LATITUDE GROUP HOLDINGS LIMITED

ACN 83 604 747 391

Management Discussion & Analysis
for the full year ended 31 December 2022

17 February 2023

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Date of this Management Discussion & Analysis

This Management Discussion & Analysis has been prepared for the half year and full year ended 31 December 2022 and is current as at 17 February 2023.

Notice to readers

The purpose of this Management Discussion & Analysis (MDA) is to provide information supplementary to Latitude Group Holdings Limited Financial Report (*the Financial Report*) for the year ended 31 December 2022, including further detail in relation to key elements of Latitude Group Holdings Limited's financial performance and financial position. The Management Discussion & Analysis also outlines the funding and capital profile of the Group. This report should be read in conjunction with Appendix 4E.

References to the first half (*1H*) are to the six months ended 30 June of the respective year.

References to the second half (*2H*) are to the six months ended 31 December of the respective year.

'HoH' refers to the half-on-half movement which is sequential, whereas 'YoY' refers to the year-on-year movement which is the prior corresponding period.

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. Calculations within tables, percentage movements and movements with the commentary have been calculated from underlying source information and hence may not reconcile with rounded calculations.

Section A | Results

Section A | Results

01 | Summary of Group Performance

Cash NPAT[(1)] from continuing operations was $153.5m, down 23% YoY (*2H22 $60.5m, down 35% HoH, down 37% YoY*).

Statutory profit after tax attributable to owners of Latitude Group Holdings Limited (*LFS*) was $37.7m, down 77% YoY (*2H22 $7.1m, down 77% HoH, down 90% YoY*). On a continuing operations basis, FY22 statutory profit after tax declined 60% YoY (*2H22 down 74% HoH, down 81% YoY*).

An interim dividend of 4.00cps 100% franked was declared, with the DRP maintained.

LFS is judiciously navigating the transition to higher interest rates with considered strategic re-pricing and a conservative balance sheet:

- **High margin** business model (*NIM 10.23%/RoAGR 1.9%*) with further room for re-pricing
- **Prudent provisioning** with coverage at 3.75% (*1.6x NCO vs. a pre-COVID average of 1.3x*)
- **Conservative funding** with $1.3bn of headroom, investor diversity and at least 12-months maturity runway
- **Surplus TER** at 8.5% (*vs. 6-7% target range*)

Table 1: Summary profit & loss statement

($m)	31-Dec-22 2H22	30-June-22 1H22	31-Dec-21 2H21	*Change % HoH*	*Change % YoY*	31-Dec-22 FY22	31-Dec-21 FY21	*Change % YoY*
Interest income	450.8	439.4	451.3	*3%*	*0%*	890.2	932.4	*(5%)*
Interest expense	(127.8)	(86.6)	(80.1)	*48%*	*60%*	(214.4)	(160.1)	*34%*
Net interest income	**323.0**	**352.7**	**371.2**	***(8%)***	***(13%)***	**675.8**	**772.3**	***(12%)***
Other income	18.8	17.7	16.0	*6%*	*18%*	36.4	23.9	*52%*
Total operating income	**341.8**	**370.4**	**387.2**	***(8%)***	***(12%)***	**712.2**	**796.2**	***(11%)***
Net charge offs	(73.4)	(74.2)	(67.6)	*(1%)*	*9%*	(147.6)	(149.5)	*(1%)*
Risk adjusted income	**268.4**	**296.2**	**319.6**	***(9%)***	***(16%)***	**564.6**	**646.7**	***(13%)***
Cash operating expenses	(157.5)	(174.3)	(191.9)	*(10%)*	*(18%)*	(331.8)	(365.4)	*(9%)*
Cash PBT	**110.9**	**121.9**	**127.7**	***(9%)***	***(13%)***	**232.8**	**281.3**	***(17%)***
Movement in provisions	(7.2)	35.3	21.3	*(120%)*	*(134%)*	28.1	33.5	*(16%)*
Depreciation & amortisation (*ex leases*)	(23.2)	(22.1)	(18.4)	*5%*	*26%*	(45.3)	(35.3)	*28%*
Profit before tax & notable items	**80.6**	**135.1**	**130.6**	***(40%)***	***(38%)***	**215.6**	**279.5**	***(23%)***
Income tax expense	(20.1)	(42.1)	(35.3)	*(52%)*	*(43%)*	(62.1)	(79.4)	*(22%)*
Cash NPAT from continuing operations	**60.5**	**93.0**	**95.3**	***(35%)***	***(37%)***	**153.5**	**200.1**	***(23%)***
Notable items after tax								
Amortisation of acquisition intangibles	(16.6)	(17.0)	(17.1)	*(2%)*	*(3%)*	(33.6)	(34.1)	*(1%)*
Amortisation of legacy transaction costs	(1.1)	(1.7)	(2.7)	*(35%)*	*(59%)*	(2.8)	(6.6)	*(58%)*
Other notable items	(30.8)	(28.4)	(11.0)	*8%*	*180%*	(59.2)	(15.4)	*284%*
	(48.5)	(47.1)	(30.8)	*3%*	*57%*	(95.6)	(56.1)	*70%*
Statutory profit after tax (*continuing ops*)	**12.0**	**45.9**	**64.6**	***(74%)***	***(81%)***	**57.9**	**144.0**	***(60%)***
Profit/(loss) from discontinued operations	(5.9)	(15.7)	6.3	*(62%)*	*(194%)*	(21.6)	16.3	*(233%)*
Statutory profit after tax	**6.1**	**30.2**	**70.9**	***(80%)***	***(91%)***	**36.3**	**160.3**	***(77%)***
Profit/(loss) is attributable to:								
Owners of Latitude Group Holdings Ltd	**7.1**	**30.6**	**71.5**	***(77%)***	***(90%)***	**37.7**	**160.9**	***(77%)***
Non-controlling interest	(1.0)	(0.4)	(0.6)	*150%*	*67%*	(1.4)	(0.6)	*133%*

(1) Cash NPAT is a non-IFRS metrics used for management reporting as LFS believes it reflects what it considers to be the underlying performance of the business. Further information on Cash NPAT is included in Section B.

The financial information, where relevant and useful, is separated into LFS's two key 'continuing' business units across Australia and New Zealand. These twin engines perform collaboratively and individually:

- **PAY** – comprising Sales finance (*instalments*) and credit cards
- **MONEY** – comprising Personal Loans and Auto loans

International operations are included in 'other'. The financial results of discontinued operations are excluded from the individual account lines of LFS and are reported as a single net profit/(loss) after tax line. Discontinued operations primarily include the Insurance operations.

Section A | Results

Strong volume growth, +15% YoY coupled with moderating repayment rates restarting receivables growth (+3% HoH). RAI yield impacted as funding costs immediately increase (+153bps) momentarily outpacing pricing actions. NCO's remain low. Cost control and a robust balance sheet.

Group performance summary (*2H22*):

- **Volumes up 14% HoH, up 15% YoY**. Pay up 15% HoH, up 14% YoY as cards recovers strongly. Money up 12% HoH, up 15% YoY from Personal loans. Repayment rate 101%, down 249bps YoY. Receivables up 3% HoH.
- **Net interest margin 10.23%** (*NIM*) contracted 104bps HoH and 141bps YoY as unprecedented material central bank tightening (*Aus +300bps/ NZ: +400bps*) drove rapidly increasing funding costs (*+153bps*).
- Total operating income down 8% HoH, down 12% YoY.
- **Net charge offs 2.32%** (*NCO*) seasonally down 5bps HoH, up a modest 21bps YoY and well below LT ave (*330bps*).
- **2H22 risk adjusted income $268.4m** (*RAI*) down 9% HoH, down 16% YoY with the corresponding yield down 96bps HoH and 152bps YoY to 8.5% as funding costs increase ahead of asset yields.
- **Sustained cost control** as lower staff expenses & lower marketing drive costs down 10% HoH, down 18% YoY.
- Effective tax rate 24.9%, down from 31.2% HoH due to recognition of historical tax benefits related to funding.
- **Notable items after tax increased 3% HoH** due to the Symple integration (*lending platform replacement & integration*) and the transition to a simplified single business unit structure.
- **Conservative balance sheet metrics** with provision coverage prudent at 3.75%, 90 days past due benign at 0.69% and the tangible equity ratio (*TER*) above the target range at 8.5%.
- **Return on AGR 1.9%** (*RoAGR*) down 105bps HoH (*higher funding costs*) driving ROE down 411bps HoH to 8.0%.
- **Interim dividend adjusted for a growth stance at 4 cents per share**, 100% franked, with DRP.

