding facility and, in some cases, may increase to a predetermined level if the facility is not extended or certain other events occur); and • Certain fees payable to the financiers.
Limited Recourse to the Trusts	Funders of Latitude's Warehouse Facilities take credit risk on the receivables and have limited recourse back to Latitude. Apart from the exposure that Latitude has to each Warehouse Facility and Term Securitisation relating to the junior notes that it holds, the recourse of the financiers to Latitude is limited to claims related to breaches of its obligations or warranties made in relation to the transactions and assets and in relation to the limited indemnities described above.
Residual Income	Latitude receives the income and fees generated (if any) in respect of the receivables funded by the warehouses less the cost of financing and establishment and operational costs described above, except to the extent that cash flow is used for other purposes including: • Making up for losses where there are unrecoverable amounts from debtors; or • Helping to repay the funding in the event a warehouse is not extended, or default or certain other trigger events occur.

9.11.2.4.1. Term and availability

Latitude's Warehouse Facilities typically have a revolving period of three to five years following the date of the first drawdown of the facility where they are able to originate new receivables. This initial revolving period may then be extended by agreement between Latitude and the relevant financiers.

Latitude can direct the trustee to request the funders under the Warehouse Facilities to extend the revolving period of the facility for a further period. The funders can typically agree to or decline the extension of the Warehouse Facilities at their absolute discretion.

9.11.2.4.2. Conditions precedent to further funding

The availability of funding from financiers under a Warehouse Facility to fund the acquisition of new assets is subject to a number of conditions precedent. The material conditions precedent typically include the following, some of which may be outside the control of Latitude:

- Compliance by Latitude with its obligations and representations under the applicable transaction documents;
- The additional funding will not cause the total funding provided to exceed the limit specified for the relevant Warehouse Facility (with reference to a borrowing base and advance rate); and
- The absence of certain events, including 'amortisation' events, potential events of default or events of default under the relevant Warehouse Facility.

Provided no relevant 'amortisation' event has occurred, certain facilities also permit Latitude to use collections received from assets funded in those facilities to acquire new assets for those facilities.

9.11.2.4.3. 'Amortisation' events

The revolving period during which Latitude may request further funding may terminate early upon the occurrence of certain prescribed 'amortisation' events (in addition to upon the occurrence of certain other events such as events of default). The 'amortisation' events (howsoever defined) typically include triggers which may relate to gross loss rates and net interest margins of the current portfolio, and may also include other events outside the control of Latitude. The relevant events are tested periodically. The events may include:

- Where required credit support levels are not sufficient;
- The non-compliance by Latitude with its obligations or its giving of representations in various capacities under the transaction documents; and
- The removal of the relevant Latitude entity as manager or servicer, where that entity has not been replaced in accordance with the transaction documents.

Under an 'amortisation' event, the obligation of lenders to provide any further funding is terminated, the interest rates accruing on the notes may increase and there will be no residual income available to Latitude from any impacted Warehouse Facility or Term Securitisation until senior ranking debtors are repaid or the event is remedied.

9.12. Employee Share Acquisition Plan

The Company has established an Employee Share Acquisition Plan ('**ESAP**') to recognise the contribution of its employees and provide them with the opportunity to become shareholders in the Company. The Employee Gift Offer will be made under the ESAP at or around the time of Completion.

The key terms of the ESAP and the proposed allocation of Shares in respect of the Employee Gift Offer are set out in the table below:

Feature	Key Terms of the Shares Allocated Under the ESAP
Eligibility	Eligibility to participate in the Employee Gift Offer will be subject the following eligibility conditions at the date of grant: • The employee is employed by the Company, or a subsidiary of the Company, under a permanent contract of employment (and employment commenced on or before 31 March 2019); • The employee has not given or been given notice of termination; • The employee is not eligible to participate in the Company's long-term incentive plan; and • The employee is not a director of the Company.

Feature	Key Terms of the Shares Allocated Under the ESAP
Offers under the ESAP	Under the ESAP, eligible employees will be provided with the opportunity to acquire up to the value of $1,000 of Shares at no cost ('**Employee Gift Offer**'). Shares granted under the Employee Gift Offer will be allocated to participating eligible employees approximately two to four weeks (or as soon as practicable thereafter) after Completion. In general, Shares will rank equally in all respects with other Shares (i.e. participants will have dividend and voting rights even while Shares are subject to restrictions on disposal).
Allocation of Shares	The number of Shares allocated to an eligible employee will be calculated as the maximum whole number of Shares that can be acquired without exceeding $1,000 in value, based on the VWAP of a Share over the five trading days prior to the date on which the Shares are ultimately allocated to participating eligible employees.
Disposal restriction on Shares	Shares allocated to an eligible employee under the ESAP in respect of the Employee Gift Offer cannot generally be disposed of for a period of three years from the date of allocation ('**Restriction Period**'). During the Restriction Period, an eligible employee must not sell, transfer, encumber, hedge or otherwise deal with Shares except with prior approval of the Board or in certain circumstances by force of law. The Company will implement such arrangements (including holding the Shares in an employee share trust) as it determines necessary to enforce this restriction.
Cessation of employment	Where a participant ceases employment with the Company or a subsidiary of the Company during the Restriction Period, the following treatment applies (unless the Board determines otherwise): • **Participants based in Australia:** Shares will be retained by the participant and disposal restrictions will cease to apply when employment ends; and • **Participants based in New Zealand:** Treatment will depend upon the circumstances of cessation: – Where a participant ceases employment due to death, accident, sickness, redundancy, or retirement at normal retiring age, Shares will be retained by the participant and disposal restrictions will cease to apply when employment ends; or – Where a participant ceases employment for any other reason, Shares will be forfeited for no consideration when employment ends.
Other ESAP terms	The ESAP contains provisions to adjust the number of Shares held by eligible employees pursuant to the ESAP (before the expiry of the Restriction Period referred to above) to take into account the effect of any capital reconstruction, rights issue or bonus issue by the Board. The Board may terminate or suspend the operation of the ESAP at any time in its absolute discretion.
Employee share trust	The Company will establish an employee share trust to assist with the operation of the ESAP, including holding of Shares on behalf of participants.

9.13. Litigation and Claims

The Company may be involved from time to time in disputes or other claims, and litigation with current or former customers. These disputes may lead to legal and other proceedings, and may cause the Company to suffer additional costs. As at the Prospectus Date, there are currently no material claims or threatened claims on foot against the Company or any of its subsidiaries.

9.14. Taxation Considerations

This Section 9.14 does not constitute financial product advice as defined in the Corporations Act and is confined to Australian taxation issues only. Taxation is only one of the matters you need to consider when making a decision about your investments. You should consider taking advice from a licensed adviser, before making a decision about your investments.

The following tax comments are based on the tax laws in Australia in force as at the Prospectus Date. Australian tax laws are complex. This summary is general in nature and is not intended to be an authoritative or complete statement of all potential tax implications for each investor or relied upon as tax advice. During the period of ownership of the Shares by investors, the taxation laws of Australia, or their interpretation, may change. The precise implications of ownership or disposal will depend upon each investor's specific circumstances. Investors should seek their own professional advice on the taxation implications of holding or disposing of the Shares, taking into account their specific circumstances.

The following information is a general summary of the Australian income tax implications for Australian tax resident individuals, complying superannuation entities, trusts, partnerships and corporate investors that hold their Shares on capital account. These comments do not apply to non-resident investors, investors that hold Shares on revenue account or as trading stock, investors who are exempt from Australian income tax or investors subject to the Taxation of Financial Arrangements regime in Division 230 of the *Income Tax Assessment Act 1997* (Cth) which have made elections (i.e. to apply the fair value or reliance on financial reports methodologies).

9.14.1. Dividends paid on Shares

9.14.1.1. Australian tax resident individuals and complying superannuation entities

Dividends paid by the Company on a Share will constitute assessable income of an Australian tax resident investor. Australian tax resident investors who are individuals or complying superannuation entities should include the dividend in their assessable income in the year the dividend is paid, together with any franking credit attached to that dividend.

Such investors should only be entitled to a tax offset equal to the franking credit attached to the dividend. The tax offset can be applied to reduce the tax payable on the investor's taxable income. Where the tax offset exceeds the tax payable on the investor's taxable income, the investor should be entitled to a tax refund equal to the excess.

To the extent that the dividend is unfranked, the investor will generally be taxed at their prevailing marginal rate on the dividend received (with no tax offset).

9.14.1.2. Trusts and partnerships

Investors who are trustees (other than trustees of complying superannuation entities) or partnerships should include the franking credit in determining the net income of the trust or partnership. The relevant beneficiary or partner may be entitled to a tax offset equal to the beneficiary's or partner's share of the net income of the trust or partnership.

9.14.1.3. Corporate investors

Corporate investors are also required to include both the dividend and the associated franking credit in their assessable income. Corporate investors are then entitled to a tax offset up to the amount of the franking credit attached to the dividend.

An Australian tax resident corporate investor should be entitled to a credit in its own franking account to the extent of the franking credits attached to the distribution received. This will allow the corporate investor to pass on the franking credits to its investor(s) on the subsequent payment of franked dividends.

Excess franking credits received by corporate investors will not give rise to a refund entitlement for a company, but can be converted into carry forward tax losses instead.

9.14.1.4. Exempting franking credits

Dividends which have exempt franking credits attached and which are paid by the Company to Australian resident shareholders are generally treated as unfranked dividend in the hands of the investor. The amount of the dividend shall be included in the assessable income of the investor.

9.14.2. Shares held at risk

The benefit of franking credits can be denied where an investor is not a 'qualified person', in which case the investor will not need to include the amount of the franking credits in their assessable income and will not be entitled to a tax offset.

Broadly, to be a 'qualified person', two tests must be satisfied, namely the holding period rule and the related payment rule.

Under the holding period rule, an investor is required to hold Shares 'at risk' for more than 45 days continuously (which is measured as the period commencing the day after the Shares were acquired and ending on the 45th day after the Shares become ex-dividend) in order to qualify for franking credits. This holding period rule is subject to certain exceptions, including where the total franking offsets of an individual in a year of income do not exceed $5,000.

Under the related payment rule, a different testing period applies where the investor has made, or is under an obligation to make, a related payment in relation to the dividend. The related payment rule requires the investor to have held the Shares at risk for the continuous 45-day period as above but within the period commencing on the 45th day before, and ending on the 45th day after, the day the Shares become ex-dividend.

Investors should seek professional advice to determine if these requirements, as they apply to them, have been satisfied.

There are specific integrity rules that prevent taxpayers from obtaining a tax benefit from additional franking credits where dividends are received as a result of 'dividend washing' or certain other arrangements. Shareholders should consider the impact of these rules given their own personal circumstances.

9.14.3. Disposal of Shares

Most Australian tax resident investors will be subject to Australian CGT on the disposal of their Shares. Some investors may hold their Shares on revenue account as trading stock, or be subject to the Taxation of Financial Arrangements regime. These investors should seek their own professional advice in respect of the consequences of a disposal of Shares.

An investor will derive a capital gain on the disposal of Shares where the capital proceeds received on disposal exceed the CGT cost base of the Shares. The CGT cost base of the Shares is broadly the amount paid to acquire the Shares plus any transaction/incidental costs.

A CGT discount may be available on the capital gain for individual investors, certain trustee investors (but not when they are assessed) and investors that are complying superannuation entities provided the particular Shares are held for at least 12 months prior to sale. Any current year or carry forward capital losses should offset the capital gain first before the CGT discount can be applied.

The CGT discount for individuals and certain trusts is 50% and for complying superannuation entities is 33⅓%. In relation to trusts, the CGT discount rules are complex, but the discount may flow through to presently entitled beneficiaries of the trust.

An investor will incur a capital loss on the disposal of their particular Shares to the extent that the capital proceeds on disposal are less than the CGT reduced cost base of the Shares.

If an investor derives a net capital gain in a year, this amount is, subject to the comments below, included in the investor's assessable income. If an investor incurs a net capital loss in a year, this amount is carried forward and is available to offset against capital gains derived in subsequent years, subject to corporate investors satisfying certain rules relating to the recoupment of carried forward losses.

9.14.4. Tax File Number (‘TFN’) and Australian Business Number (‘ABN’)

Resident investors may, if they choose, notify the Company of their TFN, ABN or a relevant exemption from withholding tax with respect to dividends. In the event the Company is not so notified, tax will automatically be deducted at the highest marginal rate, in addition to where relevant, the Medicare levy from dividends.

Resident investors may be able to claim a tax credit in respect of any tax withheld on dividends in their tax returns. An investor is not required to quote their TFN to the Company.

An investor who holds Shares as part of an enterprise may quote its ABN instead of its TFN.

9.14.5. Goods and Services Tax (‘GST’)

The acquisition, redemption or disposal of the Shares by an Australian resident (registered for GST) will be an input taxed financial supply, and therefore is not subject to GST.

No GST should be payable in respect of dividends paid to investors.

An Australian resident investor (registered for GST) may not be entitled to claim full input tax credits in respect of GST on expenses incurred relating to the acquisition, redemption or disposal of the Shares (e.g. lawyers’ and accountants’ fees).

Investors should seek their own tax advice on the impact of GST in their own particular circumstances.

9.14.6. Stamp duty

No stamp duty should be payable by investors on the acquisition of Shares.

Investors should seek their own tax advice as to the impact of stamp duty in their own particular circumstances.

9.15. Ownership Restrictions

The sale and purchase of Shares in Australia are regulated by Australian laws and laws in other countries in which the Company operates that restrict the level of ownership or control by any one person (either alone or in combination with others). This Section 9.15 contains a general description of these laws.

9.15.1. Corporations Act

The takeover provisions in Chapter 6 of the Corporations Act restrict acquisitions of shares in listed companies if the acquirer’s (or another party’s) voting power would increase to above 20%, or would increase from a starting point that is above 20% and below 90%, unless certain exceptions apply. The Corporations Act also imposes notification requirements on persons having voting power of 5% or more in the Company, either themselves or through an associate.

9.15.2. Foreign Acquisitions and Takeovers Act 1975 (Cth)

Generally, the *Foreign Acquisitions and Takeovers Act 1975* (Cth) (‘**FATA**’) applies to acquisitions of shares and voting power in a company, of 20% or more by a single foreign person and its associates (‘**Substantial Interest**’), or 40% or more by two or more unassociated foreign persons and their associates (‘**Aggregate Substantial Interest**’). Where a foreign person holds a Substantial Interest in the Company or foreign persons hold an Aggregate Substantial Interest in the Company, the Company itself will be a ‘foreign person’ for the purposes of the FATA.

Where an acquisition of a Substantial Interest or an Aggregate Substantial Interest meets certain criteria, the acquisition may not occur unless notice of it has been given to the Federal Treasurer and the Federal Treasurer has either provided notice under the FATA that there is no objection to the proposed acquisition or a statutory period has expired without the Federal Treasurer objecting (‘**FIRB Approval**’). An acquisition of a Substantial Interest or an Aggregate Substantial Interest meeting certain criteria may also lead to divestment orders unless FIRB Approval has been obtained.

