LATITUDE GROUP HOLDINGS LIMITED

ABN 83 604 747 391

Management Discussion & Analysis for the half ended 30 June 2022

19 August 2022

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Date of this Management Discussion & Analysis

This Management Discussion & Analysis has been prepared for the half year ended 30 June 2022 and is current as at 19 August 2022.

Notice to readers

The purpose of this Management Discussion & Analysis (MDA) is to provide information supplementary to Latitude Group Holdings Limited Interim Financial Report (the Financial Report) for the half year ended 30 June 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 4D

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 $93.0m, down 2% HoH, down 11% YoY.

Statutory profit after tax attributable to owners of Latitude Group Holdings Limited (*LFS*) was $30.6m down 57% HoH, down 66% YoY. On a continuing operations basis, net profit after tax declined 28% HoH and 42% YoY.

An interim dividend of 7.85cps 100% franked was declared, along with the introduction of a DRP.

Whilst rising inflation and interest rates are contributing to an uncertain economic outlook, LFS is well positioned given:

- **High margin** business model (*NIM 11.3%/RoAGR 3.0%*) with room for re-pricing
- **Prudent provisioning** with coverage at 3.74% (*1.6x NCO vs. a pre-COVID average of 1.3x*)
- **Robust funding** with $2bn of headroom, investor diversity and at least 12-months maturity runway
- **Strong net cash** position
- **Surplus TER** at 9.2% (*vs. 6-7% target range*)

Table 1: Summary profit & loss statement

($m)	30-June-22 1H22	31-Dec-21 2H21	30-June-21 1H21	Change % HoH	Change % YoY
Net interest income	352.7	371.2	401.2	*(5%)*	*(12%)*
Other income	17.7	16.0	7.9	*11%*	*124%*
Total operating income	**370.4**	**387.2**	**409.1**	***(4%)***	***(9%)***
Net charge offs	(74.2)	(67.6)	(81.9)	*10%*	*(9%)*
Risk adjusted income	**296.2**	**319.6**	**327.2**	***(7%)***	***(9%)***
Cash operating expenses	(174.3)	(191.9)	(173.5)	*(9%)*	*0%*
Cash PBT	**121.9**	**127.7**	**153.7**	***(5%)***	***(21%)***
Movement in provisions	35.3	21.3	12.3	*66%*	*187%*
Depreciation & amortisation (*ex leases*)	(22.1)	(18.4)	(16.9)	*20%*	*31%*
Profit before tax & notable items	**135.1**	**130.6**	**149.1**	***3%***	***(9%)***
Income tax expense	(42.1)	(35.3)	(44.4)	*19%*	*(5%)*
Cash NPAT from continuing operations	**93.0**	**95.3**	**104.7**	***(2%)***	***(11%)***
Notable items after tax					
Amortisation of acquisition intangibles	(17.0)	(17.1)	(17.0)	*(1%)*	*(0%)*
Amortisation of legacy transaction costs	(1.7)	(2.7)	(4.0)	*(37%)*	*(58%)*
Other notable items	(28.4)	(11.5)	(4.2)	*147%*	*large*
	(47.1)	**(31.3)**	**(25.2)**	***50%***	***87%***
Statutory profit after tax (*continuing ops*)	**45.9**	**64.0**	**79.5**	***(28%)***	***(42%)***
Profit/(loss) from discontinued operations	(15.7)	6.3	10.0	*(349%)*	*(257%)*
Outside equity interest	0.4	0.6	-	*(33%)*	*n.m*
Statutory profit after tax	**30.6**	**70.9**	**89.5**	***(57%)***	***(66%)***

(1) *Cash NPAT is a non-IFRS metrics used for management reporting as Latitude believes it reflects what it considers to be the underlying performance of the business. Cash NPAT reflects the reported net profit after tax adjusted for the after-tax impact of amortisation of acquisition intangibles, legacy transaction costs and notable items. Further information on Cash NPAT is included in Section B - supplementary Information*

The financial information, where relevant and useful, is separated into LFS's two key 'continuing' business units across Australia and New Zealand:

- **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

Moderate volume growth, +2% YoY coupled with elevated repayment rates driving flat AGR's HoH. RAI yield down 70bps YoY due to 1H21 price reductions and higher funding costs in 1H22. NCO's remain low. Cost discipline and a robust balance sheet

