LATITUDE

Latitude Financial Services

Enterprise Risk Management Framework

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1) Introduction

As a major consumer lender, Latitude **serves millions of customers,** primarily in Australia and New Zealand, in accordance with its **core values and mission.**

The Latitude Values and Code of Conduct set the tone for the organisation, enabling our empoloyees in making ethical and sound choices to support our customers and strengthen our brand and reputation. Employees are encouraged to have open and engaged discussions on risk and compliance, with a focus on building trust and transparency.

Risks are inherent in business activities and can impact strategic goals, business performance and compliance with regulatory requirements. In order to deliver value to Latitude's shareholders and its customers, all employees must understand how to effectively manage the risks faced across the business.

The Enterprise Risk Management Framework (ERMF) outlines Latitude's approach to effectively manage existing and emerging risks. This Framework details how risk is managed and addresses the following elements:

- The risk categories that need to be managed
- Roles, responsibilities and accountabilities for effective risk management
- The risk management process

2) Roles and Responsibilities in Risk Management

All Latitude staff are responsible and accountable for managing risk within their division. Latitude uses the three lines model to define and coordinate risk management obligations, with Management across all lines responsible for driving a positive risk culture. While each line has specific roles and responsibilities, Latitude promotes coordination and communication among the three lines. Early, clear and consistent dialogue across the three lines is critical to the success of an integrated risk management program. This is supported by a detailed accountability matrix in the Enterprise Risk Management Standard.

2.1 First Line (Business) - Ownership

The first line refers to the people accountable for owning and manging their risks. The process owner is accountable for identifying, measuring, managing, monitoring and reporting current and emerging risks associated with the activities and operations they own.

Business leaders, in partnership with applicable Risk functions, must manage identified risks in accordance with relevant Risk Appetite settings and policy requirements. Activities driving these risks or breaches of appetite will need to be avoided, accepted, reduced or transferred. Breaches of appetite are escalated to the Enterprise Risk Management Committee (ERMC) and / or Board Risk Committee (BRC).

Additionally, Management will strive to design and implement systems and business processes in accordance with best practice.

2.2 Second Line (Group Risk) - Challenge and Oversight

To help ensure risks are appropriately and consistently managed, Group Risk will set policies, define minimum standards and issue advice applicable to Latitude activities. Risk, as the second line, provides challenge and oversight to the first line, while assessing adherence to governance frameworks, risk appetite and policies.

Group Risk is responsible for maintaining an Enterprise-wide view of current and emerging risks, escalating issues independently, developing risk management frameworks and driving centralisation and standardisation of key risk processes, systems and tools.

On a periodic basis, risk scans and surveys may be performed by the Risk function to identify and assess internal and external events that might affect the achievement of strategic objectives.

2.3 Third Line (Internal Audit) - Independent Assurance

The third line is Internal Audit, which is accountable for independent, objective, reliable and timely assurance to assist Latitude accomplish its objectives by bringing a systematic and disciplined approach to evaluate the effectiveness of Latitude's risk management, control and governance processes, and adherence to relevant regulatory guidelines.

Internal Audit uses a risk-based audit methodology designed to ensure appropriate audit coverage of key risks facing the organisation.

3) Risk Categories

To achieve Latitude's strategic objectives and deliver value to shareholders, the risks faced by Latitude must be understood and effectively managed. **Latitude's risks are grouped into the following Level 1 categories:**

- **Project & Change Management Risk**
- **Market Risk**
- **Liquidity Risk**
- **Capital Management Risk**
- **Credit Risk**
- **Partner & Supplier Risk**
- **Compliance Risk**
- **Employee Risk**
- **External Fraud Risk**
- **Information Security & Cyber Risk**
- **Technology Risk**
- **Business Continuity**
- **Process Risk**
- **Conduct Risk**[1]
- **Strategic Risk**[2]

Each Level 1 category is supported by one or more Level 2 categories, as detailed in Latitude's Risk Taxonomy.

