Target Market Determination

1. About this document

This target market determination (TMD) sets out the class of customers for which the following Afterpay products have been designed, having regard to the objectives, financial situation and needs of customers in the products' target market:

- The Afterpay BNPL Product (BNPL Product); and
- Afterpay Plus

(together, the Products)

This TMD is not to be treated as a full summary of the Products' terms and conditions and is not intended to provide financial advice. Customers must refer to the relevant terms and conditions of the Products when making a decision about this product.

This TMD is effective from April 2023.

2. Class of customers that fall within the target market

BNPL Product

The BNPL Product is for customers who would like an alternative to traditional credit products which enables them to buy products and services on a 'buy now, receive now, pay later' basis. It has been purposefully designed as a safe product for customers, with strong inbuilt protections. Afterpay customers start with low spending limits and are required to make their first repayment upfront. Newer customers that cannot make their first payment upfront are unable to use our product.

Although customers may pay late fees, Afterpay caps its late fees (at the lower of $68 or 25% of the purchase price) to ensure that customers are protected. Customers never pay interest. Although customers may potentially pay repeated late fees on multiple orders over time, our late fee cap ensures that the total amount of late fees paid never exceeds 25% of the amount being spent by the customer. Our research has shown that vulnerable customers benefit the most from using a product like the BNPL Product when compared with revolving credit products such as credit cards.

Afterpay requires all purchases to be paid off within four instalments, and does not allow customers to pay a fee (or pay interest) to extend the repayment period.

This means that customers cannot revolve in debt when making purchases, and customers pay off their purchases over a short period of time.

Afterpay recognises that customers may experience financial hardship from time to time, and has a generous and highly accessible hardship program. We do not decline requests for hardship assistance and we provide customers that are experiencing hardship with a wide range of flexible payment options. Late fees are frozen for customers in hardship, and we do not require evidence from customers to support their hardship requests.

Afterpay does not enforce debts, and we do not participate in the credit reporting system. This means that customers do not experience the harm that can ordinarily arise (e.g. pressure to pay to avoid negative impacts on a credit score, aggressive debt collection practices, legal enforcement of debts) when they find themselves unable to meet their repayment obligations.

Because of these reasons, the Afterpay product is suitable for a wide range of customers.

Afterpay Plus

In addition to the above, to participate in Afterpay Plus, eligible Afterpay customers can elect to pay a small monthly fee to obtain other features and benefits such as the ability to use Afterpay with merchants who are not currently part of the Afterpay merchant network.

(a) Class of customers that fall within this target market

BNPL Product
This product is designed for customers who:

- Are seeking to pay for products and services on an instalment basis without payment of interest, account keeping or establishment fees and without the risk of entering into revolving debt.
- May not have an established credit history and may have other liabilities.
- Would benefit from a product with strong inbuilt controls which protect the customer, such as
    - Real-time risk decisioning - i.e. orders are approved individually, rather than a customer being provided with an unrestricted spending limit.
    - Dynamic spending limits that start low, increase only with positive repayment behaviour and may decrease due to missed payments or other factors.
    - Protections to avoid excessive fees, with hard caps on late fees.

    - Restrictions on using the product when instalment payments are missed.
- Would benefit from a product which can function as a budgeting tool which provides them with the flexibility of paying by instalments via automatic direct debit from a debit card or credit card and has no hidden fees or costs associated with its use if instalments are paid on time.
- Would benefit from a product that is zero cost upfront or, if late fees happen to be paid, is low cost relative to other financial products that are available in the market.
- Would benefit from a product that does not result in merchants engaging in 'discretionary' pricing - i.e. where a merchant will effectively inflate the price of their product or service to account for the use of a BNPL product.
    - Where, in rare cases, Afterpay does allow a merchant to charge more for the use of Afterpay, this will be only on an exceptions basis, and Afterpay requires that any such surcharge be notified to customers prior to purchase, and not discriminate against customers for selecting the Afterpay service as compared to other payment methods offered by the merchant.
- Would be comfortable with the ease and efficiency of using a digital-only product.

