

prospa

Annual Report 2019







Small businesses backbone of the

Australian small businesses operate across a wide range of industries and are concentrated in New South Wales, Victoria and Queensland and throughout Australia roughly in line with population.



2.3 m

small businesses
in Australia¹



44%

of jobs²



35%

of GDP²

>\$20b

FY19 \$479m
<2% penetrated

1. ABS 8165 (Counts of Australian Businesses including Entries and Exits) June 2018 (released in February 2019).
2. Parliament of Australia, Department of Parliamentary Services, Research Paper Series, 2017-18.

are the economy



530,000

small businesses
in New Zealand³



29%

of jobs³



28%

of GDP³

> \$4b⁴

FY19 \$24m⁴

<1% penetrated

3. Small Business in New Zealand, Ministry of Business, Innovation & Employment, June 2017.
4. New Zealand Dollars.

They need access to finance to grow and prosper



Small businesses need a fast convenient way to access finance because they're time poor.⁵

26%

work 50 hours
a week or more

24%

work 7 days
a week

Small businesses seek finance for a number of business activities⁶



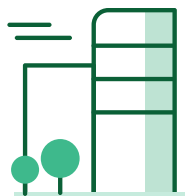
Maintaining short-term cash flow or liquidity



Replacing, upgrading or purchasing additional equipment or machinery



Introducing new or improved goods, services or processes



Pursuing expansion opportunities



Keeping the business operating

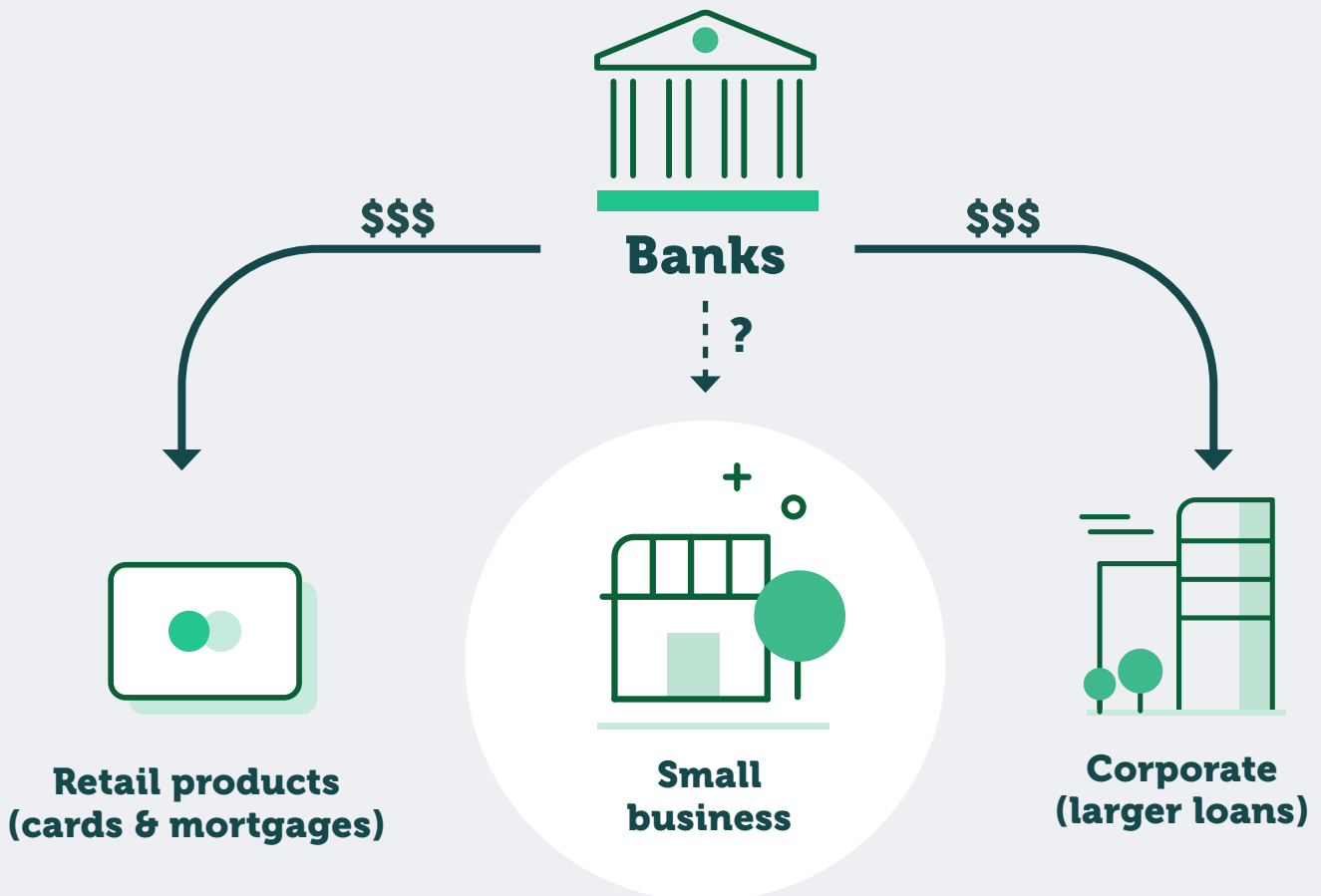
5. YouGov survey for Prospa of small business owners who work full time in their business, November 2018. YouGov is an independent, publicly listed global consumer insight company.
6. Small businesses defined as having less than 20 employees, including non-employing businesses; ABS 8167 (Selected Characteristics of Australian Business), June 2016 - 2017 (released in August 2018).

The challenge of accessing finance

Small businesses in Australia can find it difficult to access business loans from traditional lenders due to a number of factors.

Prospa's solutions are addressing a significant and growing market opportunity which has been under-served by incumbents.

The traditional bank model



Why not?

- ✗ Structural challenges (regulatory capital)
- ✗ Higher information requirements
- ✗ Products not well suited to small business
- ✗ Risk appetite and ROI

We're helping small business owners prosper and grow the economy

Prospa is a significant economic enabler.

Every **\$1m** of Prospa lending results in

\$4m

57

Full time jobs annually⁷

\$1.2b

to date

\$4.8b

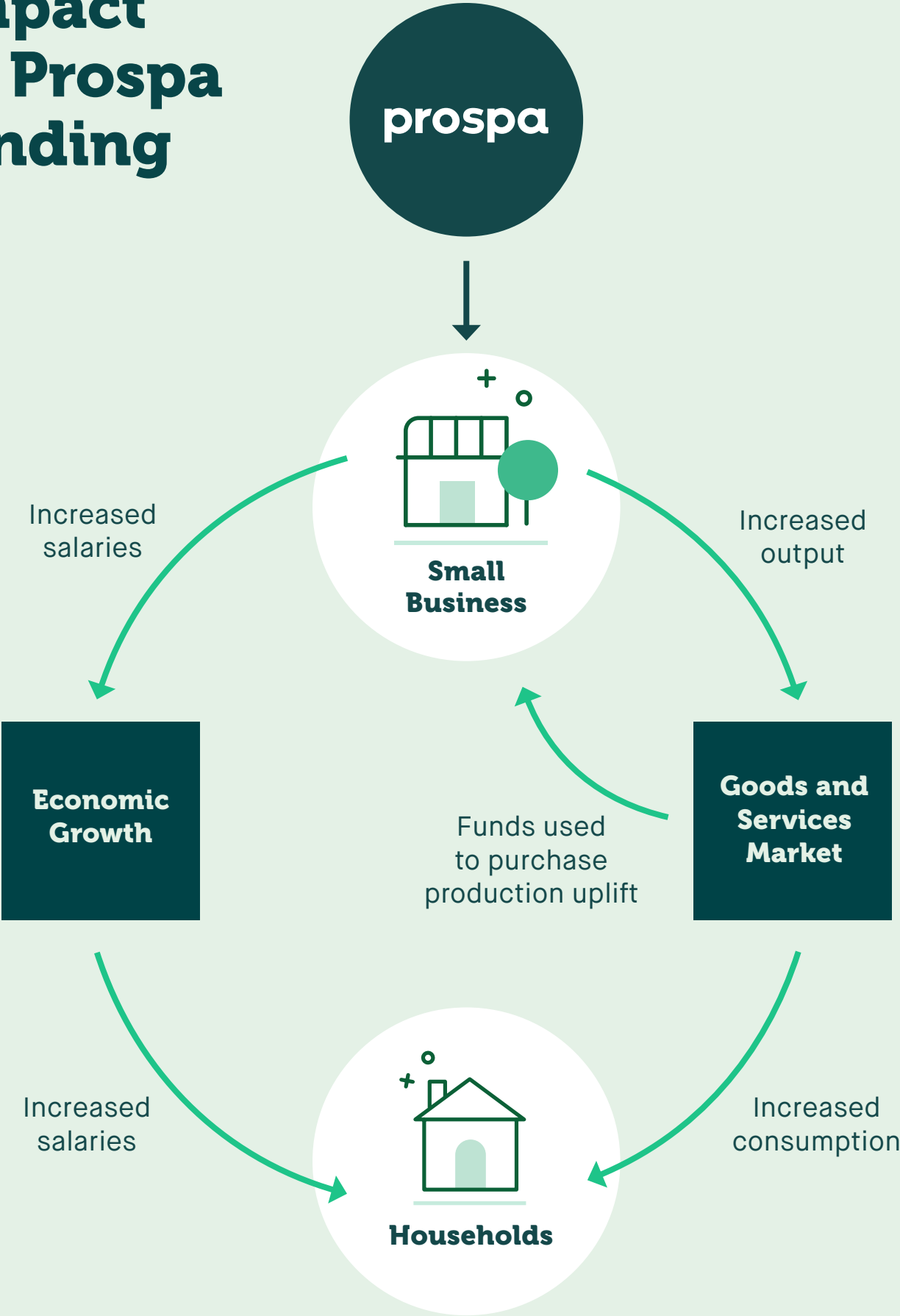
in Australian GDP

67,000

FTE annual employment

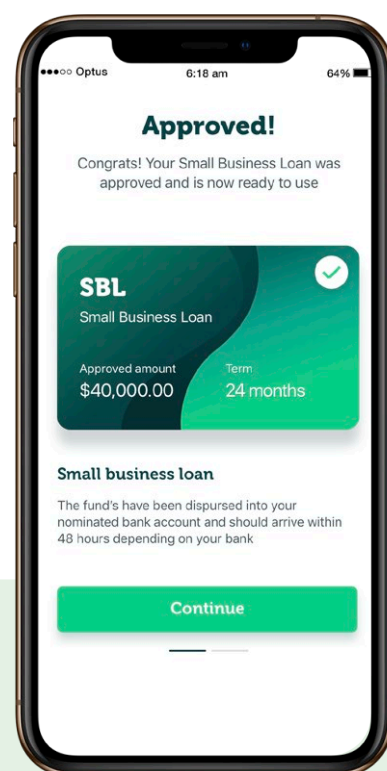
7. The Economic Impact of Prospa Lending to Small Business, RFI Group and The Centre for International Economics, January 2019. Represents the estimated nominal GDP increase and the estimated total FTE impact of Prospa lending over the period 1 January 2013 to 31 March 2019, calculated using Prospa lending over the period 1 January 2013 to 31 December 2018.

The economic impact of Prospa lending



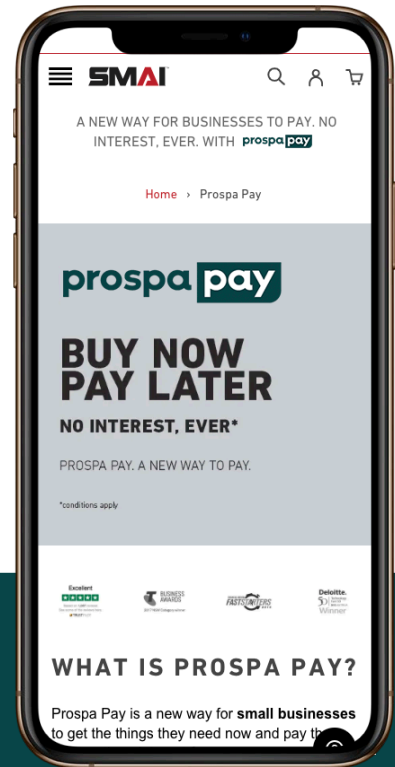
With a cohesive customer-focused platform

We build cash flow products and services that allow small businesses to **GROW** and **RUN** their business and help them **PAY** for goods and services.



Grow Small Business Loan

- ✔ \$5,000 to \$300,000
- ✔ A one-off lump sum to take advantage of opportunities
- ✔ Mobile app for increased customer engagement and retention



Run Line of Credit

- ✔ \$2,000 to \$25,000
- ✔ Complementary to small business loan
- ✔ Leverages existing credit infrastructure, technology and distribution
- ✔ Automated customer interactions and increased data

Pay ProspaPay

- ✔ \$500 to \$20,000
- ✔ B2B trade payments
- ✔ Provides interest free “buy now pay later” solution for vendors
- ✔ Vendors can increase basket size
- ✔ Low cost customer acquisition
- ✔ Network effect



”

"I used the money to create cash flow, buy new stock, and generate income that way. It has actually allowed me to keep trading and basically, just to be here."

Brigid
Victoria, Australia

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Performance Highlights

\$1.2 billion

Originations since inception

77+ NPS

World class net promoter score

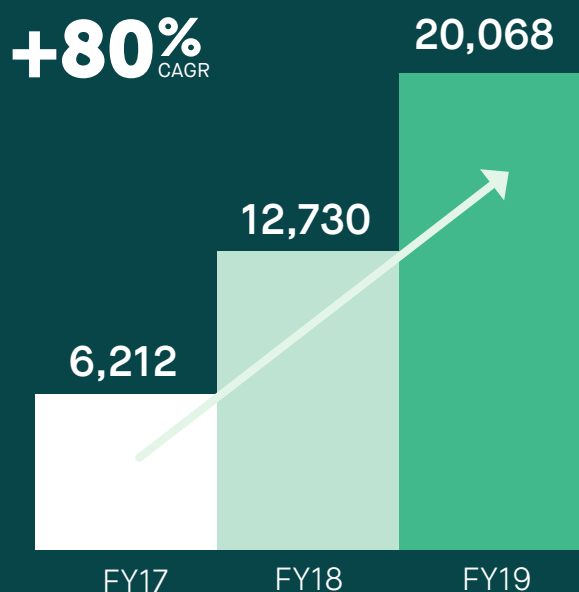
~50% market share

Online small business lending

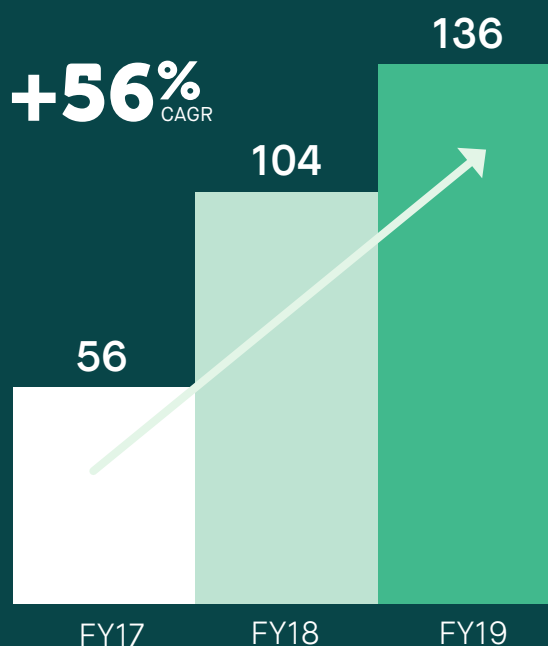
2.8x

Customer lifetime value

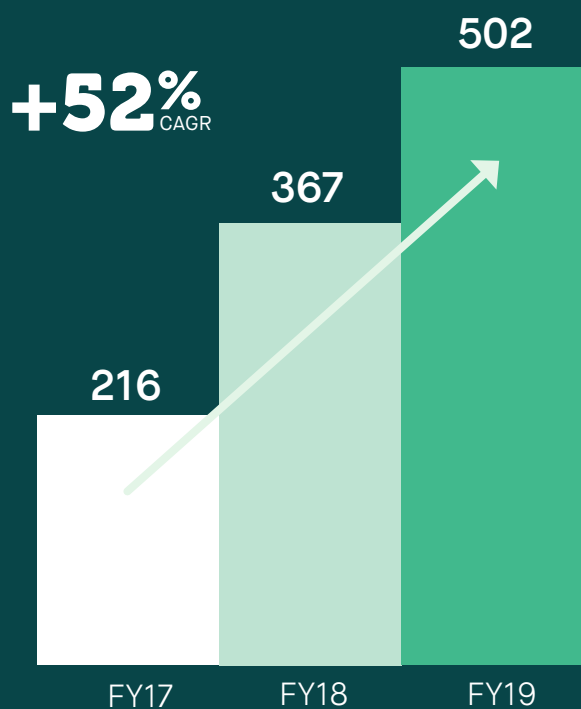
Customers (#)



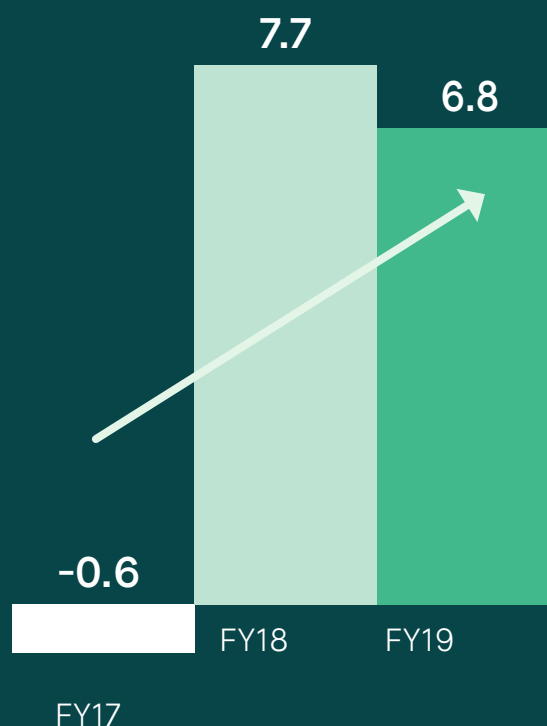
Revenue (\$m)



Originations (\$m)



Pro Forma EBITDA (\$m)



Chairman's Letter

“From the outset,
we recognised
people would power
our success and
we have invested in
building a diverse and
inclusive team and a
culture focused firmly
on our core values.”

Gail Pemberton AO



Chairman's Letter

Dear shareholder,

On behalf of the Directors of Prospa Group Limited (“Prospa” or the “Company”), I am pleased to present our annual report for the financial year ending 30 June 2019 (FY19). It has been a year of strong growth, with Prospa successfully launching into New Zealand, bringing two new products to market and listing on the Australian Securities Exchange (ASX) in June.

Prospa was founded in 2012 and has grown rapidly to become Australia’s #1 online small business lender, with nearly \$1.2 billion in originations to date and over 20,000 customers across Australia and New Zealand.

Our vision is to help small businesses prosper and grow. To facilitate this, the Prospa team offers customers a range of fast, flexible cash flow solutions – with funding decisions often made within the same business day. To deliver these quick funding outcomes, our proprietary Credit Decision Engine assesses hundreds of data points and overlays management requirements such as credit quality distribution, compliance and profit margin. Prospa will continue to invest in driving improved decisioning and loan book performance as we scale.

Delivering financial results

Prospa listed on the Australian Securities Exchange on 11 June 2019 to raise funds to accelerate growth. On all key metrics, the Company has achieved or exceeded forecasts made in the Prospa prospectus dated 16 May 2019.

The FY19 year was characterised by continued momentum and strong demand, during which we originated loan volume of \$501.7 million, up 36.6% on the prior year (FY18: \$367.3 million) and 3.1% ahead of prospectus forecast. Revenue of \$136.4 million was up 31.2% on the prior year (FY18: \$104.0 million) and in line with prospectus forecast.

Prospa has now delivered approximately \$1.2 billion in loans since inception and in FY19 total customer numbers in Australia and New Zealand grew to over 20,000, up 58% on the prior year.

Economies of scale, improvements in loan impairment expense and lower funding costs are flowing through to the bottom line and we delivered pro forma Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) of \$6.8 million, ahead of prospectus forecast by 11.5%.

Executing on strategy

These results are a testament to the hard work of the Prospa team and reflect the successful execution of our strategies: to increase our addressable market by improving the core small business loan product; pursuing growth in new geographies; and diversifying our product offering to help more small business owners grow and run their businesses and pay for the products and services they need.

During the financial year, the team successfully launched Prospa’s core small business loan product into the New Zealand market, with initial momentum exceeding expectations and over NZ\$24 million in originations during the period. Also during the period, we launched a line of credit product and ProspaPay, a B2B trade payments solution. Prospa believes there is a \$20 billion addressable market opportunity for small business lending in Australia and a NZ\$4 billion addressable market opportunity in New Zealand. Prospa also believes the market opportunity for B2B trade payments is more than \$100 billion.

Fostering culture and best practice governance

From the outset, we recognised people would power our success and we have invested in building a diverse and inclusive team and a culture focused firmly on our core values. The executive team has broad expertise spanning financial services, technology, sales and marketing, compliance and distribution and together they lead a passionate team of over 250 small business advocates. During the period, we were awarded AON Hewitt Employer of Choice for the second year running and our employee engagement scores are consistently high.

Prospa’s Board is comprised of six Directors including three independent non-executive Directors, one non-independent non-executive Director, and Prospa’s joint Chief Executive Officers. The Board has created a governance and compliance framework, including adopting relevant internal controls, risk management processes and corporate governance policies and practices that are designed to promote responsible management and conduct. Prospa’s Board Charter and Policies can be found on the investor section of the Prospa website (investors.prospa.com) and are unchanged since the Company listed.

Continued commitment to putting customers first

Prospa's customer experience is recognised with a Net Promoter Score consistently above 77 and a rating of 9.8 out of 10 during the period on independent review site Trustpilot.

To ensure we continue to meet the expectations of our customers, regulators and shareholders, the Board has focused on regulatory risk and compliance management over the period.

On 1 January 2019, Prospa was pleased to announce that it was one of the first online lenders to be operating in compliance with the AFIA Online Small Business Lenders' Code of Lending Practice. Prospa has been instrumental in developing the new Code and reaffirms its commitment to increased transparency so that small business owners can clearly assess whether a financial product is the best solution available to meet their needs and how much it is going to cost them.

Prospa has a demonstrated track record of industry leadership and innovation, having funded its first loan in 2012, implemented same day loan approval capability in 2013, implemented the first Australian small business loan securitisation in 2015, and the first rated warehouse facility for unsecured small business loans in Australia. We have also invested significantly in customer experience and customer success teams, who seek to offer specialised support to small businesses when it matters most.

Prospa is a significant economic enabler. Independent research commissioned by Prospa (and conducted by RFI Group and The Centre for International Economics) estimates every \$1 million Prospa lends boosts Australia's nominal Gross Domestic Product (GDP) by \$4 million and creates 57 full time jobs.

The Prospa team is incredibly proud of the work they do and its direct impact on Australia's small business economy. Since founding the business seven years ago, it is estimated our almost \$1.2 billion in lending has generated a \$4.8 billion positive impact on Australian GDP and created 67,000 jobs.

Motivated for the year ahead

On behalf of the Board, I congratulate each and every member of the Prospa team on delivering an impressive financial result in FY19. During my 18 months on the Board of Prospa, I have observed a highly motivated and purpose-led team firmly focused on the future.

Thank you to our customers, partners, investors and funders for your continued support, and for sharing our vision and values and enabling us to serve small businesses across Australia and New Zealand.

I would also like to thank my fellow Directors Fiona Trafford-Walker, Greg Ruddock, Avi Eyal, Greg Moshal and Beau Bertoli for their contribution and collaboration.

Most importantly, thank you to fellow Prospa shareholders who have recognised the strategic growth opportunities ahead for this company and invested to help us execute on our plans. We look forward to keeping you updated on our progress in the year ahead.

Sincerely,



Gail Pemberton AO
Chairman
Prospa Group Limited



Joint Chief Executives' Report



“This year has been characterised by strong customer and originations growth from all sources of our business, as we continue to see a structural shift towards online small business lending.”

Greg Moshal & Beau Bertoli

Joint Chief Executives' Report

We started Prospa in 2012 because it was clear to us there had to be a better way. As small business owners, we'd experienced the frustration of missing opportunities because we couldn't access finance. We found the traditional system slow, cumbersome and disheartening.

We wanted to solve this widespread problem for small business owners. By reimagining what it means to grow and run a small business – and pay for the goods and services to do it – we've been able to create a customer experience that is faster, friendlier and more accessible than traditional options.

