Results for Announcement to the Market

Appendix 4E

Name of entity	Latitude Group Holdings Limited
ACN	604 747 391
Reporting period	1 January to 31 December 2021
Previous corresponding period	1 January to 31 December 2020

Extracts from the income statements ($ millions)			
	31 December 2021		
	$	**Up/down**	**% change**
Revenue from ordinary activities	987.9	down	10.4%
Profit from ordinary activities after tax attributable to members	160.9	up	256.0%
Net profit for the period attributable to members	160.9	up	256.0%

Dividend information	**Amounts per ordinary share (cents)**	**Franked amount per share (cents)**	**Tax rate for franking credits**
Interim 2021 dividend per share (paid 14 October 2021)	7.85	-	-
Final 2021 dividend per share declared	7.85	3.36	30%
Final dividend dates			
Ex-dividend date			28 February 2022
Record date			1 March 2022
Payment date			22 April 2022

There is no dividend reinvestment plan in relation to the final dividend.

Net tangible assets per security	**31 December 2021**	**31 December 2020**
	$'m	**$'m**
Net tangible assets ($'m)	517.6	(474.6)
Ordinary shares	1,038.5	650.2
Net Tangible Assets / (Liabilities) per security ($)	0.50	(0.73)

Additional information supporting the Appendix 4E disclosure requirements can be found in the following consolidated financial statements extracted from the Consolidated Financial Report for the year ended 31 December 2021.

This report is based on the Consolidated Financial Report of the Group which has been audited by KPMG.

Results for Announcement to the Market

This report is prepared for the Australian Securities Exchange (ASX) under listing rule 4.3A.

Statements required under items 3-6 are included in the following consolidated financial statements extracted from the Consolidated Financial Report for the year ended 31 December 2021.

Other requirements are indexed as follows:

ASX Appendix E item	Section
Item 7: Dividends	2.4(a) and 2.4(b)
Item 10: Details of entities over which control has been gained or lost during the period	6.1(a), 6.1(b), 6.10 and 6.11
Item 11: Details of associates and joint venture entities	The Group has none
Item 12: Any other significant information	Consolidated financial statements and notes

Results for Announcement to the Market

Summary of Group Performance

Statutory profit after tax attributable to members from continuing operations increased by $115.7 million to $160.9 million in 2021 from $45.2 million in 2020.

Cash NPAT[1] increased by $8.3 million or 3.7% to $232.2 million in 2021 from $223.9 million in 2020.

Summary financial results

($'m)	2021	Pro forma 2020	Change % 2021 vs 2020
Interest income	932.4	1,058.1	(11.9)%
Interest expense	(160.3)	(178.0)	(9.9)%
Net interest income	**772.1**	**880.1**	**(12.3)%**
Other operating income	54.6	54.1	0.8%
Total Operating Income	**826.6**	**934.2**	**(11.5)%**
Net Charge Offs	(149.5)	(227.6)	(34.3)%
Risk Adjusted Income	**677.1**	**706.7**	**(4.2)%**
Management Operating Expenses	(387.1)	(402.9)	(3.9)%
Pre-provision Profit	**290.0**	**303.8**	**(4.5)%**
Provision movement	33.3	18.8	77.4%
Profit before Tax & Significant Items	**323.3**	**322.6**	**0.2%**
Income tax expense	(91.1)	(98.7)	(7.7)%
Cash NPAT	**232.2**	**223.9**	**3.7%**
Amortisation of Acquisition Intangibles	(48.3)	(48.3)	(0.0)%
Amortisation of Legacy Transaction Costs	(9.4)	(24.8)	(62.2)%
Significant Items	(43.0)	(62.7)	(31.5)%
Tax effect of adjustments	28.8	40.1	(28.2)%
Pro forma NPAT	**160.3**	**128.1**	**25.1%**
Changes in Capital Structure	-	(80.3)	100.0%
Transaction and historical IPO costs	-	(19.8)	100.0%
Discontinued operations (pre-tax)	-	(3.0)	100.0%
Tax effect of adjustments	-	18.7	100.0%
Statutory Profit / (Loss) after tax from continuing operations	**160.3**	**46.7**	**243.1%**
Discontinued operations	-	(1.5)	100.0%
Statutory Profit / (Loss) after tax	**160.3**	**45.2**	**254.5%**
Profit/ (Loss) from non-controlling interest	(0.6)	-	100.0%
Statutory Profit / (Loss) attributable to members	**160.9**	**45.2**	**256.0%**

[1] *Pre-provision profit, Risk Adjusted Income, Significant items and Cash NPAT are non-IFRS metrics used for management reporting. The Group believes Cash NPAT reflects what it considers to be the underlying performance of the business.*

Results for Announcement to the Market

Statutory Profit after tax & Proforma NPAT

The Group has included both Statutory Profit after tax as well as Proforma NPAT in the table above. Proforma NPAT directly ties into the 2020 financials disclosed in Section 4 of Latitude's IPO Prospectus dated 30 March 2021. Whilst Statutory Profit after tax would be the conventional basis for comparability under accounting standards, the 2020 statutory profit after tax and the corresponding financial statements contain items associated with the historical structure as well as the restructure arrangements entered into prior to the listing of Latitude Group Holdings Limited on the Australian Securities Exchange ('ASX') on 20 April 2021 as set out in Sections 9.3 and 9.4 of the IPO Prospectus. Furthermore, the Group Statutory Profit after tax is different to that disclosed in the IPO Prospectus (described as "Combined") as some elements of the restructure are permitted to be restated under the accounting standards whilst other elements of the restructure are not. This means that further adjustments are required to enable direct comparison to those disclosures in the Prospectus.

It is the Group's belief that the Proforma information provided in the IPO Prospectus dated 30 March 2021 provides a more useful and representative basis of the Group's underlying performance for 2020 than the Comparative Statutory results for those historical periods. As a result, the comparative information within this review of Group Performance has been presented to align to the IPO prospectus pro forma information that was previously released rather than the statutory comparatives.

Summary financial analysis

During 2021 group volumes increased 4.3% despite challenging trading conditions due to COVID-19 related lockdowns, travel restrictions and inconsistent consumer confidence. Customer repayments remained at elevated levels consistent with 2020, which contributed to a reduction in Gross receivables of 2.6% compared to 2020. Despite the impacts of the Omicron variant in 4Q21, receivables stabilised in 2H21, reducing by 1.9% in the half, in contrast to the 14.6% reduction in gross receivables in 2020 compared to 2019.

Cash NPAT of $232.2m increased by 3.7%, with key drivers as follows:

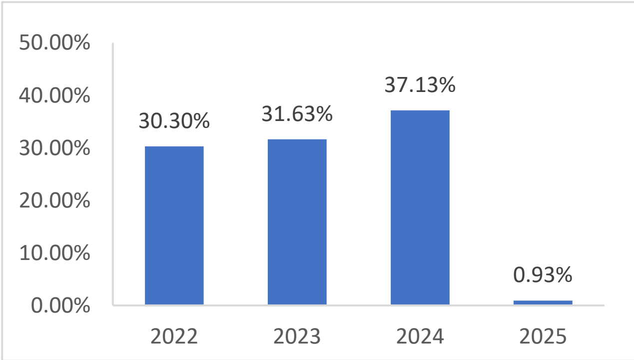
- **Total Operating Income** decreased by $107.6 million or 11.5% to $826.6 million. The reduction was driven by the 7.9% reduction in Average Gross Receivables compared to 2020 combined with a 53bps contraction in Operating Income yield. The yield decrease was a result of product mix and strategic pricing changes implemented to attract high quality customers.

- **Net Charge offs** decreased by $78.1 million or 34.3% to $149.5 million. The decrease in charge offs was as a result of the ongoing improvement in the credit quality of the portfolio driven by tightening of underwriting standards during 2020, improved portfolio credit mix at origination, and elevated repayment rates during this period. The above drivers resulted in a reduction in the Net charge off rate of 94bps in 2021 compared to 2020.
- **Operating expenses** decreased by $15.8 million or 3.9% to $387.1 million from $402.9 million. Operating expenses continued to benefit from the implementation of a productivity agenda and investments in simplification and disciplined cost management despite higher levels of marketing expenses.
- **Provision movement** increased by $14.5 million or 77.4% to $33.3 million in 2021. The provision movement was driven by the Coverage ratio improvement, reducing 34bps to 4.28% from 2020 in line with the improvements in underlying asset quality and hardship metrics in 2021 (after the initial surge in hardship levels during 2020). The reduction in Gross Loan Receivables also contributed to the increased provision movement.

Results for Announcement to the Market

During the year, the Group maintained a robust funding position and has remained active in the funding markets in 2021, refinancing and managing limits to maintain our cost effective and diverse funding program. The Group systematically manages its maturity profile within the 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 the Group's debt maturity profile as at 31 December 2021.



Across both our Warehouse and ABS facilities we have drawn borrowings of $5.9 billion with available head room of $2.3 billion to support future growth.

The Group's Return on Equity (ROE) of 16.6% remains strong alongside the 31% increase in tangible equity during 2021. The Tangible Equity to Net Receivables (TER) increased by 217bps to 8.7% in 2021 from 6.5% in 2020, in part due to the issuance of $150 million of Capital Notes during 2021. The ROE and TER metrics demonstrate the strength and resilience of the Group and its ability to support a dividend payout ratio of 60-70% of Cash NPAT.

The Group acquired Symple Loans in October 2021 which will deliver enhanced digital capabilities for our Lending business, followed by the acquisition of Octifi, a Singapore based Instalments business, both of these acquisitions expand our footprint for both Lending and Instalments globally. The Group announced on 18 February 2022, it had executed a binding transaction to acquire the consumer business of Humm Group Limited, incorporating its BNPL, Instalments and Cards operations.

The Directors have declared a final dividend of 7.85 cents per share, fully franked, taking the full year dividend distribution to 15.7 cents per share.

Consolidated Financial Statements extract from the Consolidated Financial Report Latitude Group Holdings Limited for the year ended 31 December 2021

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2021 Consolidated Financial Report extract

Latitude Group Holdings Limited

For the year ended 31 December 2021

Consolidated Income Statement

	Notes	2021 $'m	*2020 $'m
Interest income	2.2(a)	**932.4**	1,058.1
Interest expense	2.2(a)	**(169.7)**	(278.6)
Net interest income		**762.7**	779.5
Other operating income	2.2(b)	**25.1**	21.4
Net insurance income	2.2(c)	**30.4**	22.5
Total other operating income		**55.5**	43.9
Total operating income		**818.2**	823.4
Loan impairment expense	3.2(g)	**(116.2)**	(208.8)
Operating expenses			
Employee benefit expense		**(175.0)**	(202.0)
Depreciation and amortisation expense		**(92.9)**	(93.0)
IT and data processing expenses		**(53.6)**	(47.2)
Marketing expenses		**(38.0)**	(19.6)
Administrative and professional expenses		**(34.8)**	(37.8)
Occupancy and operating expenses		**(21.5)**	(25.6)
Other expenses		**(60.3)**	(98.2)
Total operating expenses		**(476.1)**	(523.4)
Distribution to trust beneficiaries		**(3.2)**	(4.5)
Profit before income tax		**222.7**	86.7
Income tax expense	2.3(a)	**(62.4)**	(40.0)
Profit from continuing operations		**160.3**	46.7
Net loss after tax from discontinued operations	6.7(b)	**-**	(1.5)
Profit for the year		**160.3**	45.2
Profit/(loss) is attributable to:			
Owners of Latitude Group Holdings Limited		**160.9**	45.2
Non-controlling interests		**(0.6)**	-
Profit for the year		**160.3**	45.2

**As restated, refer to section 1.1(c)*

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

2021 Consolidated Financial Report extract

Latitude Group Holdings Limited

For the year ended 31 December 2021

Consolidated Statement of Comprehensive Income

	Notes	2021 $'m	*2020 $'m
Net profit from continuing operations		**160.3**	46.7
Other comprehensive income			
Item that may be reclassified to income statement			
Cash flow hedges - fair value gain/(losses)	4.1(b)	**23.0**	(16.0)
Cash flow hedges - related taxes	4.1(b)	**(5.4)**	4.1
Currency translation differences arising during the period	4.1(b)	**5.6**	(1.7)
Other comprehensive income/(loss), net of tax		**23.2**	(13.6)
Total comprehensive income from continuing operations		**183.5**	33.1
Net loss from discontinued operations	6.7(b)	**-**	(1.5)
Total comprehensive income		**183.5**	31.6
Total comprehensive income/(loss) is attributable to:			
Owners of Latitude Group Holdings Limited		**184.1**	31.6
Non-controlling interests		**(0.6)**	-
Total comprehensive income		**183.5**	31.6

**As restated, refer to section 1.1(c)*

Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the Company		**Cents**	Cents
Earnings per share	2.5	**17.8**	7.2
Diluted earnings per share	2.5	**16.4**	7.2

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

2021 Consolidated Financial Report extract

Latitude Group Holdings Limited

For the year ended 31 December 2021

Consolidated Balance Sheet

As at 31 December 2021

	Notes	2021 $'m	*2020 $'m
Assets			
Cash and cash equivalents	3.1(b)	**605.7**	463.0
Investments	3.1(c)	**83.6**	31.7
Assets classified as held for sale		**0.2**	0.1
Derivative financial instruments	3.1(e)	**12.3**	0.2
Loans and other receivables	3.1(d)	**6,008.1**	6,091.0
Other assets		**8.2**	9.1
Deferred tax assets	2.3(d)	**178.3**	205.4
Other financial assets		**1.6**	1.6
Property, plant and equipment	5.1(a)	**69.2**	81.7
Intangible assets	5.1(b)	**1,047.9**	834.9
Total assets		**8,015.1**	7,718.7
Liabilities			
Trade and other liabilities	3.1(f)	**380.7**	378.2
Current tax liabilities		**36.8**	2.7
Derivative financial instruments	3.1(e)	**1.0**	13.8
Provisions	5.1(f)	**74.5**	81.4
Gross insurance policy liabilities	5.1(g)	**19.2**	40.4
Deferred tax liabilities	2.3(d)	**72.2**	84.3
Borrowings	3.1(g)	**5,865.2**	6,757.7
Total liabilities		**6,449.6**	7,358.5
Net assets		**1,565.5**	360.2
Equity			
Contributed equity	4.1(a)	**2,221.0**	1,110.0
Reserves	4.1(b)	**(667.2)**	(676.0)
Retained profits/(Accumulated losses)	4.1(c)	**7.2**	(73.8)
Capital and reserves attributable to owners of Latitude Group Holdings Limited		**1,561.0**	360.2
Non-controlling interests		**4.5**	-
Total equity		**1,565.5**	360.2

**As restated, refer to section 1.1(c)*

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

2021 Consolidated Financial Report extract

Latitude Group Holdings Limited

For the year ended 31 December 2021

Consolidated Statement of Changes in Equity

	Attributable to owners of Latitude Group Holdings Limited					
	Contributed equity	Reserves	Retained earnings/ (losses)	Total Equity	Non-controlling interests	Total equity
	$'m	$'m	$'m	$'m	$'m	$'m
At 1 January 2021	**1,110.0**	**(676.0)**	**(73.8)**	**360.2**	**-**	**360.2**
Profit/(loss) from continuing operations	**-**	**-**	**160.9**	**160.9**	**(0.6)**	**160.3**
Other comprehensive income from continuing operations	**-**	**23.2**	**-**	**23.2**		**23.2**
Total comprehensive income	**-**	**23.2**	**160.9**	**184.1**	**(0.6)**	**183.5**
Amounts transferred from reserves, net of tax from continuing operations	**-**	**4.6**	**-**	**4.6**	**-**	**4.6**
Transactions with owners:						
Issue of ordinary shares	**964.0**	**-**	**-**	**964.0**	**5.1**	**969.1**
Issue of capital notes	**147.0**	**-**	**-**	**147.0**	**-**	**147.0**
Dividends paid	**-**	**-**	**(78.5)**	**(78.5)**	**-**	**(78.5)**
Capital note distributions payable	**-**	**-**	**(1.4)**	**(1.4)**	**-**	**(1.4)**
Share-based compensation payments	**-**	**5.3**	**-**	**5.3**	**-**	**5.3**
Transfers to common control reserve from restructure	**-**	**(24.3)**	**-**	**(24.3)**	**-**	**(24.3)**
At 31 December 2021	**2,221.0**	**(667.2)**	**7.2**	**1,561.0**	**4.5**	**1,565.5**
At 1 January 2020*	1,110.0	(674.5)	(117.4)	318.1	-	318.1
Profit from continuing operations	-	-	46.7	46.7	-	46.7
Other comprehensive loss from continuing operations	-	(13.6)	-	(13.6)	-	(13.6)
Loss from discontinued operations	-	-	(1.5)	(1.5)	-	(1.5)
Total comprehensive income	-	(13.6)	45.2	31.6	-	31.6
Amounts transferred from reserves, net of tax from continuing operations	-	10.4	-	10.4	-	10.4
Transactions with owners:						
Share-based compensation payments	-	17.0	-	17.0	-	17.0
Management equity plan dividends	-		(1.6)	(1.6)	-	(1.6)
Transfers to common control reserve from restructure	-	(15.3)	-	(15.3)	-	(15.3)
At 31 December 2020*	1,110.0	(676.0)	(73.8)	360.2	-	360.2

**As restated, refer to section 1.1(c)*

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

2021 Consolidated Financial Report extract

Latitude Group Holdings Limited

For the year ended 31 December 2021

Consolidated Statement of Cash Flows

	Notes	2021 $'m	*2020 $'m
Cash flows from operating activities			
Interest received		**897.2**	1,043.7
Interest paid		**(157.9)**	(251.0)
Other operating income received		**27.8**	22.0
Net insurance income:			
Premiums received		**13.9**	24.9
Claims paid		**(16.0)**	(21.5)
Investment income		**0.6**	2.0
Operating expenses paid		**(317.6)**	(323.7)
Income taxes (paid)/refunded		**(17.9)**	(4.2)
Cash flow from operating activities before changes in operating assets and liabilities		**430.1**	492.2
Changes in operating assets and liabilities arising from cash flow movements			
Net decrease in loans and other receivables		**21.2**	830.5
Net decrease in trade and other liabilities		**(19.5)**	(10.3)
Net increase/(decrease) in gross insurance policy liabilities		**0.1**	(7.8)
Net increase in other assets		**(0.2)**	-
Net increase in other balance sheet items		**-**	(7.1)
Changes in operating assets and liabilities arising from cash flow movements		**1.6**	805.3
Net cash provided by operating activities		**431.7**	1,297.5
Cash flows from investing activities			
Acquisition of Symple Loans, net of cash acquired	**6.10**	**(89.5)**	-
Acquisition of OctiFi assets, net of cash acquired	**6.11**	**(13.1)**	-
Purchases of intangible assets, property, plant & equipment		**(84.2)**	(69.5)
Purchase of equity investment securities		**-**	(1.6)
Net investment in debt investments		**(51.9)**	27.9
Net cash used in investing activities		**(238.7)**	(43.2)
Cash flows from financing activities			
Proceeds from issuance of capital notes		**150.0**	-
Transaction costs paid on capital note issuance		**(4.0)**	-
Proceeds from borrowing issuances and drawdowns		**2,706.5**	3,822.2
Repayment of borrowings		**(2,778.3)**	(4,905.7)
Movement from restructuring		**(29.7)**	(15.3)
Inflow from new participating interests in management equity plan		**-**	1.3
Outflow from management equity plan leavers		**(0.1)**	(3.8)
Payment of lease liabilities		**(13.1)**	(11.1)
Payments of transaction costs from financing activities		**(5.6)**	(3.0)
Dividends paid		**(78.5)**	-
Distributions paid pre-IPO, for pre-listing equity plan		**(3.0)**	(1.6)
Net cash used in financing activities		**(55.8)**	(1,117.0)

**As restated, refer to section 1.1(c)*

2021 Consolidated Financial Report extract
Latitude Group Holdings Limited

For the year ended 31 December 2021

Consolidated Statement of Cash Flows (continued)

	Notes	2021 $'m	*2020 $'m
Net increase in cash and cash equivalents		**137.2**	137.3
Cash and cash equivalents at beginning of financial period		**463.0**	324.4
Effects of exchange rate changes on cash and cash equivalents		**5.5**	1.3
Cash and cash equivalents at end of financial period	**3.1(b)**	**605.7**	463.0

**As restated, refer to section 1.1(c)*

The Consolidated Statement of Cash Flows includes discontinued operations. Refer to section 6.7 for cash flows associated with discontinued operations.

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

2021 Consolidated Financial Report extract

Notes to the Financial Statements

For the year ended 31 December 2021

Section 1 | Basis of Preparation

1.1 Basis of preparation

(a) Reporting entity

The Financial report is for Latitude Group Holdings Limited (the 'Company') and its controlled entities (the 'Group'). Latitude Group Holdings Limited is a for-profit public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is 800 Collins Street, Docklands, Melbourne, Victoria, 3008.