Group performance summary:

- **Volumes were flat HoH,** up 2% YoY. Pay was flat both HoH and YoY, whilst Money was up 3% HoH and 9% YoY. Repayment rate of 100% - down 6% pts HoH (*seasonal*) but flat YoY. AGR was flat HoH and down 3% YoY
- **Net interest margin 11.27%** (*NIM*) contracted 37bps HoH and 119bps YoY due to 1H21 pricing strategies and higher funding costs late in this half
- Total operating income down 4% HoH, down 9% YoY
- **Net charge offs 2.37%** (*NCO*) seasonally up 25bps HoH but down 17bps YoY
- **Risk adjusted income $296m** (*RAI*) down 7% HoH, down 9% YoY with the corresponding yield down 56bps HoH and 70bps YoY to 9.5%
- **Sustained cost discipline**, IT & productivity benefits driving cash operating expenses down 9% HoH and flat YoY
- Effective tax rate 31.2%, up from 27.0% HoH and 29.7% YoY due to offshore non-deductible costs
- Notable items after tax increased 50% HoH due to the Symple acquisition (*lending platform replacement & integration*) and transaction costs associated with the proposed but mutually terminated Humm acquisition
- **Robust balance sheet metrics** with provision coverage prudent at 3.74%, 90 days past due at 0.80% and the tangible equity ratio increasing 53bps HoH to 9.2%
- **Return on AGR 3.0%** (*RoAGR*) stable HoH with lower leverage driving ROE down 103bps to 12.1%
- **Interim dividend unchanged at 7.85 cents per share**, 100% franked, with a dividend reinvestment plan (*DRP*)

Table 2: Key performance indicators

	30-June-22	31-Dec-21	30-June-21	Chg %/bps	Chg %/bps
($m)	**1H22**	**2H21**	**1H21**	**HoH**	**YoY**
Volume	3,713	3,695	3,640	*0%*	*2%*
AGR	6,313	6,326	6,493	*(0%)*	*(3%)*
Operating Income	370	387	409	*(4%)*	*(9%)*
Risk adjusted income (*RAI – cont ops*)	296	320	327	*(7%)*	*(9%)*
Cash PBT (*cont ops*)	122	128	154	*(5%)*	*(21%)*
Cash NPAT (*cont ops*)	**93**	**95**	**105**	***(2%)***	***(11%)***
Interest income yield	**14.04%**	**14.15%**	**14.94%**	***(12)***	***(91)***
Interest expense/ AGR	2.77%	2.51%	2.48%	*25*	*29*
Net interest margin	11.27%	11.64%	12.46%	*(37)*	*(119)*
Operating income margin	11.83%	12.14%	12.71%	*(31)*	*(87)*
Net charge offs	**2.37%**	**2.12%**	**2.54%**	***25***	***(17)***
RAI yield	**9.5%**	**10.0%**	**10.2%**	***(56)***	***(70)***
90 days past due	0.80%	0.67%	0.82%	*13*	*(2)*
Coverage	3.74%	4.27%	4.46%	*(53)*	*(72)*
Cost/ income	47.1%	49.6%	42.4%	*(251)*	*465*
Cash opex/ AGR	5.6%	6.0%	5.4%	*(45)*	*18*
Spot FTE	1,055	1,303	1,291	*(19%)*	*(18%)*
Average FTE	1,179	1,297	1,335	*(9%)*	*(12%)*
Effective tax rate	31.2%	27.0%	29.7%	*415*	*142*
RoAGR	**3.0%**	**3.0%**	**3.3%**	***(2)***	***(28)***
RoE	12.1%	13.1%	16.6%	*(103)*	*(449)*
RoTE	35.3%	37.4%	47.5%	*(210)*	*(1223)*
TER	**9.2%**	**8.7%**	**8.2%**	***53***	***102***
DPS cents	7.85	7.85	7.85	*0%*	*0%*
EPS cents (*cash*)	8.95	9.47	10.47	*(6%)*	*(15%)*
Payout ratio	88%	83%	75%	*481*	*1271*
EPS cents (*cash diluted*)	8.19	8.78	10.47	*(7%)*	*(22%)*

Section A | Results

02 | Volume, Receivables & Net Interest Income

Moderate volumes and elevated repayment rates impacting receivable growth. 1H21 pricing actions and higher funding costs with judicious credit constrained net interest income progression

Volumes of $3,713m are flat HoH and up 2% YoY but remain strong in absolute terms.

