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 2022
Previous corresponding period	1 January to 31 December 2021

Extracts from the income statements ($ millions)		31 December 2022	
	$	Up/down	% change
Revenue from ordinary activities[1]	927.8	down	3.1%
Profit from ordinary activities after tax attributable to members	37.7	down	76.6%
Net profit for the year attributable to members	37.7	down	76.6%

[1]Information is presented on a continuing operations basis, unless otherwise stated.

Dividends and Dividend Reinvestment Plan	Amounts per share (cents)	Franked amount per share (cents)	Tax rate for franking credits
Interim 2022 dividend per share (paid 26 October 2022)	7.85	3.36	30%
Final 2022 dividend per share declared	4.00	1.71	30%
Final dividend dates			
Ex-dividend date			21 March 2023
Record date			22 March 2023
Payment date			24 April 2023

Latitude Group Holdings Limited has a Dividend Reinvestment Plan (DRP) that will operate for the 2022 Final dividend. Shares will be issued at the Average Market Price, which is the arithmetic average of the daily volume weighted average prices of the Company's shares on each day during the five trading day period that commences on the second trading day after the record date and then rounded to the nearest whole cent.

Shares under the DRP will be provided through the issue of new shares and will rank equally in all respects with existing fully paid Latitude ordinary shares. DRP elections for the 2022 Final dividend must be received by Latitude's Share Registrar by 5.00pm (AEDT) on 23 March 2023.

Net tangible assets per security	31 December 2022	31 December 2021
Net tangible assets ($m)	525.2	517.6
Number of ordinary shares (m)	1,039.2	1,038.5
Net Tangible Assets / (Liabilities) per security ($)	$0.51	$0.50

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 2022.

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 2022.

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, 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 shareholders from continuing operations decreased from $144.0 million in 2021 to $57.9 million in 2022, a reduction of $86.1 million.

Cash NPAT[(1)] from continuing operations decreased from $200.1 million in 2021 to $153.5 million in 2022, a reduction of $46.6 million. The movements in Cash NPAT are discussed in detail below.

Summary financial results

($m)	2022	*2021	Change %
Net interest income	675.8	772.3	(12)%
Other income	36.4	23.9	52%
Total Operating Income	**712.2**	**796.2**	**(11)%**
Net Charge Offs	(147.6)	(149.5)	(1)%
Risk Adjusted Income	**564.6**	**646.7**	**(13)%**
Cash operating expenses[(2)]	(331.8)	(365.4)	(9)%
Cash PBT	**232.8**	**281.3**	**(17)%**
Movement in provision for impairment	28.1	33.5	(16)%
Depreciation & Amortisation (excl leases)	(45.3)	(35.3)	28%
Profit before Tax & Notable Items	**215.6**	**279.5**	**(23)%**
Income tax expense	(62.1)	(79.4)	(22)%
Cash NPAT from continuing operations	**153.5**	**200.1**	**(23)%**
Notable items after tax[(3)]			
Amortisation of acquisition intangibles	(33.6)	(34.1)	(1)%
Amortisation of legacy transaction costs	(2.8)	(6.6)	(58)%
Other notable items	(59.2)	(15.4)	284%
Statutory profit after tax from continuing operations	**57.9**	**144.0**	**(60)%**
Discontinued operations	(21.6)	16.3	(233)%
Statutory profit after tax	**36.3**	**160.3**	**(77)%**
Profit/(loss) is attributable to:			
Owners of Latitude Group Holdings Limited	**37.7**	**160.9**	**(77)%**
Non-controlling interests	**(1.4)**	**(0.6)**	**133%**
Profit for the year	**36.3**	**160.3**	**(77)%**

* Comparative information has been restated for discontinued operations (refer to note 6.7) and revised definition of Cash NPAT.

(1) Cash PBT, Risk Adjusted Income, Notable 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.

(2) Cash operating expenses excludes notable items as defined below. Refer to 2022 reconciliation of cash net profit after tax to reported statutory profit after tax.

(3) Notable Items are items outside the ordinary course of business and temporary in nature or relate to the costs associated with entering new segments and markets where the associated revenues or benefits from that investment will not evolve during the reporting period.

Results for Announcement to the Market

Summary financial analysis

Group volumes increased 8% during 2022 to $7,953m despite the residual impacts of COVID-19 and the unprecedented (in both size & speed) policy cash rate moves by central banks in Australia (+300bps) and New Zealand (+400bps). Customer repayment rates remain at elevated levels but have started to slowly normalise, down 134bps to 99%. Consequently, gross receivables increased 2% during 2022 to $6,474m. This compares favourably to the 3% reduction in 2021. More promisingly, gross receivables increased 3% in 2H22 to record the first sequential growth in receivables for five halves.

Cash NPAT of $153.5m declined by 23% with the key drivers as follows:

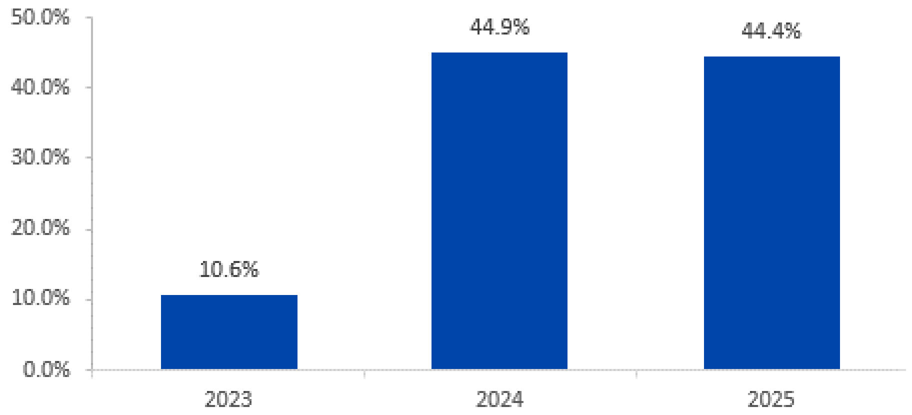
- **Total Operating Income** declined by 11% or $84.0m to $712.2m. The decrease was primarily driven by a 12% fall in net interest income as a result of a 132bps contraction in the net interest margin to 10.74% and 2% less average gross receivables. The margin contraction was a direct outcome of moves by central banks to tighten monetary policy and sharply increase interest rates, thereby directly increasing cost of funds. In response, Latitude has strategically increased product pricing to mitigate this impact. Pricing actions taken in 2022 and those planned in 2023 will provide yield benefits in 2023.
- **Net Charge Offs** fell by 1% or $1.9m to $147.6m. This decrease continues to reflect both the high quality of the receivables book and the very low levels of unemployment in both Australia (3.5%) and New Zealand (3.4%). Elevated repayment rates also delivered lower delinquency and charge off performance.
- **Operating expenses** decreased by 9% or $33.6m to $331.8m. The benefits of a sharp focus on the implementation of a productivity agenda and investments in simplification continue to persist. In addition, to align the interests of personnel with the owners, no short-term incentive was accrued in 2022.
- **Provision movement** declined by 16% or $5.4m to $28.1m. After an extended period of actual losses through the COVID period, the level of coverage was reduced by 52bps to 3.75% as both the forward-looking economic model and management overlay was adjusted to reflect both the actual and expected performance outcomes.

During the year, the Group maintained a robust and conservative funding position remaining active in global funding markets to refinance and manage limits in accordance with 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.

Results for Announcement to the Market

The following graph sets out the Group's securitised debt maturity profile as at 31 December 2022.

Securitised Debt Maturity Profile



The above includes current balance of all securitised debt at the first contractual maturity.
AU 2020-1 & 2021-1 ABS included at 10% call option.

Across both our Warehouse and ABS facilities Latitude has drawn borrowings of $5.9bn with available headroom of $1.3bn to support future growth.

The Group's Return on Equity of 10.1% remains strong but has been adversely impacted by the increased cost of funding. The tangible equity to net receivables (TER) remained stable at 8.5%, comfortably above our target range of 6-7%, reflecting a prudent approach to managing the balance sheet for both future growth and economic uncertainty.

The Directors have declared a final dividend of 4.00 cents per share, fully franked, taking the full year dividend distribution to 11.85 cents per share which results in a full-year payout ratio of 80% - still above the stated target range of 60-70%.

Note on statutory profit and cash profit

Statutory profit is prepared in accordance with the Corporations Act 2001 and the Australian Accounting Standards, which comply with International Financial Reporting Standards (IFRS). Figures disclosed in the Summary of Group Performance are on a cash NPAT basis unless stated as being on a statutory profit after tax basis. Cash NPAT exclusions relate to:

- Amortisation of acquisition intangibles – reflects the amortisation of customer lists and distribution agreements recognised as part of the acquisition accounting,
- Amortisation of legacy transaction costs – reflects the amortisation of capitalised costs for the original establishment of the warehouse funding program,
- Corporate development – reflects the costs associated with acquisitions and integrations,
- Restructuring costs – reflects the transition costs to simplified operating structure,
- Fixed asset impairment – primarily reflects the decommissioning of redundant platforms, and
- Decommissioned facilities – reflects the costs relating to facilities that were decommissioned as part of our operating model reviews and are not intended to be utilised as part of the Group's current hybrid working model.

Results for Announcement to the Market

2022 reconciliation of cash net profit after tax to reported statutory profit after tax

($m)	Cash net profit after tax	Amortisation of acquisition intangibles	Amortisation of legacy transaction costs	Corporate development	Restructuring costs	Fixed asset impairment	Decommissioned facilities	Statutory profit after tax
Net interest income	675.8	-	(3.9)	-	-	-	(0.3)	671.5
Other income	36.4	-	-	-	-	-	1.1	37.6
Total operating income	**712.2**	**-**	**(3.9)**	**-**	**-**	**-**	**0.7**	**709.1**
Net charge offs	(147.6)	-	-	-	-	-	-	(147.6)
Risk adjusted income	**545.6**	**-**	**(3.9)**				**0.7**	**561.5**
Cash operating expenses	(331.8)	-	-	(41.3)	(15.2)	(22.2)	(0.2)	(410.7)
Cash PBT	**232.8**	**-**	**(3.9)**	**(41.3)**	**(15.2)**	**(22.2)**	**0.6**	**150.8**
Movement in provision for impairment	28.1	-	-	-	-	-	-	28.1
Depreciation and amortisation	(45.3)	(47.6)	-	-	-	-	(4.0)	(96.9)
Profit before tax	**215.6**	**(47.6)**	**(3.9)**	**(41.3)**	**(15.2)**	**(22.2)**	**(3.4)**	**82.0**
Income tax expense	(62.1)	14.0	1.1	10.9	4.5	6.5	1.0	(24.1)
Profit after tax from continuing operations	**153.5**	**(33.6)**	**(2.8)**	**(30.4)**	**(10.7)**	**(15.7)**	**(2.4)**	**57.9**

LATITUDE GROUP HOLDINGS LIMITED

ABN 83 604 747 391

Consolidated Financial Statements extract from the Consolidated Financial Report

For the year ended 31 December 2022

Consolidated Income Statement

	Notes	2022 $'m	*2021 $'m
Continuing operations			
Interest income	2.2(a)	**890.2**	932.4
Interest expense	2.2(a)	**(218.7)**	(169.7)
Net interest income		**671.5**	762.7
Other operating income	2.2(b)	**37.6**	25.0
Total operating income		**709.1**	787.7
Loan impairment expense	3.2(g)	**(119.5)**	(116.0)
Operating expenses			
Employee benefit expense		**(168.1)**	(168.9)
Depreciation and amortisation expense		**(105.3)**	(92.8)
IT and data processing expenses		**(65.7)**	(53.6)
Marketing expenses		**(27.5)**	(37.8)
Administrative and professional expenses		**(81.4)**	(32.9)
Occupancy and operating expenses		**(15.5)**	(21.2)
Other expenses		**(44.1)**	(59.8)
Total operating expenses		**(507.6)**	(467.0)
Distribution to trust beneficiaries		**-**	(3.2)
Profit before income tax		**82.0**	201.5
Income tax expense	2.3(a)	**(24.1)**	(57.5)
Profit from continuing operations		**57.9**	144.0
Discontinued operations			
Net profit/(loss) after tax from discontinued operations	6.7(b)	**(21.6)**	16.3
Profit for the year		**36.3**	160.3
Profit/(loss) is attributable to:			
Owners of Latitude Group Holdings Limited		**37.7**	160.9
Non-controlling interests		**(1.4)**	(0.6)
Profit for the year		**36.3**	160.3

