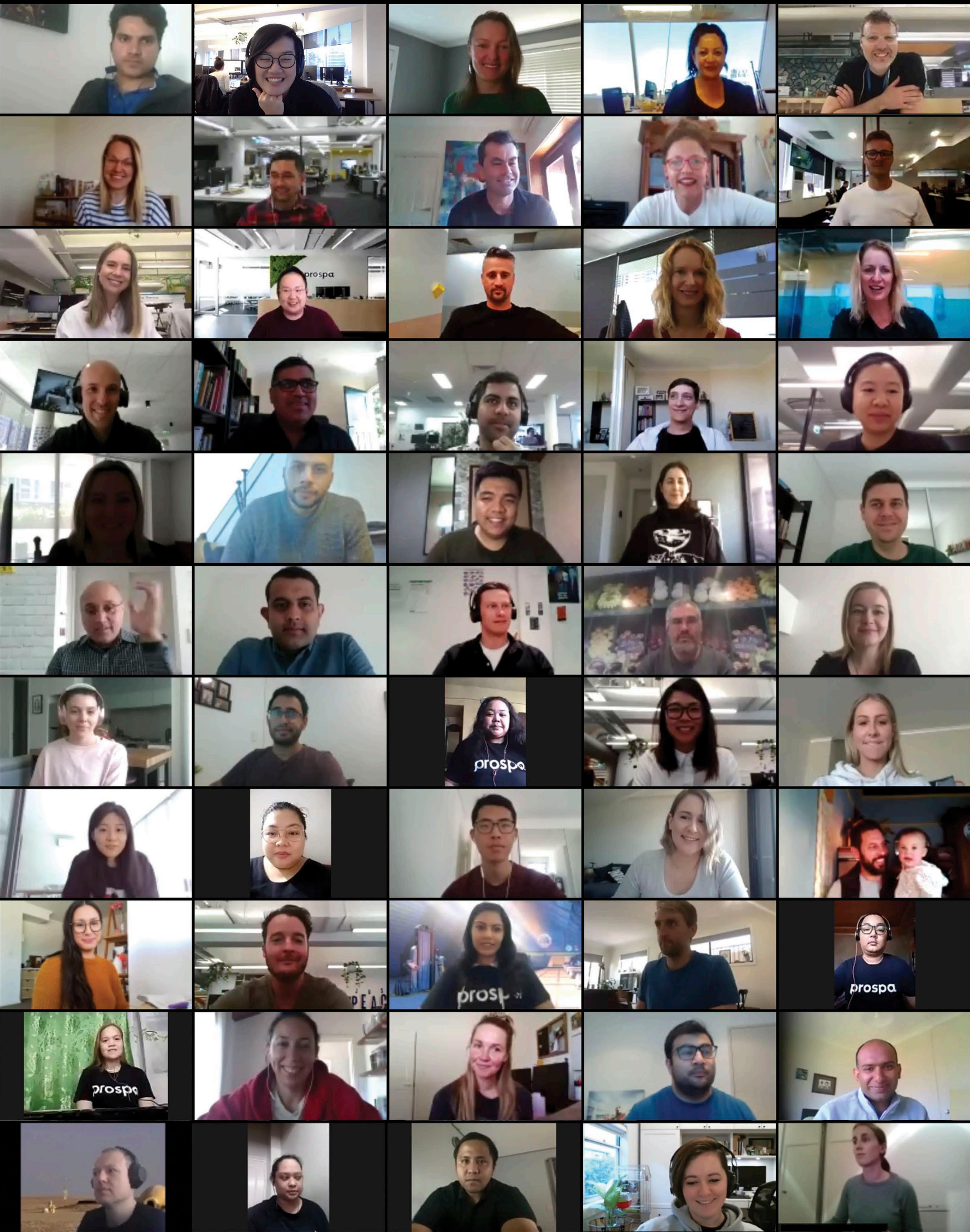
prospa

Annual Report 2020

Prospa Group Limited
ACN 625 648 722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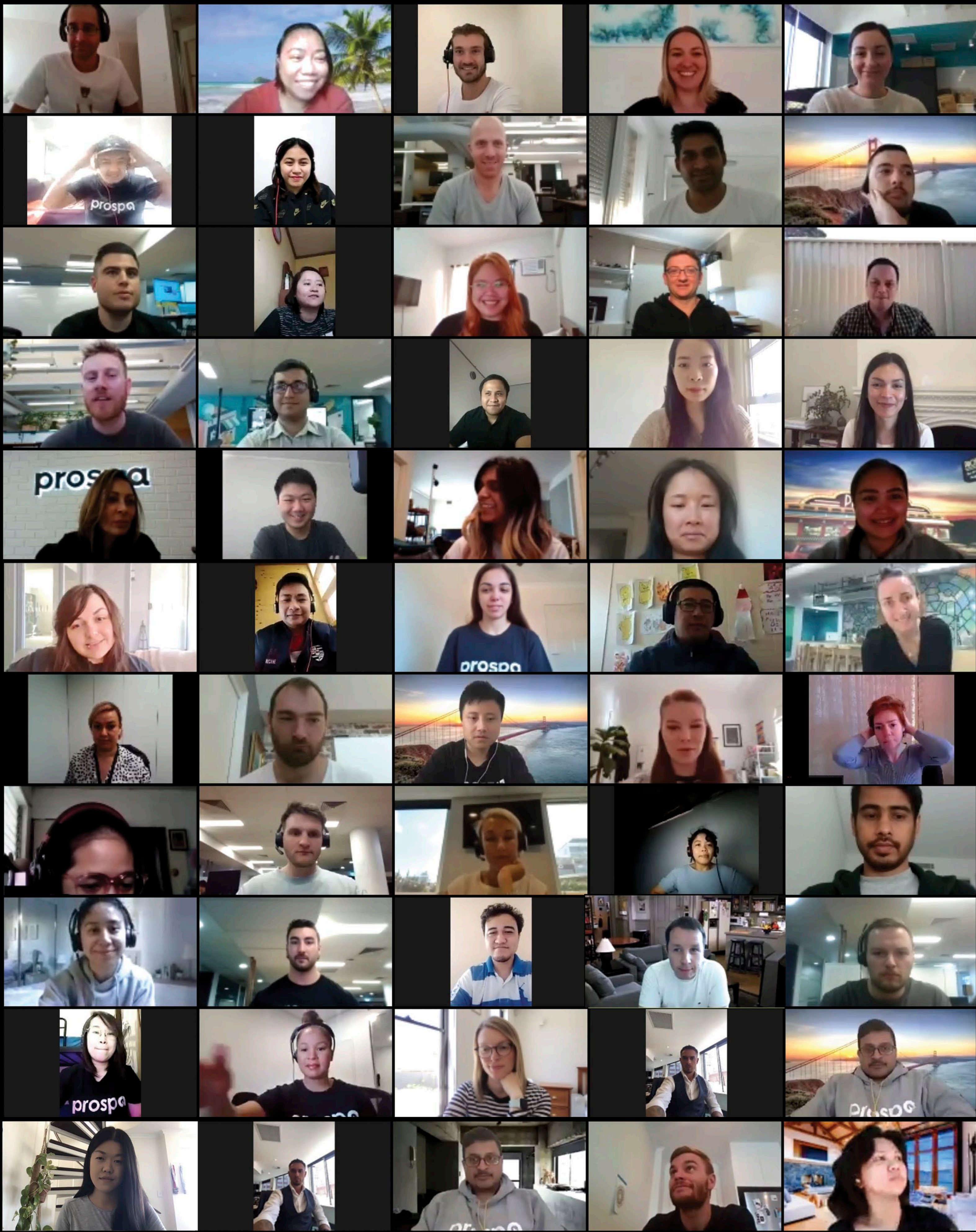
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Small businesses backbone of the

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.

2.4 m
small businesses in Australia[1]

44%
of jobs[2]

35%
of GDP[2]

>$20b

FY20 $451m
<2% penetrated

1. ABS 8165 (Counts of Australian Businesses including Entries and Exits) June 2019 (released in February 2020).
2. Small Business Sector Contribution to the Australian Economy, Parliament of Australia, Department of Parliamentary Services, October 2018.

All references to dollars in this document are in Australian $ unless otherwise indicated.

are the economy

530,000
small businesses in New Zealand[3]

29%
of jobs[3]

28%
of GDP[3]

>$4b[4]

FY20 $47m[4]
<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 keep operating and grow

Small businesses need a fast convenient way to access finance because they're time poor[1].

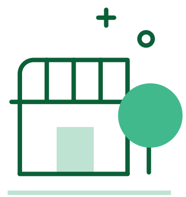
26%

work 50 hours a week or more

24%

work 7 days a week

Small businesses seek finance for a number of business activities[2]

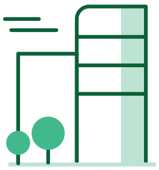


Keeping the business operating

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

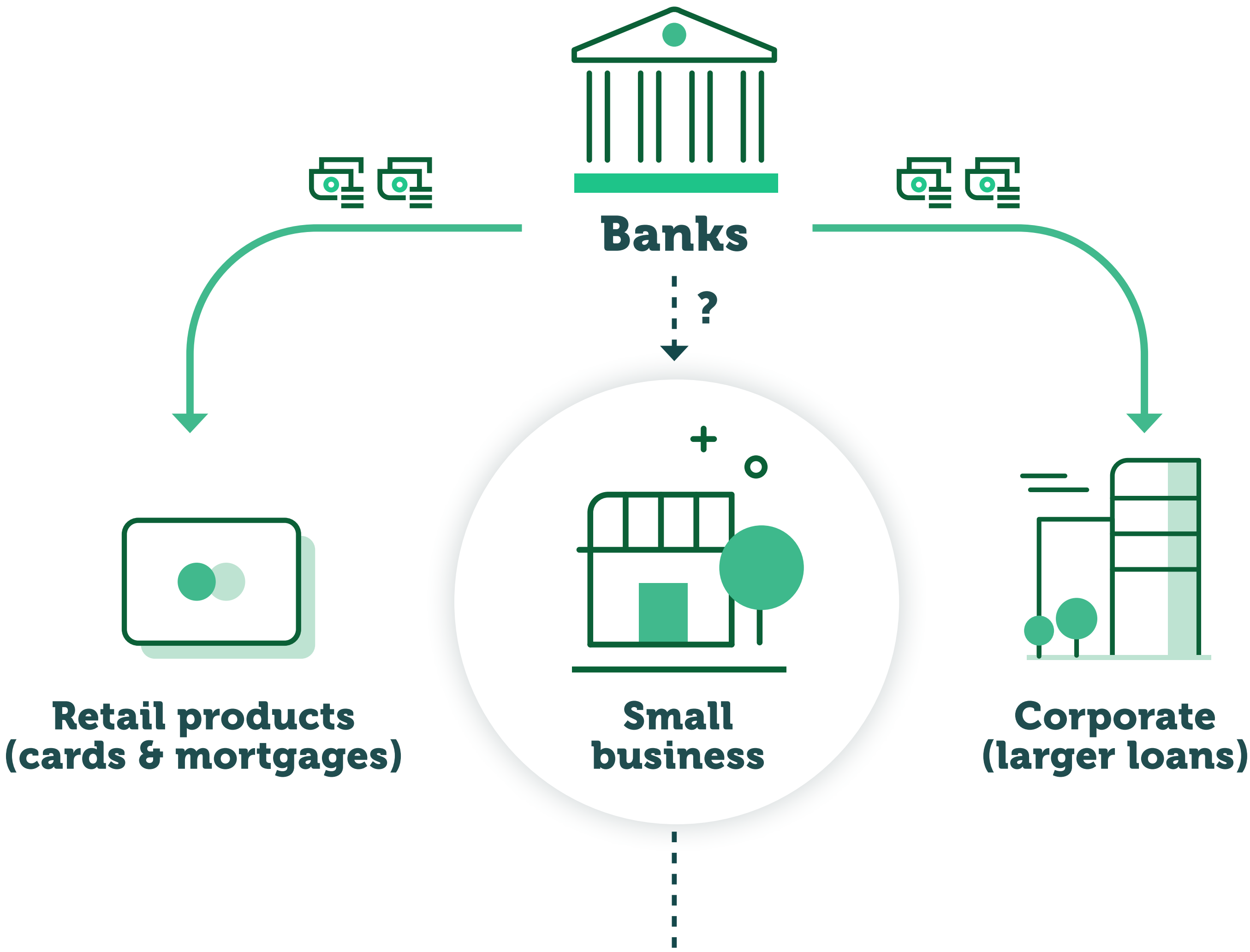
1. YouGov survey for Prospa of small business owners who work full time in their business, November 2018. YouGov is an independent, publicly listed global consumer insight company.
2. Small businesses defined as having less than 20 employees, including non-employing businesses; ABS 8167 (Selected Characteristics of Australian Business), June 2018 - 2019 (released in August 2020).

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 can help small business owners recover and get back to business

Prospa lending can be a significant economic enabler.

Prior research has shown every

$1m

of Prospa lending resulted in

$4m

in Australian GDP[1]

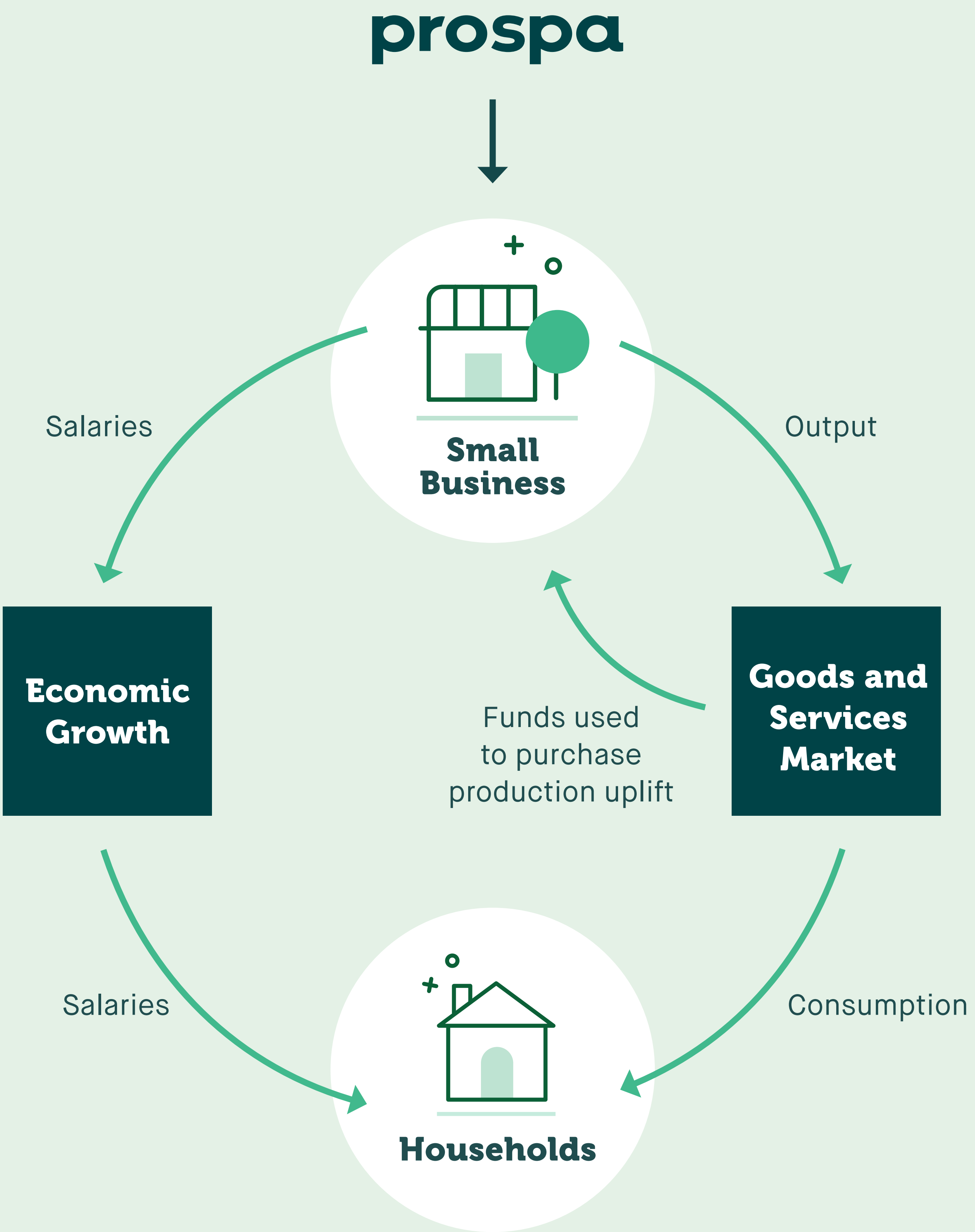
57

Full time jobs annually[1]

1. The Economic Impact of Prospa Lending to Small Business, RFi Group and The Centre for International Economics, January 2019.

Potential economic impact of Prospa lending

While the economy is shrinking now, we believe our lending can play a role in supporting the recovery.