Pay volumes remained subdued with very low interest rates and excess liquidity driving a preference for cash and other payment channels. In addition, foot traffic and consequently in-store sales have not fully returned to their pre-COVID levels. New Zealand was impacted in the half due to the implementation of the Credit Contracts & Consumer Finance Act (*CCCFA, effective 1 December 2021*), which has extra requirements during the origination process. This has initially impacted the number of applications and led to lower approvals and longer fulfillment times.

The 28 Degrees card has enjoyed a strong resumption to global travel with volumes of $779m, up 23% HoH and 29% YoY.

Money volumes remain solid, up 3% HoH, up 9% YoY. Australia is driving this growth with personal loans strong; up 16% HoH and 30% YoY. Product re-pricing in Auto was implemented during the half to manage risk adjusted returns. Auto volumes responded promptly; down 10% HoH and 9% YoY.

The Symple platform was integrated on plan during the half. The new platform now offers variable rate personal loans across a fully digitised cloud-based platform in Australia.

Table 3: Volume & receivables

($m)	30-June-22 1H22	31-Dec-21 2H21	30-June-21 1H21	Change % HoH	Change % YoY
Volume					
Pay	**2,910.3**	**2,924.0**	**2,913.2**	***(0%)***	***(0%)***
- Australia	2,376.0	2,340.9	2,348.5	*1%*	*1%*
- New Zealand	534.4	583.1	564.6	*(8%)*	*(5%)*
Money	**790.4**	**769.5**	**726.6**	***3%***	***9%***
- Australia	643.7	604.8	557.0	*6%*	*16%*
- New Zealand	146.7	164.7	169.6	*(11%)*	*(13%)*
Other	12.2	1.8	-	*large*	*n.m*
Group	**3,712.9**	**3,695.4**	**3,639.8**	***0%***	***2%***
Repayment rate (*excluding credit cards*)	**100%**	**106%**	**100%**	***(6%)***	***0%***
Receivables[1]					
Pay	**3,622.0**	**3,747.7**	**3,970.5**	***(3%)***	***(9%)***
- Australia	2,801.5	2,865.5	3,082.5	*(2%)*	*(9%)*
- New Zealand	820.5	882.3	888.0	*(7%)*	*(8%)*
Money	**2,633.3**	**2,600.1**	**2,503.9**	***1%***	***5%***
- Australia	2,187.3	2,123.1	2,011.5	*3%*	*9%*
- New Zealand	446.0	476.9	492.3	*(6%)*	*(9%)*
Other	1.2	1.4	-	*(11%)*	*n.m*
Group gross receivables	**6,256.6**	**6,349.2**	**6,474.4**	***(1%)***	***(3%)***
Provisions	(234.1)	(271.3)	(288.7)	*(14%)*	*(19%)*
Unearned	(83.5)	(100.2)	(124.6)	*(17%)*	*(33%)*
Net receivables	**5,939.0**	**5,977.7**	**6,061.1**	***(1%)***	***(2%)***

1) Prior periods have been restated to remove Discontinued Operations

Elevated repayment rates (*1H22: 100% vs. a pre-COVID 1H19 of 89%*) continue to constrain receivables growth across the book. Consequently, group receivables were flat HoH and down 3% YoY.

Pay receivables declined 3% HoH and 9% YoY due to the trends described above. As home loan rates begin to increase from historical lows, the '*interest free*' proposition is expected to become relatively more attractive. Investment to improve the instore user and merchant experience is also expected to drive improved uptake.

Credit card receivables up 5% HoH, flat YoY, principally driven by the 14% HoH increase in 28 Degrees.

Australian Money receivables increased 3% HoH and 9% YoY with Auto *($782m: up 5% HoH, up 15% YoY*) and Personal loans (*$1,406m: up 2% HoH, up 5% YoY*).

