Latitude 1H22 Results

19 August 2022

Latitude Group Holdings Limited
ACN 604 747 391

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Important notice and disclaimer

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Ahmed Fahour

Managing Director & CEO

Who we are

Leading consumer finance & personal lending business

2.82 million customer accounts*

Retail & Online Distribution Platform

Leading AU & NZ Consumer Finance Business

A$6.3b total gross receivables*

Focused Digital Product Offering

Pre acquisition from GE			Private consortium ownership KKR VÄRDE Deutsche Bank SHINSEI BANK					ASX listed company		
AGC founded	Range of acquisitions by GE	Latitude is acquired from GE	Separation from GE as a standalone business	Establishment of funding structure	Launch of Latitude brand	genoapay Acquisition of Genoapay and launch of LatitudePay	Latitude Strategy 2.0	IPO	symple OctiFi Acquisitions of Symple & OctiFi	International expansion
1925	1995 - 2002	2015				2019		2021	2022	

OUR MISSION Enhance financial access and inclusion as a responsible partner in money

OUR AMBITION Grow our value and global addressable market, transform our organisation's capability to adapt and earn admiration from stakeholders with renown for our innovative support of financial inclusion, diversity and the environment

OUR STRATEGY Lead in sales finance, lead in personal lending, expand in Asia, transform operations, fortress balance sheet, enhance customer-led culture

OUR VALUES Act Right, Show Care, Be Curious

*As at June 2022

Our Senior Leaders

Ahmed Fahour
Managing Director and CEO

Paul Varro
CFO & EGM, Finance & Risk

Andrew Walduck
EGM Group COO

Bob Belan
EGM Money

David Gelbak
EGM Pay & Instalments

Eva Zileli
Group Treasurer

Bec Supierz
GM, People

Mark Brudenell
Chief Risk Officer

Our Strategic Priorities

Lead in Pay / Instalments

- Deliver next gen instore apply experience (*QR code at scale*) to offset experience headwinds and drive pull through
- Deliver graduation at scale via always-on data driven program
- Commercialise new verticals via deploying right instalment product offering and merchant experience

Lead in Money

- Broaden TAM with new features (*variable rate*), capabilities (*redraw*) and enhanced fulfillment (*time to cash*)
- Optimise graduation and funding
- Explore consolidation & other partnerships

Divest Insurance

- Announced (*8-August-22*)

Expand in Asia

- Launched in Singapore and Malaysia around key partners
- Identify priority markets within Asia (*beyond SE Asia*) for growth at scale
- Deploy merchant strategy to drive higher pull-through and conversion via value added differentiators (*eg: upgrade programs*)

Transform operations

- Digitally transform & consolidate
- Transition legacy technology to cloud based platforms
- Optimise credit & fraud loss rates using progressive technology

Enhance customer led culture

- Shift to portfolio operating model
- Recruitment and development to fill leadership and capability gaps
- Be flexible in where & how people work

Sustain balance sheet & risk strength

- Continued funding & risk management discipline & innovation
- Strong & resilient balance sheet structure supporting growth
- Effective management of market risk exposures

Enhance stakeholder reputation

- Demonstrate our responsible approach
- Enhance our programs to support financial access, inclusion and diversity
- Launch lending offers to support energy transition (*eg: loans for electric cars, solar etc.*)

Our Strengths

History

Profitable heritage business with 100-yrs of pedigree in consumer finance

Talent

Significant depth & breadth of expertise & experience across the enterprise

Credit & Risk Competence

Through the cycle credit track record. Prudent risk mgmt. process underpinned by risk based pricing

Merchant Partnership Relationship / Capability

Longstanding deep relationships with merchant partners including Harvey Norman, JB Hi-Fi, The Good Guys, Apple and Samsung

Funding

7+ yrs in global debt markets offering scarce ABS. Diverse sources (50+), programmatic, at size with excess capacity

Product Features

Range of instalment & lending products providing payment options for consumers & partners

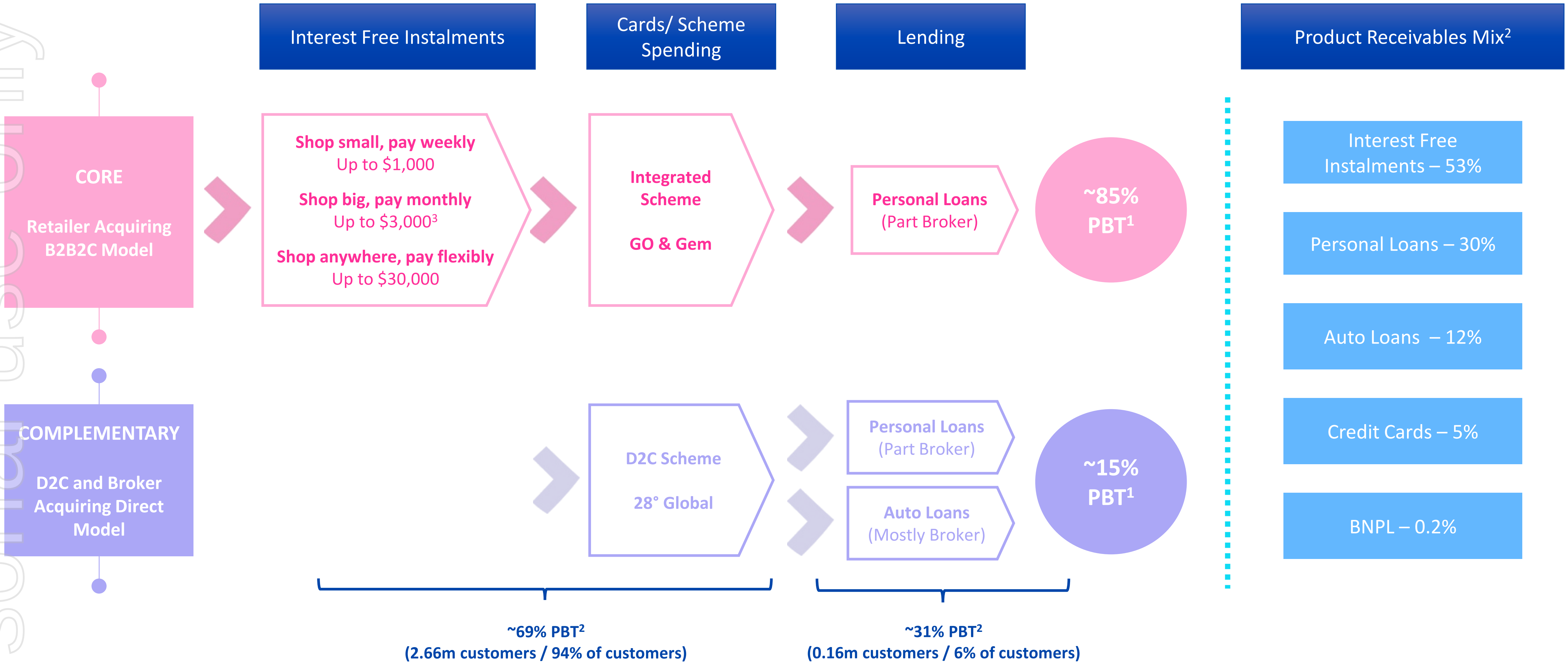
Customer Experience

Constantly developing & enhancing the customer & partner digital experience

Graduation

B2B2C business model is a competitive advantage providing well established graduation

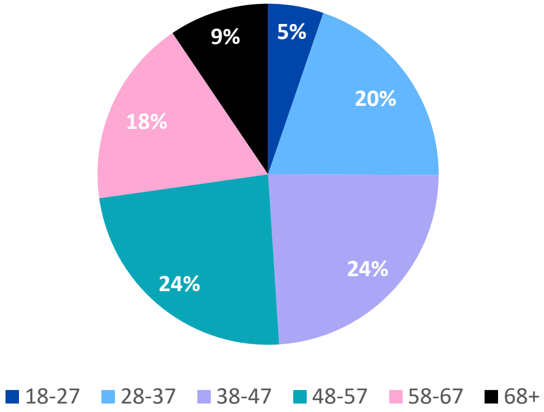
Our B2B2C business model



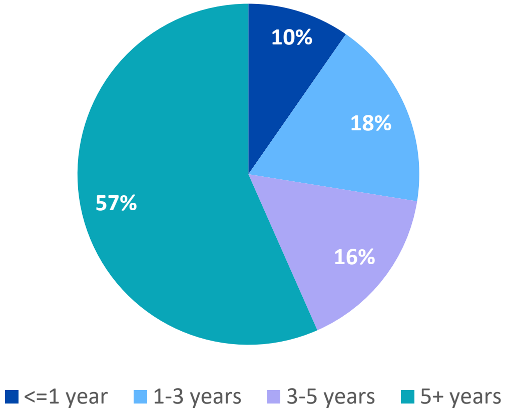
Internal Latitude company information.
(1) FY21 profit before tax
(2) Proportion of group gross loan receivables as at 30 June 2022
(3) Up to $10,000 for new growth segments

Our Customers

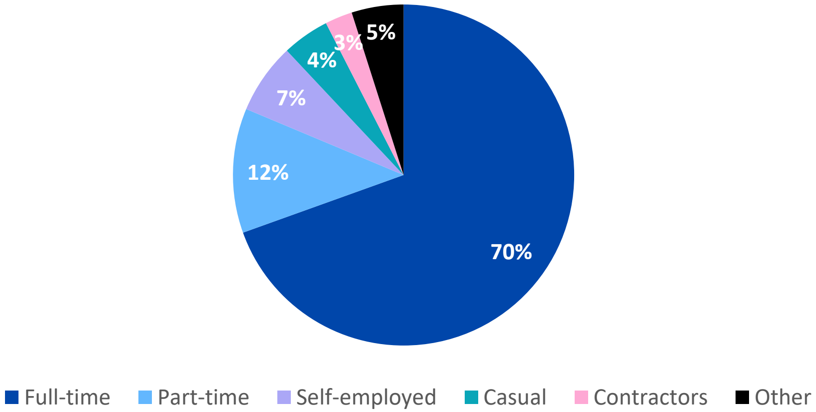
Diverse range of customers across generations[1]



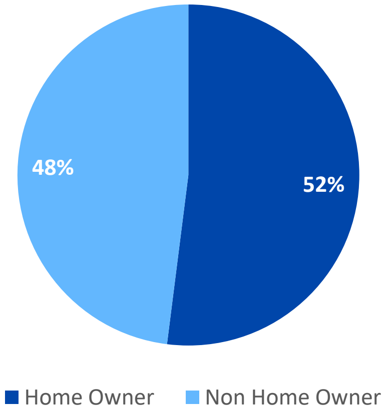
57% of customer relationships are 5+ years[1]



82% of customers are full-time and part-time employees[2]



52% of customers are homeowners[3]