With a cohesive customer-focused platform

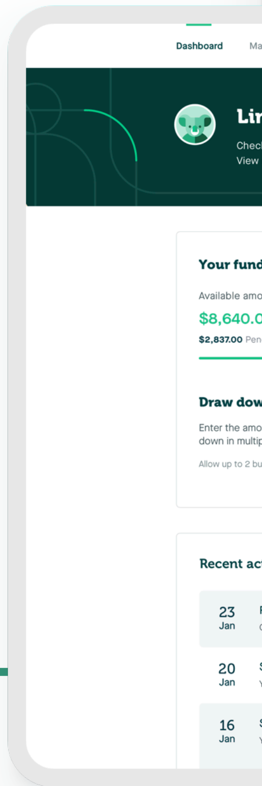
We build cash flow products and services that allow small businesses to GROW and RUN their business and help them PAY for goods and services.

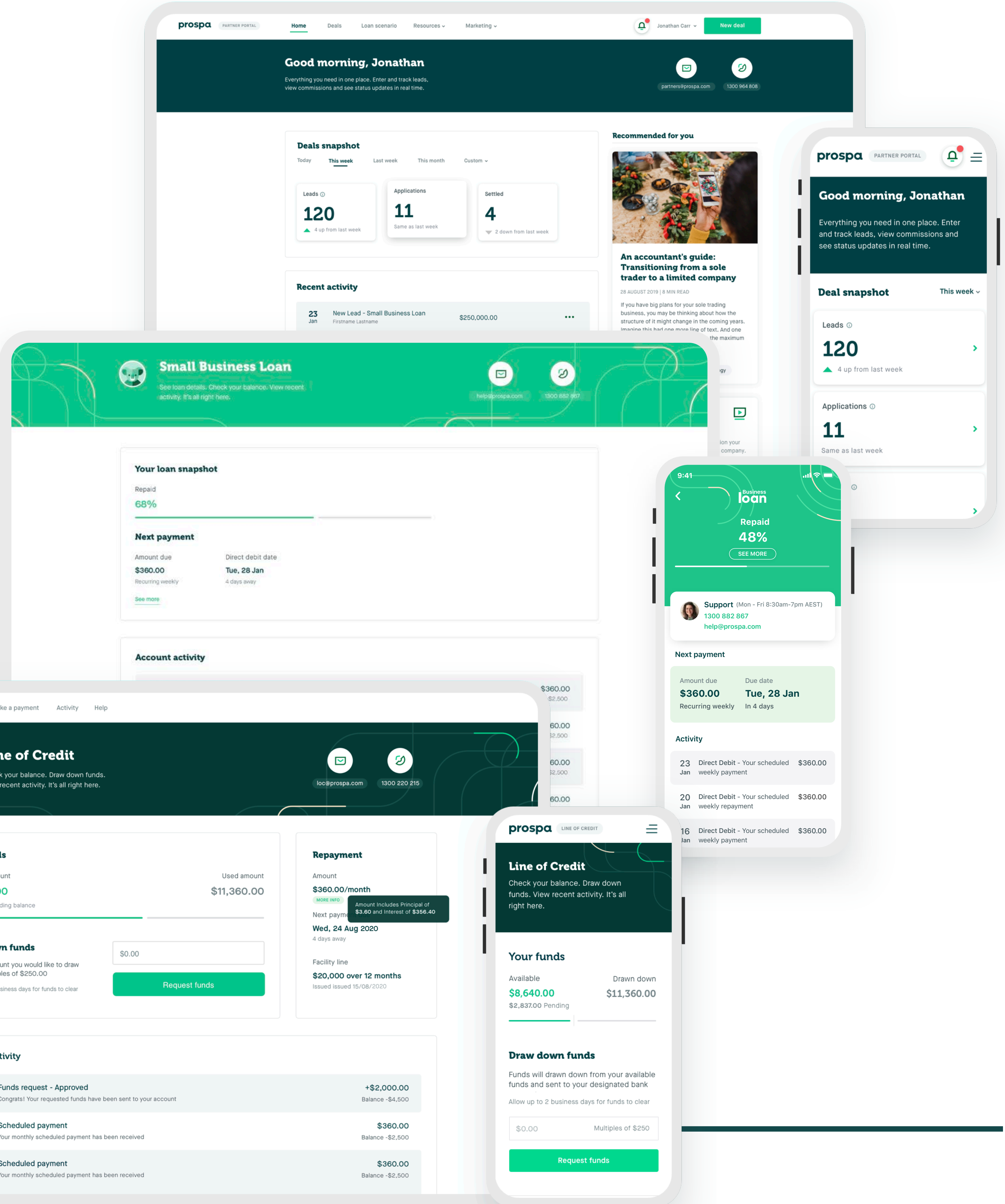
AU

- Small Business Loan from $5k to $300k with terms up to 36 months
- A revolving Line of Credit facility up to $100k, with a renewable 12 month term
- Government Guaranteed Small Business Loan from $5k to $250k with terms up to 36 months, available until 30 September 2020
- Government Guaranteed revolving Line of Credit facility up to $100k, with terms up to 36 months, available until 30 September 2020
- Mobile App with Pay Anyone functionality

NZ

- Small Business Loan from NZ$5k to NZ$300k with terms up to 24 months



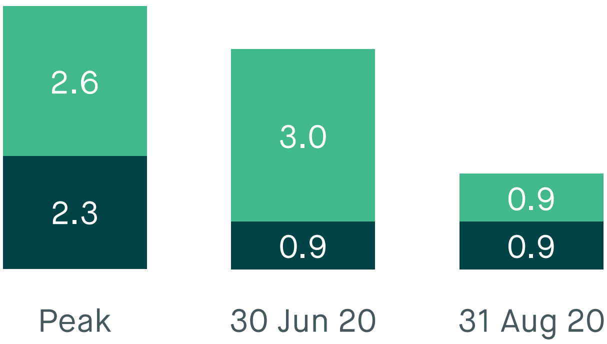


prospa PARTNER PORTAL
Home
Deals
Loan scenario
Resources
Marketing
Jonathan Carr
New deal
Good morning, Jonathan
Everything you need in one place. Enter and track leads, view commissions and see status updates in real time.
partners@prospa.com
1300 964 808
Deals snapshot
Today
This week
Last week
This month
Custom
Leads
120
4 up from last week
Applications
11
Same as last week
Settled
4
2 down from last week
Recent activity
23 Jan
New Lead - Small Business Loan
Firstname Lastname
$250,000.00
Recommended for you
An accountant's guide: Transitioning from a sole trader to a limited company
28 AUGUST 2019 | 8 MIN READ
Small Business Loan
See loan details. Check your balance. View recent activity. It's all right here.
help@prospa.com
1300 882 867
Your loan snapshot
Repaid
68%
Next payment
Amount due
$360.00
Recurring weekly
Direct debit date
Tue, 28 Jan
4 days away
See more
Account activity
prospa PARTNER PORTAL
Good morning, Jonathan
Everything you need in one place. Enter and track leads, view commissions and see status updates in real time.
Deal snapshot
This week
Leads
120
4 up from last week
Applications
11
Same as last week
9:41
Business loan
Repaid
48%
SEE MORE
Support (Mon - Fri 8:30am-7pm AEST)
1300 882 867
help@prospa.com
Next payment
Amount due
$360.00
Recurring weekly
Due date
Tue, 28 Jan
In 4 days
Activity
23 Jan
Direct Debit - Your scheduled weekly payment
$360.00
20 Jan
Direct Debit - Your scheduled weekly repayment
$360.00
16 Jan
Direct Debit - Your scheduled weekly payment
$360.00
Activity
Help
loc@prospa.com
1300 220 215
Used amount
$11,360.00
Request funds
Repayment
Amount
$360.00/month
MORE INFO
Amount includes Principal of $3.60 and Interest of $356.40
Wed, 24 Aug 2020
4 days away
Facility line
$20,000 over 12 months
Funds request - Approved
Congrats! Your requested funds have been sent to your account
+$2,000.00
Balance -$4,500
Scheduled payment
Your monthly scheduled payment has been received
$360.00
Balance -$2,500
Scheduled payment
Your monthly scheduled payment has been received
$360.00
Balance -$2,500
prospa LINE OF CREDIT
Line of Credit
Check your balance. Draw down funds. View recent activity. It's all right here.
Your funds
Available
$8,640.00
$2,837.00 Pending
Drawn down
$11,360.00
Draw down funds
Funds will drawn down from your available funds and sent to your designated bank
Allow up to 2 business days for funds to clear
$0.00
Multiples of $250
Request funds

And we support them through challenging times

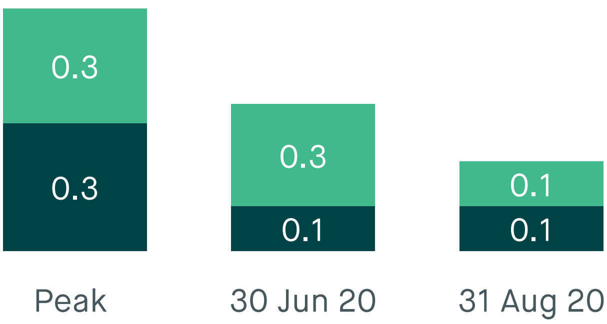
With a strong cash position and supportive funding platform, we are well positioned to provide proactive flexible COVID-19 relief with product solutions and deferred repayment options.

COVID-19-related loan deferrals in Australia[1] (000's)



- **Full deferrals** 7.7% of accounts down from 17.9% at 15th May (peak)
- **Part deferrals** 7.6% of accounts down from 20.1% at 15th May (peak)

COVID-19-related loan deferrals in NZ[2] (000's)



- **Full deferrals** 8.6% of accounts down from 22.9% at 15th May (peak)
- **Part deferrals** 5.2% of accounts down from 22.3% at 15th May (peak)

1. Proportion of unique active customer accounts in Australia only remaining on Full Deferral or Part Deferrals as at 31 August 2020.
2. Proportion of unique active customer accounts in New Zealand only remaining on Full Deferral or Part Deferrals as at 31 August 2020.

Part Deferred Full Deferred

"Prospa's support during the pandemic was just great, and better than my bank. My jewellery store is inside a hotel, which has been closed since April. Prospa put me on a reduced repayment plan, which was very helpful. I'm still able to do business with my customers but not face to face like I normally would."

Maria, South Australia, Australia

"Prospa really, really helped. It has gone a long way to helping us survive those hard days, especially when the revenue dropped to 0% just like that. The support from Prospa was way better than what my bank offered even though I had all my property fully mortgaged to them."

Shariff, Hawke's Bay, New Zealand

“You want someone to have a look at your business and say I think we can do it or I don’t think we can do it. I couldn’t believe how quick the turnaround was. I was really impressed.”

Andrew
Victoria, Australia

Contents

Performance Highlights

$1.6b

Originations since inception[1]

77+ NPS

World class net promoter score[2]

#1

Non-bank financial services provider in Australia & New Zealand[3]

National winner

Fintech Lender of the Year
NSW, QLD, SA/NT, VIC/TAS & WA
MFAA Excellence Awards 2020

1. Originations from all sources, including Small Business Loan, Line of Credit (including undrawn amounts), Back to Business Loan, Back to Business Line (including undrawn amounts) and ProspaPay; and all geographies including Australia and New Zealand.
2. Net Promoter Score was in excess of +77 for the period 1 July 2019 to 30 June 2020.
3. Prospa is ranked #1 in Australia in the Non-bank Financial Services category on independent review site TrustPilot with a TrustScore of 4.9 and over 5,584 reviews as at 15 September 2020. Prospa is ranked #1 in New Zealand in the Non-bank Financial Services category on independent review site TrustPilot with a TrustScore of 4.9 and over 592 reviews as at 15 September 2020.
4. Cash flow is prior to loan write-offs.

Originations[1]

$450.9m **-10.1%**

Q1-3 $429.0m +31.6%

Avg. Gross Loans

$433.3m **+35.7%**

Revenue

$142.1m **+4.2%**

Operating Cash Flow[4]

$33.8m **+100.4%**

Unrestricted Cash

$55.3m **+90.7%**

Statutory EBITDA

($19.5m)

Excl. forward looking COVID-19 provision & loan receivable adj.

$4.0m

Funding Facilities

$442.9m **at 30 June**

Unused Facilities

$114.1m **at 30 June**

Chairman's Letter

> The economic outlook for FY21 remains uncertain, but we believe Prospa is now in a strong position to navigate any further economic disruptions.

Gail Pemberton AO

Chairman’s Letter

Dear Shareholder,

Looking back to the beginning of FY20, our first year as a listed company, we could never have envisaged the extent of the challenge and disruption that has impacted the global economy in the second half of the financial year.

The COVID-19 pandemic hit many of our small business clients very hard, particularly coming on the heels of drought and the summer bushfires in Australia. These were the worst bushfires this country had experienced for 30 years, bringing tragedy and financial loss for many of our regional small business customers. Just as tourism and hospitality began to recover from the bushfires, the emergence of the COVID-19 pandemic in Australia and New Zealand and the ensuing lockdowns added to the financial stress of all businesses but especially the small business sector. The impact of the lockdowns and uncertainty about the future has had a significant effect on our performance in the last quarter of FY20, principally in the volume of originations, revenue and loan impairment provisions.

Strength through adversity

I’m very proud of the way management and the Board have navigated through the pandemic. Without certainty about the duration of the crisis, we took swift and decisive action to preserve cash, reduce our risk appetite, the level of originations and our expense base, in order to be able to support our clients and reposition the business for a return to growth again when the economy started to improve.

We redeployed much of our customer acquisition team to focus on providing fast personalised relief packages and restructuring of customer commitments. The actions we took have borne fruit, and we are very encouraged with an increasingly larger proportion of clients returning to full payments, month on month since the end of May.

Throughout this time, our Capital Management team worked closely with our funding partners, successfully revising some of the terms and conditions of our warehouses to better enable us to support our customers through the period of restructuring and return to business. Using the daily operational business data of our customers, and harnessing the power of sophisticated analytics, our Credit Risk team worked with our Finance team to determine a forward-looking additional provision for potential credit losses to take into account the impact of COVID-19.

Business performance

For the first nine months of the FY20 financial year, we were very pleased to achieve a 31.6% growth in originations compared to the same nine month period in FY19, and we were confident we were on track to meet all our performance targets.

The continued growth of our New Zealand business, at an average originations growth rate of 4.1% per month, made a strong contribution to the overall results. We have a highly motivated team on the ground in New Zealand who’ve helped Prospa achieve the #1 position in the non bank financial services category for New Zealand on independent review site TrustPilot in just over a year from a standing start.

We also took on board the lessons learned from missing our revenue target in the 2019 Prospectus and have focused on uplifting overall team depth and capability, particularly in the areas of product design, analytics, risk and yield management.

Throughout the year, the Management team has continued to deliver our strategic priorities, with a focus on providing the best possible borrowing experience for small business owners. We have made good progress on technology and platform improvements which meant we were able to deliver two new credit products to market in a short space of time under the Federal Government’s SME Loan Guarantee Scheme.

Looking ahead

The economic outlook for FY21 remains uncertain but we believe Prospa is now in a strong position to navigate any further economic disruptions. And it isn't all doom and gloom, we are seeing some encouraging green shoots emerging. Indeed, some of our customers' businesses performed well or even better during the pandemic and others are now rapidly returning to pre COVID-19 levels. As we've entered FY21, we are prudently and steadily increasing our risk appetite and are seeing increased demand and originations flow through as a result. We are also taking the time to refine and extend our strategic vision and offerings for the small business sector which we continue to believe is critical to the economies of Australia and New Zealand.

Finally, I can't offer enough thanks to the terrific management and staff at Prospa whose energy and enthusiasm about the business and its customers has not diminished during this once in a lifetime challenge. My fellow Board members have also been unflagging in their efforts. I'd also like to thank our shareholders and funding partners for their ongoing support.

Sincerely,

Gail Pemberton AO
Chairman
Prospa Group Limited

Chief Executive's Report

"Prospa's business model has proven to be resilient against the most difficult of backdrops with the flexibility to adapt quickly and a deep understanding of small business."

Greg Moshal

Chief Executive’s Report

Over the past several months, Prospa has experienced the toughest market conditions we are ever likely to come up against. The small business community we serve has faced a year of unprecedented challenges, first the devastating bushfire season and more recently, the COVID-19 pandemic and restrictions.

While performance has been impacted by the difficult economic conditions, the business model has shown to be resilient with the flexibility to adapt to the current environment.

We saw solid growth in the first three quarters, which was offset by a restrained Q4. Total originations for the year were $450.9 million, a 10.1% decline on FY19 as originations in the fourth quarter 2020 were materially impacted by COVID-19 pressures on small businesses. Total revenue grew to $142.1 million (up 4.2% on FY19) and operating cash flow grew to $33.8 million (up 100.4% on FY19). Cash and cash equivalents grew to $110.3 million and unused funding facilities totalled $114.1 million as at 30 June.

We enter FY21 with a strong balance sheet and committed funding lines, ready to continue supporting small business customers across Australia and New Zealand and to leverage future growth opportunities.

Adapting quickly to the operating environment

Our priorities have been to sustain the business, support our people and continue to do the right thing by our customers. Small business owners and the communities they serve drive the economy, and our ability to deliver essential working capital enables them to keep moving and to grow and prosper.