Net interest income declined 5% or $18m HoH with 37bps of NIM pressure (-*$11m*), flat AGR's (-*$1m*) and three less days in the period (-*$6m*). The 37bp contraction in NIM is comprised of: mix (-*7bps*), rate (-*3bps*) and higher funding (-*27bps*). In YoY terms, the 119bps is: mix (-*16bps*), rate (-*78bps*) and higher funding (-*25bps*).

Higher cash rates and a steepening yield curve (*3-yr swap*) during the half, in both Australia (*+75bps/ +217bps*) and New Zealand (*+125bps/ +174bps*), have seen funding and fixed rate loan hedging costs move ahead of LFS product yields. In response, product interest rates were increased late in the half, GO/GEM (*+150bps*), Personal Loans (*+300bps*) and Auto (*+200bps*), partially reversing the price cuts implemented in 2020/21.

AGR's were flat HoH with Pay down 2% HoH and Money up 3% HoH.

Table 4: Net interest income/ margin & RAI yield

($m)	30-June-22 1H22	31-Dec-21 2H21	30-June-21 1H21	Chg %/bps HoH	Chg %/bps YoY
Interest income	439.4	451.3	481.1	*(3%)*	*(9%)*
Interest expense	(86.6)	(80.1)	(79.9)	*8%*	*8%*
Net interest income	**352.7**	**371.2**	**401.2**	***(5%)***	***(12%)***
Other income	17.7	16.0	7.9	*11%*	*124%*
Net charge offs	(74.2)	(67.6)	(81.9)	*10%*	*(9%)*
Risk adjusted income (RAI)	**296.2**	**319.6**	**327.2**	***(7%)***	***(9%)***
Interest income yield	14.04%	14.15%	14.94%	*(12)*	*(91)*
Interest expense cost	3.01%	2.75%	2.76%	*27*	*25*
Net interest spread	**11.02%**	**11.40%**	**12.19%**	***(39)***	***(116)***
Benefit of equity	0.24%	0.24%	0.27%	*2*	*(3)*
Net interest margin	**11.27%**	**11.64%**	**12.46%**	***(37)***	***(119)***
Other income	0.56%	0.50%	0.25%	*6*	*32*
Operating income margin	**11.83%**	**12.14%**	**12.71%**	***(31)***	***(87)***
Net charge offs	(2.37%)	(2.12%)	(2.54%)	*(25)*	*17*
RAI yield	**9.46%**	**10.02%**	**10.16%**	***(56)***	***(70)***

Table 5: Average balance sheet

	Half year 30-June-22 1H22			Half year 31-Dec-21 2H21			Half year 30-June-21 1H21 [1]		
($m)	Ave bal.	Interest	Rate	Ave bal.	Interest	Rate	Ave bal.	Interest	Rate
Receivables (AGR)	**6,313**	**439**	**14.0%**	**6,326**	**451**	**14.2%**	**6,493**	**481**	**14.9%**
- Pay	3,681	276	15.1%	3,773	285	15.0%	4,023	313	15.7%
- Money	2,631	163	12.5%	2,553	166	12.9%	2,470	168	13.7%
- Other	1	1	n.m	1	-	n.m	-	-	-
Average assets	**7,891**			**7,866**			**7,731**		
- Securitisation	5,786	83	2.9%	5,781	76	2.6%	5,848	76	2.6%
- Corporate Debt	19	0	3.0%						
- Other	0	4	n.m		4			4	
Total ave interest bearing	5,805	87	3.0%	5,781	80	2.7%	5,848	80	2.8%
Average liabilities	**6,339**			**6,423**			**6,452**		
NII/ spread		353	11.0%		371	11.4%		401	12.2%
Net interest margin			**11.3%**			**11.6%**			**12.5%**
Average equity	**1,553**			**1,443**			**1,275**		

1) *1H21 average is using Pro forma Balance sheet at 31 Dec 2020 as opening balance*

Section A | Results

04 | Other Operating Income

Recovering card volumes, particularly 28 Degrees, supporting interchange

Table 6: Other income

($m)	30-June-22 **1H22**	31-Dec-21 **2H21**	30-June-21 **1H21**	**Change % HoH**	**Change % YoY**
Interchange fees	13.6	11.0	9.0	*24%*	*51%*
Other income	4.1	4.9	(1.1)	*(18%)*	*n.m*
Total other income	**17.7**	**16.0**	**7.9**	***11%***	***124%***

Interchange fees up 24% HoH and 51% YoY with the resumption of global travel. Positive mix effects from the recovery in 28 Degrees (*volumes up 23% HoH and 29% YoY*) saw interchange yield increase 11bps HoH and 9bps YoY. Card scheme volumes are also recovering up 4% HoH and up 7% YoY.