FY19

This year has been characterised by strong customer and originations growth from all sources of our business, as we continue to see a structural shift towards online small business lending:

- FY19 loan originations of \$501.7 million, up 36.6% on the prior year (FY18: \$367.3 million), 3.1% ahead of prospectus forecast;
- FY19 revenue of \$136.4 million, up 31.2% on the prior year (FY18: \$104.0 million), in line with prospectus forecast, driven by strong loan originations in Australia and New Zealand;
- FY19 pro forma EBITDA of \$6.8 million, 11.5% ahead of prospectus forecast as the company continues to experience improvements in its loan impairment expense, lower funding costs, while at the same time investing in growth in New Zealand and new products; and
- Prospa has now delivered approximately \$1.2 billion in loans since inception and total customer numbers in Australia and New Zealand grew to over 20,000 in FY19, up 58% on the prior year.

This success has been driven by our vision to help small businesses prosper and grow. We currently have three products that are designed specifically to help small businesses GROW their businesses for the long term, RUN their day-to-day and PAY for the products and services they need.

We can help small businesses GROW with a fixed-term loan that facilitates investment and business-building. Our small business loans range from \$5,000 to \$300,000 in value. We've made a number of enhancements to our core product – the small business loan – to appeal to a broader range of customers. This includes increasing the maximum loan amount from \$250,000 to \$300,000 and providing longer terms of up to 24 months for certain customers. As a result, our average loan amount has increased by 9% and our average term is now 14 months, delivering more revenue per loan.

We can help small business owners RUN their business with a revolving line of credit so they can manage their cash flow day-to-day. This is a convenient and flexible facility of between \$2,000 to \$25,000, with interest paid only on what customers use, while they use it. Our line of credit product leverages our existing credit infrastructure and we've found it to be very complementary to the small business loan.

And now we can also help small businesses PAY for products and services using a B2B trade payments solution. ProspaPay enables approved customers to purchase goods and services from approved ProspaPay vendors up to \$20,000, with repayment terms of between three and nine months, on an interest-free basis.

Finally, we've made great progress expanding into new geographies by entering the New Zealand market. We estimate the potential opportunity in New Zealand to be more than NZ\$4 billion. At the end of the period we had exceeded our expectations, writing over NZ\$24 million of loans for more than 700 customers.

We also have a market leading funding platform. During FY19 we added a further three funding warehouses, taking our total number of funding warehouses to five. During the period we added two major banks to our funding structures to support the ongoing future growth of the portfolio, enabling us to pass on lower rates to our customers.

This represents a significant step forward for our business, and for the small business lending category in general. Following the year end, we closed our first funding warehouse in New Zealand after less than 12 months of operation. This NZ\$45 million facility will fund our New Zealand portfolio and ensure we can continue our acceleration into the New Zealand market.

We've also passed on the benefit of lower funding costs to our customers, with our simple annual interest rates now ranging from 9.9% to 26.5% and a weighted average APR for the portfolio of 36.9% down from 40.7% in FY18.

Operational achievements

Our team is highly engaged. In 2019 Prospa was awarded AON Hewitt Employer of Choice for the second year in a row. Our distribution partners recognise we are best in class, with Prospa achieving a clean sweep of the Mortgage and Finance Association of Australia State Excellence Awards for Best Fintech Lender 2019, and winning the national excellence award as Best Fintech Lender for the second year running, receiving the accolade across all states and territories in Australia.

We continued to invest in our executive leadership team, appointing Shai Haim as Chief Technology Officer, Simon Griffin as Chief Commercial Officer, Elise Ward as Executive General Manager, People and Culture and Matt Bauld as Executive General Manager, Growth Channels.

Outlook

During the reporting period we met – or exceeded – our core operating metrics from our 2019 prospectus.

In the year ahead, we're focused on:

- Accelerating innovation in our core product;
- Increasing our addressable market through product diversification; and
- Geographic expansion.

We're proud of our achievements so far, but we believe this is just the beginning. The financial services industry is changing rapidly, and our role in supporting small business is now even more vital.

As a public company, our guiding principles won't change. We'll continue to strive to exceed our customers' expectations and deliver for all stakeholders. We aim to build a company that creates value over decades, not just years.



Greg Moshal & Beau Bertoli
Founders & Joint Chief Executive Officers





Board of Directors

Board of Directors



Gail Pemberton, AO
Independent
Non-Executive
Chairman

Gail has been a Director of Prospa Advance Pty Ltd since February 2018 and a Director of the Company since May 2018. Gail has been Chairman of Prospa since February 2019.

Gail has more than 35 years' experience in banking and wealth management and is a specialist in technology and operations.

Prior to taking up a Non-Executive Director career, Gail was COO, UK at BNP Paribas and CEO and Managing Director, BNP Paribas, Australia and New Zealand. She was previously Group Chief Information Officer and Financial Services Group COO at Macquarie Bank.

Gail is currently a Non-Executive Director of Eclix Group and Sydney Metro.

Gail has previously served on the Boards of ARQ Group (ASX:ARQ), OneVue (ASX:OVH), SIRCA and RoZetta Technology and Onthehouse (ASX:OTH) as independent Chair, and as a Non-Executive Director on PayPal Australia, QIC, UXC (ASX:UXC), Baycorp, Alleron Funds Management, Air Services Australia, the Sydney Opera House Trust and Harvey World Travel (ASX:HWT).

Gail has an MA from UTS, and a Graduate Certificate in Finance from Griffith University. She is also a Fellow of the Australian Institute of Company Directors.

In January 2018 Gail was awarded an Order of Australia for distinguished service to the finance and banking industry, to business through a range of roles, as an advocate for technology and as a mentor to women.

Gail is a member of the Audit and Risk Committee and a member of the Remuneration, People and Nomination Committee.



Greg Ruddock
Independent
Non-Executive
Director

Greg has been a Director of Prospa Advance Pty Ltd since October 2015 and a Director of the Company since April 2018.

Greg has more than 30 years' experience in private equity and operations management and specialises in investment strategy, business development and mergers & acquisitions.

Greg is a founder and Joint Chief Executive Officer of Ironbridge where he co-leads Investment and Portfolio Management activities. Since 2003 Greg has led many of its successful financial services investments including Prospa, Judo Capital, Eclix Group and Stardex Insurance. Greg also led and served on the Boards of Easternwell, Super A-mart, BBQs Galore, Tandem Group, and AOS.

Prior to this role, Greg spent 7 years with leading Australian industrial group Wesfarmers in mergers and acquisitions and 5 years with Gresham Partners and Gresham Private Equity where he led the development of financial services payments provider Cashcard Australia. Greg also spent 5 years with diversified listed company Avatar Limited, where he was Finance Director and Managing Director of one of its major subsidiaries.

Greg is currently a Director of Ironbridge Capital Holdings Pty Ltd, Judo Capital Limited, Workclub Australia Pty Ltd and AOS Pty Ltd.

Greg is a qualified accountant and holds a Bachelor of Commerce degree from the University of Western Australia and post graduate qualifications from the Financial Services Institute of Australasia and the Australian Society of Accountants.

Greg is the Chairman of the Remuneration, People and Nomination Committee and a member of the Audit and Risk Committee.



Fiona Trafford-Walker
Independent
Non-Executive
Director

Fiona has been a Director of Prospa Advance Pty Ltd since March 2018 and a Director of the Company since May 2018.

Fiona has more than 25 years' experience advising institutional asset owners and investors on investment and governance-related issues.

Since September 2015, Fiona has served as an Independent Non-Executive Director of Link Administration Holdings (ASX:LNK) where she is also Chair of the Risk and Audit Committee. She is currently an Independent Non-Executive Director of the Victorian Funds Management Corporation (VFMC) and a member of the Investment Committee for the Walter and Eliza Hall Institute.

Fiona is also an Investment Director at Frontier Advisors, where she is a member of the firm's Investment Committee and Governance Advisory team. She was the inaugural Managing Director at Frontier Advisors and played a critical role in growing the firm.

Fiona holds a B.Ec (Hons) from James Cook University and a Master of Finance from RMIT University. She is also a graduate of the Australian Institute of Company Directors.

In 2013, Fiona was awarded inaugural Woman of the Year in the Money Management/ Super Review of Women in Financial Services Awards and was ranked one of the top 10 global Asset Consultants from 2013 to 2016. In 2016, Fiona was announced as a winner in The Australian Financial Review and Westpac 100 Women of Influence Awards in the Board/Management category.

Fiona is the Chairman of the Audit and Risk Committee and a member of the Remuneration, People and Nomination Committee.



Avi Eyal
**Non-Executive
Director**

Avi has been a Director of Prospa Advance Pty Ltd since its incorporation in 2012 and has been instrumental to the development of Prospa. Avi has been a Director of the Company since May 2018.

Avi has more than 22 years' experience in founding, scaling and running global technology and finance companies.

Avi is the co-founder and Managing Partner of Entrée Capital which led Prospa's seed and series A funding and has participated or led in each funding round. Avi brings extensive finance and technology, governance, risk and compliance (GRC) knowledge to Prospa. In 2004 he co-founded Cura Software Solutions which sold GRC software to Global 1000 companies and served as CEO until 2009 when it was sold to a global public technology company.

Avi is a current Board Director of monday.com, BreezoMeter, Gastrofix, Adhawk, thumbzup and other technology companies in the UK, EU, USA and Israel. Avi has previously served as Board Director for Riskified, HouseParty, FlyPay (JustEat), Scan Inc. (Snapchat), Cura Software Solutions, CQS Technology Holdings, Real Technology Ventures and Datatec Limited / Insight Technologies.

Avi has a BSc in Electronic and Computer Engineering from the University of Natal in South Africa. In 2010 Avi received the Johnnie Walker Entrepreneur of the Year Award and in 2018 was listed by Forbes Inc as one of the Top 25 European venture Capitalists (Midas List).

Avi is a member of the Audit and Risk committee and a member of the Remuneration, People and Nomination Committee.



Greg Moshal
**Joint CEO &
Executive Director**

Greg is a Co-Founder of Prospa and has been an Executive Director of Prospa Advance Pty Ltd since 2011 and a Director of the Company since April 2018. Greg been instrumental to the establishment of Prospa.

Greg has seven years' experience in financial services and eight years' experience in creating and scaling start-ups, with two previous successful exits.

Prior to founding Prospa, Greg was involved in the start and scaling of a consumer service chain and an international consumer product franchise, and successfully exited both.

Greg is passionate about product, design and technology and developing cash flow products and services that help small businesses to prosper.

In 2017 Greg was jointly awarded Fintech Leader of the Year by Fintech Australia and was jointly awarded the NSW Pearcey Tech Entrepreneur of the Year Special Recognition award.

Greg has a BCom in Accounting from Monash University.



Beau Bertoli
**Joint CEO &
Executive Director**

Beau is a Co-Founder of Prospa and has been an Executive Director of Prospa Advance Pty Ltd since 2013 and a Director of the Company since April 2018. Beau has been instrumental to the establishment of Prospa.

Beau has 15 years' experience in financial services and has founded a technology start-up and managed a consumer product retailer.

Beau is passionate about building and growing high performing teams and creating cash flow products and services that keep small business moving.

In 2017 Beau was jointly awarded Fintech Leader of the Year by Fintech Australia and was jointly awarded the NSW Pearcey Tech Entrepreneur of the Year Special Recognition award.

Prior to co-founding Prospa, Beau held senior positions including National Sales Manager at listed financial services company FlexiGroup.

Beau has a BCom in Economics and Finance from Sydney University.

Executive Leadership



Greg Moshal
Joint CEO



Beau Bertoli
Joint CEO



Ed Bigazzi
Chief Financial Officer

Ed joined Prospa in July 2015. He has responsibility for financial control, risk, treasury, legal and compliance.

Ed has four years' experience in financial services and 11 years in investment banking and private equity with experience in financial analysis, M&A, complex financing structures and investment management.

Prior to joining Prospa, Ed spent nine years at Ironbridge Capital and has served as Non-Executive Director for two portfolio companies.

Ed has a BCom/LLB (Hons) in Finance, Economics and Law from Sydney University.



Ben Lamb
Chief Operating Officer

Ben joined Prospa in April 2016. He has responsibility for operations, procurement and vendor management, and Prospa's New Zealand operations.

Ben has 12 years' experience in financial services including product development, customer experience, operations, procurement and establishing offshore operations.

Prior to joining Prospa, Ben was Head of Product & Customer Solutions at ASX-listed financial services company Eclipx Group; and Head of Customer Experience and Operations at ASX-listed financial services company FlexiGroup.



Damon Pezaro
Chief Product Officer

Damon joined Prospa in June 2017. He has responsibility for all product development and management including design, data and analytics.

Damon has more than 20 years' experience in digital focused businesses working across online and technical environments, having held key product and operational roles in several successful start-ups and large corporates.

Prior to joining Prospa, Damon was Chief Product Officer at ASX200-listed Domain Group, Head of Operations at OurDeal.com.au (acquired by Groupon), and Senior Manager – Product & Technology at News Digital Media (NewsCorp).



Shai Haim
Chief Technology Officer

Shai joined Prospa in July 2019. He has responsibility for delivery of Prospa's technology platform and cyber security. Shai has over 20 years' experience in the technology sector.

Prior to joining Prospa, Shai has scaled technology teams in Asia, Europe, America and Australia and has been based in Silicon Valley where he was VP of Engineering at Brigade, and also Engineering Manager at Twitter. Most recently, he was Chief Technology Officer at Campaign Monitor where he delivered major initiatives around technology, operations and M&A.

Shai has a BCompSc from IDC Herzliya in Israel and a PhD in Computer Science (AI) from UNSW.



Matt Bauld
**Executive General Manager,
Growth Channels**

Matt joined Prospa in October 2013. He has responsibility for national sales, distribution and channel management.

Matt has 17 years' experience in financial services in national sales and marketing management positions and extensive channel management experience in commercial and consumer finance.

Prior to joining Prospa, Matt led Sales & Marketing at The Leasing Centre, was Head of National Channel Sales at ASX-listed financial services company FlexiGroup and was Head of Sales & Marketing at Hanover Consumer Finance (acquired by FlexiGroup).



Simon Griffin
Chief Commercial Officer

Simon joined Prospa in July 2019. He is responsible for Sales and Business Development and leads strategy and planning across Prospa.

Simon has more than 15 years' experience in customer focused, high-growth businesses including more than ten years in the fintech sector.

Prior to joining Prospa, Simon was the CEO of XE.com. Prior to that he was a member of the OFX Executive team and has held senior roles at Macquarie Bank, Vodafone and Gemini Consulting.

Simon has a BA in Economics from the University of Nottingham.



Elise Ward
**Executive General Manager,
People & Culture**

Elise joined Prospa in December 2018. She has responsibility for the design and delivery of our people strategy.

Elise has more than ten years' experience in delivering progressive people and culture strategies across start-ups and multinational organisations.

Prior to joining Prospa, Elise led the People & Culture team for Canadian-based technology company Elastic Path Software and has held senior HR roles at Samsung and Tabcorp.

Elise has a Bachelor of HR Management from Macquarie University and a Graduate Certificate in Change Management from AGSM at UNSW.

Directors' Report



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"We're growing and we had this opportunity to move into this warehouse and the window was one week. So we had to decide really fast, 'what do we do from here?' So I came to Prospa, and we're here. One week."

Anita
Auckland, New Zealand

— Directors' Report

The Directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'Group') consisting of Prospa Group Limited (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 30 June 2019.

Directors

The following persons were Directors of Prospa Group Limited during the whole of the financial year and up to the date of this report, unless otherwise stated. Also included are their interests in shares, options and rights:

Gail Pemberton

Chairman

152,036 ordinary shares, 120,556 options and 23,148 rights in Prospa Group Limited

Gregory Moshal

24,701,240 ordinary shares and 1,286,640 options in Prospa Group Limited

Beaumont Bertoli

9,701,240 ordinary shares and 1,286,640 options in Prospa Group Limited

Aviad Eyal

2,419,280 ordinary shares, 92,592 options and 13,228 rights in Prospa Group Limited

Gregory Ruddock

Chairman of the Remuneration, People and Nomination Committee

1,033,611 ordinary shares and 25,000 options in Prospa Group Limited

Fiona Trafford-Walker

Chairman of the Audit and Risk Committee

13,228 ordinary shares, 120,556 options and 14,550 rights in Prospa Group Limited

Principal activities

During the financial year, the principal activities of the Group continued to be the provision of finance to small businesses. This activity has not changed during the year.

Dividends

There were no dividends paid, recommended or declared during the current or previous financial year.

Review of operations

The loss for the Group after providing for income tax amounted to \$24.7 million (30 June 2018: profit of \$2.1 million).

The Review of Operations on pages 39 to 47 form part of this Directors' Report and set out:

- A review of operations during the year and the results of those operations;
- The strategic highlights of the Group;
- Matters subsequent to the end of the financial year; and
- Comments on the financial position.

Information on likely developments in the operations of the Group and the expected results of operations have not been included in this report because the Directors believe it would be likely to result in unreasonable prejudice to the Group.

Significant changes in the state of affairs

There were no significant changes in the state of affairs of the Group during the financial year.

Environmental regulation

The Group is not subject to any significant environmental regulation under Australian Commonwealth or State or Territory law.

Company secretary

Ms Nicole Johnschwager was appointed to the position of Company Secretary and General Counsel of the Group in April 2018.

She is admitted to the Supreme Court of New South Wales and is a member of the Association of Corporate Counsel Australia and the Australian Institute of Company Directors.

Ms Johnschwager has over 20 years' experience as a solicitor and company secretary.

Meetings of Directors

The number of meetings of the Company's Board of Directors ('the Board') and of each Board committee held during the period ended 30 June 2019, and the number of meetings attended by each Director were:

	Full Board		Remuneration, People and Nomination Committee		Audit and Risk Committee	
	Attended	Held	Attended	Held	Attended	Held
Gail Pemberton	2	2	1	1	–	–
Fiona Trafford-Walker	2	2	1	1	–	–
Greg Ruddock	2	2	1	1	–	–
Avi Eyal	2	2	1	1	–	–
Greg Moshal	2	2	1	1	–	–
Beau Bertoli	2	2	1	1	–	–

Prior to the Group's Initial Public Offering (IPO), the number of meetings held by Prospa Advance Pty Ltd and attended by Directors were:

	Full Board		Remuneration, People and Nomination Committee		Audit and Risk Committee	
	Attended	Held	Attended	Held	Attended	Held
Gail Pemberton	10	10	2	2	5	5
Fiona Trafford-Walker	10	10	2	2	5	5
Greg Ruddock	10	10	1	2	5	5
Avi Eyal	9	10	2	2	5	5
Greg Moshal	9	10	2	2	5	5
Beau Bertoli	9	10	2	2	5	5

Held: represents the number of meetings held during the time the Director held office or was a member of the relevant committee.

Audit and Risk Committee	Remuneration, People and Nomination Committee
Fiona Trafford-Walker – Chairman	Greg Ruddock – Chairman
Gail Pemberton	Gail Pemberton
Greg Ruddock	Avi Eyal
Avi Eyal	Fiona Trafford-Walker

Shares under option

Unissued ordinary shares of Prospa Group Limited under option at the date of this report are as follows:

Grant date	Expiry date	Exercise price	Number under option
16/02/2016	16/02/2021	\$0.49	730,839
07/10/2016	07/10/2021	\$0.67	175,545
27/02/2017	27/02/2021	\$0.49	60,000
27/02/2017	27/02/2021	\$0.67	299,241
28/04/2017	28/04/2022	\$1.56	195,000
17/11/2017	17/11/2022	\$1.56	1,351,253
11/01/2018	11/01/2023	\$1.56	558,000
13/02/2018	13/02/2023	\$1.56	150,000
30/03/2018	30/03/2023	\$1.56	60,000
30/04/2018	30/04/2023	\$2.00	1,131,250
30/11/2018	30/11/2023	\$3.64	3,555,000
01/12/2018	01/12/2023	\$3.64	92,592
25/01/2019	25/01/2024	\$4.19	191,112
01/04/2019	01/04/2024	\$3.64	370,500

Grant date	Expiry date	Exercise price	Number under option
10/04/2019	10/04/2024	\$3.64	75,000
14/05/2019	14/05/2024	\$3.33	1,086,246
14/05/2019	14/05/2024	\$3.64	615,555
14/05/2019	14/05/2024	\$3.78	1,487,034
14/06/2019	14/06/2024	\$4.35	75,000

No person entitled to exercise the options had or has any right by virtue of the option to participate in any share issue of the company or of any other body corporate.

Shares under performance rights

Unissued ordinary shares of Prospa Group Limited under performance rights at the date of this report are as follows:

Grant date	Expiry date	Exercise price	Number under rights
14/06/2019	N/a	N/a	50,926

No person entitled to exercise the performance rights had or has any right by virtue of the performance right to participate in any share issue of the Company or of any other body corporate.

Shares issued on the exercise of options

The following ordinary shares of Prospa Group Limited were issued during the year ended 30 June 2019 and up to the date of this report on the exercise of options granted:

Date options granted	Exercise price	Number of shares issued
16/02/2016	\$0.49	27,480
07/10/2016	\$0.67	9,999
17/11/2017	\$1.56	36,247

Shares issued on the exercise of performance rights

The following ordinary shares of Prospa Group Limited were issued during the year ended 30 June 2019 and up to the date of this report on the exercise of performance rights granted:

Date performance rights granted	Exercise price	Number of shares issued
11 June 2019	\$3.78	330,000

Remuneration Report

The Remuneration Report set out on pages 48 to 64 forms part of this Directors' Report.

Indemnity and insurance of officers

The Company has indemnified the Directors and executives of the Company for costs incurred, in their capacity as a Director or executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, the Company paid a premium in respect of a contract to insure the Directors and executives of the Company against a liability to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

Indemnity and insurance of auditor

The Company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the Company or any related entity against a liability incurred by the auditor.

During the financial year, the Company has not paid a premium in respect of a contract to insure the auditor of the Company or any related entity.

Proceedings on behalf of the Company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

Non-audit services

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 26 to the financial statements. We note that these largely related to work carried out in relation to the IPO.

The Directors are satisfied that the provision of non-audit services during the financial year, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The Directors are of the opinion that the services as disclosed in note 26 to the financial statements do not compromise the external auditor's independence requirements of the Corporations Act 2001 for the following reasons:

- All non-audit services have been considered by the Board to ensure that they do not impact the integrity and objectivity of the auditor; and
- None of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risks and rewards.

Officers of the Company who are former partners of Deloitte

There are no officers of the Company who are former partners of Deloitte.

Rounding of amounts

The Company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

Auditor's Independence Declaration

A copy of the Auditor's Independence Declaration as required under section 307C of the Corporations Act 2001 is set out on page 70.

Auditor

Deloitte continues in office in accordance with section 327 of the Corporations Act 2001.

This report is made in accordance with a resolution of Directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the Directors



Greg Moshal
Director and Joint Chief Executive Officer



Gail Pemberton AO
Independent Director and Chairman

24 September 2019
Sydney

Review of Operations



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"Prospa was going to say yes or no to me in one day. You can make the next move a lot easier knowing, either way. There was no mucking around."

Michael
Queensland, Australia

— Review of Operations

Financial highlights from the 12 months to 30 June 2019

- Originations grew to \$501.7 million, an increase of 36.6% on prior corresponding period, driven by all key sources of business, plus the addition of incremental originations volume from New Zealand, which commenced operations during the FY19 period.
- Total revenue before transaction costs grew to \$136.4 million, an increase of 31.2% on prior corresponding period, driven by the originations growth across the business.
- (Loss)/profit after income tax benefit/(expense) was (\$24.7) million (FY18 profit: \$2.1 million). This result reflected the one-off impact of the Initial Public Offering in the form of offer costs and fair value adjustments on complex financial instruments.
- Pro forma EBITDA¹ was \$6.8 million, which was 11.5% (\$0.7 million) ahead of prospectus forecast, driven by outperformance in funding costs and loan impairment expense.
- We are tracking well towards achieving our CY19 prospectus forecast.

Principal activities

We are a financial technology company. We design, build and utilise cloud-based, data rich and API-enabled technologies to deliver seamless customer experiences for the small business economy in Australia and New Zealand. Our product offering has expanded from our first product, the online small business loan, to now include line of credit facilities and B2B trade payments. We have grown to become Australia's #1 online lender to small business. Since 2012, we have lent approximately \$1.2 billion and served more than 20,000 customers.

The credit facilities we currently offer are typically used to fund small businesses' working capital requirements and growth initiatives. We adopt a risk-based pricing approach, where the interest rate associated with a facility is determined based on our credit risk assessment for that small business customer. This risk assessment process is largely automated and underpinned by technology calibrated with data obtained from our proprietary Credit Risk DataMart of over 73,000 loan applications. We are the #1 online lender to small business. Investment in our three strategic pillars of technology, distribution and funding provides significant leverage and scale relative to competitors. This is underpinned by robust risk management and our people.