We commend the speed and breadth of support from the Australian Federal Government, who have delivered innovative programs like the SME Coronavirus Loan Guarantee Scheme, under which Prospa was allocated up to $223 million, as well as the Structured Finance Support Fund, through which the Australian Office of Financial Management approved an investment of up to $90 million in a Prospa warehouse.

We adapted quickly to the changing environment and used our strengths in technology, data, and customer service to engage with our customers and provide the support they needed to navigate through this prolonged period of economic uncertainty.

For small businesses experiencing hardship, we responded with customised relief packages, including partial and full deferrals of repayments. We continue to provide funding to support cash flow and help small businesses manage the impact of COVID-19 restrictions.

We prudently applied a forward-looking provision of $18 million to take into account the impact of the COVID-19 pandemic and this provision has resulted in an EBITDA loss of $19.5 million. Underlying EBITDA excluding this provision and a one-off loan receivable adjustment of $5.5 million was $4.0 million.

Leveraging the tenacity of our team

With the health and safety of our team and the wider community in mind, we activated our Business Continuity Plan in March and staff have been working remotely since then with no operational interruptions to the business. For example, on the first day we activated our Business Continuity Plan, 86% of calls were answered within 20 seconds and when we surveyed our team in July, 99% of people felt the business had adapted well to hybrid working. These results reflect our company values and culture as a dynamic, fast-moving organisation.

We have used the past six months to focus on preserving our capital, improving our products and processes, and ensuring we have the right foundations in place. The Board and management made tough but swift decisions early on and these actions have resulted in a sustainable business with tighter cost controls. Even with continued uncertainty, we are seeing increased activity from small business across all sectors and we’re in a strong position to provide them with timely access to the right-sized capital to make this happen. We continue to proactively identify risk and make smart, targeted decisions so that we can support thousands more businesses not just to survive, but to prosper, as they emerge from Government restrictions.

Acknowledgement and thanks

I would like to acknowledge the dedication of the entire Prospa team, and their commitment to providing the highest level of support to our customers and partners during COVID-19, while also dealing with the impacts on their own lives. I believe our customer relationships have only been strengthened during this challenging time, reinforcing our brand and position as an industry leader.

I would also like to take this opportunity to express my appreciation to the Board for their strategic direction, continued support, and valuable counsel. I thank our shareholders as they continue to believe in our mission.

Prospa's business model has proven to be resilient against the most difficult of backdrops with the flexibility to adapt quickly and a deep understanding of small business developed over eight years of specialist lending. Our guiding principles remain the same, and we continue to strive to exceed customer expectations and deliver for all our stakeholders.

Sincerely,

Greg Moshal
Chief Executive Officer

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 Eclipx Group (ASX:ECX), Land Services WA 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).

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, Eclipx 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 Chair 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.

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 Audit Committee. She is currently an Independent Non-Executive Director at Perpetual Limited (ASX:PPT), of the Victorian Funds Management Corporation (VFMC) and a member of the Investment Committee for the Walter and Eliza Hall Institute.

Fiona was previously an Investment Director at Frontier Advisors, where she was 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 has more than 25 years' experience advising institutional asset owners and investors on investment and governance-related issues.

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, and again in 2019. 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 Chair of the Audit and Risk Committee and a member of the Remuneration, People and Nomination Committee.

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 almost 25 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, BW Robotics, Torii, Broadlume, Niio, Shopic, thumbzup and other technology companies in the UK, EU, USA and Israel. Avi has previously served as Board Director for Riskified, Gastrofix (TSE:LSPD), HouseParty (Epic Games), Flyt (LSE:JE), Scan Inc. (NYSE:SNAP), Cura Software Solutions (NSE:CURATECH), and Datatec Limited / Insight Technologies (JSE:DTC) and others.

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 and 2019 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.

Avi Eyal
Non-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 eight years' experience in financial services with Prospa and prior to this had 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.

Greg Moshal
Chief Executive Officer & Executive Director

Beau is a Co-Founder of Prospa and has been an Executive Director of Prospa Advance Pty Ltd since 2014 and a Director of the Company since April 2018. Beau has been instrumental to the establishment of Prospa.

Beau has 16 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. He is responsible for Prospa's Go To Market capability and strategies to deliver revenue for the Group.

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 financial services company FlexiGroup (ASX:FXL).

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

Beau Bertoli
Chief Revenue Officer & Executive Director

Executive Leadership

Greg Moshal
Chief Executive Officer

Beau Bertoli
Chief Revenue Officer

Peter Loosmore
Interim Chief Financial Officer

Peter Loosmore was appointed interim Chief Financial Officer in January 2020. He has responsibility for financial control, financial planning and analysis, yield management and treasury.

Peter has over 25 years' experience as a senior finance executive in some of Australia's leading financial organisations. Past executive roles have included CFO of St George's Retail Bank, CFO of Suncorp Life and as Director of Finance for Rothschild Australia.

Peter currently focuses on providing services as an Interim CFO and consultant, advising and supporting financial management teams during periods of complex change.

Peter has a Bachelor of Business from the University of Tasmania and is a Chartered Accountant.

Ben Lamb
Chief Commercial Officer

Ben joined Prospa in April 2016. He has responsibility for operations including customer acquisition, retention and collections.

Ben has 13 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.

Simon Griffin
Chief Operating Officer

Simon joined Prospa in July 2019. He is responsible for strategy and planning across Prospa and manages enterprise risk, procurement, corporate affairs and corporate governance.

Simon has more than 16 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.

Damon Pezaro
Chief Product Officer

Damon joined Prospa in June 2017. He has responsibility for 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.

Elise Ward
Chief People Officer

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

> "We didn't want to lose the momentum that we had in the business, so a short turnaround time and quick access to cash gave us the chance to grow and not miss out… We were able to get our nurses on the road to help treat our patients."
>
> **Lorna,**
> **Western Australia, Australia**

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 ("Prospa" or the "Company") and the entities it controlled at the end of, or during, the year ended 30 June 2020.

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 as applicable at 30 June 2020.

Gail Pemberton
Chairman
227,102 ordinary shares and 120,556 options in Prospa Group Limited.

Gregory Moshal
24,772,428 ordinary shares and 1,286,640 options in Prospa Group Limited.

Beaumont Bertoli
9,745,636 ordinary shares and 1,286,640 options in Prospa Group Limited.

Aviad Eyal
2,748,466 ordinary shares and 92,592 options in Prospa Group Limited.

Gregory Ruddock
Chairman of the Remuneration, People and Nomination Committee
1,133,611 ordinary shares and 25,000 options in Prospa Group Limited.

Fiona Trafford-Walker
Chairman of the Audit and Risk Committee
33,079 ordinary shares and 120,556 options 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 $24.9 million (30 June 2019: loss of $24.7 million).

The Review of Operations on pages 39 to 42 forms part of this Directors' Report and sets out:

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

Future developments

Our vision is to build cash flow products and services that allow small businesses to grow and prosper. To achieve this we intend to invest in improving and growing our platform, further developing our operating leverage, and continuing to assess opportunities that arise where we consider them to be complementary to our business model and can enhance value for our shareholders.

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 year ended 30 June 2020, and the number of meetings attended by each Director were:

	Board		Board COVID-19		Remuneration, People and Nomination Committee		Audit and Risk Committee	
	Attended	Held	Attended	Held	Attended	Held	Attended	Held
Gail Pemberton	17	17	10	10	5	5	5	5
Fiona Trafford-Walker	17	17	10	10	5	5	5	5
Greg Ruddock	17	17	10	10	5	5	5	5
Avi Eyal	17	17	10	10	4	5	5	5
Greg Moshal	17	17	10	10	5	5	5	5
Beau Bertoli	17	17	10	10	5	5	5	5

In addition to the scheduled meetings, the Board held additional meetings to address the Company's response to COVID-19.

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

Committee Membership

As at the date of this report, the Group has an Audit and Risk Committee and a Remuneration, People and Nomination Committee. The members of each committee are as follows.

Audit and Risk Committee	Remuneration, People and Nomination Committee
Fiona Trafford-Walker – Chairman	Greg Ruddock – Chairman
Greg Ruddock	Gail Pemberton
Avi Eyal	Avi Eyal
Gail Pemberton	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
17/02/2016	17/02/2021	$0.49	339,681
07/10/2016	07/10/2021	$0.67	45,549
27/02/2017	27/02/2022	$0.67	212,968
28/04/2017	28/04/2022	$1.56	195,000
17/11/2017	17/11/2022	$1.56	1,157,262
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	832,500
30/11/2018	30/11/2023	$3.64	2,095,995
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	294,000
10/04/2019	10/04/2024	$3.64	72,501
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
11/06/2019	11/06/2024	$4.35	75,000
14/04/2020	14/04/2024	$0.88	2,332,500
14/04/2020	14/04/2024	$0.95	2,332,500

As at 30 June 2020, 14,343,495 options were outstanding, of which 5,368,749 were vested and exercisable. 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 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
12/08/2019	n/a	$0.00	248,943
13/01/2020	n/a	$0.00	177,339
13/04/2020	n/a	$0.00	1,309,000
13/07/2020	n/a	$0.00	180,341

As at 30 June 2020, 1,827,396 rights were outstanding, of which Nil were vested and exercisable. No person entitled to exercise the rights had or has any right by virtue of the 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 2020 and up to the date of this report on the exercise of options granted.

Date options granted	Exercise price	Number of shares issued
17/02/2016	$0.49	391,158
7/10/2016	$0.67	129,996
27/02/2017	$0.49	60,000
27/02/2017	$0.67	86,274
17/11/2017	$1.56	123,982
30/04/2018	$2.00	59,327
30/11/2018	$3.64	4,998

Shares issued on the exercise of rights

During the year ended 30 June 2020 and up to the date of this report, no shares were issued on the exercise of performance rights.

The following ordinary shares of Prospa Group Limited were issued during the year ended 30 June 2020 and up to the date of this report on the vesting of salary sacrifice rights granted to Non-Executive Directors.

Date salary sacrifice rights granted	Exercise price	Number of shares issued
14/06/2019	n/a	25,463

These shares are subject to dealing restrictions until the earlier of 28 February 2022 or the date on which the director ceases to hold office as a Director.

Remuneration Report

The Remuneration Report set out on pages 43 to 56 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.

Post balance date events

On 6 July 2020, due to its limitations in funding new products such as Line of Credit or Government Guarantee Scheme Loans and Lines, the Group ended the Prospa Trust Series 2018-1 substitution period and no new loans are being sold into this Securitisation Trust. Principal collected from loans in this Securitisation Trust will progressively reduce the aggregate outstanding balance of loans remaining in the Trust.

Prospa is already an approved Participating Lender under the current Coronavirus SME Guarantee Scheme which was originally due to end on 30 September 2020. On 20 July 2020, the Federal Treasurer announced that the Scheme would be enhanced and extended to 30 June 2021 to support continued small business recovery. The final terms of the extension are not yet finalised, and the Group is in the process of considering whether it will apply to be a Participating Lender under the extended Scheme.

On 24 July 2020, the Group announced amendments to the warehouse facilities that fund the Group's small business loans and lines of credit had been completed. This confirmed the ongoing support of our funding partners and enhanced the Group's ability to provide its customers with appropriate assistance during the impact of COVID-19.

On 6 August 2020, Prospa allocated $63 million of the AOFM's $90 million maximum investment to support the growth in its Line of Credit, and the "Back to Business" Small Business Loan and "Back to Business" Line of Credit products, with the remainder to be allocated over FY21.

On 17 September 2020 the Group announced the appointment of Ross Aucutt as Chief Financial Officer. Ross replaces Peter Loosmore, Prospa's interim CFO since 28 January 2020.

No other matter or circumstance has arisen since 30 June 2020 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.

Non-audit services

During the year, Deloitte Touche Tohmatsu ("Deloitte"), the Group's external auditor, performed certain other services in addition to the audit of the financial statements. Details of the amounts paid or payable to Deloitte for non-audit services provided during the financial year are outlined in Note 22 to the financial statements.

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) was 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 22 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 reviewed and approved 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 immediately after this Directors' report.

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 Chief Executive Officer

Gail Pemberton
Independent Director and Chairman

24 September 2020
Sydney

Review of Operations

“The finance that Prospa provided helped us take on more staff so we could manage the growth, take on more therapists and spread our brand a bit wider around New Zealand.”

**Susie,
Auckland, New Zealand**

Review of operations

We are an Australian fintech company that has grown to become Australia and New Zealand's #1 online lender to small businesses[1].

Continued investment in our cloud-based, data rich and API-enabled technologies has enabled us to deliver seamless customer experiences to small business owners across Australia from 2012, and in New Zealand from 2018. Small businesses are the engine room of these economies and we are proud to promote and support them by:

- Delivering over $1.6 billion[2] in loans to small businesses since our launch in 2012;
- Having served more than 28,750[3] unique small business customers since inception that have historically been poorly supported by traditional banks and lenders; and
- Facilitating referrals from our network of more than 10,000 distribution partners including brokers, aggregators and accountants.

Our product suite includes a Small Business Loan, a Line of Credit and a B2B Trade Payments solution called Prospa Pay. In the last quarter of FY20 we launched two new products, a "Back to Business" Small Business Loan and a "Back to Business" Line of Credit, to fit the parameters of the Federal Government's Coronavirus SME Guarantee Scheme ("Scheme").

Our Credit Decision Engine ("CDE") has been purpose-built to quickly assess small business credit applications using proprietary technology and analytics to deliver customised decisions. 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.

Prospa's CDE and regular data capture allows the business to quickly and proactively evaluate areas of both opportunity and potential stress across our portfolio. During the Q4 period, we made pre-emptive adjustments to our underwriting parameters and credit assessment model to reflect the macroeconomic environment as well as sensitivities in industry-specific small business trading models.

During the Q4 period, we also used our data to develop insights into different industry sectors and geographies to provide COVID-19 related relief packages to our customers in Australia and New Zealand.

Our Net Promoter Score for the FY20 period was in excess of 77[4] and we are ranked #1 in the Non-bank Financial Services category in both Australia and New Zealand on independent review site TrustPilot[1]. In September 2019 Prospa was recognised as a Great Place to in Work Australia[5].

Prospa activated its Business Continuity Plan in early March and since then the majority of our people have been working remotely without any operational interruptions to the business. We have a phased voluntary return to office program in place, guided by employee feedback and Government restrictions, with the flexibility to respond to changing scenarios.

Prospa is continuing a strategic review of its portfolio and capabilities through customer research, close monitoring of the competitive environment and microeconomic and macroeconomic trends in local and global markets. We continue to support small businesses seeking to rebuild and invest for the future.

Financial Overview

Strong growth in the first three quarters of the year for Australia and New Zealand saw the Group's originations increase to $429.0 million for the nine months to March 2020. This was an increase of 32% on the prior corresponding nine-month period to March 2019. The growth in the first three quarters was offset by a deliberately restrained risk appetite in the fourth quarter as result of COVID-19 with $21.9 million originated in the final three months of the year, a decline of 88% compared to the corresponding three month period in FY19. Loan originations in April and May 2020 were materially impacted by COVID-19 pressures on small businesses, however the Group saw a meaningful increase in loan originations in June 2020 compared to the previous two months. Total originations for the year were $450.9 million, a 10.1% decline on FY19.

1 Prospa is ranked #1 in Australia in the Non-bank Financial Services category on independent review site TrustPilot with a TrustScore of 4.9 and over 5,584 reviews as at 15 September 2020. Prospa is ranked #1 in New Zealand in the Non-bank Financial Services category on independent review site TrustPilot with a TrustScore of 4.9 and over 592 reviews as at 15 September 2020.

2 Total amount of fresh capital originated since inception in 2012 across Australia and New Zealand, as at 30 June 2020.

3 Total unique customers since inception across Australia and New Zealand as at 30 June 2020.

4 Average for the period 1 July 2019 to 30 June 2020.

5 Recognised by global business management consultancy Great Place to Work Australia Pty Ltd.

Total revenue grew to $142.1 million, an increase of 4.2% on FY19. The year's revenue result was impacted by lower revenue in the fourth quarter due to lower originations, extended repayment terms for COVID-19 affected customers and lower fees charged.

Net loss after tax was $24.9 million (FY19 loss: $24.7 million). This result includes an impairment expense of $18.0 million as a forward-looking provision to take into account the impact of the COVID-19 pandemic.

Cash and Funding

Net cash from operating activities grew to $33.8 million in FY20, compared to net cash of $16.9 million in FY19. This excludes the impact of bad debts written off during FY20 of $30.3 million (2019: $24.6 million) which is included in the net movement in receivables.

Cash and cash equivalents[6] grew to $110.3 million at 30 June 2020 (FY19: $69.8 million), an increase of 58% from the prior year. This includes unrestricted cash of $55.3 million (FY19: $29.0 million), an increase of $26.3 million or 91% on the prior year.

As at 30 June 2020, we had $442.9 million in available third-party facilities including unused facilities of $114.1 million.

Funding costs increased to $20.4 million in FY20, an increase of 1.4% on prior corresponding period due to higher average drawn notes over the period. This was offset by a lower weighted average funding rate of 5.7% compared to 7.5% in FY19. The lower funding rate was largely driven by an increased weighting of tier 1 bank facilities drawn in our funding mix.