In addition, in accordance with the FATA, acquisitions of a direct investment in an Australian company by foreign government investors and their associates are required to be notified to the Federal Treasurer for prior FIRB Approval, irrespective of value. Under the FATA, a ‘direct investment’ mean any investment of 10% or more of the shares (or other securities or equivalent economic interest or voting power) in an Australian company (or offshore entity with Australian assets), an interest of at least 5% in the entity or business if the person who acquires the interest has entered a legal arrangement relating to the businesses of the person and the entity or business, or any interest where the acquirer obtains potential influence or control over the target investment.

The Foreign Acquisitions and Takeovers Regulation made under the FATA provides an exemption to the requirement to notify under the FATA and obtain FIRB Approval where the *Financial Sector (Shareholdings) Act 1998* (Cth) also applies to the proposed acquisition. However, the exemption does not apply where the acquirer is a foreign government investor and its associates.

9.15.3. Financial Sector Shareholdings Act 1998 (Cth)

Under the *Financial Sector (Shareholdings) Act 1998* (Cth), a person (including a company) must not acquire an interest in an Australian financial sector company (which includes a general insurance or life insurance company such as Hallmark General Insurance Company Ltd and Hallmark Life Insurance Company Ltd and the non-operating holding company of a life insurance company such as Latitude Investment Holdings) where the acquisition would take that person's voting power (which includes the voting power of the person's associates) in the financial sector company to more than 20% of the voting power of the financial sector company without first obtaining approval from APRA. Even if a person has less than 20% of the voting power, APRA has the power to declare that a person has practical control of that company and, by applying for an order from the Federal Court of Australia, may require the person to relinquish that control.

The Company has applied for approval from APRA under the FSSA, which was required in association with certain of the Restructure steps.

9.15.4. Overseas Investment Act 2005 (New Zealand)

The *Overseas Investment Act 2005* (New Zealand) ('**Overseas Investment Act**') may require prior approval to be obtained from the Overseas Investment Office (New Zealand) or Ministers for any transaction in which an overseas person (which includes a body corporate that is incorporated outside New Zealand or is 25% or more held by overseas persons), or an associate of an overseas person, within the meaning of the Overseas Investment Act, acquires (either alone or together with its associates) a 25% or more ownership or control interest in the Company, or increases an existing 25% or more ownership or control interest in the Company. Failure by an investor to obtain consent before acquiring interests in the Company where it is required by the Overseas Investment Act may result in penalties including monetary penalties and/or orders from a court to dispose of the investor's interests in the Company.

9.15.5. Insurance (Prudential Supervision) Act 2010 (New Zealand)

The *Insurance (Prudential Supervision) Act 2010* (New Zealand) ('**IPSA**') requires a person to notify the Reserve Bank of New Zealand ('**RBNZ**') of a proposed transaction if, as a result of the proposed transaction, that person would become a holding entity or obtain control of a licensed insurer (such as Hallmark Insurance).

A person will be a holding entity of a Hallmark Insurance entity if the relevant Hallmark Insurance entity becomes a subsidiary of that person. A person will obtain control of a Hallmark Insurance entity if that person, whether alone or together with one or more specified persons (within the meaning set out in the IPSA) has the power, directly or indirectly, to exercise or control the exercise of 50% or more of the voting rights in the relevant Hallmark Insurance entity.

Upon receipt of a notification, the RBNZ must determine whether it will remain satisfied that the relevant Hallmark Insurance entity continues to meet the criteria that entitle it to hold a licence if the proposed transaction was to take effect. If the RBNZ is no longer so satisfied and the proposed transaction takes effect, or if a person fails to provide the required notification, the RBNZ may cancel the relevant Hallmark Insurance entity's licence and direct the relevant Hallmark Insurance entity to arrange to assign its liabilities to another licensed insurer (with the RBNZ's approval under the IPSA).

9.16. Foreign Selling Restrictions

This document does not constitute an offer of Shares in any jurisdiction in which it would be unlawful. In particular, this Prospectus may not be distributed to any person, and the Shares may not be offered or sold, in any country outside Australia and New Zealand except to the extent permitted below.

New Zealand

The Offer is being extended to New Zealand investors under this Prospectus and the New Zealand Mutual Recognition Regime. Investors in New Zealand should refer to the Important Notice of this Prospectus under the heading 'Important Notice to New Zealand Investors'.

A copy of this Prospectus, other documents relating to the Offer and a copy of the Constitution have been, or will be, lodged with the New Zealand Companies Office and are, or will be, available at www.business.govt.nz/disclose (offer number, OFR112727). While the Offer is being extended to New Zealand investors under the New Zealand Mutual Recognition Regime, no application for listing and quotation is being made to NZX Limited.

United States

This Prospectus may not be distributed to, or relied upon by, any person in the United States, unless accompanied by the applicable Institutional Offering Memorandum as part of the Institutional Offer.

The Shares have not been, and will not be, registered under the US Securities Act, or the securities laws of any state or other jurisdiction of the United States. Accordingly, the Shares may only be offered and sold: (i) in the United States to persons that are reasonably believed to be QIBs in transactions exempt from the registration requirements of the US Securities Act pursuant to Rule 144A thereunder or to Eligible US Fund Managers in compliance with Regulation S thereunder, and in accordance with applicable United States state securities laws; and (ii) outside the United States in offshore transactions in compliance with Regulation S under the US Securities Act.

Canada (British Columbia, Ontario and Quebec provinces)

This document constitutes an offering of Shares only in the Provinces of British Columbia, Ontario and Quebec (‘**Provinces**’) and to those persons to whom they may be lawfully distributed in the Provinces, and only by persons permitted to sell such Shares. This document is not, and under no circumstances is to be construed as, an advertisement or a public offering of securities in the Provinces. This document may only be distributed in the Provinces to persons that are “accredited investors” within the meaning of NI 45-106 – Prospectus Exemptions, of the Canadian Securities Administrators.

No securities commission or similar authority in the Provinces has reviewed or in any way passed upon this document, the merits of the Shares or the offering of Shares and any representation to the contrary is an offence.

No prospectus has been, or will be, filed in the Provinces with respect to the offering of Shares or the resale of such securities. Any person in the Provinces lawfully participating in the offer will not receive the information, legal rights or protections that would be afforded had a prospectus been filed and receipted by the securities regulator in the applicable Province. Furthermore, any resale of the Shares in the Provinces must be made in accordance with applicable Canadian securities laws which may require resales to be made in accordance with exemptions from dealer registration and prospectus requirements. These resale restrictions may in some circumstances apply to resales of the Shares outside Canada and, as a result, Canadian purchasers should seek legal advice prior to any resale of the Shares.

The Company and SaleCo as well as their respective directors and officers may be located outside Canada and, as a result, it may not be possible for purchasers of Shares to effect service of process within Canada upon the Company, SaleCo or their respective directors or officers. All or a substantial portion of the assets of the Company and SaleCo and such persons may be located outside Canada and, as a result, it may not be possible to satisfy a judgement against the Company, SaleCo or such persons in Canada or to enforce a judgement obtained in Canadian courts against the Company, SaleCo or such persons outside Canada.

Any financial information contained in this document has been prepared in accordance with AAS and also complies with IFRS and interpretations issued by the International Accounting Standards Board. Unless stated otherwise, all dollar amounts contained in this document are in Australian dollars.

Statutory rights of action for damages and rescission

Securities legislation in certain of the Provinces may provide purchasers of Shares with, in addition to any other rights they may have at law, rights of rescission or to damages, or both, when an offering memorandum that is delivered to purchasers contains a misrepresentation. These rights and remedies must be exercised within prescribed time limits and are subject to the defenses contained in applicable securities legislation. Prospective purchasers should refer to the applicable provisions of the securities legislation of their respective Province for the particulars of these rights or consult with a legal adviser.

The following is a summary of the statutory rights of rescission or to damages, or both, available to purchasers in Ontario. In Ontario, every purchaser of the Shares purchased pursuant to this document (other than (a) a "Canadian financial institution" or a "Schedule III bank" (each as defined in NI 45-106), (b) the Business Development Bank of Canada or (c) a subsidiary of any person referred to in (a) or (b) above, if the person owns all the voting securities of the subsidiary, except the voting securities required by law to be owned by the directors of that subsidiary) shall have a statutory right of action for damages and/or rescission against the Company or SaleCo if this document or any amendment thereto contains a misrepresentation. If a purchaser elects to exercise the right of action for rescission, the purchaser will have no right of action for damages against the Company or SaleCo. This right of action for rescission or damages is in addition to and without derogation from any other right the purchaser may have at law. In particular, section 130.1 of the Securities Act (Ontario) provides that, if this document contains a misrepresentation, a purchaser who purchases the Shares during the period of distribution shall be deemed to have relied on the misrepresentation if it was a misrepresentation at the time of purchase and has a right of action for damages or, alternatively, may elect to exercise a right of rescission against the Company or SaleCo, provided that (a) the Company and SaleCo will not be liable if it proves that the purchaser purchased the Shares with knowledge of the misrepresentation; (b) in an action for damages, the Company and SaleCo are not liable for all or any portion of the damages that the Company or SaleCo proves does not represent the depreciation in value of the Shares as a result of the misrepresentation relied upon; and (c) in no case shall the amount recoverable exceed the price at which the Shares were offered.

Section 138 of the Securities Act (Ontario) provides that no action shall be commenced to enforce these rights more than (a) in the case of any action for rescission, 180 days after the date of the transaction that gave rise to the cause of action or (b) in the case of any action, other than an action for rescission, the earlier of (i) 180 days after the purchaser first had knowledge of the fact giving rise to the cause of action or (ii) three years after the date of the transaction that gave rise to the cause of action. These rights are in addition to and not in derogation from any other right the purchaser may have.

Certain Canadian income tax considerations

Prospective purchasers of the Shares should consult their own tax adviser with respect to any taxes payable in connection with the acquisition, holding or disposition of the Shares as any discussion of taxation related matters in this document is not a comprehensive description and there are a number of substantive Canadian tax compliance requirements for investors in the Provinces.

Language of documents in Canada

Upon receipt of this document, each investor in Canada hereby confirms that it has expressly requested that all documents evidencing or relating in any way to the sale of the Shares (including for greater certainty any purchase confirmation or any notice) be drawn up in the English language only. Par la réception de ce document, chaque investisseur canadien confirme par les présentes qu'il a expressément exigé que tous les documents faisant foi ou se rapportant de quelque manière que ce soit à la vente des valeurs mobilières décrites aux présentes (incluant, pour plus de certitude, toute confirmation d'achat ou tout avis) soient rédigés en anglais seulement.

China

The information in this document does not constitute a public offer of the Shares, whether by way of sale or subscription, in the People's Republic of China (excluding, for purposes of this paragraph, Hong Kong Special Administrative Region, Macau Special Administrative Region and Taiwan). The Shares may not be offered or sold directly or indirectly in the People's Republic of China to legal or natural persons other than directly to "qualified domestic institutional investors", sovereign wealth funds and quasi-government investment funds.

European Union

This document has not been, and will not be, registered with or approved by any national securities regulator in the European Union. Accordingly, this document may not be made available, nor may the New Shares be offered for sale, in the European Union except in circumstances that do not require a prospectus under Article 1(4) of Regulation (EU) 2017/1129 of the European Parliament and the Council of the European Union (the "Prospectus Regulation").

In accordance with Article 1(4)(a) of the Prospectus Regulation, an offer of New Shares in the European Union is limited to persons who are "qualified investors" (as defined in Article 2(e) of the Prospectus Regulation).

Hong Kong

WARNING: This document has not been, and will not be, registered as a prospectus under the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong, nor has it been authorised by the Securities and Futures Commission in Hong Kong pursuant to the Securities and Futures Ordinance (Cap. 571) of the Laws of Hong Kong (‘**SFO**’). No action has been taken in Hong Kong to authorise or register this document or to permit the distribution of this document or any documents issued in connection with it. Accordingly, the Shares have not been and will not be offered or sold in Hong Kong other than to “professional investors” (as defined in the SFO and any rules made under that ordinance).

No advertisement, invitation or document relating to the Shares has been or will be issued, or has been or will be in the possession of any person for the purpose of issue, in Hong Kong or elsewhere that is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Shares that are or are intended to be disposed of only to persons outside Hong Kong or only to professional investors. No person allotted Shares may sell, or offer to sell, such securities in circumstances that amount to an offer to the public in Hong Kong within six months following the date of issue of such securities.

The contents of this document have not been reviewed by any Hong Kong regulatory authority. You are advised to exercise caution in relation to the offer. If you are in doubt about any contents of this document, you should obtain independent professional advice.

Japan

The Shares have not been and will not be registered under Article 4, paragraph 1 of the Financial Instruments and Exchange Law of Japan (Law No. 25 of 1948), as amended (‘**FIEL**’) pursuant to an exemption from the registration requirements applicable to a private placement of securities to Qualified Institutional Investors (as defined in and in accordance with Article 2, paragraph 3 of the FIEL and the regulations promulgated thereunder). Accordingly, the Shares may not be offered or sold, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan other than Qualified Institutional Investors. Any Qualified Institutional Investor who acquires Shares may not resell them to any person in Japan that is not a Qualified Institutional Investor, and acquisition by any such person of Shares is conditional upon the execution of an agreement to that effect.

Malaysia

No approval from, or recognition by, the Securities Commission of Malaysia has been or will be obtained in relation to any offer of Shares. The Shares may not be offered or sold in Malaysia except pursuant to, and to persons prescribed under, Part I of Schedule 6 of the Malaysian Capital Markets and Services Act.

Norway

This document has not been approved by, or registered with, any Norwegian securities regulator under the Norwegian Securities Trading Act of 29 June 2007. Accordingly, this document shall not be deemed to constitute an offer to the public in Norway within the meaning of the Norwegian Securities Trading Act of 2007.

The Shares may not be offered or sold, directly or indirectly, in Norway except to “professional clients” (as defined in Norwegian Securities Regulation of 29 June 2007 no. 876 and including non-professional clients having met the criteria for being deemed to be professional and for which an investment firm has waived the protection as non-professional in accordance with the procedures in this regulation).

Singapore

This document and any other materials relating to the Shares have not been, and will not be, lodged or registered as a prospectus in Singapore with the Monetary Authority of Singapore. Accordingly, this document and any other document or materials in connection with the offer or sale, or invitation for subscription or purchase, of Shares, may not be issued, circulated or distributed, nor may the Shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore except pursuant to and in accordance with exemptions in Subdivision (4) Division 1, Part XIII of the Securities and Futures Act, Chapter 289 of Singapore (‘**SFA**’), or as otherwise pursuant to, and in accordance with the conditions of any other applicable provisions of the SFA.

09. Additional Information

This document has been given to you on the basis that you are (i) an existing holder of the Company's shares, (ii) an "institutional investor" (as defined in the SFA) or (iii) a "relevant person" (as defined in section 275(2) of the SFA). In the event that you are not an investor falling within any of the categories set out above, please return this document immediately. You may not forward or circulate this document to any other person in Singapore.