Table 2: Key performance indicators

($m)	31-Dec-22 2H22	30-June-22 1H22	31-Dec-21 2H21	*Chg %/ bps HoH*	*Chg %/bp YoY*	31-Dec-22 FY22	31-Dec-21 FY21	*Chg %/ bps YoY*
Volume	4,240	3,713	3,695	*14%*	*15%*	7,953	7,335	*8%*
AGR	6,264	6,313	6,326	*(1%)*	*(1%)*	6,291	6,405	*(2%)*
Gross Receivables	6,474	6,257	6,349	*3%*	*2%*	6,474	6,349	*2%*
Operating Income	342	370	387	*(8%)*	*(12%)*	712	796	*(11%)*
Risk adjusted income (*RAI – cont ops*)	268	296	320	*(9%)*	*(16%)*	565	647	*(13%)*
Cash PBT (*cont ops*)	111	122	128	*(9%)*	*(13%)*	233	281	*(17%)*
Cash NPAT (*cont ops*)	**61**	**93**	**95**	***(35%)***	***(37%)***	**154**	**200**	***(23%)***
Interest income yield	**14.28%**	**14.04%**	**14.15%**	***24***	***13***	**14.15%**	**14.56%**	***(41)***
Interest expense/ AGR	(4.05%)	(2.77%)	(2.51%)	*(128)*	*(153)*	(3.41%)	(2.50%)	*(91)*
Net interest margin	10.23%	11.27%	11.64%	*(104)*	*(141)*	10.74%	12.06%	*(132)*
Operating income margin	10.83%	11.83%	12.14%	*(101)*	*(131)*	11.32%	12.43%	*(111)*
Net charge offs	**(2.32%)**	**(2.37%)**	**(2.12%)**	***5***	***(21)***	**(2.35%)**	**(2.33%)**	***(2)***
RAI yield	**8.5%**	**9.5%**	**10.0%**	***(96)***	***(152)***	**9.0%**	**10.1%**	***(112)***
90 days past due	0.69%	0.80%	0.67%	*(11)*	*2*	0.69%	0.67%	*2*
Coverage	3.75%	3.74%	4.27%	*1*	*(52)*	3.75%	4.27%	*(52)*
Cost/ income	46.1%	47.1%	49.6%	*(99)*	*(350)*	46.6%	45.9%	*70*
Cash opex/ AGR	5.0%	5.6%	6.0%	*(58)*	*(103)*	5.3%	5.7%	*(43)*
Spot FTE	1,008	1,089	1,282	*(7%)*	*(21%)*	1,008	1,282	*(21%)*
Effective tax rate	24.9%	31.2%	27.0%	*(626)*	*(211)*	28.8%	28.5%	*35*
RoAGR	**1.9%**	**3.0%**	**3.0%**	***(105)***	***(112)***	**2.4%**	**3.1%**	***(68)***
RoE	8.0%	12.1%	13.1%	*(411)*	*(514)*	10.1%	14.3%	*(422)*
RoTE	22.4%	35.3%	37.4%	*(1,284)*	*(1,494)*	29.4%	43.9%	*(1,442)*
TER	**8.5%**	**9.2%**	**8.7%**	***(66)***	***(12)***	**8.5%**	**8.7%**	***(12)***
DPS cents	4.00	7.85	7.85	*(49%)*	*(49%)*	11.85	15.70	*(25%)*
EPS cents (*cash*)	5.83	8.95	9.47	*(35%)*	*(38%)*	14.78	19.95	*(26%)*
Payout ratio	69%	88%	83%	*(1902)*	*(1421)*	80%	79%	*147*
EPS cents (cash diluted)	5.26	8.19	8.78	(36%)	(40%)	13.34	18.43	(28%)

Section A | Results

02 | Volume, Receivables & Net Interest Income

Recovering volumes (Credit Cards & PL) have offset elevated repayment rates to drive positive receivables growth (+3% HoH). However, rapidly increasing cost of funds has compressed margins and income. Strategic pricing actions will, in time, mitigate this pressure.

Full year volume of $7,953m is up 8% YoY as 2H22 volumes of $4,240m recover strongly, up 14% HoH and up 15% YoY.

Pay A&NZ volumes of $6,250m for FY22 are beginning to show promising signs, up 7% YoY as credit card volumes recover strongly up 29% YoY. However, sales finance A&NZ volumes of $4,019m down 1% YoY were hampered by COVID induced trends/ policy response of reduced instore sales/ traffic, very low interest rates and excess liquidity/ savings along with advertising disruptions. These trends show signs of gradually reversing with 2H22 sales finance A&NZ volumes up 9% HoH and up 4% YoY. New Zealand remains constrained by the implementation of the Credit Contracts & Consumer Finance Act (*CCCFA, effective 1 December 2021*), which has additional origination requirements. The initial negative impacts on application volumes, approval levels and fulfillment times are now starting to gradually normalise.

The 28° Global Platinum Mastercard® continues to benefit from the strong resumption in global travel. 2H22 volumes of $1,020m, up 31% HoH and up 61% YoY. FY22 volume was $1,799m up 45% YoY and is on track to return to the pre-COVID level of over $2bn.

Money A&NZ volumes remain strong, FY22 up 12% YoY with Australia up 14% YoY driving 90% of the annual growth. Australian personal loans 2H22 up 14% HoH and up 32% YoY as market leading repricing strategies were ultimately matched by competitors. Auto volumes declined in 2H22 by 14% HoH and 23% YoY as the broker centric channel reacted to product re-pricing. New Zealand is now starting to see increased flow from greater debt consolidation activity, up 40% HoH in 2H22. The Symple platform front-book is integrated for Australian personal loans. The back-book is expected to be complete by 2Q23 which will facilitate the decommissioning of ICBS/ Genesis. The new platform now offers variable rate personal loans across a fully digitised cloud-based platform in Australia. These represent around 55% of new volume.