Loan Impairment and Operating Expenses

Loan impairment expense grew to $52.9 million, an increase of 73.1% on the prior period and includes the additional $18.0 million forward-looking provision to take into account the impact of the COVID-19 pandemic using a range of future macroeconomic scenarios. These scenarios were considered sufficient to incorporate the restrictions on movements in Victoria and New Zealand announced in July and August 2020.

As part of the Group's response to the COVID-19 pandemic, over the period between 13 March and 30 June 2020, a total of 5,540 customer accounts in Australia and 779 in New Zealand were supported with a relief package, typically a full or partial deferral with interest capitalised. Customers requiring relief fell significantly towards year end, with only 7.5% (1,001) of active customer accounts remaining on a full deferral as at 30 June 2020.

The total coverage for expected credit losses as a percentage of receivables was increased to 11.1% at 30 June 2020 (30 June 2019: 6.1%).

During the financial year, a comprehensive review was undertaken of the Group's existing loan receivable balances which resulted in a non-cash adjustment of $5.5 million (refer Note 1 to the consolidated financial statements). This is included in the overall $52.9 million impairment result for the year.

Operating expenses excluding funding costs and loan impairment expense, were $79.1 million for the year, an increase of 1.4% from FY19. Included in the result was a $1.4 million benefit from the Australian Government JobKeeper Payment subsidy which was offset by $1.5 million of one-off restructuring costs incurred as part of cost reduction initiatives undertaken in April 2020. As a result of adopting AASB 16 *Leases* from 1 July 2019, the Group has recorded $1.9 million of depreciation expense and $0.5 million of interest expense in FY20 which was reported in operating expenses up to and including FY19.

Refer Note 1 to the consolidated financial statements for further information on JobKeeper and Leases.

6 Includes cash and cash equivalents as reflected in our consolidated balance sheet in accordance with applicable accounting standards, and includes cash held in securitisation trusts. This applies to all references to cash and cash equivalents in this document.

Capital Management

In August 2019, we established our first warehouse facility specifically to fund New Zealand Small Business Loans. The facility is NZ$45 million with a three-year term, designed to scale with our funding needs over time.

From March 2020, we actively engaged with our funding partners to secure the required flexibility to enable us to provide our customers with appropriate COVID-19 relief, including reduced payments, revised payment schedules and deferrals.

In April 2020, we received an allocation of up to $223 million under the Federal Government's Coronavirus SME Guarantee Scheme to help small businesses deal with the impact of COVID-19. The Scheme provides selected lenders like Prospa with a Government-backed guarantee of 50% against the outstanding facility balance of eligible products.

In May 2020, the Group decided the Prospa Trust Series 2018-2 Security Trust would not be extended beyond June 2020 and all notes were fully repaid on 15 May 2020.

Funding activity has been supported by Federal Government initiatives. On 11 June 2020, the Australian Office of Financial Management approved a maximum investment of $90 million into a Prospa warehouse trust through the Structured Finance Support Fund under the Structured Finance Support (Coronavirus Economic Response Package) Act 2020.

Remuneration Report

“I phoned my broker and said we don’t want to deal with a traditional bank, they just drag things on and on… They said Prospa might be able to help us out, and within two days we had the funds in our account.”

Bradley,
Western Australia, Australia

1. Remuneration Report

Letter from the Chairman of Remuneration, People and Nomination Committee

Dear Shareholders,

I am pleased to present Prospa Group Limited's ("Prospa", the "Group" or the "Company") Remuneration Report for FY20. The Remuneration Report covers remuneration arrangements and outcomes for the FY20 period together with highlights of our remuneration arrangements for FY21.

As Gail outlined in her letter, our first year as a listed company has seen significant disruption for small business in Australia and New Zealand and commensurately for Prospa. During FY20, we have proactively managed the operational performance of our business, our priority being the safety of our people and the responsible support of our small business customers. In line with this, our Remuneration, People and Nomination Committee has established a remuneration framework that is fit for purpose and allows us the agility and flexibility to ensure we can adjust remuneration outcomes in line with the performance of the business and our goal to continue to build a long-term sustainable business.

Leadership changes

During FY20, in order to ensure greater clarity and focus, we restructured the Joint CEO roles for Greg Moshal and Beau Bertoli. Greg Moshal became sole Chief Executive Officer and Beau Bertoli moved into the newly created role of Chief Revenue Officer, with Beau's primary focus being to capitalise on new revenue opportunities, a role very much in line with his experience. As Co-Founders and significant shareholders in Prospa, both Greg and Beau retained their Board positions and remain aligned with and committed to delivering Prospa's long term vision and strategy.

In FY20, Prospa commenced its search for a Chief Financial Officer following Edoardo Bigazzi's departure from the role in February. The impact of COVID-19 saw us temporarily pause our search to focus on the operational resilience of our business, and we appointed Peter Loosmore as our Interim Chief Financial Officer. Peter has deep financial portfolio and listed company experience and together with the Executive team is responsible for financial control, financial planning and analysis, yield management and treasury.

On 17 September 2020, we announced the appointment of Ross Aucutt as our new CFO. Ross was previously the CFO of FlexiGroup Limited for almost four years. He has a strong background in non-bank disruptive finance models and in driving growth while significantly increasing the efficiency of the business and the balance sheet. Ross' previous experience of listed lending businesses, his passion for fintech and his skills and experience will add considerable value to the Prospa team.

COVID-19 response

With uncertainty around the spread and duration of COVID-19 and the consequent economic impacts on the small business economy, Prospa quickly took steps to manage the health and safety of our people and transitioned seamlessly to a remote operating model ensuring full business continuity and uninterrupted support for small businesses. We saw the benefit of our strong culture as we focused on helping our customers with deferral and part payment programs whilst ensuring the business effectively managed its credit and cash position.

As was prudent, cost management initiatives were implemented. These included voluntary salary or fee reductions by management, employees and the Board, along with a review of our operating model for efficiencies. These measures are detailed below.

As a result of the external disruptions from COVID-19, the targets for the FY20 incentive programs were not met by the Executive Key Management Personnel ("KMP") or the senior management team. However, on 20 April 2020, the Board approved an incentive program, with an issue of share rights to those staff who took voluntary income reductions and the issue of share options to non-KMP Executives. This was implemented as a combined retention program and in lieu of the FY21 incentive scheme. The Board believes these two initiatives are critical to ensuring our team remained stable and our people remained focused during this very disruptive period.

It's important to note that during FY20 Greg Moshal and Beau Bertoli elected not to receive their approved FY19 short term incentive payments and not to participate in the above mentioned programs. This was done in response to the poor performance of the business since listing and to ensure there was sufficient capacity for the rest of the team who had voluntarily sacrificed income during this time. The Board sees this as a mature and shareholder focused approach from Greg and Beau, who as founders and significant shareholders, remain strongly aligned to the long-term performance of Prospa.

Looking Forward

During these uncertain times, we have continued our focus on keeping our people safe and helping maintain their physical and mental wellbeing whilst we ensure we help our customers and keep the Company in a strong position. We believe Prospa and its shareholders will greatly benefit from any recovery in the small business sector and we have provided the team with balanced financial incentives for the medium to long term so our people can participate alongside our shareholders in any recovery.

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 24 November 2020.

Yours sincerely,

Greg Ruddock
Chairman
Remuneration, People and Nomination Committee

1. Key Management Personnel

The Committee presents the Remuneration Report of the Group for the period 1 July 2019 to 30 June 2020. 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 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. Table 1 outlines the KMP of the Group during FY20.

Table 1. Prospa KMP

Name	Position	Term as KMP
Executive KMP		
Greg Moshal	Executive Director and CEO	Full year
Beau Bertoli	Executive Director and Chief Revenue Officer	Full year[1]
Former Executives		
Ed Bigazzi	Chief Financial Officer	Ceased employment on 27 March 2020
Non-Executive Directors		
Gail Pemberton	Independent Non-Executive Chairman	Full year
Greg Ruddock	Independent Non-Executive Director and Chairman of the Remuneration, People and Nomination Committee	Full year
Fiona Trafford-Walker	Independent Non-Executive Director and Chairman of the Audit and Risk Committee	Full year
Avi Eyal	Non-Executive Director	Full year

1 Mr Bertoli was joint CEO until 26 February, at which point he was appointed Chief Revenue Officer.

2. Remuneration framework and governance

Remuneration framework

Our remuneration framework enables us to adjust remuneration outcomes in line with the performance of the business and broader economic conditions as they evolve. It 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.

Our Strategy

Continue to invest in the customer experience, technology and people in order to build products and services that allow small businesses to prosper.

Culture and values

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.

Obsess about customers | **Be bold, open and real** | **Day 1** | **Deliver value fast** | **Simplicity** | **One team**

Remuneration principles

Reward financial and non financial performance that creates success for Prospa over the short and long term.

Attract, motivate and retain high calibre talent.

Drive the right behaviours and compliance.

Be fit for purpose for the business we are now and aspire to be.

Everyone in the business should share in wealth creation.

Short term incentives truly vary with business performance.

Be fair and transparent.

Performance management process

Remuneration outcomes are delivered with reference to performance outcomes.

Performance evaluation is based on a mix of "what" people are delivering and "how" they are delivering it.

Demonstration of Company values is a gate to achieving a performance rating as we expect all Prospa people to live the values.

Fixed Remuneration

Purpose: Attracts high quality personnel and rewards capability and experience.

Base salary, superannuation and non-monetary benefits.

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.

Executives may receive their fixed remuneration in the form of cash or other fringe benefits (for example motor vehicle benefits) where it does not create any additional costs to the Group.

Variable Remuneration

Purpose: Motivates high performance and retains high quality personnel through providing competitive and appropriate reward for the achievement of strategic objectives and creation of value for shareholders.

Delivery of variable remuneration is subject to the achievement of shared performance measures that have been chosen given our focus on growing the business in a profitable way.

Delivered as cash and equity.

Malus and clawback provisions ensure leaders demonstrate the right behaviours.

Remuneration governance

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

The Board

Reviews, challenges and, as appropriate, approves the Committee's remuneration recommendations regarding Non-Executive Directors and Executives.
The Board has overall discretion to reduce, cancel or clawback any remuneration

The Remuneration, People and Nomination Committee

Reviews and recommends to the Board remuneration arrangements for its Non-executive Director and Executives.

In particular, the Committee is responsible for:

- Determining Non-Executive Director and Executive remuneration outcomes;
- Determining participation in and performance targets for incentive plans, including employee equity plans;
- Approving major changes to company remuneration policies and arrangements; and
- Recommending whether offers are to be made under any or all of the Company's employee equity incentive plans.

Members

The Committee comprises of four Non-Executive Directors, three of which are independent Directors:

- Greg Ruddock (Chairman)
- Gail Pemberton
- Fiona Trafford-Walker
- Avi Eyal

The Audit and Risk Committee

Advises the Committee of material risk matters which may impact remuneration outcomes, and matters relevant to financial outcomes that warrant consideration when determining variable remuneration award outcomes for Executives.

External consultants

During the 2020 financial year, the Board engaged Ernst & Young to review remuneration policies. No remuneration recommendations, as defined in the Corporations Act 2001, were provided by Ernst & Young or any other advisor during the year.

3. Contractual Arrangements

Remuneration and other terms of employment for Executives are formalised in service agreements. Details of these agreements are outlined in Table 2.

Table 2. Executive contractual arrangements

	Greg Moshal CEO	Beau Bertoli Chief Revenue Officer	Ed Bigazzi CFO
Contract type	Ongoing	Ongoing	Ongoing but ceased employment on 27 March 2020
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
Post-employment restraints	Restrictions operate for up to 12 months post-employment and include: – 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 Advance; and – Restrictions against soliciting the Group's employees, contractors or Directors.		Restrictions operate for up to 12 months post-employment and include: – Non-competition restraints, some of which purport to operate across Australia only; – Restrictions against contacting Prospa Advance customers; and – Restrictions against influencing employees to resign from Prospa Advance.
Sign-on or termination payments	N/A		

4. FY20 Remuneration Arrangements

As a result of both early underperformance in revenue against forecast and then the external disruptions from the devastating summer bushfires and more recently the COVID-19 pandemic, the Executive KMP and the other members of the Executive team did not achieve the targets required to be eligible for the Executive Incentive Plan ("EIP") or the Employee Equity Plan ("EEP"). The EIP is designed to align Executives with the Company's strategy, culture, values and ultimately shareholder interest through ongoing alignment with the Company's share price. There were no awards made under the EIP in the current or previous financial year.

In addition, our Executive KMP voluntarily elected not to receive the short-term incentive payments they were eligible for from FY19.

In response to COVID-19, the Executive KMP reduced their base salary by 50% for a three-month period. In addition, members of the Executive team reduced their base salary by 25% and employees and Non-Executive Directors by 20% for a three-month period.

Details of the FY20 remuneration expense recognised for the Group's Executive KMP for the reporting period measured in accordance with Australian Accounting Standards ("AAS") for Executive KMP are set out in Tables 3 and 4.

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

Table 3. Executive KMP Cash and Variable Remuneration Outcomes in FY20

KMP	Fixed Remuneration[2]	Cash Variable Remuneration paid during FY	Variable Equity Remuneration received during FY[1]
G. Moshal	429,327	Nil	745,628
B. Bertoli	429,327	Nil	745,628

1 This represents the share-based payment expense for options granted to KMP prior to IPO as part of their remuneration. The value is calculated as at the grant date. The amounts disclosed as part of remuneration for the financial year have been determined by amortising the grant date value on a straight-line basis over the period from grant date to vesting date.

2 Fixed remuneration is presented after taking into account the base salary reduction noted above.

Table 4. Statutory Executive KMP remuneration outcomes in FY20

		Short-term employee benefits			Post-employment benefits	Other long term benefits	Share based payments[1]		
Name	Year	Salary and fees[2]	Cash bonus[3,4]	Other benefits	Super-annuation	Long service leave	Options, rights, loan shares	Total remun-eration	Perform-ance related
G. Moshal	2020	429,327	–	–	24,474	16,530	745,628	1,215,959	61%
	2019	459,615	150,000	–	20,531	19,291	58,460	707,897	29%
B. Bertoli	2020	429,327	–	–	24,474	12,450	745,628	1,211,879	62%
	2019	459,615	150,000	–	20,531	11,090	58,460	699,696	30%
E. Bigazzi	2020	346,720	–	900	19,188	–	15,316	382,124	4%
	2019	363,662	150,000	1,200	20,531	4,340	168,743	708,476	45%

1 This represents the share-based payment expense for options granted to Executive KMP prior to IPO as part of their remuneration. The value of the options is calculated as at the grant date. The amounts disclosed as part of remuneration for the financial year have been determined by amortising the grant date value on a straight-line basis over the period from grant date to vesting date. No options or rights have been granted to Executive KMP during the year ended 30 June 2020.

2 Salary and fees excludes the movement in the annual leave provision. For the year ended 30 June 2020 the provision movement for G. Moshal was an increase of $2,091 (2019: increase of $39,187), for B. Bertoli an increase of $6,353 (2019: increase of $23,907) and for E. Bigazzi a decrease of $31,428 (2019: increase of $17,301).

3 Short-term employee benefits for the year ended 30 June 2019 included a cash bonus accrual of $150,000 for each KMP. This bonus was forfeited in full during the current financial year and no cash bonus was paid. 100% of the possible cash bonus in relation to the year ended 30 June 2020 has also been forfeited.

4 The minimum possible value of cash bonus payable to each KMP is $nil. The maximum possible value is determined by the Board, who have overall discretion to reduce, cancel or clawback any remuneration.

5. FY21 KMP Remuneration Changes

On 20 April 2020, the Board approved a new incentive program for staff who sacrificed salary and for senior management as a combined retention incentive and a bring forward of the FY21 incentive program. This resulted in an issue of:

- 1,372,000 share rights vesting on 13 April 2021 issued to staff who sacrificed salary;
- 2,347,500 share options exercisable at $0.88 per option, expiring on 14 April 2024: and
- 2,347,500 share options exercisable at $0.95 per option, expiring on 14 April 2024.

Please refer to Note 32 to the consolidated financial statements for further details on these share-based payments. The Executive KMP elected not to participate in the rights or options issued.

We believe these initiatives ensured our team remained stable and focused during this very disruptive period and aligned to the long-term interests of our shareholders.

Executive KMP fixed remuneration in FY21

There will be no increases to the fixed remuneration of Executive KMP In FY21 in line with our focus on prudent cost management and affordability.

Executive KMP variable remuneration in FY21

Greg Moshal and Beau Bertoli have voluntarily declined to participate in an incentive plan for FY21 to support the recovery of the business.

The Board is satisfied the Executive KMP remain strongly aligned to shareholders, with Greg Moshal being the second largest shareholder in the business with a 15% equity holding, and Beau Bertoli, the 3rd largest shareholder in the business with a 6% equity holding, as outlined in the shareholders table of this Annual Report.

6. Prospa performance and shareholder return

As shown below in Table 5, Prospa has achieved year on year growth in revenue with a 56% compound annual growth rate ("CAGR") over the period FY17 to FY19, and was on track to deliver strong revenue growth in FY20 until the impact of COVID-19 in Q4.

Over the same period, the CAGR for originations was 52% and for total customers since inception across Australia and New Zealand the CAGR was 80%.