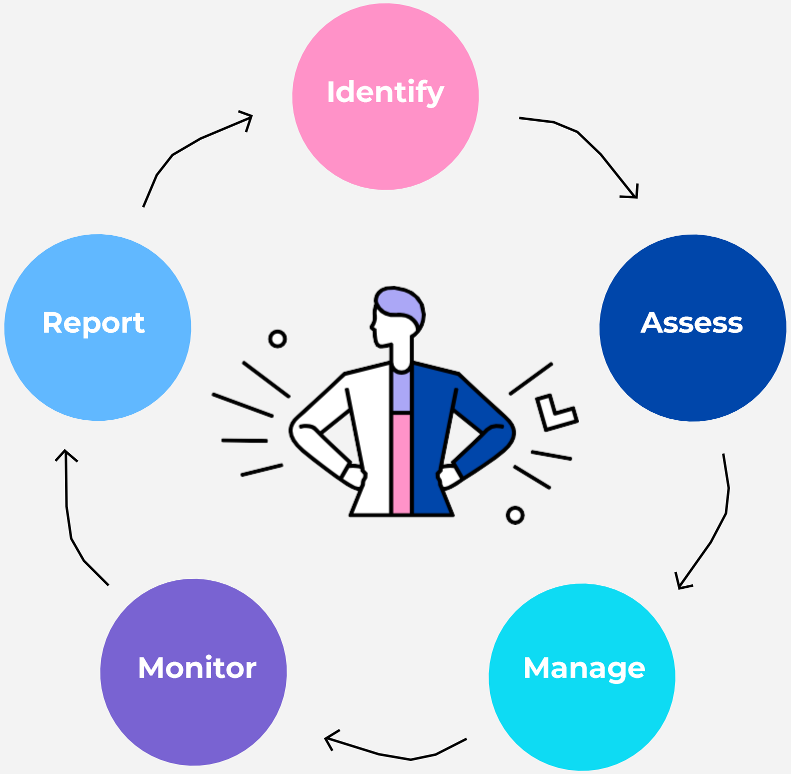
[1] Conduct Risk is an outcome of other risks within the Taxonomy, and as such is not assessed as part of the Risk Self-Assessment process.

[2] Strategic Risk is not assessed as part of the bi-annual Risk Self-Assessment process. Instead, an "external / emerging risk assessment" is undertaken , and strategic objectives are refreshed on an annual basis.

Risk management requires a broad understanding of internal and external factors that can impact achievement of strategic and business objectives.

Latitude's risk management processes represent the day-to-day activities used to identify and better manage risks that may impact Latitude and ensure that such risks remain within risk appetite.

The risk management life cycle is comprised of the following elements:



4) Risk Management Processes

1. Risk Identification

Risk identification is the process of recognising and describing events that could negatively affect the achievement of Latitude's strategic objectives. Effective risk identification allows Latitude to identify the risks generated by its operations, and quantify these risks to allow for prioritisation of mitigation actions. Latitude has developed appropriate tools and policies to document material risks and processes to determine how those risks will be managed.

2. Risk Assessment

An assessment is completed to understand how large the risks are, both individually and collectively, in order to focus on the most important threats. This enables Latitude to lay the groundwork for risk mitigation. An inherent risk assessment is initially performed to consider the impact and likelihood of the risk in the absence of internal controls. The effectiveness of controls in place to mitigate the risk is then considered, to enable residual risk impact and likelihood to be assessed. Understanding the residual risk enables consideration of whether further mitigation actions are required to address items outside of the risk appetite.

Latitude has implemented a Risk Assessment Matrix which requires consideration of impacts to Customers, Reputation, Financial, Regulatory and People. This qualitative and quantitative assessment enables teams to define the level of risk posed by considering the severity of likely outcomes. The assessment criteria is outlined in the Enterprise Risk Management Standard and tabled at the Board Risk Committee for oversight and management.