Other income higher on lower loyalty costs due to the removal of the card loyalty program and enhancement of the GO card interest free proposition.

Section A | Results

05 | Net Charge Offs, Provisions & Asset quality

Prudent credit underwriting practices continue to deliver low net charge offs

Net charge offs increased 10% HoH to $74.2m reflecting the customary (*post-Christmas shopping*) 1H seasonality. On a YoY basis, net charge offs declined 9% due to the improving underlying credit quality. Relative to the size of the book, net charge offs at 2.37% remains a benign outcome in the context of a longer term pre-COVID average of ~330bps. This is supported by the continued improvement in the quality of our originations with 71% rated CR1/CR2 in 1H22 versus 64% in 1H19.

The provision balance moved in line with the change in receivables. After an extended period of observable losses through the COVID period, the level of coverage was reduced by 53bps 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. At 3.74% LFS is 1.6x current NCO's which compares conservatively against a pre-COVID average of 1.3x.

Receivables 90 days past due increased 13bps HoH reflecting the typically seasonal elements, referred to above, with YoY improving, down 2bps.

Hardship trends continue to improve across both product suites.

Table 7: Net charge offs & provisions

($m)	30-June-22 1H22	31-Dec-21 2H21	30-June-21 1H21	Chg %/bps HoH	Chg %/bps YoY
Net charge offs					
Prior period net charge offs	(67.6)	(81.9)	(87.2)		
Impact of change in AGR	0.1	2.1	0.4		
Impact of change in NCO rate	(6.8)	12.2	4.8		
Total NCOs	**(74.2)**	**(67.6)**	**(81.9)**	***10%***	***(9%)***
NCOs/ AGR	**2.37%**	**2.12%**	**2.54%**	**25**	**(17)**
Provision movement					
Impact of change in receivables	3.8	5.6	2.2	*(31%)*	*76%*
Impact of change in coverage	32.9	11.8	10.4	*178%*	*218%*
Other	-	3.4	-	*(100%)*	*n.m*
Provision expense movement	**36.7**	**20.8**	**12.5**	***76%***	***193%***
FX impact	(1.5)	0.5	(0.2)		
Loan impairment expense	**(38.9)**	**(46.3)**	**(69.6)**	***(16%)***	***(44%)***
Group coverage	**3.74%**	**4.27%**	**4.46%**	***(53)***	***(72)***
90+ days past due					
Group	**0.80%**	**0.67%**	**0.82%**	***13***	***(2)***
Pay	**1.16%**	**0.97%**	**1.16%**	***19***	***0***
- Australia	1.24%	0.98%	1.16%	*26*	*8*
- New Zealand	0.89%	0.92%	1.13%	*(3)*	*(23)*
Money	**0.31%**	**0.24%**	**0.30%**	***6***	***1***
- Australia	0.30%	0.21%	0.28%	*9*	*2*
- New Zealand	0.31%	0.37%	0.36%	*(6)*	*(4)*
Hardship Inventory					
Group	**2.34%**	**2.52%**	**2.80%**	***(19)***	***(47)***
Pay	1.90%	2.03%	2.25%	*(13)*	*(35)*
Money	2.94%	3.23%	3.66%	*(29)*	*(72)*

Section A | Results

06 | Operating Expenses & Notable Items

Disciplined cost management exercised in an environment of subdued balance sheet growth

Cash operating expenses declined 9% HoH and are flat YoY with disciplined cost management.

Employee costs fell 17% HoH and 12% YoY with 19% less staff due to a simplified operating structure and lower incentive accruals.

The seasonal effects of marketing are evident across the halves. Investment in information technology continues with an emphasis on business-critical project spend to enhance the competitive positioning of the franchise.