We have combined cloud-based technology and bespoke lending principles in order to attract leads, assess credit risk and streamline the credit approval process so we are able to respond promptly to funding requests. Small businesses typically come to us directly or through a partner referral. The application process can take under 10 minutes and is available online, over the phone or through an intermediary. Once we have received the application, we usually revert to the customer with a decision within the same business day, including whether or not they have been approved, and, if they have been approved, the credit facility size, pricing and potential term.

Our core product, the small business loan, is an amortising fixed term loan, repayable in daily or weekly instalments, with an average loan size of \$30,000 and an average term of 14 months. Our new line of credit product is a re-drawable facility, which can be utilised for short term cash flow needs or unplanned expenses, with an average drawn balance of \$14,000. Our B2B payments solution, ProspaPay, facilitates trade transactions of between \$500 and \$20,000, with an average transaction value of \$2,600.

Our omni-channel approach was designed to put our customers first. It leverages the best of our technology with fast credit decision capability and efficient work-flow automation, while still offering personalised service.

1. EBITDA = Earnings before interest on corporate debt, fair value movements, income tax, depreciation and amortisation. Pro forma EBITDA refers to the EBITDA result, pro forma adjusted in a manner consistent with the 2019 prospectus associated with the Company's Initial Public Offering.

Strategic highlights from the 12 months to 30 June 2019

Initial Public Offering

On 11 June 2019 we listed via an Initial Public Offering of ordinary shares in Prospa Group Limited, raising \$60.0 million in primary capital. The offer was conducted to:

- Support growth strategies, including:
 - Improving the core small business loan product and funding growth in the equity component of the loan book;
 - Investing in technology development and talent; and
 - Investing in product development and market expansion into New Zealand;
- Support working capital;
- Repay our corporate debt facility with Partners for Growth;
- Provide access to capital markets for future growth; and
- Provide liquidity for certain investors.

Expansion into the New Zealand market

Following positive feedback from our research and focus groups on the New Zealand market, we commenced our pilot phase operations in August 2018. During the pilot phase, we reached NZ\$1 million in originations in our first full month of operation (vs. 14 months for our Australian business) and originated NZ\$24 million of loans to New Zealand small businesses to 30 June 2019. Our early credit performance in the New Zealand portfolio appears similar to that of Australian business.

Based on our top down analysis we have estimated the potential market opportunity for small business lending in New Zealand could be in excess of NZ\$4.0 billion per annum.

As at 30 June 2019, our New Zealand business has over 700 customers, with an average loan size of approximately NZ\$27,000 and average loan term of 13 months. Our customer base is diversified across a range of industry sectors including hospitality, retail, professional services and building and trade. We had a Trustpilot rating in New Zealand of 9.8 out of 10 as at 30 June 2019 and rank first in the non-bank financial services category.

Enhanced core product offering

During the reporting period we made a number of enhancements to our small business loan offering in the Australian market, including:

- Increasing the maximum loan size able to use our express pathway from \$100,000 to \$150,000;
- Increasing the maximum loan amount from \$250,000 to \$300,000;
- Providing longer terms of up to 24 months for certain customers; and
- Improving our credit assessment times for loan amounts between \$150,000 and \$300,000.

In the final quarter of the 12 months ended 30 June 2019, we launched an updated rate card for the small business loan with simple annual interest rates from 9.9%p.a. to 26.5%p.a.. We anticipate the new rate card will allow us to continue to attract certain lower risk profile customers who are typically more price sensitive. This strategy has been a contributor to the growth in the premium segments of our portfolio, from 26% as at 30 June 2018 to 39% as at 30 June 2019.

Launched line of credit product

In the final quarter of the 12 months ended 30 June 2019, we launched our business line of credit product into market. The product is designed to help small business owners run their business day-to-day and handle any unplanned expenses.

We are leveraging our existing credit infrastructure, technology and distribution channels to more widely distribute this product. Our focus will be on maximising automation and the self-service element of the customer journey, driven by the smaller credit approval amounts and shorter payback periods. We believe automating customer interactions creates a better experience and reduces our operational and support costs.

As at 30 June 2019, we had \$1.7 million in drawn facilities with an average drawn balance of \$14,000 and an active line utilisation rate of 68%.

Entry into the B2B trade payments market with ProspaPay

ProspaPay is a B2B trade payments solution that allows for the purchase of items by approved small businesses from approved ProspaPay vendors on an interest-free basis. By using ProspaPay, vendors are able to provide an interest free buy now, pay later service to new and existing customers. The vendors typically receive payment for the goods and services sold on or before the next business day and may experience an increase in customers' basket size as a result of offering the payments solution. In return for the payment, vendors pay a small vendor fee to Prospa.

Once approved, the vendor's small business customer is able to purchase items up to \$20,000 over terms of between three and nine months and make weekly fixed amount interest-free payments. They may also be able to access additional credit products through their relationship with us.

Beyond the direct benefits of providing trade credit to small business owners, and low-cost customer acquisition of new customers, Prospa could realise additional benefits from the potential network effect created on both sides of a ProspaPay transaction. Accredited vendors could encourage other vendors they do business with to become ProspaPay vendors, in order that they can themselves receive the benefit of interest-free trade credit. Small business owners who use ProspaPay to pay for items could encourage other vendors they do business with to become accredited ProspaPay vendors, so they can make interest-free purchases with them.

As at 30 June 2019, we have accredited over 70 vendors and processed an aggregate transaction volume of \$1.7 million with an average transaction value of \$2,600.

Growth in funding platform

During the FY19 period, Prospa added three additional warehouse funding structures to its market leading funding platform, increasing our new funding capacity by \$155.0 million:

1. 2018-2 term facility (\$25.0 million);
2. Pioneer bank warehouse facility (\$60.0 million); and
3. Prosperity bank warehouse facility (\$70.0 million).

Subsequent to balance date, in August 2019, we secured our first New Zealand warehouse funding facility for NZ\$45.0 million. This facility will allow us to keep expanding rapidly into the New Zealand market and enabled the repatriation of NZ\$6.0 million in equity to be reinvested in the core business and new products. Following the securing of this facility, we have \$431.8 million in available funding facilities.

Summary of statutory financial performance

The statutory profit and loss for the Group is summarised in the table below.

Summary Income Statement

	FY19	FY18
Interest income	125.0	95.0
Other income	11.4	9.0
Total revenue	136.4	104.0
Transaction costs	(8.5)	(5.0)
Net revenue	127.9	99.0
Funding costs	(20.1)	(13.7)
Sales & marketing	(27.1)	(21.5)
Product development	(9.4)	(5.4)
General & administrative	(41.5)	(27.5)
Loan impairment	(30.6)	(23.6)
Total operating expenses	(128.7)	(91.7)
EBITDA	(0.8)	7.4
Depreciation	(1.0)	(0.6)
Amortisation	(2.7)	(1.2)
Interest on corporate debt	(2.1)	(2.1)
Fair value movement	(12.4)	0.2
Unwind of embedded derivative	(4.4)	(0.7)
Profit before tax	(23.3)	3.0
Tax expense	(1.4)	(0.9)
NPAT²	(24.7)	2.1

During the 12 months to 30 June 2019, we delivered strong originations growth, with Group originations increasing to \$501.7 million, an increase of 36.6% on prior corresponding period. Growth in originations came from all sources of business, including the addition of incremental New Zealand originations and smaller contributions from line of credit and ProspaPay.

The strong originations growth flowed through to strong organic revenue growth, with Group total revenue before transaction costs increasing to \$136.4 million, an increase of 31.2% on prior corresponding period.

Operating expenses (on a statutory basis) increased to \$128.7 million in the period, an increase of 40.3% on prior period. These operating expenses include a number of one-off expenses in relation to the Initial Public Offering (2019: \$5.5 million). Further, operating expenses in the 12 months to 30 June 2019 reflect a significant increase in investment within the business, including in the expansion into New Zealand, the launch of our line of credit product, and the ongoing development of the ProspaPay product.

Net profit after tax was further impacted by fair value movements through the profit & loss (\$12.4 million) and the unwind of embedded derivatives (\$4.4 million) due to the crystallisation of a number of complex financial instruments as a result of the Initial Public Offering. These items have a one-time impact associated with the Initial Public Offering and are non-cash in nature. Overall net profit after tax reduced to (\$24.7) million in the period. After adjusting for fair value movements and other IPO related adjustments, pro forma net profit after tax (NPAT) was (\$1.0) million, consistent with the prospectus.

2. NPAT = Net Profit or (Loss) After Tax

Basis of preparation

The Group utilises non-IFRS financial information in its assessment and presentation of Group performance. In particular the Group references Pro Forma Revenue, Pro Forma Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA), and Pro Forma Net Profit After Tax (NPAT).

The Directors believe that the Pro Forma results better reflect the operating performance and is consistent with the 2019 prospectus associated with the Company's Initial Public Offering.

The non-IFRS Pro Forma financial information has not been audited or reviewed. Adjustments to the IFRS information align with the principles by which the Company views and manages itself internally. See the Reconciliation of statutory revenue, EBITDA and NPAT to pro forma revenue, EBITDA and NPAT below for more information.

Reconciliation of statutory revenue, EBITDA and NPAT to pro forma revenue, EBITDA and NPAT

The following table reconciles the statutory reported revenue, EBITDA and NPAT to the pro forma revenue, EBITDA and NPAT using the pro forma adjustment methodology consistent with the prospectus for the Initial Public Offering. These pro forma adjustments illustrate the impact of new accounting standards, public company cost structures, and one-off items to present the income statement on a comparable basis and in a manner consistent with internal management reporting.

Summary Pro Forma Adjustments

Statutory to Pro Forma	FY19	FY18
Statutory NPAT	(24.7)	2.1
Impact of AASB 9	–	(2.2)
Impact of AASB 16	(0.4)	(0.3)
Public company costs	(0.7)	(1.1)
Offer costs	5.5	3.2
Executive remuneration	(0.4)	(0.9)
Funding optimisation	1.4	–
Fair value (gains) and losses	16.8	(0.2)
Total pro forma adjustments	22.1	(1.6)
Pro forma effective tax rate applied to Pro forma PBT	1.5	0.7
Pro forma NPAT	(1.0)	1.3
Statutory EBITDA	(0.8)	7.4
Impact of AASB 9	–	(2.2)
Impact of AASB 16	1.8	1.4
Public company costs	(0.7)	(1.1)
Offer costs	5.5	3.2
Executive remuneration	(0.4)	(0.9)
Funding optimisation	1.4	–
Pro Forma EBITDA	6.8	7.7

The pro forma adjustments are described below:

1. Impact of AASB 9 *Financial Instruments*: represents the increase in provisioning levels in prior reporting periods had the AASB 9 accounting standard been operating since 1 July 2017;
2. Impact of AASB 16 *Leases*: impact of AASB 16 reflects the PBT impact of the application of AASB 16 *Leases* as if it had been in place since 1 July 2017. We will formally adopt AASB 16 from 1 July 2019 (as required by the accounting standards);

3. Public company costs: reflects our estimate of the additional annual costs associated with being a listed entity. These costs include Directors' fees, listing fees, share registry costs, Directors' and Officers' insurance premiums, investor relations costs, annual general meetings costs, annual reports costs and other public company costs;
4. IPO costs: costs in relation to the Initial Public Offering, including the Joint Lead Managers' underwriting fees, legal and accounting due diligence fees, tax and structuring advice, associated consultancy and advisory services relating to the Offer;
5. Executive remuneration: reflects the new executive remuneration arrangements that were put in place following the completion of the Initial Public Offering being applied to the historical periods. The adjustment excludes the new long-term incentive component;
6. Funding optimisation: relates to a one-off payment of \$1.4 million incurred upon optimising funding facilities; and
7. Fair value (gains) and losses: reflects the profit and loss impact on a statutory basis from the conversion of the convertible notes and the exercise of the Partners for Growth warrants on Completion of the Initial Public Offering, as well as the unwind of the embedded derivative liability in respect of these instruments.

Revenue

During the reporting period, total revenue before transactions costs grew to \$136.4 million, an increase of 31.2% on prior corresponding period. This was largely driven by the increase in Group originations, which increased to \$501.7 million, a 36.6% increase over prior corresponding period. Total revenue before transaction costs growth was slightly lower than originations growth in the period due to the introduction of a new rate card with lower rates available for lower risk customers, and an increase in conversion in that lower risk customer segment during the period (referred to hereafter as premiumisation).

Interest income increased to \$125.0 million, an increase of 31.6% on prior corresponding period. This growth was in line with the overall top-line growth of the business. Other income increased to \$11.4 million, an increase of 27.1% on prior corresponding period. Other income is predominantly made up of late fees charged to customers. Late fees comprise a small proportion of total revenue and are charged on the basis of recovering the cost of collections activities. In line with the premiumisation of the portfolio, we have seen the proportion of late paying customers reduce in FY19 over FY18, resulting in late fees growing at a slower pace than total revenue.

Transaction costs increased to \$8.5 million, an increase of 72.4% on prior corresponding period. This growth reflects the lagged recognition of transaction costs paid in cash in prior periods (transaction costs are recognised on an effective interest rate method over the life of the loan).

Net revenue increased to \$127.9 million, an increase of 29.1% on prior corresponding period, due to the factors noted above.

Operating expenses

Funding costs

Funding costs increased to \$20.1 million, an increase of 46.4% on prior corresponding period. This increase included a one-off funding optimisation expense (\$1.4 million). After adjusting for this one-off item, adjusted growth was 36.5% in the reporting period. The main driver of this increase in funding costs was the increase in drawn funding debt in the reporting period, offset by the reduction in average funding cost³ from 8.5% in FY18 to 7.5% in FY19.

Sales & marketing expense

Sales & marketing expense increased to \$27.1 million, an increase of 26.4% on prior corresponding period. This increase was based on an uplift in broad-based marketing spend in TV and radio during the reporting period, in addition to incremental investment in building brand awareness in the New Zealand market and digital acquisition costs. Expense increases were further driven by headcount growth within the marketing and channel management functions in the business.

3. Average funding cost = funding cost divided by average monthly drawn funding debt.

Product development expense

Product development expense increased to \$9.4 million, an increase of 75.0% on prior corresponding period. This has been driven by an increase in headcount in our engineering, product, design and analytics functions within the business. This additional resource has been critical to the ongoing growth of our business, enabling us to build further functionality in the core product, support our expansion into the New Zealand market and undertake new product developments such as line of credit and ProspaPay.

General & administration expense

General & administration expense increased to \$41.5 million, an increase of 50.7% on prior corresponding period. General & administration expense was negatively impacted by Initial Public Offering costs (\$5.5 million). Growth in general & administration expense was driven across a number of functions in the business, including customer journey, customer support, retention and credit, capital management and treasury, risk management, finance and people & culture. We further incurred a number of up-front investment costs in the form of market due diligence and legal establishment costs for the New Zealand operation, as well as the legal and establishment costs of three new warehouse facilities established in the reporting period. In FY19 there was a material uplift in investment in business infrastructure in preparation for listing and business growth.

Loan impairment expense

Loan impairment expense increased to \$30.6 million, an increase of 29.4% on prior corresponding period. Loan impairment expense grew at a slower pace than total revenue before transaction costs with the benefits of premiumisation emerging in the profit & loss. We continue to monitor the performance of the portfolio closely across a number of portfolio health metrics, including early loss indicators such as the 30+ days past due at 4 months on book, which continues to be supportive of ongoing premiumisation of the portfolio.

Fair value movement and derivative unwind

Through the course of 2017 and 2018, the Company received funding to support the continued growth of the business in the form of loan notes, convertible notes and warrants. In respect of the convertible notes and warrants, the conversion values of these financial instruments were referable to either the value at that prior point in time, or as a discount to future value at conversion. Upon listing on 11 June 2019 via an Initial Public Offering, a one-off fair value adjustment expense was recognised through the income statement (\$12.4 million) which reflected the valuation uplift achieved by the Company relative to the fair value of these financial instruments measured at the last reporting date, in line with overall business growth.

Further, under AASB 9 *Financial Instruments* with convertibility may have embedded derivatives which are valued and recognised up front resulting in increased effective interest on the loan component of the convertible instrument (unwind of the embedded derivative value) over the course of the life of the instrument. This was applicable to some of the convertible notes on the Company's balance sheet. Upon listing, the recognition of this effective interest continued up to the date of conversion, resulting in a one-off expense through the income statement (\$4.4 million).

In respect of both the fair value movement and the increase in effective interest (unwind of the embedded derivative), these expenses are one-off associated with the Initial Public Offering and non-cash in nature.

Cash flow

The Group continues to generate strong cash flow. Net cash from operating activities reduced to \$16.9 million, a reduction of 38.5% on prior corresponding period. The FY19 result was impacted by the cash costs of the Initial Public Offering (\$7.4 million), in addition to one-off financing costs (\$1.4 million) and an increase in corporate income tax paid (\$8.6 million).

We continue to invest in our product set, with investment in intangibles increasing to \$3.6 million, an increase of 76.8% on prior corresponding period. Investment in intangibles is comprised of capitalised vendor spend and relevant internal development cost.

In our funding cash flows, we raised \$60.0 million of new ordinary equity through the Initial Public Offering. One of the applications of the proceeds from listing was to retire our operating company debt with Partners For Growth, reducing our gearing to nil at the operating company level.

Our growth strategy

Our growth strategy has 6 main components:

1. Improving our core product through innovation;
2. Increasing the addressable market through product development;
3. Increasing the addressable market through market expansion;
4. Deepening our market penetration through improved distribution capability;
5. Continue developing operating leverage through scale and other efficiencies; and
6. Accelerating execution of product strategy and growth through acquisition.

Post balance date events

On 8 August 2019, we announced the establishment of a New Zealand funding structure to fund the ongoing rapid growth of the New Zealand portfolio, anchored by a three year committed facility for NZ\$45 million. The facility will fund the class B notes in the warehouse structure, laying the foundation for attracting high quality class A note investors.

No other matter or circumstance has arisen since 30 June 2019 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Outlook for the calendar year ending 31 December 2019

During the FY19 reporting period we met or exceeded our core operating metrics from our 2019 prospectus. We remain on track to deliver our CY19 prospectus forecast.

Remuneration Report



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"We liked the process for the fact that it was really quick. Within 24 hours we had the money in our bank account, ready to go, giving us the opportunity that when something came along, we had the money there... The service was fantastic... The process was very easy..."

Jessica, Owner
Victoria, Australia

— Remuneration Report

Letter from the Chairman of Remuneration, People and Nomination Committee

Dear Shareholders,

We are delighted to share Prospa Group Limited's Remuneration Report for FY19. The Remuneration Report covers remuneration arrangements and outcomes for the FY19 period and highlights of our remuneration arrangements for FY20.

Over the course of FY19, our Remuneration, People and Nomination Committee has established a remuneration framework that is fit for purpose both for the business we are now and the business we are fast becoming. This also includes a focus on broader people initiatives including succession planning, people engagement and diversity and inclusion.

In FY19 we successfully completed our Initial Public Offering, which raised \$109.6 million. The funds raised will be invested in the business to encourage continued growth and were distributed to existing shareholders to allow for realisation of part of their investment in the Company. Other key successes for FY19 are our expansion into New Zealand in the first half of FY19 and our launch of a new digital line of credit product in Australia in April 2019.

Our successes in FY19 are recognised through strong results across key financial and non-financial areas. In particular our originations grew to \$501.7 million, an increase of 36.6% on prior corresponding period and revenue before transactions costs grew to \$136.4 million, an increase of 31.2% on prior corresponding period. Our customer experience has been recognised with a Net Promoter Score in excess of 77 for the twelve months to 30 June 2019. Additionally, we have been recognised for our employee culture and certified as a 2019 Great Place to Work, as well as having been awarded AON Hewitt Employer of Choice for the second year in a row.

We're proud of our achievements so far, but we believe this is just the beginning. Our business strategy is to continue to invest in the customer experience and technology in order to build products and services that allow small businesses to prosper. If we achieve this, we will continue to deliver value for our shareholders.

Our Remuneration Philosophy

Prospa is a young, fast growing, financial technology company and our people are the key to our success. In order to achieve our growth strategy, we will need to continue to invest heavily in our people and our award-winning culture as this represents a strong competitive advantage for us.

We compete for talent with some of the world's fastest growing technology companies, both public and private. Since Greg and Beau started the business, they have recognised that developing an ownership culture is critical to the Company's success in attracting and retaining the best people.

Our remuneration philosophy has always been to adopt a combination of fixed and variable remuneration, weighted heavily towards equity incentives. Immediately prior to the IPO, the Prospa team (excluding the founders) owned 10% of the company from equity incentive programs issued whilst the business was a private company.

Today as a listed company, we believe it is critical to maintain and develop this remuneration strategy.

In FY19, Executives received a mix of Fixed Remuneration (FR) and Variable Remuneration (VR) in the form of cash and equity. VR was awarded as equity to align Executives to shareholder interests and drive Prospa's employee ownership culture. The equity awarded was subject to the achievement of financial and non-financial performance conditions, measured over a three-year period.

For FY20, Prospa will be implementing the Executive Incentive Plan (EIP), Employee Equity Plan (EEP) and the Non-Executive Director Equity Plan (NEDEP). These plans will continue to align Executives, employees and Non-Executive Directors with the achievement of the Company's strategy and targets by allowing participants to acquire and earn equity in the Company.

The EIP rewards Executives for achieving challenging annual targets set by the Board. As with many of our competitors in the technology industry, targets for equity incentives are set and measured over a 12-month performance period. This allows the Company to ensure the targets are aligned to meaningful annual financial and growth outcomes, which can change rapidly at this stage of our Company's growth. To align Executives with longer-term shareholder interest, equity earned at the end of the performance period is awarded progressively over a further two-year period, resulting in a three-year vesting program.

As Prospa matures, our incentive plans may evolve to be more consistent with those adopted by larger listed companies. However, for the medium term we believe our plan is fit for purpose.

We invite you to read the full Remuneration Report and look forward to the opportunity to answer any questions from shareholders at the upcoming Annual General Meeting on 26th November 2019.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Greg Ruddock', with a long, sweeping horizontal line extending to the right.

Greg Ruddock
Chairman
Remuneration, People and Nomination Committee

Prospa Key Management Personnel

The Committee presents the Remuneration Report of the Group for the period 1 July 2018 to 30 June 2019. This Report forms part of the Directors' Report and has been audited in accordance with section 300A of the Corporations Act 2001.

The Remuneration Report details the remuneration arrangements for Prospa's Key Management Personnel (KMP). KMP are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including all Directors. References in this Remuneration Report to Executives refers only to those Executives who are KMPs, as outlined in Table 1 below for FY19.

Table 1. Prospa KMP

Name	Position	Term as KMP
Executives		
Greg Moshal	Executive Director and Joint CEO	Full year
Beau Bertoli	Executive Director and Joint CEO	Full year
Ed Bigazzi	Chief Financial Officer	Full year
Non-Executive Directors		
Gail Pemberton	Independent Non-Executive Chairman	Full year ¹
Greg Ruddock	Independent Non-Executive Director and Chairman of the Remuneration, People and Nomination Committee	Full year ²
Fiona Trafford-Walker	Independent Non-Executive Director and Chairman of the Audit and Risk Committee	Full year
Avi Eyal	Non-Executive Director	Full year

Executive remuneration framework

The Group aims to reward Executives with a level and mix of fixed and variable remuneration appropriate to their position, responsibilities and performance, in a way that aligns with the Company's strategy, culture and values and is underpinned by remuneration principles that are fit for purpose.

The following diagram illustrates the link between the Group's strategy, culture, values, remuneration principles and Executive remuneration arrangements. The diagram also outlines the purpose and operation of each component of the Executive remuneration framework.

1. Gail Pemberton was a Director of the Group and Chairman of the Remuneration, People and Nomination Committee prior to her appointment to position of Chairman in February 2019.
2. Prior to February 2019 Greg Ruddock was the Chairman.

FY19 Executive incentive plans

The Group operated two pre-IPO long-term incentive plans (LTI Plans) in FY19 under which Executives could receive equity as part of their incentive arrangements:

1. Options plan; and
2. Loan share plan.

Executives were awarded equity subject to financial and non-financial performance conditions as part of their incentive arrangements in order to drive Prospa's ownership culture and align Executive and shareholder interests. The amount of equity awarded was determined by Board discretion.

Equity issued under the LTI Plans was dealt with as described below to ensure that participants' entitlements were referable to shares in Prospa following IPO and therefore participants would continue to be motivated to achieve sustained growth for shareholders.

Options plan

Prior to the IPO, Executives held options under an LTI Plan which vest relative to the satisfaction of revenue, earnings before interest, taxes, depreciation and amortisation (EBITDA) and originations targets. Options were also subject to a target of no material compliance breaches.