Latitude Group Holdings Limited listed on the Australian Securities Exchange ('ASX') on 20 April 2021.

These consolidated financial statements were authorised for issue by the Directors on 21 February 2022.

(b) Statement of compliance

The financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (AASs) and other pronouncements of the Australian Accounting Standards Board (AASB), the *Corporations Act 2001* and International Financial Reporting Standards (IFRS) and interpretations published by the International Accounting Standards Board (IASB). Refer to section 6.7 for details of an operation that ceased in the prior period.

(c) Common control transaction

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 which was obtained on 21 July 2021 and the restructure steps were completed on 1 August 2021.

The transactions occurred between entities under common control. The Group has elected an accounting policy to use book value accounting for the common control transactions, where all assets and liabilities were transferred at their book values in the accounts of the transferor. The results and cashflows for the year ended 31 December 2021 and the prior year comparatives, reflect trading results for the Company and all its controlled entities as if they were a consolidated group in both reporting periods. The entity has elected as its accounting policy to restate comparatives. 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 therefore included in the opening balance of the comparative period:

- 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 original investors.

(d) Basis of measurement

These consolidated financial statements have been prepared under the historical cost basis, except for the following:

- Financial instruments measured at fair value, including financial assets backing insurance policies designated at fair value through profit or loss, equity investments designated at fair value though other comprehensive income and derivatives; and
- Assets held for sale - measured at the lower of carrying amount and fair value less cost to sell.

(e) Functional and presentation currency

These consolidated financial statements are presented in Australian Dollars, which is Latitude Group Holdings Limited's deemed functional and presentation currency.

(f) Rounding of amounts

The Company is of a kind referred to in ASIC Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the Financial report. Amounts in the Financial report have been rounded off in accordance with that Instrument to the nearest hundred thousand dollars, unless otherwise indicated.

(g) Significant estimates and judgements

The preparation of financial statements that conform to accounting standards requires Management to exercise judgement in applying the Group's accounting policies and to make estimates and assumptions. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the Group and that are believed to be reasonable under the circumstances.

Areas involving assumptions and estimates that are significant to the financial statements or areas requiring a higher degree of judgement, are disclosed in the following sections:

- Section 3.1: Recoverability of loans and other receivables
- Section 5.1: Estimation of insurance claims liability
- Section 5.1: Recoverability of goodwill and other intangible assets and estimated useful life (other than goodwill)
- Section 5.1: Customer remediation

Measurement of expected credit losses

The methodologies and assumption setting process applied in the Expected Credit Loss (ECL) calculations remain consistent with those applied in the financial statements for the year ended 31 December 2020. The Group continues to incorporate estimates, assumptions, and judgements specific to the impact of the COVID-19 pandemic into the measurement calculations as described in section 3.2. The estimates, assumptions and judgements related to COVID-19 are managed through model risk overlays, agreed to by Management in line with the Group's provision policy and governance process.

1.2 Other significant accounting policies

Significant accounting policies adopted in the preparation of these consolidated financial statements have been included in the relevant notes to which the policies relate. Other significant accounting policies are listed below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency').

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction. Foreign exchange gains and losses are presented in the consolidated income statement on a net basis within other operating income.

Group companies

The results and financial position of foreign operations that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each consolidated balance sheet presented are translated at the closing rate at the date of that balance sheet;
- Income and expenses for each consolidated income statement and consolidated statement of other comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- All resulting exchange differences are recognised in other comprehensive income.

(b) Principles of consolidation

Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases. The acquisition method of accounting is used to account for business combinations by the Group (except for the common control transaction described in section 1.1(c)). Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated income statement, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated balance sheet respectively.

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Notes to the Financial Statements

For the year ended 31 December 2021

1.3 New and amended standards

(a) New and amended standards adopted

Interest Rate Benchmark Reform Phase 2 (AASB 2020-8) – The Group applied the new amendments with a date of initial application of 1 January 2021. The Standard made amendments to AASB 9 *Financial Instruments*, AASB 139 *Financial Instruments: Recognition and Measurement*, AASB 7 *Financial Instruments: Disclosures*, AASB 4 *Insurance Contracts* and AASB 16 *Leases* to address issues that arise during the reform of an interest rate benchmark (IBOR), including the replacement of one benchmark with an alternative one.

The Group's main interest rate benchmark exposures arise from issued securitisation notes ($5,868.0 million) and interest rate swap hedging instruments ($2,314.4 million) which reference BBSW and NZD-BBR-FRA each primarily at the 1-month tenor for instruments denominated in A$ and NZ$ respectively. None of the A$ and NZ$ benchmarks have been impacted by the benchmark reform.

Potential exposure exists via the Group's multi-currency corporate credit facility (A$/NZ$/US$) as USD pricing is based off US$ LIBOR, however the Group has no US$ drawings under the facility with exposure to US$ LIBOR.

Work is ongoing to understand the impacts and accommodate the implementation of potential A$ and NZ$ interest rate benchmark changes. The Group is participating in Industry forum discussions on potential reforms and continues to monitor developments as they occur.

IFRS Interpretations Committee (IFRIC) agenda decision published April 2021 – IFRIC published the second of two agenda decisions clarifying how arrangements for SaaS cloud technology should be accounted for. The decision deals with specific circumstances in relation to configuration and customisation costs incurred in implementing SaaS and had no impact on the Group.

(b) New standards and interpretations not yet adopted

The following standard has been published that is not mandatory for 31 December 2021 reporting periods and has not been early adopted by the Group. The Group expects to adopt this on its effective dates.

AASB 17 Insurance Contracts – AASB 17 is effective for financial years commencing on or after 1 January 2023. The new standard establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts.

The impact of AASB 17 on the Group's financial statements is still being determined. Substantial changes are expected in relation to presentation and disclosure and there is an expected impact to the Group's consolidated statement of comprehensive income. The Standard introduces a new 'General Model' for the recognition and measurement of insurance contracts and permits a 'Simplified Approach' that is similar to the current treatment of general insurance contracts under AASB 1023 *General Insurance Contracts*. To apply the Simplified Approach one the following two requirements must be satisfied:

1. The Simplified Approach would not produce a materially different liability for remaining coverage; or
2. The coverage period of the contract is 1 year or less.

1.3 New and amended standards (continued)

The Group has completed a preliminary gap analysis and determined that the Simplified Approach is expected to apply as the coverage period requirements of AASB 17 are largely satisfied, and for those contracts that do not satisfy the coverage period requirements, the Simplified Approach does not appear to produce a materially different liability for remaining coverage.

The Simplified Approach will provide a broadly similar basis for accounting for insurance contracts with the following notable exceptions identified by the Group at this time:

- Onerous contracts: If at any time during the coverage period, facts and circumstances indicate that a group of insurance contracts is onerous, an onerous contract provision will be required to be recognised.
- Discount rate: Claims liabilities not expected to be settled within 12 months must be discounted using a rate that reflects the characteristics of the liability. The Group will apply the risk-free interest rate curve and will consider if it is appropriate to make an allowance for illiquidity.
- Risk adjustment: An explicit risk adjustment must be applied to claims liabilities. The impact of this is still being assessed, but the Group expects that there will be a change to the risk margin currently applied under AASB 1023 *General Insurance Contracts* for the General Insurance business. The concept of a risk adjustment is currently not required under AASB 1038 *Life Insurance Contracts*.
- Reinsurance: Reinsurance contracts are required to be recognised in line with AASB 17. The Group is in the process of determining the implications on reinsurance contracts to the Life Insurance business.

On transition to AASB 17 the Group expects to apply the full retrospective approach. Due to the complexity of the Standard, some of the expectations noted following the preliminary gap analysis are subject to change as the Group continues to assess the impact of the Standard. The Group will develop appropriate accounting policies along with the design and implementation of required changes to financial reporting and relevant systems.

Other Standards

Other Standards and interpretations that have been published that are not mandatory for 31 December 2021 reporting periods have not been early adopted by the Group. The Group expects to adopt these on their effective dates, but none are expected to have a material impact on the Group.

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Notes to the Financial Statements

For the year ended 31 December 2021

Section 2 | Results

2.1 Segment information

(a) Description of segments

The Group's Managing Director and Chief Executive Officer (CEO) and Executive Committee (EC) are responsible for the overall performance of the Group and take accountability for monitoring the Group's business affairs and setting its strategic direction, establishing policies and overseeing the Group's financial position. The CEO and the EC assess the business on a Pre-Provision Profit Before Tax (PBT) basis where the Pre-Provision PBT is total revenue, being interest income and other operating income, net of interest expense, net charge offs, and insurance claims and expenses. Operating expenditure is not allocated to any segments or business unit, but rather managed at a Group level.

The CEO and EC have identified three reportable segments of its business:

- **Australia:** LatitudePay and other payments and instalments products, LMoney including credit cards, personal loans and motor loans, inclusive of Symple Loans;
- **New Zealand:** Genoapay and other payments and instalments products, credit cards and personal loans; and
- **Other/unallocated:** Consumer credit insurance (Hallmark life and general companies), International operations, other statutory adjustments not directly attributable to segments for management decision making purposes and unallocated operating expenses.

Australia charges Hallmark Insurance and New Zealand a management fee and Hallmark Insurance pays commission to other segments. Sales between segments are carried out at arm's length and are eliminated on consolidation when they arise within the Group.

No single customer contributes revenue greater than 10% of the Group's income.

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Notes to the Financial Statements

For the year ended 31 December 2021

2.1 Segment information (continued)

(b) Operating segment overview

Year ended 31 December 2021	Australia	New Zealand	Other/ Unallocated	Total
	$'m	$'m	$'m	$'m
Segment income statement information				
Interest income	713.1	219.3	-	932.4
Interest expense	(114.9)	(37.6)	(17.2)	(169.7)
Net interest income	**598.2**	**181.7**	**(17.2)**	**762.7**
Other operating income	26.7	1.4	2.3	30.4
Net insurance income	-	-	25.1	25.1
Total other operating income	**26.7**	**1.4**	**27.4**	**55.5**
Total operating income before inter segment operating Income	**624.9**	**183.1**	**10.2**	**818.2**
Inter-segment operating income/(expense)	(3.1)	(2.2)	5.3	-
Total operating income reported consolidated group	**621.8**	**180.9**	**15.5**	**818.2**
Total operating expenses	-	-	(476.1)	(476.1)
Operating profit/(loss)	**621.8**	**180.9**	**(460.6)**	**342.1**
Net charge offs	(115.8)	(32.9)	(0.8)	(149.5)
Pre-provision profit/(loss) before tax	**506.0**	**148.0**	**(461.4)**	**192.6**
Movement in loss provisions	16.1	17.2	-	33.3
Management profit/(loss) before tax	**522.1**	**165.2**	**(461.4)**	**225.9**
Distribution to trust beneficiaries	-	-	(3.2)	(3.2)
Profit/(loss) before tax	**522.1**	**165.2**	**(464.6)**	**222.7**
Income tax expense	-	-	(62.4)	(62.4)
Profit/(loss) from continuing operations	**522.1**	**165.2**	**(527.0)**	**160.3**
Revenue from external customers	739.8	220.7	27.4	987.9
Segment balance sheet information				
Total segment assets at 31 December 2021	5,280.6	1,562.2	1,333.4	8,176.2
Inter-segment assets eliminated on consolidation	(0.4)	(0.1)	(160.6)	(161.1)
Total assets reported by the Consolidated Group	**5,280.2**	**1,562.1**	**1,172.8**	**8,015.1**
Total segment liabilities at 31 December 2021	4,578.1	1,642.3	390.3	6,610.7
Inter-segment liabilities eliminated on consolidation	(0.8)	(159.8)	(0.5)	(161.1)
Total liabilities reported by the Consolidated Group	**4,577.3**	**1,482.5**	**389.8**	**6,449.6**

2021 Consolidated Financial Report extract

Notes to the Financial Statements

For the year ended 31 December 2021

2.1 Segment information (continued)

(b) Operating segment overview (continued)

Year ended 31 December 2020*	Australia $'m	New Zealand $'m	Other/ Unallocated $'m	Total $'m
Segment income statement information				
Interest income	814.6	243.5	-	1,058.1
Interest expense	(133.0)	(40.8)	(104.8)	(278.6)
Net interest income	**681.6**	**202.7**	**(104.8)**	**779.5**
Other operating income	27.3	3.6	0.2	31.1
Net insurance income	-	-	12.8	12.8
Total other operating income	**27.3**	**3.6**	**13.0**	**43.9**
Total operating income before inter segment operating Income	**708.9**	**206.3**	**(91.8)**	**823.4**
Inter-segment operating income/(expense)	(6.5)	(3.1)	9.6	-
Total operating income reported consolidated group	**702.4**	**203.2**	**(82.2)**	**823.4**
Total operating expenses	-	-	(523.4)	(523.4)
Operating profit/(loss)	**702.4**	**203.2**	**(605.6)**	**300.0**
Net charge offs	(237.5)	(55.5)	-	(293.0)
Pre-provision profit/(loss) before tax	**464.9**	**147.7**	**(605.6)**	**7.0**
Movement in loss provisions	74.6	9.6	-	84.2
Management profit/(loss) before tax	**539.5**	**157.3**	**(605.6)**	**91.2**
Distribution to trust beneficiaries	-	-	(4.5)	(4.5)
Profit/(loss) before tax	**539.5**	**157.3**	**(610.1)**	**86.7**
Income tax expense	-	-	(40.0)	(40.0)
Profit/(loss) from continuing operations	**539.5**	**157.3**	**(650.1)**	**46.7**
Profit/(loss) from discontinued operations	(1.5)	-	-	(1.5)
Revenue from external customers	841.9	247.1	13.0	1,102.0
Segment balance sheet information				
Total segment assets at 31 December 2020	5,141.7	1,560.4	1,028.6	7,730.7
Inter-segment assets eliminated on consolidation	(0.7)	(10.6)	(0.7)	(12.0)
Total assets reported by the Consolidated Group	**5,141.0**	**1,549.8**	**1,027.9**	**7,718.7**
Total segment liabilities at 31 December 2020	4,479.3	1,446.7	1,444.5	7,370.5
Inter-segment liabilities eliminated on consolidation	(0.8)	-	(11.2)	(12.0)
Total liabilities reported by the Consolidated Group	**4,478.5**	**1,446.7**	**1,433.3**	**7,358.5**

**As restated, refer to section 1.1(c)*

2021 Consolidated Financial Report extract

Notes to the Financial Statements

For the year ended 31 December 2021

2.1 Segment information (continued)

(c) Geographical information

The Group's business segments operate principally in Australia and New Zealand. Hallmark Insurance also operates business in New Zealand and reported as such for geographical reporting below.

	External Revenue		*Non-current assets	
	2021 $'m	2020 $'m	2021 $'m	2020 $'m
Geographical information				
Australia	758.4	850.6	924.1	704.0
New Zealand	229.5	251.4	132.7	140.8
Total	**987.9**	**1,102.0**	**1,056.8**	**844.8**

**Consists of goodwill and other intangibles and property, plant and equipment*

2.2 Revenue and expenses

Accounting Policy

Revenue Recognition

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement. Interest is applied to the gross carrying value of a financial asset unless the asset is credit impaired, in which case it is applied to the net carrying value.

Net interest income

Interest income and expense on loans is recognised using the effective interest method. The effective interest method is a way of calculating the amortised cost using the effective interest rate (EIR) of the financial asset or financial liability. The EIR is a rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument (portfolio average expected life; sales finance 15 months; personal loans 16 months and motor loans 16 months), or when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. Loan origination fees and costs are deferred over the life of the loan and are recognised as an adjustment of the yield. Unless included in the EIR calculation, fees and commissions are recognised on an accruals basis when the service has been provided and all other loan-related costs are expensed as incurred.

Fair value adjustments in relation to acquisition date fair value measurement of loan receivables recorded as a result of business combinations are amortised and included as part of interest income over the estimated customer repayment period. The amortisation period is accelerated when the remaining fair value adjustment is determined to be less than 10% of the original amount.

Insurance premium revenue

Premium revenue comprises amounts charged to policyholders (direct premium) for insurance contracts, excluding stamp duties and taxes collected on behalf of third parties, including GST. Premium revenue is recognised in profit or loss with the incidence of the pattern of risk. Generally, the premium is earned according to the passing of time, but where time does not approximate the pattern of risk, previous claims experience is used to derive the incidence of risk. Premium for unclosed business (business written close to reporting date where attachment of risk is prior to reporting date and there is insufficient information to accurately identify the business) is brought to account based on previous experience with due allowance for any changes in the pattern of new business and renewals. The unearned portion of premium is recognised within unearned premium liability in the consolidated balance sheet.

Other expenses

Operating expenses are recognised as services are provided to the Group, over the period in which an asset is consumed, or once a liability is created.

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Notes to the Financial Statements

For the year ended 31 December 2021

2.2 Revenue and expenses (continued)

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 GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the consolidated balance sheet. Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

(a) Net interest income

	2021 $'m	2020 $'m
Interest income	**932.4**	1,058.1
Total interest income	**932.4**	1,058.1
Finance costs on borrowings	(166.8)	(198.8)
Finance costs on borrowings - related parties	-	(76.2)
Lease interest expense	(2.9)	(3.6)
Total interest expense	**(169.7)**	(278.6)
Net interest income	**762.7**	779.5

(b) Other operating income

	2021 $'m	2020 $'m
Net interchange and operating fees	**22.8**	19.6
Other	**2.3**	1.8
Total other operating income	**25.1**	21.4

(c) Net insurance income

	2021 $'m	2020 $'m
Insurance premium revenue	**35.2**	49.1
Insurance claims and expenses	**(5.5)**	(28.6)
Investment income	**0.7**	2.0
Total net insurance income	**30.4**	22.5

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Notes to the Financial Statements

For the year ended 31 December 2021

2.2 Revenue and expenses (continued)

(d) Reconciliation of profit after income tax to net cash inflow from operating activities

	2021 $'m	*2020 $'m
Net profit/(loss) after income tax	160.3	45.2
Increase in interest receivable	(34.7)	(15.9)
Increase in interest payable	11.8	27.6
Depreciation and amortisation	92.9	93.0
Non-cash charge offs	171.2	273.3
Other (income)/expenses including asset impairment	28.6	69.0
(Increase)/decrease in loans and other receivables	21.2	830.5
Net increase/(decrease) in trade and other liabilities	(19.5)	(10.3)
Net increase/(decrease) in gross insurance policy liabilities	0.1	(7.8)
Increase in other assets	(0.2)	(7.1)
Net cash provided by operating activities	**431.7**	1,297.5

**As restated, refer to section 1.1(c)*

2.3 Income tax expense and deferred tax

Accounting Policy

Taxation

Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses. The current income tax charge is calculated based on the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate, based on amounts expected to be paid to the tax authorities.

Deferred tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts. Deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination, that, at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and liabilities are offset when there is a legally enforceable right to offset and an intention to settle the liability simultaneously. Current and deferred tax is recognised in the consolidated income statement except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity respectively.

Tax consolidation legislation (Australian Parent and Group only)

The Company and some wholly-owned controlled entities have implemented the tax consolidation legislation from December 2015. On adoption of the tax consolidation legislation, the entities in the tax consolidated group entered into a tax sharing agreement which limits the joint and several liability of the wholly-owned entities in the case of a default by the head entity, Latitude Group Holdings Limited. The entities are taxed as a single entity and the deferred tax assets and liabilities of these entities are set-off in the consolidated financial statements. The head and controlled entities in the tax consolidated group account for their own current and deferred tax accounts. These tax amounts are measured as if each entity in the tax consolidation group was a separate taxpayer with the group. In addition to its own current and deferred tax amounts, the Company also recognises the current tax liabilities (assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidation group.

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Notes to the Financial Statements

For the year ended 31 December 2021

2.3 Income tax expense and deferred tax (continued)

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate the Company for any current tax payable assumed. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements. The amounts receivable or payable under the tax funding agreement are due upon receipt of the funding advice from the head entity. The funding amounts are recognised as intercompany receivables. Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group.

(a) Income tax expense

	2021 $'m	*2020 $'m
Current tax expense		
Current tax on profits for the period	55.8	49.4
Adjustments recognised in the period for current tax of prior periods	(2.7)	0.7
	53.1	50.1
Deferred tax expense		
Origination and reversal of temporary differences	9.3	(11.7)
	9.3	(11.7)
Income tax expense	62.4	38.4
Income tax expense/(benefit) is attributable to:		
Profit/(loss) from continuing operations	62.4	40.0
Profit/(loss) from discontinued operations	-	(1.6)
Income tax expense	**62.4**	38.4

**As restated, refer to section 1.1(c)*

2.3 Income tax expense and deferred tax (continued)

(b) Numerical reconciliation of income tax expense to prima facie tax payable

	2021 $'m	*2020 $'m
Profit from continuing operations before income tax expense	**222.7**	86.7
Loss from discontinued operations before income tax expense	**-**	(3.1)
	222.7	83.6
Tax at the Australian tax rate of 30% (2020: 30%)	**66.8**	24.9
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Permanent differences^	**(1.2)**	12.7
Effect of differences in tax rates in foreign jurisdictions	**(1.1)**	(0.6)
Other	**0.6**	0.7
Adjustments of prior periods	**(2.7)**	0.7
Income tax expense	**62.4**	38.4

**As restated, refer to section 1.1(c)*
^ Includes amortisation of interest rate swap break-costs, historical equity plan and transactions associated with its unwind.

