

Latitude Australia Credit Card Loan Note Trust

ABN 91 358 918 961

Special Purpose Annual Financial Report

**For the period 13 February 2017 to 31 December
2017**

Latitude Australia Credit Card Loan Note Trust

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Trustee's report

The Trustee presents its report together with the financial report of the Latitude Australia Credit Card Loan Note Trust ("The Trust") for the period from 13 February 2017 to 31 December 2017 and the auditor's report thereon.

This special purpose financial report has been prepared by the Trust Manager in accordance with the requirements of the Loan Note Trust Deed for distribution to the Unitholders and the Trustee of the Latitude Australia Credit Card Loan Note Trust.

The auditors of the Trust, KPMG, who have been appointed by the Trustee in accordance with the Loan Note Trust Deed, have conducted an audit of the financial report.


Based on the Trustee's ongoing programme of monitoring the Trust and the Trust Manager, and the Trustee's review of the financial report for the period ended 31 December 2017, the Trustee believes that:

- (a) the Trust has been conducted in accordance with the Loan Note Trust Deed dated 13 February 2017; and
- (b) the financial report has been appropriately prepared in accordance with the basis of preparation in Note 2(a) of the financial report.

The Trustee is not aware of any material matter of significant change in the state of affairs of the Trust occurring up to the date of this report that requires disclosure in the financial report and the notes thereto that has not already been disclosed.

In making this statement, the Trustee has relied upon information, representations and warranties provided by the Trust Manager.

Signed for and on behalf of Perpetual Corporate Trust Limited as Trustee of the Latitude Australia Credit Card Loan Note Trust.



Authorised Officer
27 April 2018

Latitude Australia Credit Card Loan Note Trust
Statement of profit or loss and other comprehensive income
For the period ended 31 December 2017

	13 February 2017 to 31 December 2017 \$'000	
		Notes
Net finance income		
Interest income	5	
Interest expense	(37,408)	
Liquidity and note facility commitment fees	39,432	
Net finance income	<u>2,029</u>	
Expenses		
Trust manager fees	(480)	
Trustee fees	(90)	
Other operating expenses	(81)	
Total operating expenses	<u>(651)</u>	
Change in net assets attributable to unitholders	3 <u>1,378</u>	
Finance costs attributable to unitholders		
Distributions to unitholders	3 <u>(1,378)</u>	
Net change in net assets attributable to unitholders	-	
Other comprehensive income for the period, net of tax	<u>-</u>	
Total comprehensive income for the period	<u>-</u>	

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

Latitude Australia Credit Card Loan Note Trust
Statement of financial position
As at 31 December 2017

	Notes	2017 \$'000
Assets		
Cash and cash equivalents		1
Related party receivables	4	1,603,943
Other receivables	5	4,623
Total assets		<u>1,608,567</u>
Liabilities		
Payables	6	4,551
Borrowings	7	1,604,015
Total liabilities (excluding net assets attributable to unitholders)		<u>1,608,566</u>
Net assets attributable to unitholders - liability	3	<u>1</u>

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

Latitude Australia Credit Card Loan Note Trust
Statement of changes in equity
For the period ended 31 December 2017

The Trust's net assets attributable to unitholders are classified as a liability under *AASB 132 Financial Instruments: Presentation*. As such the Trust has no equity and no items of changes in equity have been presented for the current period.

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

Latitude Australia Credit Card Loan Note Trust
Statement of cash flows
For the period ended 31 December 2017

	13 February 2017 to 31 December 2017 \$'000
<i>Cash flows from operating activities</i>	
Trust servicing fees paid	(505)
Interest paid	(34,562)
Other operating cash flows	(76)
<i>Net cash inflow/ (outflow) from operating activities</i>	<u>(35,143)</u>
<i>Cash flows from investing activities</i>	
Net (investment)/ repayment in related party loan receivables	(1,566,467)
<i>Net cash inflow/ (outflow) from investing activities</i>	<u>(1,566,467)</u>
<i>Cash flows from financing activities</i>	
Net drawdown/ (repayment) of principal from loan note holders	1,601,610
Proceeds from application by unitholders	1
<i>Net cash inflow/ (outflow) from financing activities</i>	<u>1,601,611</u>
<i>Net increase/ (decrease) in cash and cash equivalents</i>	<u>1</u>
<i>Cash and cash equivalents at the end of the period</i>	<u>1</u>

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

1 General information

These financial statements cover Latitude Australia Credit Card Loan Note Trust ('the Trust') as an individual entity for the period ended 31 December 2017. The Trust is domiciled in Australia and its principal place of business is 800 Collins Street, Docklands, Victoria, 3008.