*Comparative information has been restated to reflect prior period adjustments detailed in Note 6.7

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

Consolidated Statement of Comprehensive Income

	Notes	2022 $'m	*2021 $'m
Profit for the year		**36.3**	160.3
Other comprehensive income			
Items that may be reclassified to income statement			
Cash flow hedges - fair value gain/(losses)	4.1(b)	**50.3**	23.0
Cash flow hedges - related taxes	4.1(b)	**(15.8)**	(5.4)
Currency translation differences arising during the period	4.1(b)	**0.2**	5.6
Other comprehensive income, net of tax		**34.7**	23.2
Total comprehensive income for the year		**71.0**	183.5
Total comprehensive income/(loss) is attributable to:			
Owners of Latitude Group Holdings Limited		**72.4**	184.1
Non-controlling interests		**(1.4)**	(0.6)
Total comprehensive income		**71.0**	183.5
Earnings per share for profit attributable to the ordinary equity holders of the Company		**Cents**	Cents
Earnings per share	2.5	**3.6**	17.8
Diluted earnings per share	2.5	**3.3**	16.4
Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the Company		**Cents**	Cents
Earnings per share	2.5	**5.7**	16.0
Diluted earnings per share	2.5	**5.2**	14.7

*Comparative information has been restated to reflect prior period adjustments detailed in Note 6.7

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

Consolidated Balance Sheet

As at 31 December 2022

	Notes	2022 $'m	2021 $'m
Assets			
Cash and cash equivalents	3.1(b)	**364.0**	605.7
Investments	3.1(c)	**-**	83.6
Derivative financial instruments	3.1(e)	**64.2**	12.3
Loans and other receivables	3.1(d)	**6,163.2**	6,008.1
Other assets		**10.8**	8.2
Deferred tax assets	2.3(d)	**155.9**	178.3
Current tax assets		**28.6**	-
Other financial assets		**1.6**	1.6
Property, plant and equipment	5.1(a)	**33.6**	69.2
Intangible assets	5.1(b)	**949.3**	1,047.9
Assets classified as held for sale	6.7(c)	**149.5**	0.2
Total assets		**7,920.7**	8,015.1
Liabilities			
Trade and other liabilities	3.1(f)	**226.5**	380.7
Current tax liabilities		**-**	36.8
Derivative financial instruments	3.1(e)	**-**	1.0
Provisions	5.1(f)	**48.3**	74.5
Gross insurance policy liabilities		**-**	19.2
Deferred tax liabilities	2.3(d)	**66.3**	72.2
Borrowings	3.1(g)	**6,085.9**	5,865.2
Liabilities held for sale	6.7(c)	**19.2**	-
Total liabilities		**6,446.2**	6,449.6
Net assets		**1,474.5**	1,565.5
Equity			
Contributed equity	4.1(a)	**2,222.0**	2,221.0
Reserves	4.1(b)	**(627.2)**	(667.2)
Retained earnings/(losses)	4.1(c)	**(123.4)**	7.2
Capital and reserves attributable to owners of Latitude Group Holdings Limited		**1,471.4**	1,561.0
Non-controlling interests		**3.1**	4.5
Total equity		**1,474.5**	1,565.5

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

Consolidated Statement of Changes in Equity

	Attributable to owners of Latitude Group Holdings Limited					
	Contributed equity $'m	Reserves $'m	Retained earnings/ (losses) $'m	Total Equity $'m	Non-controlling interests $'m	Total equity $'m
At 1 January 2022	**2,221.0**	**(667.2)**	**7.2**	**1,561.0**	**4.5**	**1,565.5**
Profit/(loss) for the year	-	-	37.7	37.7	(1.4)	36.3
Other comprehensive income	-	34.7	-	34.7	-	34.7
Total comprehensive income/(loss) for the year	-	34.7	37.7	72.4	(1.4)	71.0
Amounts transferred from reserves, net of tax from continuing operations	-	1.5	0.9	2.4	-	2.4
Transactions with owners in their capacity as owners:						
Issue of ordinary shares - dividend reinvestment plan	1.0	-	-	1.0	-	1.0
Dividends paid	-	-	(163.0)	(163.0)	-	(163.0)
Capital note distributions paid	-	-	(6.2)	(6.2)	-	(6.2)
Share-based compensation payments	-	3.8	-	3.8	-	3.8
At 31 December 2022	**2,222.0**	**(627.2)**	**(123.4)**	**1,471.4**	**3.1**	**1,474.5**
At 1 January 2021	1,110.0	(676.0)	(73.8)	360.2	-	360.2
Profit/(loss) for the year	-	-	160.9	160.9	(0.6)	160.3
Other comprehensive profit for the year	-	23.2	-	23.2	-	23.2
Total comprehensive income/(loss) for the year	-	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 in their capacity as 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

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

2022 Consolidated Financial Report extract
Notes to the Financial Statements
For the year ended 31 December 2022

Consolidated Statement of Cash Flows

	Notes	2022 $'m	2021 $'m
Cash flows from operating activities			
Interest received		**872.2**	897.2
Interest paid		**(219.5)**	(157.9)
Other operating income received		**35.0**	27.8
Net insurance income:			
Premiums received		**11.9**	13.9
Claims paid		**(10.4)**	(16.0)
Investment income		**2.1**	0.6
Operating expenses paid		**(401.6)**	(317.6)
Income taxes paid		**(83.5)**	(17.9)
Cash flow from operating activities before changes in operating assets and liabilities		**206.2**	430.1
Changes in operating assets and liabilities arising from cash flow movements			
Net decrease/(increase) in loans and other receivables		**(334.2)**	21.2
Net decrease in trade and other liabilities		**(45.0)**	(19.5)
Net increase/(decrease) in gross insurance policy liabilities		**(0.2)**	0.1
Net increase in other assets		**-**	(0.2)
Changes in operating assets and liabilities arising from cash flow movements		**(379.4)**	1.6
Net cash provided by/(used in) operating activities		**(173.2)**	431.7
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)
Net purchases of intangible assets, property, plant & equipment		**(24.9)**	(84.2)
Net investment in debt investments		**64.3**	(51.9)
Net cash provided by/(used in) investing activities		**39.4**	(238.7)
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		**1,709.3**	2,706.5
Repayment of borrowings		**(1,632.8)**	(2,778.3)
Net proceeds from facility agreements		**144.8**	-
Net movement from restructuring		**-**	(29.7)
Net outflow from share-based payment plan		**-**	(0.1)
Payment of lease liabilities		**(11.4)**	(13.1)
Payments of transaction costs from financing activities		**(1.8)**	(5.6)
Deferred consideration paid		**(39.4)**	-
Dividends paid		**(162.1)**	(78.5)
Capital note distributions paid		**(6.2)**	-
Distributions paid pre-IPO listing		**-**	(3.0)
Net cash provided by/(used in) financing activities		**0.4**	(55.8)
Net increase/(decrease) in cash and cash equivalents		**(133.4)**	137.2
Cash and cash equivalents at beginning of financial period		**605.7**	463.0
Cash and cash equivalents reclassified to assets held for sale		**(116.7)**	-
Effects of exchange rate changes on cash and cash equivalents		**8.4**	5.5
Cash and cash equivalents at end of financial year	**3.1(b)**	**364.0**	605.7

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

2022 Consolidated Financial Report extract

Notes to the Financial Statements

For the year ended 31 December 2022

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. Effective 15 December 2022, Latitude changed its registered office and principal place of business from 800 Collins Street, Docklands, Melbourne, Victoria, 3008 to Level 18, 130 Lonsdale Street, Melbourne, Victoria, 3000.

These consolidated financial statements were authorised for issue by the Directors' on 17 February 2023.

(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).

(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.

1.1 Basis of preparation (continued)

(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 through other comprehensive income and derivatives; and
- Assets held for sale - measured at the lower of carrying amount and fair value less costs of disposal.

(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: Recoverability of goodwill and other intangible assets and estimated useful life (other than goodwill)
- Section 5.1: Customer remediation
- Section 6.7(f): Estimation of insurance claims liability

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 2021. The Group continues to incorporate estimates, assumptions, and judgements specific to the impact of current and future economic conditions into the measurement calculations as described in section 3.2. The application of model risk overlays is used to offset inherent model risks, as 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.

1.2 Other significant accounting policies (continued)

(c) Hedge accounting

On 1 January 2022, the Group adopted hedge accounting under AASB 9 Financial Instruments. This resulted in a change of accounting policy to all derivative instruments and hedging activities entered into by the Group. The Group policy is:

- all derivatives are marked to market at fair value at each balance date;
- changes in fair value of derivatives in a cash flow hedge relationship are split out with:
  - the effective hedging portion being recognised in Other Comprehensive Income; and
  - the ineffective portion recognised in Profit or Loss;
- the balance of Other Comprehensive Income is then reclassified to Profit or Loss to match the effect of when the hedged item is recognised in Profit or Loss;
- changes in fair value for all other derivatives are recognised in Profit or Loss; and
- the Group must not enter into derivative transactions for speculative purposes.

The change in policy had no impact on the Group's financial results for the period.

(d) Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which:

- represents a separate major line of business or geographic area of operations;
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographic area of operations; or
- is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held-for-sale.

When an operation is classified as a discontinued operation, the comparative statement of profit or loss and statement of other comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative period.

(e) Assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held-for-sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use.

Such assets, or disposal groups, are generally measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on a pro rata basis, except that no loss is allocated to financial assets, deferred tax assets, employee benefit assets or investment property, which continue to be measured in accordance with the Group's other accounting policies. Impairment losses on initial classification as held-for-sale or held-for-distribution and subsequent gains and losses on remeasurement are recognised in profit or loss.

Once classified as held-for-sale, intangible assets and property, plant and equipment are no longer amortised or depreciated, and any equity-accounted investee is no longer equity accounted.

1.3 New and amended standards

(a) New and amended standards adopted

Other amended standards

Other amended Standards that became effective for the financial year ended 31 December 2022 did not have a material 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 2022 reporting periods and has not been early adopted by the Group.

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 insurance operations are discontinued operations and classified as held for sale in the reporting period. The new requirements are not material to the continuing operations of the Group.

Other Standards

Other Standards and interpretations that have been published that are not mandatory for 31 December 2022 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.

2022 Consolidated Financial Report extract

Notes to the Financial Statements

For the year ended 31 December 2022

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 Cash NPAT basis where the Cash NPAT is calculated by adding back the after-tax impact of amortisation of acquisition intangibles, amortisation of legacy transaction costs and notable items to Statutory Profit/(Loss) after tax from continuing operations.

During the period, the Group changed its reportable segments following the completion of the restructure of the Group into its new business units. The CEO and EC have identified three reportable segments of its business:

- **Australia and New Zealand Pay (A&NZ Pay): s**ales finance, BNPL products and credit cards.
- **Australia and New Zealand Money (A&NZ Money):** personal loans, motor loans.
- **Other/unallocated:** international businesses, runoff portfolios and unallocated central costs.

Comparative financial information reflects the change in reportable segments and revised definition of Cash NPAT as released to the Australian Stock Exchange on 27 May 2022.