Note: Data as at 30 June 2022
(1) All products excluding BNPL. (2) Data as at origination, Australian and New Zealand Instalments products and credit card customers with open accounts (3) Data as at origination for Australian Instalments, credit cards and personal loan customers and New Zealand Instalments and personal loan customers with open accounts

1H22 Result Highlights

1H22 Highlights

Strengths:

✓ **$93m cash NPAT[1] with dividend maintained at 7.85c 100% franked**

✓ **Organic focus with strong competitive / customer positioning**

- Volume of $3.7bn

✓ **Bulwark balance sheet to navigate economic uncertainty**

- **Surplus TER** 9.2% (*vs. 6-7% target range*)
- **Prudent provisioning**: 1.6x NCO (*vs. 1.3x pre-covid*)
- **Conservative funding**: $2bn headroom/ 12-months capacity (*2 refi's executed at a tighter spread in the half*)
- **Strong net cash position**
- **High margin** with re-pricing room (*11.3%*) & cost discipline

✓ **Symple transformation of the PL / auto platform on track**

- Australian PL volume up 16% HoH, up 30% YoY

✓ **Travel & credit card scheme starting to grow again**

- 28° Global volume up 23% HoH, up 29% YoY to $779m

✓ **Demonstrated M&A discipline & patience**

- Positioned for opportunities that may emerge
- Capital optimised with divestment of insurance

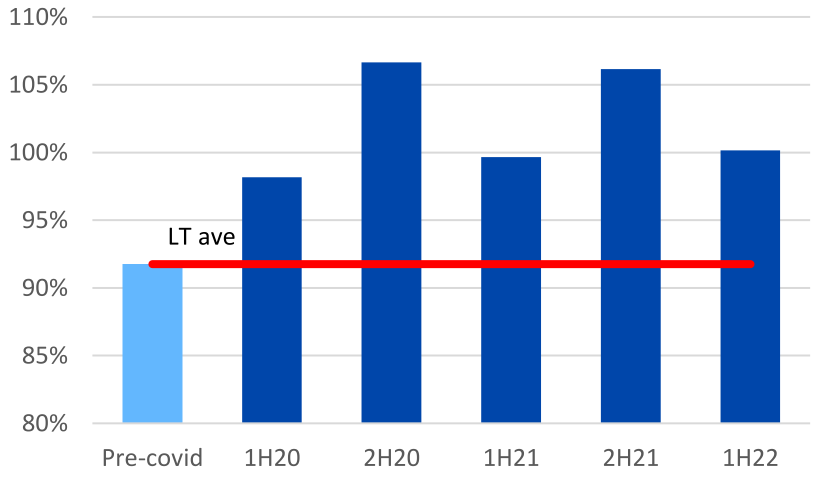
Challenges:

❖ **Elevated repayment rates driving flat receivables**

❖ **Underlying growth in Pay remains subdued with excess consumer savings**

❖ **Steep yield curve means funding costs rise before asset yields**

Repayment rate (ex credit cards)

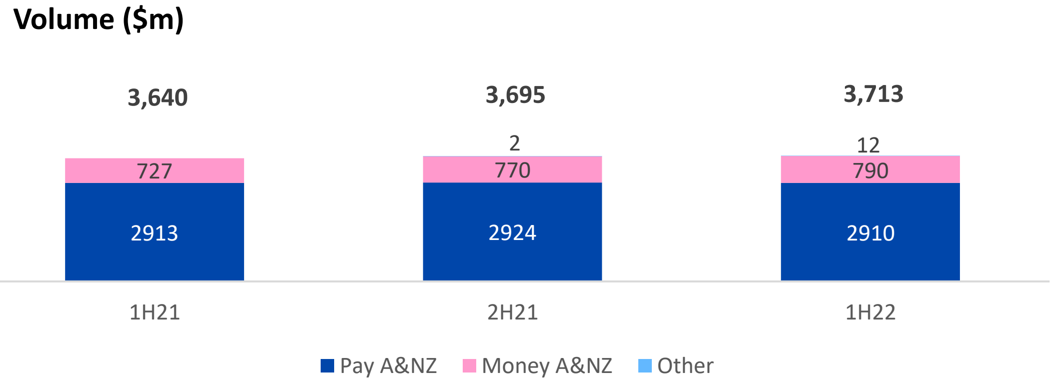


Refer appendix slide 35

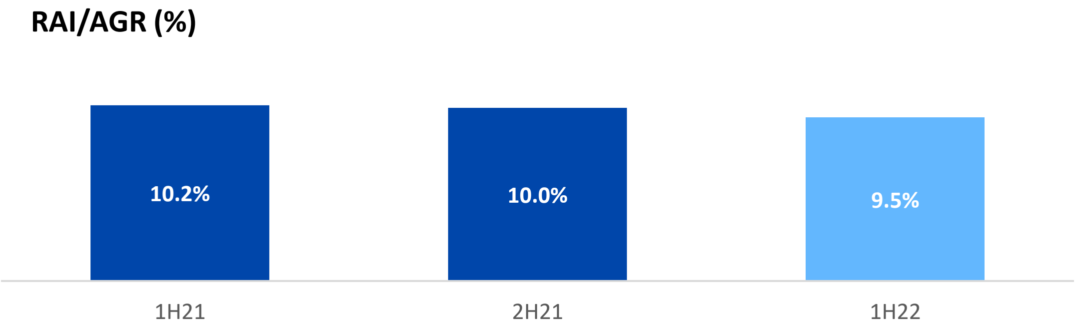
(1) See appendix for reconciliation between statutory NPAT and cash NPAT

Strong volume maintained with continued cost discipline & risk management

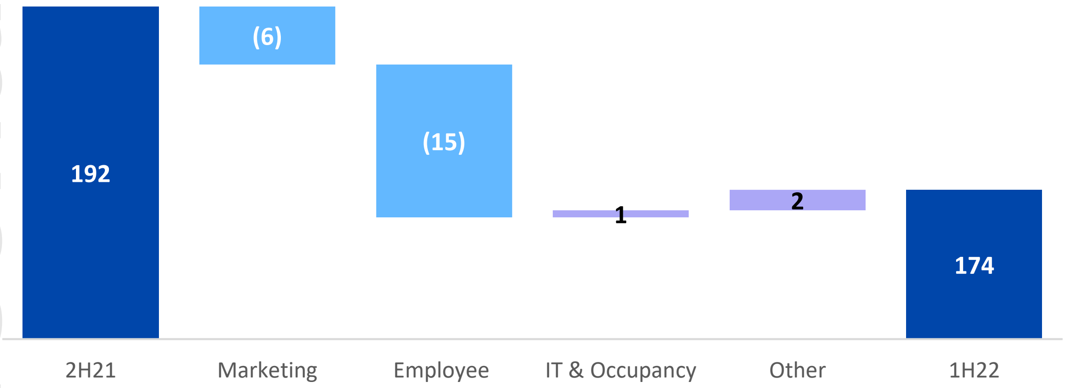
~$3.7bn of volume



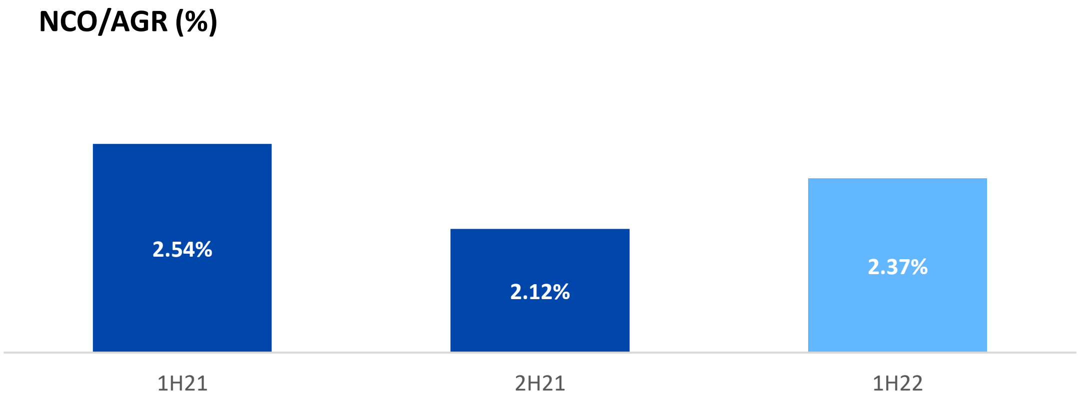
RAI down 56bps HoH due to higher funding. Product repricing underway