Despite strong originations growth, revenue growth slowed in H1FY20 resulting in the Company issuing an earnings downgrade on 18 November 2019. This resulted in a marked decline in the share price, which was $3.63 on the last day of trading for FY19 (28 June 2019) and $1.93 on 31 December 2019. As a result, the Executive team adopted a tighter focus on yield management, and this remained a priority for the business whilst it continued to execute on growth initiatives in line with strategy.

Table 5 summarises the statutory earnings of the Group for the last four financial years.

Table 5. Group statutory earnings

$ million	Statutory FY20	Statutory FY19	Statutory FY18	Statutory FY17
Total revenue before transaction costs	142.1	136.4	104.0	56.3
Adjusted EBITDA[1]	(19.5)	(0.8)	7.4	3.1
NPAT	(24.9)	(24.7)	2.1	0.7

1 Adjusted EBITDA = Earnings Before Corporate Interest, Tax, Depreciation and Amortisation, and Fair Value movements.

The H1FY20 results announced in February 2020 showed early signs of the benefits of that increased focus on yield, with H1FY20 EBITDA at $4.3 million, 7% ahead of the revised guidance provided by the Company on 18 November 2019. In addition, customer numbers[1] were up 45%, average gross loans were up 46% and originations were up 37% – all on the prior corresponding period of H1FY19. The New Zealand business was exceeding expectations, with over 1,400 customers and NZ$52.8 million in loans originated since operations in that country commenced (during August 2018)[2].

1 Total unique customers in Australia and New Zealand since inception, as at 31 December 2019.
2 NZ$ Originations from inception to 31 December 2019, and total unique customers in New Zealand since inception as at 31 December 2019.

The Group's originations grew to $429.0 million for the nine months to March 2020. This was an increase of 32% on the prior year corresponding period. Momentum from this growth in originations resulted in revenue growing to $113.0 million, a 12.1% increase on the prior corresponding period.

The COVID-19 pandemic, which began impacting small businesses in Australia and New Zealand in March 2020 through restrictions on movement and trading conditions, resulted in a further significant reduction in the share price, which dropped to $0.47 on 31 March 2020 and closed at $0.96 on 30 June 2020. COVID-19 has continued to challenge the small business economy, with additional lockdowns in Victoria and New Zealand during August 2020 impacting consumer and business sentiment and outcomes.

In Q4, revenue was significantly impacted by dramatically reduced originations and extended repayment terms for COVID-19 affected customers. This resulted in an overall increase in Group total revenue to $142.1 million for FY20, an increase of 4.2% on the prior year (FY19: $136.4 million).

Realised portfolio yield, which measures reported total revenue as a percentage of Average Gross Loans, was 32.8% for the twelve months to June 2020, a decline of 9.9% on FY19. There was a marginal decline in yield in Q4 as a result of extended repayment terms due to COVID-19 and Scheme-supported products. Prospa continues to actively manage yield across the portfolio relative to credit risk and repayment terms.

As noted above, as a result of the below target performance, the Executive were not eligible for the EIP or EEP. In addition, our Executive KMP voluntarily elected not to receive the short-term incentive payments that they were eligible for from FY19.

However, a new incentive plan was implemented in April 2020 and this is outlined in section 5 of the Remuneration Report.

7. 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 associated Committees. Table 6 outlines the annual base fees paid by the Company to Non-Executive Directors (which may be awarded in cash or equity). All Non-Executive Director fees are inclusive of statutory superannuation contributions. Non-Executive Directors in any financial year must not exceed a fee pool of $900,000, as approved by Shareholders at the Company's 2019 General Meeting.

wDuring FY20, Prospa's Non-Executive Directors reduced salaries by 20% for a three month period to support the Company's COVID-19-related cost management Initiatives.

Table 6. Non-Executive Director fees

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

Directors are entitled to the reimbursement of travel and other expenses incurred directly relating to their Board role.

Any 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. No additional fees were paid to the Non-Executive Directors in FY20.

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

Non-Executive Director Equity Plan ("NEDEP")

In line with Prospa's ownership culture, the Company had a plan which allowed Non-Executive Directors to acquire rights that convert to restricted shares, in lieu of some or all of their cash Board fees. The NEDEP is not subject to any performance or service conditions and the rights have an exercise price of $nil. There was a grant made to the Non-Executive Directors under the NEDEP on 14 June 2019 for FY20. Table 7 details the number of rights granted to each Non-Executive Director under the initial FY20 offer.

Table 7. FY20 Non-Executive Director rights granted

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

On 28 February 2020, the day following the release of the HY20 financial results, 50% of the Rights granted on 14 June 2019 vested. The shares allocated to the Directors on vesting of the rights are held subject to dealing restrictions until the earlier of two years or the date on which the Director ceases to hold office as a Director. The remaining 50% of the salary sacrifice Rights were forfeited by each Director on 21 April 2020. The Directors were paid cash Board fees for the remainder of the financial year.

Non-Executive Director statutory remuneration

Table 8 outlines statutory remuneration paid to Non-Executive Directors in FY20 in accordance with AAS.

Table 8. Non-Executive Director statutory remuneration

Name	Year	Fees $	Superannuation benefits $	Share-based payments[3] $	Total[4] $
G. Pemberton	2020	113,716	10,803	84,314	208,833
	2019	130,124	12,362	15,191	157,677
G. Ruddock	2020	96,593	9,176	11,006	116,775
	2019	83,070	7,702	–	90,772
F. Trafford-Walker[1]	2020	78,833	–	68,063	146,896
	2019	110,000	–	15,191	125,191
A. Eyal[2]	2020	71,667	–	32,563	104,230
	2019	32,375	–	15,663	48,038

1 Fees relating to Fiona Trafford-Walker are 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.

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

3 All remuneration relating to share-based payments is with respect to grants made prior to IPO - no options or rights were granted to KMP including Non-Executive Directors during the year ended 30 June 2020. The value of the options and rights granted to key management personnel as part of their remuneration is calculated as at the grant date. The amounts disclosed as part of remuneration for the financial year have been determined by allocating the grant date value on a straight-line basis over the period from grant date to vesting date.

4 Non-Executive Director remuneration reflects participation in the NEDEP by Gail Pemberton, Fiona Trafford-Walker and Avi Eyal in FY20 as well as the 20% reduction in fees by all Non-Executive Directors.

The terms and conditions of each pre IPO grant of options affecting remuneration of Non-Executive Directors in the current financial year are detailed in Table 9.

Table 9. Terms and conditions of Non-Executive Director options granted

Name	Number of options granted	Grant date	Vesting date and exercisable date[1]	Expiry date	Exercise price	Fair value per option at grant date
G. Pemberton	95,556	25/01/2019	Jul-19 to Jan-22	25/01/2024	$4.19	$2.09
	25,000	14/06/2019	Dec-19 to Jun22	14/06/2024	$4.35	$2.28
G. Ruddock	25,000	14/06/2019	Dec-19 to Jun22	14/06/2024	$4.35	$2.28
F. Trafford-Walker	95,556	25/01/2019	Jul-19 to Jan-22	25/01/2024	$4.19	$2.09
	25,000	14/06/2019	Dec-19 to Jun22	14/06/2024	$4.35	$2.28
A. Eyal	92,592	01/12/2018	Dec-18 to Aug-19	01/12/2023	$3.64	$0.75

1 These options vest subject to continued employment until vesting date.

8. Additional statutory disclosures

The information in the following section has been prepared in accordance with statutory requirements and AAS.

Legacy Equity Plan

The Group has a legacy long-term incentive ("LTI") plan under which KMP hold equity as part of their incentive arrangements.

Prior to IPO, Executives were granted 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. The financial and non-financial performance conditions were chosen so as to drive Prospa's ownership culture and align Executive and shareholder interests. The amount of equity which was initially awarded and subsequently vested was determined by Board discretion. The Board has not used its discretion to amend the conditions of these options during the current or previous financial year.

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

Details relating to each grant held by Executives are set out in Table 10.

Table 10. Terms and conditions of Executive options

Name	Number of options granted	Grant date	Vesting date and exercisable date	Expiry date	Exercise price	Fair value per option at grant date
G. Moshal	543,123	14/05/2019	Nov-19 to May-22	14/05/2024	$3.33	$3.42
	743,517	14/05/2019	Nov-19 to May-22	14/05/2024	$3.78	$2.85
B. Bertoli	543,123	14/05/2019	Nov-19 to May-22	14/05/2024	$3.33	$3.42
	743,517	14/05/2019	Nov-19 to May-22	14/05/2024	$3.78	$2.85
E. Bigazzi[1]	600,000	30/11/2018	May-19 to Nov-21	30/11/2023	$3.64	$2.85

1 Ceased employment on 27 March 2020, at which point 400,002 unvested options were forfeited.

Executive and Non-Executive Director equity holdings and movements

A reconciliation of the movement in equity awards for Non-Executive Directors and Executives during the period is outlined in Table 11.

Table 11. KMP equity movements

KMP	Balance of rights, options, loan shares as at 1 July 2019	Rights, options, loan shares granted in FY2020	Rights, options, loan shares vested in FY2020	Rights, options, loan shares exercised in FY2020	Rights, options, loan shares forfeited in FY2020	Balance of rights, options, loan shares as at 30 June 2020	Balance of rights, options, loan shares as at 30 June 2020 (vested)
G. Moshal	543,123	–	90,519	–	–	543,123	90,519
	743,517	–	123,918	–	–	743,517	123,918
B. Bertoli	543,123	–	90,519	–	–	543,123	90,519
	743,517	–	123,918	–	–	743,517	123,918
E. Bigazzi[1]	600,000	–	99,999	–	400,002	199,998	199,998
	1,073,796	–	–	–	–	1,073,796	1,073,796
G. Pemberton	95,556	–	47,778	–	–	95,556	47,778
	25,000	–	–	–	–	25,000[2]	25,000[2]
	23,148	–	11,574	11,574[3]	11,574	–	–
G. Ruddock	25,000	–	–	–	–	25,000[2]	25,000[2]
F. Trafford-Walker	95,556	–	47,778	–	–	95,556	47,778
	25,000	–	–	–	–	25,000[2]	25,000[2]
	14,550	–	7,275	7,275[3]	7,275	–	–
A. Eyal	92,592	–	15,432	–	–	92,592	92,592
	13,228	–	6,614	6,614[3]	6,614	–	–

1 Ceased employment on 27 March 2020. Vested options are exercisable for a period of 24 months post-cessation of employment.

2 Vested Options under escrow that became exercisable on the day following the release of the FY20 results. All remaining vested rights, options and loan shares as at 30 June 2020 are vested and exercisable.

3 Rights vested on 28 February 2020 and were exercised with effect from the same date in accordance with the vesting schedule. This sets out 50% of the rights would vest on the day following the release of the FY20 half-year financial results. Each right had a fair value on grant date of $3.78 and forms part of the equity compensation outlined above. The fair value of each right on exercise date was $1.74.

The number of shares in the company held during the financial year by each Non-Executive Director and Executives of the Group, including their personally related parties, is outlined in Table 12.

Table 12. KMP equity holdings

KMP	Balance at 1/7/2019	Received on exercise of rights, options, loan shares	Purchased/ Acquired	Disposed	Balance at 30/6/2020
G. Moshal	24,701,240	–	71,188	–	24,772,428
B. Bertoli	9,701,240	–	44,396	–	9,745,636
E. Bigazzi[3]	30,000[1]	–	–	–	30,000[1]
G. Pemberton	152,036	11,574[2]	63,492	–	227,102
G. Ruddock	1,033,611	–	100,000	–	1,133,611
F. Trafford-Walker	13,228	7,275[2]	12,576	–	33,079
A. Eyal	2,419,280	6,614[2]	322,572	–	2,748,466

1 Shares are subject to dealing restrictions until 4:15pm on the date of release of the FY20 results.

2 Shares are subject to dealing restrictions until the earlier of 28 February 2022 or the date on which the director ceases to hold office as a Director. These rights were acquired by each Director by way of salary sacrifice in lieu of cash Board fees.

3 Ceased employment on 27 March 2020.

Loans and other transactions

No loans have been granted to any KMP. There were no transactions involving equity instruments, other than those outlined in Table 7, with KMP or related parties.

Securities Dealing Policy

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

“It was part of the 10-year plan to add the retail side, but the opportunity came much sooner than that... There were only two or three weeks between making that call to Prospa, getting the warehouse space, doing the full fit-out and opening shop. Without Prospa there’s no way we would have been in a position to expand our business like we have.”

Nadine,
Queensland, Australia

Corporate Governance

Prospa has reviewed its current corporate governance policies and practices against the Australian Securities Exchange (“ASX”) Corporate Governance Council’s (“CGC”) Corporate Governance Principles and Recommendations 4th Edition (Recommendations) in respect of the year ended 30 June 2020. 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 31 August 2020 and has been approved by the Board of Directors (“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 that are reflected in our day-to-day operations.

Supplier Code of conduct

Our Supplier Code of Conduct has been prepared for the guidance and benefit of our suppliers, who we expect to support us in our commitments, abide by these principles and operate in full compliance with all applicable laws, rules and regulations. By suppliers, we mean any organisation that provides goods or services to Prospa. Our suppliers must review this Code and ensure that their organisations and their suppliers, service providers, contractors and sub-contractors (collectively, their “Supply Chain”) comply.

The Supplier Code of Conduct outlines our expectations around:

- Human Rights and Labour;
- Diversity, Equal Employment Opportunity and Anti-Discrimination;
- Work Health & Safety;
- Ethical Business Practices;
- Management Systems; and
- Environment.

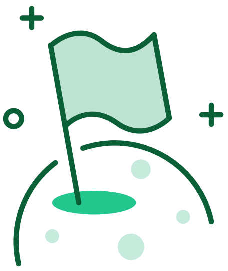
Our core values

Our 210 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

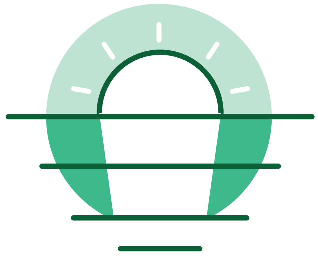
Obsess about customers

Don't just listen, hear what's important



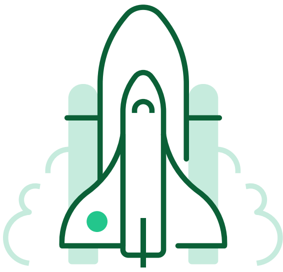
Be bold, open and real

Take smart risks, be transparent and true



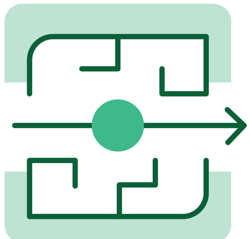
Day 1

Keep our start-up mentality



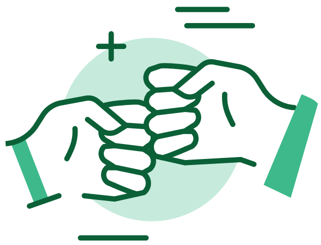
Deliver value fast

Celebrate outcomes, not processes



Simplicity

Make the complex simple



One team

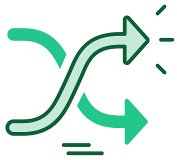
We work as one

In FY20, Prospa developed a Key Capability Framework to take our values a step further and to articulate the key capabilities and behaviours that enable us to win. As a business, we are continually shifting what "good" looks like, raising the bar to get to "better" faster. These capabilities enable us to get there and are built into employee Performance & Growth plans.

Prospa's Key Capabilities

Create value at every opportunity

Solve prolems for your customers



Navigate change and ambiguity

Champion curiosity

Demonstrate ownership

Communicate and collaborate effectively

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.

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 FY20 for all employees were 45% women and 55% men; and for the Leadership Team 33% women and 67% men. Members of the Leadership Team are the Executives and other senior managers who are in a position to influence, motivate and enable others to contribute to the Company's success. As at the end of FY20, we employed 42% women and 58% men (all employees) and our Leadership Team comprised 29% women and 71% men. We acknowledge we did not meet our gender targets for FY20 and we intend to increase our focus on improving gender diversity in FY21.

Our Executive Team is comprised of 12.5% women and 87.5% men. Executives are the most senior executive managers who sit on our Executive Team and determine the strategic direction of the business. The Board is comprised of 33% women and 67% men.

Prospa was compliant with the Workplace Gender Equality Act 2012 in FY20.

To further support our gender diversity goals, Prospa partnered with The Dream Collective in FY20 to deliver a diversity and inclusion program. This included the rollout of a new flexible working policy with supporting toolkits and training, unconscious bias training for all leaders, and emerging leader training for nominated women. Our approach to flexible working ensured employees were well positioned to adapt to remote working when COVID-19 required us to close the office. An ambassador group consisting of seventeen employees from across the business are now working together to define our next evolution of flexibility, further embedding hybrid working at Prospa to support the diverse needs of our employees.

Other initiatives to promote workplace diversity include a recently increased paid parental leave policy, a wheelchair accessible office space, as well as a multi-purpose room to provide an inclusive and private space for anyone who wishes to practise a religious ritual or meditation. Prospa further invests in the development of its people managers by nurturing inclusive leadership skills through our bespoke leadership development program (RISE) for new people managers.