(c) Deferred tax expense represents movements in deferred tax assets/liabilities

	2021 $'m	*2020 $'m
Provisions and other liabilities	**15.5**	(1.2)
Deferred income	**1.6**	4.1
Property, plant and equipment	**(0.1)**	(1.4)
Intangible assets	**(14.6)**	(13.4)
Deferred expenses and prepayments	**2.2**	0.1
Trust net income	**3.9**	-
Other	**0.8**	0.1
Deferred tax expense/(benefit)	**9.3**	(11.7)

**As restated, refer to section 1.1(c)*

The Group has $0.6 million of unused tax losses and $0.2 million deductible temporary differences for which no deferred tax asset is recognised in the balance sheet (2020: $nil). These relate to the Symple Loans and OctiFi business acquisitions described in sections 6.10 and 6.11. The losses may be carried forward indefinitely subject to shareholding test requirements.

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Notes to the Financial Statements

For the year ended 31 December 2021

2.3 Income tax expense and deferred tax (continued)

(d) Deferred tax assets and liabilities

	2021 $'m	*2020 $'m
Deferred tax assets		
Provisions and other liabilities	107.7	123.1
Deferred income	35.5	37.2
Lease liability	20.0	23.5
Property, plant and equipment	12.8	12.3
Other	2.3	9.3
Deferred tax assets	**178.3**	205.4
Deferred tax liabilities		
Intangible assets	38.8	53.4
Deferred expenses & prepayments	11.5	9.4
Right-of-use assets	17.7	21.1
Trust net income	3.9	-
Other	0.3	0.4
Deferred tax liabilities	**72.2**	84.3
Net deferred tax assets	**106.1**	121.1
Amounts expected to be settled within 12 months	**70.9**	88.7
Amounts expected to be settled after more than 12 months	**35.2**	32.4
Net deferred tax assets	**106.1**	121.1

**As restated, refer to section 1.1(c)*

(e) Other tax recognised

	2021 $'m	2020 $'m
Income tax recognised in other comprehensive income:		
Cash flow hedge reserve	**7.2**	(0.6)
Income tax recognised directly in equity:		
Capital note issuance costs	**(1.0)**	**-**

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Notes to the Financial Statements

For the year ended 31 December 2021

2.4 Dividends and distributions

Accounting Policy

Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the Group, on or before the end of the reporting period but not distributed at the end of the reporting period.

(a) Dividends

The following dividends were declared and paid by the Company for the year.

	2021 $'m	2020 $'m
7.85 cents per qualifying ordinary share - interim dividend	**78.5**	-
	78.5	-

On 21 February 2022 the following dividends were determined by the Directors.

	2021 $'m	2020 $'m
7.85 cents per qualifying ordinary share - final dividend	**81.5**	-
	81.5	-

The Group does not have a dividend reinvestment plan. The final dividend declared is fully franked with 100% franking credits.

Franking credits

The franking credits balance of the Group at the time of listing on the ASX in April 2021 automatically converted to become exempting credits. They are held only for the benefit of those non-resident shareholders that held shares in the Group immediately prior to listing and continue to effectively hold the same shares in the Group at the time a dividend is paid.

The amount of Australian franking credits available to shareholders at 2021 for subsequent financial years is $5.0 million (2020: $nil).

(b) Distributions payable on other equity instruments

	2021 $'m	2020 $'m
Latitude Capital Note (ASX: LFSPA)	**1.4**	-
	1.4	-

Distributions relate to capital notes issued as described in section 4.1(a).

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Notes to the Financial Statements

For the year ended 31 December 2021

2.5 Earnings per share

Accounting Policy

Earnings per share

Basic Earnings per Share (EPS) amounts are calculated by dividing the profit or loss for the period attributable to ordinary equity holders of the Company by the sum of the weighted average number of ordinary shares outstanding during the period.

Diluted Earnings per Share (Diluted EPS) amounts are calculated by dividing the profit or loss for the period attributable to ordinary equity holders of the Company by the sum of the weighted average number of ordinary shares outstanding, adjusted for the effects of all dilutive potential ordinary shares.

(a) Earnings per share

The earnings and weighted average number of ordinary shares used in the calculation of basic and diluted earnings per share are as follows:

	Basic		Diluted	
	2021	*2020	2021	*2020
Earnings ($'m)				
Profit/(loss) for the year attributable to owners of the Company	**160.9**	45.2	**160.9**	45.2
Adjusted earnings	**160.9**	45.2	**160.9**	45.2
Net loss from discontinued operations attributable to owners of the Company	**-**	(1.5)	**-**	(1.5)
Adjusted earnings from continuing operations	**160.9**	46.7	**160.9**	46.7
Weighted average number of ordinary shares (millions)				
Weighted average number of ordinary shares	**902.0**	650.2	**902.0**	650.2
Potential dilutive weighted average number of ordinary shares:				
Conversion of capital notes	-	-	**79.1**	-
Total weighted average number of ordinary shares	**902.0**	650.2	**981.1**	650.2
Earnings per share (cents) attributable to owners of the Company				
Earnings per share (cents) from continuing operations	**17.8**	7.2	**16.4**	7.2
Earnings per share (cents) from discontinued operations	**-**	(0.2)	**-**	(0.2)

**As restated, refer to section 1.1(c)*

Section 3 | Financial Instruments and Risk Management

3.1 Financial assets and liabilities

Accounting Policy

Classification - Financial assets and liabilities

Amortised cost

Debt instruments are measured at amortised cost if both the following conditions apply:

(a) the instrument is held to collect contractual cash flows, rather than being sold prior to contractual maturity to realise fair value changes; and

(b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Recognition and derecognition

Financial instruments are recognised when the Group becomes party to the contractual provisions of the instrument. Financial assets are derecognised when the Group's contractual rights to the cash flows from the instrument expire or if the Group transfers the instrument to another party without retaining control or substantially all the risks and rewards of the asset. Financial liabilities are derecognised when the Group's obligation under the contract is discharged, cancelled or it expires.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with financial institutions, restricted cash and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash.

Investments

Investments include Hallmark term deposits held at call with financial institutions and other highly liquid investments with original maturities of three months or more that are readily convertible to known amounts of cash. Investments are carried at the face value of the amounts deposited as their carrying amounts approximate their fair value.

Loans and other receivables

Loan receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Group did not intend to sell immediately or in the near term. Loans and advances are amounts due from customers in the ordinary course of business. They are initially recognised at fair value plus directly attributable transaction costs and subsequently measured at amortised cost, using the effective interest method, net of any provision for doubtful debts.

Trade and other liabilities

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within 60 days of recognition.

3.1 Financial assets and liabilities (continued)

Borrowings

Borrowings are initially recognised at fair value, net of directly attributable transaction costs and subsequently measured at amortised cost, using the effective interest method. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired.

Fair value through profit or loss (FVPL)

The Group may choose to designate, at initial recognition, a financial asset or a financial liability at FVPL if it eliminates or reduces an accounting mismatch. Equity investments are measured at FVPL unless the Group has elected to measure them as FVOCI below.

Financial assets backing insurance liabilities

Financial assets backing insurance policies are measured at fair value through profit or loss, with gains and losses being recognised through profit or loss.

Fair value through other comprehensive income (FVOCI)

Other financial assets

The Group may elect to measure its non-traded equity instruments at fair value through other comprehensive income, with only dividend income being recognised in profit or loss.

Loss provisioning

Provision for losses on loans and advances

Loss provisioning is based on a three-stage approach to measuring expected credit losses (ECLs) for loans and advances which is based on the change in credit quality of financial assets since initial recognition:

Stage 1: Where there has been no significant increase in the risk of default since origination, reserves reflect the portion of the lifetime ECL from expected defaults in the following twelve months.
Stage 2: For assets where there has been a significant increase in risk since origination but are not credit impaired, a lifetime ECL is recognised.
Stage 3: For assets deemed as credit impaired, a lifetime ECL is recognised.

The Group determines that a significant increase in risk occurs when an account is more than 30 days delinquent since origination. Exposures are assessed as credit impaired where the Group determines that an account is in default, being an account that is either 90 days or more past due or it is an account identified as bankrupt, deceased or fraudulent or any account in litigation or in hardship. ECLs are derived from probability-weighted estimated loss measures taking account of possible outcomes, the time value of money and current and future economic conditions. Customer loans are grouped on the basis of shared credit risk characteristics and lending type, by product category. As asset quality deteriorates an exposure will move through ECL stages. As asset quality improves, an asset that was previously assessed as a significant increase in credit risk that had lifetime ECL, may in subsequent periods revert back to Stage 1.

3.1 Financial assets and liabilities (continued)

The Group's Buy Now Pay Later (BNPL) small ticket product and associated provision model is currently in development, while following a three-stage approach to measuring expected credit losses (ECLs) for loans and advances, it will likely have different definitions across stage 1, 2 and 3 given the short-term nature of the product.

Modified loans comprise financial assets under a hardship arrangement or those in the process of litigation. When a flag indicator is removed from the account of a modified financial asset, signalling the end of the modification arrangement, then the loss allowance for the financial asset will revert to being measured at an amount equal to Stage 1 12-month ECL if the financial asset is less than 30 days past due and is not flagged as bankrupt, deceased, fraud, hardship or litigation status. ECL for a previously modified financial asset can subsequently be remeasured at an amount equal to lifetime ECL when the delinquency is between 30 and 89 days past due (Stage 2), or when the delinquency is greater than or equal to 90 days past due, or is flagged as bankrupt, deceased, fraud, hardship or litigation status (Stage 3).

Loans and advances from customers are written off when they are deemed non-collectable at a portfolio level, or at an earlier date depending on customer status. Subsequent recoveries of loans from legal enforcement relating to an amount previously charged off are set off against loan impairment expenses in the combined statement of profit or loss and other comprehensive income.

The estimation of expected credit losses and assessment of credit risk, leverages various information including past events, current conditions, and reasonable information about future events including economic conditions. As part of the measurement of expected credit losses (ECLs) for loans and advances, the Group leverages a forward-looking macroeconomic model with multiple economic scenarios, including baseline forecasts, upside, and downside scenarios, to produce multiple ECLs. These are weighted according to the Group's AASB 9 governance process, to determine a final probability weighted ECL. The forward-looking macroeconomic model is a regression-based model leveraging various economic indicators, including Consumer Price Index (CPI), house prices, household disposable income, retail sales, and claims on the private sector. The forward-looking economic variables are used to project defaults over the next twelve months (Stage 1) and lifetime (Stage 2), with the outcome an adjustment to the probability of default within the ECL model.

Impaired accounts existing in the portfolio, resulting from the purchase of impaired accounts from GE as part of the business acquisition in November 2015, are referenced as 'Purchased or Originated Credit-Impaired' (POCI) assets under AASB 9. In accordance with AASB 9, POCI should be reserved for on a lifetime basis. The Group therefore identifies any POCI accounts in Stage 1 and adjusts the reserve for these to ensure lifetime coverage is achieved.

Derivative Financial Instruments

(The Group continues to apply hedge accounting under AASB 39)

Derivatives are classified as FVPL unless they are designated hedging instruments. They are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates derivatives as hedges of a particular risk associated with the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges). The Group documents at the inception of the hedging transaction the

3.1 Financial assets and liabilities (continued)

relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. It also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values of cash flows on hedged items.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated in reserves in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss within other operating income. When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately reclassified to profit or loss.

Derivatives that do not qualify for hedge accounting

Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in profit or loss within other operating income.

Offsetting

Financial assets and liabilities are offset and the net amount is presented in the balance sheet when the Group has a legal right to offset the amounts and intends to settle on a net basis or to realise the asset and settle the liability simultaneously.

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Notes to the Financial Statements

For the year ended 31 December 2021

3.1 Financial assets and liabilities (continued)

(a) Financial assets and financial liabilities

Financial assets	Notes	Assets designated FVOCI $'m	Assets designated FVPL $'m	Assets at fair value $'m	Assets at amortised cost $'m	Total $'m
2021						
Cash and cash equivalents	3.1(b)	**-**	**-**	**-**	**605.7**	**605.7**
Investments		**-**	**83.6**	**-**	-	**83.6**
Assets classified as held for sale		**-**	**-**	**0.2**	**-**	**0.2**
Derivative financial instruments		**-**	**-**	**12.3**	**-**	**12.3**
Loans and other receivables	3.1(d)	**-**	**1.2**	**-**	**6,006.9**	**6,008.1**
Other financial assets		**1.6**	**-**	**-**	**-**	**1.6**
Total financial assets		**1.6**	**84.8**	**12.5**	**6,612.6**	**6,711.5**
***2020**						
Cash and cash equivalents	3.1(b)	-	-	-	463.0	463.0
Investments		-	31.7	-	-	31.7
Assets classified as held for sale		-	-	0.1	-	0.1
Derivative financial instruments		-	-	0.2	-	0.2
Loans and other receivables	3.1(d)	-	1.4	-	6,089.6	6,091.0
Other financial assets		1.6	-	-	-	1.6
Total financial assets		**1.6**	**33.1**	**0.3**	**6,552.6**	**6,587.6**

**As restated, refer to section 1.1(c)*

Financial liabilities	Notes	Liabilities designated FVOCI $'m	Liabilities at fair value $'m	Liabilities at amortised cost $'m	Total $'m
2021					
Trade and other liabilities	3.1(f)	**-**	**-**	**380.7**	**380.7**
Derivative financial instruments		**-**	**1.0**	**-**	**1.0**
Borrowings	3.1(g)	**-**	**-**	**5,865.2**	**5,865.2**
Total financial liabilities		**-**	**1.0**	**6,245.9**	**6,246.9**
***2020**					
Trade and other liabilities	3.1(f)	-	-	378.2	378.2
Derivative financial instruments		-	13.8	-	13.8
Borrowings	3.1(g)	-	-	6,757.7	6,757.7
Total financial liabilities		**-**	**13.8**	**7,135.9**	**7,149.7**

**As restated, refer to section 1.1(c)*

3.1 Financial assets and liabilities (continued)

(b) Cash and cash equivalents

	2021 $'m	*2020 $'m
Current assets		
Cash and cash equivalents	**580.9**	331.3
Hallmark short term deposits	**17.9**	124.7
Restricted cash [(1)]	**6.9**	7.0
Cash and cash equivalents	**605.7**	463.0

**As restated, refer to section 1.1(c)*
[(1)] Being cash deposited as security

(c) Investments

	2021 $'m	*2020 $'m
Investments		
Cash investments - greater than 3 months	**70.0**	31.7
Investments - RMBS	**13.6**	-
Investments	**83.6**	31.7

**As restated, refer to section 1.1(c)*

(d) Loans and other receivables

	Notes	2021 $'m	*2020 $'m
Loans and advances			
Loans and advances		**6,352.1**	6,521.6
Unearned income		**(100.2)**	(135.4)
Provision for impairment losses		**(271.6)**	(301.3)
Total loans and advances		**5,980.3**	6,084.9
Other receivables			
Trade receivables		**18.8**	0.7
Other receivables		**9.0**	3.6
Total other receivables		**27.8**	4.3
Related party receivables			
Receivables from related parties - unsecured	6.5(c)	**-**	1.8
Total loans to related parties		**-**	1.8
Total loans and other receivables		**6,008.1**	6,091.0
Current		**3,076.2**	3,169.0
Non-current		**2,931.9**	2,922.0
Total loans and other receivables		**6,008.1**	6,091.0

**As restated, refer to section 1.1(c)*

3.1 Financial assets and liabilities (continued)

As the majority of the Group's customer loans are variable rate products, their fair values are deemed not to be significantly different to their carrying amounts. Other receivables are generally of a short-term nature whose fair value approximates their carrying amounts.

Information about the impairment of loans and other receivables, their credit quality and the Group's exposure to credit risk can be found in section 3.2.

(e) Derivatives

	2021 $'m	2020 $'m
Current derivative assets		
Forward foreign exchange contracts	**0.4**	-
Total current derivative financial instrument assets	**0.4**	-
Non-current derivative assets		
Interest rate swap contracts - cash flow hedges	**11.9**	0.2
Total non-current derivative financial instruments	**11.9**	0.2
Total derivative assets	**12.3**	0.2
Current derivative liabilities		
Forward foreign exchange contracts	**-**	1.0
Total current derivative financial instrument liabilities	**-**	1.0
Non-current derivative liabilities		
Interest rate swap contracts - cash flow hedges	**1.0**	12.8
Total non-current derivative financial instrument liabilities	**1.0**	12.8
Total derivative liabilities	**1.0**	13.8

The Group enters into derivative transactions for economic hedging purposes under International Swaps and Derivatives Association ('ISDA') master agreements. The agreements generally allow for simultaneous netting of payments in relation to each party's obligations for derivative assets and liabilities. Therefore, although the Group does not have a current legal enforceable right of set off and does not offset the assets and liabilities on the balance sheet, it will settle the derivative on a net basis simultaneously when the amounts due or owed are with the same counterparty.

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Notes to the Financial Statements

For the year ended 31 December 2021

3.1 Financial assets and liabilities (continued)

(f) Trade and other liabilities

	Notes	2021 $'m	*2020 $'m
Current			
Trade and other payables		**79.9**	63.8
Accrued expenses		**55.9**	50.7
Payables to related parties	6.5(c)	**39.4**	21.9
Customer credit balances		**55.0**	50.0
Promissory note	6.10	**24.0**	-
Outstanding Insurance claims liability		**7.5**	14.9
Lease liability		**10.5**	11.6
Capital note distributions		**1.4**	-
Current trade and other liabilities		**273.6**	212.9
Non-Current			
Trade and other payables		**-**	5.2
Payables to related parties	6.5(c)	**45.1**	84.5
Outstanding Insurance claims liability		**4.4**	7.5
Lease liability		**57.6**	68.1
Non-current trade and other liabilities		**107.1**	165.3
Total trade and other liabilities		**380.7**	378.2

**As restated, refer to section 1.1(c)*

The carrying amounts of trade and other liabilities approximates fair value. When measuring lease liabilities, the Group discounts lease payments using its incremental borrowing rate. The weighted-average discount rate applied is 3.79% as at 31 December 2021 (31 December 2020: 3.79%).

3.1 Financial assets and liabilities (continued)

(g) Borrowings

	2021			2020		
	Current $'m	Non-current $'m	Total $'m	Current $'m	Non-current $'m	Total $'m
Secured						
Securitisation liabilities	**949.1**	**4,916.1**	**5,865.2**	450.2	5,422.0	5,872.2
Total secured borrowings	**949.1**	**4,916.1**	**5,865.2**	450.2	5,422.0	5,872.2
Unsecured						
Shareholder loan	-	-	-	1.4	884.1	885.5
Total unsecured borrowings	-	-	-	1.4	884.1	885.5
Total borrowings	**949.1**	**4,916.1**	**5,865.2**	451.6	6,306.1	6,757.7

Securitisation liabilities

The Group's principal sources of funding are through revolving warehouse facilities and asset-backed securities (ABS) issued in Australia and New Zealand. These debt issuances fund pools of customer loans and advances that are sold to the special purpose entities that issue the debt.

The contractual maturities attached to the securitisation liabilities range between 1-8 years. Actual securitisation liability repayments occur when the trust reaches contractual amortisation periods (commencing in 0-5 years) based on assumed repayment patterns in the underlying receivables. Refer to section 3.2(t) for further details relating to liquidity management. The funding platform provides additional committed facilities as described in section 3.2(s). Significant changes in funding during the year included:

- The Australian Personal Loans Trust was refinanced for its personal lending portfolios on 19 January 2021. The total commitment level of the facility was reduced by $162 million to $1,038 million and the scheduled amortisation date was extended from 17 February 2021 to 17 January 2024.
- In February 2021 an Amending Deed was executed to increase the limit for the Australian Auto Loan Trust from $808 million to $926 million.
- In April 2021 the Australian Sales Finance and Credit Card Trust No.3 was established with a scheduled amortisation date of 22 April 2024. The total commitment level of the facility was $1,056 million and this included capability to fund a portion of LatitudePay receivables. As part of the establishment of Australian Sales Finance and Credit Card Trust No.3, the Australian Sales Finance and Credit Card Trust total commitment level was reduced from $1,429 million to $930 million.
- In May 2021 the outstanding notes of the Australian Sales Finance and Credit Card Trust No.2 were fully repaid ahead of the scheduled amortisation date of 31 March 2022.
- A new Series 2021-1 within the New Zealand Sales Finance and Credit Card Master Trust was issued in August 2021. This series had a facility limit of NZ$250 million and an expected redemption date of 22 August 2024.