Table 3: Volume & receivables

	31-Dec-22	30-June-22	31-Dec-21	*Chg %/ bps*	*Chg %/bp*	31-Dec-22	31-Dec-21	*Chg %/ bps*
($m)	**2H22**	**1H22**	**2H21**	***HoH***	***YoY***	**FY22**	**FY21**	***YoY***
Volume								
Pay	**3,339.9**	**2,910.3**	**2,924.0**	***15%***	***14%***	**6,250.2**	**5,837.2**	***7%***
- Australia	2,741.8	2,376.0	2,340.9	*15%*	*17%*	5,117.8	4,689.4	*9%*
- New Zealand	598.1	534.4	583.1	*12%*	*3%*	1,132.4	1,147.7	*(1%)*
Money	**885.8**	**790.4**	**769.5**	***12%***	***15%***	**1,676.2**	**1,496.2**	***12%***
- Australia	679.9	643.7	604.8	*6%*	*12%*	1,323.5	1,161.8	*14%*
- New Zealand	205.9	146.7	164.7	*40%*	*25%*	352.6	334.3	*5%*
Other	14.5	12.2	1.8	*19%*	*691%*	26.6	1.8	*1358%*
Group	**4,240.1**	**3,712.9**	**3,695.4**	***14%***	***15%***	**7,953.0**	**7,335.2**	***8%***
Repayment rate (*ex. Cards/ BNPL*)	**101%**	**98%**	**104%**	***290***	***(333)***	**99%**	**101%**	***(177)***
Receivables[1]								
Pay	**3,683.5**	**3,622.0**	**3,747.7**	***2%***	***(2%)***	**3,683.5**	**3,747.7**	***(2%)***
- Australia	2,807.5	2,801.5	2,865.5	*0%*	*(2%)*	2,807.5	2,865.5	*(2%)*
- New Zealand	876.0	820.5	882.3	*7%*	*(1%)*	876.0	882.3	*(1%)*
Money	**2,786.7**	**2,633.3**	**2,600.1**	***6%***	***7%***	**2,786.7**	**2,600.1**	***7%***
- Australia	2,293.3	2,187.3	2,123.1	*5%*	*8%*	2,293.3	2,123.1	*8%*
- New Zealand	493.4	446.0	476.9	*11%*	*3%*	493.4	476.9	*3%*
Other	4.0	1.2	1.4	*225%*	*190%*	4.0	1.4	*190%*
Group gross receivables	**6,474.2**	**6,256.6**	**6,349.2**	***3%***	***2%***	**6,474.2**	**6,349.2**	***2%***
Provisions	(242.7)	(234.1)	(271.3)	*4%*	*(11%)*	(242.7)	(271.3)	*(11%)*
Unearned	(80.7)	(83.5)	(100.2)	*(3%)*	*(19%)*	(80.7)	(100.2)	*(19%)*
Net receivables	**6,150.8**	**5,939.0**	**5,977.7**	***4%***	***3%***	**6,150.8**	**5,977.7**	***3%***

1) Prior periods have been restated to remove Discontinued Operations

Section A | Results

Elevated repayment rates (*FY22: 99% vs. a pre-COVID average of 92%*) continue to constrain receivables growth across the book. On a half year basis, the repayment rate moderated by 333bps YoY to 101% which is up 290bps HoH due to seasonal drivers (*eg: tax refunds*).

However, the repayment normalisation is starting to support group gross receivables which are up 2% YoY. Half year trends are more promising, up 3% HoH following five halves of sequential decline.

Pay A&NZ receivables declined 2% YoY but increased 2% HoH due to the trends described above. The '*interest free*' value proposition is expected to be increasingly attractive with home loan rates now above 5%. Continued investment to improve the instore user and merchant experience is also expected to drive enhanced uptake with revamped marketing.

Credit card A&NZ receivables (*$332m*) up 5% HoH, up 10% YoY due to strong volumes.

Money Australia receivables increased 5% HoH and 8% YoY with Auto *($787m: up 1% HoH, up 6% YoY*) and Personal loans (*$1,507m: up 7% HoH, up 9% YoY*). New Zealand Money receivables accelerated, up 11% HoH.

Table 4: Net interest income/ margin & RAI yield

	31-Dec-22	30-June-22	31-Dec-21	*Chg %/ bps*	*Chg %/bp*	31-Dec-22	31-Dec-21	*Chg %/ bps*
($m)	**2H22**	**1H22**	**2H21**	***HoH***	***YoY***	**FY22**	**FY21**	***YoY***
Interest income	450.8	439.4	451.3	*3%*	*0%*	890.2	932.4	*(5%)*
Interest expense	(127.8)	(86.6)	(80.1)	*48%*	*60%*	(214.4)	(160.1)	*34%*
Net interest income	**323.0**	**352.7**	**371.2**	***(8%)***	***(13%)***	**675.8**	**772.3**	***(12%)***
Other income	18.8	17.7	16.0	*6%*	*18%*	36.4	23.9	*52%*
Net charge offs	(73.4)	(74.2)	(67.6)	*(1%)*	*9%*	(147.6)	(149.5)	*(1%)*
Risk adjusted income (RAI)	**268.4**	**296.2**	**319.6**	***(9%)***	***(16%)***	**564.6**	**646.8**	***(13%)***
Interest income yield	14.28%	14.04%	14.15%	*24*	*13*	14.15%	14.56%	*(41)*
Interest expense cost	4.37%	3.02%	2.75%	*135*	*162*	3.70%	2.75%	*95*
Net interest spread	9.90%	11.02%	11.40%	*(112)*	*(150)*	10.45%	11.80%	*(135)*
Benefit of equity	0.33%	0.25%	0.24%	8	*9*	0.29%	0.26%	*3*
Net interest margin	**10.23%**	**11.27%**	**11.64%**	***(104)***	***(141)***	**10.74%**	**12.06%**	***(132)***
Other income	0.60%	0.56%	0.50%	*3*	*9*	0.58%	0.37%	*21*
Operating income margin	**10.83%**	**11.83%**	**12.14%**	**(101)**	**(131)**	**11.32%**	**12.43%**	**(111)**
Net charge offs	(2.32%)	(2.37%)	(2.12%)	*5*	*(21)*	(2.35%)	(2.33%)	*(1)*
RAI yield	**8.50%**	**9.46%**	**10.02%**	***(96)***	***(152)***	**8.98%**	**10.10%**	***(112)***

Unprecedented rapid and material central bank tightening persists (*Aus +300bps/ NZ: +400bps from the trough*) with more increase still likely. Cash/ 3-yr swap rates, during the half, increased in both Australia (*+225bps/ +36bps*) and New Zealand (*+225bps/ +105bps*). These moves drive a timing difference whereby funding and fixed rate loan hedging costs move immediately ahead of LFS product yields. Also noteworthy, around 50% of sales finance receivables are in a '*funded but interest free*' state at any point in time.

On a half yearly basis, net interest income declined 8% or $30m HoH/ down 13% or $48m YoY. This is decomposed as (*HoH/ YoY*) – NIM contraction -104bps/ -141bps (-*$32m/ -$44m*), AGR's down 0.8%/ down 1.0% (-*$3m/ -$4m*) and three more days 2H vs 1H (*+$5m*). The 104bp HoH contraction in NIM is comprised of: mix (-*1bps*), income yield (*+25bps = Pay +28bps, Money -1bp, Other -2bps*) and higher funding (-*128bps*). In YoY terms, the -141bps is split out as: mix (-*9bps*), income yield (*+21bps = Pay +36bps, Money -16bps, Other +1bp*) and higher funding (-*153bps*).

On a full year basis, net interest income decreased 12% or $97m with 132bps of NIM pressure (-*$83m*) and 2% less AGR's (-*$14m*). The 132bp contraction in NIM is comprised of: mix (-*12bps*), rate (-*29bps*) and higher funding (-91bps).

In response, product interest rates continued to be strategically repriced during the half to manage this increased cost of funds: GO/GEM +250bps (*1H22 +150bps*), Personal Loans +125bps (*1H22 +225bps*) and Auto +50bps (*1H22 +300bps*), partially reversing the price reductions implemented in 2020/21.

AGR's declined 2% YoY for FY22, with 2H22 down 1% HoH with Pay down 3% HoH and Money up 2% HoH.