Cash expenses down 9% HoH

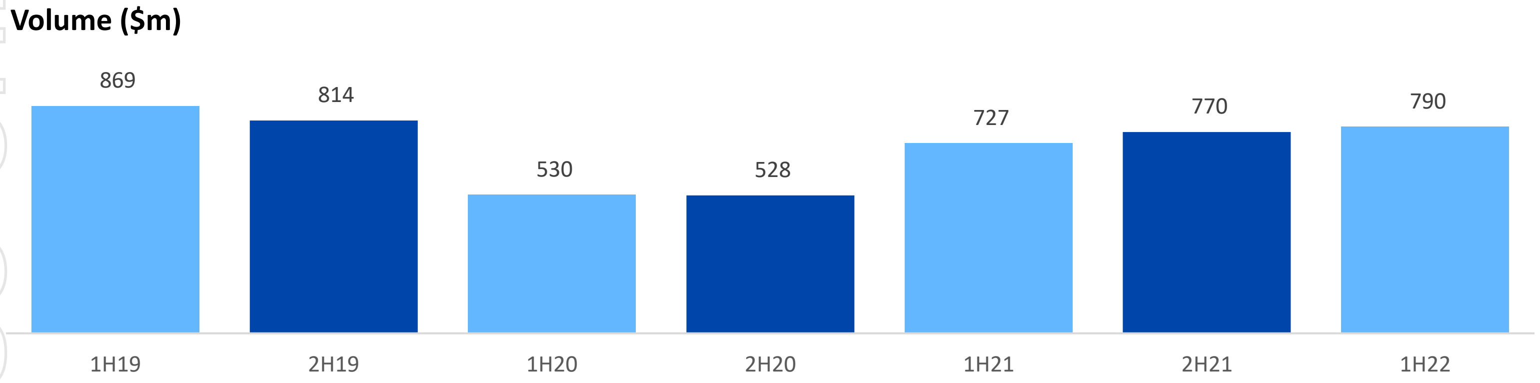


Net charge offs down 17bps YoY

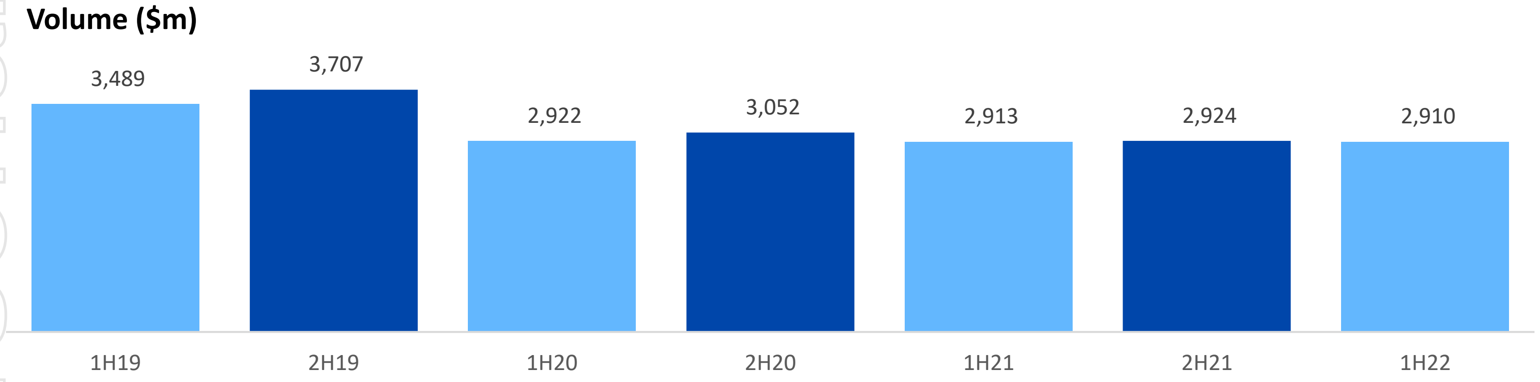


Money & Pay volume growth

Money volume driven by strong AU personal loans up 16% HoH, 30% YoY



Pay volume remains stable with macro-economic factors driving consumer preference for debit



Money volume drivers:

- Money volume up 3% HoH, up 9% YoY
- AU Money receivables up 3% HoH, up 9% YoY
- Auto pricing criteria managed for risk adjusted returns

Pay volume drivers:

- Low interest rates, excess liquidity and in-store sales remain below pre-covid levels
- 28° Global up 23% HoH, up 29% YoY

Symple transformation on track

NEED TO KNOW

- **Core capabilities for the new Latitude Money Platform (AU)** have been delivered over a 10-month period since acquisition of Symple.
- The Symple platform has been further enhanced with **new capabilities required for scale & business optimisation.** Including: Salesforce Marketing Cloud, Vonage integrated cloud telephony, and digitisation of the broker onboarding process.
- Delivery is now focused on the **NZ** platform build, integrating with the **enterprise collections** platform, and **back-book customer migration.**
- Launch of **ongoing enhancements** remains a key business focus (*continuous delivery model*).

COMPLETED

- **Loans Application Portal** – enhanced & rebranded ✓
- **Australian Personal Loans** – front book migration (all channels) ✓
- **Broker Portal** – enhanced & rebranded ✓
- **Broker Accreditation** – digital onboarding process ✓
- **Broker Relationship Management** – new salesforce platform ✓
- **Latitude Integrations** – interfaces to key group systems ✓
- **Back-office Operations** – enhanced digital workflow ✓
- **Marketing Cloud** – integration & launch ✓
- **Telesales Enablement** – integrated cloud platform ✓
- **Group Cyber Security** – security event monitoring ✓
- **Data & Analytics** – Latitude data architecture integration ✓
- **Securitisation** – onboarding to ABS suite ✓
- **Credit Reporting** – comprehensive credit reporting (CCR) uplift ✓

IN PROGRESS

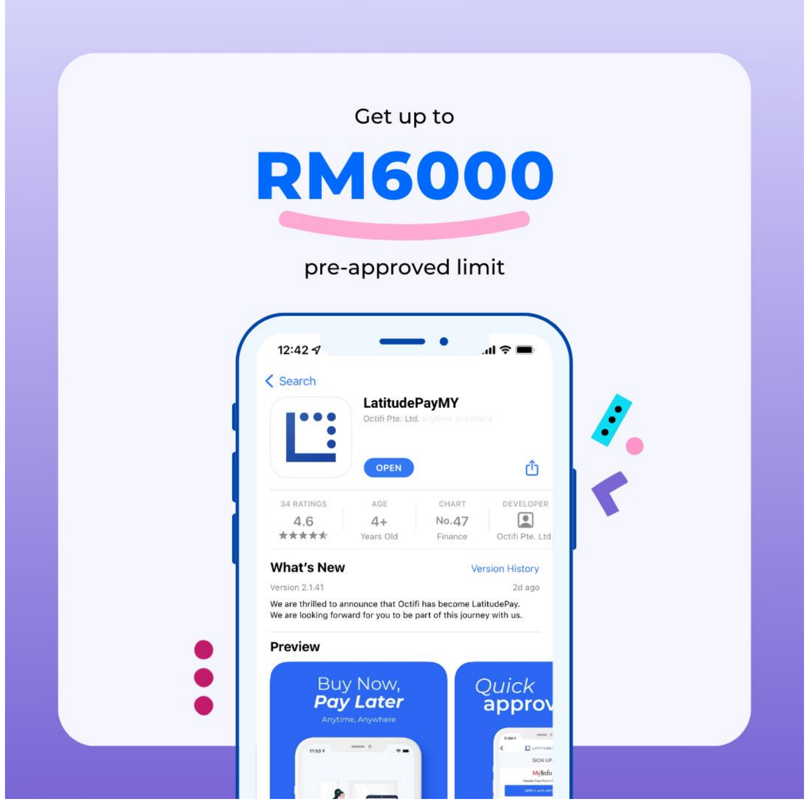
(To be completed by 2Q23)

- **New Zealand Platform** – Q2 Cloud Lending Build
- **Enterprise Collections** – Power Curve Collections (PCC) integration
- **Auto Loans Product** – Build/Integration for Broker
- **Platform Optimisation** – Q2 platform business optimisation
- **Australia Back-Book** – back book customer migration
- **New Zealand Back-Book** – back book customer migration
- **Legacy IT Decommissioning** – ICBS & Genesis decommissioning

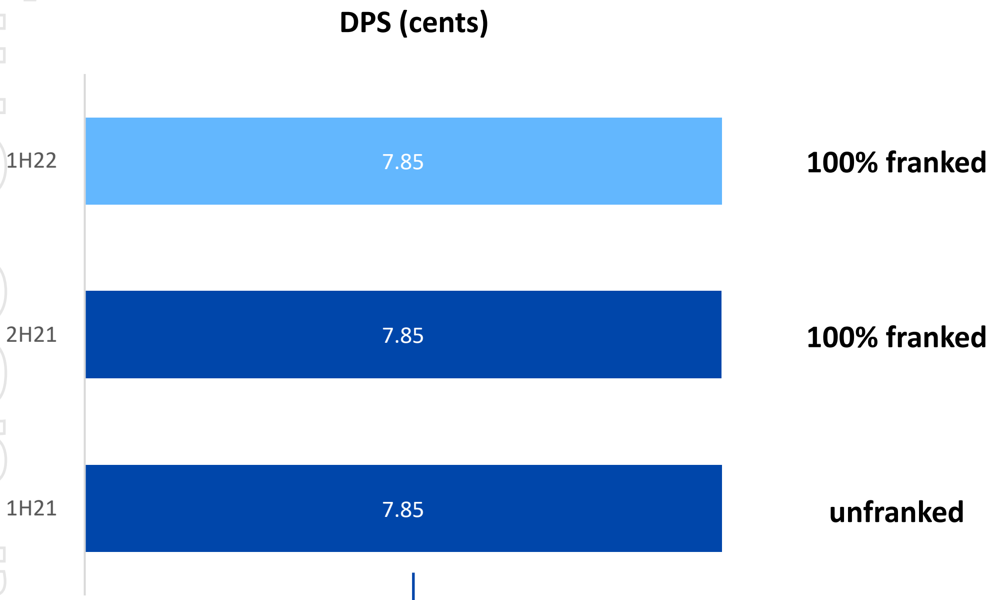
International

International update:

- Now live in both Singapore (*Nov 21*) and Malaysia (*June 22*)
- 30,000 customers
- ~465 merchants signed up including Harvey Norman, Gain City, Osim, Ogawa, Jai Yoga, Switch, M1 and iStudio
- Our deep partnership with Harvey Norman is a key platform for growth: E-commerce in Singapore (*13*) and Malaysia (*4; +17 to come*)
- Two significant partners in contract phase representing ~200 stores combined
- On track to launch big-ticket instalments in 3Q22



Consistent Dividends



10.1% 1H22 dividend yield[1]

Dividend information:

- Ex dividend date: 23/09/2022
- Record date: 26/09/2022
- Dividend payment date: 26/10/2022

Dividend reinvestment plan (DRP) to be offered with the 1H22 dividend

(1) Based on closing Latitude share price as at 17 August 2022 of $1.55ps

Drivers of Growth to Ambition

Latitude present

Economy normalises

Synergies and growth from Symple acquisition

Digitisation

International expansion

Partnerships

Latitude tomorrow

Inorganic / portfolio opportunities

Outlook

Forward outlook:

- Latitude is positioned for growth with high quality customers and impeccable receivables as the end of major government stimulus packages reduces excess cash in the system

- Recent growth is at good margins. However, Latitude was an early mover on significant repricing actions which slowed volume growth. NZ was also impacted by regulatory changes (*CCCFA*) which are starting to normalise

- Latitude is ready and primed with the appetite, the products, the distribution and the capital to grow rapidly and capitalise on changing conditions

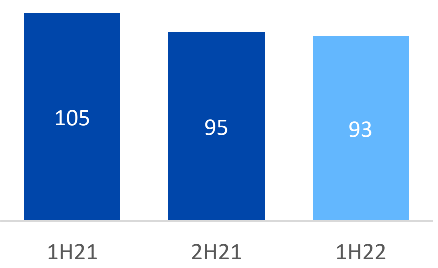
Paul Varro

Chief Financial Officer

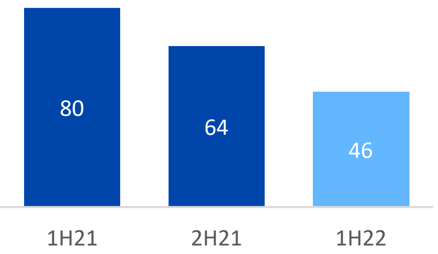
1H22 Financial Update

Solid Cash NPAT [1]

Cash NPAT ($m)

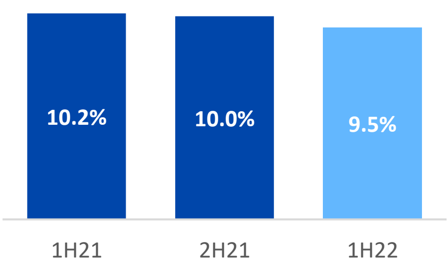


Statutory NPAT ($m)