Those options awarded to Executives prior to the IPO were swapped for options over shares in the Company immediately after completion of the IPO (replacement options). The replacement options were granted subject to the same performance conditions as those options held prior to IPO. On exercise of any vested replacement options and payment of the exercise price, Executives will receive shares (or an equivalent cash payment). The replacement options and any shares received on vesting will be subject to the Company's Securities Dealing Policy.

Details relating to each grant held by Executives are set out in Table 2.

Table 2. Executive options grants

Participant	Number of replacement options held immediately prior to IPO completion	Exercise price	Vesting date
G. Moshal	1,286,640	\$3.33 - \$3.78	Aug-20 to Sep-22
B. Bertoli	1,286,640	\$3.33 - \$3.78	Aug-20 to Sep-22
E. Bigazzi	600,000	\$3.64	Mar-19 to Sep-21

Unless the Board determines otherwise, if a participant ceases employment before the applicable vesting date, all unvested replacement options will lapse. If a participant ceases employment for cause after the applicable vesting date, all vested replacement options will lapse. If a participant ceases employment for any other reason after the applicable vesting date, vested replacement options must be exercised within 90 days of cessation or as otherwise determined by the Board.

Loan share plan

Mr Bigazzi is party to a pre-IPO loan agreement with Prospa Advance Pty Ltd for the purchase of shares under an LTI plan, which vested on the satisfaction of revenue, earnings before interest, taxes, depreciation and amortisation (EBITDA) and originations targets. Shares were also subject to a target of no material compliance breaches. These shares were swapped on completion of the IPO for shares in the Company that continue to be subject to loan repayment and performance and service based vesting conditions (loan shares).

A limited recourse loan is attached to the loan shares and must be repaid before Mr Bigazzi will be entitled to deal with the loan shares. The loan shares and any shares received on vesting and payment of the loan amount will be subject to the Company's Securities Dealing Policy. Details of the loan shares, including the loan amounts outstanding, are set out in Table 3.

Table 3. KMP loan share grants

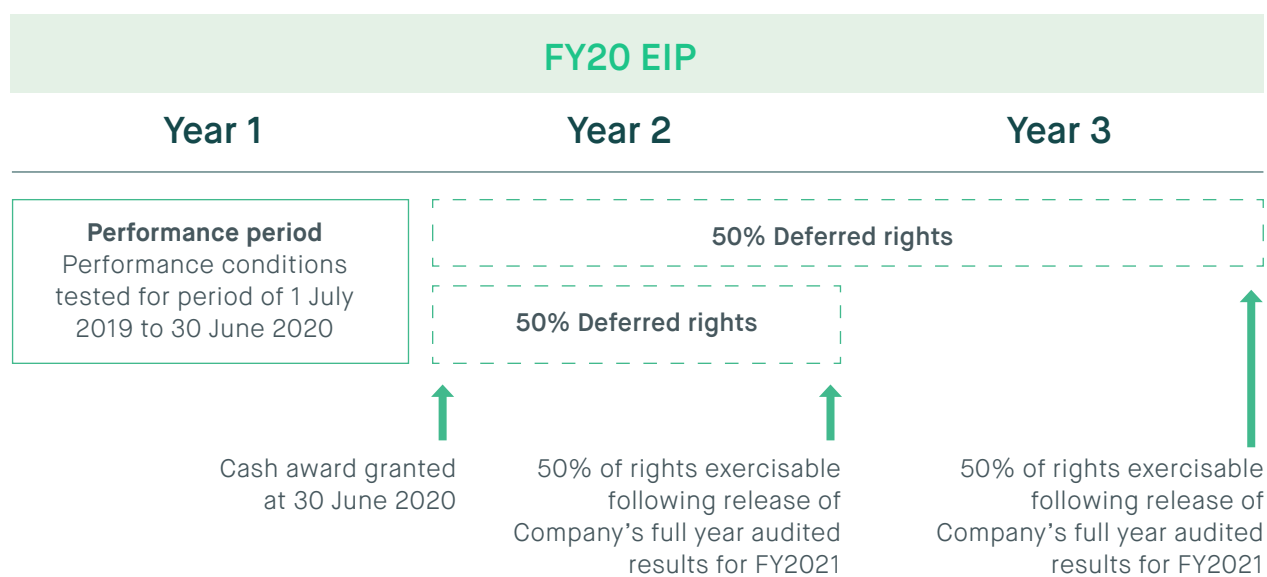
Participant	Number of loan shares held	Loan amount	Vesting date
E. Bigazzi	1,073,796	\$524,370	Sep-18

If Mr Bigazzi ceases employment after the applicable vesting date, he will have 90 days to repay the loan, unless the Board determines another period. If the loan is repaid within the prescribed period, Mr Bigazzi will receive the relevant number of shares. If the loan is not repaid, the loan shares will be sold and the proceeds less the outstanding loan balance and costs of sale will be paid to Mr Bigazzi.

Changes to Executive remuneration in FY20

The EIP to be implemented in FY20 rewards Executives for outperformance of challenging annual performance targets set by the Board. The EIP is designed to align Executives with the Company's strategy, culture and values and ultimately shareholder interests through ongoing alignment with the Company's share price.

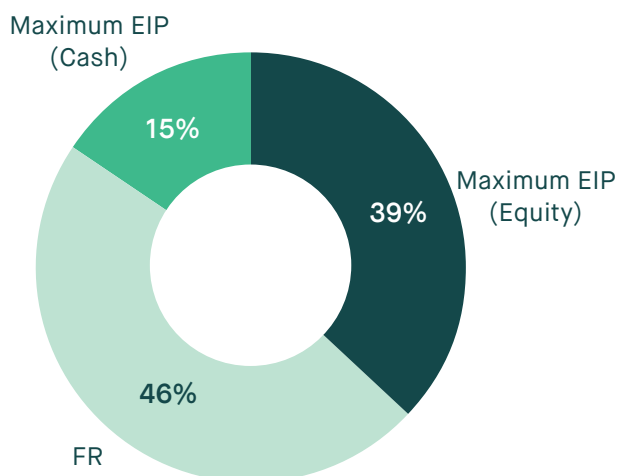
The FY20 awards under the EIP as outlined in the figure below are made up partly in cash and partly in equity.



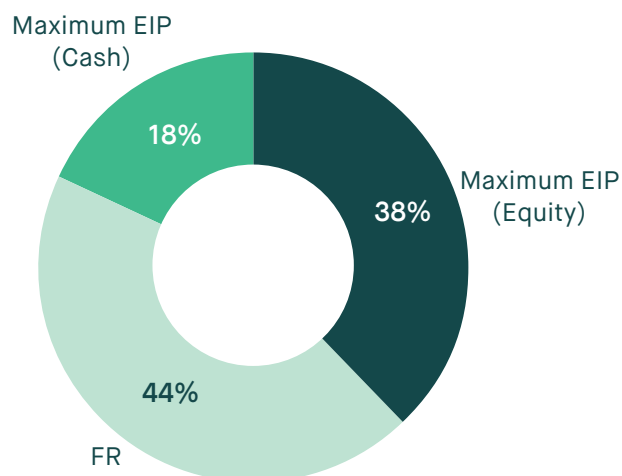
FY20 remuneration mix

The diagram below sets out the maximum mix of FR and VR each Executive can receive in FY20. The mix of remuneration is weighted towards VR and equity to ensure alignment of Executives with the interests of shareholders.

Joint CEOs remuneration mix



CFO remuneration mix



Fixed remuneration

FR, comprising of base salary, superannuation and non-monetary benefits, is reviewed annually by the Committee based on individual, business unit and Group performance and comparable market remuneration for like roles in the technology and finance industry, and companies of a similar size to Prospa.

EIP features

Table 4 outlines the features of the EIP.

Table 4. EIP features

Eligibility	The Executives will be eligible to participate in the EIP in FY20.
Award delivery	<p>Performance conditions are set by the Company, tested over a one-year performance period (1 July 2019 to 30 June 2020) and must be satisfied for participants to receive an award. Any award made will be delivered partly in cash and partly in rights to align Executives with the Company's share price.</p> <p>The FY20 award of rights will be granted in early FY20 and will vest or lapse following testing of the performance conditions at the end of the performance period.</p> <p>To the extent the performance conditions are achieved, rights will become exercisable as follows:</p> <ul style="list-style-type: none"> – 50% on the day following the release of the Company's full year audited results for FY21; and – 50% on the day following the release of the Company's full year audited results for FY22; <p>if the participant is an employee and has not provided notice of resignation prior to that exercise date.</p>
Issue price for rights	Rights under the EIP are issued for nil consideration.

Performance measures	<p>The FY20 EIP awards are subject to meeting specific targets linked to the following financial and non-financial performance conditions:</p> <ul style="list-style-type: none"> – 40% of the award is subject to meeting an Earnings before Interest, Taxes, Depreciation and Amortisation (EBITDA) target; – 40% of the award is subject to meeting a revenue target; and – 20% of the award is subject to meeting individual strategic conditions, in relation to managing risk and growth as determined by the Company.
Rights expiry	Rights will expire five years after the start of the performance period if not exercised or lapsed before this date.
Dividends and voting rights	Rights do not carry dividend or voting rights prior to exercise. Shares allocated on exercise of rights carry the same dividend and voting rights as other shares.
Cessation of employment	<p>Unless the Company determines otherwise:</p> <ul style="list-style-type: none"> – If a participant is terminated for cause, all of their rights will lapse and the cash component of the EIP award will be forfeited; – If a participant gives notice of their resignation: <ul style="list-style-type: none"> – prior to the Company testing the performance conditions following the end of performance period, all of their rights will lapse and the cash component of the EIP award will be forfeited; or – after the Company has tested the performance conditions, they may retain the cash component of their EIP award, but all of their un-exercisable rights will lapse; – If a participant ceases employment for any other reason: <ul style="list-style-type: none"> – prior to the Company testing the performance conditions following the end of performance period, a pro-rated EIP award (based on the portion of the performance period that has elapsed) will remain on foot; or – after the Board has tested the performance conditions, all of the participant’s rights will remain on foot. <p>Unless the Board determines otherwise, any rights that do not lapse on cessation must be exercised within 90 days of the right becoming exercisable, or if the vested right is already exercisable when the participant ceases employment, within 90 days of cessation.</p>
Change of control	<p>Where a change of control occurs prior to the Board testing the performance conditions following the end of the performance period, unvested EIP awards will vest and be exercised on a pro-rata basis based on the portion of the performance period complete and the Board’s estimate of likely performance outcomes, subject to Board discretion.</p> <p>Where a change of control occurs after the Board has tested the performance conditions, all unvested rights will vest and be exercised, subject to Board discretion.</p> <p>Any rights that are exercised on a change of control will be settled in cash.</p>
Other provisions	<p>The Plan Rules include specific provisions dealing with rights issues, bonus issues, and corporate actions and other capital reconstructions. These provisions are intended to ensure that there is no material advantage or disadvantage to the participant in respect of their incentives as a result of such corporate actions.</p> <p>Participants are not entitled to participate in new issues of securities by the Company prior to the vesting (and exercise if applicable) of their options or rights. In the event of a bonus issue, options or rights will be adjusted in the manner allowed or required by the ASX Listing Rules.</p>

Malus and clawback	The Plan Rules provide the Company with broad malus and clawback powers if, for example, the participant has acted fraudulently or dishonestly or there is a material financial misstatement.
Dealing restrictions	Prior to vesting, the Plan Rules provide that participants must not sell, transfer, encumber, hedge or otherwise deal with their incentives. After exercise, participants will be free to deal with their any shares they received on exercise of their incentives, subject to the Securities Dealing Policy.

Prospa performance and shareholder return

Over the past three years the Group has achieved strong growth in earnings and shareholder wealth creation year on year as demonstrated in Table 5 below. This is aligned to, and reflected in, equity grants made to Executives which are designed to drive continued company growth through the achievement of financial and non-financial performance.

Of note, we delivered revenue growth of 85% from FY17 to FY18. This was driven by an originations growth of 70% over the same period. This strong revenue growth has continued in FY19, with total revenue before transactions costs growing to \$136.4 million, which can be partly attributed to our successful expansion into New Zealand in the second half of 2018.

To ensure continued growth, we will continue to invest in our business by using the net proceeds from the \$60.0 million primary raise and the \$43.3 million raised in October 2018, through the issuance of the convertible note, to invest in funding the equity portion of the growing loan book and working capital, new products and geographies and the repayment of corporate debt.

Table 5 summarises the statutory earnings of the Group for the three years to 30 June 2019.

Table 5. Group statutory earnings

\$ million	Pro forma FY19	Statutory FY19	Statutory FY18	Statutory FY17
Total revenue before transaction costs	136.4	136.4	104.0	56.3
EBITDA ³	6.8	(0.8)	7.4	3.1
NPAT	(1.0)	(24.7)	2.1	0.7

Executive remuneration outcomes

Details of the FY19 remuneration outcomes for Executives are set out in Table 6.

Executive remuneration outcomes are determined by the Board. The Committee reviews and recommends to the Board, Executive remuneration outcomes with reference to capability, experience, market movements, the remuneration principles and individual, business unit and Group performance.

3. EBITDA means Earnings Before Corporate Interest, Tax, Depreciation and Amortisation, and Fair Value movements. Pro forma EBITDA refers to the EBITDA result, pro forma adjusted in a manner consistent with the 2019 prospectus associated with the Company's Initial Public Offering.

Table 6 outlines the remuneration expense recognised for the Group's Executives for the reporting period measured in accordance with Australian Accounting Standards (AAS).

Table 6. Statutory Executive remuneration outcomes

Name	Year	Fixed remuneration			Post-employment benefits	Other long-term benefits	Share based payments		Total remuneration	Performance related
		Salary and fees	Cash bonus	Other benefits	Superannuation	Long service leave	Options, rights	Loan shares		
G. Moshal	2019	459,615	150,000	–	20,531	19,291	58,460	–	707,897	29%
	2018	369,231	75,000	–	35,077	13,378	–	–	492,686	15%
B. Bertoli	2019	459,615	150,000	–	20,531	11,090	58,460	–	699,696	30%
	2018	369,231	75,000	–	35,077	6,883	–	–	486,191	15%
E. Bigazzi	2019	363,462	150,000	1,200	20,531	4,340	166,482	2,261	708,276	39%
	2018	297,115	58,750	1,231	34,352	2,080	–	19,262	412,790	18%

Executive contractual arrangements

Remuneration and other terms of employment for Executives are formalised in service agreements. Details of these agreements are outlined in Table 7.

Table 7. Executive contractual arrangements

	Greg Moshal Joint CEO	Beau Bertoli Joint CEO	Ed Bigazzi CFO
Contract type	Ongoing	Ongoing	Ongoing
Fixed remuneration	\$475,000	\$475,000	\$375,000
Termination notice by either party	6 months	6 months	6 months
Termination notice with cause	Immediate	Immediate	Immediate

	Greg Moshal Joint CEO	Beau Bertoli Joint CEO	Ed Bigazzi CFO
Post-employment restraints	Restrictions operate for up to 12 months post-employment and include: <ul style="list-style-type: none"> – Non-competition restraints, some of which purport to operate across Australia only; – Restrictions against soliciting certain Group clients and customers and from providing certain services to those clients or customers; – Restrictions against inducing suppliers of the Group to cease supply to Prospa; and – Restrictions against soliciting the Group's employees, contractors or Directors. 		Restrictions operate for up to 12 months post-employment and include: <ul style="list-style-type: none"> – Non-competition restraints, some of which purport to operate across Australia only; – Restrictions against contacting Prospa customers; and – Restrictions against influencing employees to resign from Prospa.
Sign-on or termination payments	Payment subject to termination benefits cap.		

Non-Executive Director remuneration

Fees

Prospa's Non-Executive Director fee policy is designed to attract and retain high calibre directors and recognise their contribution to the work of the Board and the associated committees on which they serve.

Table 8 outlines the annual base fees paid by the Company to Non-Executive Directors. All Non-Executive Director fees are inclusive of statutory superannuation contributions.

Table 8. Non-Executive Director fees

Board and Committee fees (\$ incl super)	Chairman	Member
Board	175,000	100,000
Audit and Risk Committee	10,000	Nil
Remuneration, People and Nomination Committee	10,000	Nil

Non-Executive Directors are entitled to be paid for travel and other expenses incurred in attending to Prospa's affairs, including attending and returning from general meetings of the Company or meetings of the Board or Committees of the Board.

Any Non-Executive Director who performs extra services, makes any special exertions for the benefit of the Company or who otherwise performs services which, in the opinion of the Board, are outside the scope of the ordinary duties of a Non-Executive Director, may be remunerated for the services (as determined by the Board) out of the funds of the Company.

Prospa does not pay benefits (other than statutory entitlements) on retirement to Non-Executive Directors.

The total amount of fees paid to all Non-Executive Directors in any financial year must not exceed \$900,000, as approved by Shareholders at a General Meeting of the Company.

Non-Executive Director Equity Plan

In line with Prospa's ownership culture, the Company has designed the NEDEP which allows Non-Executive Directors to acquire rights that convert to restricted shares, in lieu of some or all of their cash Non-Executive Director fees. The NEDEP will be implemented in FY20.

The initial FY20 offer to Non-Executive Directors was made at the end of FY19 with pre-tax fee contributions to start in FY20. For this offer, each Non-Executive Director was allocated a number of rights, based on the portion of fees each Director nominated to sacrifice under the NEDEP. Table 9 details the number of rights granted to each Non-Executive Director under the initial FY20 offer.

Table 9. FY20 Non-Executive Director rights grant

Name	Number of rights granted
G. Pemberton	23,148
G. Ruddock	nil
F. Trafford-Walker	14,550
A. Eyal	13,228

The rights will vest on the day following the release of the FY20 half-year financial results. The shares allocated to the Non-Executive Directors on vesting of the rights will be held subject to dealing restrictions until the earlier of two years or the date on which the Non-Executive Director ceases to hold office as a Director.

The rights are not subject to any performance or service conditions which could result in potential forfeiture.

Prior to vesting, Non-Executive Directors do not have dividend or voting rights with respect to the rights. Shares allocated on vesting carry the same dividend and voting rights as other shares, and Non-Executive Directors will be free to deal with their shares, subject to the Securities Dealing Policy.

Any rights which have not vested will automatically lapse if a Non-Executive Director leaves the Board (in which case any Non-Executive Director fee contributed under the NEDEP will be paid to the Non-Executive Director, subject to superannuation and withholding of tax).

Options granted to Non-Executive Directors

Prospa issued Gail Pemberton, Fiona Trafford-Walker and Greg Ruddock 25,000 options each to reward their contribution to the proposed Company IPO in 2018 and successful Company IPO on 11 June 2019. This was a one-off grant and options were granted for nil consideration. Table 10 provides further details regarding the grant of options.

Table 10. One-off options granted in connection with the Company's IPO

Number of options	75,000
Exercise Price	115% of offer price
Vesting date	Fully vested on date of grant (11 June 2019). Exercisable from the day following release of FY20 audited results
Exercise period	Five years (until 11 June 2024)
Other	The options are not subject to any performance or service conditions and will remain on foot until exercised even where a Director ceases to hold office. Until options are exercised, they do not have dividend or voting rights and the Directors must not transfer, encumber, hedge or otherwise deal with their options.

Non-Executive Director statutory remuneration

Table 11 outlines statutory remuneration paid to Non-Executive Directors in FY19 in accordance with AAS.

Table 11. Non-Executive Director statutory remuneration

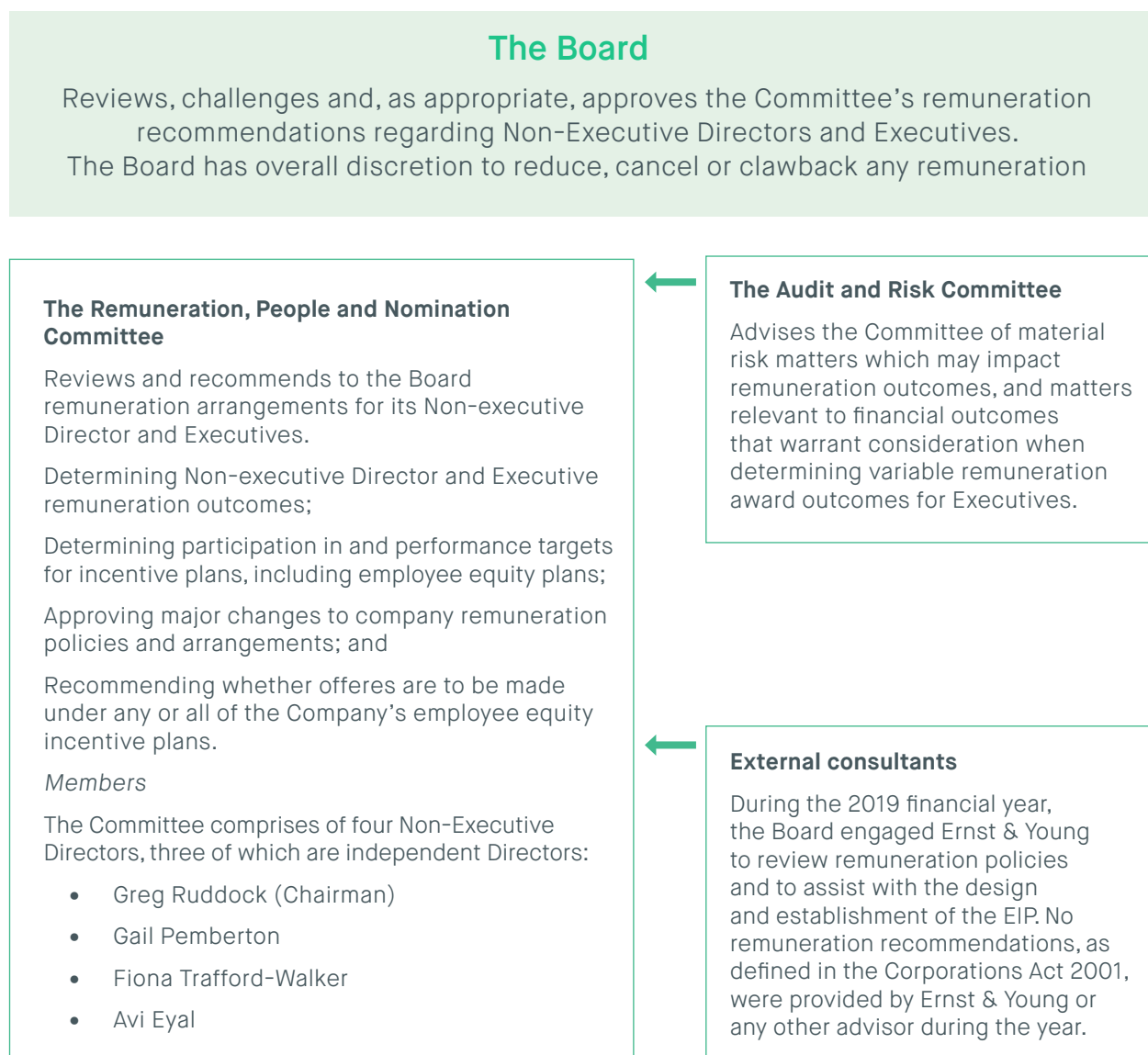
Name	Year	Fees \$	Superannua- tion benefits \$	Equity \$	Total \$
G. Pemberton	2019	130,124	12,362	15,191	157,677
	2018	35,601	3,382	–	38,983
G. Ruddock	2019	83,070	7,702	–	90,772
	2018	–	–	–	–
F. Trafford-Walker*	2019	110,000	–	15,191	125,191
	2018	31,048	–	–	31,048
A. Eyal**	2019	32,375	–	15,663	48,038
	2018	–	–	–	–

* Fees relating to Fiona Trafford-Walker will be paid to Abeille Advisory Pty Ltd, a personal services company of which Fiona Trafford-Walker is the sole Director, in return for it arranging for the provision of her services to the Company.

** Avi Eyal is based overseas and all fees are paid in Australian Dollars.

Remuneration governance

The following diagram represents the Group's remuneration oversight and decision-making framework.



Additional statutory disclosures

The information in the following section has been prepared in accordance with statutory requirements and Australian Accounting Standards.

KMP equity holdings and movements

A reconciliation of the movement in equity awards for KMPs during the period is outlined in Table 12.