The Trust was formed on 13 February 2017 and will terminate on the earlier of: a) the day before the eightieth anniversary of the trust commencement date; or b) the date on which the Loan Note Trust Manager notifies the Loan Note Trustee that it is satisfied that all of the Loan Note Secured Obligations have been unconditionally and irrevocably repaid in full and the Security Interest under the Security and Cashflow Allocation Deed as supplemented by each Loan Note Supplement in respect of the Loan Note Trust Assets has been fully discharged, and provided that the Loan Note Trust Manager is not aware of any intention to continue to use the Loan Note Trust for the purpose of issuing further Series of Associated Debt.

The Trust acts as an insolvency-remote special purpose entity for the purposes of a loan securitisation program.

The trust funds the purchase of receivables through the issue of class A, B, C, D, E notes, Variable Funding Note (VFN) and Originator Variable Funding Note (OVFN), where the originating company from whom the loans have been assigned, are holders of the OVFN.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below.

(a) Basis of preparation

In the opinion of the directors of the KVD TM Pty Ltd, the Trust Manager of the Trust, the trust is a for-profit entity and not a reporting entity. The financial statements have been prepared as special purpose financial statements and are prepared in accordance with the recognition and measurement aspects of all applicable Australian Accounting Standards and interpretations issued by the Australian Accounting Standards Board.

The Special purpose financial report has been prepared in accordance with the disclosure requires AASB 101: *Presentation of Financial Statements*, AASB 10: *Statement of Cash Flows*, AASB 108: *Accounting Policies, Change in Accounting Estimates and Errors*, AASB 1048: *Interpretation and Application of Standards* and AASB 1054: *Australian Additional Disclosures*.

Amounts in the financial report have been rounded to the nearest thousand dollars, unless otherwise stated.

(i) Compliance with International Financial Reporting Standards

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2017 reporting periods and have not been early adopted by the Trust. The Trust's assessment of the impact of these new standards and interpretations is set out below.

2 Summary of significant accounting policies (continued)

(b) Basis of Measurement

(i) Compliance with International Financial Reporting Standards (continued)

Title of standard	Nature of change	Impact	Mandatory application date / Date of adoption by Trust
AASB 9 Financial instruments	AASB 9 Financial Instruments (issued December 2014) will replace AASB 139 Financial Instruments: Recognition and Measurement. It introduces a new 'expected credit loss' model, revised classification and measurement of provisions. The recognition and de-recognition guidance remains mainly unchanged.	The Trust assesses that there will be no material impact under the new standard.	Mandatory for financial years commencing on or after 1 January 2018. AASB 9 will be applied by the Trust from 1 January 2018.
AASB 15 Revenue from Contracts with Customers	The AASB has issued a new standard for the recognition of revenue. This will replace AASB 118 which covers contracts for goods and services and AASB 111 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer - so the notion of control replaces the existing notion of risks and rewards.	The Trust has assessed the impact of the new requirements which have been deemed as immaterial.	Mandatory for financial years commencing on or after 1 January 2018. Expected date of adoption by the Trust from 1 January 2018.

(b) Basis of measurement

The financial statements have been prepared on the basis of historical cost except as otherwise stated.

(c) Functional and presentation currency

The financial statements are presented in Australian dollars, which is the Trust's functional currency.

(d) Estimates and judgements

The preparation of the financial report requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. The key estimate relates to the impairment assessment of the related party loan receivable refer note 2(g)(ii).

Estimates and judgement are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(e) Ultimate parent entity

The ultimate parent entity is Deutsche Australia Limited, KKR Clarendon Trust Holdings LLC & Vatpo Assets LLC, the residual income unit holders of Australian Sales Finance and Credit Cards Trust.

2 Summary of significant accounting policies (continued)

(f) Comparative amounts

There are no comparative amounts as the Trust was established on 13 February 2017.

(g) Financial instruments

(i) Recognition/derecognition

The Trust recognises financial assets and financial liabilities on the date it becomes party to the contractual agreement (trade date) and recognises changes in fair value of the financial assets or financial liabilities from this date.

The loans are equitably assigned to the Trust and provide security for obligations payable on loan notes issued by the Trust. As the originating company from whom the loans have been assigned are deemed to have retained the majority of the risks and rewards of the loans, the originating entity continues to recognise the loans as financial assets. The obligation to pay this amount to the Trust is recognised as a financial liability of the company and the Trust recognises a financial asset (related party receivable).

(ii) Measurement

Related party receivables

Receivable assets are measured initially at fair value and subsequently amortised using the effective interest method, less impairment losses (if any). Such assets are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment.

If evidence of impairment exists, an impairment loss is recognised in profit or loss as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate.