3.1 Financial assets and liabilities (continued)

- In November 2021 $500 million was issued by the Australian Personal Loans Series 2021-1 Trust. The expected call date for this series is in August 2025.
- The outstanding notes of the New Zealand Sales Finance and Credit Card Master Trust Series 2018-1 were fully redeemed on their expected redemption date of 22 November 2021. On the same date, the 2018-1 VFN was replaced by the 2021-VFN with an increase in committed limit from NZ$20 million to NZ$30 million.

The Group also entered into a new Syndicated Facility Agreement as described under Financing Arrangements in section 3.2.

Transaction costs incurred to establish funding

Borrowings are shown net of capitalised transaction costs incurred to establish the funding programme. Unamortised transaction costs of $8.5 million are set off against borrowings at 31 December 2021 (31 December 2020: $10.3 million), of which $1.8 million (2020: $4.9 million) relates to historic transaction costs in relation to the initial GE acquisition. During the year $5.6 million (31 December 2020: $2.3 million) of borrowing costs were capitalised.

Covenants

Under the terms of the major borrowing facilities, the Group is required to comply with financial covenants. The Group has complied with these covenants during the 2021 reporting year.

Fair value

For the Group's borrowings, the fair values are not materially different to their carrying amounts, since the interest payable on those borrowings is either close to current market rates or the borrowings are of a short-term nature.

3.1 Financial assets and liabilities (continued)

(h) Recognised fair value measurements

The Group uses valuation techniques and hierarchy levels to determine the value of its financial instruments measured at fair value. Three classification levels are used. There were no transfers between levels for recurring fair value measurements during the period.

Level 1**:** This includes instrument for which the valuation is based on quoted market prices.

Level 2**:** This includes instruments that do not have quoted market prices, where observable market data is used to determine fair value.

Forward exchange contracts are valued using forward pricing valuation techniques. The fair value is determined using quoted forward exchange rates at the reporting date and present value calculations based on high credit quality yield curves in the respective currencies.

Interest rate swaps are valued using swap models. The fair value is calculated as the present value of the estimated future cash flows. Estimates of future floating-rate cash flows are based on quoted swap rates, future prices and interbank borrowing rates. Estimated cash flows are discounted using a yield curve constructed from similar sources and which reflects the relevant benchmark interbank rate used by market participants for this purpose when pricing interest rate swaps. The fair value estimate is subject to a credit risk adjustment that reflects the credit risk of the Group and of the counterparty; this is calculated based on credit spreads derived from current credit default swap or bond prices.

Level 3: This category level has no observable market data inputs.

The Group holds two unquoted equity investments with no active market within this level, of which one has previously been recognised at nil value and remains as such at the reporting date. The fair value inputs are based on entity specific financial statement information, discounted for their non-marketable nature and any other considerations such as the proximity of the transaction to the reporting date.

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For the year ended 31 December 2021

3.1 Financial assets and liabilities (continued)

(i) Recurring fair values

	Level 1 $'m	Level 2 $'m	Level 3 $'m	Total $'m
2021				
Financial assets				
Hallmark Insurance assets designated at fair value	-	**84.8**	-	**84.8**
Assets classified as held for sale	-	**0.2**	-	**0.2**
Derivative financial assets				
Derivatives used for hedging - interest rate swaps	-	**11.9**	-	**11.9**
Derivatives used for hedging - foreign exchange contracts	-	**0.4**	-	**0.4**
Other financial assets	-	-	**1.6**	**1.6**
Total financial assets	-	**97.3**	**1.6**	**98.9**
Financial Liabilities				
Derivative financial liabilities				
Derivatives used for hedging - interest rate swaps	-	**1.0**	-	**1.0**
Total financial liabilities	-	**1.0**	-	**1.0**

	Level 1 $'m	Level 2 $'m	Level 3 $'m	Total $'m
2020				
Financial assets				
Hallmark Insurance assets designated at fair value		33.1		33.1
Assets classified as held for sale	-	0.1	-	0.1
Derivative financial assets				
Derivatives used for hedging - interest rate swaps	-	0.2	-	0.2
Other financial assets	-	-	1.6	1.6
Total financial assets	-	33.4	1.6	35.0
Financial Liabilities				
Derivative financial liabilities				
Derivatives used for hedging - interest rate swaps	-	12.8	-	12.8
Derivatives used for hedging - foreign exchange contracts	-	1.0	-	1.0
Total financial liabilities	-	13.8	-	13.8

The table shows the fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

Financial assets using significant unobservable inputs (Level 3), have no impact on profit or loss or other comprehensive income for the reporting period.

3.1 Financial assets and liabilities (continued)

(j) Level 3 fair values

Reconciliation from the opening balance to the closing balance for level 3 fair values:

	2021 $'m	2020 $'m
Other financial assets:		
Balance 1 January	**1.6**	-
Purchases		
Equity Investments	**-**	1.6
Balance 31 December	**1.6**	1.6

3.2 Financial risk management

The main risks arising from the Group's financial instruments are credit risk, liquidity risk and market risk (interest rate risk and foreign currency risk). The Group has established risk management processes and has an enterprise risk management framework in place that aims to ensure enterprise risks are effectively identified, measured, monitored and managed. The Group operates under a governance and risk management culture, managed ultimately by a Board Risk Committee, responsible for all enterprise risk. Risk management is cascaded to the business through approved strategies and policies, risk appetite statements and operating procedures that establish appropriate limits and controls to monitor and manage the level of risk exposure. The management committees supporting risk governance include the Asset and Liability Committee, who manage funding, liquidity and market risks, and the Risk Management Committee who manage strategic, credit, operational and financial risks. A 'three-line' of defence model is operated to comply with the risk management framework. Separate Committees govern the Hallmark Insurance business, including for risk and compliance.

The Company and its subsidiaries may, from time to time, be involved in legal proceedings (including class actions), regulatory actions or arbitration. Such litigation could be commenced by a range of plaintiffs, such as customers, shareholders, suppliers, counterparties and regulators.

In recent years there has been an increase in regulatory action and class action proceedings, many of which have resulted in significant monetary settlements. The risk of regulatory and class actions has been heightened by a number of factors, including regulatory enforcement actions (such as the civil penalty proceedings brought by AUSTRAC), an increase in the number of regulatory investigations and inquiries (such as the Royal Commission), a greater willingness on the part of regulators to commence court proceedings, more intense media scrutiny and the growth of third party litigation funding. Regulatory investigations and class actions commenced against a competitor could also lead to similar proceedings against the Group.

Litigation (including class actions) may, either individually or in aggregate, adversely affect the Group's business, operations, prospects, reputation or financial condition. This risk is heightened by increases in the severity of penalties for certain breaches of the law. Such matters are subject to many uncertainties and the outcome may not be predicted accurately. Furthermore, the Group's ability to respond to and defend litigation may be adversely affected by inadequate record keeping.

3.2 Financial risk management (continued)

Depending on the outcome of any litigation, the Group may be required to comply with broad court orders, including compliance orders, enforcement orders or otherwise pay significant damages, fines, penalties or legal costs.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer fails to meet their contractual obligations, arising principally from the Group's loans to customers. Credit risk management is a core feature of Latitude's capability, having developed and refined its credit risk management capabilities to foster prudent underwriting, portfolio management and effective controls. These processes included risk-based loan pricing and lending limits for its customers, allowing Latitude to approve credit to customers while also seeking to ensure adequate compensation for risk to maintain delinquencies and net charge offs in accordance with Latitude's Risk Appetite Statement (RAS). Along with the Risk Appetite Statement, management has a credit policy in place that ensures our portfolios are diversified across various risk rating grades. Management continually assesses the effectiveness of internal credit controls and policies as part of the overall asset management at Latitude.

Exposure

(a) Total undrawn exposure of loans and advances to credit risk by credit risk rating grades

	12-month ECL $'m	Lifetime ECL not credit impaired $'m	Lifetime ECL credit impaired, not POCI^ $'m	Lifetime ECL credit impaired, POCI^ $'m	Total $'m
Very low risk	**7,823.1**	**-**	**-**	**2.6**	**7,825.7**
Low risk	**535.1**	**-**	**-**	**0.6**	**535.7**
Medium risk	**174.3**	**-**	**-**	**0.3**	**174.6**
Moderate risk	**27.2**	**-**	**-**	**0.1**	**27.3**
High risk	**3.5**	**-**	**-**	**-**	**3.5**
2021	**8,563.2**	**-**	**-**	**3.6**	**8,566.8**
Very low risk	8,378.6	-	-	2.6	8,381.2
Low risk	642.5	-	-	0.9	643.4
Medium risk	201.5	-	-	0.4	201.9
Moderate risk	29.7	-	-	0.1	29.8
High risk	5.3	-	-	-	5.3
2020	9,257.6	-	-	4.0	9,261.6

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For the year ended 31 December 2021

3.2 Financial risk management (continued)

Credit risk rating

(b) Loans and advances by credit risk rating grades

	12-month ECL $'m	Lifetime ECL not credit impaired $'m	Lifetime ECL credit impaired, not POCI^ $'m	Lifetime ECL credit impaired, POCI^ $'m	Total $'m
Very low risk	**2,365.8**	**2.7**	**-**	**1.9**	**2,370.4**
Low risk	**1,750.8**	**8.1**	**-**	**2.4**	**1,761.3**
Medium risk	**1,113.8**	**15.5**	**-**	**2.6**	**1,131.9**
Moderate risk	**313.5**	**17.1**	**-**	**1.1**	**331.7**
High risk	**289.8**	**147.6**	**220.9**	**6.3**	**664.6**
Unrated*	**89.5**	**1.8**	**0.9**	**-**	**92.2**
2021	**5,923.2**	**192.8**	**221.8**	**14.3**	**6,352.1**

^ POCI: Purchased or Originated Credit Impaired
** Unrated: increase in unrated loans and advances due to the acquisition of the Symple and OctiFi portfolios, along with the growing Buy Now Pay Later portfolios, which do not have a bespoke behavioural scorecard*

	12-month ECL $'m	Lifetime ECL not credit impaired $'m	Lifetime ECL credit impaired, not POCI^ $'m	Lifetime ECL credit impaired, POCI^ $'m	Total $'m
Very low risk	2,311.2	4.4	-	1.8	2,317.4
Low risk	1,748.3	20.7	-	3.1	1,772.1
Medium risk	1,160.8	42.7	-	3.9	1,207.4
Moderate risk	329.9	29.5	-	1.8	361.2
High risk	329.3	196.1	312.7	9.3	847.4
Unrated	16.1	-	-	-	16.1
2020	5,895.6	293.4	312.7	19.9	6,521.6

^ POCI: Purchased or Originated Credit Impaired

The credit risk grade scale is used to summarise the risk distribution of the portfolio, based on the probability of an account going to default as determined by behavioural scorecards.

3.2 Financial risk management (continued)

Credit quality

(c) Loans and advances by credit quality

Gross loans and advances	2021 $'m	2020 $'m
Neither past due or impaired (not POCI^)	**5,541.2**	5,592.9
Past due but not impaired (not POCI^)	**574.8**	596.1
Impaired (not POCI^)	**221.8**	312.7
POCI^	**14.3**	19.9
Total	**6,352.1**	6,521.6

^ POCI: Purchased or Originated Credit Impaired

(d) Loans and advances past due

Gross loans and advances	2021 $'m	2020 $'m
Current	**5,699.3**	5,831.6
Past due 1-29 days	**504.5**	538.0
Past due 30-89 days	**105.2**	108.4
Past due > 90 days	**43.1**	43.6
Total	**6,352.1**	6,521.6

Counterparty risk

The Group is exposed to counterparty risk by holding cash and cash equivalents, and entering into derivatives with financial institutions. Their credit quality can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

(e) Counterparty risk

	2021 $'m	2020 $'m
Cash and cash equivalents		
Investment grade (credit rating range A-2 to A-1+)	**605.7**	463.0
Investments		
Investment grade (credit rating range A-1+ to AAA)	**83.6**	31.7
Derivative financial assets		
Investment grade (credit rating AA-)	**12.3**	0.2

Other financial assets held by the Group are with counterparties with no external credit rating.

3.2 Financial risk management (continued)

Provision for impairment losses

(f) Movements in the provision for impairment of loans and advances

Movements in the provision for impairment of loans and advances that are assessed for impairment collectively below include transition between stages of loans considered modified.

	Collective provision 12-month ECL $'m	Collective provision lifetime ECL not credit impaired $'m	Collective provision lifetime ECL credit impaired, not POCI^ $'m	Collective provision lifetime ECL credit impaired, POCI^ $'m	Collective provision Total $'m
At 1 January 2021	**206.8**	**18.8**	**73.7**	**2.0**	**301.3**
Effects of exchange rate on translation	0.3	-	0.1	-	0.4
Changes in the loss allowance contributed to by changes in the gross carrying amount of financial instruments, due to:					
i) financial instruments originated during the reporting period	43.7	1.0	2.6	-	47.3
ii) derecognition of financial instruments during the reporting period	(25.6)	(3.7)	(16.0)	(0.3)	(45.6)
iii) change in balance during reporting period	(18.6)	(0.2)	(3.2)	(0.3)	(22.3)
iv) transfers between stages	(0.3)	(2.0)	1.9	-	(0.4)
Financial instruments acquired through Symple business combination	3.4	-	-	-	3.4
ECL calculation impact	(21.5)	(0.8)	(1.8)	-	(24.1)
Other	8.1	-	3.5	-	11.6
At 31 December 2021	**196.3**	**13.1**	**60.8**	**1.4**	**271.6**
At 1 January 2020	**216.8**	**17.5**	**84.0**	**4.1**	**322.4**
Effects of exchange rate on translation	(1.0)	-	(0.3)	-	(1.3)
Changes in the loss allowance contributed to by changes in the gross carrying amount of financial instruments, due to:					
i) financial instruments originated during the reporting period	37.3	1.3	5.1	-	43.7
ii) derecognition of financial instruments during the reporting period	(31.2)	(4.7)	(28.5)	(0.8)	(65.2)
iii) change in balance during reporting period	(30.2)	(0.4)	(3.8)	(0.7)	(35.1)
iv) transfers between stages	(8.7)	2.6	32.1	-	26.0
ECL calculation impact	(3.3)	(0.2)	(23.8)	(0.7)	(28.0)
Other	27.1	2.7	8.9	0.1	38.8
At 31 December 2020	**206.8**	**18.8**	**73.7**	**2.0**	**301.3**

^ POCI: Purchased or Originated Credit Impaired

3.2 Financial risk management (continued)

The Group's total provision for impairment losses decreased $29.7 million between 31 December 2020 and 31 December 2021 ($301.3 million to $271.6 million) and the coverage ratio decreased by 34bps (4.62% at December 2020 to 4.28% and December 2021). The application of model risk overlays is used to offset a number of inherent model risks, including the atypical delinquency and loss trends currently driving the lower core model coverage ratios; anticipating delinquency and loss levels normalising.

A consistent approach has been applied to the three key model risk overlays that are held by the Group in 2021:

- A Model imprecision overlay first adopted in 2018, set at 15% of the core model coverage rate and applied evenly across all products (excluding benchmarked products);
- A Seasonality overlay to adjust for ordinary course movements in the stage distribution of receivables due to seasonal delinquency trends exhibited by the underlying portfolios; and
- A 'COVID normalisation' model risk overlay, to account for the atypical delinquency and loss trends currently impacting the core provision model. At 31 December 2021, the 'COVID normalisation' model risk overlay was $53 million or 83bps, up from $33 million or 50bps at 31 December 2020. The approach for calculating this model risk overlay, while consistent in leveraging a year-on-year change in the core model coverage, has been updated to look at the change in over the last 12 months, as an estimate of the impact COVID 19 has had on the Group's Portfolios.

Latitude applied the below scenario weightings as part of the 31 December 2021 financial statements:

Scenario	Weighting
Scenario One – Upside A 100% weighting to this scenario would result in a decrease to the total ECL provision at the reporting date of $19.4 million	10%
Scenario Two – Baseline A 100% weighting to this scenario would result in a decrease to the total ECL provision at the reporting date of $8.2 million	50%
Scenario Three – Downside A 100% weighting to this scenario would result in an increase to the total ECL provision at the reporting date of $16.4 million	40%

Weightings for the three scenarios for the prior reporting period of 31 December 2020 were 10% for Scenario One – Upside; 40% for Scenario Two – Baseline; and 50% for Scenario Three – Downside.

Latitude applies inflation, claims on the private sector and household disposable income in the macroeconomic scenarios noted above.

3.2 Financial risk management (continued)

Impairment losses

(g) Losses recognised in relation to loans and advances

During the year, the following losses were recognised:

	2021 $'m	2020 $'m
Recognised in profit or loss		
Movement in provision on loans and advances	**32.4**	18.5
Net impairment loss on loans and advances	**(148.6)**	(227.3)
Losses recognised in relation to loans and advances	**(116.2)**	(208.8)

Enforcement activity

Loans and advances with a contractual amount of $63.7 million (2020: $101.1 million) written off during the year are subject to enforcement activity.

Collateral

(h) Collateral held

	2021	2020
Maximum exposure ($'m)	**6,352.1**	6,521.6
Collateral classification:		
Secured (%)	**20.5**	17.5
Unsecured (%)	**79.5**	82.5

Both secured and unsecured personal loans are offered to the customer. Subject to lending criteria, allowable collateral for a secured loan includes motor vehicles and other vehicles such as caravans and camper trailers, motorcycles, motor homes and boats. There is no minimum or maximum loan value ratio applicable to a secured personal loan and a minimum value of security applies.

When an Australian customer takes a motor loan for the purposes of acquiring a new or used car, motorcycle or other recreational vehicle, certain allowable vehicles are accepted as security for the loan.

Guarantees

The Group does not have any guarantees at 31 December 2021 (2020: $nil).

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For the year ended 31 December 2021

3.2 Financial risk management (continued)

Foreign exchange risk

Foreign exchange risk arises where changes in foreign exchange rates impact the Group's profit after tax and equity.

The Group has exposures primarily arising from investment in foreign subsidiaries whose functional currency is not A$ (primarily NZ$ with increasing exposure to CAD$ and SGD$). Additional exposure arises from transactions denominated in non-functional currencies, such as US$ expenses.

Risk management

Material transactions denominated in currencies which are not denominated in a functional currency are hedged where they are highly probable.

The Group uses forward foreign exchange contracts to manage its foreign exchange risk. These contracts are not designated as hedging instruments.

Exposure

(i) Exposure to foreign currency risk, expressed in Australian Dollars

	2021 $'m	2020 $'m
Net open position - US Dollar	**3.2**	(2.3)
Net open position - NZ Dollar	**-**	(0.9)

Foreign exchange gains or losses

(j) Gains/(losses) recognised in relation to changes in foreign exchange rates

During the year, the following gains/(losses) were recognised:

	2021 $'m	2020 $'m
Recognised in profit or loss		
Net foreign exchange gain/(loss) included in other operating income	**1.1**	(0.9)
Recognised in other comprehensive income		
Translation of entities with a non-Australian denominated functional currency recognised in foreign currency translation reserve	**5.6**	(1.7)

3.2 Financial risk management (continued)

Sensitivity

(k) Sensitivity to changes in exchange rates to financial instruments denominated in foreign currency

	Impact on post-tax profit		Impact on other components of equity	
	2021	2020	2021	2020
Index	$'m	$'m	$'m	$'m
USD/AUD exchange rate - increase 10%	**0.2**	(0.2)	-	-
USD/AUD exchange rate - decrease 10%	**(0.2)**	0.2	**-**	-
NZD/AUD exchange rate - increase 10%	**-**	(0.1)	**10.7**	5.8
NZD/AUD exchange rate - decrease 10%	**-**	0.1	**(10.7)**	(5.8)
SGD/AUD exchange rate - increase 10%	**-**	-	**3.3**	-
SGD/AUD exchange rate - decrease 10%	**-**	-	**(3.3)**	-
CAD/AUD exchange rate - increase 10%		-	**1.0**	-
CAD/AUD exchange rate - decrease 10%	**-**	-	**(1.0)**	-

Interest rate risk

The Group's main interest rate risk arises from mismatches in the interest rate characteristics of its receivables assets and the corresponding funding liabilities.

Risk management

The Groups receivables consist of three types of applicable interest rate:

- Fixed rate personal and auto loans where the interest rate is fixed for the life of the contract. Fixed rate personal loans are typically provided on a term of one to seven years and amortise fully over this term. Auto loans are typically provided on a term of one to seven years with the majority fully amortising over this term and a small proportion partially amortising to a residual balance.
- Interest free instalment products; and
- Variable rate personal loans, credits and instalment products which bear interest and whose interest varies over time as the applicable rate changes.

The Groups funding facilities are variable rate borrowings where rates are reset at regular intervals (generally monthly) in-line with current market rates.

Interest rate risk is managed by entering into derivatives (pay fixed interest rate swaps) whereby the group agrees to pay a fixed interest rate and in return receive a variable market interest rate to hedge the variable borrowing costs.