Table 12. KMP movements in options, loan shares and rights

KMP	*Balance of rights, options, loan shares as at 1/7/2018	Rights, options, loan shares granted in FY2019	Grant date for those issued in FY19	Fair Value at grant date for those issued in FY19	Exercise Price	Expiry date	Rights, options, loan shares vested in FY2019	Rights, options, loan shares forfeited in FY2019	Balance at 30/6/2019 (unvested)
G. Moshal	-	543,123	14/05/2019	\$1.14	\$3.33	14/05/2024	-	-	543,123
	-	743,517	14/05/2019	\$0.95	\$3.78	14/05/2024	-	-	743,517
B. Bertoli	-	543,123	14/05/2019	\$1.14	\$3.33	14/05/2024	-	-	543,123
	-	743,517	14/05/2019	\$0.95	\$3.78	14/05/2024	-	-	743,517
E. Bigazzi	-	600,000	30/11/2018	\$0.75	\$3.64	30/11/2023	200,000	-	400,000
	1,073,796	-	N/a	N/a	\$0.49	17/02/2021	214,759	-	-
	-	30,000	12/06/2019	\$3.78	N/a	N/a	**30,000	-	-
G. Pemberton	-	95,556	25/01/2019	\$0.70	\$4.19	25/01/2024	47,778	-	47,778
	-	25,000	11/06/2019	\$0.76	\$4.35	14/06/2024	**25,000	-	-
	-	23,148	14/06/2019	\$3.78	N/a	N/a	-	-	23,148
G. Ruddock	-	25,000	11/06/2019	\$0.76	\$4.35	14/06/2024	**25,000	-	-
F. Trafford-Walker	-	95,556	25/01/2019	\$0.70	\$4.19	25/01/2024	47,778	-	47,778
	-	25,000	11/06/2019	\$0.76	\$4.35	14/06/2024	**25,000	-	-
	-	14,550	14/06/2019	\$3.78	N/a	N/a	-	-	14,550
A. Eyal	-	92,592	1/12/2018	\$0.25	\$3.64	1/12/2023	77,160	-	15,432
	-	13,228	14/06/2019	\$3.78	N/a	N/a	-	-	13,228

* Note that opening balance was held in Prospa Advance Pty Ltd and has been adjusted for a three-for-one split that occurred during the year.

** Vested however under escrow that they cannot be exercised until the day following the release of the FY20 results.

The number of shares in the Company held during the financial year by each KMP, including their personally related parties, is outlined in Table 13.

Table 13. KMP equity holdings

KMP	Balance at 1/7/2018	Received on exercise of CN* and warrants	Received on exercise of rights, options, loan shares	Purchased / Acquired	Disposed	Balance at 30/6/2019
G. Moshal	27,318,795	27,948	–	–	2,645,503	24,701,240
B. Bertoli	12,318,795	27,948	–	–	2,645,503	9,701,240
E. Bigazzi	511,875	–	30,000	–	511,875	30,000
G. Pemberton	–	99,126	–	52,910	–	152,036
G. Ruddock	1,765,794	209,613	–	–	941,796	1,033,611
F. Trafford-Walker	–	–	–	13,228	–	13,228
A. Eyal	2,972,730	240,201	–	–	793,651	2,419,280

* Convertible Note.

Loans and other transactions

No loans, other than those outlined in Table 3 as part of the loan share plan, have been granted to any KMP.

There were no transactions during the reporting period involving an equity instrument to KMP or related parties, other than those disclosed in the Remuneration Report.

Securities Dealing Policy

The Company has adopted a Securities Dealing Policy, which provides that Directors, Executives and employees must not deal in the Company's securities when they are aware of "inside" information.

Directors, Executives and certain restricted employees must not deal in the Company's securities during any of the following blackout periods:

- The period from the close of trading on the ASX on 30 June each year until the day following the announcement to ASX of the full-year results;
- The period from the close of trading on the ASX on 31 December each year until the day following the announcement to ASX of the half-year results; and
- Any other period that the Board specifies from time to time.

Directors and restricted employees must receive prior approval for any proposed dealing in the Company's securities outside of the above blackout periods (including any proposed dealing by one of their connected persons).

In accordance with obligations under the Corporations Act 2001, Prospa's Securities Dealing Policy prohibits key management personnel and Directors from entering into hedging arrangements in relation to Prospa securities including unvested awards in the EIP. In addition, the EIP Plan Rules restrict Executives from entering into hedging arrangement in relation to unvested awards under the EIP. Any attempt to hedge awards in contravention of the Securities Dealing Policy or EIP Plan Rules will result in forfeiture and the Board may consider disciplinary action.

Corporate Governance



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"You feel vulnerable with the bank because the process isn't friendly; it's long and drawn out...Prospa's timing is perfect whenever you need them. They help you out when you need those funds to buy additional stock when you're presented with good deals."

Maxine
Queensland, Australia

— Corporate Governance

Prospa has reviewed its current corporate governance policies and practices against the Australian Securities Exchange (ASX) Corporate Governance Council's (ASX CGC) Corporate Governance Principles and Recommendations 3rd Edition (Recommendations) in respect of the year ended 30 June 2019. As recommended by the ASX CGC, further information in relation to corporate governance practices is set out in the Corporate Governance Statement, which is publicly available on our website prospa.com.

This corporate governance statement is current as at 24 September 2019 and has been approved by the board of the Company (Board).

Our Code of Conduct

In conducting its business activities Prospa is committed to maintaining the highest ethical standards. Prospa's success is dependent on the knowledge, experience and talent of our employees, the strength of our management team, the quality of our business strategy and our compliance with high standards of corporate conduct, ethics and governance. We are constantly working to reinforce and communicate our values to our employees, shareholders, customers, suppliers and the broader community. The Board believes it is important to provide a clear set of values that emphasise a culture encompassing strong corporate governance, sound business practices and good ethical conduct.

Our Code of Conduct has been prepared for the guidance and benefit of all people employed, contracted by, associated with, or acting on behalf of the Prospa and its related bodies corporate (the Group). The Code of Conduct also extends to all Directors. The Code of Conduct expresses the core values that drive our behaviour and aspirations as follows:

- our actions must be governed by high standards of integrity and fairness;
- our decisions must be made in accordance with the spirit and letter of applicable law; and
- our business must be conducted honestly and ethically, with our best skills and judgement, and for the benefit of customers, employees, shareholders and the Group alike.

Our Code of Conduct applies to all Directors, officers, employees, contractors, consultants and associates. It outlines how we expect our representatives to behave and conduct business in the workplace. By doing so we can be proud of our individual and collective achievements and ensure that the Group maintains a reputation for high standards of business conduct, professionalism and integrity, values and ethical standards are reflected in our day-to-day operations.

Prospa takes its obligations regarding ethical behaviour very seriously. In addition to our Code of Conduct, we have policies in place for the disclosure of personal relationships where a potential conflict may arise, for pre-employment and background checks, particularly for senior leaders and those employees accessing credit information and making financial decisions.

Our core values

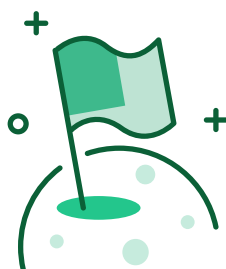
Employees strive to solve our customers' problems by making complex financing solutions simple for the everyday small business owner. Our culture is demonstrated by our core values that drive the behaviour of our organisation and contribute to our ability to deliver excellent customer experiences:

Prospa's core values



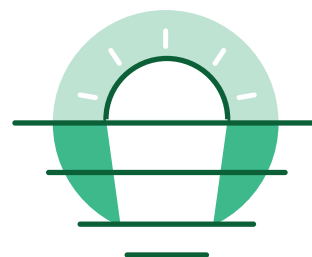
Obsess about customers

Don't just listen, hear what's important



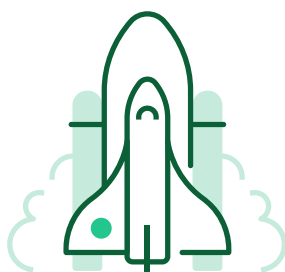
Be bold, open and real

Take smart risks, be transparent and true



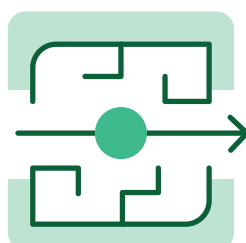
Day 1

Keep our start-up mentality



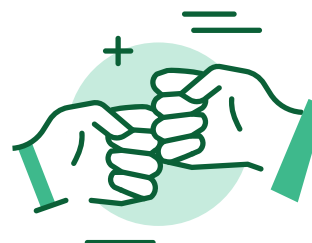
Deliver value fast

Celebrate outcomes, not processes



Simplicity

Make the complex simple



One team

We work as one

Diversity and inclusion

We are committed to building and maintaining a diverse and inclusive team, enhancing our capability and reputation and allowing us to attract, engage and retain talented people. Our 250 employees come from over 30 different countries.

We are committed to the principles of equal employment opportunity. We embrace strength-based leadership, and seek to recruit, promote and remunerate based on performance, capabilities and behaviours. We ensure our partner agencies are aware of our diversity agenda when recruiting on our behalf. We seek to achieve greater gender diversity by setting measurable objectives and broadening the field of potential candidates and Board appointments.

Our gender targets for FY19 for all employees were 40% women and 60% men; and for the Board and Executives 33% women and 67% men.

As at the end of FY19, we achieved our gender targets in relation to all employees. In relation to our gender diversity for the Board and Executives, we achieved 27% women and 73% men.

For the reporting period 1 April 2018 to 31 March 2019, Prospa was compliant with the *Workplace Gender Equality Act 2012*.

Prospa has a number of initiatives to promote workplace diversity, including flexible working options, paid parental leave, a wheelchair accessible working environment, programs to nurture leaders and study leave options.

Prospa surveys its employees monthly with a 'Pulse Check' to monitor team engagement. Prospa also participates in an annual engagement survey and has been awarded the AON Hewitt Employer of Choice for the second year in a row. Furthermore, Prospa received Great Place to Work Certification in 2019. Assessment is based on an independent benchmark of our policies, practices, and programs; together with feedback from our people obtained through a Trust Index® employee survey.

Community initiatives

The Group is a responsible corporate citizen and actively supports the communities in which we live and work. Each employee is expected to uphold the Group's commitment to pursue good corporate citizenship while engaging in its corporate activity.

Prospa has an ongoing volunteering program and during the reporting period a number of teams took the opportunity to volunteer their time to worthwhile causes.

Prospa supports Kiva, which provides micro-loans to entrepreneurs in developing countries.

Economic

This year Prospa invested in testing our purpose and commissioned independent research by RFI Group and the Centre for International Economics into the economic impact of our small business lending. The research found that every \$1 million Prospa lends to small business, results in \$4 million to Australian GDP and support 57 FTE jobs.

Environmental

The Group is committed to doing business in an environmentally responsible manner and identifying environmental risks that may arise out of its operations.

Prospa has a small environmental impact, but endeavours to incorporate sustainable measures into our workplace culture, such as recycling initiatives, automated software to encourage non-colour double sided printing and air-conditioning controls.

Governance and Risk Management

Management of risks is underpinned by a robust governance structure. The Audit and Risk Committee meets once a quarter and has the responsibility to review and address risks, compliance, controls and financial reporting impacting the Group. The Committee also provides guidance to the various management committees.

Enterprise Risk Management

The Enterprise Risk Management Framework is approved by the Board and establishes strategies and processes to identify and manage risk commensurate with the Group's risk profile. Efficient and effective identification and management of risks has always been one of the core capabilities at Prospa. It plays an important role in helping the business achieve its strategic objectives, enhancing the portfolio's health and protecting our reputation and shareholders' interests. The Board and management are focused on ensuring a strong risk culture exists within the Group.

The Group's CEOs and CFO are responsible for the Enterprise Risk Management Framework and appoint a team of senior management personnel and subject matter experts to develop and implement policies, controls, processes and procedures that identify and manage risk in all of the Group's activities.

The Group's activities expose it to a variety of financial and non-financial risks. These are discussed individually below.

Credit Risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk for the Group is concentrated in loan receivables.

The Group has exposure to credit risk on all its term loans and revolving facilities. To manage and mitigate credit risk, the Group has developed a comprehensive credit risk framework. The credit risk framework includes the credit policy, credit procedures, statistical models that predict the likelihood of default, mathematical models that construct a financial cash flow and determine the loan affordability and specific rules to mitigate fraud.

All components of the framework are embedded in our proprietary Credit Decision Engine (CDE) which enable us to scale whilst delivering consistent and accurate credit decisions. The credit risk assessments derived from the CDE are supported by an independent review from the experienced and trained credit staff. All credit risk assessments are screened through the KYC and AML rules in accordance with our AML/CTF Program.

The quality of data facilitated by our in-house built Credit Risk DataMart enables a dedicated team to perform timely and pro-active portfolio management. Key trends in the credit portfolio along with concentration risk relative to the risk appetite are monitored frequently and reported to management on a monthly basis.

Liquidity and Market Risk

Liquidity risk is the risk of the Group not meeting its financial liabilities in a timely manner. Maintaining continuous access to funds is the responsibility of the Group Capital Management (GCM) function within Prospa. GCM utilises a number of strategies to enable liquidity including operating a funding platform with a diversified source of funding that incorporates securitisation warehouse facilities, group equity and balance sheet cash. In addition, securitisation facilities are funded through multiple domestic and global funders.

Market risks, specifically interest rate and foreign exchange risk, can lead to an adverse impact on the Group's earnings particularly as the Group offers fixed rate loans to its customers and borrows to fund these customers using a mix of fixed and floating rates from funders. The Group hedges these interest rate risks in accordance to the Board approved Financial Risk Management policy and using cost-effective hedging strategies such as interest rate caps contracts.

With the expansion into the New Zealand market, the Group is now exposed to foreign exchange translation and transaction risk. To minimise this risk, the Group has undertaken funding of its New Zealand operations in local currency restricting the exchange rate translation and transaction risk to the Group's equity invested in the New Zealand operations.

Operational Risk & Compliance

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events – either intentional or accidental. The extent and rigour with which operational risk is managed has an impact on the Group's customers, employees, financial performance and reputation.

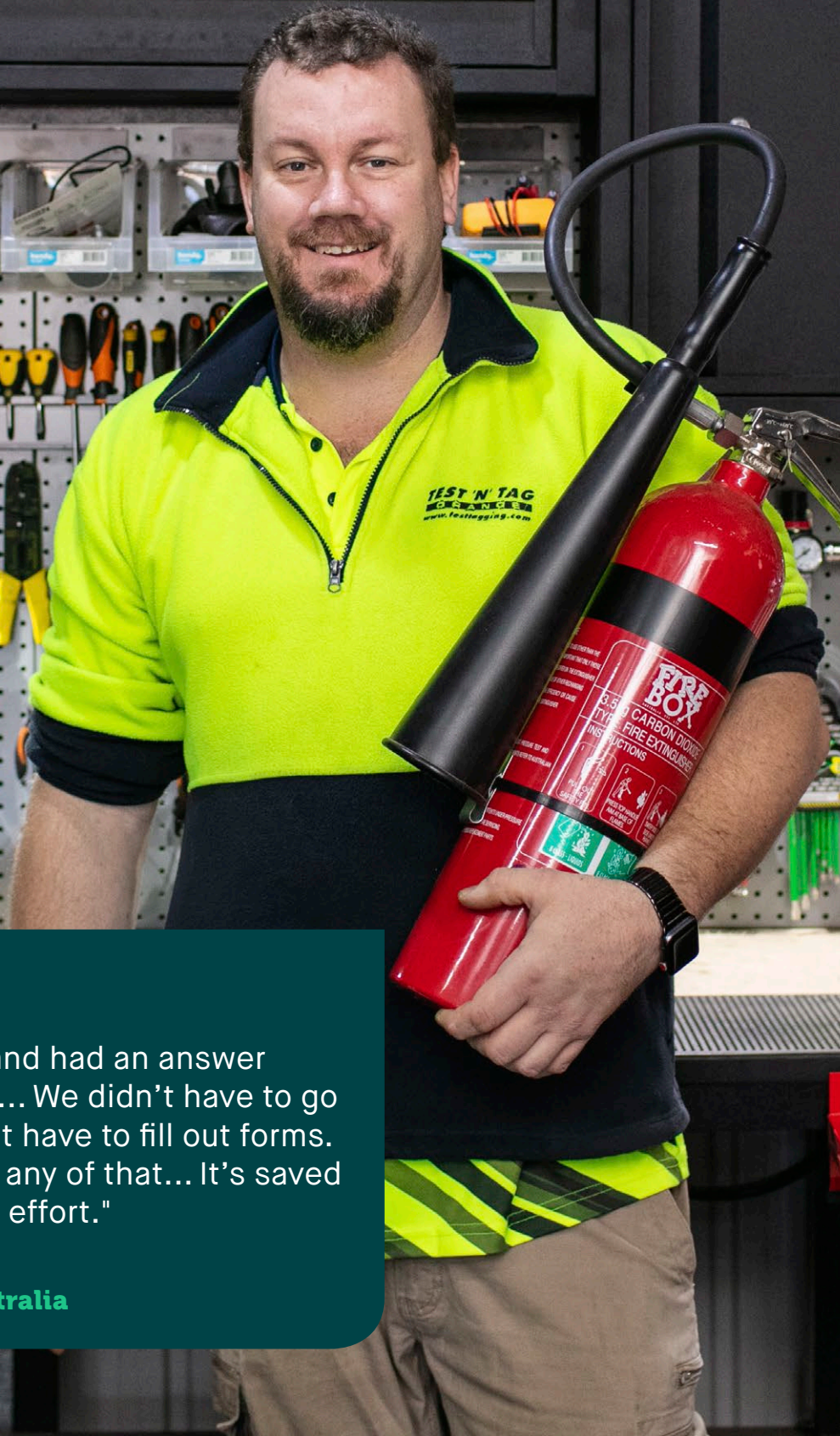
Compliance risk is the risk of regulatory action or policy change which may negatively affect the Group's financial position or reputation resulting from a failure to abide by compliance obligations.

The Group's Operational Risk and Compliance Frameworks allow for effective identification, assessment, management, monitoring and reporting of operational risks and compliance obligations. These frameworks set out the methodology to build and update the Group's risk profile and help establish and define policies, techniques and controls used to manage and mitigate operational risks and obligations.

The Group's Operational Risk and Compliance Frameworks are positioned around the five pillars of risk internally (Strategic, Legal and Regulatory, Operations, Cyber Security and Credit); allowing management to prioritise effort across all aspects of operational risk and compliance. The Operational Risk and Compliance Frameworks are revised and enhanced through feedback from management and the Audit and Risk Committee.

The Group continues to invest in operational risk capabilities to ensure we meet the evolving needs in a changing operating environment which now includes multiple products and geographies.

Auditor's Independence Declaration



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"I got on the phone and had an answer almost straight away... We didn't have to go into a bank. We didn't have to fill out forms. We didn't have to do any of that... It's saved us so much time and effort."

Craig
New South Wales, Australia



Deloitte Touche Tohmatsu
A.C.N. 74 490 121 060

Grosvenor Place
225 George Street
Sydney NSW 2000
PO Box N250 Grosvenor Place
Sydney NSW 1217 Australia

Tel: +61 (0) 2 9322 7000
Fax: +61 (0) 2 9322 7001

The Board of Directors
Prospa Group Limited
Level 1, 4 – 12 Yurong Street
Sydney NSW 2000

24 September 2019

Dear Board Members

Prospa Group Limited

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the directors of Prospa Group Limited.

As lead audit partner for the audit of the financial statements of Prospa Group Limited for the financial year ended 30 June 2019, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- i) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

DELOITTE TOUCHE TOHMATSU

Mark Lumsden
Partner
Chartered Accountants

Liability limited by a scheme approved under Professional Standards Legislation.
Member of Deloitte Asia Pacific Limited and the Deloitte Network.

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Financial Statements

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— Financial Statements

General information

The financial statements cover Prospa Group Limited as a group consisting of Prospa Group Limited and the entities it controlled at the end of, or during, the financial year. The financial statements are presented in Australian dollars, which is Prospa Group Limited's functional and presentation currency.

Prospa Group Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Level 1
4-16 Yurong Street
Sydney NSW 2000

A description of the nature of the Group's operations and its principal activities are included in the Directors' Report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of Directors, on 24 September 2019. The Directors have the power to amend and reissue the financial statements.

— Consolidated statement of profit or loss and other comprehensive income

For the year ended 30 June 2019

	Note	Consolidated	
		30 June 2019 \$'000	30 June 2018 \$'000
Interest income		124,987	94,986
Other income	4	11,436	9,005
Total revenue before transaction costs		136,423	103,991
Transaction costs		(8,536)	(4,950)
Net revenue		127,887	99,041
Operating expenses			
Funding costs	5	(20,070)	(13,708)
Sales and marketing expense		(27,127)	(21,465)
Product development expense		(9,408)	(5,375)
General and administration expense		(41,498)	(27,531)
Loan impairment expense		(30,550)	(23,600)
Total operating expense	6	(128,653)	(91,679)
Earnings before interest on corporate debt, fair value movements, income tax, depreciation and amortisation		(766)	7,362
Depreciation		(955)	(563)
Amortisation		(2,684)	(1,162)
Interest on corporate debt	5	(2,103)	(2,143)
Financial instruments: Fair value (loss)/gain	7	(12,439)	194
Financial instruments: Unwind of embedded derivative	5,7	(4,357)	(718)
(Loss)/profit before income tax expense		(23,304)	2,970
Income tax expense	8	(1,417)	(876)
(Loss)/profit after income tax expense for the year attributable to the owners of Prospa Group Limited	21	(24,721)	2,094
Other comprehensive income/(loss)			
Gain/(loss) on the revaluation of financial assets at fair value through other comprehensive income, net of tax		104	(104)
Foreign currency translation		14	—
Other comprehensive income/(loss) for the year, net of tax		118	(104)
Total comprehensive (loss)/income for the year attributable to the owners of Prospa Group Limited		(24,603)	1,990
		Cents	Cents
Basic (loss)/earnings per share	35	(21.55)	5.61
Diluted (loss)/earnings per share	35	(21.55)	5.17

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

— Consolidated statement of financial position

As at 30 June 2019

		Consolidated	
	Note	30 June 2019 \$'000	30 June 2018 \$'000
Assets			
Current assets			
Cash and cash equivalents	9	69,839	34,397
Loan receivables	10	235,120	173,279
Bank deposits		1,098	796
Other financial assets		130	38
Income tax		447	–
Prepayments and other assets		3,171	2,654
Total current assets		309,805	211,164
Non-current assets			
Loan receivables	11	144,733	85,855
Property, plant and equipment	12	2,354	1,535
Intangible assets	13	6,577	5,683
Deferred tax assets	14	8,814	5,264
Total non-current assets		162,478	98,337
Total assets		472,283	309,501
Liabilities			
Current liabilities			
Trade and other payables		6,687	7,139
Borrowings	15	14,974	16,496
Other financial liabilities	16	–	2,345
Income tax		–	4,691
Employee benefits		3,792	2,042
GST provision	17	–	1,043
Total current liabilities		25,453	33,756
Non-current liabilities			
Borrowings	18	296,548	238,934
Employee benefits		262	126
Total non-current liabilities		296,810	239,060
Total liabilities		322,263	272,816
Net assets		150,020	36,685
Equity			
Issued capital	19	609,975	36,149
Reserves	20	(431,412)	1,096
Accumulated losses	21	(28,543)	(560)
Total equity		150,020	36,685

The above consolidated statement of financial position should be read in conjunction with the accompanying notes

— Consolidated statement of changes in equity

For the year ended 30 June 2019

Consolidated	Issued capital (Note 19) \$'000	Reserves (Note 20) \$'000	Accumulated losses (Note 21) \$'000	Total equity \$'000
Balance at 1 July 2017	36,149	596	(2,654)	34,091
Profit after income tax expense for the year	–	–	2,094	2,094
Other comprehensive income for the year, net of tax	–	(104)	–	(104)
Total comprehensive income for the year	–	(104)	2,094	1,990
Transactions with owners in their capacity as owners:				
Share-based payments (note 36)	–	604	–	604
Balance at 30 June 2018	36,149	1,096	(560)	36,685

Consolidated	Issued capital (Note 19) \$'000	Reserves (Note 20) \$'000	Accumulated losses (Note 21) \$'000	Total equity \$'000
Balance at 1 July 2018	36,149	1,096	(560)	36,685
Adjustment on adoption of AASB 9 (note 1)	–	–	(3,262)	(3,262)
Balance at 1 July 2018 - restated	36,149	1,096	(3,822)	33,423
Loss after income tax expense for the year	–	–	(24,721)	(24,721)
Other comprehensive income for the year, net of tax	–	118	–	118
Total comprehensive income for the year	–	118	(24,721)	(24,603)
Transactions with owners in their capacity as owners:				
Share-based payments (note 36)	–	1,626	–	1,626
Conversion of options (note 19)	77	–	–	77
Capital buy-back (note 36)	–	(1,284)	–	(1,284)
IPO - Conversion of convertible notes	76,773	–	–	76,773
IPO - Conversion of warrant	4,226	–	–	4,226
IPO - Management performance shares	523	–	–	523
IPO - Issue of ordinary shares, net of transaction costs	57,586	–	–	57,586
IPO - Re-organisation reserve	432,968	(432,968)	–	–
IPO - IPO grants to management	1,247	–	–	1,247
IPO - Proceeds from loan shares	426	–	–	426
Balance at 30 June 2019	609,975	(431,412)	(28,543)	150,020

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes

— Consolidated statement of cash flows

For the year ended 30 June 2019

	Note	Consolidated	
		30 June 2019 \$'000	30 June 2018 \$'000
Cash flows from operating activities			
Finance income received		124,921	89,765
Other income received		7,405	9,014
Interest and other finance costs paid		(23,306)	(15,697)
Payments to suppliers and employees		(83,545)	(55,387)
Income taxes paid		(8,613)	(290)
Net cash from operating activities	34	16,862	27,405
Cash flows from investing activities			
Net increase in loans advanced to customers		(151,800)	(126,881)
Payments for property, plant and equipment		(1,775)	(1,442)
Payments for intangibles		(3,578)	(2,024)
Other investing cash flows		(302)	(796)
Net cash used in investing activities		(157,455)	(131,143)
Cash flows from financing activities			
Proceeds from borrowings		179,141	207,720
Repayment of borrowings		(61,051)	(78,992)
Payments for capital buy-backs		(1,718)	–
Proceeds from conversion of warrant		2,000	–
Proceeds from issue of shares net of transaction costs	19	57,586	–
Conversion of options	19	77	–
Net cash from financing activities		176,035	128,728
Net increase in cash and cash equivalents		35,442	24,990
Cash and cash equivalents at the beginning of the financial year		34,397	9,407
Cash and cash equivalents at the end of the financial year	9	69,839	34,397

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes

— Notes to the consolidated financial statements

For the year ended 30 June 2019

1. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB).