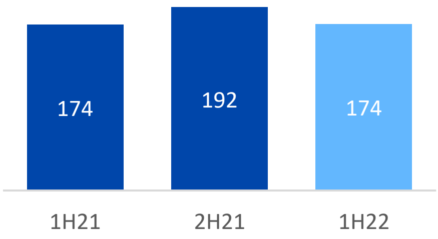
Strong credit losses & opex discipline

RAI/AGR [2] (%)



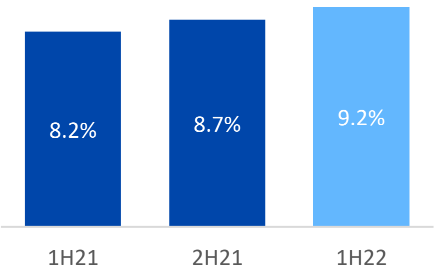
NCO **2.54%** **2.12%** **2.37%**

Cash Opex ($m)

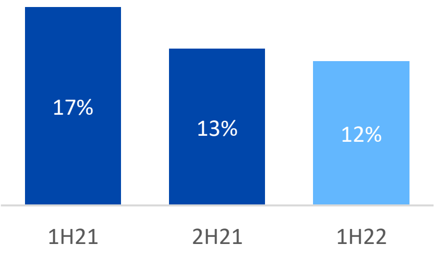


Strong Balance sheet & stable returns

TER (%)



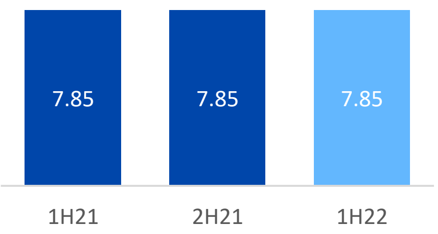
ROE (%)



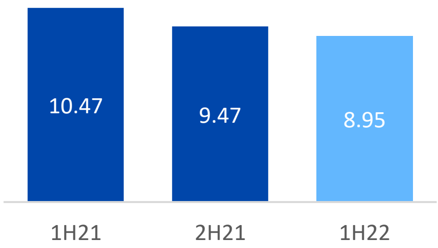
RoAGR **3.3%** **3.0%** **3.0%**

Consistent DPS & EPS

Cash DPS (cents)



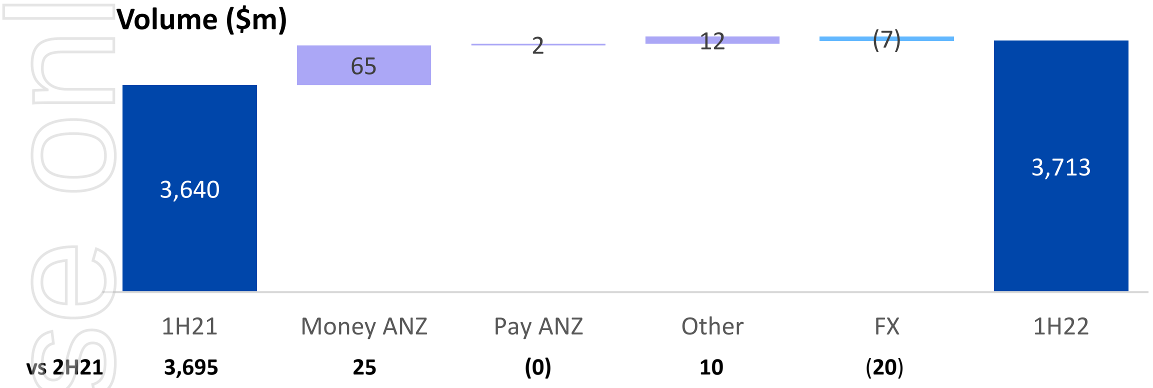
Cash EPS (cents)



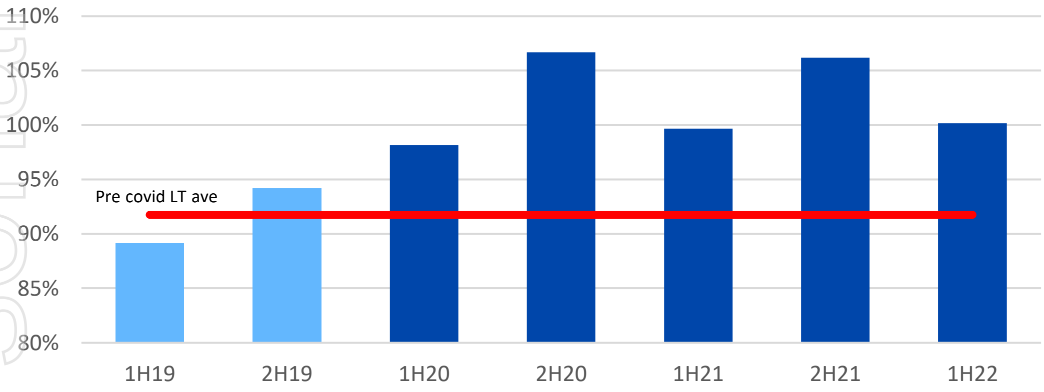
(1) Continuing operations, see appendix for reconciliation between statutory NPAT and cash NPAT
(2) Risk Adjusted Income yield

Volume up 2% offset by elevated repayments driving lower receivables

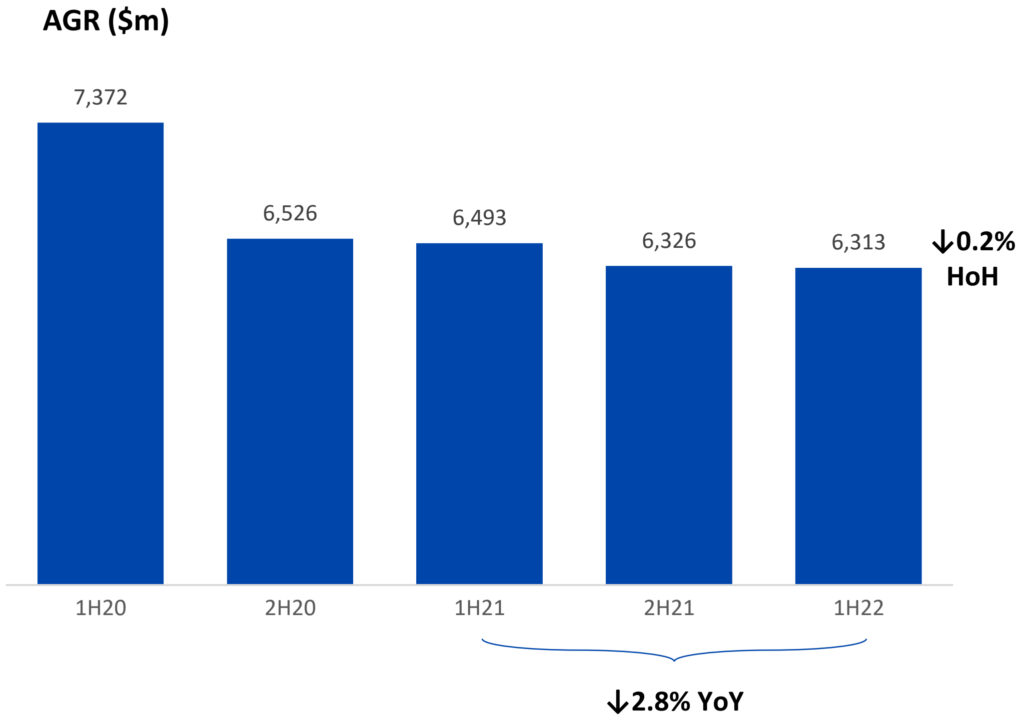
2% volume growth led by Money A&NZ



Repayment rate[1] remains consistently elevated



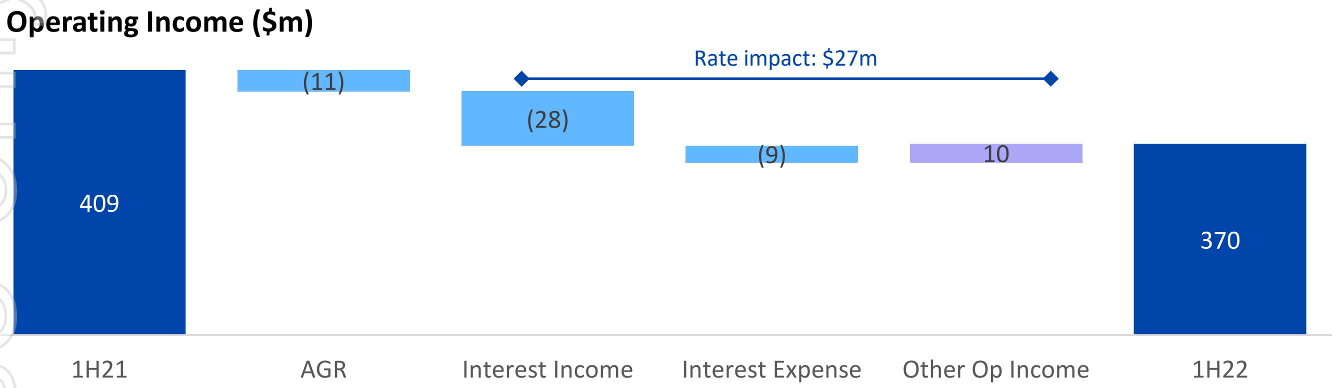
Moderate volumes & elevated repayments have impacted receivables growth



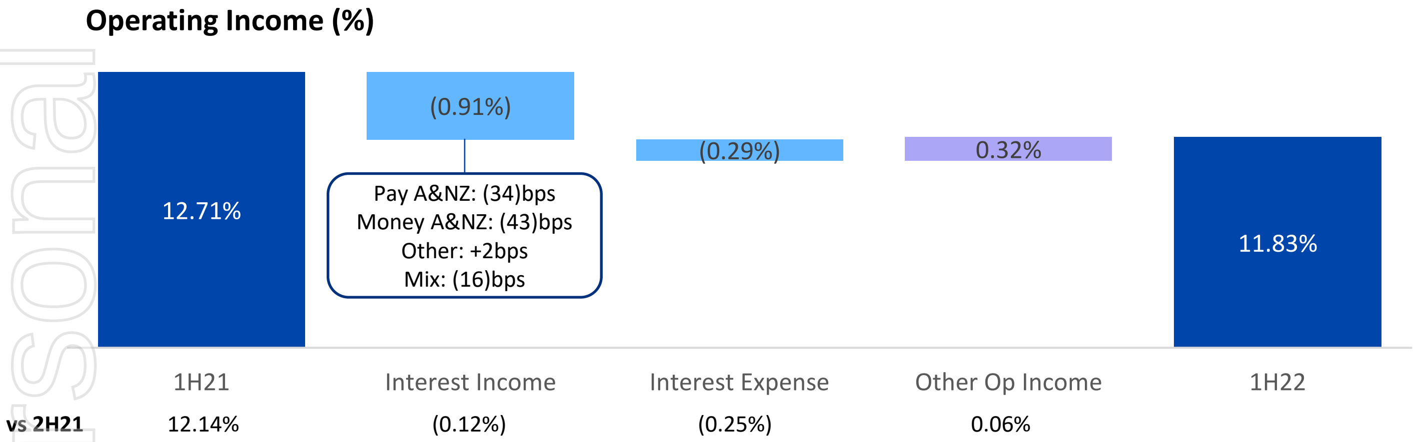
(1) Repayments as a percentage of opening receivables. Excludes credit cards.