Any offer is not made to you with a view to the Shares being subsequently offered for sale to any other party. There are on-sale restrictions in Singapore that may be applicable to investors who acquire Shares. As such, investors are advised to acquaint themselves with the SFA provisions relating to resale restrictions in Singapore and comply accordingly.

South Africa

This document does not, nor is it intended to, constitute a prospectus prepared and registered under the South African Companies Act and may not be distributed to the public in South Africa.

An entity or institution resident in South Africa may not implement participation in the offer unless (i) permitted under the South African Exchange Control Regulations or (ii) a specific approval has been obtained from an authorised foreign exchange dealer in South Africa or the Financial Surveillance Department of the South African Reserve Bank.

Switzerland

The Shares may not be publicly offered in Switzerland and will not be listed on the SIX Swiss Exchange or on any other stock exchange or regulated trading facility in Switzerland. Neither this document nor any other offering material relating to the Shares (i) constitutes a prospectus or a similar notice as such terms are understood under art. 652a, art. 752 or art. 1156 of the Swiss Code of Obligations or a listing prospectus within the meaning of art. 27 *et seqq*. Of the SIX Listing Rules or (ii) has been filed with or approved by any Swiss regulatory authority. In particular, this document will not be filed with, and the offer of Shares will not be supervised by, the Swiss Financial Market Supervisory Authority,

Neither this document nor any other offering or marketing material relating to the Shares may be publicly distributed or otherwise made publicly available in Switzerland. The Shares will only be offered to regulated financial intermediaries such as banks, securities dealers, insurance institutions and fund management companies as well as institutional investors with professional treasury operations. This document is personal to the recipient and not for general circulation in Switzerland.

United Arab Emirates

Neither this document nor the Shares have been approved, disapproved or passed on in any way by the Central Bank of the United Arab Emirates, the Emirates Securities and Commodities Authority or any other governmental authority in the United Arab Emirates, nor has the Company or SaleCo received authorisation or licensing from the Central Bank of the United Arab Emirates, the Emirates Securities and Commodities Authority or any other governmental authority in the United Arab Emirates to market or sell the Shares within the United Arab Emirates. No marketing of any financial products or services may be made from within the United Arab Emirates and no subscription to any financial products or services may be consummated within the United Arab Emirates. This document does not constitute and may not be used for the purpose of an offer or invitation. No services relating to the Shares, including the receipt of applications and/or the allotment or redemption of Shares, may be rendered within the United Arab Emirates by the Company or SaleCo.

No offer or invitation to subscribe for Shares is valid in, or permitted from any person in, the Dubai International Financial Centre.

United Kingdom

Neither this document nor any other document relating to the offer has been delivered for approval to the Financial Conduct Authority in the United Kingdom and no prospectus (within the meaning of Section 85 of the *Financial Services and Markets Act 2000*, as amended ('**FSMA**')) has been published or is intended to be published in respect of the Shares.

This document is issued on a confidential basis to "qualified investors" (within the meaning of Section 86(7) of the FSMA) in the United Kingdom, and the Shares may not be offered or sold in the United Kingdom by means of this document, any accompanying letter or any other document, except in circumstances which do not require the publication of a prospectus pursuant to Section 86(1) of the FSMA. This document should not be distributed, published or reproduced, in whole or in part, nor may its contents be disclosed by recipients to any other person in the United Kingdom.

Any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received in connection with the issue or sale of the Shares has only been communicated or caused to be communicated and will only be communicated or caused to be communicated in the United Kingdom in circumstances in which Section 21(1) of the FSMA does not apply to the Company or SaleCo.

In the United Kingdom, this document is being distributed only to, and is directed at, persons (i) who have professional experience in matters relating to investments falling within Article 19(5) (investment professionals) of the Financial Services and Markets Act 2000 (Financial Promotions) Order 2005 ("**FPO**"), (ii) who fall within the categories of persons referred to in Article 49(2)(a) to (d) (high net worth companies, unincorporated associations, etc.) of the FPO or (iii) to whom it may otherwise be lawfully communicated (together '**relevant persons**'). The investments to which this document relates are available only to, and any offer or agreement to purchase will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this document or any of its contents.

9.17. Regulatory Relief

9.17.1. ASIC exemptions and relief

The Company has applied for certain exemptions from, modifications to, and relief from, the following provisions of the Corporations Act:

- Relief from ASIC so that the Company does not have a relevant interest in the Shares which are subject to the voluntary escrow arrangements described in Section 9.8;
- Relief from ASIC from compliance with section 1020B(2) of the Corporations Act relating to the prohibition of certain short sales of securities by Selling Shareholders and SaleCo pursuant to the Offer;
- Relief from ASIC from the pre-prospectus advertising and publicity rules in sections 734(2) and 1018A of the Corporations Act to permit the provision of information relating to the Offer to the Group's employees and certain other persons, prior to lodgement of the Prospectus (including in respect of the Latitude Equity Plan);
- Relief from ASIC, in connection with the issue and acquisition of Shares under the Restructure, from compliance with section 606 of the Corporations Act relating to the prohibition of certain acquisitions of relevant interests of securities and the requirement to disclose certain holdings of securities; and
- Relief from ASIC in a manner consistent with ASIC Class Order 14/1000 relating to the provision of Shares to eligible employees under the Latitude Equity Plan and the ESAP.

9.17.2. ASX waivers, relief and confirmations

The Company has applied to the ASX for the following ASX Listing Rule waiver and confirmations:

- Confirmation that Shares issued to certain parties under the Restructure steps will not be taken into account for the purposes of determining the Company's placement capacity under ASX Listing Rule 7.1;
- Confirmation that shareholder approval under ASX Listing Rules 10.1, 10.11 and 10.14 is not required in connection with certain issues and acquisitions of Shares under the Restructure steps (including the unwind of the Pre-Completion Equity Plans);
- A waiver from ASX Listing Rule 10.14 in connection with the proposed IPO Grants and long-term incentive arrangements described in Sections 6.2.2.5 and 6.2.4 (and associated confirmations that ASX Listing Rules 10.11 and 10.15.2 do not apply);
- Confirmation that the summary of the terms of the LEP set out in Section 6.3 and the ESAP set out in Section 9.12 satisfies the requirements of Exception 9(a) of ASX Listing Rule 7.2 such that the restrictions on the issue of ordinary securities set out in ASX Listing Rule 7.1 do not apply; and
- Confirmation that the Company may undertake conditional and deferred settlement trading of the Shares, subject to certain conditions to be approved by the ASX.

9.18. Consents

Each of the parties listed in this Section 9.18, to the maximum extent permitted by law, expressly disclaims all liabilities in respect of, makes no representations regarding and takes no responsibility for any statements in or omissions from this Prospectus, other than the reference to its name in the form and context in which it is named and a statement or report included in this Prospectus with its consent as specified below.

Each of the parties listed below has given and has not, before lodgement of this Prospectus with ASIC, withdrawn its written consent to the inclusion of the statements in this Prospectus that are specified below in the form and context in which the statements appear:

- Goldman Sachs has given and has not, before lodgement of this Prospectus with ASIC, withdrawn its written consent to be named in this Prospectus as a Joint Lead Manager and a Joint Bookrunner in the form and context in which it is named;
- UBS has given and has not, before lodgement of this Prospectus with ASIC, withdrawn its written consent to be named in this Prospectus as a Joint Lead Manager and a Joint Bookrunner in the form and context in which it is named;
- Macquarie Capital has given and has not, before lodgement of this Prospectus with ASIC, withdrawn its written consent to be named in this Prospectus as a Joint Lead Manager and a Joint Bookrunner in the form and context in which it is named;
- Bell Potter Securities Limited has given and has not, before lodgement of this Prospectus with ASIC, withdrawn its written consent to be named in this Prospectus as a Co-Lead Manager in the form and context in which it is named;
- Morgans Financial Limited has given and has not, before lodgement of this Prospectus with ASIC, withdrawn its written consent to be named in this Prospectus as a Co-Lead Manager in the form and context in which it is named;
- Wilsons Corporate Finance Limited has given and has not, before lodgement of this Prospectus with ASIC, withdrawn its written consent to be named in this Prospectus as a Co-Lead Manager in the form and context in which it is named;
- National Australia Bank Limited has consented to being named as a Co-Manager to the Offer, however it has not been involved in any way in the preparation of the Prospectus, it does not make any statement in this Prospectus, nor is any statement in this Prospectus based on any statement by National Australia Bank Limited;
- Commonwealth Securities Limited has consented to being named as a Co-Manager to the Offer, however it has not been involved in any way in the preparation of the Prospectus, it does not make any statement in this Prospectus, nor is any statement in this Prospectus based on any statement by Commonwealth Securities Limited;
- Craigs Investment Partners Limited has consented to being named as Co-Manager to the Offer, however it has not been involved in any way in the preparation of the Prospectus, it does not make any statement in this Prospectus, nor is any statement in this Prospectus based on any statement by Craigs Investment Partners Limited;
- Crestone Wealth Management Limited has consented to being named as a Co-Manager to the Offer, however it has not been involved in any way in the preparation of the Prospectus, it does not make any statement in this Prospectus, nor is any statement in this Prospectus based on any statement by Crestone Wealth Management Limited;
- Escala Partners Limited has consented to being named as a Co-Manager to the Offer, however it has not been involved in any way in the preparation of the Prospectus, it does not make any statement in this Prospectus, nor is any statement in this Prospectus based on any statement by Escala Partners Limited;
- Evans and Partners Pty Limited has consented to being named as a Co-Manager to the Offer, however it has not been involved in any way in the preparation of the Prospectus, it does not make any statement in this Prospectus, nor is any statement in this Prospectus based on any statement by Evans and Partners Pty Limited;
- Macquarie Equities Limited has consented to being named as a Co-Manager to the Offer, however it has not been involved in any way in the preparation of the Prospectus, it does not make any statement in this Prospectus, nor is any statement in this Prospectus based on any statement by Macquarie Equities Limited;
- Ord Minnett Limited has consented to being named as a Co-Manager to the Offer, however it has not been involved in any way in the preparation of the Prospectus, it does not make any statement in this Prospectus, nor is any statement in this Prospectus based on any statement by Ord Minnett Limited

- King & Wood Mallesons has given and has not, before lodgement of this Prospectus with ASIC, withdrawn its written consent to be named in this Prospectus as Australian legal adviser to the Company in relation to the Offer in the form and context in which it is named;
- KPMG Transaction Services has given and has not, before lodgement of this Prospectus with ASIC, withdrawn its written consent to be named in this Prospectus as Investigating Accountant in the form and context in which it is named and has given and not withdrawn its consent to the inclusion in this Prospectus of the Investigating Accountant's Report in the form and context in which it is included;
- KPMG has given and has not, before lodgement of this Prospectus with ASIC, withdrawn its written consent to be named in this Prospectus as auditor to the Company in the form and context in which it is named;
- Computershare has given and has not, before lodgement of this Prospectus with ASIC, withdrawn its written consent to be named in this Prospectus as the Share Registry in the form and context in which it is named. Computershare has had no involvement in the preparation of any part of this Prospectus other than being named as Share Registry;
- Nature Research has given and has not, before lodgement of this Prospectus with ASIC, withdrawn its written consent to be named in this Prospectus in the form and context in which it is named; and
- RFi Group has given and has not, before lodgement of this Prospectus with ASIC, withdrawn its written consent to be named in this Prospectus in the form and context in which it is named

9.19. Costs of the Offer

Based on the Mid-Point Final Price, the costs of the Offer are expected to be approximately $69.3 million (including GST). These costs relate to fees payable to Joint Lead Managers, legal fees, accounting and tax advisory fees, transaction disbursements, Offer bonuses, and other transaction costs. These costs will be borne by the Company from the proceeds of the Offer.

9.20. Governing Law

This Prospectus and the contracts that arise from the acceptance of the Applications and bids under this Prospectus are governed by the laws applicable in Victoria, Australia and each Applicant for Shares under this Prospectus and each bidder for Shares submits to the exclusive jurisdiction of the courts of Victoria, Australia.

9.21. Statement of Directors

This Prospectus is authorised by each Director and by each director of SaleCo. Each Director and each director of SaleCo have consented to the lodgement of this Prospectus with ASIC and the issuance of this Prospectus, and have not withdrawn that consent.

10.

Significant Accounting Policies

10. Significant Accounting Policies

10.1. Latitude's Significant Accounting Policies

10.1.1. Critical accounting estimates and judgements

The Financial Information is presented in Australian dollars.

(i) Historical cost convention

The Financial Information has been prepared under the historical cost basis, except for the following:

- Financial instruments measured at fair value, including financial assets backing insurance policies designated at fair value through Profit or Loss, equity investments designated at fair value through other comprehensive income and derivatives; and
- Assets held for sale measured at fair value less cost of disposal.

(ii) Critical accounting estimates and judgements

The preparation of financial statements that conform to accounting standards requires Management to exercise judgement in applying the Group's accounting policies and to make estimates and assumptions. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the Group and that are believed to be reasonable under the circumstances.

Areas involving assumptions and estimates that are significant to the financial statements or areas requiring a higher degree of judgement, are disclosed in the following notes:

- Recoverability of loans and receivables;
- Estimation of insurance claims liability;
- Recoverability of goodwill and other intangible assets;
- Estimated useful life of intangible assets; and
- Recognition of deferred tax assets for carried forward tax losses.

(iii) New standards and interpretations not yet adopted

The following standards have been published that are not mandatory for 31 December 2019 reporting periods and have not been early adopted by the Group. The Group expects to adopt these on their effective dates.

IFRS 17 Insurance Contracts

IFRS 17 is effective for financial years commencing on or after 1 January 2022. The new standard establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts. The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows. The Group is currently assessing the impact of the new requirements on the Group's Hallmark Insurance business.

10.1.2. Principles of consolidation

(i) Subsidiaries

Subsidiaries are all entities (including structured 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 deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group.

Inter-entity transactions, balances and unrealised gains on transactions between Group entities are eliminated.

Non-controlling interests in the results and net investment of subsidiaries are shown separately in the combined income statement and combined balance sheet respectively.

10.1.3. Foreign currency translation

(i) Functional and presentation currency

Items included in the financial information of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('functional currency'). The combined financial information is presented in Australian dollars, which is Latitude Financial Services Group's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in Profit or Loss, except when they are deferred in equity as qualifying cash flow hedges. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction.

Foreign exchange gains and losses are presented in the combined income statement on a net basis within other income or other expenses.

(iii) Group entities

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each combined balance sheet presented are translated at the closing rate at the date of that combined balance sheet;
- Income and expenses for each combined income statement are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- All resulting exchange differences are recognised in other comprehensive income.

10.1.4. Revenue recognition

Under IFRS 15, interest is applied to the gross carrying value of a financial asset unless the asset is credit impaired, in which case it is applied to the net carrying value.

(i) Revenue from customer loans

Interest income on loans is recognised using the effective interest method. The effective interest method is a way of calculating the amortised cost using the effective interest rate ('**EIR**') of the financial asset or financial liability. The EIR is a rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument, or when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. Loan origination fees and costs are deferred over the life of the loan and are recognised as an adjustment of the yield. Unless included in the EIR calculation, fees and commissions are recognised on an accrual basis when the service has been provided and all other loan-related costs are expensed as incurred.