Afterpay Plus

In addition to the benefits and features above, Afterpay Plus is designed for customers who would like to pay a small monthly fee to obtain additional features and benefits such as the ability to use the BNPL Product with merchants who are not currently part of the Afterpay merchant network.

(b) Excluded class of customers

The BNPL Product may not be suitable for customers that are seeking functionality and flexibility that goes beyond what Afterpay supports. This product is not designed for customers who:

- Require a product with a large upfront spending limit.
- Require a product that enables unrestricted on-demand spending.
- Require a product for use at all categories of merchants.
- Require a product that enables them to pay down their purchase over a long period of time.
- Are not comfortable using digital-only services.
- Currently have a suspended or written off Afterpay account.

The same excluded class of customers referred to above applies to Afterpay Plus with the exception of the class of customers who require a product for use at all

categories of merchants given the key feature of Afterpay Plus allows its use with a wider range of merchants outside of the Afterpay merchant network upon payment of a monthly fee.

The Products may also not be suitable for customers who use a credit card as their repayment method and who incur repeated late fees as a result of repayments being dishonoured by their credit card provider due to having an insufficient credit card limit (i.e. a credit card that is effectively 'maxxed out'). Customers in this situation may be more likely to be vulnerable, potentially increasing their overall liabilities and be using multiple products to manage a difficult financial situation. Afterpay puts in place measures to protect these customers (see below).

(c) Eligibility requirements and product attributes

The key eligibility requirements and product attributes of the Products are:

BNPL Product eligibility requirements

- Customers must successfully complete the onboarding process by meeting the following conditions:
  - Be an individual over 18 years of age.
  - Be capable of entering into a legally binding contract.
  - Successfully verify their identity to the satisfaction of Afterpay.
  - Have a valid and verifiable email address and Australian mobile number.
  - Provide a valid delivery address in Australia.
  - Be able to pay 25% of an order amount immediately as the first instalment.
  - Be the holder of a valid and verified Australian-issued debit or credit card.
- Customers must be able to access the product through digital means.
- Customers may not be onboarded if they have previously been an Afterpay customer.

Afterpay Plus eligibility requirements

In addition to the BNPL Product eligibility requirements:

- Customers must have held the BNPL Product for at least 90 days and must have completed at least one successful purchase; and
- Customers must demonstrate consistent on time payments on the BNPL product.

BNPL Product attributes

- Pay within four instalments over six to eight weeks.
- No charging of interest, account keeping or establishment fees.

- Variable spending limit based on customer repayment history and capabilities and inability to spend over the set limit.
- Declining of further orders if a customer is one day overdue on a single instalment repayment.
- No charging of late fees when the customer pays on time.
- Capping of late fees.
- Freezing of late fees for customers who apply for hardship.

Afterpay Plus attributes

In addition to the BNPL Product attributes:

- Customers will only be able to sign up once in a 12 month period.
- Customers will be able to use Afterpay Plus with almost any merchant accepting Apple Pay and Google Pay as payment methods (excepting those merchants which might be restricted by the relevant card schemes e.g. Mastercard).
- Customers can pause their Afterpay Plus subscription for a period of either 1, 2 or 3 months and will be able to resume before the pause period ends;
    - Customers can only pause once per 12 month period; and
    - When paused, their Afterpay Plus Card will revert to an Afterpay Card for in-store purchases within the Afterpay network.

3. Consistency between target market and the Products

The Products are consistent with the identified class of market due to the following key terms, features, attributes and controls:

- No charging of interest, account keeping or establishment fees.
- Only charging a small monthly fee for Afterpay Plus customers who have opted in to join the Afterpay Plus program.
- Provision of a variable spending limit based on customer repayment history and capabilities.
- No option provided to customers to pay extra fees or interest to delay their debt or payment schedule.
- Hard system controls in place to:
    - Ensure customers complete the onboarding process before they can use the product.
    - Decline further order approvals if a customer is one day overdue on a single instalment repayment, thus preventing a debt spiral.
    - Minimise the financial impact of missed payments by capping late fees and freezing all late fees for customers who apply for hardship.
    - Prevent spending over a specified amount.