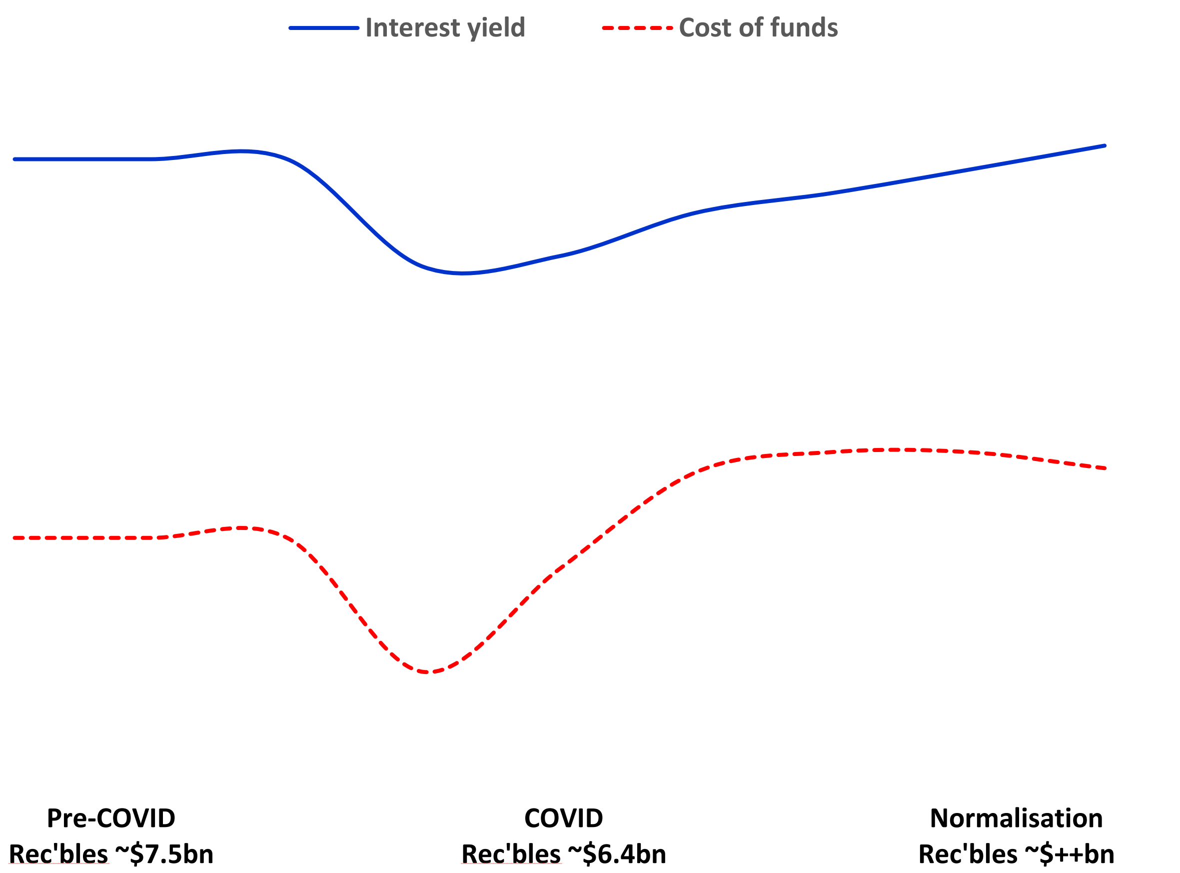
Table 5: Average balance sheet

($m)	Half year 31-Dec-22 2H22 Ave bal.	Interest	Rate	Half year 30-June-22 1H22 Ave bal.	Interest	Rate	Half year 31-Dec-21 2H21 Ave bal.	Interest	Rate
Receivables (AGR)	**6,264**	**451**	**14.3%**	**6,313**	**439**	**14.0%**	**6,326**	**451**	**14.2%**
- Pay	3,585	283	15.6%	3,681	276	15.1%	3,773	285	15.0%
- Money	2,676	168	12.4%	2,631	163	12.5%	2,553	166	12.9%
- Other	2	0	40.4%	1	1	n.m	1	-	n.m
Average assets	**7,844**			**7,891**			**7,866**		
- Securitisation	5720	122	4.2%	5,786	83	2.9%	5,781	76	2.6%
- Corporate Debt	75	3	9.0%	19	0	3.0%	-	-	-
- Other		2	n.m	0	4	n.m	-	4	-
Total ave interest bearing	5,795	128	4.4%	5,805	87	3.0%	5,781	80	2.7%
Average liabilities	**6,337**			**6,339**			**6,423**		
NII/ spread		323	9.9%		353	11.0%		371	11.4%
Net interest margin			**10.23%**			**11.27%**			**11.64%**
Average equity	**1,507**			**1,553**			**1,443**		

9.0% 2H22 interest cost includes the facility fee

The chart below breaks down the shape of the key drivers of the net interest margin into three discrete time periods ***1)*** Pre-COVID average, ***2)*** COVID and ***3)*** the transition to normalisation.

Chart 1: Net interest margin dynamics…



Source: Company Data, Iress

Section A | Results

04 | Other Operating Income

Continued recovering card volumes, particularly 28 Degrees, supporting interchange

Table 6: Other income

($m)	31-Dec-22 2H22	30-June-22 1H22	31-Dec-21 2H21	Change % HoH	Change % YoY	31-Dec-22 FY22	31-Dec-21 FY21	Change % YoY
Interchange fees	16.9	13.6	11.0	24%	54%	30.5	20.0	53%
Other income	1.9	4.1	5.0	(54%)	(62%)	5.9	3.9	51%
Total other income	**18.8**	**17.7**	**16.0**	**6%**	**18%**	**36.4**	**23.9**	**52%**

Interchange fees up 24% HoH and 54% YoY with the resumption of global travel. Positive mix effects from the recovery in 28 Degrees (*2H22 volumes of $1,020m up 31% HoH and 61% YoY*) saw interchange yield increase 4bps HoH and 14bps YoY. Card scheme volumes are also recovering up 18% HoH and up 22% YoY.

The same trends drove the annual increase of 53% to $30.5m, with annual card scheme volume up 15% YoY to $4.4bn, of which 28 Degrees was the key driver up 45% YoY to $1.8bn.

Other income fell 54% HoH due to higher card scheme costs (*commensurate with the higher volume*).

05 | Net Charge Offs, Provisions & Asset quality

Prudent credit underwriting practices continue to deliver low net charge offs

Net charge offs declined 1% HoH to $73.4m reflecting the customary 2H seasonality. On a YoY basis, net charge offs increased 9% as the underlying macro environment starts to normalise. Relative to the size of the book, net charge offs at 2.32% remains a benign outcome in the context of a longer term pre-COVID average of ~3.30%. This is supported by the continued improvement in the quality of our originations with 69% rated CR1/CR2 at origination in 2H22 versus 63% in 2H19. Annual net charge offs declined 1% YoY, up a modest 2bps relative to AGR's.

The provision balance moved HoH in line with the change in receivables at a rate of 4%, slightly higher than stock due to mix of growth which drove the 1bp increase HoH in cover to 3.75%.

On a YoY basis, after an extended period of observable losses through the COVID period, the level of coverage was reduced by 52bps as both the forward-looking economic model and management overlay was adjusted for both the actual and expected performance outcomes.

Looking forward, the economic uncertainty associated with increasing interest rates, rising inflation, withdrawal of fiscal support, ongoing geopolitical and social tensions plus the lingering effects of COVID warrant continued prudence with our coverage ratio. However, unemployment, a key driver of delinquency, in both Australia and New Zealand remains at long term lows of 3.5%/ 3.4% respectively. At 3.75% LFS's provision is 1.6x current NCO's which compares conservatively against a pre-COVID average of 1.3x.

Receivables 90 days past due declined 11bps HoH reflecting the typically seasonal elements, referred to above, with YoY up a modest 2bps. Hardship trends continue to improve across both product suites except for Money (*Australia*) which saw Auto loans deteriorate by 15bps HoH and Personal Loans by 86bps HoH.