Fair value adjustments in relation to acquisition date fair value measurement of loan receivables recorded as a result of business combinations are amortised and included as part of interest income over the estimated customer repayment period. The amortisation period is accelerated when the remaining fair value adjustment is determined to be less than 10% of the original amount.

(ii) Insurance premium revenue

Premium revenue comprises amounts charged to policyholders (direct premium) for insurance contracts, excluding stamp duties and taxes collected on behalf of third parties, including GST. Premium revenue is recognised in Profit or Loss with the incidence of the pattern of risk. Generally, the premium is earned according to the passing of time, but where time does not approximate the pattern of risk, previous claims experience is used to derive the incidence of risk.

Premium for unclosed business (business written close to reporting date where attachment of risk is prior to reporting date and there is insufficient information to accurately identify the business) is brought to account based on previous experience with due allowance for any changes in the pattern of new business and renewals.

The unearned portion of premium is recognised within unearned premium liability in the combined balance sheet.

10.1.5. Income tax

Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated based on the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Group's subsidiaries operate and generate taxable income.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate based on amounts expected to be paid to the tax authorities.

Deferred tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the combined financial information. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable Profit or Loss.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and liabilities are offset when there is a legally enforceable right to offset and an intention to settle the liability simultaneously.

Current and deferred tax is recognised in the combined income statement except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity respectively.

Tax consolidation legislation (Australia only)

The Company and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation. On adoption of the tax consolidation legislation, the entities in the tax consolidated group entered into a tax sharing agreement which limits the joint and several liability of the wholly-owned entities in the case of a default by the head entity. As a consequence, these entities are taxed as a single entity and the deferred tax assets and liabilities of these entities are set-off in the combined financial information.

The head and controlled entities in the tax consolidated group account for their own current and deferred tax accounts. These tax amounts are measured as if each entity in the tax consolidation group was a separate taxpayer with the group.

In addition to its own current and deferred tax amounts, the Company also recognises the current tax liabilities (assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate the Australian parent company for any current tax payable assumed. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

The amounts receivable or payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is used as practicable after the end of the financial year. The funding amounts are recognised as intercompany receivables.

Where a member of the income tax consolidated group recognises a taxable loss, the funding amount is nil with no compensation for the tax losses, unless the member is subject to prudential regulation by APRA, in which case the regulated entity will be compensated for its tax losses.

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 Group. Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as an equity contribution to (or distribution from) wholly-owned tax consolidated entities.

10.1.6. Leases

At inception of a contract, the Group assesses whether a contract is, or contains, a lease and recognises a right-of-use asset and a lease liability at the commencement date.

The Group recognises a right-of-use asset initially at cost, comprising the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle or restore the underlying asset, or restore the site on which it is located. The asset is subsequently depreciated using the straight-line method and reduced by impairment losses.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or at the Group's incremental borrowing rate if this is not readily determined. Lease payments included in the measurement of the lease liability comprise:

- Fixed payments less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the rate at commencement date;
- Amounts expected to be payable by the Group under residual value guarantees;
- The exercise price of a purchase option if the Group is reasonably certain to exercise that option; and
- Payments of penalties for terminating the lease, if the lease term reflects the Group exercising an option to terminate the lease.

The lease liability is subsequently adjusted for interest and lease payments made.

The Group's policy is to apply lease accounting to all non-low-value leases that are for greater than a 12-month period. For short term or low-value items to which this exemption is applied, lease payments are recognised as an expense over the lease term.

10.1.7. Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested 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. The recoverable amount is the higher of an asset's fair value less costs to sell, and value-in-use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

10.1.8. Classifications – financial assets and liabilities

10.1.8.1. Amortised cost

(i) Debt instruments

Debt instruments are measured at amortised cost if both the following conditions apply:

(a) The instrument is held to collect contractual cash flows, rather than being sold prior to contractual maturity to realise fair value changes; and

(b) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

(ii) Loans and receivables

Loan receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Group did not intend to sell immediately or in the near term. Loans and advances are amounts due from customers in the ordinary course of business, being the provision of consumer finance via credit cards, sales finance, personal loans and motor loans. Loans and advances are initially recognised at fair value plus directly attributable transaction costs and subsequently measured at amortised cost, using the effective interest rate methodology, net of any provision for doubtful debts.

(iii) Trade and other liabilities

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 60 days of recognition.

(iv) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost, using the effective interest rate methodology. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in Profit or Loss over the period of the borrowings using the effective interest rate method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down.

Borrowings are removed from the combined balance sheet when the obligation specified in the contract is discharged, cancelled or expired.

(v) Cash and cash equivalents

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

10.1.8.2. Fair value through Profit/(loss) ('FVPL')

The Group may choose to designate, at initial recognition, a financial asset or a financial liability at FVPL if it eliminates or reduces an accounting mismatch. Equity investments are measured at FVPL unless the Group has elected to measure them as FVOCI below.

(i) Financial assets backing insurance liabilities

Financial assets backing insurance policies are measured at FVPL, with gains and losses being recognised through Profit or Loss.

10.1.8.3. Fair value through other comprehensive income ('FVOCI')

(i) Other financial assets

The Group may elect to measure its non-traded equity instruments at FVOCI, with only dividend income being recognised in Profit or Loss.

10.1.9. Provisions for losses on loans and advances

Loss provisioning is based on a three-stage approach to measuring expected credit losses (‘**ECLs**’) for loans and advances which is based on the change in credit quality of financial assets since initial recognition:

- Stage 1: Where there has been no significant increase in the risk of default since origination, reserves reflect the portion of the lifetime ECL from expected defaults in the following 12 months;
- Stage 2: For assets where there has been a significant increase in risk since origination but are not credit impaired, a lifetime ECL is recognised; and
- Stage 3: For assets deemed as credit impaired, a lifetime ECL is recognised.

The Group determines that a significant increase in risk occurs when an account is more than 30 days delinquent since origination. Exposures are assessed as credit impaired where the Group determines that an account is in default, being an account that is either 90 days or more past due or it is an account identified as bankrupt, deceased or fraudulent or any account in litigation or in hardship. ECLs are derived from probability-weighted estimated loss measures taking account of possible outcomes, the time value of money and current and future economic conditions. Customer loans are grouped on the basis of shared credit risk characteristics and lending type, by product category. As asset quality deteriorates, an exposure will move through ECL stages. As asset quality improves, an asset that was previously assessed as a significant increase in credit risk that had lifetime ECL, may in subsequent periods revert back to Stage 1.

Modified loans comprise financial assets under a hardship arrangement or those in the process of litigation. When a flag indicator is removed from the account of a modified financial asset, signalling the end of the modification arrangement, then the loss allowance for the financial asset will revert to being measured at an amount equal to Stage 1 12-month ECL if the financial asset is less than 30 days past due and is not flagged as bankrupt, deceased, fraud, hardship or litigation status. ECL for a previously modified financial asset can subsequently be remeasured at an amount equal to lifetime ECL when the delinquency is between 30 and 89 days past due (Stage 2), or when the delinquency is greater than or equal to 90 days past due, or is flagged as bankrupt, deceased, fraud, hardship or litigation status (Stage 3).

Loans and advances from customers are written off when they are deemed non-collectable at a portfolio level, or at an earlier date depending on customer status. Subsequent recoveries of loans from legal enforcement relating to an amount previously charged off are set off against loan impairment expenses in the statement of Profit or Loss and other comprehensive income.

10.1.10. Derivatives and hedging activities

Derivatives are classified as FVPL unless they are designated hedging instruments. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates derivatives as hedges of a particular risk associated with the cash flows of recognised assets and liabilities and highly probable forecast transactions (‘cash flow hedges’).

The Group documents at the inception of the hedging transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values of cash flows on hedged items.

(i) Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated in reserves in equity. The gain or loss relating to the ineffective portion is recognised immediately in Profit or Loss within other income or other expenses.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in Profit or Loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately reclassified to Profit or Loss.

(ii) Derivatives that do not qualify for hedge accounting

Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in Profit or Loss and are included in other income or other expenses.

10.1.11. Development activities

Capitalised development costs are recorded as software intangible assets and amortised on a straight-line basis from the point at which the asset is ready for use, over the useful life of the intangible. Each phase of a project is considered separately to determine the useful life of the project.

Development expenses that do not meet the criteria as software above are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

(i) Goodwill

Goodwill on acquisition of subsidiaries is included in intangible assets and represents the excess of the cost paid over the fair value of the net identifiable assets acquired at the date of acquisition.

(ii) Customer relationships and distribution agreements

Separately acquired customer contracts and distribution agreements are shown at historical cost. Those acquired in a business combination are recognised at fair value at the acquisition date. They have a finite useful life and are subsequently carried at cost less accumulated amortisation and impairment losses. Customer contracts are amortised on a straight-line basis over five to nine years and distribution agreements are amortised on a straight-line basis over one to nine years. The amortisation is recorded in the depreciation and amortisation expense caption within the combined income statement.

(iii) Software

Software relates to IT projects and associated system expenditure that does not result in the acquisition of physical hardware, including software licence acquisitions, upgrades to software platforms, applications and internal functions and network configuration, including internally generated development costs. Software is amortised on a straight-line basis over one to five years, or in the case of a licensed intangible, straight-line over the licence period. The amortisation is recorded in the depreciation and amortisation expense caption within the combined income statement.

An intangible asset is recognised if it is probable that the associated future economic benefits will flow to the Group and the cost can be measured reliably where the following criteria are met: it is technically feasible to complete the software so that it will be available for use; it can be demonstrated how the software will generate probable future economic benefits; adequate technical, financial and other resources to complete the development and to use or sell the software are available; and the expenditure attributable to the software during its development can be reliably measured.

Any other costs associated with maintaining software are recognised as an expense as incurred.

Capitalised development costs are recorded as intangible assets and amortised on a straight-line basis from the point at which the asset is ready for use, over the useful life of the intangible. Each phase of a project is considered separately to determine the useful life of the project.

10.1.13. Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of Management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

10.1.14. Employee benefits

(i) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service, are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the combined balance sheet.

(ii) Other long-term employee benefit obligations

Long service leave

These are measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. 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 end of the reporting period of government bonds with terms and currencies that match, as closely as possible, the estimated future cash outflows.

Remeasurements as a result of experience adjustments and changes in actuarial assumptions are recognised in Profit or Loss.

The obligations are presented as current liabilities in the combined balance sheet if the entity does not have an unconditional right to defer settlement for at least 12 months after the reporting date, regardless of when the actual settlement is expected to occur.

(iii) Equity-based payments

The fair value of units granted under equity-based compensation benefits is recognised as employment expenses in the combined income statement with a corresponding increase in equity. The fair value is recognised at grant date and recognised over the period during which the party becomes unconditionally entitled to the instruments.

The fair value is independently determined using an option-granting model as measured at the grant date that includes exercise prices and terms and conditions of the instruments. The fair value of the instruments granted is adjusted to reflect market vesting conditions, but excludes the impact of any non-market vesting conditions.

Non-market vesting conditions are included in assumptions about the number and value of instruments that are expected to become exercisable. The equity-based payment expense recognised each year takes into account the most recent estimate.

10.1.15. Insurance liabilities

Profits of the Hallmark Insurance business are brought to account on a margin on services ('MoS') basis. Under MoS, profit (the excess of premium received and investment earnings over claims costs and expenses including amortised acquisition costs) is recognised as fees are received and services are provided to policyholders. Profit is deferred to the combined balance sheet when fees have been received but the service has not been provided. Costs associated with the acquisition of policies are deferred on the combined balance sheet and charged to Profit/(loss) over the period that the policy will generate profits.

Insurance contract liabilities are valued using a method that approximates to the projection method and the liability for outstanding claims is subject to an annual actuarial review.

10.1.16. Insurance claims

Claims incurred relate to the provision of services and bearing of risks and is treated as an expense. The liability for outstanding claims covers the expected future payments for claims including IBNR and IBNER claims and the anticipated direct and indirect costs of settling these claims.

Actuarial methods are used by a qualified person to estimate the value of outstanding claims where, generally, this involves analysing available past experience to determine expected future payments. The provision for the outstanding claims liability also contains a risk margin to reflect the inherent uncertainty in the central estimate. The risk margin increases the probability that the net liability is adequately provided for up to a 90% confidence level.

10.1.17. Outward reinsurance and reinsurance recoveries

Premium ceded to reinsurers is recognised as an expense in accordance with the pattern of reinsurance service received. Accordingly, a portion of outwards reinsurance premium is treated at the reporting date as deferred reinsurance expense. Reinsurance recoveries and other recoveries receivable on paid claims, reported claims not yet paid and IBNRs are recognised as revenue.

10.1.18. Asset backing insurance liabilities

The Hallmark Insurance businesses has established a target capital to ensure assets are available to meet insurance liabilities.

Financial assets designated at FVPL are initially recognised at fair value, excluding transaction costs, which are expensed in Profit or Loss in the period in which they arise. Financial assets are subsequently measured at fair value at each reporting date with realised and unrealised gains and losses arising from changes in the fair value recognised in Profit or Loss in the period in which they arise.

Classification

(i) Short-term deposits

Short-term deposits are carried at the face value of the amounts deposited as their carrying amounts approximate their fair value.

(ii) Unlisted fixed interest rate securities

Unlisted fixed interest rate securities are recorded at amounts based on valuations using rates of interest equivalent to the yields obtainable on comparable investments at the end of the reporting period.

10.1.19. Unexpired risk liability

Provision is made for unexpired risks arising from general insurance business where the expected value of claims and expenses attributed to the unexpired periods of policies in force at the end of the reporting period exceeds the unearned premiums provision in relation to such policies after the deduction of any deferred acquisition costs. The provision for unexpired risk is calculated separately by reference to separate classes of business, which are managed together, after taking into account the relevant investment return.

Unexpired risk liability, if any, remaining after writing off deferred acquisition costs is recognised immediately in the combined income statement.

10.1.20. Distributions

In accordance with the relevant Trust Constitution, the Trustee distributes income from a subsidiary trust of the Group to a unit holder which is a non-controlled related party of the Group. These distributions have been treated as distributions to a non-controlling interest.

10.1.21. Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, at or before the end of the reporting period but not distributed at the end of the reporting period.

10.1.22. Goods and services tax ('GST')

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case, it is recognised as part of the cost of 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 taxation authority is included with other receivables or payables in the combined balance sheet.

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 taxation authority, are presented as operating cash flows.

11.