A management fee is charged to the A&NZ Pay and A&NZ Money segments from a central entity within the 'Other' segment. Transactions 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 revenue.

	External Revenue from continuing operations		Non-current assets*	
	31 December 2022 $'m	31 December 2021 $'m	31 December 2022 $'m	31 December 2021 $'m
Geographical information				
Australia	722.2	738.9	3,225.3	3,275.5
New Zealand	205.5	218.5	751.4	713.2
Other	0.1	-	23.5	-
Total	**927.8**	**957.4**	**4,000.2**	**3,988.7**

*Non-current assets exclude financial instruments and deferred tax assets.

2022 Consolidated Financial Report extract

Notes to the Financial Statements

For the year ended 31 December 2022

2.1 Segment information (continued)

(b) Operating segment overview (continued)

Year ended 31 December 2022	A&NZ Pay $'m	A&NZ Money $'m	Other/ Unallocated $'m	Total $'m
Segment income statement information				
Net interest income	441.8	242.6	(8.6)	675.8
Other income	32.7	4.9	(1.2)	36.4
Total operating income	**474.5**	**247.5**	**(9.8)**	**712.2**
Net charge offs	(92.9)	(54.0)	(0.7)	(147.6)
Risk adjusted income	**381.6**	**193.5**	**(10.5)**	**564.6**
Cash operating expenses	(199.6)	(118.1)	(14.1)	(331.8)
Cash PBT	**182.0**	**75.4**	**(24.6)**	**232.8**
Movement in provision	2.1	26.9	(0.9)	28.1
Depreciation & Amortisation (excluding leases)	-	-	(45.3)	(45.3)
Profit before tax & notable items	**184.1**	**102.3**	**(70.8)**	**215.6**
Income tax expense	-	-	(62.1)	(62.1)
Cash NPAT	**184.1**	**102.3**	**(132.9)**	**153.5**
Amortisation of Acquisition intangibles	-	-	(47.6)	(47.6)
Amortisation of Legacy Transaction Costs	-	-	(3.9)	(3.9)
Notable Items				
Corporate Development	-	-	(41.3)	(41.3)
Restructuring Costs	-	-	(15.2)	(15.2)
Fixed Assets Impairment	-	-	(22.2)	(22.2)
Decommissioned Facilities	-	-	(3.4)	(3.4)
Tax effect of adjustments	-	-	38.0	38.0
Statutory Profit/(Loss) after tax from continuing operations	**184.1**	**102.3**	**(228.5)**	**57.9**
Discontinued operations				(21.6)
Statutory Profit after tax				**36.3**
Segment balance sheet information				
Total assets reported by the Consolidated Group	3,510.5	3,542.0	868.2	7,920.7
Total liabilities reported by the Consolidated Group	(2,447.7)	(3,126.4)	(872.1)	(6,446.2)

2022 Consolidated Financial Report extract
Notes to the Financial Statements
For the year ended 31 December 2022

2.1 Segment information (continued)

(b) Operating segment overview (continued)

Year ended 31 December 2021*	A&NZ Pay $'m	A&NZ Money $'m	Other/ Unallocated $'m	Total $'m
Segment income statement information				
Net interest income	515.9	264.6	(8.2)	772.3
Other income	21.1	1.8	1.0	23.9
Total operating income	**537.0**	**266.4**	**(7.2)**	**796.2**
Net charge offs	(100.5)	(48.2)	(0.8)	(149.5)
Risk adjusted income	**436.5**	**218.2**	**(8.0)**	**646.7**
Cash operating expenses	(198.7)	(109.6)	(57.1)	(365.4)
Cash PBT	**237.8**	**108.6**	**(65.1)**	**281.3**
Movement in provision	21.8	12.1	(0.3)	33.6
Depreciation & Amortisation (excluding leases)	-	-	(35.3)	(35.3)
Profit before tax & notable items	**259.6**	**120.7**	**(100.7)**	**279.7**
Income tax expense	-	-	(79.6)	(79.6)
Cash NPAT	**259.6**	**120.7**	**(180.3)**	**200.1**
Amortisation of Acquisition intangibles	-	-	(48.3)	(48.3)
Amortisation of Legacy Transaction Costs	-	-	(9.4)	(9.4)
Notable Items				
Investment related	-	-	(12.1)	(12.1)
Restructuring	-	-	(2.1)	(2.1)
Asset/work in progress impairment	-	-	(2.5)	(2.5)
Decommissioned Facilities	-	-	(3.8)	(3.8)
Tax effect of adjustments	-	-	22.1	22.1
Statutory Profit/(Loss) after tax from continuing operations	**259.6**	**120.7**	**(236.4)**	**144.0**
Discontinued operations				16.3
Statutory Profit after tax				**160.3**
Segment balance sheet information				
Total assets reported by the Consolidated Group	3,749.9	3,398.6	866.6	8,015.1
Total liabilities reported by the Consolidated Group	(2,406.7)	(2,991.3)	(1,051.6)	(6,449.6)

*Comparative information has been restated for discontinued operations (refer to note 6.7), change in reportable segments and revised definition of Cash NPAT.

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 18 months and motor loans 20 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.

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.

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.

2.2 Revenue and expenses (continued)

(a) Net interest income

	2022 $'m	*2021 $'m
Interest income	**890.2**	932.4
Total interest income	**890.2**	932.4
Finance costs on borrowings	**(216.3)**	(166.8)
Lease interest expense	**(2.4)**	(2.9)
Total interest expense	**(218.7)**	(169.7)
Net interest income	**671.5**	762.7

*Comparative information has been restated to reflect prior period adjustments detailed in Note 6.7

(b) Other operating income

	2022 $'m	*2021 $'m
Net interchange and operating fees	**32.9**	22.7
Other	**4.7**	2.3
Total other operating income	**37.6**	25.0

*Comparative information has been restated to reflect prior period adjustments detailed in Note 6.7

(c) Reconciliation of profit after income tax to net cash inflow/(outflow) from operating activities

	2022 $'m	2021 $'m
Net profit/(loss) after income tax	**36.3**	160.3
Increase in interest receivable	**(19.5)**	(34.7)
Increase in interest payable	**(2.5)**	11.8
Depreciation and amortisation	**105.6**	92.9
Non-cash charge offs	**177.8**	171.2
Other (income)/expenses including income tax	**(91.5)**	28.6
(Increase)/decrease in loans and other receivables	**(334.2)**	21.2
Net increase/(decrease) in trade and other liabilities	**(45.0)**	(19.5)
Net increase/(decrease) in gross insurance policy liabilities	**(0.2)**	0.1
Increase in other assets	**-**	(0.2)
Net cash (used in)/provided by operating activities	**(173.2)**	431.7

Reconciliation of profit after income tax to net cash inflow from operating activities has been prepared on a continuing and discontinued basis

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.

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.

2.3 Income tax expense and deferred tax

(a) Income tax expense

	2022 $'m	2021 $'m
Current tax expense		
Current tax on profits for the period	**20.6**	55.8
Adjustments recognised in the period for current tax of prior periods	**(2.5)**	(2.7)
Foreign exchange differences arising on translation	**0.1**	-
	18.2	53.1
Deferred tax expense		
Origination and reversal of temporary differences	**3.2**	9.3
	3.2	9.3
Income tax expense	**21.4**	62.4
Income tax expense/(benefit) is attributable to:		
Profit from continuing operations	**24.1**	57.5
Profit/(loss) from discontinued operations	**(2.7)**	4.9
Income tax expense	**21.4**	62.4

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

	2022 $'m	2021 $'m
Profit from continuing operations before income tax expense	**82.0**	201.5
Profit/(loss) from discontinued operations before income tax expense	**(24.3)**	21.2
	57.7	222.7
Tax at the Australian tax rate of 30% (2021: 30%)	**17.3**	66.8
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Permanent differences^	**4.6**	(1.2)
Effect of differences in tax rates in foreign jurisdictions	**0.9**	(1.1)
Other	**1.1**	0.6
Adjustments of prior periods	**(2.5)**	(2.7)
Income tax expense	**21.4**	62.4

^ Includes impairment of goodwill, non-deductible transaction costs and benefit on tax losses not recognised.

2.3 Income tax expense and deferred tax (continued)

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

	2022 $'m	2021 $'m
Provisions and other liabilities	**19.1**	15.5
Deferred income	**4.2**	1.6
Acquisition transaction costs	**0.4**	-
Intangible assets - software	**(9.1)**	(0.7)
Property, plant and equipment	**-**	0.6
Intangible assets - other	**(14.5)**	(14.6)
Deferred expenses and prepayments	**1.5**	2.2
Trust net income	**(1.2)**	3.9
Other	**2.8**	0.8
Deferred tax expense	**3.2**	9.3

The Group has $3.6 million (2021: $0.6 million) of unused tax losses and $2.3 million (2021: $0.2 million) deductible temporary differences for which no deferred tax asset is recognised in the balance sheet (2021: $nil). These relate to the Symple Loans and OctiFi business acquisition described in sections 6.10 and 6.11. The losses may be carried forward indefinitely subject to shareholding test requirements.

(d) Deferred tax assets and liabilities

	2022 $'m	2021 $'m
Deferred tax assets		
Provisions and other liabilities	**88.5**	107.7
Deferred income	**31.6**	35.5
Acquisition transaction costs	**0.7**	-
Lease liability	**8.8**	20.0
Intangible assets - software	**19.1**	11.2
Property, plant and equipment	**2.9**	1.6
Other	**4.3**	2.3
Deferred tax assets	**155.9**	178.3
Deferred tax liabilities		
Intangible assets - other	**24.3**	38.8
Deferred expenses & prepayments	**13.0**	11.5
Right-of-use assets	**9.6**	17.7
Interest rate swaps	**15.5**	-
Trust net income	**3.4**	3.9
Other	**0.5**	0.3
Deferred tax liabilities	**66.3**	72.2
Net deferred tax assets	**89.6**	106.1
Amounts expected to be settled within 12 months	**55.3**	70.9
Amounts expected to be settled after more than 12 months	**34.3**	35.2
Net deferred tax assets	**89.6**	106.1

2.3 Income tax expense and deferred tax (continued)

(e) Other tax recognised

	2022 $'m	2021 $'m
Income tax recognised in other comprehensive income:		
Cash flow hedge reserve	**15.8**	7.2
Income tax recognised directly in equity:		
Capital note issuance costs	**-**	(1.0)

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

On 17 February 2023, the following dividends were declared by the Directors.

	Cents per share	Total $m	Date of payment	Franked amount per share
Final 2022 dividend	4.00	41.6	24 April 2023	Fully franked

The following dividends were declared and paid by the Company during the current and preceding financial year:

2022	Cents per share	Total $m	Date of payment	Franked amount per share
Interim 2022 dividend	7.85	81.5	26 October 2022	Fully franked
Final 2021 dividend	7.85	81.5	22 April 2022	Fully franked

2021	Cents per share	Total $m	Date of payment	Franked amount per share
Interim 2021 dividend	7.85	78.5	14 October 2021	Unfranked

Dividend reinvestment plan

In 2022, Latitude Group Holdings Limited established a Dividend Reinvestment Plan (DRP). Eligible shareholders can elect to reinvest their entitlement in Latitude ordinary shares under the Company's Dividend Reinvestment Plan (DRP).

Shares issued under the DRP are provided through the issue of new shares and rank equally in all respects with existing fully paid Latitude ordinary shares.

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 31 December 2022 for subsequent financial years is nil (2021: $5.0 million).