Table 7: Net charge offs & provisions

($m)	31-Dec-22 2H22	30-June-22 1H22	31-Dec-21 2H21	*Chg %/ bps HoH*	*Chg %/bp YoY*	31-Dec-22 FY22	31-Dec-21 FY21	*Chg %/ bps YoY*
Net charge offs								
Prior period net charge offs	(74.2)	(67.6)	(81.9)	*10%*	*(9%)*	(149.5)	(227.6)	*(34%)*
Impact of change in AGR	0.6	0.1	2.1	*300%*	*(72%)*	2.7	18.0	*(85%)*
Impact of change in NCO rate	0.2	(6.8)	12.2	*(103%)*	*(98%)*	(0.8)	60.1	*(101%)*
Total NCOs	**(73.4)**	**(74.2)**	**(67.6)**	***(1%)***	***9%***	**(147.6)**	**(149.5)**	***(1%)***
NCOs/ AGR	**2.32%**	**2.37%**	**2.12%**	***(5)***	***21***	**2.35%**	**2.33%**	***2***
Provision movement								
Impact of change in receivables	(8.1)	3.8	5.6	*(312%)*	*(246%)*	(5.5)	8.0	*(168%)*
Impact of change in coverage	(0.4)	32.9	11.8	*(101%)*	*(103%)*	33.7	22.0	*53%*
Other	-	-	3.4	*n.m*	*(100%)*	0.0	3.4	*(100%)*
Provision expense movement	**(8.5)**	**36.7**	**20.8**	***(123%)***	***(141%)***	**28.2**	**33.4**	***(15%)***
FX impact	1.3	(1.5)	0.5	*(187%)*	*177%*	(0.2)	0.2	*(184%)*
Loan impairment expense	**(80.6)**	**(38.9)**	**(46.3)**	***107%***	***74%***	**(119.6)**	**(115.9)**	***3%***
Group coverage	**3.75%**	**3.74%**	**4.27%**	***1***	***(52)***	**3.75%**	**4.27%**	***(52)***
90+ days past due								
Group	**0.69%**	**0.80%**	**0.67%**	***(11)***	***2***	**0.69%**	**0.67%**	***2***
Pay	**0.99%**	**1.16%**	**0.97%**	***(17)***	***2***	**0.99%**	**0.97%**	***2***
- Australia	1.05%	1.24%	0.98%	*(20)*	*6*	1.05%	0.98%	*6*
- New Zealand	0.81%	0.89%	0.92%	*(8)*	*(11)*	0.81%	0.92%	*(11)*
Money	**0.31%**	**0.31%**	**0.24%**	***1***	***7***	**0.31%**	**0.24%**	***7***
- Australia	0.30%	0.30%	0.21%	*(1)*	*9*	0.30%	0.21%	*9*
- New Zealand	0.37%	0.31%	0.37%	*6*	*0*	0.37%	0.37%	*0*
Hardship Inventory								
Group	**2.25%**	**2.34%**	**2.52%**	***(9)***	***(27)***	**2.34%**	**2.52%**	***(19)***
Pay	1.67%	1.90%	2.03%	*(23)*	*(36)*	1.90%	2.03%	*(13)*
Money	3.15%	2.94%	3.23%	*21*	*(7)*	2.94%	3.23%	*(29)*

Section A | Results

06 | Operating Expenses & Notable Items

Costs managed tightly to mitigate external funding pressures

Cash operating expenses in 2H22 declined 10% HoH and 18% YoY with reduced employee expenses including no short-term incentive (*STI*) and the move to a smaller head office.

On an annual basis, cash operating expenses declined 9% or $33.6m to $331.8m.

Employee costs in 2H22 fell 6% HoH and 22% YoY with 7% less staff due to a simplified operating structure and the removal of the 2022 STI accrual along with the release of the unused 2021 STI charge totalling $30m.

Occupancy declined significantly as LFS moved to a much smaller and more energy efficient (*NABERS 6 star rating*) head office footprint in the Melbourne CBD late in the half. The negative expense is an outcome of lease accounting adjustments upon lease termination. On an annualised cash basis, the underlying saving from the move equates to ~$5m.

IT increased 10% HoH with continued investment across the platform as well as some contract inflation.

Table 8: Operating expenses

($m)	31-Dec-22 2H22	30-June-22 1H22	31-Dec-21 2H21	*Chg %/ bps HoH*	*Chg %/bp YoY*	31-Dec-22 FY22	31-Dec-21 FY21	*Chg %/ bps YoY*
Employee	69.1	73.8	88.5	*(6%)*	*(22%)*	142.9	172.3	*(17%)*
Marketing	11.9	15.5	21.0	*(23%)*	*(44%)*	27.3	38.1	*(28%)*
Occupancy	(0.8)	6.1	5.5	*(113%)*	*(114%)*	5.3	12.5	*(57%)*
Information technology	33.1	30.0	29.5	*10%*	*12%*	63.1	56.4	*12%*
Other	44.2	48.9	47.4	*(10%)*	*(7%)*	93.1	86.1	*8%*
Cash operating expenses	**157.5**	**174.3**	**191.9**	***(10%)***	***(18%)***	**331.8**	**365.4**	***(9%)***
Cost to income ratio	46.1%	47.1%	49.6%	*(99)*	*(350)*	46.6%	45.9%	*70*
Spot FTE	1,008	1,089	1,282	*(7%)*	*(21%)*	1,008	1,282	*(21%)*
Capex	8.2	16.0	35.0	*(49%)*	*(77%)*	24.1	60.1	*(60%)*
Notable items pre-tax	**67.1**	**66.5**	**42.7**	***1%***	***57%***	**133.6**	**78.2**	***71%***
Amortisation of acquisition intangibles	23.5	24.1	24.2	*(2%)*	*(3%)*	47.6	48.3	*(1%)*
Amortisation of legacy transaction costs	1.5	2.4	3.8	*(38%)*	*(61%)*	3.9	9.4	*(59%)*
Corporate development	23.9	17.4	10.5	*37%*	*128%*	41.3	12.1	*241%*
Restructuring costs	9.5	5.7	1.7	*67%*	*459%*	15.2	2.1	*624%*
Asset/ work in progress impairment	6.9	15.3	0.8	*(55%)*	*763%*	22.2	2.5	*788%*
Decommissioned facilities	1.8	1.6	1.6	*13%*	*13%*	3.4	3.8	*(11%)*

Amortisation of acquisition intangibles (*FY24 end date*) and legacy transaction costs (*1H23 end date with $0.3m outstanding*) continues to be recognised in accordance with the amortisation schedule. Corporate development increased due to Symple integration (*1H22 $9m to 2H22 $17m*), residual work on the proposed Humm transaction (*1H22 $7m to 2H22 $3m*) and ongoing international investment (*1H22 $2m to 2H22 $2m*). Restructuring costs increased in FY22 and 2H22 due to the transition to the simplified operating structure. Impairments relate primarily to decommissioning of redundant platforms (*Orion, ICBS*).

Section A | Results

Discontinued Operations

On 8 August 2022, LFS entered into an agreement to sell its insurance operations (*Latitude Insurance Holdings Pty Ltd*). This proposed transaction will allow LFS to redeploy residual capital (approximately *$90m*) into its core business, simplify its business model, reduce costs, streamline technology, and optimise shareholder returns. A $6.7m pre-tax provision has been recognised to cover certain potential remediation items.

A loss on sale of the insurance operations of approximately $16m will be recognised upon final settlement which is expected to occur in 1H23.

The nascent operations of Symple Canada remain under strategic review and have been classified as '*held for sale*'/ '*discontinued operations*'.

Table 9: Profit/ (Loss) after tax from discontinued operations

	31-Dec-22	30-June-22	31-Dec-21	*Change %*	*Change %*	31-Dec-22	31-Dec-21	*Change %*
($m)	**2H22**	**1H22**	**2H21**	***HoH***	***YoY***	**FY22**	**FY21**	***YoY***
Net profit/ (loss) after tax	(5.9)	(2.1)	6.3	*181%*	*(194%)*	(8.0)	16.3	*(149%)*
Goodwill write-off (insurance)	0.0	(13.6)	0.0	*(100%)*	*n.m*	(13.6)	0.0	*n.m*
	(5.9)	**(15.7)**	**6.3**	***(62%)***	***(194%)***	**(21.6)**	**16.3**	***(233%)***

Section A | Results

07 | Balance Sheet & Shareholder Returns

Surplus TER and high through the cycle returns position LFS well for growth and economic transition. Final dividend adjusted to 4.0cps to position for growth.