Increased funding costs and residual pricing driving margin compression. Product repricing underway

Operating Income down $39m YoY, down $17m HoH



Operating Income yield down 87bps YoY, down 31bps HoH

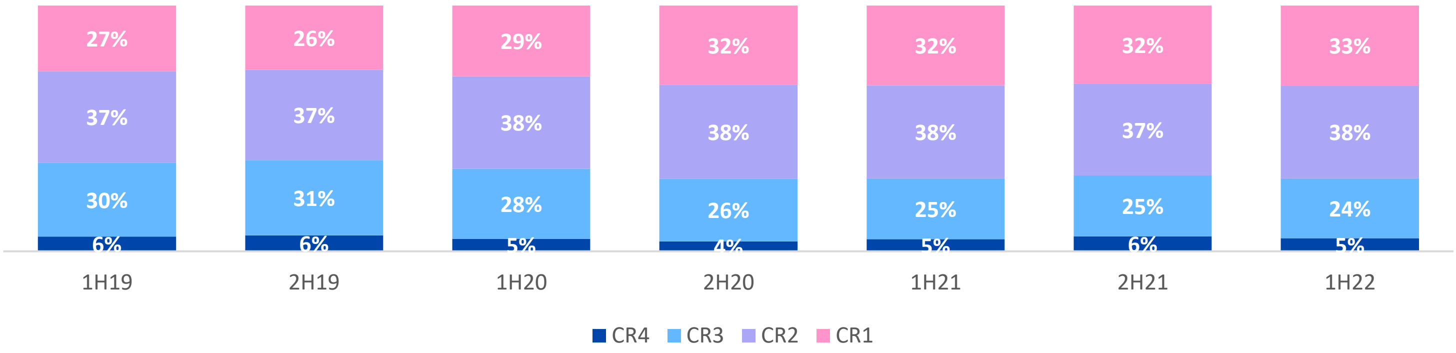


Key drivers:

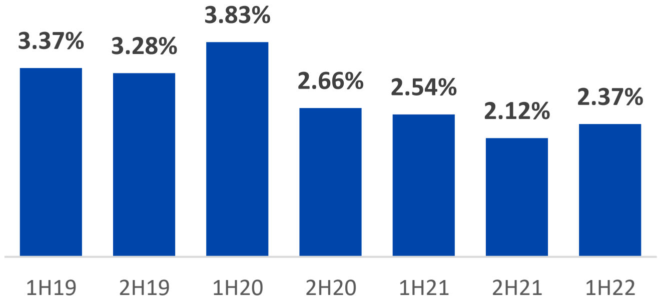
- AGR ↓ 2.8% driving $11m Op income reduction
- Rate: (87)bps of operating income compression:
  - (91)bps interest income risk mix & 1H21 re-pricing strategies
  - higher funding (29)bps ahead of pricing actions
  - offset by 32bps loyalty & interchange
- Pricing actions taken during the half with capacity for further increases to match yield curves
- vs. 2H21, 3 fewer days translates to $6m less in income in the half

Credit Quality continues to improve

Quality of new customer originations improved vs 2019 (CR1/2 from 64% to 71%)

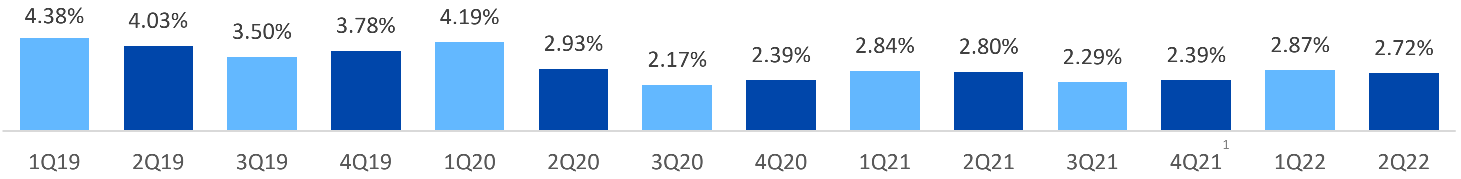


Net charge off rates remain historically low…

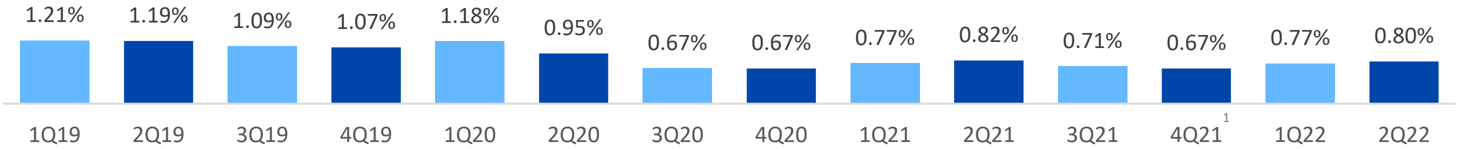


Delinquency rates better than 1H21

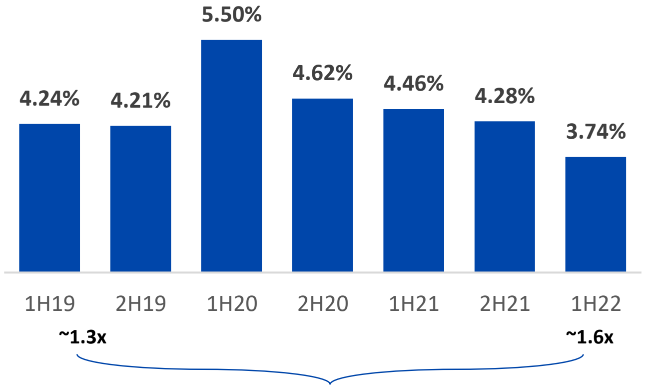
30+ DPD (%)



90+ DPD (%)



…with appropriate provisioning levels

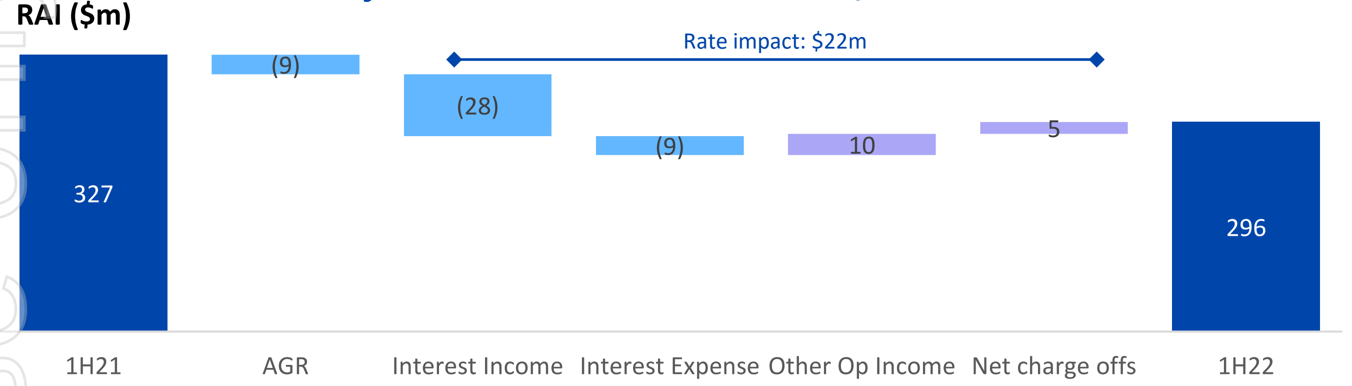


Coverage ratio to net charge offs remains adequate (1.6x vs 1.3x pre-covid)

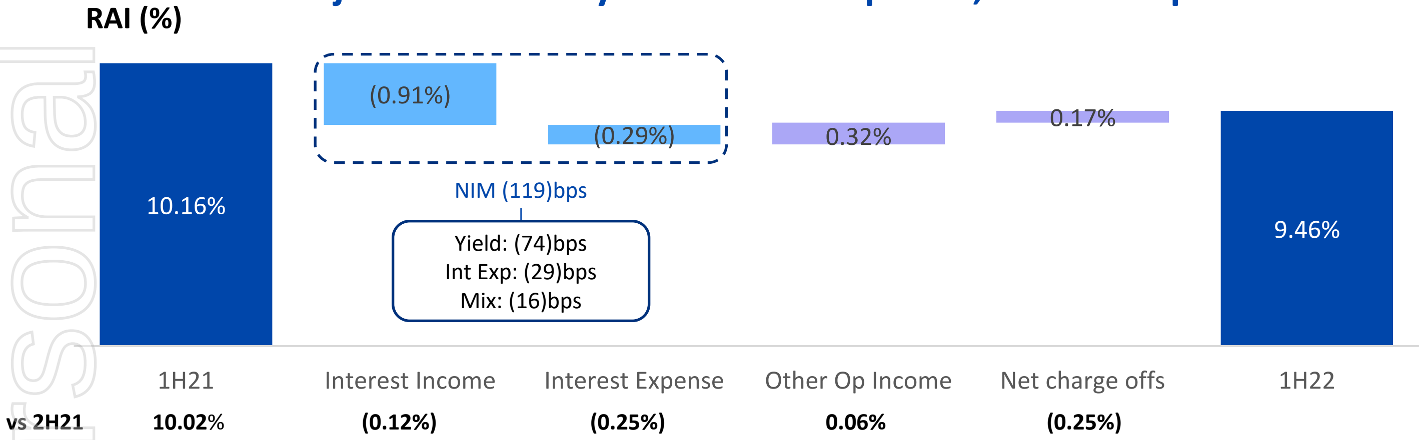
(1) 4Q20 has been restated due to a minor update of data