    - Prevent customers from spending on Afterpay when they are in arrears with Afterpay.
    - Reduce customers' spending limits to as low as $300 to significantly limit the potential harm that may arise from additional spending.
- Merchants are contractually prevented from inflating the cost of their products where Afterpay is used as the payment method, and Afterpay conducts monitoring to ensure that this contractual requirement is met. Afterpay also does not partner with merchants that are associated with a higher risk of discretionary pricing. Afterpay has also conducted research to confirm that the use of Afterpay by merchants and customers does not result in higher prices for customers because of the value that Afterpay generates for merchants.
- The product is a purely digital product.

For customers that exclusively use a credit card (rather than a debit card) with Afterpay and pay repeated late fees, Afterpay protects these customers by:

- Proactively offering hardship assistance; and
- Preventing them from continuing to spend on Afterpay.

Afterpay also conducts regular monitoring in accordance with the measures set out in this section 3 and as set out in the review triggers in section 5.

4. Distribution Conditions

(a) How the Products are distributed

The Products are distributed directly by Afterpay via online channels**.** Customers may obtain the Products by:

- Downloading our smartphone application via the Apple or Google app stores.
- Accessing our website at www.afterpay.com and applying for the Products.
- Seeing our product available for use at online merchants and applying for our Products online via www.afterpay.com (note: merchants do not play a role in distributing the Products or assisting customers in applying for the Products).

Although customers may see Afterpay available for use at physical retail stores, customers must still apply online (via our app or website) to use our Products. Sales staff within retail stores do not assist customers in obtaining the Products.

(b) Adequacy of distribution conditions and restrictions

Afterpay only distributes its Products online and uses a standardised process for onboarding customers. This control helps ensure that customers that obtain the Products are in the target market.

Further, the marketing for the Products does not deliberately target customers outside the eligibility criteria (such as those under the age of 18 and those outside Australia) which assists in ensuring the distribution is being directed towards the target market for whom the Products have been designed.

5. Reviewing this target market determination

We will review this TMD in accordance with the below:

Initial review	By 5 October 2022
Periodic reviews	At least every two years from the initial review.
Review triggers or events	Any of the below triggers may indicate that the TMD is no longer considered appropriate for the target market and a review of the TMD is to be undertaken by Afterpay: ● A material change to the design or distribution of the product. ● Occurrence of a significant dealing outside the target market. ● External events such as material adverse media coverage or regulatory attention. ● A material change to our metrics outside tolerance, including, but not limited to: (a) A significant increase in volumes of complaints relating to: ▪ Declined hardship applications. ▪ Payment of late fees when the customer has paid on time or is in a hardship arrangement with us. ▪ Customers being able to spend over their set spending limit. (b) Customers being able to use the Products before completion of the onboarding process. (c) Customers being able to transact over their set spending limit. (d) Customers having orders approved if they have an overdue instalment. (e) Customers being charged late fees while they are in a hardship arrangement with us. (f) Number or proportion of customers paying late fees over the cap.

Where a review trigger has occurred, this target market determination will be reviewed within 10 business days.

Target Market Determination

Historic version

1. About this document

This target market determination (TMD) sets out the class of customers for which the Afterpay product has been designed, having regard to the objectives, financial situation and needs of customers in the product's target market.

This TMD is not to be treated as a full summary of the product's terms and conditions and is not intended to provide financial advice. Customers must refer to the relevant terms and conditions under the product when making a decision about this product.

This TMD applies to the Afterpay Buy Now Pay Later (BNPL) product only and is effective from 5 October 2021.

2. Class of customers that fall within this target market

The Afterpay product is for consumers who would like an alternative to traditional credit products which enables them to buy products and services on a 'buy now, receive now, pay later' basis.

Afterpay has been purposefully designed as a safe product for consumers, with strong inbuilt protections. Afterpay customers start with low spending limits and are required to make their first repayment upfront. Newer customers that cannot make their first payment upfront are unable to use our product.

Although customers may pay late fees, Afterpay caps its late fees (at the lower of $68 or 25% of the purchase price) to ensure that customers are protected. Customers never pay interest. Although customers may potentially pay repeated late fees on multiple orders over time, our late fee cap ensures that the total amount of late fees paid never exceeds 25% of the amount being spent by the customer. Our research has shown the vulnerable customers benefit the most from using a product like Afterpay when compared with revolving credit products such as credit cards.