A final dividend of 4.00cps was declared (*100% franked*). This HoH decline in the payout ratio reflects the boards expectation of increased growth opportunities and is consistent with our target pay-out range at 69% (*FY22 80%*).

Tangible equity/ net receivables (*TER*) declined 66bps to 8.5%, well above the 6-7% target range, due to modest receivables growth (4% HoH) and the payment of equity and capital note dividends (*$85.4m*). Considering the present economic uncertainties and potential opportunities that may emerge from this environment a strongly capitalised balance sheet is prudent and appropriate.

RoAGR declined 105bps due to funding costs repricing faster than asset yields. This is expected to recover as undertaken pricing actions work through the book.

A dividend reinvestment plan (*DRP*) remains to allow owners to elect to reinvest either all or part of their dividend payments into additional fully paid LFS shares in an easy and cost-effective way.

Table 10: Balance sheet

($m)	31-Dec-22 **2H22**	30-June-22 **1H22**	31-Dec-21 **2H21**	***Chg %/bps*** ***HoH***	***Chg %/bps*** ***YoY***
Total assets	7,921	7,767	8,015	*2%*	*(1%)*
Net receivables	6,151	5,939	5,978	*4%*	*3%*
Intangible assets	949	994	1,048	*(4%)*	*(9%)*
Total liabilities	6,446	6,228	6,450	*4%*	*(0%)*
Total equity	1,474	1,540	1,566	*(4%)*	*(6%)*
Tangible equity	525	546	518	*(4%)*	*1%*
Tangible equity/ net receivables (*TER*)	**8.5%**	**9.2%**	**8.7%**	***(66)***	***(12)***
RoAGR	1.9%	3.0%	3.0%	*(105)*	*(112)*
RoE	8.0%	12.1%	13.1%	*(411)*	*(514)*
RoTE	**22.4%**	**35.3%**	**37.4%**	***(1,284)***	***(1,494)***
Net tangible assets per share (*$ps*)	0.51	0.53	0.51	*(4%)*	*(1%)*
Book value per share (*$ps*)	1.42	1.48	1.51	*(4%)*	*(6%)*
Dividend cents	**4.00**	**7.85**	**7.85**	***(49%)***	***(49%)***
Franking	100%	100%	100%	-	-
Payout ratio	69%	88%	83%	*(1,902)*	*(1,421)*
Ex-dividend date	21-Mar-23	23-Sep-22	28-Feb-22		
Record date	22-Mar-23	26-Sep-22	01-Mar-22		
Dividend payment date	24-Apr-23	26-Oct-22	22-Apr-22		

LFS will continue to target a full year payout ratio of 60-70% of cash NPAT. The board determines the dividend per share based on net profit after tax (*cash*) per share, having regard to a range of factors including:

- Current and expected rates of business growth and the mix of business;
- Long term average loss rates;
- Capital needs to support economic, regulatory and funding requirements;
- Investments and/or divestments to support business development;
- Competitors comparison and market expectations; and
- Expected earnings per share growth.

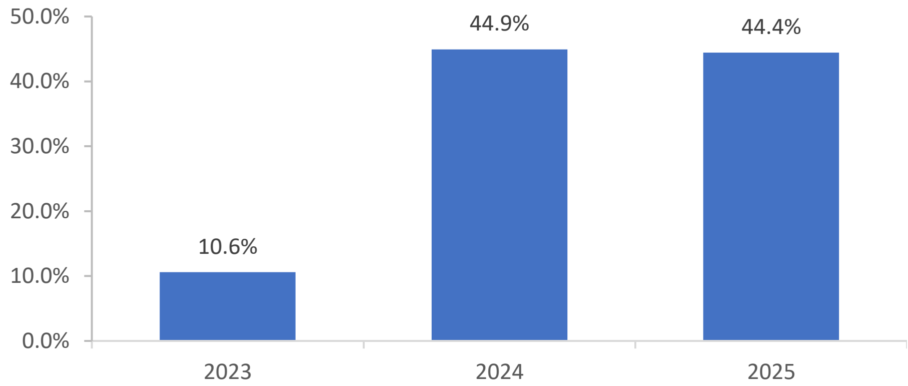
Section A | Results

08 | Funding & Liquidity

Latitude continued to be active in the management of its funding in FY22 by refinancing and managing limits of key facilities to maintain our cost effective, diverse and prudent funding program with $1.3bn of headroom

Latitude systematically manages its maturity profile within its target range of no more than 50% of funding maturities in any given year and no more than 40% of funding maturities within the next 12 months. The following graph sets out Latitude's debt maturity profile as at 31 December 2022.

Chart 1: Latitude debt maturity profile as at 31 December 2022



Summary of Warehouse Funding Facilities

Significant changes in Warehouse funding during the year included:

- **January**: New Zealand Sales Finance and Credit Card Warehouse was extended to 24 January 2025, maintaining current commitments of NZ$864 million. The refinance was documented in December 2021.
- **March:** Australian Sales Finance and Credit Card Warehouse was refinanced. Total commitments were reduced by $129 million to $801 million, and the scheduled amortisation date extended to 24 March 2025.
- **March:** Symple Warehouse Trust 2019-1 was extended to 31 March 2024. It was subsequently redocumented and renamed the Australian Personal Loans Trust No. 2 in September.
- **May**: Australian Personal Loans Warehouse was refinanced at its existing facility size and the scheduled amortisation date was extended to 19 May 2025.
- **November:** Australian Auto Loans Trust was extended to 19 December 2024, with total commitments remaining at $926 million.
- **December:** Latitude agreed and documented the refinance of the New Zealand Personal Loans Trust, extending the scheduled amortisation date to 17 December 2025 with the refinance being completed on the payment date in January 2023.

Section A | Results

The following table sets out the position of each of Latitude's warehouses as at 31 December 2022.

Table 11: Warehouse facilities as at 31 December 2022

(All amounts million)	Australia Sales Finance and Credit Cards Trust	Australia Sales Finance and Credit Cards Trust No. 3	Australia Personal Loans Trust	Australia Personal Loans Trust No. 2	Australia Auto Loans Trust	New Zealand Sales Finance and Credit Cards Trust	New Zealand Personal Loans Trust
Limit[a]	A$801.1	A$1055.6	A$1036.1	A$184.0	A$926.3	NZ$864.1	NZ$610.0
Drawn	A$544.0	A$710.7	A$956.0	A$114.4	A$753.3	NZ$605.7	NZ$470.4
Headroom[b]	A$257.1	A$344.9	A$80.1	A$69.6	A$173.0	NZ$258.4	NZ$139.6
Revolving period end date	24-Mar-25	22-Apr-24	19-May-25	18-Mar-24	19-Dec-24	22-Jan-25	17-Dec-25

Notes:

(a) *Limit excludes the seller note (i.e. the equity position contributed by Latitude).*

(b) *Total headroom of $1.3bn includes $0.1bn Variable Funding Note ('VFN') capacity for Australia and New Zealand as outlined in the note attached to table 12*

Section A | Results

Summary of ABS Funding

Significant changes in ABS funding during the year included:

- **March:** Australian Personal Loan Series 2017-1 was redeemed on the payment date following a call date trigger in February. All noteholders were repaid in full, with the remaining balance of loans sold to the Australian Personal Loans Warehouse.
- **August:** Australian Credit Card Master Trust Series 2017-2 was redeemed on its expected redemption date. All noteholders were repaid in full.