Swaps are currently in place cover floating rate securitisation liabilities relating to fixed rate personal and auto loans sold into securitisation trusts. Hedging amounts and tenors reflect the expected repayment profiles of these fixed rate receivables. These derivatives are designated in hedging relationships to minimise profit and loss volatility.

3.2 Financial risk management (continued)

The Group determines the existence of an economic relationship between the hedging instrument and hedged item based on the reference interest rates, tenors, repricing dates and the maturities and amounts. The Group assesses whether the derivative designated in each hedging relationship is expected to be effective in offsetting changes in cash flows of the hedged item using the hypothetical derivative method.

Exposure

(l) Interest rate profile

The exposure of the Group's borrowing to interest rate changes and the contractual re-pricing dates of the interest rate borrowings at the end of the reporting period are as follows:

	2021 $'m	2020 $'m
Variable rate borrowings	**5,868.0**	5,878.7
Fixed interest rate - repricing dates:		
1 – 5 years	**-**	885.5
	5,868.0	6,764.2

(m) Interest rate swaps

As at the end of the reporting period, the Group had the following interest rate swap contracts outstanding:

	2021		2020	
	Weighted average interest rate %	Balance $'m	Weighted average interest rate %	Balance $'m
Interest rate swaps (nominal amount)	**0.65%**	**2,314.4**	0.61%	2,218.2

3.2 Financial risk management (continued)

Hedged items and hedging instruments

(n) Amounts relating to items designated as hedged items

Amounts at the reporting date relating to items designated as hedged items were as follows:

	Change in value used for calculating hedge ineffectiveness $'m	Cash flow hedge reserve $'m	Balances remaining in the cash flow hedge reserve from hedging relationships for which hedge accounting is no longer applied $'m
2021			
Interest rate risk			
Variable rate borrowings	**23.5**	**8.5**	**-**
Discontinued hedges (1)	**-**	**-**	**(1.7)**
2020			
Interest rate risk			
Variable rate borrowings	(16.3)	(9.1)	-
Discontinued hedges (1)	-	-	(6.3)

(1) Balance in Cash flow hedge reserve related to discontinued hedges - Refer to section 3.2(o)

For the year ended 31 December 2021

3.2 Financial risk management (continued)

(o) Amounts relating to items designated as hedging instruments and hedge ineffectiveness

	Nominal amount $'m	Carrying amount Assets $'m	Carrying amount Liabilities $'m	Changes in the value of the hedging instrument recognised in OCI $'m	Hedge ineffective-ness recognised in profit or loss $'m	Amount reclassified from hedging reserve to profit or loss $'m
2021						
Interest rate risk						
Interest rate swaps	**2,314.4**	**11.9**	**1.0**	**23.0**	**0.5**	**-**
Discontinued hedges [1]	**-**	**-**	**-**	**-**	**-**	**6.3**
2020						
Interest rate risk						
Interest rate swaps	2,218.3	0.2	12.8	(16.0)	(0.3)	-
Discontinued hedges [1]	-	-	-	-	-	13.9

[1] A number of hedge relationships were discontinued in 2019 in order to rebase the economics of the fixed rate portfolios of the Group. Gain or losses on discontinued hedges that were in cash flow hedge relationships remain in the reserves until the underlying transactions occur. Any changes in the market value of the discontinued hedges are recognised in the profit or loss from discontinuation.

(p) Amounts relating to hedged items as continuing hedges and discontinued hedges

	Hedged risk	Continuing hedges $'m	Discontinued hedges $'m	Total $'m
2021				
Cash flow hedges				
Variable rate borrowings	Interest rate	**8.5**	**(1.7)**	**6.8**
2020				
Cash flow hedges				
Variable rate borrowings	Interest rate	(9.1)	(6.3)	(15.4)

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Notes to the Financial Statements

For the year ended 31 December 2021

3.2 Financial risk management (continued)

Fair value gains or losses

(q) Gains/(losses) recognised in relation to derivatives designated as cash flow hedges

During the year, the following gains/(losses) were recognised:

	2021 $'m	2020 $'m
Recognised in profit or loss		
Net gain/(loss) for ineffective portion of derivatives designated as cash flow hedges	**0.5**	(0.3)
Recognised in other comprehensive income		
Gain/(loss) recognised in other comprehensive income	**15.8**	(15.4)

Sensitivity

(r) Sensitivity to changes in interest rates

	Impact on pre-tax profit		Impact on other components of equity	
	2021 $'m	*2020 $'m	2021 $'m	*2020 $'m
Interest rates - increase by 100 basis points - Increase in profit	**(19.6)**	(20.2)	**30.6**	28.1
Interest rates - decrease by 100 basis points - Decrease in profit	**19.6**	20.2	**(31.4)**	(28.8)

**As restated, refer to section 1.1(c)*

The analysis above shows the impact of shifts in interest rates on the Group's profit over a year assuming all other things remain equal at the end of the reporting period.

3.2 Financial risk management (continued)

Liquidity risk

The Group ensures it has access to liquidity and has the resources to meet its contractual financial obligations during the normal course of business and in periods of stress. This includes maintaining sufficient cash and other liquid assets and flexibility in funding through committed credit lines.

Risk management

Funding is monitored on a regular basis and risk management includes forecasts and modelling including stress testing scenarios.

Financing arrangements

The Group entered into a new Syndicated Facility Agreement effective 21 April 2021 for the following lines of credit:

- Facility A: $160 million multicurrency bullet revolving credit facility;
- Facility B: US$41 million bullet revolving credit facility.

$7.5 million of the AUD component (facility A) was utilised at 31 December 2021 to refinance existing bank guarantees. $152.5 million of facility A remains undrawn.

US$40.9 million ($56.3 million) of the USD component facility (facility B) was utilised at 31 December 2021 to refinance existing letters of credit provided as collateral for access to Schemes.

In addition to the lines of credit above, the Group had access to the following undrawn borrowing facilities in relation to securitisation borrowings disclosed in section 3.1:

(s) Undrawn facilities

Floating rate	2021 $'m	*2020 $'m
Borrowing facilities available	**8,222.9**	8,164.3
Drawn facilities	**(5,868.0)**	(5,878.7)
Undrawn facilities	**2,354.9**	2,285.6

**As restated, refer to section 1.1(c)*

Maturities of financial liabilities

The tables below analyse the Group's financial liabilities into relevant maturity groupings based on their contractual maturities. The amounts disclosed are the undiscounted cash flows, including both principal and associated future interest payments, but exclude transaction costs that have been set off and therefore will not agree to the carrying amounts on the balance sheet.

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3.2 Financial risk management (continued)

(t) Contractual maturities of financial liabilities

	Less than 6 months $'m	6 - 12 months $'m	Between 1-2 years $'m	Between 2-5 years $'m	Over 5 years $'m	Total contractual cash flows $'m	*Carrying amount (assets)/ liabilities $'m
2021							
Non-derivatives							
Borrowings – Securitisation liabilities	**312.4**	**440.8**	**1,605.3**	**3,683.0**	**2.3**	**6,043.8**	**5,873.7**
Trade and other liabilities	**323.3**	**12.3**	**11.9**	**33.2**	**-**	**380.7**	**380.7**
Total non-derivatives	**635.7**	**453.1**	**1,617.2**	**3,716.2**	**2.3**	**6,424.5**	**6,254.4**
Derivatives							
Derivatives - interest rate swaps	**(4.3)**	**0.7**	**7.2**	**7.0**	**-**	**10.6**	**1.0**
Total derivatives	**(4.3)**	**0.7**	**7.2**	**7.0**	**-**	**10.6**	**1.0**
2020							
Non-derivatives							
Borrowings – Securitisation liabilities	238.2	318.9	1,205.4	4,214.8	106.6	6,083.9	5,882.5
Borrowings – Shareholder loans	26.3	26.3	906.0	-	-	958.6	885.5
Trade and other liabilities	293.7	-	39.4	45.1	-	378.2	378.2
Total non-derivatives	558.2	345.2	2,150.8	4,259.9	106.6	7,420.7	7,146.2
Derivatives							
Derivatives - Forward foreign exchange contracts	0.9	-	-	-	-	0.9	1.0
Derivatives - interest rate swaps	5.2	3.8	4.3	(0.1)	-	13.2	12.8
Total derivatives	6.1	3.8	4.3	(0.1)	-	14.1	12.8

**As restated, refer to section 1.1(c)*

Section 4 | Capital Management

4.1 Capital Management

Accounting Policy

Contributed equity

Ordinary shares and capital notes that meet AASB 132 criteria are classified as equity. Incremental costs directly attributable to the issue of new shares, options or capital notes are shown in equity as a deduction, net of tax, from the proceeds.

The Group's capital management objectives seek to implement an efficient and diverse capital structure focused on balancing shareholder returns and financial risk, with sufficient liquidity and flexibility to support its strategy and growth. This includes holding sufficient aggregate capital to support its Instalments and Lending products as well as holding sufficient capital required for the Hallmark Insurance business, which is regulated by APRA.

The Group seeks to hold sufficient capital, subject to a Board approved minimum limit, to protect it against unexpected losses arising from the risks described in section 3.2 above, with sufficient capital to meet the level of capital support required by its debt investors in its funding programme, as well as in stress scenarios. In assessing dividend payments, a number of factors are considered, including the general business environment, the operating results and financial condition of the Group, future funding requirements, capital management initiatives, tax considerations and any other restrictions on the payment of dividends by the Group.

Regular reporting is provided to the Board and Management of the Groups capital position and material actions required to manage the capital position are submitted to the Board for approval.

(a) Contributed equity

	2021 Number of shares million	*2020 Number of shares million	2021 $'m	*2020 $'m
Issued and paid-up ordinary share capital				
Ordinary Shares - fully paid	**1,038.5**	650.2	**2,087.2**	1,123.2
Equity raising transaction costs	**-**	-	**(13.2)**	(13.2)
Total ordinary share capital	**1,038.5**	650.2	**2,074.0**	1,110.0

**Refer to section 1.1(c) for details of the restatement of equity accounted for under common control.*

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held. Ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

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4.1 Capital Management (continued)

	Notes	Number of shares million	$'m
Balance at 1 January 2020		650.2	1,110.0
Balance at 31 December 2020		650.2	1,110.0
Issue of ordinary share capital - restructure		349.8	880.2
Issue of ordinary shares in business combination	6.10	38.5	83.8
Balance at 31 December 2021		1,038.5	2,074.0

	2021 Number of securities million	2020 Number of securities million	2021 $'m	2020 $'m
Other contributed equity				
Capital notes				
Latitude Capital Note LFSPA	**1.5**	-	**150.0**	-
Less: Equity raising transaction costs			**(4.0)**	-
Deferred tax recognised directly in equity			**1.0**	-
Total other contributed equity	**1.5**	-	**147.0**	-
Total contributed equity			**2,221.0**	1,110.0

The Company launched a capital note offer on 2 September 2021 for 1.5 million securities with $100 face value for an additional $150 million equity. The securities were issued on 28 September 2021 under the ASX code 'LFSPA'.

The notes are unsecured redeemable securities with no fixed maturity date and the Company may convert or redeem the capital notes on the optional exchange date of 27 October 2026 and in certain other circumstances. On conversion, holders would receive a number of the Company's ordinary shares in exchange for their capital notes, the number determined based on the prevailing volume-weighted average price (VWAP) of the ordinary shares less a 2.50% discount. The capital notes have priority over ordinary shares but are subordinated to the claims of senior creditors in a winding-up of the Company.

Cumulative discretionary distributions must be paid quarterly or accrue until paid. No ordinary share dividend can be paid while accrued capital note distributions remain unpaid.

4.1 Capital Management (continued)

(b) Reserves

	2021 $'m	2020 $'m
Cash flow hedge reserve		
At 1 January	**(15.4)**	(13.9)
Fair value gains/(losses)	**23.0**	(16.0)
Income taxes on fair value gains/(losses)	**(5.4)**	4.1
Amounts transferred to income statement	**6.3**	13.9
Income taxes on amounts transferred to income statement	**(1.7)**	(3.5)
At 31 December	**6.8**	(15.4)
Share-based payment reserve		
At 1 January	**36.7**	20.2
Employee share plan movement	**4.0**	16.5
At 31 December	**40.7**	36.7
Other reserve		
At 1 January	**(14.0)**	(14.5)
Issued equity instruments	**1.3**	0.5
At 31 December	**(12.7)**	(14.0)
Foreign currency translation reserve		
At 1 January	**0.3**	2.0
Currency translation differences arising during the year	**5.6**	(1.7)
At 31 December	**5.9**	0.3
Fair value through other comprehensive income reserve		
At 1 January	**(2.4)**	(2.4)
Net change in fair value of equity investments at FVOCI	**-**	-
At 31 December	**(2.4)**	(2.4)
Common control reserve		
At 1 January	**(681.2)**	(665.9)
Net change in fair value of common control reserve	**(24.3)**	(15.3)
At 31 December	**(705.5)**	(681.2)
Total reserves	**(667.2)**	(676.0)

4.1 Capital Management (continued)

Cash flow hedge reserve

The hedging reserve is used to record gains or losses on derivatives that are designated and qualify as cash flow hedges and that are recognised in other comprehensive income. Amounts are reclassified to profit or loss when the associated hedged transaction affects profit or loss, or to the extent the hedge becomes ineffective.

Share-based payment reserve

The share-based payments reserve is used to recognise the fair value of equity plan units granted to participating employees in relation to the Group's Equity Plans.

Other reserve

Other reserve reflects the fully vested value of equity instruments issued to certain directors and employees.

Foreign currency translation reserve

Exchange differences arising on translation of entities that have a non-Australian dollar functional currency are recognised in other comprehensive income and accumulated in a separate reserve within equity. The cumulative amount is reclassified to profit or loss when the net investment in the entity is disposed of by the Group.

Fair value through other comprehensive income reserve

This reserve includes the cumulative net change in fair value on revaluation of equity instruments at FVOCI.

Common control reserve

The difference between the purchase consideration and the net assets acquired on the restructure under common control that occurred in March 2021 was transferred to a common control reserve.

(c) Retained earnings / (losses)

	2021 $'m	*2020 $'m
At 1 January	**(73.8)**	(117.4)
Net profit for the year - attributable to owners	**160.9**	45.2
Ordinary share dividends	**(78.5)**	-
Capital note distributions	**(1.4)**	-
Management equity plan dividends	**-**	(1.6)
At 31 December	**7.2**	(73.8)

[*] As restated, refer to section 1.1(c)

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4.2 Commitments

(a) Non-cancellable operating leases

	2021 $'m	2020 $'m
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	**14.3**	15.3
Later than one year but not later than five years	**45.4**	50.5
Later than five years	**18.6**	26.6
Commitments for minimum lease payments in relation to non-cancellable operating leases	**78.3**	92.4

	2021 $'m	2020 $'m
Rental expense relating to operating leases:		
Minimum lease payments	**16.0**	14.7

The Group leases operational sites and equipment under non-cancellable operating leases within one year to later than five years. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated. The Group recognises right-of-use assets and corresponding lease liabilities for these leases, except for short-term leases.

(b) Other commitments

	2021 $'m	2020 $'m
Commitment to extend credit	**8,566.8**	9,261.6
Capital commitments	**4.1**	2.7
Other commitments	**8,570.9**	9,264.3

The Group makes commitments to extend credit facilities to its customers in the normal course of business.

The Group is investing significantly in technology developments as it transitions to a more digital business model. At the reporting date, the Group has committed expenditure in relation to a number of technology transformation programs.

Section 5 | Other Assets and Liabilities

5.1 Other Assets and Liabilities

Accounting Policy

Property, plant and equipment including right of use lease assets

Property, plant and equipment is stated at historical cost less accumulated depreciation and impairment losses. Depreciation is calculated on the straight-line basis over the estimated useful life of the specific assets of 3-10 years.

At inception of a contract, the Group assesses whether a contract is, or contains, a lease and recognises a right-of-use asset and a lease liability at the commencement date.

The Group recognises a right-of-use asset initially at cost, comprising the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle or restore the underlying asset, or restore the site on which it is located. The asset is subsequently depreciated using the straight line method and reduced by impairment losses.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or at the Group's incremental borrowing rate if this is not readily determined. Lease payments included in the measurement of the lease liability comprise:

- fixed payments less any lease incentives receivable;
- variable lease payments that depend on an index or rate, initially measured using the rate at commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising an option to terminate the lease.

The lease liability is subsequently adjusted for interest and lease payments made.

The Group's policy is to apply lease accounting to all non low-value leases that are for greater than a 12-month period. For short term or low-value items to which this exemption is applied, lease payments are recognised as an expense over the lease term.

Goodwill

Goodwill on acquisitions of subsidiaries is included in intangible assets and represents the excess of the cost paid over the fair value of the net identifiable assets acquired at the date of acquisition.

Customer relationships and distribution agreements

Separately acquired customer contracts and distribution agreements are shown at historical cost. Those acquired in a business combination are recognised at fair value at the acquisition date. They have a finite useful life and are subsequently carried at cost less accumulated amortisation and

impairment losses. Customer contracts are amortised on a straight-line basis over 5-9 years and distribution agreements are amortised on a straight-line basis over 1-9 years.

5.1 Other Assets and Liabilities (continued)

Software

Software relates to IT projects and associated system expenditure that does not result in the acquisition of physical hardware, including software licence acquisitions, upgrades to software platforms, applications and internal functions and network configuration, including internally generated development costs. Software is amortised on a straight-line basis over 1-5 years, or in the case of a licenced intangible, straight line over the licence period.

An intangible asset is recognised if it is probable that the associated future economic benefits will flow to the Group and the cost can be measured reliably where the following criteria are met: it is technically feasible to complete the software so that it will be available for use; it can be demonstrated how the software will generate probable future economic benefits; adequate technical, financial and other resources to complete the development and to use or sell the software are available, and the expenditure attributable to the software during its development can be reliably measured. Any other costs associated with maintaining software are recognised as an expense as incurred.

Development Activities

Capitalised development costs are recorded as software intangible assets and amortised on a straight-line basis from the point at which the asset is ready for use, over the useful life of the intangible. Each phase of a project is considered separately to determine the useful life of the project. Development expenses that do not meet the criteria as software above is recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value-in-use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small. Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting

5.1 Other Assets and Liabilities (continued)

period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

Employee benefit obligations

Short-term obligations: Liabilities for wages and salaries, including non-monetary benefits that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the balance sheet.

Other long-term employee benefit obligations - Long service leave: These are measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service.

Expected future payments are discounted using market yields at the end of the reporting period of government bonds with terms and currencies that match, as closely as possible, the estimated future cash outflows. Remeasurements as a result of experience adjustments and changes in actuarial assumptions are recognised in profit or loss.

The obligations are presented as current liabilities in the combined balance sheet if the entity does not have an unconditional right to defer settlement for at least 12 months after the reporting date, regardless of when the actual settlement is expected to occur.

Equity-based payments

The fair value of units granted under equity based compensation benefits is recognised as employment expenses in the consolidated income statement with a corresponding increase in equity. The fair value is recognised at grant date and recognised over the period during which the party becomes unconditionally entitled to the instruments. The fair value is independently determined using an option-granting model as measured at the grant date which includes the terms and conditions of the instruments. The fair value of the instruments granted is adjusted to reflect market vesting conditions, but excludes the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number and value of instruments that are expected to become exercisable. The equity-based payment expense recognised each year takes into account the most recent estimate.

Insurance liabilities

Profits of the Insurance business are brought to account on a margin on services ('MoS') basis. Under MoS, profit (the excess of premium received and investment earnings over claims and expenses including amortised acquisition costs) is recognised as fees are received and services are provided to policyholders. Profit is deferred to the balance sheet when fees have been received but the service has not been provided. Costs associated with the acquisition of policies are deferred on the balance sheet and charged to the profit or loss over the period that the policy will generate profits. Insurance contract liabilities are valued using a method that approximates to the projection method and the liability for outstanding claims is subject to an annual actuarial review.

5.1 Other Assets and Liabilities (continued)

Insurance claims

Claims incurred relate to the provision of services and bearing of risks and is treated as an expense. The liability for outstanding claims covers the expected future payments for claims including IBNR and IBNER claims and the anticipated direct and indirect costs of settling these claims. Actuarial methods are used by a qualified person to estimate the value of outstanding claims where generally this involves analysing available past experience to determine expected future payments. The provision for the outstanding claims liability also contains a risk margin to reflect the inherent uncertainty in the central estimate. The risk margin increases the probability that the net liability is adequately provided for, to a 90% confidence level.

Outward reinsurance and reinsurance recoveries

Premium ceded to reinsurers is recognised as an expense in accordance with the pattern of reinsurance service received. Accordingly, a portion of outwards reinsurance premium is treated at the reporting date as deferred reinsurance expense. Reinsurance recoveries and other recoveries receivable on paid claims, reported claims not yet paid and IBNR's are recognised as revenue.