3. Risk Management

Risk management and mitigation is the process by which Latitude determines whether risks will be avoided, controlled, accepted or transferred. A key part of effective risk management includes the systematic identification and documentation of controls, particularly key controls, in an a ppropriate manner. Robust internal controls play a critical role in managing risk by preventing a risk from occurring in the first place, or detecting a risk after it has occurred.

Latitude's Risk and Control Self Assessment process also enables the consistent assignment of Risk and Control ownership across the organisation, driving accountability and transparency across Risks and Control portfolios.

4.4 Risk Monitoring and Reporting

Monitoring is the ongoing review of key risks and the performance of established controls. The scope and frequency of monitoring depends upon the result of relevant risk assessments (i.e. the Risk Self-Assessment process), as well as on specific business operations and activities. Adequate monitoring enables Latitude to understand its risk profile at an Enterprise level and report on risks that are outside risk appetite. Individual teams are required to provide actionable information to inform business decisions and prompts responses to current and emerging issues. This ensures that Management and the Board maintain a comprehensive view of Latitude's risk profile.

Monitoring and testing may reveal deficiencies in elements of the ERMF such as policies, procedures, control design, roles and responsibilities, etc. In such cases, Line 1 and Line 2 are jointly responsible for adjusting the framework and implementing changes as appropriate. These changes are supported by regular training and communications programs.

5) Governance Structure

Latitude has established a risk governance structure through which the Board and Management develop risk strategies, monitor adherence to risk appetite, review and approve various policies and manage risks.

Board of Directors

Board Committee

- **Risk**
- **Audit**
- **Technology**
- **Remuneration & People**

Executive & Corporate Governance Committee

- **CEO**
- **EGM, Pay**
- **EGM, Money**
- **EGM, Finance**
- **EGM, Risk**
- **EGM, People & Culture**
- **EGM, Enterprise Services**
- **EGM, Strategy & Transformation**
- **General Counsel**
- **Company Secretary**
- **Group GM, Treasury & Corporate Development**

Line 1 Business Units

CEO

- **Pay**
- **Money**
  - **Marketing**
- **Finance**
- **People & Culture**
- **Enterprise Services**

Group Risk (Line 2)

Reporting to the Chief Risk Officer, the following functions provide support to all Business Units, and regular reporting to Board Committees:

- Legal
- Enterprise & Operational Risk
- Credit & Financial Risk
- Compliance & Conduct
- Regulatory Engagement & Remediation
- Risk Governance

Line 3 – Internal Audit

5) Governance Structure

1. The Board & Board Sub Committees

The LGHL Board of Directors (The Board) oversees the conduct of the business and the development of Latitude's corporate strategy. To inform its decision making on the adequacy of Latitude's capital and liquidity positions and key strategic initiatives, the Board receives regular reporting on material risk exposures. The Board has established sub-committees to assist in exercising its authority and discharging its responsibilities. The Board Risk Committee is responsible for overseeing Latitude's risk management framework, including strategies, policies, and resources which are established to manage enterprise risks. In addition, the Board Audit Committee provides risk oversight via Internal Audit reporting.

2. Management Risk Committees

Latitude has established multiple management committees to ensure appropriate oversight of key topics. This includes a weekly Executive Committee providing oversight of all business areas, consisting of the CEO and the Senior Leadership Team, and a monthly Corporate Governance Committee, providing a consolidated view of Risk, Treasury, People and Strategy.

Oversight of key risks are exercised via the Latitude Enterprise Risk Management Committee (ERMC). The committee is responsible for monitoring compliance with regulatory requirements, recommending risk appetite settings for approval by the Board, assessing performance against risk appetite and making recommendations on how to manage identified issues.

The Latitude ERMC has established subordinate committees to ensure coverage of key risk areas in more detail, with sub-ordinate committees escalating to the ERMC via regular reports. Where required, temporary committees may be stood up in response to crisis management events. Additionally, various forums and committees provide cross-functional oversight. For example, the Credit Committee acts as a primary governance mechanism for management of credit across all products and geographies that Latitude is operating in..