Table 12: ABS issuance as at 31 December 2022

(All amounts million)	Latitude Australia Credit Card Loan Note Trust – Series 2018-1	Latitude Australia Credit Card Loan Note Trust – Series 2019-1	Latitude Australia Personal Loan Series 2020-1 Trust	Latitude New Zealand Credit Card Loan Note Trust – Series 2021-1	Latitude Australia Personal Loan Series 2021-1 Trust
Underlying segment receivables	Sales finance & credit card receivables	Sales finance & credit card receivables	Personal loans	Sales finance & credit card receivables	Personal loans
Notes issued	A$500	A$750	A$500	NZ$250	A$500
Issue date	27-Mar-18	13-Sep-19	26-Feb-20	17-Aug-21	24-Nov-21
Revolving period end date	22-Mar-23	22-Sep-24	n.a.	22-Aug-24	n.a.
Expected call date[b]	22-Mar-23	22-Sep-24	17-Aug-23	22-Aug-24	17-Apr-25
Outstanding Notes at 30 June 2022	A$500	A$750	A$104.8	NZ$250	A$327.3
Outstanding Variable Funding Note at 30 June 2022	A$42.2			NZ$7.3	
Outstanding Notes at 31 December 2022	A$500	A$750	A$67.9	NZ$250	A$225.4
Outstanding Variable Funding Note at 31 December 2022	A$59.9			NZ$22.4	

Notes:

(a) *Series issued by Latitude Australia Credit Card Loan Note Trust are expected to be called at the issue amount; the Latitude Australia Personal Loans Series 2020-1 and Series 2021-1 Trusts are expected to be called at their expected 10% clean-up call date.*

Section B | Supplementary Information

Section B | Supplementary Information

This section includes supplemental information that Latitude believes is useful for investors and users of this financial information.

B.1 Restructure of the Latitude Group and impact on the statutory financial statements in the prior comparative period

The Group undertook a restructure in March 2021 in preparation for the ASX Listing. On 25 March 2021, the Company acquired control of Latitude Financial Services Limited (*and its controlled entities*), the top operating entity of the Latitude New Zealand operations, an entity under the control of the Company's ultimate parent entity KVD Singapore Pte Ltd. Additionally, the Group entered into agreements to acquire the legal and beneficial interests in the Australian warehouse trusts from the original shareholders (*or related entities of those parties*), together with an assignment right to the income (*and associated distribution entitlements*) attaching to those interests from and after 1 January 2021. Completion of this sale was conditional on FIRB approval as 30 June 2021. This approval was obtained on 21 July 2021 and the restructure steps were completed on 1 August 2021.

The transactions occurred between entities under common control and all assets and liabilities were transferred at their book values in the accounts of the transferor, as allowable under the common control requirements contained in AASB 3 *Business Combinations*.

The results and cashflows for the year ended 31 December 2021 and half year ended 30 June 2021 reflect trading results for the Company and all its controlled entities as if they were a consolidated group in both reporting periods, as allowable by the Australian Accounting Standards Board (*AASB*). In addition, some transactions required to enact the internal common control restructure have been presented as if they occurred prior to the date of common control restructure, and are summarised in Note 1.1 (*c*) Basis of Preparation (*Common control transaction*) of the Consolidated Financial Report for the year ended 31 December 2022, and include:

- The acquisition of 79,593,376 ordinary shares of Latitude Financial Services Limited by the Company;
- The removal of the historical consulting and monitoring fees paid or payable to the original investors; and
- The removal of distributions from the Group's trusts to trust beneficiaries of residual income units historically owned by the existing investors.

Section B | Supplementary Information

B.2 Information about Cash NPAT and other Non-IFRS Metrics

Cash PBT and Cash NPAT

Cash PBT is calculated by deducting cash operating expenses from risk adjusted income (*RAI – see definition below*). It excludes non-cash items such as movement in IFRS 9 impairment provisions and acquisition related amortisation. It also excludes notable items and is a pre-tax measure. Latitude uses Cash PBT for its internal management reporting as it believes it reflects the best measure of underlying risk adjusted performance.

Some of the limitations of Cash PBT include that this measure does not reflect:

- The movements in IFRS 9 provisions for future losses on Latitude's receivables;
- 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; and
- The notable items, amortisation of acquisition intangibles and amortisation of legacy transaction costs or tax expense.

Cash NPAT is calculated by adding back the after-tax impact of amortisation of acquisition intangibles, amortisation of legacy transaction costs and notable items to NPAT.

Cash NPAT is measured by Latitude to evaluate the operating performance of the business without the impact of the non-cash expenses associated with amortisation of acquisition intangibles, amortisation of legacy transaction costs and notable items.

Some of the limitations of Cash NPAT include:

- It excludes amortisation of acquisition intangibles, amortisation of legacy transaction costs and notable items which by their nature create a different profile to statutory profit;
- It is not representative of the free cash flow of Latitude's business (*refer to Consolidated Statement of Cash Flows for this information*); and
- Other companies in Latitude's industry may calculate this measure differently from Latitude (*including using a different definition of notable items, amortisation of acquisition intangibles and amortisation of legacy transaction costs*), thus limiting its usefulness as a comparative measure.

Risk Adjusted Income (RAI)

RAI is calculated as total operating income less net charge offs and is measured by Latitude to evaluate the risk adjusted margin on receivables after funding costs and net charge offs before the movement in provisions for losses and operating expenses.

RAI is considered useful by Latitude as it measures the risk adjusted contribution from each product.

It allows Latitude to have a consistent measure of risk adjusted performance and 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 loan impairment expense associated with the movement in provisions for future losses due to growth in Latitude's receivables or changes in the coverage ratio;
- The direct operating expenses incurred by Latitude in generating RAI;
- The indirect costs associated with Latitude's business;
- 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; and
- Moreover, current net charge offs may not be reflective of future long run net charge offs and will be influenced by the current macro-economic environment as well as historical portfolio credit quality characteristics that may change over time.

Section B | Supplementary Information

B.3 Additional information on seasonality

Seasonality

Latitude experiences a seasonal effect in its financial performance between 1H and 2H of each financial year.

For example, demand for Latitude's sales finance and revolving credit products is typically higher during the 2H period in comparison to the 1H period as a result of increased consumer spending across the Black Friday/ Cyber Monday sales events, in addition to the lead up to the Christmas holiday period and the post-Christmas sales period. 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 the Latitude portfolio exhibits a seasonal impact with delinquencies rising in 1H with higher indebtedness following the December holiday periods 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 tax year in June upon the receipt of tax refunds.

B.4 Additional amortisation of intangibles metrics including associated commentary

Table B.1: Amortisation of acquisition intangibles & legacy transaction costs pre-tax

	31-Dec-22	30-June-22	31-Dec-21	Change %	Change %	31-Dec-22	31-Dec-22	Change %
($m)	**2H22**	**1H22**	**2H21**	**HoH**	**YoY**	**FY22**	**FY21**	**YoY**
Amortisation of acquisition intangibles	23.5	24.1	24.2	*(2%)*	*(3%)*	47.6	48.3	*(1%)*
Amortisation of legacy transaction costs	1.5	2.4	3.8	*(38%)*	*(61%)*	3.9	9.4	*(59%)*
Total	**25.0**	**26.5**	**28.0**	***(6%)***	***(11%)***	**51.5**	**57.7**	***(11%)***

Note – Amortisation of Legacy Transaction costs is included in Interest Expense for Statutory reporting purposes.

Amortisation of acquisition intangibles is amortising in line with the straight-line amortisation schedule. Acquisition intangibles recognised as part of a business combination in 2015 have remaining amortisation periods of 2 years in Australia. New Zealand is now fully amortised as at 31 December 2022.

The Amortisation of Legacy Transaction costs has decreased by $0.9 million or 38% HoH as the capitalised portion of both the costs related to the original establishment of the warehouse funding program in 2015, and the costs related to the historical hedging arrangements that were settled as part of Latitude's proposed 2019 IPO have continued to amortise. The funding establishment costs are amortised over the life of the respective funding vehicles while the amortisation of the historical hedging arrangements is in line with the original life of the historical instrument and the unwind of the historical cash flow hedge reserve. The reduction in these costs is in line with the expected amortisation profile of the balances.