Strong asset quality supporting Risk Adjusted Income

Risk Adjusted Income down 9% YoY, down 7% HoH



Risk Adjusted Income yield down 70bps YoY, down 56bps HoH

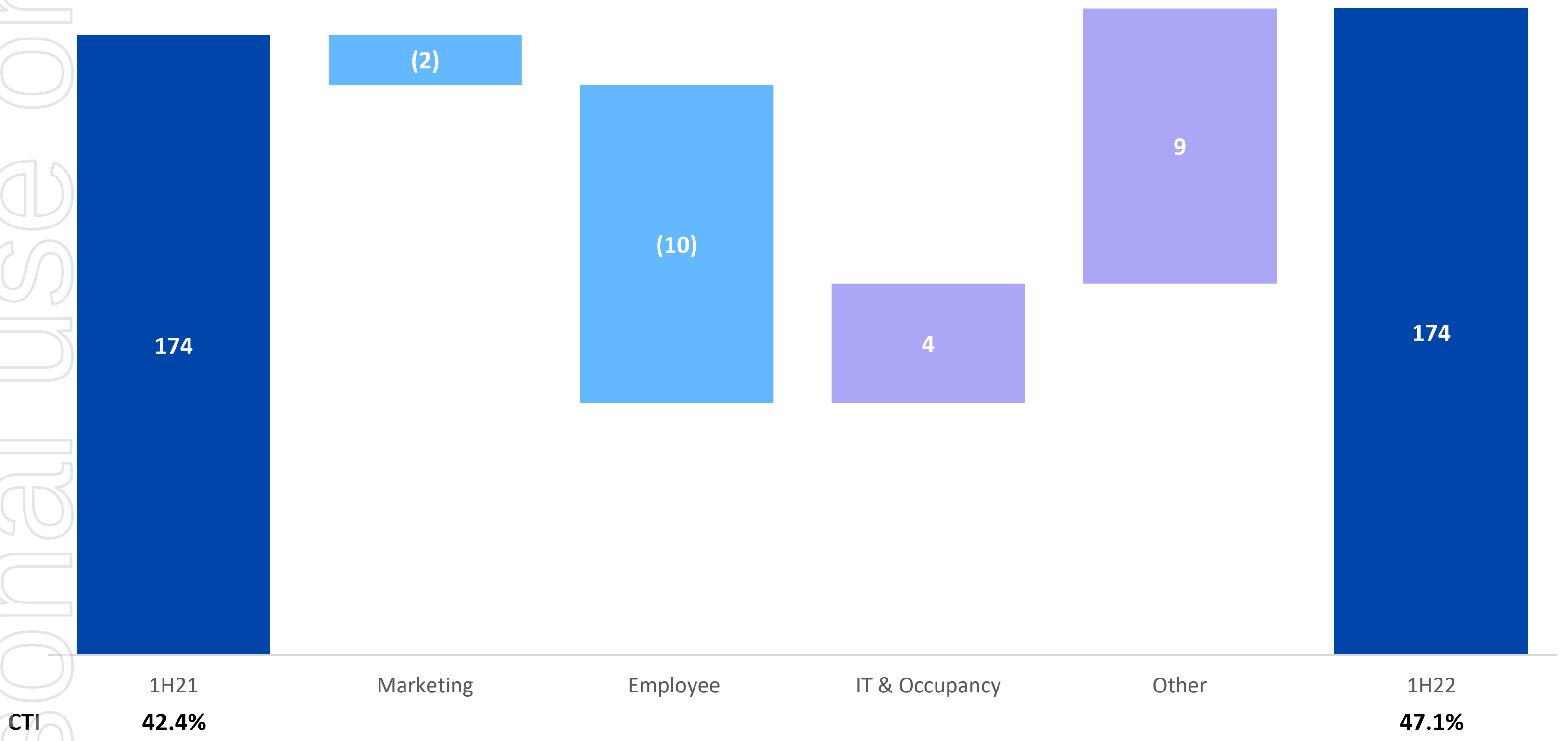


Key drivers:

- Risk based pricing delivering a higher quality book and lower net charge offs
- High quality portfolio providing a solid foundation for future returns
- Strong credit quality driving 17bps improvement in NCO yield
- RAI impacted by Op income:
  - Better risk mix & strategic pricing
  - Lower receivables
  - Higher funding costs

Disciplined cost control... flat YoY

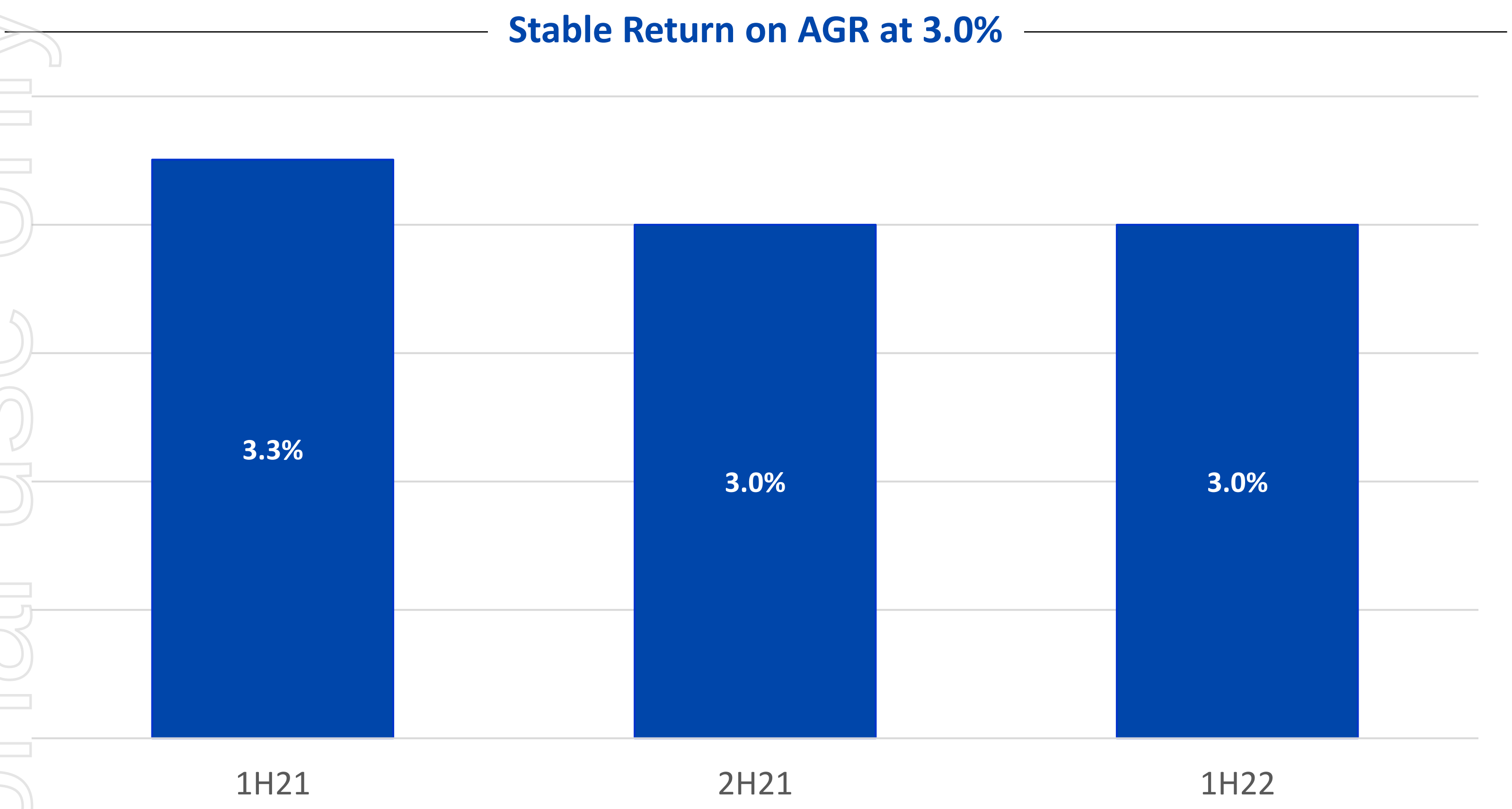
Cash opex flat YoY, down 9% HoH



Key drivers:

- Disciplined cost control absorbing listed company costs, acquisitions and international
- Employee costs down 17% HoH with a simplified operating structure and continued investment in IT & automation
- Marketing was calibrated to the environment
- Other cost increases include listing costs, international & ↑ investments (SaaS)

RoAGR... excess spread



Key drivers:

Return on AGR (*RoAGR*) remains stable at ~3.0% due to focus on:

- Risk based pricing & prudent funding
- Cost discipline

Creating a sizable buffer for any credit cycle

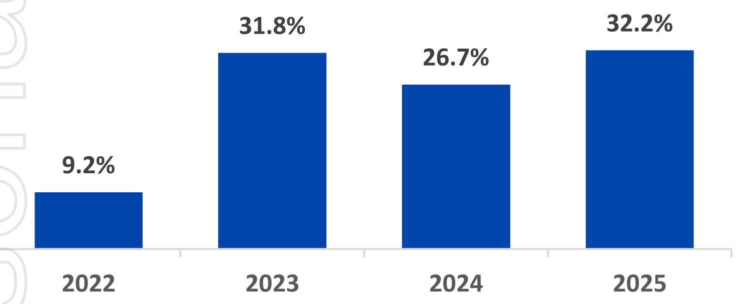
Diverse, resilient & cost-effective funding, underpinned by prudent capital management

Diverse Funding Platform

Cost Effective | 50+ Investors | 48% Investors Offshore to A&NZ

- Programmatic issuance and diverse investor base
- 1H22 – 4 transactions completed delivering flexibility and certainty to the funding programme
- ~$2bn of warehouse headroom
- Active IRRM with 38% of receivables hedged
- Balanced maturity profile, no requirement to access funding for 12 months

Securitised Debt Maturity Profile



Warehouse Financing

A$5.3bn Total Limits | **7 Active Facilities**

Australia and New Zealand, 30 June 2022

ABS Issuance

A$4.8bn Total Issued | **6 Active Issuances**

Australia and New Zealand, 30 June 2022

Prudent capital management approach

- Capital strength provides a buffer and an ability to act opportunistically
- 9.2% TER at 30 June 2022

A$ million	30 June 2022
Total equity	1,540
Intangible assets	994
TE	**546**
Net Receivables[1]	5,939
TER	**9.2%**

(1) Represents Gross loan receivables less loan provisions for impairments, deferred income and customer acquisition costs

Appendix

Results summary

	1H22	2H21	1H21	HoH	YoY
Volume ($m)	**3,713**	**3,695**	**3,640**	**0%**	**2%**
AGR ($m)	6,313	6,326	6,493	(0%)	(3%)
Gross receivables ($m)	6,257	6,349	6,474	(1%)	(3%)
Statutory NPAT ($m)	31	71	89	(57%)	(66%)
Cash NPAT ($m)	**93**	**95**	**105**	**(2%)**	**(11%)**
Cash EPS (cents)	8.95	9.47	10.47	(5%)	(15%)
Dividend per share (cents)	**7.85**	**7.85**	**7.85**	**0%**	**0%**
RAI (%)	9.5	10.0	10.2	(0.6)	(0.7)
RoAGR (%)	3.0	3.0	3.3	(0.0)	(0.3)
RoE (%)	12.1	13.1	16.6	(1.0)	(4.5)
Tangible Equity Ratio (%)	**9.2**	**8.7**	**8.2**	**0.5**	**1.0**