Prospa surveys its employees bi-monthly with a "Pulse Check" to monitor team engagement at both the company-wide and individual team level. Insights and actions are shared by Executives at monthly company updates while people managers are supported by the People & Culture team to commit to team-based action plans. Prospa also participates in an annual engagement survey and received Great Place to Work Certification in September 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 offers its employees paid volunteer leave to give back to the community through the donation of time and skills, either individually or as a team, to help those in need.

In FY20, Prospa hosted a bushfire relief fundraiser to support impacted rural and regional communities in Australia, where employee donations were matched by the Company. A team of employees was taken to drought-affected regional NSW to support small businesses as part of the #BuyFromTheBush campaign and Prospa also donated to Rural Aid, which provides tangible resources to drought, flood, and fire-affected communities and farmers. Prospa employees were once again sponsored to participate in Sydney's City2Surf community fun run and various in-house celebrations were held to mark key cultural events, including Sydney's Mardi Gras and Diwali festival, through which local suppliers and performers were supported.

Economic

In 2019, 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 direct environmental impact, but endeavours to incorporate sustainable measures into our workplace culture, such as recycling initiatives for all material, including batteries. Our automated software to manage printing options prevents excess use of paper and ink. Prospa donates excess and old hardware and furniture to charity and excess food and beverage to Oz Harvest. Prospa uses water saver showers and low energy light globes where possible.

Governance and Risk Management

Management of risks is underpinned by a robust governance structure. The Audit and Risk Committee meets at a minimum once a quarter and reviews and addresses risks, compliance, controls and financial reporting impacting the Group.

Board Risk Appetite Statement and Enterprise Risk Management Framework

The Board sets the Risk Appetite Statement with clear tolerances for each risk pillar. The Group's CEO and COO are then responsible for the Enterprise Risk Management Framework and the appointment of 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 Enterprise Risk Management Framework establishes strategies and processes to identify and manage risk commensurate with the Group's risk profile. Efficient and effective identification and management of risks, especially credit, liquidity and market risk, is a key capability at Prospa and we continue to expand on this. The Board and management are focused on ensuring a strong risk culture exists within the Group.

The establishment, maintenance and updates to the risk policies, procedures, predictive models, rules and documentation are governed by a senior management Risk Steering Committee. The risk framework is designed in such a way that it allows for adequacy of lending controls and commercial flexibility in a closed feedback and communication loop; as such, the risk framework is designed to remain relevant and responsive to the evolving external conditions.

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, probability of default (PD) based Application Scorecards and advanced analytical 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 enables 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. In addition to AML, the credit risk assessments go through a thorough fraud check at various stages of the credit decision process.

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. The overall credit risk framework is also supported by a robust Expected Credit Loss Model (ECL) which is statistically based on the PD, Exposure at Default (EAD) and Loss Given Default (LGD) components to forecast losses and guide provisioning decisions. The core ECL model is complemented by an Economic Stress Testing Model which factors in internal and macro circumstances to produce an economic overlay of losses on top of baseline losses.

Due to our data, decision engine and decision algorithms, we were able to make specific underwriting amendments in response to the nationwide or isolated lock-downs caused by the COVID-19 pandemic, and continue to write business within our risk appetite.

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 with 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 the 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 eight pillars of risk internally (Strategic, Financial & Funding, Credit, People & Culture, Customer & Conduct, Legal, Regulatory, Compliance & Fraud, Cyber & IT Security and Technology and Operational). A consolidated internal reporting process captures incidents in a Risk Incident register which collects valuable data, adding context and enabling quantifiable loss to be attributed to each incident, allowing prioritisation of efforts across 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

"Prospa has been a valuable partner to my company over the years. I will continue to partner with Prospa once this dreadful virus is under control and for many years to come."

Steve,
Western Australia, Australia

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

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Sydney NSW 2000
PO Box N250 Grosvenor Place
Sydney NSW 1217 Australia

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Fax: +61 (0) 2 9322 7001

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

24 September 2020

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 2020, 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.

DELOITTE TOUCHE TOHMATSU

Mark Lumsden
Partner
Chartered Accountants

FY2

Financial Statements

20

1. 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 2020. 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 2020

	Note	Consolidated 30 June 2020 $'000	Consolidated 30 June 2019 $'000
Interest income		131,441	124,987
Other income	4	10,646	11,436
Total revenue before transaction costs		142,087	136,423
Transaction costs		(9,256)	(8,536)
Net revenue		132,831	127,887
Operating expenses			
Funding costs	5	(20,356)	(20,070)
Sales and marketing expense		(30,407)	(27,127)
Product development expense		(10,748)	(9,408)
General and administration expense		(37,962)	(41,498)
Loan impairment expense	19	(52,881)	(30,550)
Total operating expense	6	(152,354)	(128,653)
Earnings before corporate interest, fair value movements, income tax, depreciation and amortisation		(19,523)	(766)
Depreciation		(3,106)	(955)
Amortisation		(3,084)	(2,684)
Corporate interest	5	(535)	(2,103)
Fair value (loss)/gain on financial instruments		(129)	(12,439)
Fair value (loss)/gain on embedded derivative	5	–	(4,357)
Loss before income tax benefit/(expense)		(26,377)	(23,304)
Income tax benefit/(expense)	7	1,444	(1,417)
Loss after income tax benefit/(expense) for the year attributable to the owners of Prospa Group Limited	17	(24,933)	(24,721)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Fair value changes in cash flow hedges		–	104
Foreign currency translation		(191)	14
Other comprehensive income for the year, net of tax		(191)	118
Total comprehensive loss for the year attributable to the owners of Prospa Group Limited		(25,124)	(24,603)
		Cents	Cents
Basic earnings per share	31	(15.48)	(21.55)
Diluted earnings per share	31	(15.48)	(21.55)

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 2020

	Note	Consolidated 30 June 2020 $'000	Consolidated 30 June 2019 $'000
Assets			
Current assets			
Cash and cash equivalents	8	110,319	69,839
Loan receivables	9	225,984	235,120
Bank deposits		1,091	1,098
Income tax		637	447
Prepayments and other assets		1,947	3,301
Total current assets		339,978	309,805
Non-current assets			
Loan receivables	9	106,254	144,733
Property, plant and equipment	10	1,510	2,354
Right-of-use assets	14	6,796	–
Intangible assets	11	7,826	6,577
Deferred tax assets	12	10,854	8,814
Total non-current assets		133,240	162,478
Total assets		473,218	472,283
Liabilities			
Current liabilities			
Trade and other payables		6,108	6,687
Borrowings	13	9,580	14,974
Lease liabilities	14	1,992	–
Employee benefits		2,236	3,792
Total current liabilities		19,916	25,453
Non-current liabilities			
Borrowings	13	317,209	296,548
Lease liabilities	14	6,666	–
Employee benefits		404	262
Total non-current liabilities		324,279	296,810
Total liabilities		344,195	322,263
Net assets		129,023	150,020
Equity			
Issued capital	15	610,651	609,975
Reserves	16	(427,193)	(431,412)
Accumulated losses	17	(54,435)	(28,543)
Total equity		129,023	150,020

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 2020

Consolidated	Issued capital (Note 15) $'000	Reserves (Note 16) $'000	Accumulated losses (Note 17) $'000	Total equity $'000
Balance at 1 July 2018	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 32)	–	1,626	–	1,626
Conversion of options and performance shares	600	–	–	600
Capital buy-back	–	(1,284)	–	(1,284)
Conversion of financial instruments	80,999	–	–	80,999
Shares issued, net of transaction costs	58,833	–	–	58,833
Group re-organisation on IPO	432,968	(432,968)	–	–
Proceeds from loan shares	426	–	–	426
Balance at 30 June 2019	609,975	(431,412)	(28,543)	150,020

Consolidated	Issued capital (Note 15) $'000	Reserves (Note 16) $'000	Accumulated losses (Note 17) $'000	Total equity $'000
Balance at 1 July 2019	609,975	(431,412)	(28,543)	150,020
Adjustment on adoption of AASB 16 (Note 1)	–	–	(959)	(959)
Balance at 1 July 2019 – restated	609,975	(431,412)	(29,502)	149,061
Loss after income tax benefit for the year	–	–	(24,933)	(24,933)
Other comprehensive loss for the year, net of tax	–	(191)	–	(191)
Total comprehensive loss for the year	–	(191)	(24,933)	(25,124)
Transactions with owners in their capacity as owners:				
Share-based payments (Note 32)	–	3,686	–	3,686
Tax benefit on re-organisation (Note 7)	–	724	–	724
Exercise of options	694	–	–	694
Share repurchase	(18)	–	–	(18)
Balance at 30 June 2020	610,651	(427,193)	(54,435)	129,023

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 2020

	Note	Consolidated 30 June 2020 $'000	Consolidated 30 June 2019 $'000
Cash flows from operating activities			
Finance income received		131,154	124,921
Other income received		9,113	7,405
Interest and other finance costs paid		(21,928)	(23,306)
Payments to suppliers and employees		(86,020)	(83,545)
Income tax refunded/(paid)		348	(8,613)
JobKeeper payments received		1,122	–
Net cash from operating activities	30	33,789	16,862
Cash flows from investing activities			
Net increase in loans advanced to customers		(3,258)	(151,800)
Payments for property, plant and equipment		(321)	(1,775)
Payments for intangibles		(4,330)	(3,578)
Other investing cash flows		–	(302)
Net cash used in investing activities		(7,909)	(157,455)
Cash flows from financing activities			
Proceeds from borrowings		105,794	179,141
Repayment of borrowings		(90,420)	(61,051)
Principal repayment of lease liabilities		(1,449)	–
Payments for capital buy-backs		–	(1,718)
Proceeds from conversion of warrant		–	2,000
Proceeds from issue of shares net of transaction costs		–	57,586
Proceeds from exercise of share options		675	77
Net cash from financing activities		14,600	176,035
Net increase in cash and cash equivalents		40,480	35,442
Cash and cash equivalents at the beginning of the financial year		69,839	34,397
Cash and cash equivalents at the end of the financial year	8	110,319	69,839

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 2020

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 has made an assessment of the Group's ability to continue as a going concern and are satisfied the Group has the resources to continue for the foreseeable future and pay debts as they fall due.

In making this assessment, the Group has considered the following key factors:

- Budget and cash flow forecasts have been prepared which extend to 30 September 2021. These demonstrate the Group will have access to sufficient liquid resources to meet forecast operational expenditure and loan originations over that period;
- The Group has access to unrestricted cash of $57.2 million as at 15 September 2020 (30 June 2020: $55.3 million);
- The Group has $441.8 million in available third party facilities as at 15 September 2020 (30 June 2020: $442.9 million and 30 June 2019: $389.5 million) including unused facilities of $194.6 million (30 June 2020: $114.1 million and 30 June 2019: $76.7 million);
- The Australian Office of Financial Management has approved a maximum investment of $90 million into a Group warehouse trust through the Structured Finance Support Fund (announced to the ASX on 11 June 2020);
- Amendments to the Group's Australian warehouse facilities have been completed (announced to the ASX on 24 July 2020) and the Group continues to have the support of our funding partners; and
- Prospa is an approved Participating Lender under the current Coronavirus SME Guarantee Scheme which was originally due to end 30 September 2020. The Federal Treasurer recently announced that the Coronavirus SME Guarantee Scheme would be enhanced and extended to 30 June 2021 to support continued small business recovery. The final terms of the extension are not yet finalised, and the Group is in the process of considering whether it will apply to be a Participating Lender under the extended Scheme.

In addition to the forward looking information noted above, a number of steps have been taken during the year ended 30 June 2020 in response to COVID-19 so as to limit the impact on the Group. These include:

- A step down in operating expenses for Q4 FY20, driven by a reduction in headcount and renegotiation of key supplier terms. The reduced expenses included one off cost savings but also on-going cost reductions that will benefit FY21;
- Prospa activated its Business Continuity Plan in early March and people have been working remotely since then without any operational interruptions to the business, with the majority still working remotely; and
- A deliberately restrained risk appetite in the fourth quarter resulting in a reduction in loans originated in the final three months of the year, compared to the corresponding three-month period in FY19.

Management and the Board are therefore satisfied the Group will continue as a going concern. This conclusion is based on the items described above which include sufficient cash headroom, the ongoing support of our funding partners and the actions taken in March 2020 to reduce operating expenses.

Impact of COVID-19

The emergence of the COVID-19 pandemic during the current financial year has had a significant economic impact as considerable restrictions were imposed on both individuals and businesses in an attempt to limit the spread of the virus. The ongoing pandemic has also increased the level of estimation uncertainty in the preparation of these financial statements.

The estimation uncertainty is associated with:

(i) the extent and duration of the disruption to businesses arising from the actions by Governments, businesses and consumers to contain the spread of the virus;

(ii) the extent and duration of the expected economic downturn. This includes the disruption to capital markets, deteriorating availability of credit, liquidity concerns, increasing unemployment, declines in consumer discretionary spending, reductions in production because of decreased demand, and other restructuring activities; and

(iii) the effectiveness of Government and central bank measures that have been, and will be, put in place to support businesses and consumers through this disruption and economic downturn

The combination of these factors has had an impact on the Group, such as on the recoverability of the loans and receivables, and new lending volumes. Whilst the specific areas of judgement noted under critical accounting estimates in Note 2 will not change, the impact of COVID-19 has resulted in the application of further judgement within some of the areas identified. The Group has assessed the impact of COVID-19 in preparing its financial statements and sets out the key financial statement areas impacted below.

Expected credit loss ("ECL")

The Group undertook a detailed review of its existing Loan Receivables portfolio to determine an appropriate ECL in light of COVID-19. This review included detailed consideration of the industry in which each customer operates, customer credit quality, the existence of deferred repayment periods and the macroeconomic outlook.

There is a considerable degree of judgement involved in preparing and analysing this data. The underlying assumptions are subject to uncertainties which are often outside the control of the Group. Accordingly, actual economic conditions may differ from those forecast by the Group and the effect of those differences could materially impact the accounting estimates included in these financial statements.

The impact of the COVID-19 pandemic on the Group's expected credit loss estimates is disclosed and further explained in Note 19.

Impairment of non-financial assets

Consistent with the Group's accounting policies, and in accordance with relevant Australian Accounting Standards, the Group has considered indicators of impairment arising as at 30 June 2020. The economic impact of COVID-19 was assessed as a potential indicator of impairment. Accordingly, the Group conducted impairment testing to support the carrying amount of its non-financial assets. This included consideration of:

- Intangible assets;
- Property, plant and equipment;
- Right-of-use assets; and
- Deferred tax assets.

Non-financial assets other than goodwill and other indefinite life intangible assets are reviewed for indicators of impairment in accordance with AASB 136 *Impairment of Assets*. If such an indicator exists, the carrying amount of the asset is compared to the estimated recoverable amount. Where the carrying amount is found to be higher, the asset is written down to its estimated 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.

It was determined no material impairment was required as a result of this assessment.

Loan receivables review

During the year ended 30 June 2020, the Group introduced a new reconciliation process in relation to its loan receivable balance. The new process is more sophisticated than previously used and gives better visibility to the Group by allowing a clear three-way match to be performed between cash transactions, the loan management system and the accounting books and records of the Group.

As part of implementing this new process, the Group conducted a comprehensive review of its existing loan receivables balance and in doing so, identified that an adjustment of $5.5 million was required. This adjustment relates solely to non-cash items and therefore has no impact to the overall cashflows of the Group. The adjustment had the impact of reducing gross loan receivables by $5.5 million at 30 June 2020 and increasing loan impairment expense by the same amount for the year ended 30 June 2020 (refer to Note 19). Basic and diluted loss per share increased by 3.41 cents as a result (Note 31). This is expected to be a one-off adjustment.

The adjustment has been recorded in full during the financial year ended 30 June 2020 on the basis that, due to the typically short-term nature of the Group's loan receivables, the loan book will effectively refinance in full during the course of the financial year. Furthermore, due to the non-cash nature of the adjustment required along with the volume and nature of the transactions, it is impracticable to recreate the information required in order to determine the quantum of the adjustment, if any, which relates to prior periods.

AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance*

JobKeeper Payment

In March 2020 the Government announced a temporary wage subsidy program to support businesses affected by COVID-19. This subsidy provides $1,500 before tax per fortnight for eligible employees and is initially offered over a six month period from 30 March 2020 to 27 September 2020. Employers are eligible to participate in the subsidy during this period if the turnover tests specified by the Government are met. The Group is an eligible recipient of JobKeeper and received the subsidy during the year ended 30 June 2020 from 30 March 2020 onwards.

The subsidy has been recognised in profit or loss by reducing employee expenses (Note 6) and by reducing capital expenditure where eligible employee expenses are treated as an addition to software development (Note 11) in accordance with AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance*.

Coronavirus SME Guarantee Scheme

The Group is an approved Participating Lender to the current Coronavirus SME Guarantee Scheme. Under this scheme, the Group has a Government-backed guarantee of 50% against the outstanding balance on eligible products. ECLs in relation to eligible products are calculated in accordance with the methodology outlined in Note 19 and where appropriate, are reduced by 50% to reflect the component covered by this Guarantee.

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 26.

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 2020 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.

Foreign currency translation

The financial statements are presented in Australian dollars, which is the Group'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.