Historical cost convention

The financial statements have been prepared under the historical cost convention, except for, where applicable, the revaluation of financial assets and liabilities at fair value through profit or loss, financial assets at fair value through other comprehensive income and loans and other receivables which are measured at amortised cost.

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.

Going concern

The financial statements of the Group have been prepared on a going concern basis. The Board of Directors have made an assessment of the Group's ability to continue as a going concern and have reviewed cash flow forecasts. They are satisfied that the Group has the resources to continue for the foreseeable future and pay debts as they fall due.

Parent entity information

In accordance with the Corporations Act 2001, these financial statements present the results of the Group only. Supplementary information about the parent entity is disclosed in note 30.

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Prospa Group Limited ('company' or 'parent entity') as at 30 June 2019 and the results of all subsidiaries and trusts for the year then ended. Prospa Group Limited and its subsidiaries and trusts together are referred to in these financial statements as the 'Group'.

Subsidiaries and trusts are all those entities over which the Group has control. The Group controls an entity when the Group 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 and trusts are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the Group are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries and trusts have been changed where necessary to ensure consistency with the policies adopted by the Group.

During the period the Group undertook an Initial Public Offering and group reorganisation. This included establishing a listed entity, Prospa Group Limited, which applied the reverse acquisition accounting principles of AASB 3 to the transaction, with the effect that Prospa Group Limited has assumed the position of the parent entity of the Group. Comparative financial information of Prospa Advance Pty Limited has been reported in accordance with AASB 3. The material transactions and accounting policies in respect of the reorganisation and change in financial instruments have been disclosed within the notes to this annual report.

Foreign currency translation

The financial statements are presented in Australian dollars, which is Prospa Group Limited's functional and presentation currency.

Foreign currency transactions

Foreign currency transactions are translated into Australian dollars 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 financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Foreign operations

The assets and liabilities of foreign operations are translated into Australian dollars using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into Australian dollars using the average exchange rates, which approximate the rates at the dates of the transactions, for the period. All resulting foreign exchange differences are recognised in other comprehensive income through the foreign currency reserve in equity.

The foreign currency reserve is recognised in profit or loss when the foreign operation or net investment is disposed of.

New or amended Accounting Standards and Interpretations adopted

The Group has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that are mandatory for the current reporting period.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

The details of the new significant accounting policies and the nature of the changes to previous accounting policies in relation to the Group are set out below.

Initial adoption of AASB 9 *Financial Instruments*

The Group has adopted AASB 9 from 1 July 2018. AASB 9 sets out the requirements to recognise and measure financial assets and financial liabilities. This standard replaces AASB 139 *Financial Instruments: Recognition and Measurement*. The details of this new significant accounting policy and the impact of transition to AASB 9 on the opening balance of accumulated losses are set out below. Under the transitional rules, comparative figures have not been restated.

AASB 9 introduced new requirements for:

1. The classification and measurement of financial assets and liabilities;
2. Impairment of financial assets; and
3. Hedge accounting.

1. Classification and measurement

Financial assets

Under AASB 9, on initial recognition, a financial asset is classified at fair value, and classified and subsequently measured at fair value through profit or loss (FVTPL), fair value through other comprehensive income (FVOCI) or amortised cost. The classification under AASB 9 is based on the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The following accounting policies apply to the subsequent measurement of financial assets.

Financial assets at FVTPL	These assets are subsequently measured at fair value. Changes in fair value are recognised in profit or loss.
Financial assets at FVOCI	These assets are subsequently measured at fair value. Changes in fair value are recognised in other comprehensive income. At 30 June 2019 the Group no longer holds any instruments in this category.
Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses (see impairment of financial assets).

The following table explains the original measurement categories under AASB 139 and the new measurement categories under AASB 9 for each class of the Group's financial assets as at 1 July 2018.

Financial assets	Original classification	New classification	Change in carrying amount
Cash and cash equivalents	Loans and receivables	Amortised cost	No impact on transition to AASB 9
Loan receivables	Loans and receivables	Amortised cost	Impact on impairment as detailed below
Bank deposits	Loans and receivables	Amortised cost	No impact on transition to AASB 9
Other financial assets	Available-for-sale	FVTPL FVOCI	No impact on transition to AASB 9

Financial liabilities

AASB 9 largely retains the existing requirements of AASB 139 for the classification and measurement of financial liabilities.

2. Impairment of financial assets

The AASB 9 impairment model is based on an expected credit loss methodology instead of the incurred loss methodology of AASB 139. This expected credit loss model segments the portfolio into stage 1, stage 2 and stage 3, which are described in further detail in the table below:

Stage 1	Financial assets that have not had a significant increase in credit risk since initial recognition. For these assets, 12 months expected credit losses are recognised. There is a rebuttable presumption that Stage 1 assets comprise loans less than or equal to 30 days past due.
Stage 2	Financial assets that have experienced a significant increase in credit risk since initial recognition but do not have objective evidence of impairment. For these assets, lifetime expected credit losses are recognised.
Stage 3	Financial assets that have objective evidence of impairment. For these assets, lifetime expected credit losses are recognised.

The Stage 1 and Stage 2 models are built using 'days past due' roll rates to derive a probability of default for each stage. This model then derives an exposure at default, to which we apply our loss given default percentage. For Stage 1, there is a mandatory emergence period of 12 months. For Stage 2, we use our portfolio emergence period, based on the behavioural life of the portfolio.

The Stage 3 provision looks at the collection status of loans past default and takes into account our loss given default percentage.

To the Stage 1-3 provision we add an economic overlay. This overlay takes into account the economic cycle and the outlook for the economic indicators which may impact the credit performance of our portfolio.

The adoption of this standard has resulted in an increase in the allowance for expected credit losses, an increase in deferred tax and an adjustment to the operating accumulated losses as follows:

	\$'000
Allowance for expected credit losses	4,660
Deferred tax asset	(1,398)
AASB 9 adjustment to opening accumulated losses at 1 July 2018	<u>3,262</u>

The impact of the new Accounting Standards compared with the previous Accounting Standards is as follows:

	Carrying amount under AASB 139 at 30 June 2018 \$'000	Adjustment under ECL model \$'000	Carrying amount under AASB 9 at 1 July 2018 \$'000
Gross loan receivables	272,990	–	272,990
Provision for loan loss impairment	(13,856)	(4,660)	(18,516)
Net loan receivables	<u>259,134</u>	<u>(4,660)</u>	<u>254,474</u>
Impact on deferred tax assets	4,157	1,398	5,555
Accumulated losses	560	3,262	3,822

3. Hedging

The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in AASB 139. Under AASB 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an “economic relationship”. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity’s risk management activities have also been introduced.

The adoption of AASB 9 does not have significant impact to the cash flow hedges of the Group.

Initial adoption of AASB 15 Revenue from contracts with customers

The Group has adopted AASB 15 from 1 July 2018. The standard provides a single comprehensive model for revenue recognition. The core principle of the standard is that an entity shall recognise revenue to depict the transfer of promised goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard introduced a new contract-based revenue recognition model with a measurement approach that is based on an allocation of the transaction price. Credit risk is presented separately as an expense rather than adjusted against revenue. Contracts with customers are presented in the statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity’s performance and the customer’s payment. Customer acquisition costs and costs to fulfil a contract can, subject to certain criteria, be capitalised as an asset and amortised over the contract period.

The Group has several revenue streams derived from the provision of loans to small businesses predominantly in Australia. Interest income, representing revenue in the form of loan interest and origination fees is captured under AASB 9 and not under AASB 15. Fee income which comprises of servicing fees and late fees is recognised in accordance with AASB 15.

Servicing fees arise on loans with a syndication investment. We charge that syndication partner a servicing fee for originating the loan and creating the initial syndication investment, administering the loan, including initiating the direct debit instalments and passing on cleared payments to the syndication partner, in addition to any renewal or collections activity required over the life of the loan.

Late fees are charged when a customer misses any scheduled payments to us and are calculated as a percentage of the outstanding balance for every day that the loan is late.

Under AASB 15, revenue is recognised when the performance obligation has been satisfied. Determining the timing of revenue recognition, at a point in time or over time, requires judgement.

The Group has determined that for servicing fees, revenue is recognised over time as the customer simultaneously receives and consumes the benefit. Late fees are recognised at a point in time, when the performance obligation has been satisfied.

There was no impact on the financial performance and position of the Group from the adoption of AASB 15.

Revenue recognition

Revenue is recognised at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Interest income

Interest income includes interest and loan origination fees. Interest income is recognised using the effective interest method in terms of AASB 9 Financial Instruments.

Other income

Other income includes fees not directly attributable to the origination of loans, including late fees and servicing fees. Late fees are recognised at a point in time, when the performance obligation has been satisfied, at the transaction price determined in the loan contract. Servicing fees are recognised over time as the Group fulfils its obligations under syndication agreements with syndication partners.

Bank interest consists of interest earned on bank deposits.

Transaction costs

Transaction costs and broker commissions directly attributable to the origination of loans are recognised using the effective interest method.

Effective interest method

The effective interest method is used for the recognition of interest on loans and loan origination fees reported together within interest income, and transaction costs and broker commissions directly attributable to the origination of a loan reported within transaction costs. Interest income and transaction costs together comprise the complete effective interest yield of the loan book. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Interest expense

During the year the Group's business operations were funded by a combination of securitisation trust warehouse facilities, term facilities, corporate debt, convertible notes and cash on the balance sheet. Interest expense is recognised as it accrues using the effective interest rate method.

On listing with the Australian Securities Exchange on 11 June 2019, the convertible notes were settled and converted to issued capital. In addition, the proceeds from the listing were used to fully repay the corporate debt facility (redeemed through a cash payment of \$17 million and conversion of a further \$3 million of notes into issued capital).

Interest on the Group's trust warehouse facilities and the term facilities is disclosed as funding cost.

Interest on the corporate debt facility and convertible note are at a fixed rate and are disclosed as interest on corporate debt. The unwinding of the discount on the embedded derivative over the course of its life is recorded in financial instruments: unwind of embedded derivative.

Income tax

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

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.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

Current and non-current classification

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the Group's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the Group's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Loans and other receivables

Loan receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance for expected credit losses. The initial fair value of loan receivables includes capitalised origination fees net of capitalised transaction costs.

Collectability of loan receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly. The Group also carries an allowance for expected credit loss (2018: provision for impairment) of loan receivables equal to 6.05% (30 June 2018: 5.08%) of the total loan receivables. This percentage requires a degree of estimation and judgement. The percentage is determined by use of an expected credit loss model. The model considers the aging of receivables, historical collection rates, specific knowledge of the individual borrower's financial liability and expected performance of the loan book.

Other receivables are recognised at amortised cost, less any allowance for expected credit losses.

Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. 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.

Derivatives are classified as current or non-current depending on the expected period of realisation.

Cash flow hedges

Cash flow hedges are used to cover the Group's exposure to variability in cash flows that is attributable to particular risks associated with a recognised asset or liability or a firm commitment which could affect profit or loss. The effective portion of the gain or loss on the hedging instrument is recognised in other comprehensive income through the cash flow hedges reserve in equity, whilst the ineffective portion is recognised in profit or loss. Amounts taken to equity are transferred out of equity and included in the measurement of the hedged transaction when the forecast transaction occurs.

Cash flow hedges are tested for effectiveness on a regular basis prospectively to ensure that each hedge is highly effective and continues to be designated as a cash flow hedge. If the forecast transaction is no longer expected to occur, the amounts recognised in equity are transferred to profit or loss.

If the hedging instrument is sold, terminated, expires, is exercised without replacement or rollover, or if the hedge becomes ineffective and is no longer a designated hedge, the amounts previously recognised in equity remain in equity until the forecast transaction occurs.

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognised in profit or loss in the line item relating to the hedged item.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or when the hedging relationship no longer meets the qualifying criteria. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to profit or loss from that date.

The Group holds derivative financial instruments as part of its risk management activities, the main purpose being to hedge its interest rate risk exposures. Further details of derivative financial instruments are disclosed in Note 16.

Property, plant and equipment

Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment (excluding land) over their expected useful lives as follows:

Plant and equipment	3-5 years
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The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the Group. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss. Any revaluation surplus reserve relating to the item disposed of is transferred directly to retained profits.

Intangible assets

Intangible assets acquired are initially recognised at cost. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

Software & Website

Expenditure on acquiring and developing software and eligible website development costs have been capitalised and amortised on a straight-line basis over the period of their expected benefit. The intangible assets are amortised over their useful lives as follows:

Website	3 years
Software (acquired)	5 years
Software development (in-house)	5 years

Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership of leased assets, and operating leases, under which the lessor effectively retains substantially all such risks and benefits.

Finance leases are capitalised. A lease asset and liability are established at the fair value of the leased assets, or if lower, the present value of minimum lease payments. Lease payments are allocated between the principal component of the lease liability and the finance costs, so as to achieve a constant rate of interest on the remaining balance of the liability.

Leased assets acquired under a finance lease are depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

Operating lease payments, net of any incentives received from the lessor, are charged to profit or loss on a straight-line basis over the term of the lease.

Impairment of non-financial assets

Other non-financial assets are reviewed 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.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs.

Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

Borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

Where there is an unconditional right to defer settlement of the liability for at least 12 months after the reporting date, the loans or borrowings are classified as non-current.

Other financial instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Finance costs

Finance costs attributable to qualifying assets are capitalised as part of the asset. All other finance costs are expensed in the period in which they are incurred.

Employee benefits

Short-term employee benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled wholly within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

Other long-term employee benefits

The liability for annual leave and long service leave not expected to be settled within 12 months of the reporting date are measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date 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 reporting date on high quality corporate bonds with terms to maturity that match the estimated future cash outflows.

Share-based payments

Equity-settled share-based compensation benefits are provided to employees.

Equity-settled transactions are awards of shares, or options over shares, that are provided to employees in exchange for the rendering of services.

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using either the Binomial or Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option. Judgements are also applied in relation to estimations of the number of options which are expected to vest, by reference to historic leaver rates and expected outcomes under relevant performance conditions.

The cost of equity-settled transactions are recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

Market conditions are taken into consideration in determining fair value. Therefore any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.

Convertible notes

On listing with the Australian Securities Exchange on 11 June 2019, the convertible notes were settled and converted to equity. This non-cash financing activity resulted in an increase in equity of \$76.8 million, as disclosed in Note 19. For the year ended 30 June 2018, the option to convert these notes was deemed to be an embedded derivative. The associated embedded derivative is recognised as a financial liability at fair value through profit or loss. The convertible notes are recognised in borrowings at amortised cost.

On initial recognition, the fair value of the embedded derivative is taken from the proceeds received to arrive at the value of the convertible notes. Subsequently, the fair value of the embedded derivative is measured at each reporting period until settlement. Fair value movements are recognised in the statement of profit or loss. The embedded derivative is unwound over the life of the convertible note.

Fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Assets and liabilities measured at fair value are classified into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

Warrants

On listing with the Australian Securities Exchange on 11 June 2019, the warrant was settled and converted to equity. For the year ended 30 June 2018, warrants were recognised as financial liabilities at fair value. At each reporting date the fair value was measured with changes being recognised in the statement of profit or loss.

Issued capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Treasury shares

Own equity instruments that are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the owners of Prospa, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

Goods and Services Tax (GST) and other similar taxes

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the 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 amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

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 tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

Reclassification

Comparatives have been realigned to the current year presentation. There is no net effect on profit and net assets for the comparative period.

Rounding of amounts

The company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

Change in estimates

The Group changed the estimated useful life of the software development (in-house) from 7 years to 5 years in December 2018, resulting in an increased amortisation expense of \$957,000 at that point.

New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Group for the annual reporting period ended 30 June 2019. The Group's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the Group, are set out below.

AASB 16 Leases

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. The standard replaces AASB 117 *Leases* and for lessees will eliminate the classifications of operating leases and finance leases.

Subject to exceptions, a 'right-of-use' asset will be capitalised in the statement of financial position, measured at the present value of the unavoidable future lease payments to be made over the lease term. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets (such as personal computers and small office furniture) where an accounting policy choice exists whereby either a 'right-of-use' asset is recognised or lease payments are expensed to profit or loss as incurred.

A liability corresponding to the right-of-use asset will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs.

Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results will be improved as the operating expense is replaced by interest expense and depreciation in profit or loss under AASB 16.

The Group will adopt this standard from 1 July 2019 and have provisionally assessed that net assets on transition will decrease by \$1.4 million while profit before tax for the financial year ending 30 June 2020 will decrease by \$0.3 million with an increase in EBITDA of \$2.2 million.

AASB Interpretation 23 *Uncertainty over Income Tax Treatment*

Interpretation 23 clarifies the application of the recognition and measurement criteria in AASB 112 *Income Taxes* where there is uncertainty over income tax treatments, and requires an assessment of each uncertain tax position as to whether it is probable that a taxation authority will accept the position. Where it is not probable, the effect of the uncertainty will be reflected in determining the relevant taxable profit or loss, tax bases, unused tax losses and unused tax credits or tax rates. The amount will be determined as either the single most likely amount or the sum of the probability weighted amounts in a range of possible outcomes, whichever better predicts the resolution of the uncertainty. Judgements will be reassessed as and when new facts and circumstances are presented.

Interpretation 23 will apply to the Group from 1 July 2019. The Group's existing recognition and accounting policies are aligned with the requirements of Interpretation 23 and hence no transition adjustment to retained earnings is expected.

2. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

Share-based payment transactions

The group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using either the Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

Share-based payments are disclosed in note 36.

Allowance for expected credit losses

The allowance for expected credit loss assessment requires a degree of estimation and judgement. It is based on the expected credit loss, within 12 months or over the lifetime, grouped based on days overdue, and makes assumptions to allocate an overall expected credit loss rate for each stage. These assumptions include recent loss experience, historical collection rates and estimates of economic overlay.

Allowance for expected credit losses are disclosed in note 11.

Fair value measurement hierarchy

The Group is required to classify all assets and liabilities, measured at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being: Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date; Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and Level 3: Unobservable inputs for the asset or liability. Considerable judgement is required to determine what is significant to fair value and therefore which category the asset or liability is placed in can be subjective.

The fair value of assets and liabilities classified as Level 3 is determined through the use of valuation models. These include discounted cash flow analysis or the use of observable inputs that require significant adjustments based on unobservable inputs.

The fair value measurement hierarchy is disclosed in note 24.

Estimation of useful lives of assets

The Group determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and finite life intangible assets. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

Depreciation and amortisation charges are disclosed in notes 12 and 13.

Income tax

The Group is subject to income taxes in the jurisdictions in which it operates. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on the Group's current understanding of the tax law. Where the final tax outcome of these matters is different from the carrying amounts, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

Income tax is disclosed in note 8.

Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences only if the Group considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax is disclosed in note 14.

Re-organisation reserve and Initial Public Offering

During the period the Group undertook an Initial Public Offering and group reorganisation. This included establishing a listed entity, Prospa Group Limited, which in management's judgement applied the reverse acquisition accounting principles of AASB 3 to the transaction, with the effect that Prospa Group Limited has assumed the position of the parent entity of the Group. Comparative financial information of Prospa Advance Pty Limited has been reported in accordance with AASB 3. A re-organisation reserve was created to align total equity with the net asset position of the Group.

Further information on the re-organisation reserve is disclosed in note 20.

3. Operating segments

The Group's operations consist primarily of the provision of loans to small businesses in Australia and New Zealand. The Group has considered the requirements of AASB 8 *Operating Segments* and assessed that the Group has one operating segment, representing the consolidated results, as this is the only segment which meets the requirements of AASB 8.

4. Other income

	Consolidated	
	30 June 2019 \$'000	30 June 2018 \$'000
Fee income	10,672	8,718
Bank interest	764	287
	11,436	9,005

5. Interest expense

The total interest expense, as calculated using the effective interest rate method, is set out below:

	Consolidated	
	30 June 2019 \$'000	30 June 2018 \$'000
Funding costs	20,070	13,708
Interest on corporate debt	2,103	2,143
Financial instruments: Unwind of embedded derivative	4,357	718
	26,530	16,569

6. Operating expenses

Operating expenses for the year were \$128.7 million (June 2018: \$91.7 million), of that employee expenses were \$40.0 million (June 2018: \$29.1 million). In the statement of profit or loss and other comprehensive income these employee expenses are included within the sales & marketing expense, the product development expense and the general and administration expense on a pro-rata basis. Initial Public Offering expenses were \$8.6 million of which \$6.2 million have been allocated and expensed in profit or loss by category based on function in the period and \$2.4 million have been capitalised to equity as disclosed in Note 19.

7. Financial instruments

Through the course of 2017 and 2018, the Company received funding to support the continued growth of the business in the form of loan notes, convertible notes and warrants. In respect of the convertible notes and warrants, the conversion values of these financial instruments were referable to either the value at that prior point in time, or as a discount to future value at conversion. Upon listing on 11 June 2019 via an Initial Public Offering, a one-off fair value adjustment expense was recognised through the income statement (\$12.4 million) which reflected the valuation uplift achieved by the Company relative to the fair value of these financial instruments measured at the last reporting date, in line with overall business growth.

Further, under AASB 9 *Financial Instruments*, financial instruments with convertibility may have embedded derivatives which are valued and recognised up front resulting in increased effective interest on the loan component of the convertible instrument (unwind of the embedded derivative value) over the course of the life of the instrument. This was applicable to some of the convertible notes on the Company's balance sheet. Upon listing, the recognition of this effective interest continued up to the date of conversion, resulting in a one-off expense through the income statement (\$4.4 million).

In respect of both the fair value movement and the increase in effective interest (unwind of the embedded derivative), these expenses are one-off associated with the Initial Public Offering and non-cash in nature.

9. Current assets – cash and cash equivalents

	Consolidated	
	30 June 2019	30 June 2018
	\$'000	\$'000
Cash at bank	69,839	34,397

Included in the cash at bank is a restricted cash balance of \$40.8 million (June 2018: \$20.3 million).

10. Current assets – loan receivables

	Consolidated	
	30 June 2019	30 June 2018
	\$'000	\$'000
Loan receivables	250,260	182,544
Less: Allowance for expected credit losses (30 June 2018: Provision for impairment)*	(15,140)	(9,265)
	235,120	173,279

* The current period balance reflects the adoption of AASB 9. The expected credit loss relating to loan receivables under AASB 9 are recorded under the allowance for expected credit losses. As prior periods have not been restated in accordance with AASB 9, individually assessed provisions and collective provision for impairment in June 2018 remain in accordance with AASB 139 and are therefore recognised on a different basis.

11. Non-current assets – loan receivables

	Consolidated	
	30 June 2019	30 June 2018
	\$'000	\$'000
Loan receivables	154,053	90,446
Less: Allowance for expected credit losses (30 June 2018: Provision for impairment)*	(9,320)	(4,591)
	144,733	85,855

* The current period balance reflects the adoption of AASB 9. Refer to note 10 for further details.

Allowance for expected credit losses

Loan receivables which are greater than 180 days past due and 30 days of consecutive non-payment (30 June 2018: 120 consecutive days of non-payment) were written off. This policy was updated from the beginning of the reporting period in conjunction with the implementation of AASB 9 and in order to better align with the operations of the business. The allowance for expected credit losses for loan receivables as a percentage of receivables has fallen from 6.78% of the gross receivables balance as at 1 July 2018 to 6.05% (30 June 2018 provision for impairment: 5.08%). The allowance for expected credit losses is based on expected performance of the loan book, which takes into account historical data and forward-looking indicators.