Afterpay requires all purchases to be paid off within four instalments, and does not allow customers to pay a fee (or pay interest) to extend the repayment period. This means that customers cannot revolve in debt when making purchases, and customers pay off their purchases over a short period of time.

Afterpay recognises that customers may experience financial hardship from time to time, and has a generous and highly accessible hardship program. We do not decline requests for hardship assistance and we provide customers that are experiencing hardship with a wide range of flexible payment options. Late fees are frozen for customers in hardship, and we do not require evidence from customers to support their hardship requests.

Afterpay does not enforce debts, and we do not participate in the credit reporting system. This means that customers do not experience the harm that can ordinarily arise (e.g. pressure to pay to avoid negative impacts on a credit score, aggressive debt collection practices, legal enforcement of debts) when they find themselves unable to meet their repayment obligations.

Because of these reasons, the Afterpay product is suitable for a wide range of consumers.

(a) Class of customers that fall within this target market

This product is designed for consumers who:

- Are seeking to pay for products and services on an instalment basis without payment of interest, account keeping or establishment fees and without the risk of entering into revolving debt.
- May not have an established credit history and may have other liabilities.
- Would benefit from a product with strong inbuilt controls which protect the customer, such as
    - Real-time risk decisioning - i.e. orders are approved individually, rather than a customer being provided with an unrestricted spending limit.
    - Dynamic spending limits that start low, increase only with positive repayment behaviour and may decrease due to missed payments or other factors.
    - Protections to avoid excessive fees, with hard caps on late fees.
    - Restrictions on using the product when instalment payments are missed.
- Would benefit from a product which can function as a budgeting tool which provides them with the flexibility of paying by instalments via automatic direct debit from a debit card or credit card and has no hidden fees or costs associated with its use if instalments are paid on time.
- Would benefit from a product that is zero cost upfront or, if late fees happen to be paid, is low cost relative to other financial products that are available in the market.
- Would benefit from a product that does not result in merchants engaging in 'discretionary' pricing - i.e. where a merchant will effectively inflate the price of their product or service to account for the use of a BNPL product.
    - Where, in rare cases, Afterpay does allow a merchant to charge more for the use of Afterpay, this will be done via a surcharge [rather non-transparent discretionary pricing].
- Would be comfortable with the ease and efficiency of using a digital-only product.

(b) Excluded class of customers

Afterpay may not be suitable for customers that are seeking functionality and flexibility that goes beyond what Afterpay supports. This product is not designed for customers who:

- Require a product with a large upfront spending limit.
- Require a product that enables unrestricted on-demand spending.
- Require a product for use at all categories of merchants.
- Require a product that enables them to pay down their purchase over a long period of time.
- Are not comfortable using digital-only services.
- Currently have a suspended or written off Afterpay account.

Afterpay's product may also not be suitable for customers who use a credit card as their repayment method and who incur repeated late fees as a result of repayments being

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dishonoured by their credit card provider due to having an insufficient credit card limit (i.e. a credit card that is effectively 'maxxed out'). Customers in this situation may be more likely to be vulnerable, potentially increasing their overall liabilities and be using multiple products to manage a difficult financial situation. Afterpay puts in place measures to protect these customers (see below).

(c) Eligibility requirements and product attributes

The key eligibility requirements and product attributes of the Product are:

Eligibility requirements

- Customers must successfully complete the onboarding process by meeting the following conditions:
    - Be an individual over 18 years of age.
    - Be capable of entering into a legally binding contract.
    - Successfully verify their identity to the satisfaction of Afterpay.
    - Have a valid and verifiable email address and Australian mobile number.
    - Provide a valid delivery address in Australia.
    - Be able to pay 25% of an order amount immediately as the first instalment.
    - Be the holder of a valid and verified Australian-issued debit or credit card attached to the end-customer account.
- Customers must be able to access the product through digital means.
- Customers may not be onboarded if they have previously been an Afterpay customer.