Section B | Supplementary Information

B.5 Reconciliation from Cash NPAT to Stat NPAT for continuing operations

Table B.2: Cash NPAT to Stat NPAT 2H22

($m)	Cash NPAT	Amortisation of acquisition intangibles	Amortisation of legacy transaction costs	Corporate Development	Restructuring Costs	Fixed Assets Impairment	Decommissioned Facilities	Stat NPAT
Net interest income	323.0		(1.5)				(0.2)	321.4
Other income	18.8						0.5	19.3
Total operating income	**341.8**		**(1.5)**	**-**	**-**	**-**	**0.4**	**340.7**
Net charge offs	(73.4)							(73.4)
Risk adjusted income	**268.4**		**(1.5)**	**-**	**-**	**-**	**0.4**	**267.3**
Cash Opex	(157.5)			(23.9)	(9.5)	(6.9)	1.4	(196.5)
Cash PBT	**110.9**		**(1.5)**	**(23.9)**	**(9.5)**	**(6.9)**	**1.7**	**70.8**
Movement in provision	(7.2)							(7.2)
D&A (*excluding leases*)	(23.2)	(23.5)					(3.5)	(50.1)
Profit before tax & notable items	**80.6**	**(23.5)**	**(1.5)**	**(23.9)**	**(9.5)**	**(6.9)**	**(1.8)**	**13.5**
Income tax expense	(20.1)	6.9	0.4	5.9	2.8	2.1	0.5	(1.5)
NPAT (*continuing ops*)	**60.5**	**(16.6)**	**(1.1)**	**(18.0)**	**(6.7)**	**(4.8)**	**(1.3)**	**12.0**

Table B.3: Cash NPAT to Stat NPAT FY22

($m)	Cash NPAT	Amortisation of acquisition intangibles	Amortisation of legacy transaction costs	Corporate Development	Restructuring Costs	Fixed Assets Impairment	Decommissioned Facilities	Stat NPAT
Net interest income	675.8		(3.9)				(0.3)	671.6
Other income	36.4						1.1	37.5
Total operating income	**712.2**		**(3.9)**	**-**	**-**	**-**	**0.7**	**709.1**
Net charge offs	(147.6)							(147.6)
Risk adjusted income	**564.6**		**(3.9)**	**-**	**-**	**-**	**0.7**	**561.5**
Cash Opex	(331.8)			(41.3)	(15.2)	(22.2)	(0.2)	(410.7)
Cash PBT	**232.8**		**(3.9)**	**(41.3)**	**(15.2)**	**(22.2)**	**0.6**	**150.8**
Movement in provision	28.1							28.1
D&A (*excluding leases*)	(45.3)	(47.6)					(4.0)	(96.9)
Profit before tax & notable items	**215.6**	**(47.6)**	**(3.9)**	**(41.3)**	**(15.2)**	**(22.2)**	**(3.4)**	**82.0**
Income tax expense	(62.1)	14.0	1.1	10.9	4.5	6.5	1.0	(24.1)
NPAT (*continuing ops*)	**153.5**	**(33.6)**	**(2.8)**	**(30.4)**	**(10.7)**	**(15.7)**	**(2.4)**	**57.9**

B.6 Glossary of terms

Term	Definition
90+ days past due	Total amount of receivables 90+ days past due at period end divided by period end gross loan receivables
Amortisation of acquisition 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*)
Amortisation of legacy transaction costs	Reflects the amortisation of capitalised costs for the original establishment of the warehouse funding program and historical hedging arrangements settled as a direct result of Latitude's proposed 2019 IPO (*ending in 2023*)
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
Book value per share	Net assets divided by ordinary shares on issue at the end of the reporting period.
Cost to income ratio	Represents the ratio of cash operating expenses to operating income, excluding amortisation of transaction costs and changes in capital structure
Coverage ratio	Represents the ratio of provisions for expected losses to gross loan receivables in accordance with IFRS 9
Depreciation & amortisation expense (*ex leases*)	Includes amortisation of capitalised software and depreciation of property, plant and equipment
EPS Cash - Basic	Represents the cash earnings per share calculated as Cash NPAT for the period divided by the weighted average shares on issue for the period.
EPS Cash - Diluted	Represents the cash earnings per share calculated as Cash NPAT for the period divided by the weighted average shares on issue for the period including the dilutive effect of the capital notes on issue.
Employee expense	Relates to employee salary, incentives and related on-costs. Employee expenses exclude costs associated with Latitude's Transformation, restructuring and simplification programmes which have been presented separately in notable items
Gross loan receivables	Represents the total outstanding receivables balance across all products at the end of the period excluding the net fair value unwind and discontinued operations
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

Term	Definition
Interest expense cost	Interest expense divided by average interest-bearing liabilities for the relevant period
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 auto loan products. Fees and charges include merchant service fees (*for sales finance and BNPL*) 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
Interest income/AGR	Interest income divided by AGR for the relevant period
Latitude Money	Variable and fixed rate unsecured/ secured personal loans and unsecured/ secured auto loans
Latitude Pay	Where the customer's need is to purchase goods or services and where Latitude provides a payment and finance solution for the merchant and customer.
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
Marketing expense	Relates to marketing, advertising and sales promotion expenses
Net charge-offs (*NCO*)	Gross charge offs less any subsequent recoveries of charged off debt
Net charge offs/AGR	Net charge offs divided by AGR for the relevant period
Net receivables	Represents Gross loan receivables less loan provisions for impairments, deferred income and customer acquisition costs
Net interest margin (*NIM*)	Interest income less interest expense divided by AGR for the relevant period
Net tangible assets per share	Net assets excluding intangible assets, non-controlling interests and other equity instruments divided by ordinary shares on issue at the end of the reporting period.
Notable items	Latitude believes these items are outside the ordinary course of business and temporary in nature or relate to the costs associated with entering new segments and markets where the associated revenues or benefits from that uncapitalised investment will not evolve during the reporting period.
Operating Income	Operating Income is calculated as Net interest income plus Other operating income
Operating income margin	Operating Income divided by AGR for the relevant period
Other operating expenses	Primarily relates to outside services costs, facilities expenses for offices and other general operating costs. Expenses associated with Latitude's restructuring have been excluded and presented separately in notable items

Term	Definition
Other operating income	Includes statement fees, interchange and other fees & charges. Other operating income is offset by direct costs including credit card Scheme and related fees, partner loyalty fees, customer loyalty fees. For certain fee categories where fees are a pass through of external costs due to customer channel selection, these costs are netted against the associated fees (*e.g. paper statement fees, payment handling fees*)
Provision movement	Represents the movement in the provision for impairment losses (*estimated in accordance with IFRS 9, excluding movement in transaction fraud losses*)
Return on AGR (*RoAGR*)	RoAGR is calculated as Cash NPAT divided by the average gross receivables (*AGR's*) for the relevant period
Return on Equity (*ROE*)	RoE is calculated as Cash NPAT divided by the average Total Equity for the relevant period
Return on Tangible Equity (*ROTE*)	Calculated as Cash NPAT divided by the average Tangible Equity for the relevant period
Risk adjusted income (*RAI*)	RAI is calculated as total operating income less Net charge offs and is measured by Latitude to evaluate the risk adjusted margin on receivables after funding costs and Net charge offs before the allocation of expenses associated with the movement in provisions for losses as well as operating expenses.
Risk adjusted income yield	Risk adjusted income divided by AGR for the relevant period
Tangible Equity (*TE*)	Total Equity less Intangible assets
Tangible Equity/Net Receivables (*TER*)	Calculated as Tangible Equity divided by Net receivables
Total Equity	Contributed equity plus Common control reserve plus Other reserves plus Retained earnings
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