The remaining tables in this note apply to the full loan receivables balance (current and non-current).

The following table summarises movements in the allowance for expected credit losses during the period:

	30 June 2019 \$'000	30 June 2018 \$'000
Opening balance*	18,516	8,099
Provisions recognised during the year in the profit or loss	30,550	23,600
Receivables written-off during the year as bad debts	(26,666)	(18,560)
Recoveries	2,060	717
	24,460	13,856

* The opening balance for the period ending 30 June 2019 is the carrying amount under AASB 9 at 1 July 2018.

The expected credit loss model takes into account three main parameters, which are probability of default, loss given default and the emergence period. Internally developed statistical models are applied to derive these parameters, based on historical portfolio information. The model generates provision levels required for each of Stage 1, Stage 2 and Stage 3, based on the expected loss for each of these segments of the portfolio. Macro-economic data and forward-looking indicators are incorporated through an economic overlay assumption which forms part of the overall loan impairment provision levels. Macro-economic factors taken into consideration include unemployment rate, interest rate, inflation, gross domestic product, commercial and residential property prices.

The following table summarises loan receivables by stages:

	Stage 1 \$'000	Stages 2 and 3 \$'000	Total \$'000
30 June 2019			
Loan receivables	373,290	31,023	404,313
Allowance for expected credit losses	(7,878)	(16,582)	(24,460)
Net loan receivables	365,412	14,441	379,853
1 July 2018			
Loan receivables	243,140	29,850	272,990
Allowance for expected credit losses*	(4,271)	(14,245)	(18,516)
Net loan receivables	238,869	15,605	254,474

* Comparative balance for 2018 is the carrying amount under AASB 9 at 1 July 2018.

12. Non-current assets – property, plant and equipment

	Consolidated	
	30 June 2019 \$'000	30 June 2018 \$'000
Plant and equipment – at cost	4,136	2,426
Less: Accumulated depreciation	(1,782)	(891)
	2,354	1,535

13. Non-current assets – intangible assets

	Consolidated	
	30 June 2019 \$'000	30 June 2018 \$'000
Website – at cost	820	747
Less: Accumulated amortisation	(615)	(358)
	205	389
Software acquired – at cost	394	394
Less: Accumulated amortisation	(252)	(176)
	142	218
Software development (in-house) – at cost	10,207	6,702
Less: Accumulated amortisation	(3,977)	(1,626)
	6,230	5,076
	6,577	5,683

14. Non-current assets – deferred tax assets

Deferred tax asset comprises temporary differences attributable to:

	Opening balance (30 June 2018) \$'000	Adjustment on adoption of AASB 9 to equity (1 July 2018) (note 8) \$'000	Recognised in profit or loss (note 8) \$'000	Closing balance \$'000
Employee benefits	921	–	237	1,158
Provision for impairment of loan receivables	4,157	1,398	1,763	7,318
Derivatives	22	–	(22)	–
Property, plant and equipment and intangibles	164	–	174	338
	5,264	1,398	2,152	8,814

Deferred tax assets relating to temporary differences are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised. The Group has generated taxable profits for the current and prior financial years, and after taking into account forecasts for future periods, this tax payable position is expected to be maintained. Management have therefore assessed that the deferred tax asset will continue to be utilised in future periods.

15. Current liabilities – borrowings

	Consolidated	
	30 June 2019 \$'000	30 June 2018 \$'000
Convertible notes interest payable	–	110
Corporate debt interest payable	–	181
Securitisation trust notes	14,852	15,505
Interest payable on trusts	746	746
Unamortised costs on trusts	(624)	(46)
	14,974	16,496

Corporate debt

Interest on the corporate debt facility was at a fixed rate that was to mature in March 2022. This debt was settled and repaid on 14 June 2019.

Refer to note 23 for further information on financial risk management.

Refer to note 18 for further information on borrowings.

16. Current liabilities – other financial liabilities

	Consolidated	
	30 June 2019 \$'000	30 June 2018 \$'000
Interest rate swap contracts – cash flow hedges	–	161
Warrant	–	1,744
Embedded derivative	–	440
	–	2,345

Refer to note 23 for further information on financial risk management.

Refer to note 24 for further information on fair value measurement.

The borrowings related to trusts, details of which can be seen in note 15 and note 18, are linked to a floating interest rate. To reduce the risk of changing interest rates associated with the borrowings, the Group entered into an interest rate swap contract (with a notional principal of \$83.3 million, expired in May 2019) with an independent financial institution with a credit rating of A3 or higher at the time of preparing this financial statement. The Group also holds interest rate cap contracts with other independent financial institutions with credit rating of A3 or higher. The notional value of the interest rate caps are as follows:

Notional Value	Maturity Date
\$67.3 million	February 2020
\$12.2 million	April 2021
\$50.0 million	May 2021
\$75.0 million	January 2021

For June 2018 the Group had a \$2.0 million warrant which was related to the \$20.0 million corporate debt facility. On Initial Public Offering this corporate debt facility was settled and repaid and the related warrant was converted to equity on receipt of the \$2.0 million exchange price. It had a term of 7 years and was to mature on 6 March 2024. The put options provided downside protection to the warrant holder to provide a floor return of \$2.0 million. It was exercisable at any point up until maturity.

17. Current liabilities – GST provision

	Consolidated	
	30 June 2019 \$'000	30 June 2018 \$'000
GST provision	–	1,043

During the 2018 financial year management noted it had over-claimed GST. Management engaged with the tax authorities to rectify this position and the \$1.0 million provision was the estimated cost of remediation. During the 2019 financial year this was fully paid and resolved.

18. Non-current liabilities – borrowings

The Group's business operations are funded by a combination of securitisation trust notes (warehouse facilities and term facilities), cash and contributed equity.

	Consolidated	
	30 June 2019 \$'000	30 June 2018 \$'000
Convertible notes payable	–	14,750
Corporate debt	–	18,767
Securitisation trust notes	297,923	206,430
Less: unamortised costs	(1,375)	(1,013)
	296,548	238,934

Securitisation trust notes

The Group has five securitisation warehouses in place, as a part of its asset backed securitisation program, having commenced three during the period. The Group regularly sells its loan receivables to these securitisation trusts warehouses. The trusts are consolidated as the Group is:

- exposed to, or has rights to, variable equity returns in its capacity as the residual unit holder (or beneficiary as the case may be) of these trusts;
- in its capacity as the originator of loan receivables and the servicer of these loans on behalf of the trusts, has the ability to impact the variable equity returns; and
- the sole subscriber to the Seller Notes issued by the trusts. These Seller Notes go towards maintaining the minimum equity contribution/subordination buffer and funding non-conforming receivables. In addition to the Seller Notes, the Group's asset backed securitisation program includes multiple classes of Notes including Class A, Class B and Class C Notes which carry a floating interest rate. The facilities under the program have different expiry dates ranging from April 2020 to December 2021.

Convertible notes payable

In January 2018, the Group issued 1,525 convertible notes with an aggregate principal amount of \$15.3 million and in October 2018, the Group issued further 4,300 convertible notes with an aggregate principal amount of \$43.3 million. Coupon interest accrued daily on the face value of the note at a fixed rate per annum.

Within the convertible notes was an embedded derivative that related to the conversion option that was available to the holders of the notes.

On listing with the Australian Securities Exchange on 11 June 2019, the convertible notes were settled and converted to equity.

Refer to note 19 for further details.

Assets pledged as security

The carrying amounts of assets pledged as security for current and non-current borrowings as a result of the securitisation warehouses:

	Consolidated	
	30 June 2019 \$'000	30 June 2018 \$'000
Loan receivables*	356,908	247,838

* The amount recognised above represents the carrying value of the customer receivables held by the Prospa Trusts and is net of provisions for bad debts and unearned future income. This excludes customer receivables totalling \$23.1 million held by Prospa Advance Pty Ltd at 30 June 2019 and \$11.3 million at 30 June 2018.

Financing arrangements

Unrestricted access was available at the reporting date to the following lines of credit:

	Consolidated	
	30 June 2019 \$'000	30 June 2018 \$'000
Total facilities		
Securitisation trusts	389,470	274,500
Corporate debt	–	20,000
	389,470	294,500
Used at the reporting date		
Securitisation trusts	312,775	222,000
Corporate debt	–	20,000
	312,775	242,000
Unused at the reporting date		
Securitisation trusts	76,695	52,500
Corporate debt	–	–
	76,695	52,500

19. Equity – issued capital

	Consolidated			
	30 June 2019 Shares	30 June 2018 Shares	30 June 2019 \$'000	30 June 2018 \$'000
Ordinary shares – fully paid	160,514,164	21,712,630	609,975	–
Preference shares – fully paid	–	15,645,067	–	36,149
Treasury shares – fully paid	836,273	2,099,707	–	–
	161,350,437	39,457,404	609,975	36,149

Movements in ordinary share capital

Details	Date	Shares	Issue price	\$'000
Balance	1 July 2017	21,712,630		–
Balance	30 June 2018	21,712,630		–
Conversion of options**	December 2018	3,333	\$2.00	7
Conversion of options	June 2019	36,247	\$1.56	57
Conversion of options	June 2019	27,480	\$0.49	13
Conversion of convertible notes**	June 2019	6,505,580	\$11.34	73,773
Conversion PFG convertible notes**	June 2019	558,968	\$5.36	3,000
Conversion of warrant**	June 2019	372,648	\$11.34	4,226
Conversion of preference shares**	June 2019	15,645,067	\$2.31	36,149
Conversion of management performance shares**	June 2019	1,500,000	\$0.35	523
Treasury shares converted to ordinary shares**	June 2019	1,769,464	\$0.00	–
Share split*	June 2019	96,135,380	\$0.00	–
Shares issued - initial public offering	June 2019	15,476,191	\$3.78	58,500
Shares issued to employees	June 2019	441,176	\$3.40	1,500
Transaction costs arising on IPO eligible for offset against share capital	June 2019	–	\$0.00	(2,414)
Share capital restructure on IPO	June 2019	–	\$0.00	432,968
IPO grants to management	June 2019	330,000	\$3.78	1,247
Proceeds from loan shares	June 2019	–	\$0.00	426
Balance	30 June 2019	160,514,164		609,975

* On 11 June 2019, the shareholders of Prospa Group Limited approved a three-for-one share split.

** These balances are prior to the three-for-one split.

Movements in preference share capital

Details	Date	Shares	Issue price	\$'000
Balance	1 July 2017	15,645,067		36,149
Balance	30 June 2018	15,645,067		36,149
Conversion into ordinary shares		(15,645,067)	\$2.31	(36,149)
Balance	30 June 2019	–		–

Movements in treasury share capital

Details	Date	Shares
Balance	1 July 2017	2,099,707
Balance	30 June 2018	2,099,707
Management buy-back*	December 2018	(130,243)
Conversion of options*	December 2018	3,333
Treasury shares converted to ordinary shares*	June 2019	(1,772,797)
Issuance of treasury shares*	June 2019	100,000
Share split (3-for-1)	June 2019	600,000
Conversion of options	June 2019	(36,247)
Conversion of options	June 2019	(27,480)
Balance	30 June 2019	836,273

* These balances are prior to the three-for-one split.

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the company does not have a limited amount of authorised capital.

Every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Preference shares

Preference shares rank in almost all respects equally with the ordinary shares in the share capital of the company and entitle the holder to participate in dividends and carry substantially the same voting rights as applied to the ordinary shares in the company. Upon Initial Public Offering, preference shares were converted into ordinary shares on the basis of one ordinary share for every preference share. This non-cash financing activity resulted in an increase in ordinary share capital of \$36.1 million, as disclosed above.

Treasury shares

The treasury shares mentioned above reflect shares that were issued in relation to the employee long-term incentive plan.

Share buy-back

There is no current on-market share buy-back.

20. Equity – reserves

	Consolidated	
	30 June 2019 \$'000	30 June 2018 \$'000
Foreign currency reserve	14	–
Cash flow hedge reserve	–	(104)
Share option reserve	1,542	1,200
Re-organisation reserve	(432,968)	–
	(431,412)	1,096

Cash flow hedge reserve

The reserve is used to recognise the effective portion of the gain or loss of cash flow hedge instruments that is determined to be an effective hedge. In May 2019 the interest rate swap expired and therefore there is no longer an effective portion to be recognised in the cash flow hedge reserve.

Share option reserve

The reserve is used to recognise the value of equity benefits provided to employees and Directors as part of their remuneration, and other parties as part of their compensation for services. In the current year there was a capital buy-back, being the repurchase of loan shares and options held by certain employees of the Group to the value of \$1.3 million.

Re-organisation reserve

As part of the Initial Public Offering, the listing entity, Prospa Group Limited was established which resulted in accounting for the group reorganisation in accordance with AASB 3 reverse acquisition accounting principles. On IPO there was a restructure of the Group which was accounted for at book value. On this basis the assets and liabilities reflected their carrying value in Prospa Advance Pty Ltd. The retained earnings and other equity balances also remained at their existing balances. The amount recognised as issued capital in the Group reflected the impact of the restructure and the capital reorganisation, and thereby the market capitalisation of the Group at the date of offer (less costs that are offset against issued capital). An offsetting capital re-organisation reserve was created to align total equity with the net asset position of the Group.

Movements in reserves

Movements in each class of reserve during the current and previous financial year are set out below:

Consolidated	Foreign currency translation reserve \$'000	Re- organisation reserve \$'000	Cash flow hedge reserve \$'000	Share option reserve \$'000	Total \$'000
Balance at 1 July 2017	–	–	–	596	596
Deferred tax	–	–	45	–	45
Fair value changes in cash flow hedges	–	–	(149)	–	(149)
Share based payments expense	–	–	–	604	604
Balance at 30 June 2018	–	–	(104)	1,200	1,096
Foreign currency translation	14	–	–	–	14
Share-based payments	–	–	–	1,626	1,626
Capital buy-back	–	–	–	(1,284)	(1,284)
Expiry of interest rate cap	–	–	104	–	104
Group re-organisation	–	(432,968)	–	–	(432,968)
Balance at 30 June 2019	14	(432,968)	–	1,542	(431,412)

	Total hedging (loss) recognised in OCI \$'000	Ineffective- ness recognised in profit or loss \$'000
(Loss)/gain arising on interest rate swap		

Consolidated

30 June 2018

Interest rate swaps

(149)

38

21. Equity – accumulated losses

	Consolidated	
	30 June 2019	30 June 2018
	\$'000	\$'000
Accumulated losses at the beginning of the financial year	(560)	(2,654)
Adjustment on adoption of AASB 9	(3,262)	–
Accumulated losses at the beginning of the financial year - restated	(3,822)	(2,654)
(Loss)/profit after income tax expense for the year	(24,721)	2,094
Accumulated losses at the end of the financial year	(28,543)	(560)

22. Equity – dividends

There were no dividends paid, recommended or declared during the current or previous financial year.

23. Financial risk management

Financial risk management objectives

The Group's activities expose it to a variety of financial risks, primarily market risk (including price risk, foreign currency risk and interest rate risk), credit risk and liquidity risk. The Group's risk management program focuses on understanding drivers of financial risk and seeks to minimise potential adverse effects on financial performance of the Group. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

The Board have overall responsibility for the establishment and oversight of the risk management framework. The Board is responsible for developing and monitoring risk management policies. Risk management procedures are established by the Board and carried out by management to identify and analyse the risks faced by the Group and to set controls and monitor risks.

These are discussed individually below.

Market risk

Market risk is the risk that changes in market prices such as interest rates that will affect the Group's income or the value of holdings in its financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Interest rate risk

The Group is exposed to interest rate risk because the Group borrows funds at both fixed and floating interest rates. Details of the Groups borrowing facilities are set out in Note 15 and 18. The interest payable under the Trusts is linked to the benchmark rate, being the Bank Bill Swap Rate (BBSW) or the Bank Bill Swap Bid Rate (BBSY), both variable floating interest rate benchmarks. The risk is managed by the Group by the use of an interest rate swap contract (interest rate swap expired in May 2019) and an interest rate cap contract. Hedging activities are evaluated regularly to align with interest rate views and defined risk appetite, ensuring the most cost-effective hedging strategies are applied. Details of these are set out in Note 16.

Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the end of the reporting period. For floating rate liabilities, the analysis is prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. A 25 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 25 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended 30 June 2019 would decrease/increase by \$781,938 (2018: decrease/increase by \$554,836). This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings.

Foreign currency risk

The Group pays certain overseas suppliers in foreign currency and is exposed to foreign currency risk through foreign exchange rate fluctuations. However, payments made in foreign currency are not of a significant value to have a material impact on the Group's result.

Capital management

For the purpose of the Group's capital management, capital includes issued capital and all other equity reserves attributable to the equity holder of the parent entity. The Group's objective is to maintain a strong capital base so as to foster the support of its investors, funders and other business partners, and enable the future growth initiatives of the Group. The Board reviews these objectives periodically. There were no changes to the Group's approach to capital management in the period.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk for the Group is concentrated in loan receivables.

The Group provides short term loans to the small business market and applies a strict credit policy. Loan receivable balances are closely monitored on an ongoing basis. The Group establishes an allowance for loan impairment that represents its estimate of expected future losses in respect of loan receivables.

The Group uses a general approach expected credit loss model to calculate expected credit losses for loan receivables. The provision rates are based on days past due. It is the Group's policy to measure expected credit loss on loan receivables on a 12-month basis (i.e. Expected Credit Loss model Stage 1). The Group incorporates forward-looking information, including forecast economic conditions that are expected to deteriorate the credit quality of loans over the next year, through an economic overlay assumption which increases the overall provision.

Where there has been a significant increase in the credit risk of a loan receivable since origination, the allowance will be based on the lifetime expected credit loss. The Group uses a rebuttable presumption that a significant deterioration in credit risk exists when contractual payments are more than 30 days past due (i.e. Expected Credit Loss model Stage 2).

Where there has been objective evidence of impairment for a loan receivable, the allowance will be based on lifetime expected credit loss. In certain cases, a loan receivable will be considered in default when internal or external information indicate that the Group is unlikely to receive the outstanding contractual amount in full (i.e. Expected Credit Loss model Stage 3). A loan receivable is written off when there is no reasonable expectation of recovering the contractual cash flows.

The portfolio of receivables to which the Group is exposed is well diversified across industries, geographies and customers and therefore, the Group does not have any material credit risk exposure to any single debtor or Group of debtors under the financial instrument contracts entered into by the Group.

With respect to credit risk arising from the financial assets of the Group, comprised of cash and cash equivalents and loan receivables, the Group's maximum exposure to credit risk, excluding the value of any collateral or other security at balance sheet date is the carrying amount as disclosed in the statement of financial position and notes to the financial statements. The Group's credit risk on liquid funds is limited as the counter parties are major Australian banks with favourable credit ratings assigned by international credit rating agencies.

A metric used by management when assessing the performance of loan receivables and overall portfolio health is their ageing, split by what is over or under 90 days past due. The following table summarises this ageing of the loan receivables:

	Consolidated	
	30 June 2019	30 June 2018
	\$'000	\$'000
Loan receivables aged 90 days and under	379,915	255,437
Loan receivables aged over 90 days	24,398	17,553
	404,313	272,990

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group has a diversified funding model and currently comprises of a mix of securitisation warehouse facilities, equity and balance sheet cash.

The Group manages operational liquidity risk by maintaining cash reserves and available borrowing facilities and by continuously monitoring actual and forecast cash flows. The Group seeks to have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions.

Remaining contractual maturities

The following tables detail the Group's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

Consolidated – 30 June 2019	1 year or less	Between 1 and	Remaining
	\$'000	3 years	contractual
		\$'000	maturities
			\$'000
Non-derivatives			
Non-interest bearing			
Trade and other payables	6,687	–	6,687
Interest-bearing			
Borrowings	14,974	296,548	311,522
Total non-derivatives	21,661	296,548	318,209

Consolidated – 30 June 2018	1 year or less \$'000	Between 1 and 3 years \$'000	Remaining contractual maturities \$'000
Non-derivatives			
Non-interest bearing			
Trade and other payables	7,139	–	7,139
Interest-bearing			
Borrowings	16,496	238,934	255,430
Total non-derivatives	23,635	238,934	262,569
Derivatives			
Interest rate swaps outflow	161	–	161
Embedded derivative	440	–	440
Warrant	1,744	–	1,744
Total derivatives	2,345	–	2,345

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above.

Fair value of financial instruments

The fair values of financial assets and liabilities, together with their carrying amounts in the statement of financial position, for the Group are as follows:

Consolidated	30 June 2019		30 June 2018	
	Carrying amount \$'000	Fair value \$'000	Carrying amount \$'000	Fair value \$'000
Assets				
Cash at bank	69,839	69,839	34,397	34,397
Loan receivables	379,853	379,853	259,134	259,134
	449,692	449,692	293,531	293,531
Liabilities				
Trade and other payables	6,687	6,687	7,139	7,139
Borrowings	311,522	311,522	255,430	255,430
	318,209	318,209	262,569	262,569

Covenants

The Group has various financial and non-financial covenants under its financing facilities that can affect matters such as funding availability, repayments and the liabilities of the Group. Receivables funded within the senior facilities are tested at each drawdown for compliance with these covenants. If the Group's operating results deteriorate, including incurring significant losses, the Group may be unable to meet the covenants governing its indebtedness, which may require the Group to seek amendments, waivers of covenant compliance or alternative borrowing arrangements, or to reduce debt or raise additional equity.

24. Fair value measurement

Fair value hierarchy

The following tables detail the Group's assets and liabilities, measured or disclosed at fair value, using a three-level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3: Unobservable inputs for the asset or liability

Consolidated – 30 June 2019	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Assets				
Loan receivables	–	379,853	–	379,853
Interest rate cap	–	130	–	130
Total assets	–	379,983	–	379,983
Liabilities				
Borrowings	–	311,522	–	311,522
Total liabilities	–	311,522	–	311,522

Consolidated – 30 June 2018	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Assets				
Loan receivables	–	259,134	–	259,134
Interest rate cap	–	11	–	11
Interest rate swap	–	27	–	27
Total assets	–	259,172	–	259,172
Liabilities				
Borrowings	–	255,430	–	255,430
Interest rate swap	–	161	–	161
Embedded derivative	–	–	440	440
Warrant	–	–	1,744	1,744
Total liabilities	–	255,591	2,184	257,775

There were no transfers between levels during the financial year.

The Group has considered all financial assets and liabilities not carried at fair value to determine whether the carrying value is an accurate reflection of fair value. The Directors consider that due to the short-term nature and/or the variable rate arrangement of the borrowings, the carrying amounts of financial assets and financial liabilities, which include cash, client receivables, payables and borrowings, are assumed to approximate their fair values.

Valuation techniques for fair value measurements categorised within Level 2 and Level 3

Interest rate swap and cap derivative

A discounted cash flow model is used to determine fair value of derivative instruments. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contract interest rates, discounted at a rate that reflects the credit risk of various counterparties.

Warrants

To value the warrant a probability weighted scenario analysis has been employed, based on expected timing of trigger events and whether the warrant is expected to be in or out of the money.

Embedded derivatives

The valuation of the option value of the convertible note is established using the Black-Scholes methodology.

Level 3 assets and liabilities

Movements in Level 3 assets and liabilities during the current and previous financial year are set out below:

Consolidated	Warrants \$'000	Embedded derivative \$'000	Total \$'000
Balance at 1 July 2017	1,631	–	1,631
Additions - on issuance of convertible notes	–	710	710
Warrant gain on fair value adjustment	113	–	113
Embedded derivative (loss) on fair value adjustment	–	(270)	(270)
Balance at 30 June 2018	1,744	440	2,184
Additions - on issuance of convertible notes	–	7,773	7,773
Disposals - convertible notes were settled with the issue of 6,505,580 shares in Prospa Advance Pty Limited*	–	(8,213)	(8,213)
Disposals - warrant was settled with the issue of 372,648 preference shares in Prospa Advance Pty Limited*	(1,744)	–	(1,744)
Balance at 30 June 2019	–	–	–
Total gains/(losses) for the previous year included in profit or loss that relate to level 3 assets held at the end of the previous year	113	(270)	(157)
Total losses for the current year included in profit or loss that relate to level 3 assets held at the end of the current year	(987)	(4,308)	(5,295)

* On Initial Public Offering these shares were transferred to Prospa Group Limited in exchange for ordinary shares.

25. Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any Director (whether executive or otherwise) of that entity.