2.4 Dividends and distributions (continued)

(b) Distributions payable on other equity instruments

	2022 $'m	2021 $'m
Latitude Capital Note (ASX: LFSPA)	**1.5**	1.4
	1.5	1.4

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

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	
	2022	2021	2022	2021
Earnings ($'m)				
Profit for the year attributable to owners of the Company	**37.7**	160.9	**37.7**	160.9
Net profit/(loss) from discontinued operations attributable to owners of the Company	**(21.6)**	16.3	**(21.6)**	16.3
Adjusted earnings from continuing operations attributable to owners of the Company	**59.3**	144.6	**59.3**	144.6
Weighted average number of ordinary shares (millions)				
Weighted average number of ordinary shares	**1,038.6**	902.0	**1,038.6**	902.0
Potential dilutive weighted average number of ordinary shares:				
Conversion of capital notes	-	-	**112.2**	79.1
Total weighted average number of ordinary shares	**1,038.6**	902.0	**1,150.8**	981.1
Earnings per share (cents) attributable to owners of the Company				
Earnings per share (cents)	**3.6**	17.8	**3.3**	16.4
Earnings per share (cents) from continuing operations	**5.7**	16.0	**5.2**	14.7

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 provision model was implemented in 2022 and follows a three-stage approach to measuring expected credit losses (ECLs) for loans and advances. Under this approach loans will be grouped by arrears aging and for each segment the expected loss applied to the balance. Given the short-term nature of the product, the definitions across stage 1, 2 and 3 differ from Latitude's revolving and loans products. The Group determines that a significant increase in risk occurs when an account is 7 days delinquent since origination, representing one missed payment. Exposures are assessed as credit impaired where the Group determines that an account is in default, being an account that is either 29 days or more past due or it is an account identified as bankrupt, deceased or fraudulent. 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. FLI is applied using an empirical approach combined with expert judgement to produce multiple economic scenario ECLs which are weighted to produce a final ECL at each significant reporting date.

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

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

3.1 Financial assets and liabilities (continued)

Derivative Financial Instruments

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 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.

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
2022						
Cash and cash equivalents	3.1(b)	**-**	**-**	**-**	**364.0**	**364.0**
Derivative financial instruments		**-**	**-**	**64.2**	**-**	**64.2**
Loans and other receivables	3.1(d)	**-**	**-**	**-**	**6,163.2**	**6,163.2**
Other financial assets		**1.6**	**-**	**-**	**-**	**1.6**
Total financial assets		**1.6**	**-**	**64.2**	**6,527.2**	**6,593.0**
2021						
Cash and cash equivalents	3.1(b)	-	-	-	605.7	605.7
Investments	3.1(c)	-	83.6	-	-	83.6
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	12.3	6,612.6	6,711.3

Financial liabilities	Notes	Liabilities designated FVOCI $'m	Liabilities at fair value $'m	Liabilities at amortised cost $'m	Total $'m
2022					
Trade and other liabilities	3.1(f)	**-**	**-**	**226.5**	**226.5**
Borrowings	3.1(g)	**-**	**-**	**6,085.9**	**6,085.9**
Total financial liabilities		**-**	**-**	**6,312.4**	**6,312.4**
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

3.1 Financial assets and liabilities (continued)

(b) Cash and cash equivalents

	2022 $'m	2021 $'m
Current assets		
Cash and cash equivalents	**358.3**	580.9
Hallmark short term deposits	**-**	17.9
Restricted cash [1]	**5.7**	6.9
Cash and cash equivalents	**364.0**	605.7

[1] Being cash deposited as security

(c) Investments

	2022 $'m	*2021 $'m
Investments		
Cash investments - greater than 3 months	**-**	70.0
Investments - RMBS	**-**	13.6
Investments	**-**	83.6

*Relates to discontinued operations and classified as held for sale in 2022. See note 6.7

(d) Loans and other receivables

	Notes	2022 $'m	2021 $'m
Loans and advances			
Loans and advances		**6,474.2**	6,352.1
Unearned income		**(80.6)**	(100.2)
Provision for impairment losses	3.2(f)	**(242.7)**	(271.6)
Total loans and advances		**6,150.9**	5,980.3
Other receivables			
Trade receivables		**9.6**	18.8
Other receivables		**2.7**	9.0
Total other receivables		**12.3**	27.8
Total loans and other receivables		**6,163.2**	6,008.1
Current		**3,145.9**	3,076.2
Non-current		**3,017.3**	2,931.9
Total loans and other receivables		**6,163.2**	6,008.1

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.

3.1 Financial assets and liabilities (continued)

(e) Derivatives

	2022 $'m	2021 $'m
Current derivative assets		
Interest rate swap contracts - cash flow hedges	**2.9**	-
Forward foreign exchange contracts	**3.2**	0.4
Total current derivative financial instrument assets	**6.1**	0.4
Non-current derivative assets		
Interest rate swap contracts - cash flow hedges	**58.1**	11.9
Total non-current derivative financial instruments	**58.1**	11.9
Total derivative assets	**64.2**	12.3
Non-current derivative liabilities		
Interest rate swap contracts - cash flow hedges	**-**	1.0
Total non-current derivative financial instrument liabilities	**-**	1.0
Total derivative liabilities	**-**	1.0

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.

3.1 Financial assets and liabilities (continued)

(f) Trade and other liabilities

	Notes	2022 $'m	2021 $'m
Current			
Trade and other payables		**52.2**	79.9
Accrued expenses		**37.4**	55.9
Payables to related parties	6.5(c)	**11.9**	39.4
Customer credit balances		**59.4**	55.0
Promissory note		**-**	24.0
Outstanding Insurance claims liability		**-**	7.5
Lease liability		**6.2**	10.5
Capital note distributions		**1.5**	1.4
Current trade and other liabilities		**168.6**	273.6
Non-Current			
Payables to related parties	6.5(c)	**33.2**	45.1
Outstanding Insurance claims liability		**-**	4.4
Lease liability		**24.7**	57.6
Non-current trade and other liabilities		**57.9**	107.1
Total trade and other liabilities		**226.5**	380.7

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 3.92% as at 31 December 2022 (31 December 2021: 3.79%).

(g) Borrowings

	2022			2021		
	Current $'m	Non-current $'m	Total $'m	Current $'m	Non-current $'m	Total $'m
Secured						
Securitisation liabilities	**743.2**	**5,196.2**	**5,939.4**	949.1	4,916.1	5,865.2
Total secured borrowings	**743.2**	**5,196.2**	**5,939.4**	949.1	4,916.1	5,865.2
Unsecured						
Facility agreements	**36.5**	**110.0**	**146.5**	-	-	-
Total unsecured borrowings	**36.5**	**110.0**	**146.5**	-	-	-
Total borrowings	**779.7**	**5,306.2**	**6,085.9**	949.1	4,916.1	5,865.2

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.

3.1 Financial assets and liabilities (continued)

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:

- **January:** New Zealand Sales Finance and Credit Card Warehouse was extended to 24 January 2025, maintaining current commitments of NZ$864 million. The refinance was documented in December 2021.
- **March:** Australian Sales Finance and Credit Card Warehouse was refinanced. Total commitments were reduced by $129 million to $801 million, and the scheduled amortisation date extended to 24 March 2025.
- **March:** Australian Personal Loans Series 2017-1 was redeemed on the payment date following a call date trigger in February. All noteholders were repaid in full, with the remaining balance of loans sold to the Australian Personal Loans Warehouse.
- **March:** Symple Warehouse Trust 2019-1 was extended to 31 March 2024. It was subsequently redocumented and renamed the Australian Personal Loans Trust No. 2 in September.
- **May:** Australian Personal Loans Warehouse was refinanced at its existing facility size and the scheduled amortisation date was extended to 19 May 2025.
- **August:** Australian Credit Card Master Trust Series 2017-2 was redeemed on its expected redemption date. All noteholders were repaid in full.
- **November:** Australian Auto Loans Trust was extended to 19 December 2024, with total commitments remaining at $926 million.
- **December:** Latitude agreed and documented the refinance of the New Zealand Personal Loans Trust, extending the scheduled amortisation date to 17 December 2025 with the refinance being completed on the payment date 17 January 2023.

Facility Agreements

The Group also entered into new Bilateral Facility Agreements for the following facilities:

- effective 18 March 2022 for USD $20 million single draw bullet term credit facility
- effective 17 November 2022 for SGD $30 million revolving credit facility
- effective 21 December 2022 for USD $30 million single draw bullet term credit

Transaction costs incurred to establish funding

Borrowings are shown net of capitalised transaction costs incurred to establish the funding programme. Unamortised transaction costs of $4.9 million are set off against borrowings at 31 December 2022 (31 December 2021: $8.5 million). During the year $1.8 million (31 December 2021: $5.6 million) of borrowing costs were capitalised.

3.1 Financial assets and liabilities (continued)

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 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.

(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 instruments 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.

3.1 Financial assets and liabilities (continued)

(i) Recurring fair values

	Level 1 $'m	Level 2 $'m	Level 3 $'m	Total $'m
2022				
Financial assets				
Derivative financial assets				
Derivatives used for hedging - interest rate swaps	**-**	**61.0**	**-**	**61.0**
Derivatives used for hedging - foreign exchange contracts	**-**	**3.2**	**-**	**3.2**
Other financial assets	**-**	**-**	**1.6**	**1.6**
Total financial assets	**-**	**64.2**	**1.6**	**65.8**

	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
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	-	97.1	1.6	98.7
Financial liabilities				
Derivative financial liabilities				
Derivatives used for hedging - interest rate swaps	-	1.0	-	1.0
Total financial liabilities	**-**	1.0	-	1.0

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.

(j) Level 3 fair values

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

	2022 $'m	2021 $'m
Other financial assets:		
Balance 1 January	**1.6**	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 a Board approved Risk Appetite Statement, approved strategies and policies and operating procedures that establish appropriate limits and controls to monitor and manage the Group's level of risk exposure. Management committees supporting risk governance include an Enterprise Risk Management Committee, which manages strategic, credit, fraud, operational and regulatory risks, and an Asset and Liability Committee, which manages funding, liquidity and market risks A 'three-lines' of defence model is operated to comply with the Group's 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.

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.

3.2 Financial risk management (continued)

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	7,332.6	-	-	2.3	**7,334.9**
Low risk	477.8	-	-	0.5	**478.3**
Medium risk	161.1	-	-	0.2	**161.3**
Moderate risk	23.7	-	-	0.1	**23.8**
High risk	2.9	-	-	-	**2.9**
2022	**7,998.1**	**-**	**-**	**3.1**	**8,001.2**
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

^POCI: Purchased or Originated Credit Impaired

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	2,485.0	3.9	-	1.7	**2,490.6**
Low risk	1,703.5	10.0	-	2.3	**1,715.8**
Medium risk	1,176.4	18.2	-	1.8	**1,196.4**
Moderate risk	335.9	17.8	-	0.7	**354.4**
High risk	335.1	164.3	189.4	4.4	**693.2**
Unrated	19.4	2.8	1.6	-	**23.8**
2022	**6,055.3**	**217.0**	**191.0**	**10.9**	**6,474.2**

^POCI: Purchased or Originated Credit Impaired

	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

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	2022 $'m	2021 $'m
Neither past due or impaired (not POCI^)	5,633.2	5,541.2
Past due but not impaired (not POCI^)	639.1	574.8
Impaired (not POCI^)	191.0	221.8
POCI^	10.9	14.3
Total	**6,474.2**	6,352.1

^POCI: Purchased or Originated Credit Impaired

(d) Loans and advances aging

Gross loans and advances	2022 $'m	2021 $'m
Current	5,759.2	5,699.3
Past due 1-29 days	543.5	504.5
Past due 30-89 days	127.3	105.2
Past due > 90 days	44.2	43.1
Total	**6,474.2**	6,352.1

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

	2022 $'m	2021 $'m
Cash and cash equivalents		
Investment grade (credit rating range A-2 to A-1+)	**364.0**	605.7
Investments		
Investment grade (credit rating range A-1+ to AAA)	**-**	83.6
Derivative financial assets		
Investment grade (credit rating AA-)	**64.2**	12.3

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 2022	**196.3**	**13.1**	**60.8**	**1.4**	**271.6**
Effects of exchange rate on translation	(0.2)	-	(0.1)	-	(0.3)
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	43.4	1.5	3.5	-	48.4
ii) derecognition of financial instruments during the reporting period	(22.4)	(2.6)	(13.6)	(0.1)	(38.7)
iii) change in balance during reporting period	(11.6)	(0.2)	(2.6)	(0.1)	(14.5)
iv) transfers between stages	(2.7)	2.2	8.6	-	8.1
Net remeasurement of loss allowance	(6.7)	0.2	6.1	0.1	(0.3)
Net change in overlays and other	(18.7)	(2.0)	(10.4)	(0.5)	(31.6)
At 31 December 2022	**177.4**	**12.2**	**52.3**	**0.8**	**242.7**
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
Net remeasurement of loss allowance	(21.5)	(0.8)	(1.8)	-	(24.1)
Net change in overlays and other	8.1	-	3.5	-	11.6
At 31 December 2021	**196.3**	**13.1**	**60.8**	**1.4**	**271.6**

^POCI: Purchased or Originated Credit Impaired

3.2 Financial risk management (continued)

The Group's total provision for impairment losses decreased $28.9 million between 31 December 2021 and 31 December 2022 ($271.6 million to $242.7 million) and the coverage ratio decreased by 53bps (4.28% at December 2021 to 3.75% at December 2022). The application of model risk overlays is used to offset a number of inherent model risks.