Appendices

11. Appendices

11.1 Reconciliations of the Combined Historical Income Statements to the Pro Forma Historical Income Statements, and Combined Forecast Income Statements to the Pro Forma Forecast Income Statements on a line-by-line basis

Table 57: FY17 – Combined to pro forma historical income statement reconciliation

A$ million	Combined FY17	Discontinued Operations	Changes in capital structure	Transaction and Offer costs	Incremental public company costs	Changes in accounting standards	Tax effect of adjustments	Total pro forma adjustments	Significant items	Amortisation of acquisition intangibles and structural changes	Pro forma FY17
Interest income	1,069.3	–	–	–	–	–	–	1,069.3	–	38.8	1,108.1
Interest expense	(344.8)	–	87.7	–	–	(1.4)	–	(258.4)	–	12.9	(245.6)
Net interest income	724.5	–	87.7	–	–	(1.4)	–	810.8	–	51.7	862.5
Other operating income	55.6	–	–	–	–	–	–	55.6	–	–	55.6
Net insurance income	65.7	–	–	–	–	–	–	65.7	–	–	65.7
Total other operating income	121.3	–	–	–	–	–	–	121.3	–	–	121.3
Total operating income	**845.8**	**–**	**87.7**	**–**	**–**	**(1.4)**	**–**	**932.1**	**–**	**51.7**	**983.8**
Loan impairment expense	(256.1)	–	–	–	–	(1.0)	–	(257.1)	–	–	(257.1)
Employee benefit expense	(154.3)	(14.3)	–	–	–	–	–	(168.5)	–	–	(168.5)
Other expenses	(269.5)	(1.2)	7.3	17.1	(12.0)	12.4	–	(245.9)	28.8	–	(217.1)
Depreciation and amortisation expense.	(75.3)	–	–	–	–	(11.0)	–	(86.3)	–	48.2	(38.1)
Total operating expenses	(499.0)	(15.5)	7.3	17.1	(12.0)	1.4	–	(500.8)	28.8	48.2	(423.7)
Distribution to trust beneficiaries	(57.0)	–	57.0	–	–	–	–	–	–	–	–
Profit/(loss) before income tax (before Significant items)	**33.6**	**(15.5)**	**152.0**	**17.1**	**(12.0)**	**(1.0)**	**–**	**174.2**	**28.8**	**99.9**	**302.9**
Significant items	–	–	–	–	–	–	–	–	(28.8)	–	(28.8)
Amortisation of acquisition intangibles and structural changes	–	–	–	–	–	–	–	–	–	(99.9)	(99.9)
Profit/(loss) before income tax	**33.6**	**(15.5)**	**152.0**	**17.1**	**(12.0)**	**(1.0)**	**–**	**174.2**	**–**	**–**	**174.2**
Income tax (expense)/benefit	(16.1)	–	–	–	–	–	(34.1)	(50.3)	–	–	(50.3)
NPAT	**17.5**	**(15.5)**	**152.0**	**17.1**	**(12.0)**	**(1.0)**	**(34.1)**	**123.9**	**–**	**–**	**123.9**

Table 58: FY18 – Combined to pro forma historical income statement reconciliation

A$ million	Combined FY18	Discontinued Operations	Changes in capital structure	Transaction and Offer costs	Incremental public company costs	Changes in accounting standards	Tax effect of adjustments	Total pro forma adjustments	Significant items	Amortisation of acquisition intangibles and structural changes	Pro forma FY18
Interest income	1,135.7	–	–	–	–	–	–	1,135.7	–	20.0	1,155.6
Interest expense	(363.2)	–	81.4	–	–	(2.9)	–	(284.6)	–	11.9	(272.7)
Net interest income	772.5	–	81.4	–	–	(2.9)	–	851.0	–	31.9	882.9
Other operating income	56.8	–	–	–	–	–	–	56.8	–	–	56.8
Net insurance income	60.2	–	–	–	–	–	–	60.2	–	–	60.2
Total other operating income	117.0	–	–	–	–	–	–	117.0	–	–	117.0
Total operating income	**889.5**	**–**	**81.4**	**–**	**–**	**(2.9)**	**–**	**968.1**	**–**	**31.9**	**999.9**
Loan impairment expense	(253.4)	–	–	–	–	–	–	(253.4)	–	–	(253.4)
Employee benefit expense	(173.0)	(2.9)	–	–	–	–	–	(175.9)	–	–	(175.9)
Other expenses	(262.3)	9.3	6.3	28.2	(12.0)	10.8	–	(219.6)	24.4	–	(195.3)
Depreciation and amortisation expense	(68.8)	–	–	–	–	(11.7)	–	(80.6)	–	48.2	(32.3)
Total operating expenses	(504.2)	6.4	6.3	28.2	(12.0)	(0.9)	–	(476.1)	24.4	48.2	(403.5)
Distribution to trust beneficiaries	(74.5)	–	74.5	–	–	–	–	–	–	–	–
Profit/(loss) before income tax (before Significant items)	**57.5**	**6.4**	**162.2**	**28.2**	**(12.0)**	**(3.8)**	**–**	**238.5**	**24.4**	**80.0**	**343.0**
Significant items	–	–	–	–	–	–	–	–	(24.4)	–	(24.4)
Amortisation of acquisition intangibles and structural changes	–	–	–	–	–	–	–	–	–	(80.0)	(80.0)
Profit/(loss) before income tax	**57.5**	**6.4**	**162.2**	**28.2**	**(12.0)**	**(3.8)**	**–**	**238.5**	**–**	**–**	**238.6**
Income tax (expense)/benefit	(13.2)	–	–	–	–	–	(50.5)	(63.8)	–	–	(63.8)
NPAT	**44.3**	**6.4**	**162.2**	**28.2**	**(12.0)**	**(3.8)**	**(50.5)**	**174.8**	**–**	**–**	**174.8**

Table 59: FY19 – Combined to pro forma forecast income statement reconciliation

A$ million	Combined FY19	Changes in capital structure	LTI plans	Transaction and Offer costs	Incremental public company costs	Employee costs related to the discretionary equity grants	Tax impact of pro forma adjustments	Total pro forma adjustments	Significant items	Amortisation of acquisition intangibles	Pro forma FY19
Interest income	1,217.9	–	–	–	–	–	–	–	–	–	1,217.9
Interest expense	(353.3)	66.0	–	–	–	–	–	66.0	–	23.4	(263.9)
Net interest income	864.6	66.0	–	–	–	–	–	66.0	–	23.4	954.0
Other operating income	52.5	–	–	–	–	–	–	–	–	–	52.5
Net insurance income	54.7	–	–	–	–	–	–	–	–	–	54.7
Total other operating income	107.2	–	–	–	–	–	–	–	–	–	107.2
Total operating income	**971.8**	**66.0**	**–**	**–**	**–**	**–**	**–**	**66.0**	**–**	**23.4**	**1,061.2**
Loan impairment expense	(253.6)	–	–	–	–	–	–	–	–	–	(253.6)
Depreciation and amortisation expense	(84.0)	–	–	–	–	–	–	–	–	48.4	(35.6)
Employee benefit expense	(237.5)	–	2.2	1.5	–	26.5	–	30.1	–	–	(207.4)
Other expenses	(323.7)	27.0	–	30.5	(10.0)	–	–	47.4	89.4	–	(186.9)
Total operating expenses	(645.2)	27.0	2.2	31.9	(10.0)	26.5	–	77.6	89.4	48.4	(429.9)
Distribution to trust beneficiaries	(77.1)	77.1	–	–	–	–	–	77.1	–	–	0.0
Profit/(loss) before significant items	**(4.1)**	**170.0**	**2.2**	**31.9**	**(10.0)**	**26.5**	**–**	**220.6**	**89.4**	**71.8**	**377.7**
Significant items	–	–	–	–	–	–	–	–	(89.4)	–	(89.4)
Amortisation of acquisition intangibles	–	–	–	–	–	–	–	–	–	(71.8)	(71.8)
Profit/(loss) before income tax	**(4.1)**	**170.0**	**2.2**	**31.9**	**(10.0)**	**26.5**	**–**	**220.6**	**–**	**–**	**216.5**
Income tax (expense)/benefit	(5.3)	–	–	–	–	–	(46.8)	(46.8)	–	–	(52.1)
NPAT	**(9.4)**	**170.0**	**2.2**	**31.9**	**(10.0)**	**26.5**	**(46.8)**	**173.9**	**–**	**–**	**164.4**

Table 60: LTM Jun-20 – Combined to pro forma forecast income statement reconciliation

A$ million	Combined LTM Jun-20	Changes in capital structure	LTI plans	Transaction and Offer costs	Incremental public company costs	Employee costs related to the discretionary equity grants	Tax impact of pro forma adjustments	Total pro forma adjustments	Significant items	Amortisation of acquisition intangibles	Pro forma LTM Jun-20
Interest income	1,219.9	–	–	–	–	–	–	–	–	–	1,219.9
Interest expense	(292.3)	26.7	–	–	–	–	–	26.7	–	30.1	(235.5)
Net interest income	927.6	26.7	–	–	–	–	–	26.7	–	30.1	984.4
Other operating income	59.2	–	–	–	–	–	–	–	–	–	59.2
Net insurance income	51.9	–	–	–	–	–	–	–	–	–	51.9
Total other operating income	111.1	–	–	–	–	–	–	–	–	–	111.1
Total operating income	**1,038.7**	**26.7**	**–**	**–**	**–**	**–**	**–**	**26.7**	**–**	**30.1**	**1,095.5**
Loan impairment expense	(258.6)	–	–	–	–	–	–	–	–	–	(258.6)
Depreciation and amortisation expense	(87.8)	–	–	–	–	–	–	–	–	48.4	(39.4)
Employee benefit expense	(254.4)	–	(1.1)	1.5	–	26.5	–	26.9	–	–	(227.5)
Other expenses	(304.6)	23.8	–	32.8	(4.0)	–	–	52.6	76.7	–	(175.3)
Total operating expenses	(646.8)	23.8	(1.1)	34.3	(4.0)	26.5	–	79.5	76.7	48.4	(442.2)
Distribution to trust beneficiaries	(26.1)	26.1	–	–	–	–	–	26.1	–	–	0.0
Profit/(loss) before significant items	**107.2**	**76.6**	**(1.1)**	**34.3**	**(4.0)**	**26.5**	**–**	**132.3**	**76.7**	**78.5**	**394.7**
Significant items	–	–	–	–	–	–	–	–	(76.7)	–	(76.7)
Amortisation of acquisition intangibles	–	–	–	–	–	–	–	–	–	(78.5)	(78.5)
Profit/(loss) before income tax	**107.2**	**76.6**	**(1.1)**	**34.3**	**(4.0)**	**26.5**	**–**	**132.3**	**–**	**–**	**239.5**
Income tax (expense)/benefit	(32.2)	–	–	–	–	–	(29.1)	(29.1)	–	–	(61.3)
NPAT	**75.0**	**76.6**	**(1.1)**	**34.3**	**(4.0)**	**26.5**	**(29.1)**	**103.2**	**–**	**–**	**178.2**

Table 61: 1H18 – Combined to pro forma historical income statement reconciliation

A$ million	Combined 1H18	Discontinued Operations	Changes in capital structure	Transaction and Offer costs	Incremental public company costs	Changes in accounting standards	Tax effect of adjustments	Total pro forma adjustments	Significant items	Amortisation of acquisition intangibles and structural changes	Pro forma 1H18
Interest income	551.9	–	–	–	–	–	–	551.9	–	20.0	571.9
Interest expense	(179.8)	–	41.8	–	–	(1.3)	–	(139.3)	–	5.9	(133.4)
Net interest income	372.1	–	41.8	–	–	(1.3)	–	412.6	–	25.9	438.5
Other operating income	28.5	–	–	–	–	–	–	28.5	–	–	28.5
Net insurance income	31.5	–	–	–	–	–	–	31.5	–	–	31.5
Total other operating income	60.0	–	–	–	–	–	–	60.0	–	–	60.0
Total operating income	**432.1**	**–**	**41.8**	**–**	**–**	**(1.3)**	**–**	**472.5**	**–**	**25.9**	**498.5**
Loan impairment expense	(136.4)	–	–	–	–	–	–	(136.4)	–	–	(136.4)
Employee benefit expense	(83.8)	(2.9)	–	–	–	–	–	(86.7)	–	–	(86.7)
Other expenses	(127.2)	8.3	3.1	16.2	(6.0)	5.6	–	(100.0)	3.5	–	(96.5)
Depreciation and amortisation expense	(36.6)	–	–	–	–	(5.4)	–	(42.0)	–	24.1	(17.9)
Total operating expenses	(247.6)	5.4	3.1	16.2	(6.0)	0.2	–	(228.7)	3.5	24.1	(201.1)
Distribution to trust beneficiaries	(25.7)	–	25.7	–	–	–	–	–	–	–	–
Profit/(loss) before income tax (before Significant items)	**22.4**	**5.4**	**70.6**	**16.2**	**(6.0)**	**(1.2)**	**–**	**107.5**	**3.5**	**50.0**	**161.0**
Significant items	–	–	–	–	–	–	–	–	(3.5)	–	(3.5)
Amortisation of acquisition intangibles and structural changes	–	–	–	–	–	–	–	–	–	(50.0)	(50.0)
Profit/(loss) before income tax	**22.4**	**5.4**	**70.6**	**16.2**	**(6.0)**	**(1.2)**	**–**	**107.5**	**–**	**–**	**107.5**
Income tax (expense)/benefit	(8.1)	–	–	–	–	–	(24.0)	(32.1)	–	–	(32.1)
NPAT	**14.4**	**5.4**	**70.6**	**16.2**	**(6.0)**	**(1.2)**	**(24.0)**	**75.4**	**–**	**–**	**75.4**

Table 62: 1H19 – Combined to pro forma historical income statement reconciliation

A$ million	Combined 1H19	Changes in capital structure	LTI plans	Transaction and Offer costs	Incremental public company costs	Tax effect of adjustments	Total pro forma adjustments	Significant items	Amortisation of acquisition intangibles and structural changes	Pro forma 1H19
Interest income	610.2	–	–	–	–	–	610.2	–	–	610.2
Interest expense	(191.0)	39.3	–	–	–	–	(151.7)	–	10.2	(141.5)
Net interest income	419.2	39.3	–	–	–	–	458.5	–	10.2	468.7
Other operating income	26.9	–	–	–	–	–	26.9	–	–	26.9
Net insurance income	28.4	–	–	–	–	–	28.4	–	–	28.4
Total other operating income	55.3	–	–	–	–	–	55.3	–	–	55.3
Total operating income	**474.5**	**39.3**	**–**	**–**	**–**	**–**	**513.8**	**–**	**10.2**	**523.9**
Loan impairment expense	(127.8)	–	–	–	–	–	(127.8)	–	–	(127.8)
Employee benefit expense	(94.7)	–	1.1	–	–	–	(93.5)	–	–	(93.5)
Other expenses	(146.8)	3.2	–	(2.4)	(6.0)	–	(152.0)	50.0	–	(102.1)
Depreciation and amortisation expense	(41.2)	–	–	–	–	–	(41.2)	–	24.2	(16.9)
Total operating expenses	(282.7)	3.2	1.1	(2.4)	(6.0)	–	(286.7)	50.0	24.2	(212.5)
Distribution to trust beneficiaries	(51.0)	51.0	–	–	–	–	–	–	–	–
Profit/(loss) before income tax (before Significant items)	**13.0**	**93.5**	**1.1**	**(2.4)**	**(6.0)**	**–**	**99.2**	**50.0**	**34.4**	**183.6**
Significant items	–	–	–	–	–	–	–	(50.0)	–	(50.0)
Amortisation of acquisition intangibles and structural changes	–	–	–	–	–	–	–	–	(34.4)	(34.4)
Profit/(loss) before income tax	**13.0**	**93.5**	**1.1**	**(2.4)**	**(6.0)**	**–**	**99.2**	**–**	**–**	**99.2**
Income tax (expense)/benefit	(8.8)	–	–	–	–	(18.1)	(26.9)	–	–	(26.9)
NPAT	**4.2**	**93.5**	**1.1**	**(2.4)**	**(6.0)**	**(18.1)**	**72.3**	**–**	**–**	**72.3**