AASB 16 *Leases*

The Group has adopted AASB 16 *Leases* retrospectively from 1 July 2019 but has not restated comparatives for the prior reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 July 2019.

On adoption of AASB 16, the Group recognised lease liabilities in relation to leases which had previously been classified as "operating leases" under the principles of AASB 117 *Leases*. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 July 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 July 2019 was 6.0%.

In applying AASB 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- applying a single incremental borrowing rate to a portfolio of leases with reasonably similar characteristics;
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 July 2019 as short-term leases;
- accounting for leases with a remaining value of less than $10,000 as at 1 July 2019 as low value leases; and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

Impact of adoption

AASB 16 was adopted using the modified retrospective approach and as such the comparatives have not been restated. The Group elected to apply this approach by measuring the right-of-use asset as if AASB 16 had been applied from lease commencement. The difference between the asset and liability recognised on adoption has been reflected in opening accumulated loses.

The impact of adoption on opening accumulated losses as at 1 July 2019 was as follows.

Operating lease commitments disclosed as at 30 June 2019	6,192
Discount based on the incremental borrowing rate at the date of initial application	(409)
Discounted amount of low-value and short term leases not recognised as a right-of-use asset	(601)
Adjustment as a result of a different treatment of extension and termination options	4,662
Lease liabilities recognised as at 1 July 2019	9,844
Lease liabilities at 1 July 2019 (AASB 16)	(9,844)
Right-of-use assets at 1 July 2019 (AASB 16)	8,474
Tax effect on the above adjustments	411
Increase in opening accumulated losses as at 1 July 2019	(959)

The extension option on the premises leased by the Group is for two years. For the purpose of the calculation above, the Group assumes the extension options will be exercised.

AASB Interpretation 23 Uncertainty over Income Tax Treatment

The Group has adopted Interpretation 23 for the first time in the current year. Interpretation 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires the Group to:

- Determine whether uncertain tax positions are assessed separately or as a group;
- Assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings;
- If yes, the Group should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings; or
- If no, the Group should reflect the effect of uncertainty in determining its accounting tax position using either the most likely amount or the expected value method.

The Group's existing accounting policies are aligned with the requirements of Interpretation 23 and the Group considers there to be no uncertain tax treatments used in income tax filings. As such, no transition adjustment to retained earnings was required on adoption.

Revenue recognition

The Group provides financing to small businesses and derives the majority of its revenue from loans and receivables which are accounted for under AASB 9 *Financial Instruments*.

Revenue is recognised for key items as follows.

Interest income

Interest income includes interest and loan origination fees. Interest income is recognised using the effective interest method in accordance with AASB 9.

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.

Transaction costs

Transaction costs and broker commissions directly attributable to the origination of loans are recognised using the effective interest method in accordance with AASB 9. These are included as part of the initial measurement of the related loan receivable and are therefore recognised as part of the effective interest rate of the underlying financial asset.

Other income

Other income includes fees not directly attributable to the origination of loans and interest on cash deposits.

Fee income is recognised at a point in time when the performance obligation has been satisfied, at the transaction price determined in the loan contract.

AASB 15 *Revenue from Contracts with Customers* requires the use of a principle-based five step recognition and measurement model. The five steps are:

1. Identify the contract with a customer;
2. Identify the separate performance obligations;
3. Determine the transaction price;
4. Allocate the transaction price to each performance obligation identified in Step 2; and
5. Recognise revenue when a performance obligation is satisfied.

Where there is variable consideration in calculating a transaction price, revenue will only be recognised if it is highly probable that a significant revenue reversal will not subsequently occur. AASB 15 applies to contracts with customers except for revenue arising from items such as financial instruments.

Interest earned on cash deposits and is recognised using the effective interest method in accordance with AASB 9.

Interest expense

The Group's operations are funded by a combination of securitisation trust warehouse facilities, term facilities and cash held on balance sheet. Interest expense is recognised as it accrues using the effective interest rate method. Interest on the Group's securitisation trust warehouse facilities are disclosed as funding costs.

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.

Tax consolidation legislation

Prospa Group Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation. As a consequence, these entities are taxed as a single entity and the deferred tax assets and liabilities of these entities are set-off in the consolidated financial statements.

The head entity, Prospa Group Limited, and the controlled entities in the Tax Consolidated Group account for their own current and deferred tax accounts. These tax amounts are measured as if each entity was a stand-alone taxpayer in its own right. In addition to its own current and deferred tax amounts, Prospa Group Limited also recognises the current tax liabilities (assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the Tax Consolidated Group.

Assets or liabilities arising under the Tax Funding Agreement with the members of the Tax Consolidated Group are recognised as amounts receivable from or payable to other entities in the Group. Any difference between the amounts assumed and amounts receivable or payable under the Tax Funding Agreement are recognised as a contribution to (or distribution from) members of the Tax Consolidated Group.

Cash and cash equivalents

Cash and cash equivalents include 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.

Financial assets

The Group has applied the following policies for the classification categories under AASB 9.

Amortised cost

A financial asset will be measured at amortised cost if both of the following conditions are met.

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

Loans and receivables are measured at amortised cost.

Fair value through profit or loss ("FVTPL")

All financial assets that are not measured at amortised cost are measured at FVTPL. All financial assets that are equity instruments will be measured at FVTPL unless the Group irrevocably elects to present subsequent changes in the fair value in other comprehensive income. The Group does not expect to make this election.

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.

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

Refer to Note 19 for further detail.

Property, plant and equipment

Property, 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.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

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

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

Leasehold improvements are depreciated over the unexpired period of the lease or the estimated useful life of the assets, whichever is shorter.

Right-of-use assets

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the Group expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of use assets are subject to impairment and adjusted for any remeasurement of lease liabilities.

The Group has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss.

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 are recognised as intangible assets when it is probable that the asset will be a success considering its commercial and technical feasibility and its costs can be measured reliably. The expenditure capitalised comprises all directly attributable costs, including direct labour. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Capitalised software and website costs are amortised on a straight-line basis over the period of their expected benefit, when the asset is ready for use. The intangible assets are amortised over their useful lives as follows.

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

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. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method

Lease liabilities

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period using the effective interest method.

The Group remeasures the lease liability whenever the lease term has changed, when there is a change in the assessment of exercise of a purchase option and when the future lease payments change due to changes in an index or rate or a change in expected payment under guaranteed residual value. When a lease liability is remeasured, an adjustment is made to the corresponding right-of-use asset, or to profit or loss if the carrying amount of the right-of-use asset is $nil.

Borrowings

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.

Fees paid on the establishment of loan facilities, which are not an incremental cost relating to the actual draw-down of the facility, are recognised as prepayments and amortised on a straight-line basis over the term of the facility.

Borrowings are removed from the Statement of Financial Position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in other income or other expenses.

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 and amortised using the effective interest method. 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 is 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 attrition rates and expected outcomes under relevant performance conditions.

The cost of equity-settled transactions is 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.

Financial instruments measured at fair value

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.

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 Group Limited, 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.

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 2020. These are not expected to have a significant impact on the Group's financial statements.

2 Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires judgements, estimates and assumptions, which, by definition, will seldom equal the actual results.

Estimates, assumptions and judgements are continually evaluated. They are based on historical experience and on other various factors, including expectations of future events, that are believed to be reasonable under the circumstances.

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.

Revenue recognition

The Group recognises revenue on loan receivables using the effective interest rate method (in accordance with AASB 9), based on estimated future cash receipts over the expected life of the financial asset. In making its judgement of the timing and amount of estimated future cashflows and expected life of the loan receivables balance, the Group has considered the historical repayment pattern of the loan receivables on a portfolio basis.

These estimates require judgement and will be reviewed on an ongoing basis. Where required appropriate adjustments to recognition of revenue will be made in future reporting periods.

Allowance for expected credit losses

The allowance for expected credit losses ("ECL") assessment requires a degree of estimation and judgement and is modelled using assumptions in relation to the ECL, including the assessment of significant increases in credit risk since initial recognition, recent loss experience, historical collection rates and forward-looking information and assessment of default. During the current period, the Group has also considered the impact of the COVID-19 in measuring ECL. The actual credit losses in future years may be higher or lower.

Allowance for expected credit losses are further discussed in Note 19.

Impairment of non-financial assets

The Group reviews non-financial assets for indicators of impairment at least annually in accordance with AASB 136. If such an indicator exists, the carrying amount of the asset is compared to the estimated recoverable amount. Where the carrying amount is found to be higher, the asset is written down to its estimated recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The Group typically determines recoverable amount by calculating the present value of the estimated future cash flows relating to the asset over a five-year period, at which point terminal value is assessed. Cash flows are then discounted to present value by applying a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs.

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. 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 7.

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. The extent to which deferred tax assets will be recoverable in the short term is assessed by the Group by comparing forecast taxable profits to existing deferred tax assets and unused tax losses.

Deferred tax is disclosed in Note 12.

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 probability of non-market conditions being met and the likelihood of employees meeting tenure conditions.

The fair value is determined by using 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 further discussed in Note 32.

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 2020 $'000	30 June 2019 $'000
Fee income	10,267	10,672
Bank interest	379	764
	10,646	11,436

Fee income is comprised of servicing fees and late fees.

5 Interest expense

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

	Consolidated	
	30 June 2020 $'000	30 June 2019 $'000
Funding costs	20,356	20,070
Corporate interest	535	2,103
Financial instruments: Unwind of embedded derivative	–	4,357
	20,891	26,530

Included in corporate interest for the current year is $0.5 million (30 June 2019: $nil) in relation to interest on finance leases which has been recognised in accordance with AASB 16 (Note 14).

6 Operating expenses

Operating expenses for the year were $152.4 million (June 2019: $128.7 million). Included within operating expenses are employee expenses of $44.8 million (June 2019: $40.0 million). In the statement of profit or loss and other comprehensive income, employee expenses are allocated to the line items to which they relate by function, and form part of sales and marketing expense, product development expense and general and administration expense. For the year ended 30 June 2020, employee expenses include a $1.4 million benefit in relation to JobKeeper payments (Note 1).

7 Income tax

	Consolidated	
	30 June 2020 $'000	30 June 2019 $'000
Amounts recognised in profit or loss		
Current tax		
Current year	526	3,563
Adjustment recognised for prior periods	(1,065)	6
	(539)	3,569
Deferred tax		
Origination and reversal of temporary differences	869	(2,152)
Adjustment recognised for prior periods	(1,774)	–
	(905)	(2,152)
Aggregate income tax (benefit)/expense	(1,444)	1,417
Numerical reconciliation of income tax (benefit)/expense and tax at the statutory rate		
Loss before income tax (benefit)/expense	(26,377)	(23,304)
Tax at the statutory tax rate of 30%	(7,913)	(6,991)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Entertainment expenses	25	42
Share-based payments	1,106	991
Movement on financial instruments	32	5,039
Other non-deductible items	258	58
Effect of tax rates in foreign jurisdictions	38	36
Initial public offering costs	–	1,531
Research and development accounting	–	705
Deferred tax assets not brought to account – temporary differences (Note 12)	5,521	–
Deferred tax assets not brought to account – unused losses (Note 12)	2,328	–
	1,395	1,411
Adjustment recognised for prior periods	(2,839)	6
Income tax (benefit)/expense	(1,444)	1,417
Amounts credited directly to equity		
Deferred tax assets	(1,135)	(1,398)

During the year ended 30 June 2019, the Group incurred significant expenditure in relation to Initial Public Offering ("IPO") costs. Due to the complexity of the tax treatment of these costs coupled with the Group re-organisation which took place on IPO, the Group opted to take a conservative approach and did not recognise a deferred tax asset in relation to these costs. The tax treatment for these items was resolved on finalisation of the Group's income tax return during the current financial year. As a result, a deferred tax asset of $2.5 million was booked in relation to the prior period, of which $0.7 million is credited directly to equity. The remaining $1.8 million appears within the line item "adjustment recognised for prior periods" with respect to the deferred tax expense.

Deferred tax assets credited directly to equity include the $0.7 million in relation to IPO costs and $0.4 million in relation to the adoption of AASB 16 as described in Note 1.

8 Current assets – cash and cash equivalents

	Consolidated	
	30 June 2020 $'000	30 June 2019 $'000
Cash and cash equivalents – unrestricted	55,304	29,032
Cash and cash equivalents – restricted	55,015	40,807
	110,319	69,839

Restricted cash is held by the Securitisation Trusts and whilst the cash held in the Securitisation Trust is not available to settle the liabilities of the Group. It is available to:

- Purchase further receivables originated by the Group at any time (i.e. recycle cash); and
- Pay down the warehouse facility in the relevant trust; or
- Distribute each month any excess income to Group entities after paying interest expenses.

9 Loan receivables

	Consolidated	
	30 June 2020 $'000	30 June 2019 $'000
Current		
Loan receivables	254,174	250,260
Less: Allowance for expected credit losses (Note 19)	(28,190)	(15,140)
	225,984	235,120
Non-current		
Loan receivables	119,508	154,053
Less: Allowance for expected credit losses (Note 19)	(13,254)	(9,320)
	106,254	144,733
Total		
Loan receivables	373,682	404,313
Less: Allowance for expected credit losses (Note 19)	(41,444)	(24,460)
	332,238	379,853

10 Non-current assets – property, plant and equipment

	Consolidated	
	30 June 2020 $'000	30 June 2019 $'000
Plant and equipment – at cost	4,457	4,136
Less: Accumulated depreciation	(2,947)	(1,782)
	1,510	2,354

11 Non-current assets – intangible assets

	Consolidated	
	30 June 2020 $'000	30 June 2019 $'000
Website – at cost	820	820
Less: Accumulated amortisation	(751)	(615)
	69	205
Software acquired – at cost	394	394
Less: Accumulated amortisation	(322)	(252)
	72	142
Software development (in-house) – at cost	14,045	10,207
Less: Accumulated amortisation	(6,360)	(3,977)
	7,685	6,230
	7,826	6,577

12 Non-current assets – deferred tax assets

Deferred taxes comprise temporary differences attributable to the following.

	Consolidated	
	30 June 2020 $'000	30 June 2019 $'000
Deferred tax assets		
Employee benefits	1,083	1,158
Provision for impairment of loan receivables	12,433	7,318
Property, plant and equipment, right-of-use asset and intangibles	1,090	338
Blackhole expenditure booked in relation to IPO	1,807	–
Deferred tax assets not brought to account	(5,521)	–
Difference on foreign exchange	(38)	–
Net deferred tax assets	10,854	8,814

Deferred tax assets relating to unused losses and 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 a long history of generating taxable profits. Whilst a tax loss has been incurred for the year ended 30 June 2020, based on forecasts prepared for future periods the Group expects to return to a tax payable position. Deferred tax assets in relation to deductible temporary differences will therefore not be fully derecognised. The Group has however considered the extent to which deferred tax assets will be recoverable in the short term. As a result, the Group has deductible temporary differences of $5.5 million as at 30 June 2020 (30 June 2019: Nil) for which no deferred tax asset has been recognised.

On the same basis, the Group has determined that no deferred tax asset shall be recognised in relation to unused tax losses. As at 30 June 2020 the Group had unused tax losses of $8.1 million (30 June 2019: Nil) which equates to a future tax benefit of $2.4 million.

13 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 2020 $'000	30 June 2019 $'000
Current		
Securitisation trust notes	10,451	14,852
Add: interest payable on trusts	50	746
Less: unamortised transaction costs on trusts	(921)	(624)
	9,580	14,974
Non-current		
Securitisation trust notes	318,394	297,923
Less: unamortised transaction costs on trusts	(1,185)	(1,375)
	317,209	296,548
Total borrowings	326,789	311,522

The movement in the Group's borrowings during the year is further analysed below.

	30 June 2019	Cash flows	Non-cash movements	30 June 2020
Securitisation trust notes	312,775	16,070	–	328,845
Add: interest payable on trusts	746	(696)	–	50
Less: unamortised transaction costs on trusts	(1,999)	(1,038)	931	(2,106)
	311,522	14,336	931	326,789

Non-cash movements relate to the amortisation of transaction costs on trusts. The cash flow in relation to the initial expenditure is captured within interest and other finance costs paid within the statement of cash flows.

The amounts due and payable on the secured debt facilities within the next 12 months are disclosed as current based on the amortisation profile of the underlying loan receivables.

Securitisation trust notes

As at 30 June 2020, the Group had five securitisation warehouses in place as a part of its asset backed securitisation program. The Group regularly sells its loan receivables to these securitisation trust warehouses. The trusts are consolidated as the Group:

(a) Is exposed to, or has rights to, variable equity returns in its capacity as the residual unit holder (or beneficiary as the case maybe) of these trusts;

(b) 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

(c) Is 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 2021 to May 2022.

Key events which took place in relation to the Group's borrowings during the year ended 30 June 2020 are outlined below.