A consistent approach has been applied to the following model risk overlays held by the Group in December 2022, compared to the equivalent overlays applied 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) $29.1 million; and
- 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 $3.1 million.

The following updates have been made to the model risk overlays held by the Group for the December 2022 reporting period:

- The removal of the 'COVID normalisation' overlay held by the Group in 2021, which was calculated looking at the year-on-year change in the core model coverage or the prior 12-month period ($52.7) million;
- An economic overlay to cater for forward looking impacts and uncertainty that are not easily modelled, comprised of two components: analysis leveraging alternative variables to calculate change in probability-of-default adjustments $1.3 million, and sensitivity on staging taking into consideration the potential impacts to hardship and delinquency from the changing economic outlook $13.8 million.

The Group applied the below scenario weightings as part of the 31 December 2022 financial period:

Scenario	Weighting 2022	Weighting 2021
Scenario One – Upside A 100% weighting to this scenario would result in a decrease to the total ECL provision at the reporting date of $10.3 million	5%	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 $4.5 million	55%	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 $7.4 million	40%	40%

The Group applies inflation, GDP, unemployment rate, retail sales, 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:

	2022 $'m	*2021 $'m
Recognised in profit or loss		
Movement in provision on loans and advances	**27.5**	32.7
Net impairment loss on loans and advances	**(147.0)**	(148.7)
Losses recognised in relation to loans and advances	**(119.5)**	(116.0)

*Comparative information has been restated for discontinued operations (refer to note 6.7).

Enforcement activity

Loans and advances with a contractual amount of $62.3 million (2021: $63.7 million) written off during the year and still subject to enforcement activity.

Collateral

(h) Collateral held

	2022	2021
Maximum exposure ($'m)	**6,484.7**	6,352.1
Collateral classification:		
Secured (%)	**19.9**	20.5
Unsecured (%)	**80.1**	79.5

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 2022 (2021: $nil).

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, SGD and MYR). Additional exposure arises from transactions denominated in non-functional currencies, such as US$ debt and 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

	2022 $'m	2021 $'m
Net open position - US Dollar	**0.9**	3.2

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:

	2022 $'m	2021 $'m
Recognised in profit or loss		
Net foreign exchange gain/(loss) included in other operating income	**2.9**	1.1
Recognised in other comprehensive income		
Translation of entities with a non-Australian denominated functional currency recognised in foreign currency translation reserve	**6.1**	5.6

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	
	2022	2021	2022	2021
Index	$'m	$'m	$'m	$'m
USD/AUD exchange rate - increase 10%	**0.1**	0.2	**-**	
USD/AUD exchange rate - decrease 10%	**(0.1)**	(0.2)	**-**	
NZD/AUD exchange rate - increase 10%	**-**	-	**9.1**	10.7
NZD/AUD exchange rate - decrease 10%	**-**	-	**(9.1)**	(10.7)
SGD/AUD exchange rate - increase 10%	**-**	-	**3.0**	3.3
SGD/AUD exchange rate - decrease 10%	**-**	-	**(3.0)**	(3.3)
CAD/AUD exchange rate - increase 10%			**0.7**	1.0
CAD/AUD exchange rate - decrease 10%	-	-	**(0.7)**	(1.0)
MYR/AUD exchange rate - increase 10%			**(0.1)**	-
MYR/AUD exchange rate - decrease 10%	-	-	**0.1**	-

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 and auto 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 over 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. Additional swaps are in place to cover a portion of the floating rate securitisation liabilities relating to interest free instalment products sold into securitisation trusts. 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:

	2022 $'m	2021 $'m
Variable rate borrowings	**6,080.4**	5,868.0
	6,080.4	5,868.0

(m) Interest rate swaps

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

	2022		2021	
	Weighted average interest rate %	Balance $'m	Weighted average interest rate %	Balance $'m
Interest rate swaps (nominal amount)	**1.76%**	**2,309.5**	0.65%	2,314.4

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
2022			
Interest rate risk			
Variable rate borrowings	**50.0**	**43.0**	**-**
Discontinued hedges [(1)]	**-**	**-**	**(0.2)**
2021			
Interest rate risk			
Variable rate borrowings	23.5	8.5	-
Discontinued hedges [(1)]	-	-	(1.7)

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

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
2022						
Interest rate risk						
Interest rate swaps	**2,309.5**	**61.0**	**0.0**	**50.3**	**(0.3)**	**-**
Discontinued hedges [(1)]	**-**	**-**	**-**	**-**	**-**	**2.1**
2021						
Interest rate risk						
Interest rate swaps	2,314.4	11.9	1.0	23.0	0.5	-
Discontinued hedges [(1)]	-	-	-	-	-	6.3

[(1)] A number of hedge relationships were discontinued in 2019 in order to rebase the economics of the fixed rate portfolios of the Group. Gains 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 consolidated statement of other comprehensive income.

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

	Hedged risk	Continuing hedges $'m	Discontinued hedges $'m	Total $'m
2022				
Cash flow hedges				
Variable rate borrowings	Interest rate	**43.0**	**(0.2)**	**42.8**
2021				
Cash flow hedges				
Variable rate borrowings	Interest rate	8.5	(1.7)	6.8

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:

	2022 $'m	2021 $'m
Recognised in profit or loss		
Net gain/(loss) for ineffective portion of derivatives designated as cash flow hedges	**(0.3)**	0.5
Recognised in other comprehensive income		
Gain/(loss) recognised in other comprehensive income	**34.5**	15.8

Sensitivity

(r) Sensitivity to changes in interest rates

	Impact on pre-tax profit		Impact on other components of equity	
	2022 $'m	2021 $'m	2022 $'m	2021 $'m
Interest rates - increase by 100 basis points - Increase/(decrease) in profit	**(14.1)**	(11.8)	**29.4**	30.6
Interest rates - decrease by 100 basis points - Increase/(decrease) in profit	**14.1**	11.8	**(30.2)**	(31.4)

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.

(s) Undrawn facilities

Financing arrangements – Corporate facilities

The Group has an existing syndicated facility agreement for the following lines of credit:

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

As at 31 December 2022, $110.8 million of the Facility A was utilised to finance bank guarantees and to support operational liquidity. $49.2 million of Facility A remained undrawn.

Since its establishment, Facility B has been utilised to refinance existing letters of credit provided as collateral for access to Schemes. US$3.1 million of Facility B remained undrawn.

The Group also entered into new Bilateral Facility Agreements for the following lines of credit:

- effective 18 March 2022, for USD $20 million single draw bullet term credit facility. As at 31 December 2022 the facility was fully drawn.
- effective 17 November 2022, for SGD $30 million revolving credit facility. As at 31 December 2022, SGD $5.0 million was utilised and SGD $25.0 million of facility remained undrawn.
- effective 21 December 2022, for USD $30 million single draw bullet term credit facility. As at 31 December 2022 the facility remained undrawn.

Financing arrangements – Securitisation facilities

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:

Floating rate	2022 $'m	2021 $'m
Borrowing facilities available	**7,280.7**	8,222.9
Drawn facilities	**(5,937.9)**	(5,868.0)
Undrawn facilities	**1,342.8**	2,354.9

3.2 Financial risk management (continued)

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.

(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
2022							
Non-derivatives							
Borrowings – Securitisation liabilities	**384.1**	**491.9**	**1,048.7**	**4,916.0**	**-**	**6,840.7**	**5,939.4**
Borrowings – facility agreements	**35.6**	**9.8**	**112.4**	**-**	**-**	**157.8**	**146.5**
Trade and other liabilities	**154.8**	**15.6**	**23.5**	**29.8**	**7.3**	**231.0**	**226.5**
Total non-derivatives	**574.5**	**517.3**	**1,184.6**	**4,945.8**	**7.3**	**7,229.5**	**6,312.4**
2021							
Non-derivatives							
Borrowings – Securitisation liabilities	312.4	440.8	1,605.3	3,683.0	2.3	6,043.8	5,865.2
Trade and other liabilities	262.5	19.3	25.1	65.5	18.6	391.0	380.7
Total non-derivatives	574.9	460.1	1,630.4	3,748.5	20.9	6,434.8	6,245.9
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

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 Group’s capital position and material actions required to manage the capital position are submitted to the Board for approval.

(a) Contributed equity

	2022 Number of shares million	2021 Number of shares million	2022 $'m	2021 $'m
Issued and paid-up ordinary share capital				
Ordinary Shares - fully paid	**1,039.2**	1,038.5	**2,088.2**	2,087.2
Equity raising transaction costs	**-**	-	**(13.2)**	(13.2)
Total ordinary share capital	**1,039.2**	1,038.5	**2,075.0**	2,074.0

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.

4.1 Capital Management (continued)

Reconciliation of movement in ordinary shares

	Notes	Number of shares million	$'m
Balance at 1 January 2021		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
Shares issued - dividend reinvestment plan		0.7	1.0
Balance at 31 December 2022		1,039.2	2,075.0

	2022 Number of securities million	2021 Number of securities million	2022 $'m	2021 $'m
Other contributed equity				
Capital notes				
Latitude Capital Note LFSPA	**1.5**	**1.5**	**150.0**	150.0
Less: Equity raising transaction costs			**(4.0)**	(4.0)
Deferred tax recognised directly in equity			**1.0**	*1.0*
Total other contributed equity	**1.5**	1.5	**147.0**	147.0
Total contributed equity			**2,222.0**	2,221.0

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 dividends can be paid while accrued capital note distributions remain unpaid.

4.1 Capital Management (continued)

(b) Reserves

	2022 $'m	2021 $'m
Cash flow hedge reserve		
At 1 January	**6.8**	(15.4)
Fair value gains/(losses)	**50.3**	23.0
Income taxes on fair value gains/(losses)	**(15.8)**	(5.4)
Amounts transferred to income statement	**2.1**	6.3
Income taxes on amounts transferred to income statement	**(0.6)**	(1.7)
At 31 December	**42.8**	6.8
Share-based payment reserve		
At 1 January	**40.7**	36.7
Employee share plan movement	**3.8**	4.0
At 31 December	**44.5**	40.7
Other reserve		
At 1 January	**(12.7)**	(14.0)
Issued equity instruments	**-**	1.3
At 31 December	**(12.7)**	(12.7)
Foreign currency translation reserve		
At 1 January	**5.9**	0.3
Currency translation differences arising during the year	**0.2**	5.6
At 31 December	**6.1**	5.9
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	**(705.5)**	(681.2)
Net change in fair value of common control reserve	**-**	(24.3)
At 31 December	**(705.5)**	(705.5)
Total reserves	**(627.2)**	(667.2)

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.