Assets backing insurance liabilities

The Insurance business has established a target capital to ensure assets are available to meet insurance liabilities. Financial assets designated at fair value through profit or loss are initially recognised at fair value, excluding transaction costs, which are expensed in the consolidated income statement in the period in which they arise. Financial assets are subsequently measured at fair value at each reporting date with realised and unrealised gains and losses arising from changes in the fair value recognised in the consolidated income statement in the period in which they arise. Short term deposits are carried at the face value of the amounts deposited as their carrying amounts approximate their fair value. Unlisted fixed interest securities are recorded at amounts based on valuations using rates of interest equivalent to the yields obtainable on comparable investments at the end of the reporting period.

Unexpired risk liability

Provision is made for unexpired risks arising from general insurance business where the expected value of claims and expenses attributed to the unexpired periods of policies in force at the end of the reporting period exceeds the unearned premiums provision in relation to such policies after the deduction of any deferred acquisition costs. The provision for unexpired risk is calculated separately by reference to separate classes of business, which are managed together, after taking into account the relevant investment return. Unexpired risk liability, if any, remaining after writing off deferred acquisition costs is recognised immediately in the consolidated income statement.

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Notes to the Financial Statements

For the year ended 31 December 2021

5.1 Other Assets and Liabilities

(a) Property, plant and equipment

	Furniture and fittings $'m	Leasehold Improve-ments $'m	ROU Property $'m	ROU Motor Vehicles $'m	ROU Hardware $'m	Total $'m
At 1 January 2021						
Cost	6.2	10.2	92.6	0.8	1.1	110.9
Accumulation depreciation	(3.5)	(3.0)	(21.6)	(0.3)	(0.8)	(29.2)
Net book amount	2.7	7.2	71.0	0.5	0.3	81.7
Year ended 31 December 2021						
Opening net book amount	2.7	7.2	71.0	0.5	0.3	81.7
Effects of exchange rate differences on translation of foreign operations	0.1	-	0.1	-	-	0.2
Acquisition of Symple Loans	-	-	0.4	-	-	0.4
Additions	1.6	-	-	0.1	0.7	2.4
Depreciation charge	(1.2)	(1.4)	(12.2)	(0.3)	(0.3)	(15.4)
Impairment loss	(0.6)	-	-	-	-	(0.6)
Transfers	0.3	0.2	-	-	-	0.5
Closing net book amount	2.9	6.0	59.3	0.3	0.7	69.2
At 31 December 2021						
Cost	6.5	10.4	92.9	0.8	0.7	111.3
Accumulated depreciation	(3.6)	(4.4)	(33.6)	(0.5)	-	(42.1)
Net book amount	**2.9**	**6.0**	**59.3**	**0.3**	**0.7**	**69.2**
Year ended 31 December 2020						
Opening net book amount	3.7	2.8	84.0	0.1	0.7	91.3
Effects of exchange rate differences on translation of foreign operations	-	-	(0.6)	-	-	(0.6)
Additions	2.0	-	6.4	0.6	-	9.0
Disposals	(0.1)	-	(6.8)	-	-	(6.9)
Depreciation charge	(2.2)	(1.0)	(12.0)	(0.2)	(0.4)	(15.8)
Impairment loss	(0.9)	-	-	-	-	(0.9)
Transfers	0.2	5.4	-	-	-	5.6
Closing net book amount	2.7	7.2	71.0	0.5	0.3	81.7
At 31 December 2020						
Cost	6.2	10.2	92.6	0.8	1.1	110.9
Accumulated depreciation	(3.5)	(3.0)	(21.6)	(0.3)	(0.8)	(29.2)
Net book amount	**2.7**	**7.2**	**71.0**	**0.5**	**0.3**	**81.7**

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Notes to the Financial Statements

For the year ended 31 December 2021

5.1 Other Assets and Liabilities (continued)

(b) Intangible assets

	Goodwill $'m	Distribution agreements $'m	Customer contracts $'m	Software $'m	Capital works in progress $'m	Trade-mark $'m	Total $'m
At 1 January 2021							
Cost	521.0	161.5	265.6	147.9	45.7	0.5	1,142.2
Accumulation amortisation	-	(93.8)	(153.8)	(59.5)	-	(0.2)	(307.3)
Net book amount	521.0	67.7	111.8	88.4	45.7	0.3	834.9
Year ended 31 December 2021							
Opening net book amount	521.0	67.7	111.8	88.4	45.7	0.3	834.9
Effects of exchange rate differences on translation of foreign operations	0.7	-	0.1	-	-	-	0.8
Acquisition of Symple Loans [(1)]	201.5	-	-	0.4	-	-	201.9
Acquisition of OctiFi [(2)]	14.9	-	-	-	-	-	14.9
Additions	-	-	1.4	(0.1)	81.0	-	82.3
Disposals	-	-	-	(0.1)	-	-	(0.1)
Amortisation charge	-	(18.4)	(32.4)	(33.6)	-	(0.1)	(84.5)
Impairment loss	-	-	-	(1.8)	(0.1)	-	(1.9)
Transfers	-	-	-	63.9	(64.3)	-	(0.4)
Closing net book amount	738.1	49.3	80.9	117.1	62.3	0.2	1,047.9
At 31 December 2021							
Cost	738.1	161.5	267.3	194.0	62.3	0.5	1,423.7
Accumulated amortisation	-	(112.2)	(186.4)	(76.9)	-	(0.3)	(375.8)
Net book amount	**738.1**	**49.3**	**80.9**	**117.1**	**62.3**	**0.2**	**1,047.9**
Year ended 31 December *2020							
Opening net book amount	524.0	86.3	138.2	79.3	30.3	0.3	858.4
Effects of exchange rate differences on translation of foreign operations	(3.0)	(0.2)	(0.5)	(0.2)	(0.1)	-	(4.0)
Additions	-	-	7.1	2.6	67.4	-	77.1
Disposals	-	-	-	(2.5)	-	-	(2.5)
Amortisation charge	-	(18.4)	(33.0)	(30.3)	-	-	(81.7)
Impairment loss	-	-	-	(6.0)	(0.8)	-	(6.8)
Transfers	-	-	-	45.5	(51.1)	-	(5.6)
Closing net book amount	521.0	67.7	111.8	88.4	45.7	0.3	834.9
At 31 December *2020							
Cost	521.0	161.5	265.6	147.9	45.7	0.5	1,142.2
Accumulated amortisation	-	(93.8)	(153.8)	(59.5)	-	(0.2)	(307.3)
Net book amount	**521.0**	**67.7**	**111.8**	**88.4**	**45.7**	**0.3**	**834.9**

**As restated, refer to section 1.1(c)*

(1) The value of goodwill recognised in relation the business combination is provisional - refer to section 6.10(a)

(2) The value of goodwill recognised in relation to the business combination is provisional - refer to section 6.11(a)

For the year ended 31 December 2021

5.1 Other Assets and Liabilities (continued)

Distribution agreements and customer contracts recognised as part of a business combination in 2015 have remaining amortisation periods of 3 years in Australia and 1 year in New Zealand at 31 December 2021 (31 December 2020: 4 years in Australia and 2 years in New Zealand).

Impairment testing for cash-generating units containing goodwill

(c) Goodwill allocation

Goodwill arises on the acquisition of entities and is allocated to the Group's cash-generating units (CGU's). Goodwill is subject to impairment testing on an annual basis (unless recognised during the year in relation to a business combination).

	2021 $'m	2020 $'m
Australia	**396.1**	396.1
New Zealand [1]	**112.0**	111.3
Insurance	**13.6**	13.6
Goodwill recognised in Symple business combination[2]	**201.5**	-
Goodwill recognised in OctiFi business combination[3]	**14.9**	-
Total goodwill	**738.1**	521.0

[1] *Goodwill fluctuations occur as a result of foreign exchange rate movements.*
[2] *The value of goodwill recognised in relation the business combination is provisional - refer to section 6.10(a)*
[3] *The value of goodwill recognised in relation the business combination is provisional - refer to section 6.11(a)*

(d) Significant estimates: key assumptions used for value-in-use calculations

The recoverable amount of a cash generating unit (CGU) is determined based on value-in-use calculations which require the use of assumptions. The calculations use discounted cash flow projections based on financial forecasts covering a five-year period. Cash flows are extrapolated using a growth rate and a terminal value to yield value appropriate to each CGU. The following table sets out the key assumptions for those CGUs:

	Australia		New Zealand		Insurance	
	2021 %	2020 %	2021 %	2020 %	2021 %	2020 %
Pre-tax discount rate	**16.9**	15.6	**16.6**	13.8	**16.0**	15.6
Terminal growth rate	**3.6**	2.3	**3.2**	1.3	**3.0**	2.3
Average revenue growth rate applied from years 1-5	**11.2**	12.5	**7.0**	6.2	**6.9**	4.5

(e) Sensitivity

The Group assesses reasonably possible changes for other key assumptions and have not identified any instances that could cause the carrying amounts of the Australia and New Zealand CGUs to exceed their respective recoverable amounts.

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Notes to the Financial Statements

For the year ended 31 December 2021

5.1 Other Assets and Liabilities (continued)

Management have identified that, in relation to the Insurance CGU, a change in two current assumptions could cause the carrying amount to exceed the recoverable amount. The following table shows the amount by which these two assumptions would need to change individually, (keeping other factors consistent) for the estimated recoverable amount to be equal to the carrying amount.

	Insurance 2021 Basis points
Change required for carrying amount to equal recoverable amount:	
Pre-tax discount rate	190
Average revenue growth rate applied over years 1-5	(145)

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Notes to the Financial Statements

For the year ended 31 December 2021

5.1 Other Assets and Liabilities (continued)

(f) Provisions

	2021			2020		
	Current $'m	Non-Current $'m	Total $'m	Current $'m	Non-current $'m	Total $'m
Leave obligations	**20.3**	**1.5**	**21.8**	18.5	1.7	20.2
Other employee benefit obligations	**27.0**	**-**	**27.0**	24.6	-	24.6
Total employee benefit obligations	**47.3**	**1.5**	**48.8**	43.1	1.7	44.8
Customer remediation and other provisions	**23.6**	**2.1**	**25.7**	35.0	1.6	36.6
Total provisions	**70.9**	**3.6**	**74.5**	78.1	3.3	81.4

Leave obligations represent the Group's liability for long service leave and annual leave. The current portion of this liability includes all of the accrued annual leave, the unconditional entitlements to long service leave where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. Other employee benefit obligations cover the Group's liability for other employee benefit obligations such as bonus payments. Customer remediation includes provisions for expected refunds to customers, related customer claims and remediation project costs.

(g) Gross insurance policy liabilities

	2021 $'m	2020 $'m
Current	**10.7**	21.4
Non-current	**8.5**	19.0
Total gross insurance policy liabilities	**19.2**	40.4

5.2 Summary of Hallmark life and general actuarial assumptions and methods

Contracts under which the Insurance group accepts significant insurance risk from the policyholder, or another party, by agreeing to compensate the policyholder, or other beneficiary, if a specified uncertain future event adversely affects the policyholder or other beneficiary, are classified as insurance contracts. Any products sold that do not meet the definitions of a life insurance contract are classified as life investment contracts. The Insurance business has no life investment contracts.

Insurance risk is defined as significant if and only if, an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance (i.e. have no discernible effect on the economics of the transaction). Insurance contracts include those where the insured benefit is payable on the occurrence of a specified event such as death, injury or disability caused by accident or illness. The insured benefit is either not linked or only partly linked to the market value of the investments held by the Insurance group, and the financial risks are substantially borne by the Insurance group.

The life insurance operations of the Insurance group are conducted within separate Statutory funds as required by the *Life Insurance Act 1995* and are reported in aggregate with the Shareholders' fund in the statement of profit or loss and other comprehensive income, balance sheet and statement of cash flows of the Group. Monies held in the Statutory funds are subject to the distribution and transfer restrictions and other requirements of the *Life Insurance Act 1995*.

Life insurance actuarial assumptions and methods

The following section describes the process surrounding, and key factors used to estimate the policy liabilities in the actuarial report:

(a) Basis of preparation

The effective date of the actuarial report on policy liabilities and capital requirements is 31 December 2021. The actuarial report was prepared by Mr. Thomas David Millar, FIAA, FNSZA. The actuarial report indicates that Mr. Millar is satisfied as to the accuracy of the data upon which policy liabilities have been determined.

The amount of policy liabilities has been determined in accordance with methods and assumptions disclosed in these financial statements and the requirements of the relevant accounting standards (which may differ from the requirements of the Life Insurance Act 1995).

Policy Liabilities for Insurance Contracts

Policy liabilities for insurance contracts have been calculated in accordance with Prudential Standard LPS 340 Valuation of Policy Liabilities issued by APRA under subsection 230A(1) of the Life Insurance Act 1995. The Prudential Standard requires the policy liabilities to be calculated in a way which allows for the systematic release of planned margins as services are provided to policy owners.

5.2 Summary of Hallmark life and general actuarial assumptions and methods (continued)

The profit carriers used for the major product groups in order to achieve the systematic release of planned margins are as follows:

Product group	Method (projection or other)	Profit carrier
Lump sum risk	Accumulation (2020: Accumulation)	Claims (implied)
Disability and involuntary unemployment income	Accumulation (2020: Accumulation)	Claims (implied)

Policy liabilities have been calculated as the provision for unearned premium, less a deferred acquisition cost item. The recognition rate of premium has been chosen to approximate the planned margin release that would be achieved through use of the projection method.

(b) Disclosure of assumptions

Assumptions are required to establish recoverability of acquisition costs. Key assumptions are listed below:

(i) Discount rates

The gross interest rates used are the gross yield to redemption of benchmark government securities. For the current valuation, these are:

- 90 days: Australia 0.07% (2020: 0.01%), New Zealand 0.97% (2020: 0.27%)
- 5 years: Australia 1.34% (2020: 0.34%), New Zealand 2.19% (2020: 0.39%)

(ii) Inflation rates

Allowance for future inflation:

Australia 2.5%. (2020: 2.5% p.a.) where future inflation assumption is based on the long-term target range of the Reserve Bank of Australia of 2% - 3%.

New Zealand 2.0% (2020: 2.0% p.a.) where future inflation assumption is based on the medium-term target range of the Reserve Bank of New Zealand of 1% - 3%.

(iii) Future expenses and indexation

Maintenance expense assumptions have been based on the experience in the current year and budgeted expenses for the 2022 year. Inflation adjustments are consistent with the inflation assumption.

(iv) Mortality and morbidity

Mortality rates for risk products have been based on experience over recent years. A loss ratio approach (applied to earned premium) was adopted. The loss ratios used have not varied significantly from those used in 2020.

5.2 Summary of Hallmark life and general actuarial assumptions and methods (continued)

Currently claims experience in Australia and New Zealand is not being significantly impacted by the COVID-19 pandemic. There have been no specific adjustments to actuarial assumptions adopted for 31 December 2021 due to COVID-19. The long-term impact of the COVID-19 pandemic remains uncertain and actuarial assumptions will continue to be monitored closely against experience.

(v) Disability and involuntary unemployment

The general approach to actuarial estimation of disability and involuntary unemployment liabilities (in the New Zealand statutory fund) is to analyse all available past experience. This analysis allows patterns to be identified in the past experience. Based on this, development patterns associated with the run-off of outstanding claims at the balance date can be estimated. The estimate of the outstanding claims includes an allowance for claims incurred but not reported ("IBNR") and the further development of reported claims, a risk margin and claims handling expense provision. Actuarial methods such as payment per claim incurred (PPCI), Payment Chain Ladder ("PCL") and Bornheutter Ferguson ("BF") are adopted to estimate the outstanding claims.

The key actuarial assumptions for the determination of the outstanding claims liabilities are average claim size (Disability = NZ$1,392, Unemployment = NZ$1,010), a claims handling expense rate of 12.0% of the projected gross claim payments (based on expense investigation) and a discount rate of 1.735% (based on the yield of 1 year and 2 year New Zealand Government bonds as at 31 December 2021). Across all classes, changes to the claim termination and average claim size assumptions would cause the most significant change to the liability estimate.

(vi) Voluntary discontinuance

Voluntary discontinuance rates vary by product and have been based on the Group's recent discontinuance experience.

For the major classes of Australian business, the assumed aggregate rates of discontinuance are:

- Consumer credit– 30% p.a.(2020: 26% p.a.)
- Regular premium term life– 15% p.a.(2020: 17% p.a.)

For the major classes of New Zealand business, the assumed aggregate rates of discontinuance are:

- Consumer credit – 32% p.a.(2020: 30% p.a.)
- Regular premium term life: n/a

(vii) Capital requirements

The Group is required to hold prudential reserves, over and above the policy liabilities, as a buffer against adverse future experience and poor investment returns. The methods and bases used for determining the capital requirements were in accordance with the requirements of Prudential Standard *LPS 110: Capital Adequacy* as issued by APRA.

5.2 Summary of Hallmark life and general actuarial assumptions and methods (continued)

(c) Impact of changes in assumptions

The policy liabilities for insurance contracts have been calculated using the accumulation method. Under this method, changes in assumptions do not have any impact on policy liabilities in the current period, unless a product enters loss recognition.

As at 31 December 2021, the Consumer Credit Insurance related product group for Statutory Fund 2 remains in loss recognition. Any assumption changes have not resulted in other related product groups entering loss recognition. The value of future profit margins is not explicitly calculated under the accumulation method and hence the impact of any change in assumptions on the value of future profit margins is not determined.

(d) Sensitivity analysis

Movements in key variables such as mortality experience, lapse rates and expenses will have an impact on the future cash flows, performance and net assets of the business.

As the accumulation method is used to determine policy liabilities for insurance contracts, changes in the assumptions around these key variables do not have any impact on the policy liability or retained profits at the current balance date, unless a product group enters loss recognition. An alternate approach to demonstrating the sensitivity to changes in variables is to consider the impact on profit

and net investment at the current balance date if the experience over the current financial period varied under certain scenarios. The table below considers a number of changes in variables, and shows the impact on the profit and net investment if that change had been experienced during the financial reporting period.

31/12/2021 Australia	Percentage change in Assumptions	Impact on 2021 profit or loss ($'000)		Impact on 2021 equity ($'000)	
		Gross of Reinsurance	Net of Reinsurance	Gross of Reinsurance	Net of Reinsurance
Mortality/morbidity	Worsening by 5%	(60)	(56)	(60)	(56)
	Improving by 5%	60	56	60	56
Lapse rates	Worsening by 5%	5	5	5	5
	Improving by 5%	(5)	(5)	(5)	(5)
Expenses	Worsening by 5%	(77)	(77)	(77)	(77)
	Improving by 5%	77	77	77	77

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Notes to the Financial Statements

For the year ended 31 December 2021

5.2 Summary of Hallmark life and general actuarial assumptions and methods (continued)

31/12/2020 Australia	Percentage change in Assumptions	Impact on 2020 profit or loss ($'000)		Impact on 2020 equity ($'000)	
		Gross of Reinsurance	Net of Reinsurance	Gross of Reinsurance	Net of Reinsurance
Mortality/morbidity	Worsening by 5%	(73)	(68)	(73)	(68)
	Improving by 5%	73	68	73	68
Lapse rates	Worsening by 5%	10	10	10	10
	Improving by 5%	(10)	(10)	(10)	(10)
Expenses	Worsening by 5%	(150)	(150)	(150)	(150)
	Improving by 5%	150	150	150	150

31/12/2021 New Zealand	Percentage change in variables	Impact on 2021 profit or loss ($'000)		Impact on 2021 equity ($'000)	
		Gross of Reinsurance	Net of Reinsurance	Gross of Reinsurance	Net of Reinsurance
Mortality/morbidity	Worsening by 5%	(23)	(23)	(23)	(23)
	Improving by 5%	23	23	23	23
Lapse rates	Worsening by 5%	4	4	4	4
	Improving by 5%	(4)	(4)	(4)	(4)
Expenses	Worsening by 5%	(42)	(42)	(42)	(42)
	Improving by 5%	42	42	42	42

5.2 Summary of Hallmark life and general actuarial assumptions and methods (continued)

31/12/2020 New Zealand	Percentage change in variables	Impact on 2020 profit or loss ($'000)		Impact on 2020 equity ($'000)	
		Gross of Reinsurance	Net of Reinsurance	Gross of Reinsurance	Net of Reinsurance
Mortality/morbidity	Worsening by 5%	(33)	(33)	(33)	(33)
	Improving by 5%	33	33	33	33
Lapse rates	Worsening by 5%	8	8	8	8
	Improving by 5%	(8)	(8)	(8)	(8)
Expenses	Worsening by 5%	(39)	(39)	(39)	(39)
	Improving by 5%	39	39	39	39

General insurance actuarial assumptions and methods

The Group writes consumer credit insurances across Australia and New Zealand. The risks covered in this group include:

- Involuntary Unemployment
- Disability
- Merchandise Protection, Price Protection
- Stolen Cards
- Repayment Protection

(e) Process used to determine outstanding claims liabilities (actuarial methods)

The general approach to actuarial estimation of insurance liabilities is to analyse all available past experience, including the number of reported and finalised claims, timing and amounts of claim payments. This analysis allows patterns to be identified in the past experience. Based on this, development patterns associated with the run-off of outstanding claims and premium liabilities at the balance date can be estimated.