Table 63: 1H20 – Combined to pro forma forecast income statement reconciliation

A$ million	Combined 1H20	LTI plans	Tax effect of adjustments	Total pro forma adjustments	Significant items	Amortisation of acquisition intangibles and structural changes	Pro forma 1H20
Interest income	612.2	–	–	612.2	–	–	612.2
Interest expense	(130.0)	–	–	(130.0)	–	16.9	(113.1)
Net interest income	482.2	–	–	482.2	–	16.9	499.1
Other operating income	33.6	–	–	33.6	–	–	33.6
Net insurance income	25.6	–	–	25.6	–	–	25.6
Total other operating income	59.2	–	–	59.2	–	–	59.2
Total operating income	**541.4**	**–**	**–**	**541.4**	**–**	**16.9**	**558.3**
Loan impairment expense	(132.8)	–	–	(132.8)	–	–	(132.8)
Employee benefit expense	(111.2)	(2.5)	–	(113.7)	–	–	(113.7)
Other expenses	(127.7)	–	–	(127.7)	37.3	–	(90.4)
Depreciation and amortisation expense	(45.0)	–	–	(45.0)	–	24.2	(20.8)
Total operating expenses	(283.9)	(2.5)	–	(286.4)	37.3	24.2	(224.9)
Distribution to trust beneficiaries	–	–	–	–	–	–	–
Profit/(loss) before income tax (before Significant items)	**124.6**	**(2.5)**	**–**	**122.2**	**37.3**	**41.1**	**200.6**
Significant items	–	–	–	–	(37.3)	–	(37.3)
Amortisation of acquisition intangibles and structural changes	–	–	–	–	–	(41.1)	(41.1)
Profit/(loss) before income tax	**124.6**	**(2.5)**	**–**	**122.2**	**–**	**–**	**122.2**
Income tax (expense)/benefit	(36.0)	–	(0.1)	(36.1)	–	–	(36.1)
NPAT	**88.6**	**(2.5)**	**(0.1)**	**86.1**	**–**	**–**	**86.1**

11.2 Reconciliations of Adjusted EBITDA to NPAT

Table 64: Reconciliation of pro forma Adjusted EBITDA to pro forma NPAT

		Historical		Forecast		Historical		Forecast
A$ million	Note	FY17	FY18	FY19	LTM Jun-20	1H18	1H19	1H20
Adjusted EBITDA	**34**	**341.0**	**375.3**	**413.3**	**434.2**	**178.9**	**200.5**	**221.4**
Depreciation and amortisation expense	8	(38.1)	(32.3)	(35.6)	(39.4)	(17.9)	(16.9)	(20.8)
Profit/(loss) before income tax and significant items		**302.9**	**343.0**	**377.7**	**394.7**	**161.0**	**183.6**	**200.6**
Significant items	9	(28.8)	(24.4)	(89.4)	(76.7)	(3.5)	(50.0)	(37.3)
Amortisation of acquisition intangibles and structural changes	10	(99.9)	(80.0)	(71.8)	(78.5)	(50.0)	(34.4)	(41.1)
Profit/(loss) before income tax		**174.2**	**238.6**	**216.5**	**239.4**	**107.5**	**99.2**	**122.2**
Income tax (expense)/benefit	11	(50.3)	(63.8)	(52.1)	(61.3)	(32.1)	(26.9)	(36.1)
Pro forma NPAT		**123.9**	**174.8**	**164.4**	**178.2**	**75.4**	**72.3**	**86.1**

Table 65: Reconciliation of combined Adjusted EBITDA to combined NPAT

		Historical		Forecast		Historical		Forecast
A$ million	**Note**	**FY17**	**FY18**	**FY19**	**LTM Jun-20**	**1H18**	**1H19**	**1H20**
Adjusted EBITDA	**34**	**108.9**	**126.3**	**79.9**	**195.0**	**59.1**	**54.1**	**169.3**
Depreciation and amortisation expense	25	(75.3)	(68.8)	(84.0)	(87.8)	(36.6)	(41.2)	(45.0)
Profit/(loss) before income tax		**33.6**	**57.5**	**(4.1)**	**107.2**	**22.4**	**13.0**	**124.3**
Income tax (expense)/benefit	27	(16.1)	(13.2)	(5.3)	(32.2)	(8.1)	(8.8)	(35.7)
Combined NPAT		**17.5**	**44.3**	**(9.4)**	**75.0**	**14.4**	**4.2**	**88.6**

11.3 Exchange Rates

Amounts translated from NZ$ have been converted at the average exchange rates (for income statements and cash flows) and spot exchange rates (for balance sheet items) set out in Table 66 below.

Table 66: Exchange rates

AUD:NZD	FY17	FY18	FY19	LTM Jun-20	1H18	1H19	1H20
Spot rate at period end	0.9098	0.9507	0.9500	0.9500	0.9172	0.9558	0.9500
Average rate applied to income statement and cash flow	0.9294	0.9233	0.9504	0.9500	0.9251	0.9509	0.9500

12.

Glossary

12. Glossary

Term	Definition
1H	The six month period between 1 January and 30 June
1H17	The half year ended 30 June 2017
1H18	The half year ended 30 June 2018
1H19	The half year ended 30 June 2019
1H20	The half year ending 30 June 2020
2H	The six month period between 1 July and 31 December
2H18	The half year ended 31 December 2018
2H19	The half year ended 31 December 2019
AAS or **Australian Accounting Standards**	The accounting standards (as defined in section 9 of the Corporations Act) as they apply to Latitude
AASB	Australian Accounting Standards Board
ABN	Australian Business Number
ABS	Asset-backed securities
ACCC	Australian Competition and Consumer Commission
ACN	Australian Company Number
Acquisition	The acquisition of the Latitude business from GE in November 2015
ADI	Authorised deposit-taking institution
Adjusted Cost to income ratio	Represents the ratio of operating expenses to operating income, excluding net fair value unwind (note 17), amortisation of transaction costs (Note 19) and changes in capital structure and changes in accounting standards (refer to Section 4.3.4)
AET	• Australian Eastern Standard Time before 2:00am on 6 October 2019; or • Australian Eastern Daylight Time after 2:00am on 6 October 2019, as the context requires
AFCA	Australian Financial Complaints Authority
AFSL	Australian financial services licence issued under the Corporations Act
AGC	Australian Guarantee Corporation
Aggregate Substantial Interest	Has the meaning given in Section 9.15.2
AGR	Average gross receivables
Allotment Date	The date Latitude anticipates the Shares will be allocated and transferred to Successful Applicants under the offer, expected to be 23 October 2019

Term	Definition
Amart	Amart Furniture Pty Ltd
API	Application programming interface
Appendix	An appendix to this Prospectus
Applicant	A person who submits an Application, including an Institutional Investor who bids for Shares through the Bookbuild
Application	An application to subscribe for Shares offered under the Offer or a bid for Shares through the Bookbuild
Application Form	The application form attached to or accompanying this Prospectus (including the electronic form provided by an online application facility)
Application Monies	The amount of money accompanying an Application Form submitted by an Applicant
APRA	Australian Prudential Regulation Authority
ASIC	Australian Securities and Investments Commission
ASIC Act	*Australian Securities and Investments Commission Act 2001* (Cth)
ASIC Credit Card Report	ASIC Report 580 (and the associated Consultation Paper 303)
ASIC Review of BNPL Arrangements	ASIC Report 600
ASX	ASX Limited (ABN 98 008 624 691) or the Australian Securities Exchange that it operates, as the context requires
ASX Listing Rules	The official Listing Rules of the ASX, as amended or waived from time to time
ASX Recommendations	The fourth edition of the Corporate Governance Principles and Recommendations published by the ASX Corporate Governance Council
ASX Settlement Operating Rules	The ASX Settlement Operating Rules of ASX Settlement Pty Limited (ACN 008 504 532)
Auditor	KPMG
Awards	Has the meaning given in Section 6.3.1
B2B2C	Business-to-Business-to-Consumer
Banking Royal Commission	The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry established on 14 December 2017
BBSW	The Bank Bill Swap Rate in Australia as administered by the ASX
BBSY	The Bank Bill Swap Bid Rate in Australia as administered by the ASX
BEAR	Banking Executive Accountability Regime

12. Glossary

Term	Definition
BKBM	The Bank Bill Swap Rate in New Zealand as administered by the New Zealand Financial Markets Association
BNPL	Buy-now pay-later
Board	The board of Directors
Bookbuild	The bidding process used to conduct the Institutional Offer as described in Section 7.11.2
bps	Basis points
Broker	Any ASX participating organisation, Co-Lead Manager, Institutional Co-Manager or Co-Manager appointed by Latitude to act as a participating broker to the Broker Firm Offer
Broker Firm Offer	The offer of Shares under this Prospectus to Australian and New Zealand resident retail and sophisticated non-institutional clients of Brokers who have received a firm allocation from their Broker, as set out in Section 7.8
Broker Firm Offer Application Form	The Application Form for the Broker Firm Offer
CAGR	Compound annual growth rate
CCCFA	*Credit Contracts and Consumer Finance Act 2003* (NZ)
CCI	Consumer credit insurance
CCI Report	ASIC Report 662
CCR	Comprehensive credit reporting
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CGT	Capital gains tax
Champion/Challenger Testing	The process of parallel testing new credit decision parameters on sub-sets of the applicant portfolio and comparing performance to established practice with the objective of incremental improvement
CHESS	The Clearing House Electronic Subregister System, operated under the Corporations Act
Closing Date	The date on which the Offer is expected to close, being 14 October 2019 in respect of the Broker Firm Offer and 16 October 2019 in respect of the Institutional Offer (these dates may be varied without notice)
Co-Lead Managers	Bell Potter Securities, Morgans Financial Limited and Wilsons Corporate Finance Limited

Term	Definition
Co-Managers	One or all of: • Commonwealth Securities Limited • Craigs Investment Partners Limited • Crestone Wealth Management Limited • Escala Partners Limited • Evans and Partners Pty Ltd • Macquiarie Equities Limited • National Australia Bank Limited • Ord Minnett Limited
Combined Forecast Cash Flows	The combined forecast statements of cash flows of Latitude for FY19, 1H20 and LTM Jun-20
Combined Forecast Financial Information	Together, the: • Combined Forecast Cash Flows; and • Combined Forecast Income Statements
Combined Forecast Income Statements	The combined forecast income statements of Latitude for FY19, 1H20 and LTM Jun-20
Combined Historical Balance Sheet	The combined historical balance sheet of KVDAH and LFSL as at 30 June 2019
Combined Historical Cash Flows	The combined historical statements of cash flows of KVDAH and LFSL for FY17, FY18, 1H18 and 1H19
Combined Historical Financial Information	Together, the: • Combined Historical Balance Sheet; • Combined Historical Cash Flows; and • Combined Historical Income Statements
Combined Historical Income Statements	The combined historical income statements of KVDAH and LFSL for FY17, FY18, 1H18 and 1H19
Company	Latitude Financial Group Limited (ACN 625 845 883)
Completion	The completion of the Offer, being the date on which Shares are transferred by SaleCo, to Successful Applicants in accordance with the terms of the Offer
Completion Date	The date Completion occurs
Constitution	The constitution of the Company, as amended or replaced from time to time
Corporations Act	*Corporations Act 2001* (Cth)
Council	Financial Services Council
CR	Credit risk

12. Glossary

Term	Definition
D2C	Direct-to-Consumer
Deutsche Bank	Deutsche Bank AG, Sydney Branch (ABN 12 064 165 162)
Directors	The directors of the Company
Directors' Best Estimate Assumptions	The General Assumptions and the Specific Assumptions underlying the Forecast Financial Information
Discussion Paper	The discussion paper entitled "Review of Consumer Credit Regulation" released by the MBIE
DRP	Dividend reinvestment programme
Economic Interest	Has the meaning given in Section 7.11.2
Eligible US Fund Manager	A dealer or other professional fiduciary organised or incorporated in the United States acting for a discretionary account or similar account (other than an estate or trust) held for the benefit or account of persons that are not 'US persons' (as defined in Rule 902(k) under the US Securities Act) for which it has, and is exercising, investment discretion, within the meaning of Rule 902(k)(2)(i) of Regulation S under the US Securities Act
Employee Gift Offer	Has the meaning given in Section 9.12
EPS	Earnings per share
ESAP	Has the meaning given in Section 9.12
Escrow Deeds	The voluntary escrow deeds entered into by the Company and each of the Escrowed Shareholders described in Section 9.8
Escrowed Shareholders	The Existing Investors, the Minority Investors and the Management Shareholders
Escrowed Shares	The Shares retained immediately following Completion by the Escrowed Shareholders, to the extent issued to them pursuant to the Restructure
Existing Investors	KKR, Värde Partners and Deutsche Bank
Expiry Date	The date on which this Prospectus expires, being the date which is 13 months after the Prospectus Date
Exposure Period	The seven-day period after the date of the Prospectus, which may be extended by ASIC by up to a further seven days, during which an Application must not be accepted
FATA	*Foreign Acquisitions and Takeovers Act 1975* (Cth)
Final Price	The price per Share that will be paid by all Successful Applicants as determined at the conclusion of the Bookbuild and which may be set below, within or above the Indicative Price Range
Financial Information	The Financial Information relating to Latitude as set out in Section 4.1
FIRB Approval	Has the meaning given in Section 9.15.2

Term	Definition
FMA	Financial Markets Authority of New Zealand
Forecast Financial Information	Together, the: • Pro Forma Forecast Financial Information; and • Combined Forecast Financial Information
FOS	Financial Ombudsman Service
FTE	Full-time equivalent
Funding Vehicle	A special purpose vehicle, typically a trust or an 'orphan' special purpose vehicle, established to fund and hold financial assets as part of the Warehouse Facility or Term Securitisation scheme
FY or **Financial Year**	The financial year ended or ending 31 December
FY16	Financial Year ended 31 December 2016
FY17	Financial Year ended 31 December 2017
FY18	Financial Year ended 31 December 2018
FY19	Financial Year ending 31 December 2019
FY20	Financial Year ending 31 December 2020
GDP	Gross domestic product
GE	• The General Electric Company and its subsidiaries, including GE Capital Finance Australasia Pty Ltd; or • GE Finance and Insurance Ltd, as the context requires
General Assumptions	The general assumptions underlying the Forecast Financial Information as set out in Section 4.7.1
GFC	The period of extreme stress in global financial markets and banking systems between mid-2007 and early 2009, as defined by the RBA
Glossary of Financial Table Notes	Glossary of financial table notes as described in Section 4.14
Goldman Sachs	Goldman Sachs Australia Pty Ltd (ABN 21 006 797 897)
Group	KVDAH and LFSL
GST	Goods and services tax
GWP	Gross written premium as described in Section 4.6.1.1