Cash NPAT to Statutory NPAT (continuing operations)…

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

Well established stress testing programme…

- Several scenarios run as part of a well established annual scenario (*formerly Fed requirement*)
- Severe scenario using unemployment at 10/10/8pc over 3 yrs
- Under stress scenarios:
  - No breaches of rapid amortisation triggers
  - No breach of debt covenants for the corporate facility
  - RoAGR remains positive and close to break even at peak stress
- Assumes management action is undertaken to preserve capital *(manage growth/ modify dividend payout)*, tighten underwriting standards and exercise cost discipline *(marketing, projects, resources)*
- Unemployment outlook remains strong

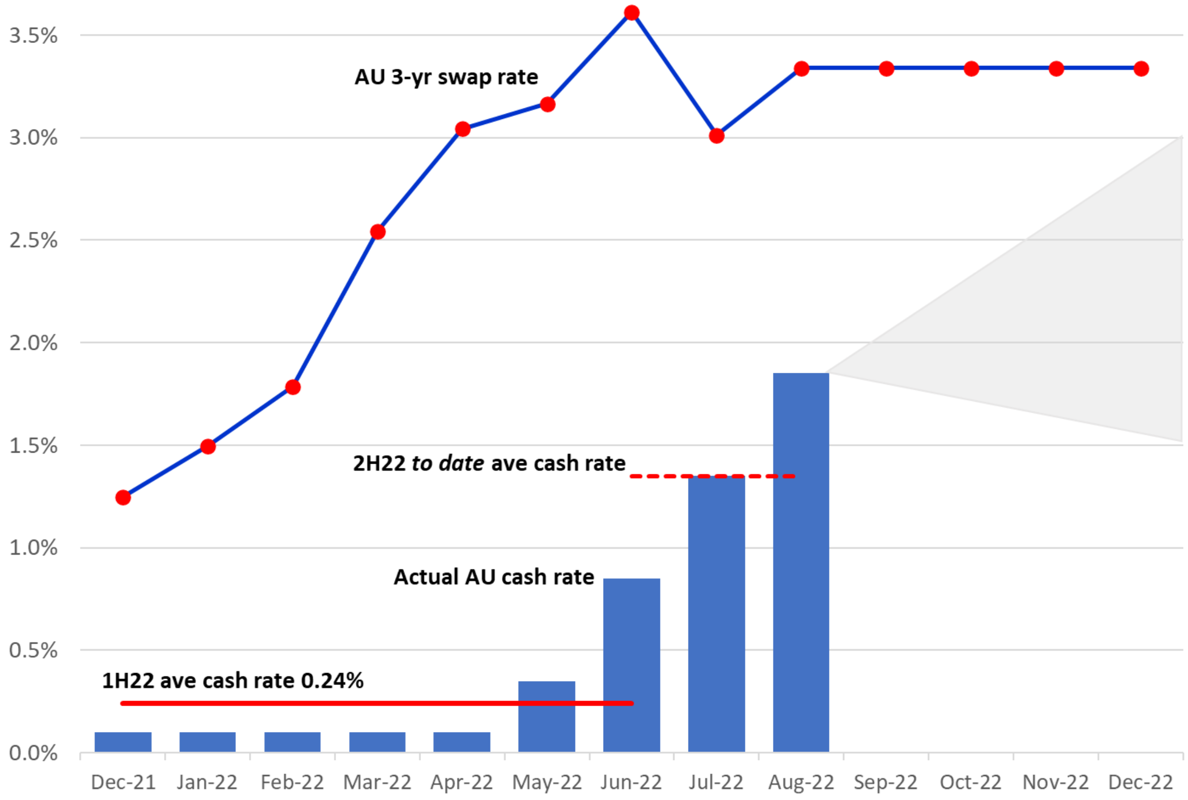
	Base	Severe downside		
	0	1	2	3
GDP growth %	3.4%	(11.0%)	(2.0%)	7.5%
Unemployment %	3.5%	10.0%	10.0%	8.0%
Real cash interest rate %	(3.4%)	(0.2%)	(0.4%)	(1.0%)
House price change YoY %	24%	(6.5%)	(9.0%)	(1.0%)
Rapid amortisation trigger breaches (securitisation trusts):				
- net yield		No	No	No
- net charge offs		No	No	No
Debt covenant breaches (lease & scheme guarantees):				
- net leverage ratio		No	No	No
- interest coverage ratio		No	No	No

Source: Company modelling, ABS, RBA

Funding: higher cash rate scenario sensitivity

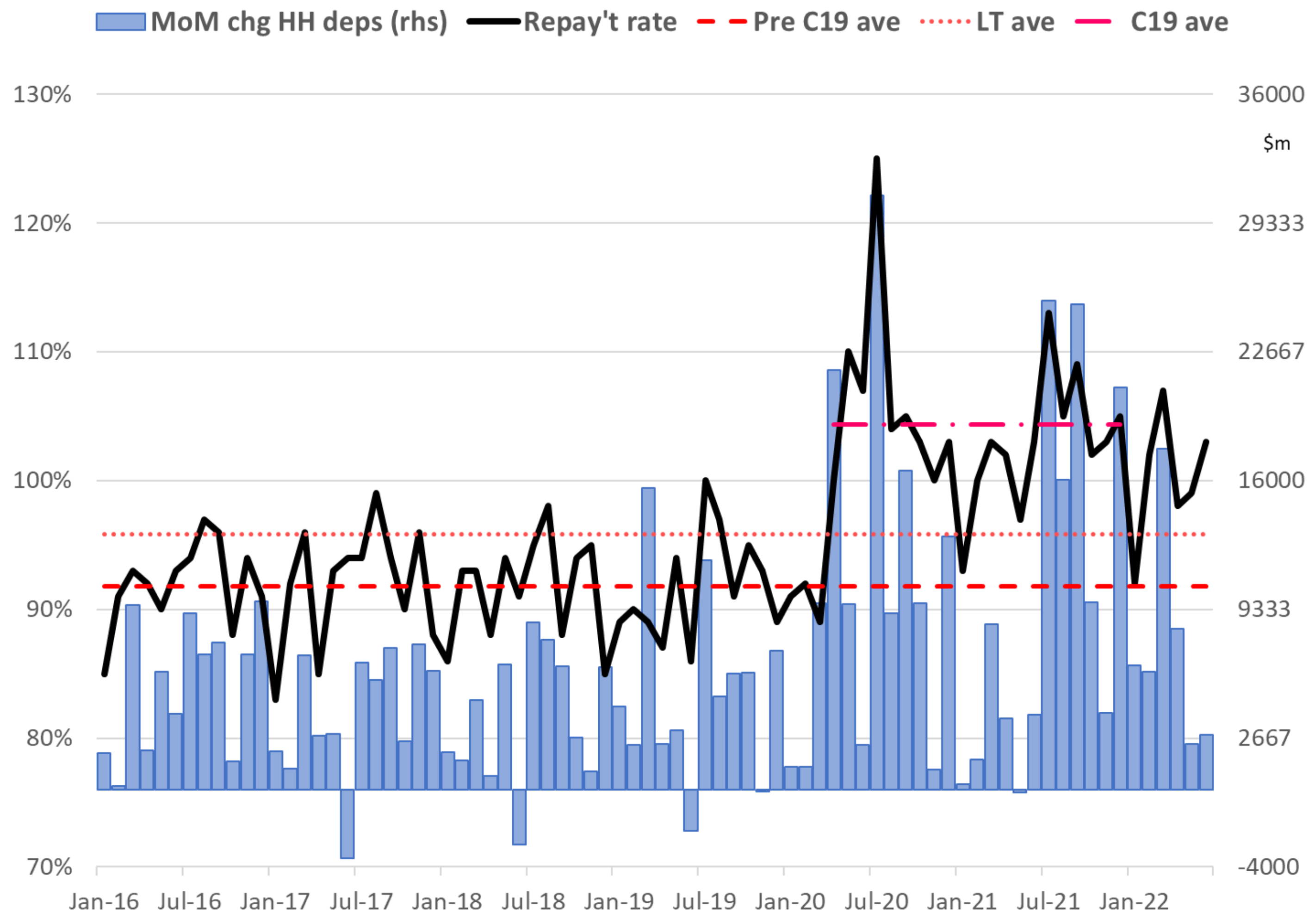
Group cash rate sensitivity analysis

- +100bps rates = -ve $40m interest expense (*pre-tax, annualised*)
- 1H22 ave cash rate = 24bps/ 2H22 to date ave = 135bps
- Ave HoH rate delta is already 111bps (*cash*)/ 76bps (*3-yr swap*)
- This analysis 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
- The above impacts excludes any management action