Table 8: Operating expenses

($m)	30-June-22 1H22	31-Dec-21 2H21	30-June-21 1H21	Chg %/bps HoH	Chg %/bps YoY
Employee	73.8	88.5	83.8	*(17%)*	*(12%)*
Marketing	15.5	21.0	17.1	*(26%)*	*(9%)*
Occupancy	6.1	5.5	6.9	*10%*	*(12%)*
Information technology	23.9	23.2	20.2	*3%*	*19%*
Other	55.0	53.6	45.5	*3%*	*21%*
Cash operating expenses	**174.3**	**191.9**	**173.5**	***(9%)***	***0%***
Cost to income ratio	47.1%	49.6%	42.4%	*(251)*	*465*
Spot FTE	1,055	1,303	1,291	*(19%)*	*(18%)*
Average FTE	1,179	1,297	1,335	*(9%)*	*(12%)*
Capex	16.0	35.0	25.1	*(54%)*	*(36%)*
Notable items pre-tax	**66.5**	**42.7**	**35.5**	***56%***	***87%***
Amortisation of acquisition intangibles	24.1	24.2	24.1	*(0%)*	*(0%)*
Amortisation of legacy transaction costs	2.4	3.8	5.6	*(37%)*	*(57%)*
Corporate development	10.5	10.5	1.6	*0%*	*large*
Asset/ work in progress impairment	15.3	0.8	1.7	*large*	*large*
Discontinued facilities	1.6	1.6	2.2	*0%*	*(27%)*
Other	12.6	1.7	0.3	*large*	*large*

Amortisation of acquisition intangibles (*FY24 end date*) and legacy transaction costs (*FY22 end date*) continues to be recognised in accordance with the amortisation schedule. Corporate development is flat HoH due to work undertaken on the Symple acquisition/ integration, proposed Humm transaction and offshore investments. Impairments primarily relate to replacing the old LFS loan platform with Symple's new cloud-based infrastructure and the decommissioning of a cards platform. Other included restructuring & redundancies plus time incurred on the proposed Humm transaction.

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 (*$90m*) into its core business, simplify its business model, reduce costs, streamline technology, and further optimise shareholder returns. As part of this transaction, residual insurance goodwill of $13.6m was written down to zero. Until settlement the operations have been re-classified as discontinuing operations in accordance with applicable accounting standards. The nascent operations of Symple Canada are also under strategic review and have been classified as '*held for sale*'/ '*discontinued operations*'.

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

($m)	30-June-22 1H22	31-Dec-21 2H21	30-June-21 1H21	Change % HoH	Change % YoY
Net profit/ (loss) after tax	(2.1)	6.3	10.0	*(133%)*	*(121%)*
Goodwill write-off (insurance)	(13.6)	-	-	*n.m*	*n.m*
	(15.7)	**6.3**	**10.0**	***(347%)***	***(257%)***

Section A | Results

07 | Balance Sheet & Shareholder Returns

Surplus TER, net cash and stable returns position LFS well for growth, change and economic uncertainty. Interim dividend unchanged at 7.85cps

An interim dividend of 7.85cps was declared (*100% franked*). Whilst this is above the dividend payout policy range it reflects the strong positioning of the balance sheet and resilient underlying returns.

Tangible equity/ net receivables (*TER*) increased 53bps to 9.2%, well above the 6-7% target range, due to subdued receivables growth. In light of the present economic uncertainties and potential opportunities that may emerge from this environment a strongly capitalised balance sheet is considered prudent and appropriate.

Whilst return on equity (*RoE*) declined by 103bps during the half it largely reflects the increased capital position (*lower leverage*) as return on AGR's remained stable at 3.0%.

A dividend reinvestment plan (*DRP*) was introduced 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