The determination of the outstanding claims liabilities involves two steps:

1. The determination of the central estimate of outstanding claims at the balance date.

   The central estimate of outstanding claims includes an allowance for claims incurred but not reported ("IBNR") and the further development of reported claims, also known as incurred but not enough reported ("IBNER"). The central estimate has no deliberate bias towards either over or under estimation. This means that the central estimate is assessed to have approximately 50% chance of adequacy.

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5.2 Summary of Hallmark life and general actuarial assumptions and methods (continued)

2. The determination of a risk margin and claims handling expense provision to be added to the central estimates of outstanding claims. The risk margin is intended to achieve a 90% probability of adequacy at an aggregate level.

   The estimation of the outstanding claims liabilities involves the use of the following standard aggregate projection methods: Payment Chain Ladder ("PCL"); Payment Per Claim Incurred (“PPCI”); Payment Per Claim Finalised (“PPCF”); Payment Per Claim Handled (“PPCH”) and Bornheutter Ferguson (“BF”). A blend of the projection methods is adopted based on the nature of the claims within each portfolio to estimate the appropriate outstanding claims.

(f) Actuarial assumptions

The key actuarial assumptions for the determination of the outstanding claims liabilities of the consumer credit insurance portfolios are as follows:

2021	Disability (Personal Loans)	Unemployment (Personal Loans)	Disability (Credit Cards)	Unemployment (Credit Cards)	Protection^
Australia:					
Number of future finalisations	415	183	466	492	1155
Discounted loss ratio*	40%	30%	20%	22%	68%
Expense rate	12%	12%	12%	12%	48%
Discount rate	0.03%pa-3.4%pa	0.03%pa-3.4%pa	0.03%pa-3.4%pa	0.03%pa-3.4%pa	0.03%pa-3.4%pa
New Zealand:					
Number of future finalisations	252	95	104	92	62
Discounted loss ratio*	38%	13%	22%	27%	19%
Expense rate	12%	12%	12%	12%	48%
Discount rate	1.74%		1.74%	1.74%	1.74%

^ Merchandise protection, price protection and stolen cards (credit cards)
**As at 31 December*

5.2 Summary of Hallmark life and general actuarial assumptions and methods (continued)

2020	Disability (Personal Loans)	Unemployment (Personal Loans)	Disability (Credit Cards)	Unemployment (Credit Cards)	Protection^
Australia:					
Number of future finalisations	601	539	487	653	1,147
Discounted loss ratio*	49%	96%	18%	46%	35%
Expense rate	12%	12%	12%	12%	48%
Discount rate	0.04%pa-2.9%pa	0.04%pa-2.9%pa	0.04%pa-2.9%pa	0.04%pa-2.9%pa	0.04%pa-2.9%pa
New Zealand:					
Number of future finalisations	320	351	125	50	39
Discounted loss ratio*	49%	46%	30%	32%	9%
Expense rate	12%	12%	12%	12%	48%
Discount rate	0.26%		0.26%	0.26%	0.26%

^ Merchandise protection, price protection and stolen cards (credit cards)
**As at 31 December*

Other assumptions

The outstanding claims provision for Disability (Personal Loans) includes an additional 1.3% for medical expenses, with a prudential margin calculated at a 90% probability of adequacy.

- **Number of future finalisations**: The number of future finalisations has been based on an analysis of historical claim reports and finalisation rates. This then enables the future numbers of reports, handled claims and finalisations to be projected. Any potential impacts which are yet to emerge in the historical experience (for example changes in underlying risks, operating environment and economic environment), are also implicitly captured within the assumptions for number of future reports and finalisations.
- **Average claim size:** The adopted average claim size has been based on historical ratios of claim payments to factors such number of claim reported, claim finalised or handled. Any potential impacts which are yet to emerge in the historical experience (for example changes in underlying risks, operating environment and economic environment), are also implicitly captured within the assumptions for average claim.
- **Expense rate:** The adopted claims handling expense rate of 12.8% in Australia and 12.2% in New Zealand (2020: 12.4% in Australia and 12.2% in New Zealand) of the projected gross claim payments, has been determined based on the results of an expense allocation exercise.

5.2 Summary of Hallmark life and general actuarial assumptions and methods (continued)

- **Discount rate:** Central estimates of the outstanding claims liabilities - discounted to allow for future investment income attributable to the liabilities during the run off period. The future investment earnings assumptions are estimates of the future annual risk-free rates of return. The Australian rates have been derived from the yield curve on Australian Government bonds as at 31 December 2021 as published by the Reserve Bank of Australia. The New Zealand discount factor has been based on the annual risk-free rates of return from the yield curve on New Zealand Government Bonds.

(g) Sensitivity analysis

The outstanding claims liabilities included in the reported results are calculated based on the key actuarial assumptions as disclosed above. The movements in any of the above key actuarial assumptions will impact the performance and net investment of the Company. The table below describes how a change in each of the assumptions will affect the outstanding claims liabilities.

Key actuarial assumptions 2021	Changes	Impact on net outstanding claims liabilities ($'000's)	Impact on total outstanding claims liabilities (%)
Australia:			
Reported claims chain ladder factor	Increase the chain ladder factor by 10%	+228	+2.7
Discount rate	Decrease discount rate by 1%	+95	+1.1
Claims handling expense rate	Increase claims handling expense rate by 4%	+321	+3.9
New Zealand*:			
Chain ladder factor	Increase the chain ladder factor by 10%	+38	+1.42
Discount rate	Decrease discount rate by 1%	+23	+0.84
Claims handling expense rate	Increase claims handling expense rate by 4%	+109	+4.03

** Branch credit insurances only*

5.2 Summary of Hallmark life and general actuarial assumptions and methods (continued)

Key actuarial assumptions 2020	Changes	Impact on net outstanding claims liabilities ($'000's)	Impact on total outstanding claims liabilities (%)
Australia:			
Reported claims chain ladder factor	Increase the chain ladder factor by 10%	+484	+3.1
Discount rate	Decrease discount rate by 1%	+158	+1.0
Claims handling expense rate	Increase from claims handling expense rate by 4%	+595	+3.9
New Zealand*:			
Chain ladder factor	Increase the chain ladder factor by 10%	+87	+1.37
Discount rate	Decrease discount rate by 1%	+47	+0.74
Claims handling expense rate	Increase from claims handling expense rate by 4%	+256	+4.03

** Branch credit insurances only*

Section 6 | Other Disclosures

6.1 Interests in other entities

(a) Controlled entities

Name of entity	Ownership: Group 2021 %	Ownership: Group 2020 %	Ownership: NCI 2021 %	Ownership: NCI 2020 %	Principal activities
Country of incorporation - Australia:					
KVD Australia Pty Ltd (1)	**100**	100	-	-	Group financier
Latitude Financial Services Australia Holdings Pty Ltd (1)	**100**	100	-	-	Employer/servicer
Latitude Finance Australia (1)	**100**	100	-	-	Sales finance/credit cards
Latitude Automotive Financial Services (1)	**100**	100	-	-	Automotive lending
Latitude Personal Finance Pty Ltd (1)	**100**	100	-	-	Personal lending
LatitudePay Australia Pty Ltd (1)	**100**	100	-	-	BNPL lending
Latitude Financial Services JV Holdco Pty Ltd (1)	**100**	100	-	-	Dormant
Hallmark Life Insurance Company Ltd	**100**	100	-	-	Life insurer
Hallmark General Insurance Company Ltd	**100**	100	-	-	General insurer
KVD TM Pty Ltd	**100**	100	-	-	Trust manager
Latitude Insurance Holdings Pty Ltd	**100**	100	-	-	Holding company
Latitude Financial Group Limited (1*) (2) (3)	**100**	100	-	-	Holding company
Latitude Financial IP Pty Ltd (1*) (2) (3) (6)	**100**	100	-	-	Intellectual property
KVD Treasury Pty Ltd (1*) (2) (3)	**100**	100	-	-	Non-trading financier
KVD Australia Insurance Holdco Pty Ltd (1*) (2) (3)	**100**	100	-	-	Non-trading holding company
Australian Sales Finance and Credit Cards Trust (3)	**100**	100	-	-	Securitisation of receivables
Australian Personal Loans Trust (3)	**100**	100	-	-	Securitisation of receivables
Australian Auto Loans Trust (3)	**100**	100	-	-	Securitisation of receivables
Australian Sales Finance and Credit Cards No.2 Trust (3)	**-**	100	-	-	Securitisation of receivables
Australian Sales Finance and Credit Cards Trust No.3 (3)	**100**	100	-	-	Securitisation of receivables
Latitude Australia Credit Card Master Trust (3)	**100**	100	-	-	Securitisation of receivables
Latitude Australia Credit Card Loan Note Trust (3)	**100**	100	-	-	Securitisation of receivables
Latitude Australia Personal Loans Series 2017-1 Trust (3)	**100**	100	-	-	Securitisation of receivables
Latitude Australia Personal Loans Series 2020-1 Trust (3)	**100**	100	-	-	Securitisation of receivables
Latitude Australia Personal Loans Series 2021-1 Trust (4)	**100**	-	-	-	Securitisation of receivables
Latitude Investment Holdings Pty Ltd	**100**	100	-	-	Trust management
Latitude Investment Holdings No.1 Pty Ltd	**100**	100	-	-	Trust management
Latitude Investment Trust	**-**	-	-	100	Investment trust
Latitude Investment Sub-Trust 1	**-**	-	-	100	Investment trust
Latitude Investment Sub-Trust 2	**-**	-	-	100	Investment trust
Latitude Investment Sub-Trust 3	**-**	-	-	100	Investment trust
Latitude Investment Sub-Trust 4	**-**	-	-	100	Investment trust
Symple Financial Group Pty Limited (1*) (5)	**100**	-	-	-	Holding company
Symple Loans Pty Limited (1*) (5)	**100**	-	-	-	Personal lending
Symple Warehouse Trust 2019-1 (5)	**100**	-	-	-	Securitisation of receivables
Symple Canada Holdings Pty Limited (1*) (5)	**100**	-	-	-	Holding company
Country of incorporation - Canada:					
Symple Canada Financial Group Limited (5)	**100**	-	-	-	Personal lending

(1) These subsidiaries have been granted relief from the necessity to prepare financial reports in accordance with Instrument 2016/785 issued by ASIC. Latitude Group Holdings Limited, the holding entity and these subsidiaries, are party to a closed group within a deed of cross guarantee at 31 December 2021.

(*) Entities became party to the deed of cross guarantee on 13 December 2021.

(2) In accordance with the control principle under AASB 10 consolidation they were deemed subsidiaries of the Group and consolidated. The legal ownership was transferred on 1 August 2021.

(3) 2020 ownership deemed by Common Control accounting (refer section 1.1(c)).

(4) Trust established 11 October 2021.

(5) The Group gained control of these entities on 26 October 2021 following the acquisition of Symple Loans as described in section 6.10.

(6) KVCF Pty Ltd was renamed Latitude Financial IP Pty Ltd on 13 December 2021.

6.1 Interest in other entities (continued)

Name of entity	Ownership: Group 2021 %	Ownership: Group 2020 %	Ownership: NCI 2021 %	Ownership: NCI 2020 %	Principal activities
Country of incorporation - New Zealand:					
Latitude Financial Services Limited (7)	**100**	100	-	-	Operating/lending company
New Zealand Sales Finance and Credit Cards Trust (7)	**100**	100	-	-	Securitisation of receivables
New Zealand Personal Loans Trust (7)	**100**	100	-	-	Securitisation of receivables
Latitude New Zealand Credit Card Master Trust (7)	**100**	100	-	-	Securitisation of receivables
Latitude Innovation Holdings Limited (7)	**100**	100	-	-	Payment platform
Country of incorporation - Singapore:					
Latitude Financial International Pte. Ltd (8)	**100**	-	-	-	Holding company
Latitudepay Singapore Pte Ltd (9)	**85**	-	**15**	-	Factoring/BNPL lending
Latitude AM Pte. Ltd (10)	**100**	-	-	-	Non trading
Country of incorporation - Malaysia:					
LatitudePay Malaysia Sdn. Bhd. (11)	**100**	-	-	-	Non trading

(7) 2020 ownership deemed by Common Control accounting (refer section 1.1(c)).
(8) Company incorporated on 5 August 2021,
(9) Company incorporated on 6 August 2021,
(10) Company incorporated on 11 November 2021.
(11) Company incorporated on 10 December 2021.

(b) New acquisitions

On 26 October 2021, Latitude Financial Services Australia Holdings Pty Ltd acquired 100% of the ordinary share capital of Symple Financial Group Pty Ltd and acquired control of entities under the control of Symple Financial Group Pty Ltd; being Symple Canada Holdings Pty Ltd, Symple Loans Pty Ltd, Symple Canada Financial Group Ltd and Symple Warehouse Trust 2019 – 1. The acquisition of the Symple Financial Group (Symple) is described in section 6.10.

Further to the disclosure in the IPO prospectus regarding Latitude's opportunities to develop the Instalments business with partners in Asian markets, Latitude Financial International Pte. Ltd, LatitudePay Singapore Pte. Ltd and Latitude AM Pte. Ltd were incorporated in Singapore on 5 August 2021, 6 August 2021 and 11 November 2021 respectively. Latitude Group Holdings Limited holds 100% of the ordinary share capital of Latitude Financial International Pte. Ltd. Latitude Financial International Pte. Ltd holds 85% of the ordinary share capital of LatitudePay Singapore Pte Ltd and 100% of the ordinary share capital of Latitude AM Pte. Ltd. LatitudePay Singapore Pte Ltd is the acquiring entity in relation to assets acquired through a business combination as described in section 6.11.

(c) Structured entities

A structured entity is one that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. The Group uses structured entities to support its loan securitisation program. They are consolidated by the Group as it is exposed to variable returns from the securitised entities and it has the ability to affect those returns through its power over the activities of the structured entities.

6.2 Share-based payments

(a) Description of share-based payment arrangements

The Group operated the following employee share plans during the year.

(i) Management Equity Plan ('Pre-Listing' Equity Plan)

Prior to listing on the ASX in April 2021 the Group operated the Management Equity Plan (MEP) ('Pre-Listing Equity Plan') (also outlined in the prospectus section 6.3.2 and referred to as the 'Pre-Completion Equity Plans').

The MEP was established on 1 January 2016 and granted selected employees an interest in the privately owned KVD Australia Pty Ltd. Prior to completion of the Initial Public Offering for shares in Latitude Group Holdings Limited, all the entitlements of the MEP plan vested and the plan participants realised their interest through the receipt of shares in the new listed Company (net of cash settled tax obligations). As a result, no new MEP units were granted in the current reporting period and the plan has now ceased and fully unwound as a result of the IPO. No share-based payment expense was recognised in the profit and loss for the year ended 31 December 2021 in respect of MEP (2020: $16.6 million).

	2021 $'m issued	2020 $'m issued
At 1 January	**38.8**	20.1
Fair value of units granted during the year	**-**	6.7
Fair value of plan modification for loan funded units	**-**	12.0
Change in fair value on entitlement to units vesting	**(38.8)**	-
At 31 December	**-**	38.8

(ii) Latitude Equity Plan

On 1 January 2021, the Company established the Latitude Equity Plan (LEP) to assist in the motivation, retention and reward of key management personnel and other senior leaders. The LEP is designed to align participants' interests with the interests of Shareholders by providing participants the opportunity to receive Shares through the granting of Restricted Shares and Rights in respect of the short-term incentive **(STI)** and long-term incentive **(LTI)** components of remuneration. The key terms of the LEP are set out in the following tables.

Feature	Key Terms of the FY2021 Restricted Shares (STI Shares) granted under the LEP
Eligibility	Managing Director & CEO and other eligible executives as approved by the Board, awarded an STI outcome for FY21. An Executive Director may participate in the LEP. Non Executive Directors will not be eligible to participate in the LEP.
Offer	The number of restricted shares **(STI Shares)** is one-third(1) of a participant's FY2021 STI outcome, divided by the 5-day Volume Weighted Average Price (VWAP) from the second trading day following the release of the FY2021 results.
Grant	During or after April 2022: one-third(1) of each participant's STI awarded is delivered as STI Shares that are purchased on market.

6.2 Share-based payments (continued)

Restriction period	February 2023: 50% of STI Shares are released from restriction following the FY22 results announcement. February 2024: the remaining 50% STI Shares are released from restriction following the FY23 results announcement.
Treatment of restricted STI Shares during restricted period	Participants who depart Latitude prior to the restriction end date, are generally treated as follows, although Board retains discretion to determine a different treatment: • Misconduct or summary dismissal for cause: lapse. • All other circumstances: remain on foot, subject to the original performance conditions and restriction period.
Restrictions on dealing	STI Shares rank equally with other Shares and participants have dividend and voting rights including while subject to the restricted period and restrictions on disposal. Participants must not sell, transfer, encumber, hedge or otherwise deal with restricted STI Shares except with prior approval of the Board or in certain circumstances by force of law. Following the restriction end date, the disposal restrictions cease and Shares are held subject to restrictions under the Share Trading Policy.

(1) From 1 January 2022, this amount will increase to 50%.

Feature	Key terms of the FY2021 LTI Performance Rights granted under the LEP
Eligibility	Managing Director & CEO, eligible Executive KMP and selected Senior Leaders as approved by the Board.
Performance period (2)	1 January 2021 to 31 December 2023.
Offer	• Rights to acquire Shares at no cost (Performance Rights), subject to the satisfaction of specific vesting conditions over the Performance Period. • The LTI opportunity offered is a percentage of Fixed Remuneration. • Performance Rights have no dividend or voting rights prior to vesting. • At vesting, the rights are exercised into shares, although in certain circumstances, participants may receive a Cash Equivalent Value of the vested element after testing.
Grants	The number of Performance Rights granted was calculated based on a 5-day VWAP grant price. Two grants occurred in FY2021. **Grant Date** / **Grant Price** / **5-day VWAP** 29 April 2021 / $2.517250 / 22-28 April 2021 (aligned to Latitude's initial trading period on the ASX) 29 October 2021 / $2.343965 / 5-31 August 2021 (aligned to the open period commencing on the second trading day following the release of the FY21 half year results)

6.2 Share-based payments (continued)

<table>
<tr><td>Vesting conditions</td><td>

Return on Equity (ROE): 50% of Performance Rights may vest subject to a performance condition based on the Company’s average ROE performance achieved over the performance period relative to the average of the annual ROE targets set by the Board, and
Earnings per Share (EPS): 50% of Performance Rights may vest subject to a performance condition based on the Company’s aggregate cash EPS achieved over the performance period, relative to the aggregate of the annual cash EPS targets set by the Board.

<u>Cessation of employment</u>
Participants who depart Latitude prior to the vesting date, are generally treated as follows, although Board retains discretion to determine a different treatment:

Misconduct or summary dismissal for cause: lapse.
Resignation: The Board will typically lapse the Performance Rights.

All other circumstances: remain on foot, subject to the original performance conditions and vesting period. The Board may elect to pro rata the original grant based on time served during the Performance period.
Rights that vest at the end of the original vesting period are automatically exercised at that date for ex-employees.
</td></tr>
<tr><td>Testing Outcomes</td><td>
Following the release of the FY23 results in March 2024, the Performance Rights will be tested equally against each measure and the number that vest will be calculated as:
<table>
<tr><th>ROE / EPS performance level achieved over the period</th><th>% of Performance Rights subject to the ROE / EPS hurdles that will vest</th></tr>
<tr><td>At or above maximum targets</td><td>100%</td></tr>
<tr><td>Between threshold and maximum targets</td><td>Straight-line pro-rata vesting between 50% and 100%</td></tr>
<tr><td>At threshold targets</td><td>50%</td></tr>
<tr><td>Below threshold targets</td><td>0%</td></tr>
</table>

Performance Rights that vest are exercised into Shares.
Performance Rights that don’t vest will lapse and are not re-tested.
In certain circumstances, participants may receive a Cash Equivalent Value of the vested element, after testing.
The FY21 LTI outcome will be reported in the 2024 remuneration report.

</td></tr>
<tr><td>Restrictions on dealing</td><td>
Performance Rights are subject to restrictions and participants cannot sell, transfer, encumber, hedge or otherwise deal with unvested Performance Rights without prior approval of the Board or in certain circumstances by force of law.
Following vesting, the disposal restrictions cease and Shares are held subject to restrictions under the Share Trading Policy.
</td></tr>
</table>

[2] *It is expected that future deferred LTI grants will have three year performance/vesting periods.*

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6.2 Share-based payments (continued)

LEP Share Rights movements:

	2021 Number
Outstanding at 1 January	-
Granted	2,133,626
Outstanding closing balance at 31 December	**2,133,626**
Exercisable at 31 December	**-**

The fair value of the share rights is determined at grant date and recognised over the vesting period.