4.1 Capital Management (continued)

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)

	2022 $'m	2021 $'m
At 1 January	**7.2**	(73.8)
Net profit for the year - attributable to owners	**37.7**	160.9
Amounts transferred from reserves	**0.9**	-
Ordinary share dividends	**(163.0)**	(78.5)
Capital note distributions	**(6.2)**	(1.4)
At 31 December	**(123.4)**	7.2

4.2 Capital and contractual commitment maturities

(a) Non-cancellable operating leases

	2022 $'m	2021 $'m
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	**8.1**	14.3
Later than one year but not later than five years	**20.1**	45.4
Later than five years	**7.3**	18.6
Commitments for minimum lease payments in relation to non-cancellable operating leases	**35.5**	78.3

The decrease in commitments for minimum lease payments is due to the relocation of the registered place of business in 2022.

	2022 $'m	2021 $'m
Rental expense relating to operating leases:		
Minimum lease payments	**13.7**	16.0

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

	2022 $'m	2021 $'m
Commitment to extend credit	**8,001.2**	8,566.8
Capital commitments	**1.7**	4.1
Other commitments	**8,002.9**	8,570.9

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

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Notes to the Financial Statements

For the year ended 31 December 2022

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 a 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

5.1 Other Assets and Liabilities (continued)

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.

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

5.1 Other Assets and Liabilities (continued)

settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small. Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

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.

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 2022						
Cost	6.5	10.4	92.9	0.8	0.7	111.3
Accumulation 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 2022						
Opening net book amount	2.9	6.0	59.3	0.3	0.7	69.2
Effects of exchange rate differences on translation of foreign operations	-	-	(0.1)	-	-	(0.1)
Additions	0.6	-	5.5	-	-	6.1
Disposals[1]	-	-	(26.3)	(0.1)	-	(26.4)
Depreciation charge	(1.2)	(1.1)	(10.8)	(0.2)	(0.3)	(13.6)
Impairment loss	(1.2)	(0.4)	-	-	-	(1.6)
Closing net book amount	1.1	4.5	27.6	-	0.4	33.6
At 31 December 2022						
Cost	4.7	9.0	48.2	0.5	0.7	63.1
Accumulated depreciation	(3.6)	(4.5)	(20.6)	(0.5)	(0.3)	(29.5)
Net book amount	**1.1**	**4.5**	**27.6**	**-**	**0.4**	**33.6**
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**

[1] During the year end 31 December 2022, $50 million of ROU lease assets disposed and $23.7 million related accumulated depreciation on disposal as a result of the change in registered place of business.

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Notes to the Financial Statements

For the year ended 31 December 2022

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 2022							
Cost	738.1	161.5	267.3	194.0	62.3	0.5	1,423.7
Accumulation 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 2022							
Opening net book amount	738.1	49.3	80.9	117.1	62.3	0.2	1,047.9
Effects of exchange rate differences on translation of foreign operations	(0.1)	-	-	0.1	(0.1)	-	(0.1)
Additions	3.9	0.5	1.3	2.1	24.3	-	32.1
Amortisation charge	-	(18.4)	(32.0)	(45.2)	-	(0.1)	(95.7)
Impairment loss[1]	(13.6)	-	-	(15.5)	(5.8)	-	(34.9)
Transfers	-	-	-	63.3	(63.3)	-	-
Closing net book amount	728.3	31.4	50.2	121.9	17.4	0.1	949.3
At 31 December 2022							
Cost	728.3	162.0	264.9	199.7	17.4	0.5	1,372.8
Accumulated amortisation	-	(130.6)	(214.7)	(77.8)	-	(0.4)	(423.5)
Net book amount	**728.3**	**31.4**	**50.2**	**121.9**	**17.4**	**0.1**	**949.3**
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 [2]	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**

[1] Refer to section 6.7(a)

[2] The value of goodwill recognised in relation to business combinations - refer to sections 6.10(a) & 6.11(a)

Distribution agreements and customer contracts recognised as part of a business combination in 2015 have remaining amortisation periods of 2 years in Australia and are fully amortised in New Zealand at 31 December 2022 (31 December 2021: 3 years in Australia and 1 year in New Zealand).

5.1 Other Assets and Liabilities (continued)

(c) Impairment testing for cash-generating units containing goodwill

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).

For the purposes of impairment testing, intangible assets are allocated to the Group's CGUs. These represent the lowest level within the Latitude Group at which the assets are monitored for internal management purposes. Each CGU is not higher than the Group's operating segments as reported in Note 2.1.

During the year, the Group changed its reportable segments following the completion of the restructure of the Group into its new business units. For the purposes of goodwill impairment testing, these changes led to the creation of the CGUs of Pay A&NZ, Money A&NZ and International and the reallocation of the historical goodwill balances to these CGUs.

$'m	Australia	New Zealand	Hallmark Insurance	Pay A&NZ	Money A&NZ	International	Provisonal goodwill[1]	Consolidated
Balance as at 31 December 2021	**396.1**	**112.0**	**13.6**	**-**	**-**	**-**	**216.4**	**738.1**
Reallocation of goodwill	(396.1)	(108.0)	-	296.4	207.7	-	-	-
Recognition on Acquisitions[1]	-	-	-	-	201.5	14.9	(216.4)	-
Purchase price accounting adjustments [2]	-	-	-	-	(1.9)	5.8	-	3.9
Impairment[3]	-	-	(13.6)	-	-	-	-	(13.6)
Effect of movements in foreign currency exchange[4]	-	(4.0)	-	-	2.8	1.1	-	(0.1)
Balance as at 31 December 2022	**-**	**-**	**-**	**296.4**	**410.1**	**21.8**	**-**	**728.3**

(1) The value of goodwill recognised in relation to the business combinations included in sections 6.10(a) & 6.11(a).

(2) Purchase Price Accounting adjustments for business acquisitions in sections 6.10(a) & 6.11(a).

(3) Goodwill was impaired in 2022, refer to section 6.7(a).

(4) Goodwill fluctuations occur as a result of foreign exchange rate movements.

5.1 Other Assets and Liabilities (continued)

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

Cash flows used in the value-in-use calculations are based on forecasts produced by management which have been approved by the Board. The Directors consider these forecasts to reflect the best estimates of revenue based on historical results, strategic initiatives, forecasts and facts and circumstances available as at 31 December 2022.

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:

	Pre-tax discount rate	Terminal growth rate	Average revenue growth rate applied from years 1 - 5
	%	%	%
2022			
Pay A&NZ	17.1	2.5	8.5
Money A&NZ	18.6	2.5	12.2
International	20.6	2.5	304.7
2021			
Australia	16.9	3.6	11.2
New Zealand	16.6	3.2	7.0
Insurance	16.0	3.0	6.9

(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 CGUs to exceed their respective recoverable amounts for Pay A&NZ and Money A&NZ.

Management have identified that, in relation to the International CGU, a change in two current assumptions could cause the carrying amount to exceed the recoverable amount.

	International
	$m
Carrying value	27.4
Recoverable amount	35.2
Excess over recoverable amount	**7.8**

The following table shows the amount by which these assumptions would need to change individually, (keeping other factors consistent) for the estimated recoverable amount to be equal to the carrying amount.

	International
	2022
	Basis points
Change required for carrying amount to equal recoverable amount:	
Pre-tax discount rate	200
Average revenue growth rate applied from years 1-5	(370)

5.1 Other Assets and Liabilities (continued)

(f) Provisions

			2022			2021
	Current $'m	Non-Current $'m	Total $'m	Current $'m	Non-current $'m	Total $'m
Leave obligations	**17.7**	**1.2**	**18.9**	20.3	1.5	21.8
Other employee benefit obligations	**5.9**	**-**	**5.9**	27.0	-	27.0
Total employee benefit obligations	**23.6**	**1.2**	**24.8**	47.3	1.5	48.8
Customer remediation and other provisions	**21.4**	**2.1**	**23.5**	23.6	2.1	25.7
Total provisions	**45.0**	**3.3**	**48.3**	70.9	3.6	74.5

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.

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Notes to the Financial Statements
For the year ended 31 December 2022

Section 6 | Other Disclosures

6.1 Interests in other entities

(a) Controlled entities

Name of entity^	Ownership: Group 2022 %	Ownership: Group 2021 %	Ownership: NCI 2022 %	Ownership: NCI 2021 %	Principal activities
Country of incorporation - Australia:					
Latitude Financial Group 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
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 IP Pty Ltd [(1)]	**100**	100	-	-	Intellectual property
Australian Sales Finance and Credit Cards Trust [(2)]	**100**	100	-	-	Securitisation of receivables
Australian Personal Loans Trust [(2)]	**100**	100	-	-	Securitisation of receivables
Australian Auto Loans Trust [(2)]	**100**	100	-	-	Securitisation of receivables
Australian Sales Finance and Credit Cards Trust No.3 [(2)]	**100**	100	-	-	Securitisation of receivables
Latitude Australia Credit Card Master Trust [(2)]	**100**	100	-	-	Securitisation of receivables
Latitude Australia Credit Card Loan Note Trust [(2)]	**100**	100	-	-	Securitisation of receivables
Latitude Australia Personal Loans Series 2017-1 Trust [(2)]	**-**	100	-	-	Securitisation of receivables
Latitude Australia Personal Loans Series 2020-1 Trust [(2)]	**100**	100	-	-	Securitisation of receivables
Latitude Australia Personal Loans Series 2021-1 Trust	**100**	100	-	-	Securitisation of receivables
Australian Personal Loans Trust No. 2	**100**	100	-	-	Securitisation of receivables
Symple Financial Group Pty Limited [(1)]	**100**	100	-	-	Holding company
Symple Loans Pty Limited [(1)]	**100**	100	-	-	Personal lending
Symple Canada Holdings Pty Limited [(1)]	**100**	100	-	-	Holding company
Country of incorporation - Canada:					
Symple Canada Financial Group Limited	**100**	100	-	-	Personal lending
Country of incorporation - New Zealand:					
Latitude Financial Services Limited	**100**	100	-	-	Operating/lending company
New Zealand Sales Finance and Credit Cards Trust	**100**	100	-	-	Securitisation of receivables
New Zealand Personal Loans Trust	**100**	100	-	-	Securitisation of receivables
Latitude New Zealand Credit Card Master Trust	**100**	100	-	-	Securitisation of receivables
Latitude Innovation Holdings Limited	**100**	100	-	-	Payment platform
Country of incorporation - Singapore:					
Latitude Financial International Pte. Ltd	**100**	100	-	-	Holding company
Latitudepay Singapore Pte Ltd	**85**	85	**15**	15	Factoring/BNPL lending
Latitude AM Pte. Ltd	**100**	100	-	-	Non trading
Country of incorporation - Malaysia:					
LatitudePay Malaysia Sdn. Bhd.	**100**	100	-	-	Factoring/BNPL 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 2022.
[(2)] 2021 ownership deemed by Common Control Accounting (refer section 1.2).
^ During 2022, the following six entities were de-registered and therefore no longer form part of the Group: Latitude Investment Holdings Pty Ltd, Latitude Investment Holdings No.1 Pty Ltd, KVD Treasury Pty Ltd, Latitude Financial Services JV Holdco Pty Ltd, KVD Australia Insurance Holdco Pty Ltd and Latitude Financial Group Limited.

6.1 Interests in other entities (continued)

(b) 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) 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.