Product attributes

- Pay in four instalments over six to eight weeks.
- No charging of interest, account keeping or establishment fees.
- Variable spending limit based on customer repayment history and capabilities and inability to spend over the set limit.
- Declining of further orders if a customer is one day overdue on a single instalment repayment.
- No charging of late fees when the customer pays on time.
- Capping of late fees.
- Freezing of late fees for customers who apply for hardship.

3. Consistency between target market and the Product

The product is consistent with the identified class of market due to the following key terms, features, attributes and controls:

- No charging of interest, account keeping or establishment fees.
- Provision of a variable spending limit based on customer repayment history and capabilities.
- No option provided to customers to pay extra fees or interest to delay their debt or payment

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schedule.

- Hard system controls in place to:
    - Ensure customers complete the onboarding process before they can use the product.
    - Decline further order approvals if a customer is one day overdue on a single instalment repayment, thus preventing a debt spiral.
    - Minimise the financial impact of missed payments by capping late fees and freezing all late fees for customers who apply for hardship.
- Prevent spending over a specified amount.
- Preventing customers from spending on Afterpay when they are in arrears with Afterpay.
- Reducing customers' spending limits to as low as $300 to significantly limit the potential harm that may arise from additional spending.
- Merchants are contractually prevented from inflating the cost of their products where Afterpay is used as the payment method, and Afterpay conducts monitoring to ensure that this contractual requirement is met. Afterpay also does not partner with merchants that are associated with a higher risk of discretionary pricing. Afterpay has also conducted research to confirm that the use of Afterpay by merchants and consumers does not result in higher prices for consumers because of the value that Afterpay generates for merchants.
- The product is a purely digital product.

For customers that exclusively use a credit card (rather than a debit card) with Afterpay and pay repeated late fees, Afterpay protects these customers by:

- Proactively offering hardship assistance; and
- Preventing them from continuing to spend on Afterpay.

Afterpay also conducts regular monitoring to identify:

- Whether there is a class of customers with common characteristics who regularly make hardship requests or incur late fees; and
- Merchants who have used Afterpay to engage in discretionary pricing.

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4. Distribution Conditions

(a) Class of customers that fall within this target market

The Product is distributed directly by Afterpay via online channels. Customers may obtain the product by:

- Downloading our smartphone application via the Apple or Google app stores.
- Accessing our website at www.afterpay.com and applying for the product.
- Seeing our product available for use at online merchants and applying for our product online via www.afterpay.com (note: merchants do not play a role in distributing the Afterpay product or assisting customers to apply for the product).

Although consumers may see Afterpay available for use at physical retail stores, consumers must still apply online (via our app or website) to use our product. Sales staff within retail stores do not assist consumers in obtaining the Afterpay product.

(b) Adequacy of distribution conditions and restrictions

Afterpay only distributes its product online and uses a standardised process for onboarding customers. This control helps ensure that consumers that obtain the product are in the target market.

Further, the product's marketing does not deliberately target customers outside the eligibility criteria (such as those under the age of 18 and those outside Australia) which assists in ensuring the distribution is being directed towards the target market for whom the Product has been designed.

5. Distribution Conditions

We will review this TMD in accordance with the below:

Initial review	By 5 October 2022
Periodic reviews	At least every two years from the initial review.
Review triggers or events	Any of the below triggers may indicate that the TMD is no longer considered appropriate for the target market and a review of the TMD is to be undertaken by Afterpay: • A material change to the design or distribution of the product. • Occurrence of a significant dealing outside the target market. • External events such as material adverse media coverage or regulatory attention. • A change to our metrics outside tolerance, including, but not limited to: (a) A significant increase in volumes of complaints relating to: • Declined hardship applications. • Payment of late fees when the customer has paid on time or is in a hardship arrangement with us. • Customers being able to spend over their set spending limit. (b) Customers being able to use the product before completion of the onboarding process. (c) Customers being able to transact over their set spending limit. (d) Customers having orders approved if they have an overdue instalment. (e) Customers being charged late fees while they are in a hardship arrangement with us. (f) Number or proportion of customers paying late fees over the cap.

Where a review trigger has occurred, this target market determination will be reviewed within 10 business days.

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