($m)	30-June-22 1H22	31-Dec-21 2H21	30-June-21 1H21	Chg %/bps HoH	Chg %/bps YoY
Total assets	7,767	8,015	7,717	*(3%)*	*1%*
Net receivables	5,939	5,978	6,061	*(1%)*	*(2%)*
Intangible assets	994	1,048	825	*(5%)*	*20%*
Total liabilities	6,228	6,450	6,397	*(3%)*	*(3%)*
Total equity	1,540	1,566	1,320	*(2%)*	*17%*
Tangible equity	546	518	495	*6%*	*10%*
Tangible equity/ net receivables (*TER*)	**9.2%**	**8.7%**	**8.2%**	***53***	***102***
RoAGR	3.0%	3.0%	3.3%	*(2)*	*(28)*
RoE	12.1%	13.1%	16.6%	*(103)*	*(449)*
RoTE	**35.3%**	**37.4%**	**47.5%**	***(210)***	***(1223)***
Net tangible assets per share (*$ps*)	0.53	0.50	0.49	*3%*	*5%*
Book value per share (*$ps*)	1.48	1.51	1.27	*(2%)*	*21%*
Dividend cents	**7.85**	**7.85**	**7.85**	***0%***	***0%***
Franking	100%	100%	0%	*0%*	*100%*
Payout ratio	88%	83%	75%	*481*	*1271*
Ex-dividend date	**23-Sep-22**	28-Feb-22	30-Aug-21		
Record date	**26-Sep-22**	01-Mar-22	31-Aug-21		
Dividend payment date	**26-Oct-22**	22-Apr-22	14-Oct-21		

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.

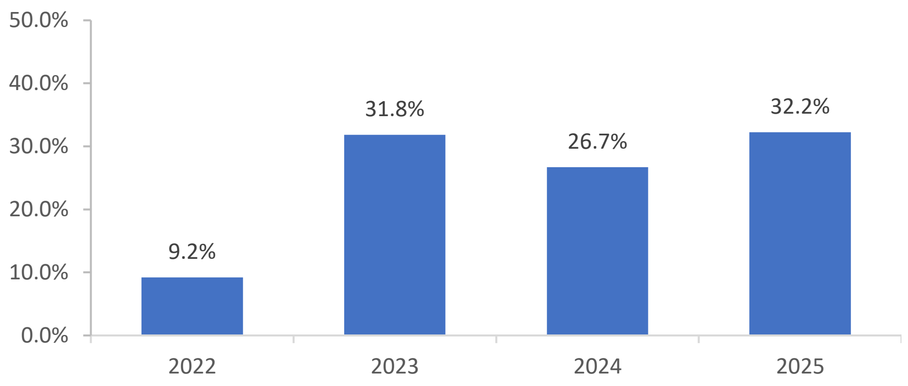
Section A | Results

08 | Funding & Liquidity

Latitude continued to be active in the funding markets in 1H22 by refinancing and managing limits of key facilities to maintain our cost effective, diverse and prudent funding program

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 30 June 2022.

Chart 1: Latitude debt maturity profile as at 30 June 2022



Summary of Warehouse Funding Facilities

Funding activity for the 2022 year began with completion of the New Zealand Sales Finance and Credit Card Warehouse refinance that was documented and agreed in December 2021. On 24 January 2022 the warehouse was extended to 24 January 2025, maintaining current commitments of NZ$864 million.

The refinancing of the Australian Sales Finance and Credit Card Warehouse followed on 22 March 2022. The total commitment level of the facility was reduced by $129 million to $801 million, and the scheduled amortisation date was extended from 22 December 2022 to 24 March 2025. Margin pricing improved by 50bps.

The Symple Warehouse Trust 2019-1 was extended on 31 March 2022 with a new termination date agreed for 31 March 2024. Further changes to this facility are ongoing.

In May 2022, the Australian Personal Loans Warehouse was refinanced. While total facility size remained unchanged, overall economics of the transaction were improved with margins improving by 20bps. The scheduled amortisation date was extended from the payment date in January 2024 to 19 May 2025.

Section A | Results

The following table sets out the position of each of Latitude's warehouses as at 30 June 2022.

Table 11: Warehouse facilities as at 30 June 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 Auto Loans Trust	Symple Warehouse Trust 2019-1	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$926.3	A$166.0	NZ$864.1	NZ$610.1
Drawn	A$388.8	A$405.5	A$787.9	A$747.3	A$62.6	NZ$581.1	NZ$431.7
Headroom[(b)]	A$412.3	A$650.1	A$248.2	A$177.6	A$103.4	NZ$283.0	NZ$178.3
Revolving period end date	24-Mar-25	22-Apr-24	19-May-25	19-Sep-23	31-Mar-24	22-Jan-25	17-Sep-23

Notes:

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

(b) *Total headroom of $2bn 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

The Latitude Australia Personal Loan Series 2017-1 was redeemed on the redemption call date on 17 March 2022. All noteholders were repaid in full, with the remaining balance of loans sold to the Australian Personal Loans Warehouse.