<table>
<tr><th>Feature</th><th>Key Terms of Restricted Shares (STI Shares) granted under the LEP</th></tr>
<tr><td>Eligibility</td><td>Managing Director & CEO and other eligible executives as approved by the Board, who are awarded an STI outcome.
An Executive Director may participate in the LEP.
Non-Executive Directors are not eligible to participate in the LEP.</td></tr>
<tr><td>Offer</td><td>The number of restricted shares (STI Shares) is a proportion of the participant's STI outcome, divided by the 5-day Volume Weighted Average Price (VWAP) from the second trading day following the release of the full year results.
<table>
<tr><th>STI Plan</th><th>Proportion of STI outcome delivered as STI Shares</th></tr>
<tr><td>2021 STI</td><td>33.33%</td></tr>
<tr><td>2022 STI</td><td>50%</td></tr>
</table></td></tr>
<tr><td>Grant</td><td>During or after March following the results announcement: the proportion of each participant's STI awarded is delivered as STI Shares that are purchased on market.
<table>
<tr><th>STI Plan</th><th>Grant Date</th><th>Grant Price (5 Day VWAP)</th><th>VWAP Period</th></tr>
<tr><td>2021 STI</td><td>30 March 2022</td><td>$1.998468</td><td>22-28 February 2022</td></tr>
<tr><td>2022 STI</td><td colspan="3">n/a (no grant to be made)</td></tr>
</table></td></tr>
<tr><td>Restriction Period</td><td>Approximately one year: 50% of STI Shares are released from restriction following the announcement of the next financial year's results.
Approximately two years following: the remaining 50% of STI Shares are released from restriction following the announcement of that year's results.</td></tr>
</table>

6.2 Share-based payments (continued)

<table>
<tr><td>Treatment of STI Shares during Restriction Period</td><td>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.</td></tr>
<tr><td>Restrictions on dealing</td><td>STI Shares rank equally with other Shares and participants have dividend and voting rights including while subject to the restriction 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 date, the disposal restrictions cease and Shares are held subject to restrictions under the Share Trading Policy.</td></tr>
</table>

<table>
<tr><th>Feature</th><th>Key terms of LTI Performance Rights granted under the LEP</th></tr>
<tr><td>Eligibility</td><td>Managing Director & CEO, eligible Executive KMP and selected Senior Leaders as approved by the Board.</td></tr>
<tr><td>Performance period</td><td>Three years
<table>
<tr><th>LTI Plan</th><th>Performance Period</th></tr>
<tr><td>2021 LTI</td><td>1 January 2021 to 31 December 2023</td></tr>
<tr><td>2022 LTI</td><td>1 January 2022 to 31 December 2024</td></tr>
</table></td></tr>
<tr><td>Offer</td><td>• 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.</td></tr>
<tr><td>Grants</td><td>The number of Performance Rights granted was calculated based on a 5-day VWAP from the second trading day following the release of either the full year or half year results prior to the grant date (unless otherwise indicated). The following grants have been made:
<table>
<tr><th>LTI Plan</th><th>Grant Date</th><th>Grant Price (5 Day VWAP)</th><th>VWAP Period</th></tr>
<tr><td rowspan="2">2021</td><td>29 April 2021</td><td>$2.517250</td><td>22-28 April 2021 (aligned to Latitude’s initial trading period on the ASX)</td></tr>
<tr><td>29 October 2021</td><td>$2.343965</td><td>25-31 August 2021</td></tr>
<tr><td rowspan="2">2022</td><td>28 April 2022</td><td>$1.998468</td><td>22-28 February 2022</td></tr>
<tr><td>27 October 2022</td><td>$1.462056</td><td>22-26 August 2022</td></tr>
</table></td></tr>
</table>

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.
Cessation of employment
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.
• In 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 full-year results for the final year of the three year Performance Period, 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</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 LTI outcome will be reported in the Remuneration Report in the year following the end of the Performance Period.
</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>

6.2 Share-based payments (continued)

LEP STI Shares movements:

	2022 Number	2021 Number
Balance at 1 January	-	-
Granted	632,879	-
Restricted balance at 31 December 2022	**632,879**	**-**

LEP Share Rights movements:

	2022 Number	2021 Number
Outstanding at 1 January	2,133,626	-
Granted	3,106,619	2,133,626
Forfeited	(112,597)	-
Outstanding closing balance at 31 December	**5,127,648**	**2,133,626**
Exercisable at 31 December		**-**

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

	Grant date 28 April 2022	Grant date 27 October 2022	Grant date 29 April 2021	Grant date 29 October 2021
Contractual life (years)	2.5	2	2	2
Risk free interest rate (%)	2.63	3.40	0.59	0.59
Fair value at grant date ($)	1.49	0.98	0.38	0.35
Share closing price at grant date ($)	1.84	1.26	2.52	2.34
Expected dividend yield per annum (%)	8.54	12.47	6.24	6.70
Expected volatility of share price (%)	34.95	36.39	25.78	25.78

The total expense recognised in the profit and loss for the year ended 31 December 2022 in respect of LEP was $2.2 million (31 December 2021: $3.3 million).

(ii) 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.

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).

The April 2021 grant is detailed in the 2021 Annual Report and continues under restriction until April 2024. No further grants were made under the ESAP in 2022, and no KMP have participated in the Employee Gift Offer.

6.2 Share-based payments (continued)

(iii) 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'). 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.

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

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 2022, 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.

6.3 Contingent liabilities and contingent assets (continued)

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, advertising and distribution, interest and fees and the entitlement to charge them, customer remediation and insurance distribution. On 5 October 2022, ASIC commenced civil proceedings against Latitude and Harvey Norman regarding alleged misleading advertising of Latitude GO Mastercard®. Latitude filed its concise statement in response on 20 December 2022.

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 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. One of these matters relates to the pre-IPO corporate 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. In March 2022, as a follow up to that review, the ATO notified the Australian Tax Group that it would be carrying out a Next Actions Risk Review and subsequently issued a request for information ('RFI') in May 2022. The RFI centred on the transfer pricing of the transaction fees charged to the Group when it was acquired. The requested information was provided to the ATO in October 2022 and management now awaits the ATO's response. Accordingly, any potential outcomes and total costs associated with any such activities remain uncertain at this time.

The Australian Tax Group is also currently subject to a GST Risk Review by the ATO which commenced in November 2021 and a draft report was issued in May 2022 which raised a number of matters that the ATO required further clarification on. Discussions with the ATO have continued since that time and the matters currently remain open. As such any potential outcomes and total costs associated with any such activities remain uncertain at this time.

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

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 the IPO, 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.

(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.

	2022 $'thousands	2021 $'thousands
At 1 January	-	885,509
Effects of exchange rate on translation of foreign operations	-	(2,388)
Loan repayments made	-	-
Interest paid	-	(1,443)
Settlement of loan on restructure (conversion to equity)	-	(881,678)
At 31 December	-	-

(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.

6.5 Related party transactions (continued)

(i) Compensation

	2022 $'thousands	2021 $'thousands
Short-term employee benefits	**6,922**	10,365
Long-term benefits	**182**	63
Post-employment benefits	**261**	252
Termination benefits	**877**	188
Share based payments	**3,164**	2,837
	11,406	13,706

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

	2022 $'thousands	2021 $'thousands
At 1 January	**25,942**	24,339
Granted	**3,164**	1,603
Plan modification	**-**	-
Equity adjustments	**-**	-
At 31 December	**29,106**	25,942

(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.

	2022 $'thousands	2021 $'thousands
Outstanding balances at 31 December	**44**	53
Total available credit facility during the period	**209**	268
Maximum drawn amount during the period	**108**	103

6.5 Related party transactions (continued)

(c) Other transactions and outstanding balances

Other transactions paid	2022 $'thousands	2021 $'thousands
Ordinary share dividends paid	**163,038**	78,500
Capital note distribution paid	**6,154**	-
Deferred consideration paid to selling shareholders	**39,417**	-
Interest paid to shareholder	**596**	-

Outstanding balances	2022 $'thousands	2021 $'thousands
Payable to selling shareholders	**(45,090)**	(84,507)
Capital note distribution payable	**(1,477)**	(1,387)
Interest payable to shareholder	**(531)**	-

6.6 Remuneration of auditor

(a) Remuneration to KPMG

	2022 $	2021 $
Audit and other assurance services		
Audit and review of financial statements	**1,417,500**	1,402,500
Regulatory assurance services	**220,000**	220,000
Other assurance services	**192,000**	179,500
Total remuneration for audit and other assurance services	**1,829,500**	1,802,000
Other services		
Transaction and other advisory services [1]	**882,000**	761,000
Total remuneration for other services	**882,000**	761,000
Total remuneration of KPMG	**2,711,500**	2,563,000
Total auditor's remuneration	**2,711,500**	2,563,000

[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.

6.7 Discontinued operations

Accounting Policy

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.

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.

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

6.7 Discontinued operations (continued)

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.

(a) Description

During the period the Group undertook a strategic review of the future ownership of the insurance operations (Latitude Insurance Holdings Pty Ltd and its subsidiaries). A transaction was announced to the ASX on 8 August 2022 and will allow Latitude to redeploy capital into its core business, simplify its business model, reduce costs, streamline technology, and further optimise shareholder returns. As part of this transaction, residual insurance goodwill of $13.6m was written down to zero. Until transaction settlement the operations have been re-classified as discontinuing operations in accordance with applicable accounting standards.

In addition, the Group has also undertaken a strategic review of the future ownership of Symple Canada Financial Group Ltd (Symple Canada), including exploring potential opportunities for the sale of Symple Canada. As such the ongoing operations of Symple Canada have been designated as available for sale and re-classified as discontinuing operations in accordance with applicable accounting standards.

The Insurance business and Symple Canada were not previously classified as held-for-sale or as a discontinued operation. Revenue and expenses, gains and losses relating to the discontinuation of these activities have been removed from the results of continuing operations and are shown as a single line on the face of the consolidated income statement (“net result from discontinued operations”). The operating results of the discontinued operations and the effect of remeasurement and disposal of assets that were classified as held for sale were as follows:

6.7 Discontinued operations (continued)

(b) Financial performance

	Notes	2022 $'m	2021 $'m
Revenue		**19.6**	30.5
Expenses		**(30.3)**	(9.3)
Asset impairment recognised		**(13.6)**	-
Income tax (expense)/benefit	2.3(a)	**2.7**	(4.9)
Profit/(loss) after income tax of discontinued operations		**(21.6)**	16.3
Net profit/(loss) after tax for the period from discontinued operations attributable to owners of the Group		**(21.6)**	16.3
Profit/(loss) after income tax of discontinued operation		**(21.6)**	16.3

(c) Assets and liabilities classified as held for sale

	Notes	2022 $'m
Cash and cash equivalents		116.7
Loans and other receivables		12.0
Debt investments		19.2
Other assets		1.4
Total assets of disposal group held for sale		**149.3**
Other assets held for sale		0.2
Total assets held for sale		**149.5**
Liabilities associated with assets of disposal group as held for sale		
Trade and other liabilities		8.9
Gross insurance policy liabilities		8.6
Provisions		1.7
Total liabilities held for sale		**19.2**

(d) Cashflow statement

	Notes	2022 $'m
Net cash used in operating activities		**(15.1)**
Net cash provided by investing activities		**76.7**
Net cash flow for the year		**61.6**

(e) Earnings per share for discontinued operations

	Notes	2022	2021
Earnings/(loss) per share for loss attributable to the ordinary equity holders of the Company - Discontinued operations		**Cents**	**Cents**
Earnings/(loss) per share	2.5	(2.1)	1.8
Diluted earnings/(loss) per share	2.5	(1.9)	1.7

6.7 Discontinued operations (continued)

(f) 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:

(i) Basis of preparation

The effective date of the actuarial report on policy liabilities and capital requirements is 31 December 2022. 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.