12. Glossary

Term	Definition
Hallmark Insurance	Hallmark Life Insurance Company Ltd (ABN 87 008 446 884) in respect of the issuance of life insurance or Hallmark General Insurance Company Ltd (ABN 82 008 477 647) in respect of the issuance of other forms of insurance, or both, as the context requires
Harvey Norman	Harvey Norman Holdings Limited (ABN 54 003 237 545)
HEM	Household Expenditure Measure
Historical Financial Information	Together, the: • Pro Forma Historical Financial Information; and • Combined Historical Financial Information
HR	Human resources
IAS 39	IAS 39 *Financial Instruments: recognition and measurement*
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
IFRS 9	IFRS 9 *Financial Instruments*
IFRS 15	IFRS 15 *Revenue from Contracts with Customers*
IFRS 16	IFRS 16 *Leases*
Indicative Price Range	Indicative price range for the Institutional Offer, being $2.00 to $2.25 per Share
Initial Management Shareholder Release Date	Has the meaning given in Section 9.8.3
Initial Release Date	Has the meaning given in Section 9.8.1
Institutional Investors	Investors who are persons that: • If in Australia, are wholesale clients under section 761G of the Corporations Act and either 'professional investors' or 'sophisticated investors' under sections 708(11) and 708(8) of the Corporations Act • If in New Zealand, are persons who are an investment business within the meaning of clause 37 of schedule 1 of the NZ FMCA, persons who meet the investment activity criteria within the meaning of clause 38 of schedule 1 of the NZ FMCA, persons who are large within the meaning of clause 39 of schedule 1 of the NZ FMCA, or persons who are a governmental agency within the meaning of clause 40 of schedule 1 of the NZ FMCA; or • Are persons to whom offers and issues or transfers of Shares under this Offer can be made without lodgement, registration or approval with or by a government agency (other than one with which the Company and SaleCo, in their absolute discretion, are willing to comply). In each case, provided that if such person is in the United States, it is reasonably believed that such person is a QIB or it is an Eligible US Fund Manager
Institutional Offer	The invitation to Institutional Investors to acquire Shares as set out in Section 7.11

Term	Definition
Institutional Offering Memorandum	The offering memorandum under which the Institutional Offer will be made in the United States, which consists of this Prospectus and the US 'wrap'
Insurance Act	*Insurance Act 1973* (Cth)
Internal Bureau	Has the meaning given in Section 3.2.1
Investigating Accountant	KPMG Transaction Services (a division of KPMG Financial Advisory Services (Australia) Pty Ltd)
Investigating Accountant's Report	The report of the Investigating Accountant set out in Section 8
Investor	A person considering the Offer
IPO Grants	Rights granted to selected members of Management under the Latitude Equity Plan in connection with the IPO
IPSA	*Insurance (Prudential Supervision) Act 2010* (NZ)
JB Hi-Fi	JB Hi-Fi Group Pty Ltd (ABN 37 093 114 286)
Joint Bookrunner	One or all of Goldman Sachs, Macquarie Capital and UBS
Joint Lead Manager	One or all of Goldman Sachs, Macquarie Capital and UBS
KKR	KKR Clarendon Holdings L.P., a special purpose vehicle established to hold interests in KVDS, wholly owned by funds and investment vehicles managed and/or advised by Kohlberg Kravis Roberts & Co. L.P. or its affiliates
KPMG Transaction Services	KPMG Transaction Services (a division of KPMG Financial Advisory Services (Australia) Pty Ltd)
KVD Australia	KVD Australia Pty Ltd (ABN 37 604 634 157)
KVD HoldCo	KVD Australia HoldCo Pty Ltd (ABN 83 604 747 391)
KVDAH	KVD HoldCo and its controlled entities
KVDS	KVD Singapore Pte Ltd
L-Accelerator	Has the meaning given in Section 1.1
L-Money	Has the meaning given in Section 1.1
L-Pay	Has the meaning given in Section 1.1
Latitude	• As at the Prospectus Date, means KVD HoldCo, its wholly-owned subsidiaries and LFSL; • As at Completion, means the Company and its wholly-owned subsidiaries; or • At any time, means the business trading under that name, as the context requires
Latitude 2.0	Has the meaning given in Section 1.1

12. Glossary

Term	Definition
Latitude Equity Plan or **LEP**	The Latitude Equity Plan, being the LTIP and the short term incentive plan collectively, as described in Section 6.3.1
Latitude IPO Offer Information Line	Within Australia: 1300 384 651 Outside Australia: +61 3 9415 4328 8:30am until 5:00pm (AET) Monday to Friday
LFSL	Latitude Financial Services Limited and its controlled entities
Life Code	The 'Life Insurance Code of Practice' published in 2016 by the Australian Financial Services Council
Life Insurance Act	*Life Insurance Act 1995* (Cth)
Listing	The admission of the Company to the official list of the ASX
Long-Term Incentive Plan or **LTIP**	Has the meaning given in Section 6.2.4
LTI	Long-term incentive
LTM Jun-19	12 month period ended 30 June 2019
LTM Jun-20	12 month period ending 30 June 2020
Macquarie Capital	Macquarie Capital (Australia) Limited (ABN 79 123 199 548)
Major Australian Banks	Australia and New Zealand Banking Group Limited, Commonwealth Bank of Australia, National Australia Bank Limited and Westpac Banking Corporation
Management	The management of the Company as described in Section 6.1.2
Management Shareholders	Certain Directors and current and former management employees of the Company who are proposed to receive Shares pursuant to the Pre-Completion Equity Plans as part of the Restructure
MD	Managing Director
MBIE	New Zealand Ministry of Business, Innovation and Employment
Mid-Point Final Price	An assumption that the Final Price is set at $2.125 per share, being the mid-point of the Indicative Price Range
Minority Investors	Certain investors who, as at the date of this Prospectus, have an economic interest in Latitude via the Existing Investors and who are anticipated to realise this economic interest through receipt of Shares pursuant to the Restructure
National Credit Code or **NCC**	Schedule 1 to the NCCP Act
Nature Research	Nature Pty Ltd (trading as Nature Research)
NCCP Act	*National Consumer Credit Protection Act 2009* (Cth)

Term	Definition
NCCPR	*National Consumer Credit Protection Regulations Act 2010* (Cth)
New Shareholder	A person issued or transferred Shares under the Offer
New Shares	Shares issued by Latitude on Completion
New Zealand Mutual Recognition Regime	The mutual recognition regime established under Part 9 of the NZ FMCA and Part 9 of the Financial Markets Conduct Regulations 2014 (NZ)
Non-Executive Directors	Directors who are not executives
NPAT	Net profit after tax
NPS	Net promoter score
NZ IFRS	New Zealand equivalents to International Financial Reporting Standards
NZ FMCA	*Financial Markets Conduct Act 2013* (NZ)
OECD	Organisation for Economic Co-operation and Development
Offer	The offer of Shares under this Prospectus
Offer Management Agreement	The offer management agreement dated on or about the Prospectus Date between the Company, SaleCo, KVD Australia and the Joint Lead Managers
Offer Period	The period between the Opening Date and the applicable Closing Date for the Broker Firm Offer and the Institutional Offer, being 14 October 2019 and 16 October 2019, respectively
Official List	The official list of the ASX
Opening Date	The date on which the Broker Firm Offer and the Institutional Offer will open, being 4 October 2019 and 15 October 2019 respectively
Overseas Investment Act	*Overseas Investment Act 2005* (NZ)
PcP	Prior comparative period. PcP changes both in $ terms and as a % reflect a favourable movement if positive and unfavourable movement if negative
Point of Sale Exemption	The exemption from the NCC relating to point of sale introducers contained in section 23 and 23A of the NCCPR, which facilitates the sale of Latitude's products at the stores of its merchant partners without the requirement for its merchant partners to be licenced
Pre-Completion Equity Plan units	The units held by Management Shareholders and certain Minority shareholders in certain trusts associated with the Pre-Completion Equity Plans
Pre-Completion Equity Plans	The equity plans in place prior to Completion as described in Section 6.3.2
Primary Shares	The Shares which are to be issued by the Company to SaleCo for sale to Successful Applicants under the Offer

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Term	Definition
Pro Forma Forecast Cash Flows	The pro forma consolidated forecast statements of cash flows of Latitude for FY19, 1H20 and LTM Jun-20
Pro Forma Forecast Financial Information	Together, the: • Pro Forma Forecast Cash Flows; and • Pro Forma Forecast Income Statements
Pro Forma Forecast Income Statements	The pro forma consolidated forecast income statements of Latitude for FY19, 1H20 and LTM Jun-20
Pro Forma Historical Balance Sheet	The pro forma consolidated historical balance sheet of Latitude as at 30 June 2019
Pro Forma Historical Cash Flows	The pro forma consolidated historical statements of cash flows for Latitude for FY17, FY18, 1H18 and 1H19
Pro Forma Historical Financial Information	Together, the: • Pro Forma Historical Balance Sheet; • Pro Forma Historical Cash Flows; and • Pro Forma Historical Income Statements
Pro Forma Historical Income Statements	The pro forma consolidated historical income statements of Latitude for FY17, FY18, 1H18 and 1H19
Prospectus	This document and any replacement or supplementary prospectus in relation to this document
Prospectus Date	The date on which a copy of this Prospectus was lodged with ASIC, being 26 September 2019
QIBs	'Qualified Institutional buyers' within the meaning of Rule 144A under the US Securities Act
Risk adjusted income or **RAI**	Risk adjusted income, calculated as described in Section 4.2.4.1
RBA	Reserve Bank of Australia
RBNZ	Reserve Bank of New Zealand
RCSA	Risk and control self-assessment
Relationship Deed	Each relationship deed entered into between the Company and Existing Investors, individually, described in Section 9.9
Responsible Lending Code	The Responsible Lending Code issued by the Minister of Commerce and Consumer Affairs under section 9G of the CCCFA and as amended in June 2017
Restricted Shares	Shares in the Company which are granted (or allocated) to participants of Awards and which are subject to a restriction on disposal such that the participant cannot deal in the Shares until the end of the relevant vesting period
Restriction Period	Has the meaning given in Section 9.12

Term	Definition
Restructure	The restructure as described in Section 9.4
Retained Shares	Shares in the Company held directly or indirectly by Existing Investors (or an affiliate) which were initially subject to escrow arrangements whether or not they remain subject to escrow
RFi Group	Retail Finance Intelligence Pty. Ltd. (ABN 64 121 015 192)
Rights	Rights entitling their holder to Shares if certain conditions are met that may be awarded by the Company under and in accordance with the terms of the Latitude Equity Plan
ROE	Return on equity
SaleCo	Latitude SaleCo Limited (ACN 74 625 845 874)
Scheme	The credit card scheme for Mastercard or Visa, as applicable
Secondary Shares	The Shares which are to be issued by the Company to the Selling Shareholders under the Restructure, which are then to be subsequently transferred to SaleCo for sale to Successful Applicants under the Offer
Selling Shareholders	KVDS and Deutsche Bank (as an interim Restructure step, Deutsche Bank will exit KVDS and briefly hold shares in KVD HoldCo and LFSL directly, prior to selling these shares to the Company in exchange for Shares)
Settlement	The settlement of the Offer under the Offer Management Agreement
Share Registry	Computershare Investor Services Pty Ltd (ABN 48 078 279 277)
Shareholder	A registered holder of a Share
Shareholder Loans	The shareholder loans as described in Section 9.7.1
Shareholder Representative Director	Each of Scott Bookmyer, Haseeb Malik and Beaux Pontak. It is intended that Haseeb Malik will be replaced by James Corcoran immediately upon Completion
Shares	Fully paid ordinary share in the capital of the Company
Specific Assumptions	The specific assumptions underlying the Forecast Financial Information as set out in Section 4.7.2
STI	Short-term incentive
Substantial Interest	Has the meaning given in Section 9.15.2
Successful Applicant	An Applicant who is issued or transferred Shares under the Offer
Syndicate	The Joint Lead Managers, Joint Bookrunners, the Co-Lead Managers and the Co-Managers
Taxation of Financial Arrangements	The regime as described in Division 230 of the *Income Tax Assessment Act 1997* (Cth)

12. Glossary

Term	Definition
Term Securitisation	An arrangement under which a pool of financial assets is sold to a Funding Vehicle which funds those financial assets in the capital markets through an issue of limited-recourse debt securities having a legal final maturity similar to the expected term of the financial assets in the pool, including ABS
TFN	Tax file number
TFR	Total fixed remuneration
The Good Guys	The Good Guys Discount Warehouse (Australia) Pty Ltd (ABN 48 004 880 657)
TMD	Target market determination
Treasury Proposal Paper	The proposal paper titled "Reforms to the sale of add-on insurance products" released by the Australian Federal Department of Treasury in September 2019
TTR	Total target remuneration
UBS	UBS AG, Australia Branch (ABN 47 088 129 613)
US Securities Act	United States Securities Act of 1933, as amended
Värde Partners	Vatpo Investments Pte. Ltd, a special purpose vehicle established to hold interests in KVDS, wholly owned by funds and investment vehicles for which Värde Partners, Inc. is the ultimate general partner
VWAP	Volume weighted average price
Warehouse Facility	An arrangement under which financial assets are originated in the name of, or sold to, a Funding Vehicle which funds those financial assets through a relatively short-term limited recourse facility provided by funding banks and/or other investors with a view to selling the assets to another Funding Vehicle pursuant to a Term Securitisation or as part of a Whole Loan Sale
Whole Loan Sale	An arrangement under which pools of financial assets are sold to an unrelated third-party purchaser which purchases those financial assets using its own resources and/or a funding structure unrelated to Latitude. Latitude may continue to act as servicer of the financial assets if agreed with the purchaser, and may make an investment in the pool in connection with that appointment

NOT FOR DISTRIBUTION OR RELEASE IN THE UNITED STATES

Latitude Financial Group Limited

ACN 625 845 883

Broker Code

Adviser Code

Broker Firm Offer Application Form

This is an Application Form for Shares in Latitude Financial Group Limited ("**Company**") under the Broker Firm Offer on the terms set out in the Prospectus dated 26 September 2019 and any relevant supplementary or replacement Prospectus (if applicable) ("**Prospectus**"). You may apply for a minimum of A$2,000 worth of Shares or as otherwise advised by your Broker. This Application Form and your Application Monies must be received by your Broker by the deadline set out in their offer to you. The Corporations Act 2001 (Cth) ("**Corporations Act**") prohibits any person from passing on this Application Form (whether in paper or electronic form) unless it is attached to or accompanies a complete and unaltered copy of the Prospectus (whether in paper or electronic form).