If in a subsequent period the amount of an impairment loss recognised on a financial asset carried at amortised cost decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down is reversed through profit or loss.

(h) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, and bank overdrafts. Bank overdrafts are shown within borrowings in the statement of financial position.

(i) Revenue

Interest income on related party receivables is recognised using the effective interest method.

Facility commitment fees are equal to the amount of any costs and expenses of the Loan Note Trustee in respect of the arrangement and execution of the Transaction of the issuance of such Series and a financing charge, calculated on principal amount outstanding, using the effective interest method.

2 Summary of significant accounting policies (continued)

(j) Borrowing costs

Financial liabilities are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost with any difference between cost and redemption value being recognised in the statement of profit or loss and other comprehensive income over the life of the loans on an effective yield basis.

(k) Expenses

Loan note interest is recognised as it accrues using the effective interest method. All expenses, including servicer and trust manager fees, are recognised in profit or loss on an accruals basis.

(l) Income tax

Under current legislation, the Trust is not subject to income tax as its taxable income is distributed in full to the Residual Income Unitholder.

(m) Distributions

The Trust distributes its net trust income in accordance with the distribution entitlement of the Trust deed. The distributions are recognised in profit or loss as finance costs attributable to unitholders.

(n) Increase/decrease in net assets attributable to unitholders

Units are redeemable at the unitholders' option and are therefore classified as financial liabilities. The units can be put back to the Trust at any time for cash equal to a proportionate share of the Trust's net assets value. The fair value of the redeemable units is measured at the redemption amount that is payable at the balance sheet date.

(o) 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 consolidated balance sheet.

The Trust joined the Latitude Financial Services Australia Holdings Pty Ltd GST group on 1 March 2017. The Trust has also entered into an indirect tax sharing agreement which sets out the allocation of GST liabilities between the entities should the representative member default on its tax payment obligations. It removes the exposure of the Trust to joint and several liability in the event of such default.

Latitude Australia Credit Card Loan Note Trust
Notes to the financial statements
31 December 2017
(continued)

3 Net assets attributable to unitholders

The movement in the number of units and net assets attributable to unitholders during the period were as follows:

	2017 Number	2017 \$'000
Applications	100	1
Increase/(decrease) in net assets attributable to unitholders	-	1,378
Distribution paid/payable to unitholders	-	(1,378)
Closing balance	<u>100</u>	<u>1</u>

4 Related party receivables

	2017 \$'000
Non-Current assets	
Receivable from related parties	1,603,943
Total related party receivables	<u>1,603,943</u>

The receivables from related parties are secured by a registered interest on the related party loans and advances recorded in the originating company.

Latitude Australia Credit Card Loan Note Trust
Notes to the financial statements
31 December 2017
(continued)

5 Other receivables

	2017 \$'000
Current assets	
GST receivable	1
Financing Fee Receivable	4,622
Total other receivables	<u>4,623</u>

6 Payables

	2017 \$'000
Current liabilities	
Accrued interest on loan notes	3,086
Trust fees accrued	86
Distributions payable	1,282
Withholding tax payable	97
Total payables	<u>4,551</u>

7 Borrowings

	2017 \$'000
Non- current liabilities	
Class A notes	1,217,325
Class B notes	86,400
Class C notes	78,525
Class D notes	62,790
Class E notes	54,960
VFN	11,588
OVFN	92,427
Total borrowings	<u>1,604,015</u>

7 Borrowings (continued)

Terms and debt repayment schedule 2017

Terms and conditions of outstanding loans were as follows:

Series 2017-1

	Currency	Nominal interest rate	Year of Maturity	Face value \$'000	Carrying amount \$'000
Interest bearing loan Class A1	AUD	1M BBSW + 125bp	2029	685,900	685,900
Interest bearing loan Class A2	AUD	1M BBSW + 185bp	2029	125,650	125,650
Interest bearing loan Class B	AUD	1M BBSW + 240bp	2029	57,600	57,600
Interest bearing loan Class C	AUD	1M BBSW + 300bp	2029	52,350	52,350
Interest bearing loan Class D	AUD	1M BBSW + 375bp	2029	41,860	41,860
Interest bearing loan Class E	AUD	1M BBSW + 525bp	2029	36,640	36,640
Interest bearing loan VFN	AUD	1M BBSW + 160bp	2031	11,588	11,588
Interest bearing loan OVFN	AUD	12.0%	2033	68,867	68,867
				<u>1,080,455</u>	<u>1,080,455</u>

Series 2017-2

	Currency	Nominal interest rate	Year of Maturity	Face value \$'000	Carrying amount \$'000
Interest bearing loan Class A1	AUD	1M BBSW + 120bp	2031	342,950	342,950
Interest bearing loan Class A2	AUD	1M BBSW + 170bp	2031	62,825	62,825
Interest bearing loan Class B	AUD	1M BBSW + 225bp	2031	28,800	28,800
Interest bearing loan Class C	AUD	1M BBSW + 275bp	2031	26,175	26,175
Interest bearing loan Class D	AUD	1M BBSW + 350bp	2031	20,930	20,930
Interest bearing loan Class E	AUD	1M BBSW + 500bp	2031	18,320	18,320
Interest bearing loan OVFN	AUD	12%	2033	23,560	23,560
				<u>523,560</u>	<u>523,560</u>

The Loan notes are secured by a registered interest on the loans and advances reported in the originating company.