The outstanding note balances on the Latitude Australia Personal Loan Series 2020-1 and Series 2021-1 Trusts, which are closed pools, continued to reduce as borrowers paid down their loans during the past six months.

The Latitude Australian Credit Card 2017-2 notes will be called on their expected call date of 22 August 2022.

Table 12: ABS issuance as at 30 June 2022

(All amounts million)	Latitude Australia Credit Card Loan Note Trust – Series 2017-2	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	Sales finance & credit card receivables	Personal loans	Sales finance & credit card receivables	Personal loans
Notes issued	A$500	A$500	A$750	A$500	NZ$250	A$500
Issue date	07-Sep-17	27-Mar-18	13-Sep-19	26-Feb-20	17-Aug-21	24-Nov-21
Revolving period end date	22-Aug-22	22-Mar-23	22-Sep-24	n.a.	22-Aug-24	n.a.
Expected call date(a)	22-Aug-22	22-Mar-23	22-Sep-24	17-Aug-23	22-Aug-24	17-Apr-25
Outstanding Notes as at 31 December 2021	A$500	A$500	A$750	A$152	NZ$250	A$472
Outstanding Variable Funding Note as at 31 December 2021		A$16			NZ$10	
Outstanding Notes as at 30 June 2022	A$500	A$500	A$750	A$105	NZ$250	A$327
Outstanding Variable Funding Note as at 30 June 2022		A$42.2			NZ$7.3	

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 Basis of Preparation of the Consolidated Financial Report for the year ended 31 December 2021, 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

($m)	30-June-22 1H22	31-Dec-21 2H21	30-June-21 1H21	Change % HoH	Change % YoY
Amortisation of acquisition intangibles	**24.1**	24.2	24.1	*(0%)*	*(0%)*
Amortisation of legacy transaction costs	**2.4**	3.8	5.6	*(37%)*	*(57%)*
Total	**26.5**	**28.0**	**29.7**	***(5%)***	***(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 2.5 years in Australia and 0.5 year in New Zealand as at 30 June 2022.

The Amortisation of Legacy Transaction costs has decreased by $1.4 million or 37% 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 1H22

Jun-22 ($m)	Cash NPAT	Amortisation of acquisition intangibles	Amortisation of legacy transaction costs	Symple Integration	Restructuring Costs & International Investment	Acquisition Related Expenditure	Fixed Assets Impairment	Discontinued Facilities	Stat NPAT
Net interest income	352.7		(2.4)					(0.2)	350.2
Other income	17.7							0.6	18.3
Total operating income	**370.4**		**(2.4)**					**0.4**	**368.5**
Net charge offs	(74.2)								(74.2)
Risk adjusted income	**296.2**		**(2.4)**					**0.4**	**294.3**
Cash Opex	(174.3)			(8.9)	(7.2)	(6.9)	(15.3)	(1.5)	(214.2)
Cash PBT	**121.9**		**(2.4)**	**(8.9)**	**(7.2)**	**(6.9)**	**(15.3)**	**(1.2)**	**80.1**
Movement in provision	35.3								35.3
D&A (*excluding leases*)	(22.1)	(24.1)						(0.5)	(46.8)
Profit before tax & notable items	**135.1**	**(24.1)**	**(2.4)**	**(8.9)**	**(7.2)**	**(6.9)**	**(15.3)**	**(1.6)**	**68.6**
Income tax expense	(42.1)	7.1	0.7	2.6	2.0	2.0	4.5	0.5	(22.7)
NPAT (*continuing ops*)	**93.0**	**(17.0)**	**(1.7)**	**(6.3)**	**(5.2)**	**(4.9)**	**(10.8)**	**(1.2)**	**45.9**

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
Cost to income ratio	Represents the ratio of cash operating expenses to operating income, excluding amortisation of transaction costs and changes in capital structure
Book value per share	Net assets divided by ordinary shares on issue at the end of the reporting period.
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 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 expense cost	Interest expense divided by average interest-bearing liabilities for the relevant period
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