This Application Form does not constitute an offer to sell, or a solicitation of an offer to buy, securities in the United States. In particular, the Shares have not been, and will not be, registered under the US Securities Act of 1933, as amended (the "**US Securities Act**"), or the securities laws of any state of the United States and may not be offered or sold, directly or indirectly, in the United States except in transactions exempt from, or not subject to, the registration requirements of the US Securities Act and any other applicable US securities laws.

If you are in doubt as to how to deal with this Application Form, please contact your stockbroker, solicitor, accountant, financial adviser or other independent professional adviser. The Prospectus contains information relevant to a decision to invest in Shares and you should read the entire Prospectus carefully and in full before applying for Shares. Capitalised terms not defined in this Application Form have the meaning given to them in the Prospectus.

A I/We apply for

A$.

worth of Shares in Latitude Financial Group Limited or any number of Shares which may be allocated to me/us at the Final Price per Share up to this total dollar amount.

B Individual/Joint applications - refer to naming standards overleaf for correct forms of registrable title(s)

Title or Company Name Given Name(s) Surname

Joint Applicant 2 or Account Designation

Joint Applicant 3 or Account Designation

C Enter the postal address - include State and Postcode

Unit Street Number Street Name or PO Box/Other information

City/Suburb/Town State Postcode

D Enter your contact details

Contact Name

Telephone Number - Business Hours

( )

E CHESS Participant

Holder Identification Number ("**HIN**")

X

Please note that if you supply a CHESS HIN but the name and address details on your form do not correspond exactly with the registration details held at CHESS, your application will be deemed to be made without the CHESS HIN, and any Shares issued as a result of the Offer will be held on the Issuer Sponsored subregister.

F Payment details - Please follow the payment instruction provided to you

Drawer **Cheque or Bank Draft Number** **BSB Number** **Account Number** **Amount of Cheque / Bank Draft**

A$

Cheque, bank draft or money orders should be drawn up according to the instructions given by your Broker.

By submitting this Application Form:

- I/we declare, represent and warrant that this Application Form is complete and lodged in accordance with the Prospectus, and confirm that details provided by me/us are complete and accurate;
- I/we make the acknowledgements, declarations, representations and warranties set out in Section 7.12 of the Prospectus and this Broker Firm Offer Application Form and declare that all declarations, details and statements made by me/us are complete and accurate;
- I/we agree to be bound by the Constitution of the Company and the terms of the Offer and agree to the issue and/or transfer to me/us of any number of Shares equal to or less than the value indicated in section A above which may be issued and/or transfered to me/us pursuant to the Prospectus; and
- I/we warrant that I am/we are Australian or New Zealand resident retail client(s) of participating Brokers who have a registered address in Australia or New Zealand respectively and have received an invitation from a Broker to acquire Shares under the Prospectus.

See overleaf for completion guidelines ➔

How to complete this Broker Firm Offer Application Form

Please complete all relevant (white) sections of the Application Form in BLOCK LETTERS, using black or blue ink. These instructions are cross referenced to each section of the Application Form.

A **Amount of Shares applied for**

Enter the total dollar value amount of Shares you wish to apply for. Please note your Application is being made for a set dollar value of Shares as the Final Price is yet to be determined. The minimum Application amount is A$2,000. You may be issued Shares for the total dollar value you apply for or a lesser amount.

B **Applicant Name(s)**

Enter the full name you wish to appear on the statement of shareholding. This must be either your own name or the name of a company. Up to 3 joint Applicants may register. You should refer to the table below for the correct forms of registrable title. Applications using the wrong form of names may be rejected. Clearing House Electronic Subregister System ("**CHESS**") participants should complete their name identically to that presently registered in the CHESS system.

C **Postal Address**

Enter your postal address for all correspondence. All communications to you from the Registry will be mailed to the person(s) and address as shown. For joint Applicants, only one address can be entered.

D **Contact Details**

Enter your contact details. These are not compulsory but will assist us if we need to contact you regarding this Application.

E **CHESS**

The Company participates in CHESS, operated by ASX Settlement Pty Limited, a wholly owned subsidiary of ASX Limited. If you are a CHESS participant (or are sponsored by a CHESS participant) and you wish to hold Shares issued to you under this Application on the CHESS Subregister, enter your CHESS HIN. Otherwise, leave this section blank and on issue, you will be sponsored bythe Company and allocated a Securityholder Reference Number ("**SRN**").

F **Payment**

Please follow the payment instruction provided to you.

Before completing the Application Form the Applicant(s) should read the Prospectus to which this Application relates carefully and in full. By lodging the Application Form, the Applicant agrees that this Application for Shares in the Company is upon and subject to the terms of the Prospectus and the Constitution of the Company, agrees to take any number of Shares that may be issued and/or transferred to the Applicant(s) pursuant to the Prospectus and declares that all details and statements made are complete and accurate. It is not necessary to sign the Application Form. All dollar amounts referred to in the Application Form are Australian dollar amounts.

Lodgement of Application

If you are a Broker Firm Offer Applicant, you must return your Application Form and Application Monies to your Broker (unless your Broker instructs you otherwise). The Broker Firm Offer opens at 9:00am (AET) on 4 October 2019 and is expected to close at 5:00pm (AET) on 14 October 2019 (but the offer period may be extended or varied as set out in the Prospectus). Broker clients should complete and lodge their Application Form with the Broker from whom they received their invitation to acquire Shares under this Prospectus. Application Forms must be completed in accordance with the instructions given to you by your Broker and the instructions set out in the Application Form. Your Broker must receive your completed Application Form and Application Monies in time to arrange settlement on your behalf by the closing date for the Broker Firm Offer. You must not return this Application Form to the Share Registry. Neither Computershare Investor Services Pty Limited ("**CIS**") nor the Company accepts any responsibility if you lodge the Application Form at any other address or by any other means. None of the Company, Latitude, SaleCo, the Exisiting Investors, the Selling Shareholders, the Share Registry or the Joint Lead Managers take any responsibility for any acts or omissions of your Broker in connection with your Application. If you have any enquiries concerning your Application Form, please contact your Broker.

Privacy Notice

The personal information you provide on this form is collected by CIS, as registrar for the Company, for the purpose of maintaining registers of securityholders, facilitating distribution payments and other corporate actions and communications. In addition, the Company may authorise CIS on their behalf to send you marketing material or include such material in a corporate communication. You may elect not to receive marketing material by contacting CIS using the details provided overleaf or emailing privacy@computershare.com.au. We may be required to collect your personal information under the Corporations Act and ASX Settlement Operating Rules. We may disclose your personal information to our related bodies corporate and to other individuals or companies who assist us in supplying our services or who perform functions on our behalf, to the Company for whom we maintain securities registers or to third parties upon direction by the Company where related to the Company's administration of your securityholding, or as otherwise required or authorised by law. Some of these recipients may be located outside Australia and New Zealand, including in the following countries: Canada, India, the Philippines, the United Kingdom and the United States of America. For further details, including how to access and correct your personal information, and information on our privacy complaints handling procedure, please contact our Privacy Officer at privacy@computershare.com.au or see our Privacy Policy at http://www.computershare.com/au.

Correct forms of registrable title(s)

Note that ONLY legal entities are allowed to hold Shares. Application Forms must be in the name(s) of a natural person(s), companies or other legal entities acceptable to the Company. At least one full given name and the surname is required for each natural person. The name of the beneficiary or any other non-registrable name may be included by way of an account designation if completed exactly as described in the examples of correct forms below. Application Forms cannot be completed by persons less than 18 years of age. Examples of the correct form of registrable title are set out below.

Type of Investor	Correct Form of Registration	Incorrect Form of Registration
Individual: use given names in full, not initials	Mr John Alfred Smith	JA Smith
Company: use the company's full title, not abbreviations	ABC Pty Ltd	ABC P/L or ABC Co
Joint Holdings: use full and complete names	Mr Peter Robert Williams & Ms Louise Susan Williams	Peter Robert & Louise S Williams
Trusts: use the trustee(s) personal name(s)	Mrs Susan Jane Smith <Sue Smith Family A/C>	Sue Smith Family Trust
Deceased Estates: use the executor(s) personal name(s)	Ms Jane Mary Smith & Mr Frank William Smith <Est John Smith A/C>	Estate of late John Smith or John Smith Deceased
Minor (a person under the age of 18): use the name of a responsible adult with an appropriate designation	Mr John Alfred Smith <Peter Smith A/C>	Master Peter Smith
Partnerships: use the partners personal names	Mr John Robert Smith & Mr Michael John Smith <John Smith and Son A/C>	John Smith and Son
Long Names	Mr John William Alexander Robertson-Smith	Mr John W A Robertson-Smith
Clubs/Unincorporated Bodies/Business Names: use office bearer(s) personal name(s)	Mr Michael Peter Smith <ABC Tennis Association A/C>	ABC Tennis Association
Superannuation Funds: use the name of the trustee of the fund	Jane Smith Pty Ltd <Super Fund A/C>	Jane Smith Pty Ltd Superannuation Fund

NOT FOR DISTRIBUTION OR RELEASE IN THE UNITED STATES

Latitude Financial Group Limited

ACN 625 845 883

Broker Code

Adviser Code

Broker Firm Offer Application Form

This is an Application Form for Shares in Latitude Financial Group Limited ("**Company**") under the Broker Firm Offer on the terms set out in the Prospectus dated 26 September 2019 and any relevant supplementary or replacement Prospectus (if applicable) ("**Prospectus**"). You may apply for a minimum of A$2,000 worth of Shares or as otherwise advised by your Broker. This Application Form and your Application Monies must be received by your Broker by the deadline set out in their offer to you. The Corporations Act 2001 (Cth) ("**Corporations Act**") prohibits any person from passing on this Application Form (whether in paper or electronic form) unless it is attached to or accompanies a complete and unaltered copy of the Prospectus (whether in paper or electronic form).

This Application Form does not constitute an offer to sell, or a solicitation of an offer to buy, securities in the United States. In particular, the Shares have not been, and will not be, registered under the US Securities Act of 1933, as amended (the "**US Securities Act**"), or the securities laws of any state of the United States and may not be offered or sold, directly or indirectly, in the United States except in transactions exempt from, or not subject to, the registration requirements of the US Securities Act and any other applicable US securities laws.

If you are in doubt as to how to deal with this Application Form, please contact your stockbroker, solicitor, accountant, financial adviser or other independent professional adviser. The Prospectus contains information relevant to a decision to invest in Shares and you should read the entire Prospectus carefully and in full before applying for Shares. Capitalised terms not defined in this Application Form have the meaning given to them in the Prospectus.

A I/We apply for

A$.

worth of Shares in Latitude Financial Group Limited or any number of Shares which may be allocated to me/us at the Final Price per Share up to this total dollar amount.

B Individual/Joint applications - refer to naming standards overleaf for correct forms of registrable title(s)

Title or Company Name Given Name(s) Surname

Joint Applicant 2 or Account Designation

Joint Applicant 3 or Account Designation

C Enter the postal address - include State and Postcode

Unit Street Number Street Name or PO Box/Other information

City/Suburb/Town State Postcode

D Enter your contact details

Contact Name

Telephone Number - Business Hours

( )

E CHESS Participant

Holder Identification Number ("**HIN**")

X

Please note that if you supply a CHESS HIN but the name and address details on your form do not correspond exactly with the registration details held at CHESS, your application will be deemed to be made without the CHESS HIN, and any Shares issued as a result of the Offer will be held on the Issuer Sponsored subregister.

F Payment details - Please follow the payment instruction provided to you

Drawer	**Cheque or Bank Draft Number**	**BSB Number**	**Account Number**	**Amount of Cheque / Bank Draft**
				A$

Cheque, bank draft or money orders should be drawn up according to the instructions given by your Broker.

By submitting this Application Form:

- I/we declare, represent and warrant that this Application Form is complete and lodged in accordance with the Prospectus, and confirm that details provided by me/us are complete and accurate;
- I/we make the acknowledgements, declarations, representations and warranties set out in Section 7.12 of the Prospectus and this Broker Firm Offer Application Form and declare that all declarations, details and statements made by me/us are complete and accurate;
- I/we agree to be bound by the Constitution of the Company and the terms of the Offer and agree to the issue and/or transfer to me/us of any number of Shares equal to or less than the value indicated in section A above which may be issued and/or transfered to me/us pursuant to the Prospectus; and
- I/we warrant that I am/we are Australian or New Zealand resident retail client(s) of participating Brokers who have a registered address in Australia or New Zealand respectively and have received an invitation from a Broker to acquire Shares under the Prospectus.

See overleaf for completion guidelines ➔

How to complete this Broker Firm Offer Application Form

Please complete all relevant (white) sections of the Application Form in BLOCK LETTERS, using black or blue ink. These instructions are cross referenced to each section of the Application Form.

A **Amount of Shares applied for**
Enter the total dollar value amount of Shares you wish to apply for. Please note your Application is being made for a set dollar value of Shares as the Final Price is yet to be determined. The minimum Application amount is A$2,000. You may be issued Shares for the total dollar value you apply for or a lesser amount.

B **Applicant Name(s)**
Enter the full name you wish to appear on the statement of shareholding. This must be either your own name or the name of a company. Up to 3 joint Applicants may register. You should refer to the table below for the correct forms of registrable title. Applications using the wrong form of names may be rejected. Clearing House Electronic Subregister System ("**CHESS**") participants should complete their name identically to that presently registered in the CHESS system.

C **Postal Address**
Enter your postal address for all correspondence. All communications to you from the Registry will be mailed to the person(s) and address as shown. For joint Applicants, only one address can be entered.

D **Contact Details**
Enter your contact details. These are not compulsory but will assist us if we need to contact you regarding this Application.

E **CHESS**
The Company participates in CHESS, operated by ASX Settlement Pty Limited, a wholly owned subsidiary of ASX Limited. If you are a CHESS participant (or are sponsored by a CHESS participant) and you wish to hold Shares issued to you under this Application on the CHESS Subregister, enter your CHESS HIN. Otherwise, leave this section blank and on issue, you will be sponsored bythe Company and allocated a Securityholder Reference Number ("**SRN**").

F **Payment**
Please follow the payment instruction provided to you.

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Clubs/Unincorporated Bodies/Business Names: use office bearer(s) personal name(s)	Mr Michael Peter Smith <ABC Tennis Association A/C>	ABC Tennis Association
Superannuation Funds: use the name of the trustee of the fund	Jane Smith Pty Ltd <Super Fund A/C>	Jane Smith Pty Ltd Superannuation Fund

Corporate Directory

Issuer's registered office

800 Collins Street
Docklands, VIC 3008

Joint Lead Managers

Goldman Sachs, Macquarie and UBS

Australian legal adviser

King & Wood Mallesons

Offer information line

Within Australia: 1300 384 651
Outside Australia: +61 3 9415 4328
8:30am until 5:00pm (AET) Monday to Friday

Investigating Accountant

KPMG Transaction Services

Auditor

KPMG

Share Registry

Computershare

Offer website

www.latitudeipo.com.au

Corporate website

www.latitudefinancial.com.au

www.colliercreative.com.au #LFS0001

LATITUDE

latitudefinancial.com.au