8 Units issued

100 fully paid residual capital and residual income units valued at \$1,000 were issued on 13 February 2017.

9 Remuneration of auditor

Audit fees of \$20,000 for the Trust are paid by a related party.

10 Contingencies

There are no outstanding commitments or contingencies as at 31 December 2017.

10 Contingencies (continued)

11 Subsequent events

The Latitude Australia Credit Card Master Trust and the Latitude Australia Credit Card Loan Note Trust issued an additional series of notes on 27 March 2018. \$672.5m of receivables was transferred from the Australian Sales Finance and Credit Cards Trust.

Trust Manager's declaration

As detailed in Note 2(a) to the financial statements, the Trust is not a reporting entity because in the opinion of the Trust Manager there are unlikely to exist users of the financial report who are unable to command the preparation of reports tailored so as to satisfy specifically all of their information needs.

Accordingly, this special purpose financial report has been prepared to satisfy the Trust Manager's reporting requirements under the Loan Note Trust Deed (the "Trust Deed").

In the opinion of the Trust Manager:

- (1) (a) Latitude Australia Credit Card Loan Note Trust has operated for the financial period ended 31 December 2017 in accordance with the provisions of the Trust Deed dated 13 February 2017; and

(b) The accompanying financial statements and notes, are in accordance with the Trust Deed, including compliance with the accounting standards to the extent set out in Note 2(a) to the financial statements, and present fairly, in all material respects, the financial position and performance of the Trust.
- (2) There are reasonable grounds to believe that the Trust will be able to pay its debts as and when they become due and payable.

Signed for and on behalf of the Trust Manager.



P Varro
Director
27 April 2018



Independent Auditor's Report

To the Trustee of Latitude Australia Credit Card Loan Note Trust

Opinion

We have audited the **Financial Report** of Latitude Australia Credit Card Loan Note Trust (the Trust).

In our opinion, the accompanying Financial Report presents fairly, in all material respects, the financial position of the Trust as at 31 December 2017, and of its financial performance and its cash flows for the period 13 February 2017 to 31 December 2017, in accordance with *Australian Accounting Standards* to the extent described in Note 2(a) to the financial statements.

The **Financial Report** comprises:

- Statement of financial position as at 31 December 2017;
- Statement of profit or loss and other comprehensive income, Statement of changes in equity, and Statement of cash flows for the period 13 February 2017 to 31 December 2017;
- Notes including a summary of significant accounting policies; and
- Trust Manager's declaration.

Basis for opinion

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

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

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

Emphasis of matter – basis of preparation and restriction on use and distribution

We draw attention to Note 2(a) to the Financial Report, which describes the basis of preparation.

The Financial Report has been prepared to assist the Trustee of Latitude Australia Credit Card Loan Note Trust in meeting the financial reporting requirements of the Loan Note Trust Deed.

As a result, the Financial Report and this Auditor's Report may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Our report is intended solely for the trustee of Latitude Australia Credit Card Loan Note Trust and should not be used by or distributed to parties other than the trustee of Latitude Australia Credit Card Loan Note Trust. We disclaim any assumption of responsibility for any reliance on this report, or on the Financial Report to which it relates, to any person other than the trustee of Latitude Australia Credit Card Loan Note Trust or for any other purpose than that for which it was prepared.

Other Information

Other Information is financial and non-financial information in Latitude Australia Credit Card Loan Note



Trust's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Trust Manager is responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express any form of assurance conclusion thereon.

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

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

Responsibilities of the Trustee for the Financial Report

The Trustee is responsible for:

- the preparation and fair presentation of the Financial Report in accordance with the financial reporting requirements of the Loan Note Trust Deed and have determined that the basis of preparation described in Note 2(a) is appropriate to meet the needs of the trustee;
- implementing necessary internal control to enable the preparation of a Financial Report that is free from material misstatement, whether due to fraud or error; and
- assessing the Trust's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Trust or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

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

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

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

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf. This description forms part of our Auditor's Report.

KPMG

KPMG

Melbourne

27 April 2018