6.7 Discontinued operations (continued)

(f) 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 (2021: Accumulation)	Claims (implied)
Disability and involuntary unemployment income	Accumulation (2021: 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.

(ii) 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 3.27% (2021: 0.07%), New Zealand 4.65% (2021: 0.97%)

5 years: Australia 3.70% (2021: 1.34%), New Zealand 4.48% (2021: 2.19%)

(ii) Inflation rates

Allowance for future inflation:

Australia 2.5%. (2021: 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% (2021: 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 2023 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 2021.

6.7 Discontinued operations (continued)

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

(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 claim termination rate, average claim size (Disability = NZ$2,685 Unemployment = NZ$2,343 for accident year 2022), a claims handling expense rate of 7.14% of the projected gross claim payments (based on expense investigation) and a discount rate of 5% (based on the yield of 1 year and 2 year New Zealand Government bond yield as at 31 December 2022). 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 business, the assumed aggregate rates of discontinuance are:

- Consumer credit insurances – 35% p.a.(2021: 30% p.a.)
- Regular premium term life insurances – 16% p.a.(2021: 15% p.a.)

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

- Consumer credit insurances – 28% p.a.(2021: 32% p.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.

(iii) 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 2022, the Consumer Credit Insurance related product group for Statutory Fund 2 remains in loss recognition. Any assumption changes have not resulted in any of the 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

6.7 Discontinued operations (continued)

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

determined.

(iv) 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 Hallmark Life Insurance Company Ltd. 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.

31/12/2022 Australia	**Percentage change in Assumptions**	**Impact on 2022 profit or loss ($'000)**		**Impact on 2022 equity ($'000)**	
		Gross of Reinsurance	Net of Reinsurance	Gross of Reinsurance	Net of Reinsurance
Mortality/morbidity	Worsening by 5%	(64)	(54)	(64)	(54)
	Improving by 5%	64	54	64	54
Lapse rates	Worsening by 5%	1	1	1	1
	Improving by 5%	(1)	(1)	(1)	(1)
Expenses	Worsening by 5%	(106)	(106)	(106)	(106)
	Improving by 5%	106	106	106	106

6.7 Discontinued operations (continued)

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

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

31/12/2022 New Zealand	Percentage change in variables	Impact on 2022 profit or loss NZD ($'000)		Impact on 2022 equity NZD ($'000)	
		Gross of Reinsurance	Net of Reinsurance	Gross of Reinsurance	Net of Reinsurance
Mortality/morbidity	Worsening by 5%	(16)	(16)	(16)	(16)
	Improving by 5%	16	16	16	16
Lapse rates	Worsening by 5%	1	1	1	1
	Improving by 5%	(1)	(1)	(1)	(1)
Expenses	Worsening by 5%	(28)	(28)	(28)	(28)
	Improving by 5%	28	28	28	28

6.7 Discontinued operations (continued)

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

31/12/2021 New Zealand	Percentage change in variables	Impact on 2021 profit or loss NZD ($'000)		Impact on 2021 equity NZD ($'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

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

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

The general approach to the estimation of Outstanding Claims 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

6.7 Discontinued operations (continued)

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

(“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% probability of adequacy.

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”) and Loss Ratio x Earned Premium. A blend of the projection methods is adopted based on the nature of the claims within each portfolio to estimate the appropriate outstanding claims.

(vi) Actuarial assumptions

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

2022	Disability (Personal Loans)	Unemployment (Personal Loans)	Disability (Credit Cards)	Unemployment (Credit Cards)	Protection^
Australia:					
Number of future finalisations	296	67	303	267	1036
Discounted loss ratio	40%	19%	14%	12%	71%
Expense rate	7.1%	7.1%	7%	7%	67%
Discount rate	3.3%pa-5.0%pa	3.3%pa-5.0%pa	3.3%pa-5.0%pa	3.3%pa-5.0%pa	3.3%pa-5.0%pa
New Zealand:					
Number of future finalisations	189	47	64	39	49
Discounted loss ratio	40%	7%	13%	11%	25%
Expense rate	7%	7%	7%	7%	67%
Discount rate	5%	5%	n/a	n/a	n/a

6.7 Discontinued operations (continued)

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

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%
Expense rate	1.74%	1.74%	1.74%	1.74%	1.74%

^ Merchandise protection, price protection and stolen cards (credit cards)

The above key actuarial assumptions were based on the following:

- **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.
- **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 the assumptions.
- **Expense rate:** The adopted claims handling expense rate of 9.8% (2021: 12.8%) of the projected gross claim payments have been determined based on the results of an expense allocation performed for the 2022 valuation.
- **Discount rate:** The central estimate of the Outstanding Claims Liabilities has been 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. They have been derived from the yield curve on Australian Government Bonds as at 31

6.7 Discontinued operations (continued)

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

December 2022 as published by the Reserve Bank of Australia.

(vii) 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 Hallmark General Insurance Company Ltd. The table below describes how a change in each of the assumptions will affect the outstanding claims liabilities. The outstanding claims liabilities are discounted and include claim handling expenses and a risk margin at the 90% probability of adequacy.

Key actuarial assumptions 2022	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%	+123	+2.4
Discount rate	Decrease discount rate by 1%	+54	+1.0
Claims handling expense rate	Increase claims handling expense rate by 4%	+205	+3.9
New Zealand*:			
Chain ladder factor	Increase the chain ladder factor by 10%	+22	+1.15
Discount rate	Decrease discount rate by 1%	+15	+0.79
Claims handling expense rate	Increase claims handling expense rate by 4%	+78	+4.18

* Branch credit insurances only

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 from claims handling expense rate by 4%	+321	+3.9

6.7 Discontinued operations (continued)

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

Key actuarial assumptions 2021	Changes	Impact on net outstanding claims liabilities ($'000's)	Impact on total outstanding claims liabilities (%)
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 from claims handling expense rate by 4%	+109	+4.03

* Branch credit insurances only

2022 Consolidated Financial Report extract

Notes to the Financial Statements

For the year ended 31 December 2022

6.8 Deed of cross guarantee

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

	2022 $'m	2021 $'m
Consolidated statement of profit or loss and other comprehensive income		
Profit before income tax expense	**62.7**	181.8
Income tax expense	**(17.3)**	(41.4)
Profit/(loss) for the year	**45.4**	140.4
Other comprehensive income	**30.7**	15.9
Total comprehensive income/(loss) for the year	**76.1**	156.3
Summary of movements in consolidated retained earnings		
Retained earnings at the beginning of the financial year	**(79.6)**	(135.9)
Amounts transferred from reserves	**0.9**	-
Profit for the year	**45.4**	140.4
Dividends paid	**(163.0)**	(82.7)
Capital note distribution	**(6.2)**	(1.4)
Retained earnings at the end of the financial year	**(202.5)**	(79.6)
Consolidated balance sheet		
Assets		
Cash and cash equivalents	**83.5**	160.3
Investments	**405.7**	375.3
Assets classified as held for sale	**0.2**	0.2
Current tax receivables	**24.8**	-
Derivatives financial instruments	**55.2**	8.7
Loans and other receivables	**5,064.3**	4,877.9
Other assets	**12.0**	8.2
Deferred tax assets	**138.1**	159.2
Investment in controlled entity	**227.8**	243.9
Other financial assets	**1.6**	1.6
Property, plant and equipment	**12.9**	45.1
Intangible assets	**791.9**	904.3
Total assets	**6,818.0**	6,784.7
Liabilities		
Trade and other liabilities	**188.5**	328.2
Current tax liabilities	**-**	28.1
Derivatives financial instruments	**-**	1.0
Provisions	**43.7**	63.9
Deferred tax liabilities	**60.9**	64.3
Borrowings	**5,079.4**	4,759.7
Total liabilities	**5,372.5**	5,245.1
Net assets	**1,445.6**	1,539.5
Equity		
Contributed equity	**2,222.0**	2,221.0
Other reserves	**(573.9)**	(601.9)
Retained earnings/(losses)	**(202.5)**	(79.5)
Total equity	**1,445.6**	1,539.5

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.

During the year, Latitude Financial Group Limited, KVD Australia Insurance Holdco Pty Ltd, Latitude Financial Services JV Holdco Pty Ltd and KVD Treasury Pty Ltd were deregistered and are therefore no longer party to the Deed of cross guarantee.

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:

	2022 $'m	2021 $'m
Balance sheet		
Current assets	**177.1**	211.8
Total assets	**1,769.2**	1,824.8
Current liabilities	**56.7**	103.3
Total liabilities	**232.7**	152.2
Shareholders' equity		
Contributed equity	**2,235.1**	2,234.2
Reserves		
Common control reserve	**(627.9)**	(602.5)
Foreign currency translation reserve	**3.1**	2.8
Retained earnings	**(73.8)**	38.1
	1,536.5	1,672.6
Profit/(loss) for the year	**57.2**	118.0
Total comprehensive income/(loss)	**57.5**	120.8

(b) Contingent liabilities of the parent entity

The parent entity did not have any contingent liabilities as at 31 December 2022 (2021: $nil).

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 $205.9 million. The consideration comprised of $100.0 million cash, the issuance of 38.46 million shares in Latitude Group Holdings Limited and a $22.1 million deferred promissory note.

Latitude is utilising 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

	2021 $'m	PPA Adjustments $'m	2021 $'m
Purchase consideration:			
Cash paid	100.0	-	100.0
Ordinary shares issues	83.8	-	83.8
Promissory note	24.0	(1.9)	22.1
Total purchase consideration	**207.8**	**(1.9)**	**205.9**

$6.4 million of acquisition related costs have been recognised within Other operating expenses in the consolidated income statement in 2021.

Symple's net assets recognised at 31 December 2021 were based on a provisional assessment of their fair value, the purchase price allocation for the acquired business has been finalised in the current year. The result was a reduction in the purchase consideration for the settlement of the promissory note.

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

	2021 $'m	PPA Adjustments $'m	2021 $'m
Cash and cash equivalents	10.5	-	10.5
Loans and other receivables	61.1	-	61.1
Other assets	0.1	-	0.1
Property, plant and equipment	0.4	-	0.4
Intangible assets	0.4	-	0.4
Trade and other liabilities	(13.7)	-	(13.7)
Provisions	(0.5)	-	(0.5)
Borrowings	(52.0)	-	(52.0)
Net identifiable assets acquired	**6.3**	**-**	**6.3**
Add: Goodwill	201.5	(1.9)	199.6
Net assets acquired	**207.8**	**(1.9)**	**205.9**

6.10 Acquisition of Symple Loans - Business Combination (continued)

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.

The goodwill recognised of $199.6 million represents the synergies arising from the acquisition. It will not be deductible for tax purposes.

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

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

OctiFi's net assets recognised at 31 December 2021 were based on a provisional assessment of their fair value, the purchase price allocation for the acquired business has been finalised in the current year. The result of this was an increase in intangible assets and adjustment to goodwill associated with the acquisition.

	2021 $'m	PPA Adjustments $'m	2021 $'m
Cash and cash equivalents	2.8	(1.1)	1.7
Customer receivables	0.8	0.1	0.9
Other receivables	6.3	(6.3)	-
Other assets	0.2	-	0.2
Intangibles	-	2.9	2.9
Employee provisions	(0.2)	(0.8)	(1.0)
Foreign exchange	-	(1.7)	(1.7)
Net identifiable assets acquired	**9.9**	(6.9)	3.0
Add: Goodwill(1)	14.9	6.9	21.8
Net assets acquired	**24.8**	**-**	**24.8**

(1) Goodwill includes foreign exchange rate movements.

The goodwill is attributable to the established team and platform to accelerate Latitude's expansion into Asia. It will not be deductible for tax purposes.

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 at acquisition was $0.9 million, being the gross contractual amount for receivables due of $0.9 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.