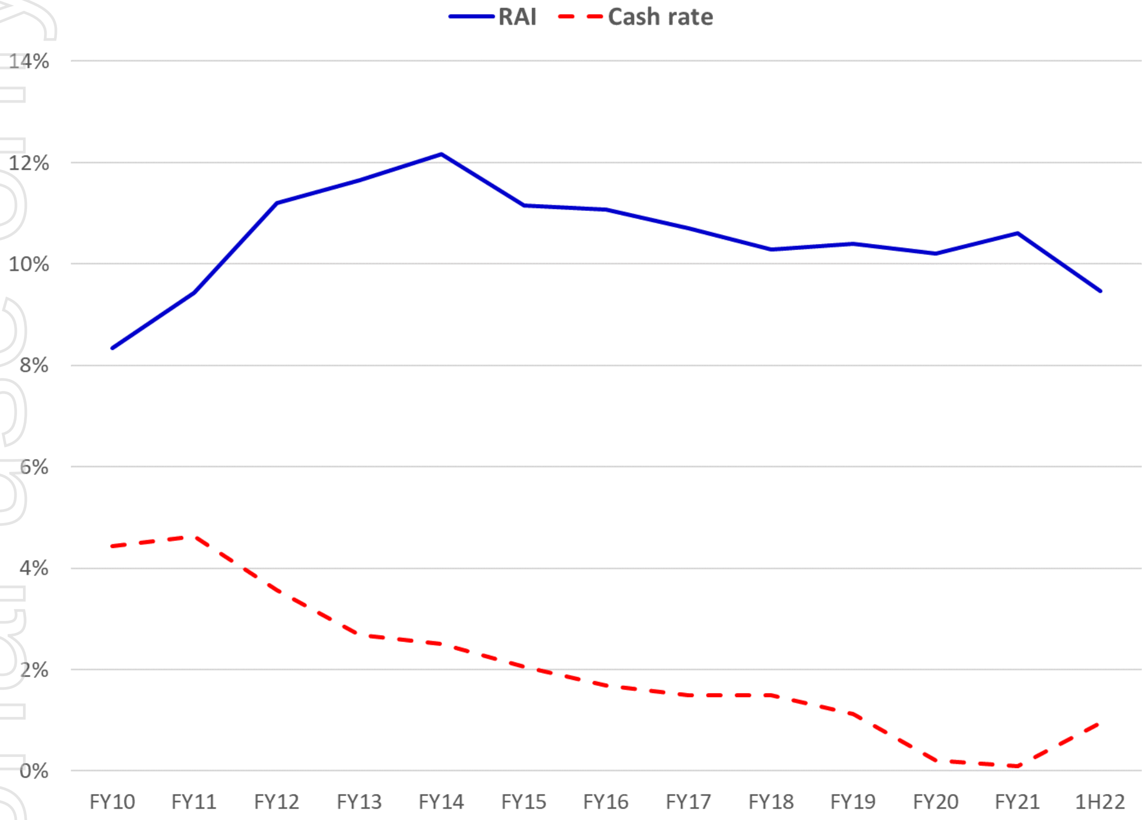
Source: Company data, RBA

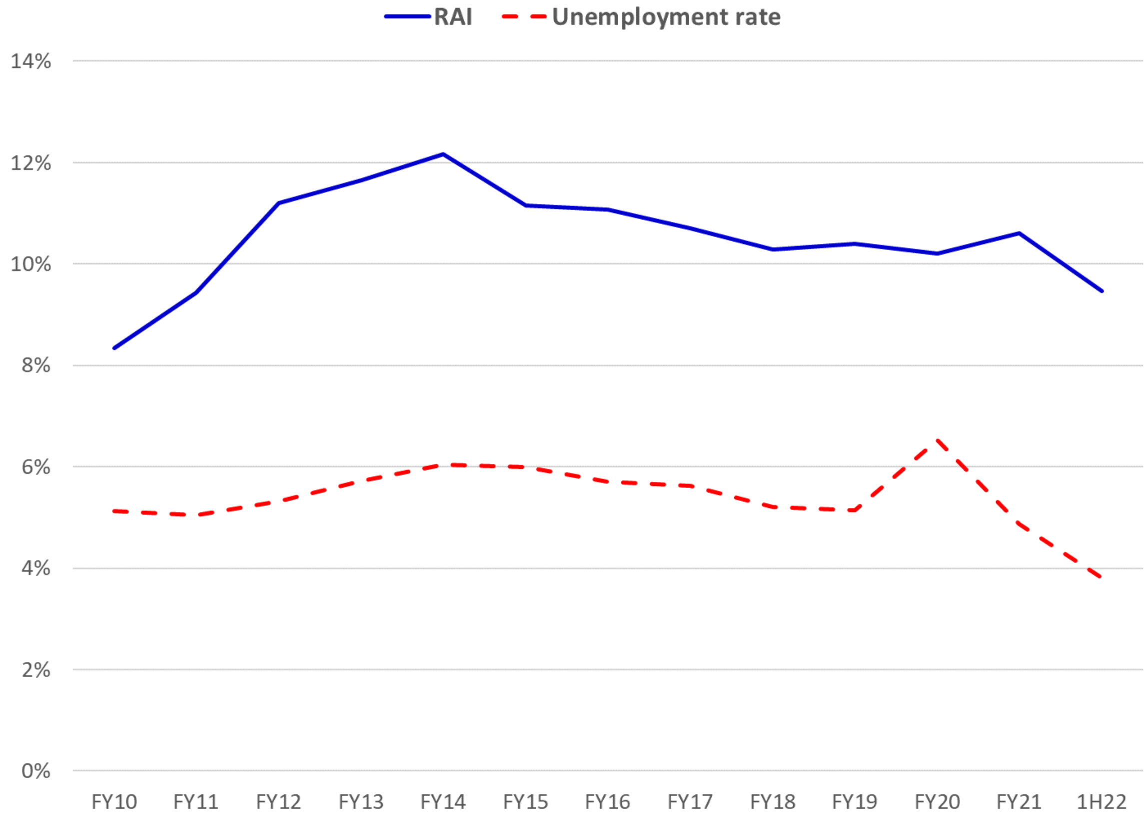
Repayment rate and excess household liquidity...



Source: Company data, APRA

Longer term LFS experience: RAI range of 8-12%...



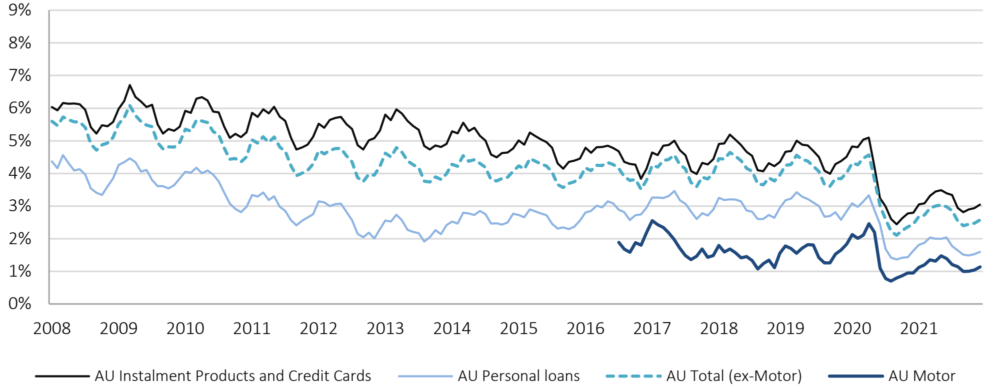


Source: Company data, RBA, ABS

Delinquency performance over time

Delinquencies (30+ days past due) by product, Australia

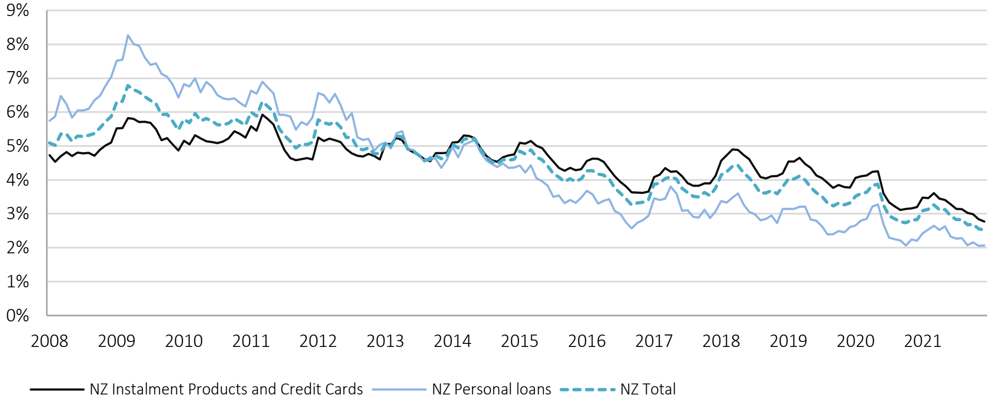
% Accounts 30+ days past due



Notes: Time series data from January 2008 to 30 June 2022. Motor loans delinquency history captured from July 2016 which was when Latitude relaunched its motor loan product.

Delinquencies (30+ days past due) by product, New Zealand

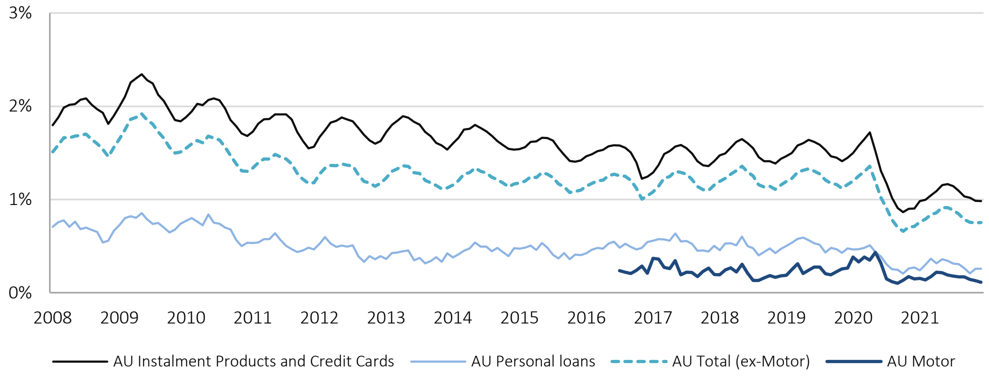
% Accounts 30+ days past due



Notes: Time series data from January 2008 to 30 June 2022.

Delinquencies (90+ days past due) by product, Australia

% Accounts 90+ days past due



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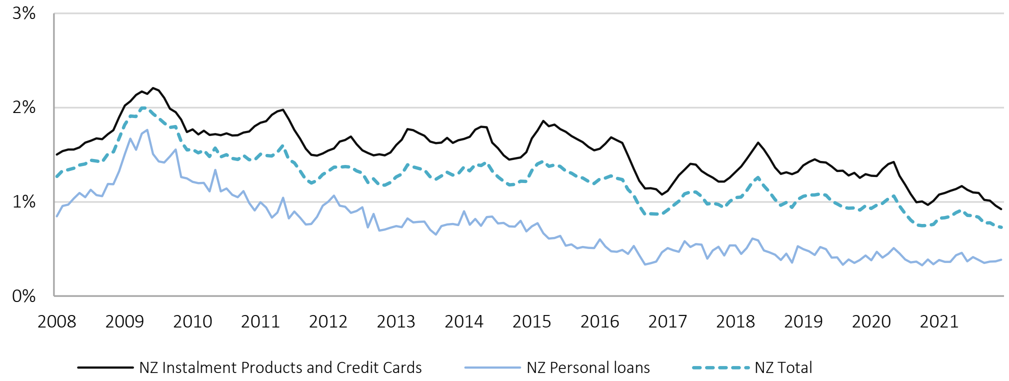

Notes: Time series data from January 2008 to 30 June 2022.

ESG 1H22 highlights

BETTER GIVING

Since Aug 2017
we have collectively donated
$865,099
to our nine charity partners via workplace giving.

COMMUNITY PARTNERSHIPS

Ardoch (AU)

Duffy Books in Home (NZ)

empowering our communities and children through education

FINANCIAL CAPABILITY

Supporting employees financial wellbeing through **online courses** and **tools**

GOVERNANCE

- Diversity Objectives
- Modern Slavery Statement update
- Code of Conduct update

Supporting Vulnerable Customers

Our dedicated Hardship Care team is guided by the standards and principals set out in Latitude's Vulnerable Customer Policy

ENVIRONMENT

- Our Melbourne Head Office is certified 5.5 star NABERS energy rating
- Developing sustainability commitments
- Exploring measurable objectives to reduce environmental footprint

LATITUDE

Thank you

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