3. Escalations

Escalation protocols apply to individual roles, management sub-committees, senior leadership and the Board. As frameworks, policies and decision matrices cannot account for every situation, candid and timely discussions between teams across the three lines are required to ensure appropriate action is taken to address issues or situations not covered by an existing framework or policy. It is important to note that any staff member can raise or escalate issues, regardless of role or department. This is supported by a detailed escalation process in the Enterprise Risk Management Standard.

4. Management of Delegated Authorities

Employees must act and take accountability for decisions within delegations. The Board determines Delegated Authorities (DAs) which apply to those matters delegated to Management. The Company Secretary will maintain a Delegations of Authority matrix, which outlines approval authorities as defined by the Board. Applicable business units such as Risk and Finance also maintain management level DA policies and procedures, which outline delegations from the Executive Committee to the relevant members of their team.

Delegations of Authority enable efficient decision making by those close to business activities, while still ensuring the Board and EC oversees areas of significant impact to Latitude.

6) Risk Culture

A strong risk culture is the foundation of effective risk management and to reinforce this, Latitude maintains a set of Risk Management Principles to guide how employees manage risk on a daily basis. These Principles are supported by the behaviours and actions of the Board and senior leadership (tone at the top).

1. Risk Management

Risk management at Latitude is conducted in accordance with three broad themes:

- ✓ We will only accept risks we fully understand;
- ✓ Everyone is responsible for risk management;
- ✓ Risk and reward is balanced, to ensure appropriate return for the risks taken.

In accordance with these themes, Latitude maintains the following risk management principles by which we manage risk and measure ourselves.

2. Tone at the Top

A strong risk culture starts with the 'tone at the top', set by the Board, Chief Executive Officer, Chief Risk Officer and Executive Committee. Together, these leaders establish and regularly reinforce risk management as one of Latitude's strategic priorities.

3. Culture of Challenge

A cornerstone of an effective, informed and engaged Risk Management organisation is the degree to which employees at all levels feel empowered to question business decisions and strategic initiatives. Challenge is encouraged and expected of all employees and ensures the appropriate balance between risk-taking and reward.

7) Risk Appetite

The Risk Appetite Statement (RAS) articulates the level of risk that Latitude is willing to accept in pursuit of its strategic objectives.

Qualitatively, Latitude also expresses risk appetite in terms of policies, processes, procedures, statements and controls designed to limit risks that may or may not be quantifiable. The setting of the RAS involves assessing appropriate risk tolerances for Latitude, which is overseen by the LGHL Board (via the Board Risk Committee and Latitude ERMC).

When determining the settings in the RAS, consideration is provided to:

- Compliance with relevant legislation and guidance from regulators
- External factors such as macro-economic indicators
- Requirements from critical third parties such as those who provide funding
- The agreed business strategy

The RAS is reviewed by Management and approved by the Board on an annual basis, in consideration of strategic objectives.

The Board and senior leadership will review Latitude's future plans and objectives to assess if they remain aligned to Latitude's risk appetite. The RAS may also be reviewed in response to significant events, including changes in our external or internal environment.

Exceedances of risk appetite will be reported to the Board Risk Committee, along with an action plan (to return the risk within appetite) prepared by the risk owner. Appetite settings are further supported by business level Key Risk Indicators (KRIs), which are owned by Line 1 and reported via relevant management committees and forums.

8) Policy Governance

Policies and supporting documents assist in ensuring consistency in identifying, assessing, managing and monitoring risks across the business in a manner aligned with Latitude's risk appetite. Poorly developed policies may impact Latitude's ability to manage its risks.

Latitude's Policy Governance framework includes a document hierarchy and minimum requirements to ensure proper creation, approval, implementation and maintenance of business policies and supporting documents.

8.1 Document Review

In accordance with the Board Risk Committee Charter and external requirements, the Enterprise Risk Framework will be reviewed by Management and approved by the Board on an annual basis.

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