The remuneration of Directors and other members of key management during the year were as follows:

	Consolidated	
	30 June 2019	30 June 2018
	\$'000	\$'000
Salaries and other short-term employee benefits	2,089	1,312
Post-employment benefits	82	108
Other long-term benefits	35	41
Share-based payment	332	17
	2,538	1,478

26. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by Deloitte, the auditor of the Company:

	Consolidated	
	30 June 2019	30 June 2018
	\$'000	\$'000
Audit services – Deloitte		
Audit or review of the financial statements	408,573	306,098
Other services – Deloitte		
Tax services	75,290	57,789
IPO due diligence and tax structuring	759,880	1,041,775
	835,170	1,099,564
	1,243,743	1,405,662

27. Contingent liabilities

The Group had no contingent liabilities as at 30 June 2019 and 30 June 2018.

28. Commitments

The following table summarises the operating lease commitments of the Group:

	Consolidated	
	30 June 2019	30 June 2018
	\$'000	\$'000
Operating lease commitments – land and buildings		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	2,248	1,449
One to five years	3,301	1,017
Total minimum lease payments – land & buildings	5,549	2,466
Operating lease commitments – computer equipment		
Committed at the reporting date and recognised as liabilities, payable:		
Within one year	338	248
One to five years	305	268
Total minimum lease payments – computer equipment	643	516
	–	–
	643	516

29. Related party transactions

Parent entity

Prospa Group Limited is the parent entity.

Subsidiaries

Interests in subsidiaries are set out in note 31.

Key management personnel

One of the Key Management Personnel is party to a pre-IPO loan agreement with Prospa Advance Pty Ltd for the purchase of loan shares under a Long Term Incentive plan holding 1,073,796 loan shares with a total loan value of \$524,370. These loan shares vested in September 2018 and are disclosed in the Remuneration Report.

Further disclosures relating to key management personnel are set out in note 25 and the Remuneration Report included in the Directors' Report.

Transactions with related parties

Some of the Directors had participated in the \$20 million corporate debt facility that was held by Prospa Advance Pty Ltd. These were repaid with the proceeds from the Initial Public Offering of the entity. The total exposure of this participation was \$2.2 million of the \$20 million that had been provided to the Company. The terms of the participation were on an arm's length basis and consistent with other investors in the facility.

In addition, attached to this corporate debt facility was a \$2 million warrant that some of the Directors had participated in. This was also repaid with the proceeds from the Initial Public Offering of the entity. The total exposure of the participation was \$215,000. The terms of this participation were on an arm's length basis and consistent with other investors in the facility.

Pre-Initial Public Offering there was a \$15.3 million convertible note that some of the Directors of the Group had participated in that was held by Prospa Advance Pty Ltd. The total exposure of this participation was \$650,000 of the \$15.3 million provided to the Company.

In addition, there was a second convertible note issued in October 2018 for \$43.3 million that one of the Directors of the Group had participated in also held by Prospa Advance Pty Ltd. The total exposure of this participation was \$150,000 of the \$43.3 million provided to the Company.

The terms of these participations were on an arm's length basis and consistent with other investors in the facility. This has been repaid with the proceeds from the Initial Public Offering of the entity.

30. Parent entity information

Set out below is the supplementary information about the parent entity.

Statement of profit or loss and other comprehensive income

	Parent	
	30 June 2019 \$'000	30 June 2018 \$'000
Loss after income tax	(4,169)	(552)
Total comprehensive loss	(4,169)	(656)

Statement of financial position

	Parent	
	30 June 2019	30 June 2018
	\$'000	\$'000
Total current assets	170,964	49,844
Total assets	173,562	78,982
Total current liabilities	724	26,882
Total liabilities	724	46,757
Equity		
Issued capital	609,975	36,149
Cash flow hedge reserve	–	(104)
Share option reserve	–	1,200
Re-organisation reserve	(432,968)	–
Accumulated losses	(4,169)	(5,020)
Total equity	172,838	32,225

On 11 June 2019, Prospa Group Limited became the parent entity as part of the restructure of the Group due to the Initial Public Offering. Prior to this Prospa Advance Pty Ltd was the parent. Therefore, the comparative figures as stated above are for Prospa Advance Pty Ltd.

Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2019 and 30 June 2018.

Capital commitments – Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2019 and 30 June 2018.

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the Group, as disclosed in note 1.

31. Interests in subsidiaries and trusts

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries and trusts in accordance with the accounting policy described in note 1:

Name	Principal place of business / Country of incorporation	Ownership interest	
		30 June 2019 %	30 June 2018 %
Prospect Advance Pty Ltd	Australia	100%	100%
Prospect Trust Series 2015-1 Security Trust**	Australia	100%	100%
Prospect Trust Series 2018-1 Security Trust**	Australia	100%	100%
Prospect Trust Series 2018-2 Security Trust**	Australia	100%	–
Prospect Trust Series Pioneer Security Trust**	Australia	100%	–
Prospect Trust Series Prosperity Security Trust**	Australia	100%	–
Prospect Finance Pty Ltd	Australia	100%	100%
Prospect Innovations Pty Ltd*	Australia	100%	100%
Prospectarian Pty Ltd*	Australia	100%	100%
Prospect NZ Limited*	New Zealand	100%	100%

* Ownership is through Prospect Advance Pty Ltd.

** Ownership is through Prospect Advance Pty Ltd, which is both the Participation Unitholder and Residual Unitholder of the trusts.

32. Deed of cross guarantee

During the year the parent entity, Prospect Group Limited and the following entities entered into a deed of cross guarantee under which each company guarantees the debts of the others:

Prospect Advance Pty Ltd

Prospect Innovations Pty Ltd

Prospect Finance Pty Ltd

Prospectarian Pty Ltd

By entering into the deed, the wholly-owned entities have been relieved from the requirement to prepare financial statements and Directors' Report under Corporations Instrument 2016/785 issued by the Australian Securities and Investments Commission.

The effect of the Deed is that the Company guarantees to each creditor payment in full of any debt in the event of winding up of any of the subsidiaries under certain provisions of the Corporations Act 2001.

As all entities are a party to the deed or are fully controlled by an entity that is a party to the deed the income statement and balance sheet information of the combined class-ordered group is equivalent to the consolidated information presented in this financial report.

33. Events after the reporting period

On 8 August 2019, the Company announced the establishment of a New Zealand funding structure to fund the ongoing rapid growth of the New Zealand portfolio, anchored by a three year committed facility for NZ\$45 million. The facility will fund the class B notes in the warehouse structure, laying the foundation for attracting high quality class A note investors.

No other matter or circumstance has arisen since 30 June 2019 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

34. Reconciliation of (loss)/profit after income tax to net cash from operating activities

	Consolidated	
	30 June 2019	30 June 2018
	\$'000	\$'000
(Loss)/profit after income tax expense for the year	(24,721)	2,094
Adjustments for:		
Depreciation and amortisation	3,639	1,725
Share-based payments	2,869	604
Foreign exchange differences	26	–
Tax on amounts through equity	–	45
Origination fees	2,644	2,348
Purchase of options	434	–
Loan impairment expense	30,550	24,317
Promotion interest adjustment	(2,756)	(3,874)
Interest accrued as part of borrowings	3,225	716
Outstanding late fees	(4,075)	(3,698)
Financial instruments: Fair value loss	12,439	–
Change in operating assets and liabilities:		
(Increase) in prepayments and other receivables	(517)	(2,405)
(Increase) in other financial assets	–	(38)
(Increase) in deferred tax assets	(2,152)	(2,684)
Increase in trade and other payables and employee benefits	394	5,029
(Decrease)/increase in current tax liability	(5,137)	3,226
Net cash from operating activities	16,862	27,405

35. Earnings per share

	Consolidated	
	30 June 2019 \$'000	30 June 2018 \$'000
(Loss)/profit after income tax attributable to the owners of Prospa Group Limited	(24,721)	2,094
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	114,727,396	37,357,697
Adjustments for calculation of diluted earnings per share:		
Options and warrants	–	903,850
Convertible notes	–	2,250,639
Weighted average number of ordinary shares used in calculating diluted earnings per share	114,727,396	40,512,186
	Cents	Cents
Basic (loss)/earnings per share	(21.55)	5.61
Diluted (loss)/earnings per share	(21.55)	5.17

For June 2018, preference shares were included in the weighted average number of shares used for the basic earnings per share calculation as preference shares ranked in almost all respects equally with the ordinary shares in the share capital of the Group. Preference shares entitle the holder to participate in dividends and carry substantially the same voting rights as applied to the ordinary shares in the Group.

As of June 2019 these preference shares have been converted to ordinary shares as part of the Initial Public Offering.

36. Share-based payments

The employee long-term incentive plan (LTIP) enables the Group to offer eligible employees options to subscribe for shares or loan shares in the Company. Loan shares involve the purchase of shares in the Company by certain employees, funded by loans from the Company. The LTIP is designed to incentivise performance. No shares have been forfeited in the financial year. During the year 67,060 options were exercised and converted to shares to the value of \$76,677.

In addition, there was a repurchase of loan shares and options held by certain employees by the Group to the value of \$1,284,000.

The LTIP requires the holder to remain in full-time employment of the Group until the exercise date. There are a number of key performance indicators covering both financial and non-financial measures.

Total expense arising from share-based payment transactions recognised during the financial year was \$1,626,438 (30 June 2018: \$603,567).

The table below shows the number and weighted average exercise price (WAEP) of, and movement in, share options during the year:

	2019 Number	2019 WAEP (cent)	2018 Number*	2018 WAEP (cent)*
Outstanding at 1 July	5,659,906	138	700,635	201
Granted during the year	7,584,039	364	1,306,000	508
Forfeited during the year	(911,052)	134	(120,000)	322
Exercised during the year	(73,726)	104	–	–
Outstanding at 30 June	12,259,167	277	1,886,635	413
Exercisable at 30 June	2,363,750	–	385,378	–

* Comparative balances are prior to the three-for-one split that occurred in the period.

The weighted average remaining contractual life for the share options outstanding was 4 years as at 30 June 2019 (30 June 2018:4 years).

The exercise price of the share options is equal to the market price of the underlying shares on the date of grant. The range of exercise prices for options outstanding at the end of the year, post three-for-one share split, was \$0.67 to \$4.35 (2018: \$0.49 to \$2.00).

The contractual term of the share options is 5 years.

	2019	2018
Weighted average fair value at the measurement date		
Exercise price	\$2.66	\$1.04
Dividend yield range	0%	0%
Risk-free interest rate	1.8%	1.8%
Expected volatility range	45.9%	33.5%
Expected life of options (years)	3	3
Weighted average share price	\$2.58	\$1.07

The expected life of the share options is based on historical data and current expectations and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may not necessarily be the actual outcome.

The fair value of the options is calculated at the date of grant using the Black-Scholes option-pricing model and allocated to each reporting period evenly over the period from grant date to vesting date. The value disclosed is the portion of the fair value of the options recognised as an expense in each reporting period.

— Directors' Declaration

In the Directors' opinion:

- The attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- The attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 1 to the financial statements;
- The attached financial statements and notes give a true and fair view of the Group's financial position as at 30 June 2019 and of its performance for the financial year ended on that date;
- There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
- At the date of this declaration, there are reasonable grounds to believe that the Company and the controlled entities identified in note 32 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee.

The Directors have been given the declarations required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of Directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

On behalf of the Directors



Greg Moshal
Director and Joint Chief Executive Officer



Gail Pemberton AO
Independent Director and Chairman

24 September 2019
Sydney

Auditor's Report



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"The feature I like the most was the ease with which the whole transaction went through. It was just smooth; it was just easy."

Kurt
Auckland, New Zealand



Deloitte Touché Tohmatsu
A.B.N. 74 490 121 060

Grosvenor Place
225 George Street
Sydney NSW 2000
PO Box N250 Grosvenor Place
Sydney NSW 1220 Australia

Tel: +61 (0) 2 9322 7000
Fax: +61 (0) 2 9322 7001
www.deloitte.com.au

Independent Auditor's Report to the Directors of Prospa Group Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Prospa Group Limited (the "Company") and its subsidiaries (the "Group"), which comprises the consolidated statement of financial position as at 30 June 2019, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the Group's financial position as at 30 June 2019 and of its financial performance for the year then ended; and
- (ii) complying with Australian Standards and the *Corporations Regulation 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matters	How the scope of our audit responded to the Key Audit Matters
<p>Accounting for the Group reorganisation and Initial Public Offering</p> <p>The Group's Initial Public Offering ('IPO') on 11 June 2019 raised \$60 million. A group reorganisation was also undertaken as part of the IPO which created a Group reserve of \$433m in accordance with the reverse acquisition accounting principles of AASB 3 as disclosed in Note 20 of the financial report.</p> <p>As a result of the IPO, warrants, preference shares and convertible notes were converted into share capital and corporate debt was paid down. As disclosed in Note 19 of the financial report.</p> <p>Significant management judgement was applied in accounting for the extinguishment and conversion of these financial instruments, which included recording fair value adjustments and gains and losses through the income statement, as well as determining the acquisition accounting relating to the Group reorganisation.</p>	<p>Our audit procedures included, but were not limited to:</p> <ul style="list-style-type: none"> • Obtaining management's accounting paper in relation to recognition and measurement on the IPO transaction and assessing the appropriateness of the financial liability and equity movements under AASB 9 and AASB 132; • Agreeing management's accounting paper to financial instrument signed agreements and evidence of IPO proceeds, debt conversion and debt extinguishment; • Evaluating the fair value adjustments recognised for financial instruments measured at FVTPL under AASB 9; • Assessing the appropriateness of equity raising transaction costs capitalised under AASB 132; • Evaluating the accounting for the group reorganisation applying the reverse acquisition accounting principles in AASB 3 with the creation of a capital reorganisation reserve; • Evaluating the appropriateness of journal entries posted by management related to the IPO transaction; and • Assessing the adequacy of the related disclosures in the financial report in respect of equity and financial liabilities under AASB 9 and AASB 132.
<p>Effective interest rate</p> <p>For the year ended 30 June 2019, the Group's has reported interest income of \$125 million and net loan receivables of \$380 million. The Group's disclosure over the effective interest rate is disclosed in Note 1 of the financial report.</p> <p>Interest income received from loan receivables is determined using the effective interest rate ('EIR') method in accordance with AASB 9. The loan receivables balance is measured and presented at amortised cost using the EIR method.</p>	<p>Our audit procedures included, but were not limited to:</p> <ul style="list-style-type: none"> • Understanding the control environment, focusing on <ul style="list-style-type: none"> • controls relating to the assessment and calculation of the effective interest rate; • the reconciliation of the loan sub ledger to the financial statements in presenting loan receivables at amortised cost using the effective interest method;

Key Audit Matters	How the scope of our audit responded to the Key Audit Matters
<p>Significant management judgement is involved in calculating the effective interest rate, such as estimating the expected cash flows based on contractual terms of the loan including fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.</p>	<ul style="list-style-type: none"> • Assessing management’s <ul style="list-style-type: none"> • determination of the effective interest rate incorporating origination and contractual interest charges as well as transaction costs which form part of the effective interest rate; and • Estimation of future repayment cash flows including the expected behavioural life of the lending product. • Agreeing a sample of inputs of the effective interest calculation to underlying signed agreements and bank statements; • Recalculating interest income under the effective interest rate method; and Assessing the adequacy of the related disclosures in the financial report in respect of the presentation of interest income and loan receivables under AASB 9 and AASB 7.
<p>Expected credit loss provisioning AASB 9 Financial Instruments was a new and complex accounting standard which required considerable judgement and interpretation in its implementation. The standard required a new basis of providing for loan loss on an expected credit loss ('ECL') basis.</p> <p>The development of the new models built and implemented to measure the 'expected credit losses' involves significant judgements and assumptions made by management. Expected credit losses require assessment on a forward-looking basis that includes an overlay to reflect management’s view of potential future economic events and model risk.</p> <p>As at 30 June 2019, the Group’s expected credit loss of \$24 million was reported as disclosed in Note 10 and Note 11 in the financial report. The Group’s disclosure over impairment of financial assets is disclosed in Note 1 of the financial report.</p>	<p>Our audit procedures included, but were not limited to:</p> <ul style="list-style-type: none"> • Obtaining a detailed understanding of expert credit judgments made by management in the core expected credit loss models; • Testing the key controls relating to customer loan approval processes and identification of overdue amounts; • Testing the data inputs in calculating the probability of default roll rates to assess reasonableness; • Assessing the reasonability of management’s key assumptions and recent historical loan recovery data used in determining loss given default and the period in which lifetime expected losses occur; • Agreeing a sample of loan information to source documents; • Evaluating the appropriateness of the modelling policy and methodology used for the customer receivable portfolio with reference to the relevant accounting standards and market practices; • Testing model calculations through re-performance; • Obtaining evidence to support management’s judgements in respect of calculation methodologies, economic factors



Key Audit Matters	How the scope of our audit responded to the Key Audit Matters
	<p>and judgmental overlays, the period of historical loss rates used, loss emergence periods, cure rates for impaired loans, and the historical experience of recoveries on distressed loans; and</p> <ul style="list-style-type: none"> • Reviewing the adequacy of the related disclosures in the financial report in respect of the accounting policy for impairment under AASB 9 and AASB 7.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Group’s annual report for the year ended 30 June 2019, but does not include the financial report and our auditor’s report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor’s Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Deloitte.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group's audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 49 to 64 of the Directors' Report for the year ended 30 June 2019.

In our opinion, the Remuneration Report of Prospa Group Limited, for the year ended 30 June 2019, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Yours sincerely

DELOITTE TOUCHE TOHMATSU

Mark Lumsden
Partner
Chartered Accountants
Sydney, 24 September 2019

— Shareholders' Information

In accordance with ASX Listing Rule 4.10, the Company provides the following information to shareholders not elsewhere disclosed in this Annual Report. The information provided is current as at 30 August 2019 (**Reporting Date**).

Corporate Governance Statement

The Company's Corporate Governance Statement, together with the ASX Appendix 4G, have been lodged with the ASX and are available at <https://investor.prospa.com/investor-centre/>.

The Company is committed to conducting business to the highest standard of corporate governance. The Board regularly reviews its corporate governance policies and processes to ensure they are appropriate and meet requisite standards. The Company's corporate governance policies and charters are all available at <https://investor.prospa.com/investor-centre/>.

Substantial holders

As at the Reporting Date, the names of the substantial holders of the Company and the number of equity securities in which those substantial holders and their associates have a relevant interest, as disclosed in substantial holding notice given to the Company, are as follows:

Holder	Class of Equity Securities	Number of Equity Securities Held	% of Total Issued Securities Capital in Relevant Class
CURFORE PTY LTD	ORDINARY SHARES	52,092,763	32.29
GREG MOSHAL PTY LTD	ORDINARY SHARES	24,701,240	15.31
INTERNATIONAL GROUP OF COMPANIES PTY LTD	ORDINARY SHARES	9,701,240	6.01
AIRTREE VENTURES OPPORTUNITY FUND TRUSCO PTY LTD	ORDINARY SHARES	9,487,236	5.88
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	ORDINARY SHARES	9,251,410	5.73
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	ORDINARY SHARES	9,241,717	5.73

Number of holders

As at the Reporting Date, the number of holders in each class of equity securities as follows:

Class of Equity Securities	Number of Holders
FULLY PAID ORDINARY SHARES	826
OPTIONS TO ACQUIRE ORDINARY SHARES	130
RIGHTS TO ACQUIRE ORDINARY SHARES	78

Less than marketable parcels of ordinary shares (UMP Shares)

The number of holders of less than a marketable parcel of ordinary shares based on the closing market price at the Reporting Date is as follows:

Total Shares	UMP Shares	UMP Holders	% of Issued Shares held by UMP Holders
0	0	0	0

Voting rights of Equity Securities

The only class of equity securities on issue in the Company that carries voting rights is fully paid ordinary shares.

As at the Reporting Date, there were 826 holders of a total of 161,350,437 ordinary shares of the Company.

At a general meeting of the Company, every holder of ordinary shares present in person or by proxy, attorney or representative has one vote on a show of hands and on a poll, one vote for each ordinary share held. On a poll, every member (or his or her proxy, attorney or representative) is entitled to vote for each fully paid share held.

Distribution of holders of equity securities

The distribution of holders of equity securities on issue in the Company as at the Reporting Date is as follows:

Table: Distribution of ordinary shareholders

Holdings Range	Holders	Total Units	%
100,001 and Over	31	157,146,369	3.76
10,001 to 100,000	105	2,839,540	12.71
5,001 to 10,000	76	569,110	9.20
1,001 to 5,000	247	618,449	29.90
1 to 1,000	367	176,969	44.43
Total	826	161,350,437	100.00

Distribution of option holders

Holdings Range	Holders	Total Units	%
1,000,001 and Over	2	2,573,280	22.24
500,001 to 1,000,000	5	2,823,555	24.41
100,001 to 500,000	21	3,906,894	33.77
10,001 to 100,000	57	1,867,179	16.14
1 to 10,000	45	397,500	3.44
Total	130	11,568,408	100.00

Distribution of holders of rights

Holdings Range	Holders	Total Units	%
1,000,001 and Over	0	0	0
500,001 to 1,000,000	0	0	0
100,001 to 500,000	0	0	0
10,001 to 100,000	12	125,820	43.81
1 to 10,000	66	161,393	56.19
Total	78	287,213	100.00

Twenty largest shareholders

The Company only has one class of quoted securities, being ordinary shares. The names of the 20 largest shareholders of ordinary shares, and the number of ordinary shares and percentage of capital held by each holder, is as follows:

Rank	Holder Name	Balance as at Reporting Date	%
1	CURFORE PTY LTD	52,092,763	32.29
2	GREG MOSHAL PTY LTD	24,701,240	15.31
3	INTERNATIONAL GROUP OF COMPANIES PTY LTD	9,701,240	6.01
4	AIRTREE VENTURES OPPORTUNITY FUND TRUSCO PTY LTD	9,487,236	5.88
5	J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	9,251,410	5.73
6	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	9,241,717	5.73
7	SQUARE PEG GLOBAL FUND 2015 PTY LTD	5,809,758	3.60
8	PACIFIC CUSTODIANS PTY LIMITED	5,158,823	3.20
9	AIRTREE VENTURES GP PTY LTD	5,117,949	3.17
10	NATIONAL NOMINEES LIMITED	3,810,705	2.36
11	CITICORP NOMINEES PTY LIMITED	3,597,039	2.23
12	DANITA LOWES	2,826,246	1.75
13	KUPUNA PTY LTD	2,641,563	1.64
14	EUCLID CAPITAL PARTNERS LLC	2,566,437	1.59
15	AVIAD EYAL	2,419,280	1.50
16	MORGAN STANLEY AUSTRALIA SECURITIES (NOMINEE) PTY LIMITED	1,318,198	0.82
17	PARTNERS FOR GROWTH IV LP	1,249,476	0.77
18	CS THIRD NOMINEES PTY LIMITED	1,058,202	0.66
19	TUBBIN INVESTMENTS PTY LTD	1,033,611	0.64
20	AMUR INVESTMENTS LIMITED	777,717	0.48
Total number of Shares of Top 20 Holders		153,860,610	95.36
Total Remaining Holders' Balance		7,489,827	4.64

Escrow

Class of Restricted Securities	Type of Restriction	Number of Securities	End date of Escrow Period
ORDINARY SHARES	VOLUNTARY ESCROW	21,757,374	31 December 2019
ORDINARY SHARES	VOLUNTARY ESCROW	87,591,771	30 June 2020

Unquoted equity securities

As at the Reporting Date, the number of each class of unquoted securities on issue, and the number of holders in each class are as follows:

Class of Equity Securities	Number of Securities	Number of Holders
OPTIONS TO ACQUIRE ORDINARY SHARES	11,568,408	130
RIGHTS TO ACQUIRE ORDINARY SHARES	287,213	78

No person holds 20% or more of any class of unquoted equity securities on issue.

Other Information

The Company is not currently conducting an on-market buy-back.

There are no issues of securities approved for the purposes of item 7 of section 611 of the Corporations Act that have not yet been completed.

No securities were purchased on-market during the reporting period under or for the purposes of an employee incentive scheme or to satisfy the entitlements of the holders of options or other rights to acquire securities granted under an employee incentive scheme.

Corporate Information

Company Secretary

Ms Nicole Johnschwager

Registered Office

Level 1
4-16 Yurong Street
SYDNEY NSW 2000
Telephone: 1300 882 867

Share Registry

Link Market Services Limited
Level 12
680 George Street
SYDNEY NSW 2000
Telephone: 1300 554 474

Stock Exchange Listing

The Company's ordinary shares are quoted on the Australian Securities Exchange (ASX). The Company was admitted to the official list of the ASX on 11 June 2019 (ASX: PGL).

Auditor

Deloitte Touche Tohmatsu
Grosvenor Place
225 George Street
Sydney NSW 2000

Solicitors

Herbert Smith Freehills
161 Castlereagh Street
Sydney NSW 2000

Website

www.prospa.com

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