Significant assumptions used as inputs into the grant date fair value information:

	Grant date 29 April 2021	Grant date 29 October 2021
Contractual life (years)	2	2
Risk free interest rate (%)	0.59	0.59
Share closing price at grant date ($)	2.52	2.34
Expected volatility of share price (%)	25.78	25.78

The total expense recognised in the profit and loss for the year ended 31 December 2021 in respect of LEP was $3.3 million.

(iii) Employee Share Acquisition Plan

The Company established an Employee Share Acquisition Plan (ESAP) in 2021 to recognise the contribution of its employees and provide them with the opportunity to become shareholders in the Company.

Feature	Key terms of the Shares allocated under the ESAP
Eligibility conditions	• Employees have to be employed by the Company, or a subsidiary of the Company, under a permanent contract of employment, with a commencement date on or before 31 December 2020; • The employee could not have given, or received notice of termination of their employment; • The employee was not eligible to participate in the Company's LTIP; and • Director of the Company were ineligible.
Offers	Eligible participants could opt in to acquire Shares up to a maximum value of A$1,000 at no cost. The acquired shares rank equally in all respects with other shares.
Share allocation calculation	Based on the 5-day VWAP ($2.51472502) prior to the grant date, aligned to Latitude's initial trading period on the ASX (22-28 April 2021).
Restriction period	Three years from the date of allocation.
Cessation of employment	Shares are retained by the participant and disposal restrictions cease to apply on termination.

6.2 Share-based payments (continued)

As part of the IPO transaction, eligible employees were able to participate in an employee gift offer to receive up to $1000 worth of Shares. The shares were gifted at no cost to the employee and are subject to a 3 year holding restriction from the grant date (unless employment ceases).

6.3 Contingent liabilities and contingent assets

The Group is subject to a number of obligations which, if not discharged or considered not to be discharged, may give rise to potential claims or other costs. Where some loss from an actual or alleged non-performance of an obligation is more likely than not and can be reliably estimated, provisions have been made. The Group considers that the outcome of any specific enquiry which is underway as at 31 December 2021, and has not been provided for, is not expected to affect its financial position in any material way, either individually or in aggregate.

Regulatory and customer exposures

In recent years there has been an increase in the number of matters on which the industry engages with its regulators. The nature, scale and breadth of regulatory investigations, surveillance and reviews, civil and criminal enforcement actions (whether by court action or otherwise), formal and informal inquiries, regulatory supervisory activities and the quantum of fines issued by regulators, particularly against financial institutions both in Australia and globally continues.

The Group has received various notices and requests for information from its regulators as part of both industry-wide and Group-specific reviews and has also made disclosures to its regulators at its own instigation. The nature of these interactions can be wide ranging and, for example, currently include a range of matters including responsible lending practices, regulated lending requirements, product suitability and distribution, interest and fees and the entitlement to charge them, customer remediation and insurance distribution. There may be exposures to customers which are additional to any regulatory exposures. These could include class actions, individual claims or customer remediation or compensation activities. The outcomes and total costs associated with such reviews and possible exposures remain uncertain.

There is a risk that the actual cost of responding to any inquiry or penalty paid following any settlement or determination by a Court for any legal proceedings may be materially higher or lower than the provision or that any contingent liability may be larger than anticipated. There is also a risk that additional litigation or contingent liabilities may arise, all of which could adversely affect our business, prospects, reputation, financial performance or financial condition.

Taxation

The tax affairs of the Group are subject to review by both the Australian Taxation Office ('ATO') and the Inland Revenue Department ('IRD') in New Zealand, as well as the revenue offices of the various Australian states and territories from time to time. In particular, the ATO is completing assurance reviews of the top 1,000 companies in Australia. In February 2019, the ATO completed an assurance review of the Australian Tax Group and provided an assurance report which raised a number of matters that the ATO may consider further. The ATO advised in in December 2021 that they will revert with further enquires over the next few months. However, no further correspondence has been received since that time. Accordingly, any potential outcomes and total costs associated with any such activities remain uncertain at this time. One of these matters relates to the pre-IPO corporate

6.3 Contingent liabilities and contingent assets (continued)

structure of the Australian Tax Group and distributions made as part of that pre-IPO structure. Should the Group be subject to a future tax obligation arising from those distributions, KVD Singapore Pte Ltd has agreed a mechanism to reduce the Group's possible exposure to that issue to an immaterial amount. The Group is also currently subject to a GST Risk Review by the ATO which commenced in November 2021 and is still ongoing. The Group considers that the residual risks stemming from the items raised in the ATO Top 1,000 Assurance report or the GST review are not likely to materially affect its financial position, either individually or in aggregate.

6.4 Events occurring after the reporting date

Latitude Group Holdings Limited made an announcement to the ASX on 6 January 2022 of its intention to acquire the consumer business of Humm Group Limited (ASX:HUM) incorporating its BNPL, Instalments and Cards operations. Subsequently, the Group announced on 18 February 2022 it has executed binding transaction documents confirming the acquisition for total consideration of approximately $335 million comprising of 150 million Latitude shares and $35 million in cash.

There has not arisen in the interval between the end of the reporting period and the date of this report any other item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Group, to affect significantly the operations of the Group, the results of those operations or the state of affairs of the Group, in future financial years.

6.5 Related party transactions

(a) Parent and ultimate controlling parties

Prior to IPO completion, KVD Singapore Pte. Ltd (KVDS), a company incorporated in Singapore held 100% ownership of the Company. KVDS remains the ultimate controlling party following Latitude Group Holdings Limited listing as a public company.

(i) Transactions

The Company and KVDS entered into an agreement on 30 March 2021, whereby KVDS sold historic distribution entitlements to the Company for a total consideration of $84.507 million. The consideration is payable at agreed dates up to 30 September 2025, with the first payment date being 1 January 2022.

(ii) Unsecured Loans

The shareholders provided a loan with an original repayment term of five years that was subsequently extended for a further 18 months to 24 May 2022. The loan interest was charged at 8.5% in Australia and 9.5% in New Zealand until November 2020 and at 5.74% in Australia and 6.71% in New Zealand thereafter.

As part of the restructure described in section 1.1(c) the Group settled the shareholder loan using cash and equity, and acquired amounts owed to the selling shareholder KVDS relating to unpaid distributions on residual income units using cash, securitised notes and the establishment of the deferred settlement arrangement described above.

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Notes to the Financial Statements

For the year ended 31 December 2021

6.5 Related party transactions (continued)

	2021 $'thousands	2020 $'thousands
At 1 January	**885,509**	891,143
Effects of exchange rate on translation of foreign operations	**(2,388)**	(5,165)
Loan repayments made	**-**	-
Interest due to related parties	**-**	76,082
Interest paid	**(1,443)**	(76,551)
Settlement of loan on restructure (conversion to equity)	**(881,678)**	-
At 31 December	**-**	885,509

(b) Key Management Personnel

Key Management Personnel (KMP) are Directors and those persons having authority and responsibility for planning, directing and controlling the activities of the Group.

(i) Compensation

	2021 $'thousands	2020 $'thousands
Short-term employee benefits	**10,365**	10,972
Long-term benefits	**63**	48
Post-employment benefits	**252**	248
Termination benefits	**188**	933
Share based payments	**2,837**	11,646
	13,706	23,848

Compensation paid above includes share based awards that were granted to participants during their time in a KMP role during the year, as follows:

	2021 $'thousands	2020 $'thousands
At 1 January	**24,339**	14,630
Granted	**1,603**	2,526
Plan modification	**-**	9,120
Equity adjustments	**-**	(1,937)
At 31 December	**25,942**	24,339

(ii) Lending balances

The Group provides KMP with consumer finance facilities offered in the ordinary course of business. Interest charged on these products is at normal consumer rates and under normal terms and conditions.

There is no allowance account for impaired receivables in relation to any outstanding balances, and no expense has been recognised in respect of impaired receivables due from any related parties.

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Notes to the Financial Statements

For the year ended 31 December 2021

6.5 Related party transactions (continued)

	2021 $'thousands	2020 $'thousands
Outstanding balances at 31 December	**53**	94
Total available credit facility during the period	**268**	349
Maximum drawn amount during the period	**103**	165

(c) Other transactions and outstanding balances

Other transactions	$'thousands	$'thousands
Ordinary share dividends paid	**78,500**	-
Capital note distribution payable	**1,387**	-

Outstanding balances	2021 $'thousands	2020 $'thousands
Payable to selling shareholders	**(84,507)**	(106,448)
Receivable from other related party	**-**	1,483

6.6 Remuneration of auditor

(a) Remuneration to KPMG

	2021 $	2020 $
Audit and other assurance services		
Audit and review of financial statements	**1,402,500**	957,500
Regulatory assurance services	**220,000**	220,000
Other assurance services	**179,500**	422,500
Total remuneration for audit and other assurance services	**1,802,000**	1,600,000
Other services		
Transaction and other advisory services [1]	**761,000**	1,175,000
Total remuneration for other services	**761,000**	1,175,000
Total remuneration of KPMG	**2,563,000**	2,775,000
Total auditor's remuneration	**2,563,000**	2,775,000

[1] *Relates to transactional services of an ad hoc nature*

The remuneration to KPMG for audit and assurance services is for the Group and related entities in Australia and New Zealand.

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Notes to the Financial Statements

For the year ended 31 December 2021

6.7 Discontinued operations

(a) Description

In June 2020, the Group sold its Residential Loan portfolio, a run-off line of business that was a legacy of the previous GE ownership. The sale, effective 30 June 2020, completed on 14 August 2020. An impairment loss of $5.6 million was recognised in the year ended 31 December 2020 in relation to assets sold within the discontinued operation. There are no discontinued operations in the year ended 31 December 2021.

(b) Financial performance

	Notes	*2020 $'m
Revenue		1.7
Expenses		0.8
Asset impairment recognised		(5.6)
Income tax benefit	2.3(a)	1.6
Loss after income tax of discontinued operations		(1.5)
Net (loss) after tax for the period from discontinued operations attributable to owners of the Group		(1.5)
Loss after income tax of discontinued operation		(1.5)

(c) Assets and liabilities of disposal group classified as held for sale

	Notes	2020 $'m
Liabilities directly associated with assets classified as held for sale		
Trade and other liabilities		2.2
Total liabilities of disposal group held for sale		2.2

(d) Cashflow statement

	Notes	2020 $'m
Net cash provided by operating expenses		4.5
Net cash provided by financing expenses		26.4
Net increase in cash and cash equivalents		30.9

(e) Earnings per share for discontinued operations

	Notes	*2020
Earnings/(loss) per share for loss attributable to the ordinary equity holders of the Company - Discontinued operations		**Cents**
Earnings/(loss) per share	2.5	(0.2)
Diluted earnings/(loss) per share	2.5	(0.2)

**As restated, refer to section (1.1c)*

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Notes to the Financial Statements

For the year ended 31 December 2021

6.8 Deed of cross guarantee

(a) Consolidated statements of entities party to the deed of cross guarantee

*As restated, refer to section 1.1(c)	2021 $'m	*2020 $'m
Consolidated statement of profit or loss and other comprehensive income		
Profit/(loss) before income tax expense	**181.8**	(37.3)
Income tax (expense)/benefit	**(41.4)**	0.4
Profit/(loss) for the year	**140.4**	(36.9)
Other comprehensive income/(loss)	**15.9**	(1.4)
Total comprehensive income/(loss) for the year	**156.3**	(38.3)
Summary of movements in consolidated retained earnings		
Retained earnings at the beginning of the financial year	**(135.9)**	(90.3)
Profit/(loss) for the year	**140.4**	(36.9)
Dividends paid	**(82.7)**	-
Capital note distribution	**(1.4)**	
Transactions with MEP participants	**-**	(8.7)
Retained earnings at the end of the financial year	**(79.6)**	(135.9)
Consolidated balance sheet		
Assets		
Cash and cash equivalents	**160.3**	153.3
Investments	**375.3**	457.5
Assets classified as held for sale	**0.2**	0.1
Derivatives financial instruments	**8.7**	-
Loans and other receivables	**4,877.9**	4,921.1
Other assets	**8.2**	9.0
Deferred tax assets	**159.2**	180.0
Investment in controlled entity	**243.9**	321.5
Other financial assets	**1.6**	1.6
Property, plant and equipment	**45.1**	55.3
Intangible assets	**904.3**	698.5
Total assets	**6,784.7**	6,797.9
Liabilities		
Trade and other liabilities	**328.2**	286.6
Current tax liabilities	**28.1**	0.8
Derivatives financial instruments	**1.0**	12.2
Provisions	**63.9**	70.5
Deferred tax liabilities	**64.3**	73.4
Borrowings	**4,759.7**	5,636.2
Total liabilities	**5,245.2**	6,079.7
Net assets	**1,539.5**	718.2
Equity		
Contributed equity	**2,221.0**	1,305.0
Other reserves	**(601.9)**	(450.9)
Retained earnings/(losses)	**(79.6)**	(135.9)
Total equity	**1,539.5**	718.2

6.8 Deed of cross guarantee (continued)

Latitude Group Holdings Limited and some of its controlled entities (refer section 6.1) have entered into a deed of cross guarantee pursuant to ASIC Corporations (Wholly owned Companies) Instrument 2016/785, under which each Company guarantees the debts of the others. The consolidated results of the Company and the controlled entities which are party to the deed of cross guarantee (referred to as a closed group) are presented above, where transactions between entities to the deed are eliminated in full in the profit or loss and balance sheet.

As a result of the restructure (refer section 1.1(c)) and entities acquired during the year (refer section 6.10), seven new entities acceded the deed of cross guarantee on 13 December 2021, as noted in section 6.1(a).

6.9 Parent entity financial information

(a) Summary financial information

The individual financial statements for the parent entity (Latitude Group Holdings Limited) show the following aggregate amounts:

	2021 $'m	*2020 $'m
Balance sheet		
Current assets	**211.8**	1.1
Total assets	**1,824.8**	1,625.7
Current liabilities	**103.3**	84.5
Total liabilities	**152.2**	1,082.1
Shareholders' equity		
Contributed equity	**2,234.2**	1,110.0
Reserves		
Common control reserve	**(602.5)**	(566.4)
Foreign currency translation reserve	**2.8**	-
Retained earnings	**38.1**	-
	1,672.6	543.6
Profit/(loss) for the year	**118.0**	-
Total comprehensive income/(loss)	**120.8**	-

**As restated, refer to section 1.1(c)*

(b) Contingent liabilities of the parent entity

The parent entity did not have any contingent liabilities as at 31 December 2021 (2020: $nil).

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6.10 Acquisition of Symple Loans - Business Combination

(a) Summary of acquisition

On 26 October 2021 Latitude Financial Services Australia Holdings Pty Ltd, a subsidiary of Latitude Group Holdings Limited acquired 100% of Symple Financial Group Pty Limited and its controlled entities, a digital personal loans provider for $207.8 million. The consideration comprised of $100.0 million cash, the issuance of 38.46 million shares in Latitude Group Holdings Limited and a $24.0 million deferred promissory note.

Latitude intends to utilise Symple's platform to originate personal loans and auto loans and expand into personal loans in Canada and auto loans in New Zealand. Symple will become the lending platform for all Latitude personal loans and auto loans and Latitude will leverage Symple's platform to support its existing business, launch new products and build partnerships with other lenders.

Purchase consideration

The transaction meets the definition of a business combination under AASB 3 *Business Combinations* (refer section 1.2(b)) and details of the purchase consideration, the net assets acquired and goodwill are as follows:

	2021 $'m
Purchase consideration:	
Cash paid	100.0
Ordinary shares issues	83.8
Promissory note	24.0
Total purchase consideration	**207.8**

$6.4 million of acquisition related costs have been recognised within Other operating expenses in the consolidated income statement in the period.

Fair values measured on a provisional basis

The assets and liabilities recognised as a result of the acquisition are as follows:

	2021 $'m
Cash and cash equivalents	10.5
Loans and other receivables	61.1
Other assets	0.1
Property, plant and equipment	0.4
Intangible assets	0.4
Trade and other liabilities	(13.7)
Provisions	(0.5)
Borrowings	(52.0)
Net identifiable assets acquired	**6.3**
Add: Goodwill	201.5
Net assets acquired	**207.8**

The fair value of 38.46 million Latitude shares, issued as part of the consideration for Symple Group is based on the closing share price on 25 October 2021 of $2.18 per share.

6.10 Acquisition of Symple Loans - Business Combination (continued)

The fair value of the assets and liabilities recognised for the business combination in the period are provisional and as such, the goodwill has not yet been attributed to identifiable assets of the acquired business. No amount of goodwill has therefore been deducted for tax purposes at 31 December 2021.

If new information obtained within one year of the date of acquisition about facts and circumstances that existed at the date of acquisition identifies adjustment to the above amounts, or any additional provisions that existed as the date of the acquisition, then the accounting for the acquisition will be revised.

Contingent consideration and indemnification assets

Contingent liability

The transaction is not subject to any contingent consideration arrangements. No contingent liabilities have been recognised in the net assets acquired as part of the business combination during the period.

Acquired customer receivables

Acquired customer receivables

The fair value of acquired receivables is $61.1 million. The gross contractual amount for receivables due is $64.5 million, with a loss allowance of $3.4 million recognised on acquisition.

(b) Purchase consideration – cash outflow

Outflow of cash to acquire assets, net of cash acquired:

	2021 $'m
Cash consideration	100.0
Less: Balance acquired	
Cash	10.5
Net outflow of cash - investing activities	**89.5**

(c) Revenue and profit contribution

The acquired business contributed revenues of $1.4 million and net loss of $(0.6) million after tax to the Group for the period from 26 October to 31 December 2021.

If the acquisition had occurred on 1 January 2021, the acquiree’s consolidated pro-forma revenue and loss after tax for the year ended 31 December 2021 would have been $6.4 million and $(8.7) million respectively.

6.11 Acquisition of OctiFi - Business Combination

(a) Summary of acquisition

On 21 October 2021, Latitude Financial Singapore Pte. Ltd. (subsequently renamed LatitudePay Singapore Pte. Ltd.) entered into a sale and purchase agreement with OctiFi Pte. Ltd., a buy-now-pay-later (BNPL) company based in Singapore, to acquire the business assets of OctiFi Pte. Ltd. (OctiFi) for $24.8 million (USD$18 million).

Latitude Financial International Pte. Ltd, a subsidiary of the Group incorporated in Singapore, holds 85% ownership in LatitudePay Singapore Pte. Ltd. together with two of the original founders of OctiFi who together hold a 15% ownership holding.

The acquisition provides further opportunities for the Group to develop the Instalments business with partners in Asian markets.

Purchase consideration

The transaction meets the definition of a business combination under AASB 3 *Business Combinations* (refer section 1.2(b)) and details of the purchase consideration, the net assets acquired and goodwill are as follows:

	2021 $'m
Purchase consideration:	
Cash paid	15.9
Amounts set off against amounts due from founding sellers	5.2
Deferred consideration	3.7
Total purchase consideration	**24.8**

Fair values measured on a provisional basis

The assets and liabilities recognised as a result of the acquisition are as follows:

	2021 $'m
Cash and cash equivalents	2.8
Customer receivables	0.8
Other receivables	6.3
Other assets	0.2
Employee provisions	(0.2)
Net identifiable assets acquired	**9.9**
Add: Goodwill	14.9
Net assets acquired	**24.8**

The fair value of the assets and liabilities recognised for the business combination in the period are provisional and as such, the goodwill has not yet been attributed to identifiable assets of the acquired business. No amount of goodwill has therefore been deducted for tax purposes at 31 December 2021.

If new information obtained within one year of the date of acquisition about facts and circumstances that existed at the date of acquisition identifies adjustment to the above amounts, or any additional provisions that existed as the date of the acquisition, then the accounting for the acquisition will be revised.

6.11 Acquisition of OctiFi - Business Combination (continued)

Contingent consideration and indemnification assets

Contingent liability

The transaction is not subject to any contingent consideration arrangements. No contingent liabilities have been recognised in the net assets acquired as part of the business combination during the period.

Acquired receivables

Acquired receivables

The fair value of acquired customer receivables is $0.8 million, being the gross contractual amount for receivables due of $0.8 million, with no loss allowance recognised on acquisition.

(b) Purchase consideration – cash outflow

Outflow of cash to acquire assets, net of cash acquired:

	2021 $'m
Cash consideration	15.9
Less: Balance acquired	
Cash	2.8
Net outflow of cash - investing activities	**13.1**

(c) Revenue and profit contribution

The acquired business contributed nil revenue and net loss of $(3.4) million after tax to the Group for the period from 21 October to 31 December 2021.

If the acquisition had occurred on 1 January 2021, it has not been practicable to ascertain the acquiree’s consolidated pro-forma revenue and profit/(loss) after tax for the year ended 31 December 2021.

LATITUDE