Latitude Summary Risk Management Policy

Effective risk management is fundamental to the success of Latitude.

Latitude is continuing to invest in further developing its risk management capabilities as a result of, among other things, changes to strategy, the disrupting external market environment and community expectations, as well as Latitude's focus on customer conduct and improved customer outcomes.

Latitude's enterprise-risk management framework, risk appetite statement and supporting policies and processes are designed to ensure that relevant risks in business activities are identified, measured, monitored and managed. It is guided by the following principles:

Latitude's operating model for risk management is designed to:

- maintain an effective system of internal controls commensurate with the scale and complexity of the Latitude business and consistent with the three lines of defence principles[1]. This incorporates front line management and staff leading and taking primary responsibility for managing risk; and
- support the business in enabling growth and productivity whilst supporting operational reliability and resilience. Latitude is combining its mature credit risk management competency with investments to further develop its conduct, regulatory and technology risk capabilities.

Latitude has individual policies and processes in place to manage and monitor the major categories of risk it encounters, building on well-established risk management capabilities developed during GE ownership. These risk areas include:

- Credit Risk;
- Strategic Risk;
- Operational Risk (people, process, systems);
- Technology Risk;
- Compliance Risk.
- Financial Risk;
- Product & Portfolio Management Risk;
- Conduct Risk; and
- Fraud Risk.

Leadership and oversight of Latitude's risk management approach and culture is executed and formalised through an established corporate governance structure, risk assessment program and risk appetite metrics.

The Chief Risk Officer is responsible for managing Latitude's risk management approach. The Board, MD & CEO and Executive Committee are responsible for setting the tone and monitoring the state of the organisation's risk culture. The Chief Risk Officer has a direct reporting line to the Board Risk Committee.

[1] Three lines of defense refers to the commonly adopted and regulatory endorsed approach to managing risk:
Line 1: Ownership of risk and controls by the business line representative for the relevant process;
Line 2: Oversight, support, training and challenge by risk management; and
Line 3: Independent review by audit.

The risk management assessment program is consistent with accepted standards (i.e., ISO 31000-2018 Risk Management) and comprises several important steps:

- *Identifying and analysing* the main risks facing Latitude;
- *Evaluating* those risks and making judgements about whether they are acceptable or not;
- *Implementing* appropriately designed control systems to manage these risks in a way which is consistent with Latitude's Board Approved Risk Appetite Statement;
- *Treating* unacceptable risks by formulating responses following the identification of unacceptable risks, including actions to reduce the probability or consequences of an event and formulation of contingency plans for certain scenarios;
- *Documenting* these processes, with risk registers and risk reporting, supplemented by risk manuals or related documents as appropriate; and
- *Ongoing monitoring, communication and review*.

While the framework is applied consistently across Latitude, individual business and functional areas must identify and analyse the risks in their own areas, assess the controls in place to deal with those risks, and make decisions about whether to mitigate a particular risk – fully or partially – given its effects and the costs of mitigation. If a residual risk is judged to be unacceptable, the front-line manager is responsible for developing and implementing/overseeing a remedial plan. This process is overseen by the Chief Risk Officer, and by Latitude's Executive Committee for material risks or where the residual risk is high or moderate.

Where risks extend across more than one business or functional area (e.g. portfolio management and technology-enabled risks), there are processes established for ensuring that the risks are both communicated, and action agreed, between the areas concerned. Processes are also in place that facilitate appropriate liaison and consultation with commercial entities, outsourced providers and other external entities (including regulators) whose activities could inform Latitude's risk environment.

The Internal Audit function also provides a level of objective, reliable and timely assurance on the effectiveness of Latitude's risk management, control and governance processes, and adherence to relevant regulatory guidelines.

Alignment and adherence to policies and procedures is monitored by management committees (under the direction of the MD & CEO), the Board and Board Committees. Each executive leads and attests to the appropriate completion of their Risk and Control Self-Assessment (RCSA) process bi-annually. The results and observations are presented to the Risk, Audit and Asset and Liability Committee, with material results reported to the Risk Committee of the Board.

The Board (through the Risk Committee) annually undertakes a review of Latitude's risk management framework to satisfy itself that it continues to be sound. The MD & CEO annually provide a declaration that, in their opinion, the financial records are formed on the basis of a sound system of risk management and internal control which is operating effectively.

Latitude will report the status of those reviews and declarations, and any substantive changes in its systems of risk management in the annual Corporate Governance Statement.

HALLMARK INSURANCE

Hallmark Insurance maintains a risk management framework that is designed to be compliant with APRA Prudential Standards. This includes both Hallmark Insurance-specific and Latitude shared policies, procedures and controls noting that Latitude owns and manages a number of processes and risks for Hallmark Insurance. Hallmark Insurance maintains a separate board and committee governance structure to Latitude Financial Services; however, the Risk, Audit and Asset and Liability Committee and Board Risk Committee cover both Latitude Financial Services and Hallmark Insurance.