- In August 2019, the Group established its first New Zealand warehouse funding facility. The 3-year committed facility will have an initial capacity of up to NZ$45 million and has been designed with a similar structure to the Group's Australian funding platform.
- In December 2019, the Group announced the introduction of a new funding partner into one of its Australian warehouse facilities. The funding partner has subscribed to Class B Notes in the warehouse facility with an initial capacity of $20.0 million.
- In February 2020, the Group announced the introduction of an additional new funding partner into one of its Australian warehouse facilities. The funding partner subscribed to Class B Notes in the warehouse facility with an initial capacity of $32.5 million over a 4-year term.
- During the year ended 30 June 2020, the Group decided the Prospa Trust Series 2018-2 Security Trust would not be extended beyond June 2020. The Trust progressively paid down all third party notes during the year, with these being fully repaid on 15 May 2020. Formal closure of the Trust was effected on 25 June 2020.
- In June 2020, the Australian Office of Financial Management ("AOFM") approved a maximum investment of $90 million into the Group's warehouse trusts through the Structured Finance Support Fund. The $90 million is the maximum investment amount approved by the Delegate under the Structured Finance Support (Coronavirus Economic Response Package) Act 2020.

Assets pledged as security

The carrying amounts of assets pledged as security for current and non-current borrowings in relation to the securitisation warehouses is summarised below.

	Consolidated	
	30 June 2020 $'000	30 June 2019 $'000
Loan receivables[1]	354,710	381,129

1 The amount recognised above represents the carrying value of loan receivables held by the Group's Securitisation Trusts. This excludes loan receivables totalling $18.9 million held by Prospa Advance Pty Ltd as at 30 June 2020 (30 June 2019: $23.2 million).

For the year ended 30 June 2020 this amount has been presented on a gross loan receivables basis. For the year ended 30 June 2019 the amount was rather presented net of expected credit losses and unearned future income ($356.9 million). The comparative has been updated to align with the current year presentation.

Financing arrangements

Unrestricted access was available at the reporting date to the following third-party facilities.

	Consolidated	
	30 June 2020 $'000	30 June 2019 $'000
Total facilities		
Securitisation trusts	442,936	389,470
Used at 30 June		
Securitisation trusts	328,845	312,775
Unused at 30 June		
Securitisation trusts	114,091	76,695

Funding costs

The borrowings related to trusts are linked to floating interest rates. The weighted average funding cost for the year ended 30 June 2020 was 5.7% (30 June 2019: 7.5%).

Interest rate cap

To reduce the risk of changing interest rates associated with the borrowings, the Group holds interest rate cap contracts with other independent financial institutions with a credit rating of A3 or higher. These contracts had a fair value as at 30 June 2020 of less than $0.01 million (30 June 2019: $0.13 million). The details of the contracts are outlined below.

Contract	Start Date	End Date	Principal	Risk being hedged
Interest rate cap 1	15/05/2019	15/04/2021	2,502,000	Hedging movement in cash flow due to movement in Base interest rate above 2.40%.
Interest rate cap 2	15/02/2019	15/01/2021	75,000,000	Hedging movement in cash flow due to movement in Base interest rate above 1.83%.
Interest rate cap 3	15/05/2019	17/05/2021	50,000,000	Hedging movement in cash flow due to movement in Base interest rate above 1.33%.

Changes in fair value are recognised in profit or loss.

14 Leases

Amounts recognised in the statement of financial position

The statement of financial position shows the following amounts relating to leases.

	Consolidated	
	30 June 2020 $'000	30 June 2019 $'000
Right-of-use assets		
At cost	8,737	–
Less: Accumulated depreciation	(1,941)	–
	6,796	
Lease liabilities		
Current	1,992	–
Non-current	6,666	–
	8,658	–

The Group has adopted AASB 16 from 1 July 2019. In doing so, the Group has taken advantage of certain practical expedients permitted by the standard and as such, comparatives have not been restated.

The financial impact to the Group from adopting AASB 16 is detailed in Note 1.

Amounts recognised in profit or loss

The statement of profit or loss and other comprehensive income includes the following amounts relating to leases.

	Consolidated	
	30 June 2020 $'000	30 June 2019 $'000
Depreciation		
Right-of-use assets	1,941	–
Interest expense (included in corporate interest)		
Lease liabilities	543	–

15 Equity – issued capital

	Consolidated			
	30 June 2020 Shares	30 June 2019 Shares	30 June 2020 $'000	30 June 2019 $'000
Ordinary shares – fully paid	161,348,899	160,514,164	610,651	609,975
Treasury shares – fully paid	1,538	836,273	–	–
	161,350,437	161,350,437	610,651	609,975

Movements in ordinary share capital

Details	Date	Shares	$'000
Balance	1 July 2018	21,712,630	–
Conversion of options and performance shares		1,567,060	600
Conversion of financial instruments		7,437,196	80,999
Conversion of preference shares		15,645,067	36,149
Conversion of treasury shares		1,769,464	–
Proceeds from loan shares		–	426
Share split		96,135,380	–
Shares issued, net of transaction costs		16,247,367	58,833
Share capital restructure on IPO		–	432,968
Balance	30 June 2019	160,514,164	609,975
Exercise of options		850,735	694
Share repurchase		(16,000)	(18)
Balance	30 June 2020	161,348,899	610,651

Movements in treasury share capital

Details	Date	Shares	$'000
Balance	1 July 2018	2,099,707	–
Conversion of options and performance shares	December 2018	(60,394)	–
Management buy-back	December 2018	(130,243)	–
Issuance of treasury shares	June 2019	100,000	–
Conversion of treasury shares	June 2019	(1,772,797)	–
Share split	June 2019	600,000	–
Balance	30 June 2019	836,273	–
Exercise of options		(850,735)	–
Share repurchase		16,000	–
Balance	30 June 2020	1,538	–

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.

Treasury shares

The treasury shares mentioned above reflect shares that were issued in relation to the employee share option scheme.

16 Equity – reserves

	Consolidated	
	30 June 2020 $'000	30 June 2019 $'000
Foreign currency reserve	(177)	14
Share option reserve	5,228	1,542
Re-organisation reserve	(432,244)	(432,968)
	(427,193)	(431,412)

Foreign currency reserve

The reserve is used to recognise exchange differences arising from the translation of the financial statements of foreign operations to Australian dollars. It is also used to recognise gains and losses on hedges of the net investments in foreign operations.

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.

Re-organisation reserve

During the year ended 30 June 2019, the Group undertook an IPO and group re-organisation, which was accounted for by applying the reverse acquisition accounting principles of AASB 3 *Business Combinations*. The re-organisation reserve was created to align total equity with the net asset position of the Group.

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 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 on IPO	–	(432,968)	–	–	(432,968)
Balance at 30 June 2019	14	(432,968)	–	1,542	(431,412)
Foreign currency translation	(191)	–	–	–	(191)
Share-based payments	–	–	–	3,686	3,686
Tax benefit on re-organisation (Note 7)	–	724	–	–	724
Balance at 30 June 2020	(177)	(432,244)	–	5,228	(427,193)

17 Equity – accumulated losses

	Consolidated	
	30 June 2020 $'000	30 June 2019 $'000
Accumulated losses at the beginning of the financial year	(28,543)	(3,822)
Adjustment on adoption of AASB 16	(959)	–
Accumulated losses at the beginning of the financial year – restated	(29,502)	(3,822)
Loss after income tax benefit/(expense) for the year	(24,933)	(24,721)
Accumulated losses at the end of the financial year	(54,435)	(28,543)

18 Equity – dividends

The Group has not paid, and does not propose to pay dividends for the year ended 30 June 2020 (30 June 2019: $nil).

19 Financial risk management

Financial risk management objectives

The Group's activities expose it to a variety of financial risks, primarily credit risk, market risk (including price risk, foreign currency risk and interest rate 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.

Management has responsibility for the establishment and operation of the Group's enterprise risk management framework, the initial identification and analysis of risks faced by the Group and for developing procedures in response to these risks in accordance with the Board approved Risk Appetite Statement. The Board has responsibility for monitoring these risks and for the continued oversight of the risk management policies and procedures in place.

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 provides short term loans to companies in the small business sector and has a framework and supporting policies for managing credit risk associated with its lending activities. The framework and policies encompass all stages of the credit cycle – origination, evaluation, approval, documentation, settlement, ongoing administration and problem loan management. The Group has established criteria for making lending decisions, which can vary by industry segment, past credit performance and loan purpose. In this area, the focus is on the performance of key financial risk ratios, including interest coverage, debt serviceability and balance sheet structure.

When providing finance, the Group obtains security by way of personal guarantees from the directors of the borrower. If the loan is greater than $100,000, the Group will also obtain a general security agreement over the assets of the business to further mitigate credit risk. The collateral held is generally in relation to land and buildings. Where the underlying financial asset falls into default, a caveat will be lodged against the guarantor. Loans under caveat are assessed on an ongoing basis to determine whether the value of the assets pledged as security is sufficient to recover the balance outstanding. Where this is no longer considered to be the case, the loan receivable is written off. As at 30 June 2020, the Group had loan receivables of $3.4 million which are credit impaired but have not been fully written off by virtue of collateral held.

The Group is an approved Participating Lender to the current Coronavirus SME Guarantee Scheme. Under this scheme, the Group has a Government-backed guarantee of 50% against the outstanding balance of eligible products. As at 30 June 2020 none of the loan receivables under the scheme were credit impaired.

The maximum exposure to credit risk at the reporting date to recognised financial assets is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements. The Group has credit commitments of $28.9 million as at 30 June 2020 in relation to undrawn Line of Credit facilities (30 June 2019: $1.3 million).

The Group's customers are grouped into categories of similar risk using two proprietary categories of Premium and Non-premium. These categories are created by analysing similar risk characteristics that have historically predicted when an account is likely to go into default. Customers grouped according to these predictive characteristics are assigned a Probability of Default ("PD") and a Loss Given Default ("LGD") relative to their category. The credit quality of these categories is based on a combination of behavioural factors, delinquency trends and PD estimates.

Model stages

Under AASB 9, a three-stage approach is applied to measuring expected credit losses based on credit migration between the stages as follows.

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. There is a rebuttable presumption that Stage 2 assets comprise of loans less than or equal to 90 days past due.

Stage 3 Financial assets that have objective evidence of impairment. For these assets, lifetime expected credit losses are recognised.

The following table summarises loan receivables by stage and by risk category.

	Stage 1 $'000	Stage 2 $'000	Stage 3 $'000	Total $'000
Premium - 30 June 2020				
Loan receivables	158,183	7,318	7,011	172,512
Allowance for expected credit losses	(8,353)	(1,737)	(4,430)	(14,520)
	149,830	5,581	2,581	157,992
Non-premium - 30 June 2020				
Loan receivables	160,486	16,466	24,218	201,170
Allowance for expected credit losses	(11,047)	(4,409)	(11,468)	(26,924)
	149,439	12,057	12,750	174,246
Total - 30 June 2020				
Loan receivables	318,669	23,784	31,229	373,682
Allowance for expected credit losses	(19,400)	(6,146)	(15,898)	(41,444)
	299,269	17,638	15,331	332,238
Total - 30 June 2019				
Loan receivables	373,290	9,694	21,329	404,313
Allowance for expected credit losses	(7,878)	(4,663)	(11,919)	(24,460)
	365,412	5,031	9,410	379,853

Of the amount included in Stage 3, $8.3 million relates to loan receivables against which specific provision has been made (30 June 2019: $6.2 million).

The loan receivables of the Group are short term in nature and have an average contractual life of less than 12 months. As such, the loan receivables outstanding as at 30 June 2019 will largely have been repaid, refinanced or written off during the course of the current financial year. The movement in loan receivables during the year ended 30 June 2020 is summarised below.

	Consolidated
	30 June 2020 $'000
Opening balance	404,313
Repayments made	(434,199)
Loans originated	448,173
Net movement in accrued interest and fees	(2,080)
Receivables written-off during the year as bad debts	(36,990)
Adjustment in relation to loan receivables review	(5,535)
	373,682

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.

The following table provides an analysis of the Group's loan receivables by Prospa defined industry classification.

	Consolidated	
	30 June 2020 $'000	30 June 2019 $'000
Art and Lifestyle	8,535	8,036
Building and Trade	72,400	73,634
Financial Services	10,672	13,446
Hair and Beauty	13,164	12,847
Health	10,490	11,725
Hospitality	63,560	71,519
Manufacturing	23,680	25,992
Professional Services	69,290	72,832
Retail	62,734	70,036
Transport	10,044	11,549
Wholesaling	26,219	29,345
Other	2,894	3,352
	373,682	404,313

The Group's loan receivables can also be analysed by geography as follows.

	Consolidated	
	30 June 2020 $'000	30 June 2019 $'000
Australian Capital Territory	5,080	5,471
New South Wales	107,699	122,277
Northern Territory	2,888	2,928
Queensland	70,945	84,850
South Australia	24,694	25,788
Tasmania	4,783	5,764
Victoria	93,334	100,710
Western Australia	34,591	39,190
New Zealand	29,668	17,335
	373,682	404,313

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 counterparties are major Australian banks with favourable credit ratings assigned by international credit rating agencies.

Loan receivable balances and portfolio performance are 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 following table summarises movements in the allowance for expected credit losses during the period.

	Consolidated	
	30 June 2020 $'000	30 June 2019 $'000
Opening balance	24,460	18,516
Provisions recognised during the year in the profit or loss	52,881	30,550
Receivables written-off during the year as bad debts	(36,990)	(26,678)
Adjustment in relation to loan receivables review	(5,535)	
Recoveries from debt sales	5,892	–
Recoveries	772	2,060
Difference due to exchange rate variance	(36)	12
	41,444	24,460

The allowance for expected credit losses for loan receivables as a percentage of receivables has increased from 6.1% of the gross receivables balance as at 30 June 2019 to 11.1% as at 30 June 2020. The basis of calculation is described in more detail below.

The allowance of 11.1% is comprised of 10.9% in relation to loan receivables and 0.2% for undrawn Line of Credit balances (30 June 2019: 6.1% and nil respectively).

Measurement of Expected Credit Loss

The Group uses a three-stage approach ECL model to calculate expected credit losses for loan receivables. The ECL is measured on the basis of the probability weighted estimates of cash shortfalls over the expected life of the instrument.

The expected credit loss model considers three main parameters, which are:

- Probability of default: the likelihood that a customer will default;
- Loss given default: the magnitude of the expected credit loss in the event of default; and
- Exposure at default ("EAD") the estimated amount of credit exposure at the time of default.

Internally developed statistical models are applied to derive these parameters, based on historical portfolio information. Customers are grouped together for the purposes of ECL assessment based on similar credit risk characteristics, such as product type and the customer credit score.

The measurement of expected credit losses under the standard modelled provision is a function of the probability of default, the loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. PD is calculated by assessing the probability of loan receivables progressing through successive stages of delinquency through to write-off.

The LGD is estimated using historical loss rates across a three-year observation window as adjusted for relevant and supportable factors for individual exposures, such as collateral held and the credit rating of the customer. EAD is calculated based on the anticipated gross loan receivable outstanding at the expected time of default.

Various other factors and forward-looking information are considered when calculating PD, LGD and EAD. Considerations include the potential for default due to economic conditions (for example, in relation to COVID-19), the credit quality of the loan receivable and the mitigating benefit of any collateral held as security.

The modelled performance of these receivables is likely to evolve as more performance data is available to model loss implications from the COVID-19 pandemic and incorporating mitigating factors from the government stimulus and other associated measures.

Expected life

In considering the lifetime time frame for expected credit losses in stages 2 and 3, the standard generally requires use of the remaining contractual life adjusted where appropriate for prepayments, extension and other options. For revolving lines of credit which include both a drawn and undrawn component, the Group's contractual ability to demand repayment and cancel the undrawn commitment does not limit our exposure to credit losses to the contractual notice period. For these facilities, estimated lifetime is based on historical behaviour.

Significant Increase in Credit Risk ("SICR")

The Group considers a financial instrument to have experienced a significant increase in credit risk based on quantitative information to identify this on an asset level. Each financial asset will be assessed at the reporting date for significant deterioration where the financial asset is more than 30 days past due.

The Group has made an additional assessment of assets that are not 30 days past due but have likely experienced a SICR. In particular, as part of the Group's response to the COVID-19 pandemic, as at 30 June 2020, 5,540 customers across Australia had been provided with a COVID-19 related relief package, typically a full deferral of 6 weeks or a partial deferral of 50% of the contractual repayment amount for 12 weeks. In New Zealand, we provided a total of 779 customers with COVID-19 relief packages, typically full deferrals of 3-4 weeks' duration or partial deferrals of up to 50% of the typical repayment for 9 weeks.

A specific review of these customers was undertaken as part of our assessment of expected credit losses to determine where a significant increase in credit risk arose. This assessment considered, amongst other factors, industry classification, Equifax Individual Report scores and repayment history prior to deferral. Towards the financial year end, the Group observed a significant reduction in customers requiring this assistance, with only 7.5% (1,001) of customers remaining on a full deferral as at 30 June 2020.

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost are credit impaired. A financial asset is credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit impaired includes the following observable data.

- A breach of contract, such as default or being more than 90 days past due;
- Significant financial difficulty of the customer; or
- It is probable that the customer will enter bankruptcy, liquidation or other financial re-organisation.

A metric used by the Group when assessing the performance of loan receivables and overall portfolio health is their ageing, split by those aged 0 to 30 days, 31 to 90 days and those aged 90+ days. The following table illustrates loan receivables by age.

	Consolidated	
	30 June 2020 $'000	30 June 2019 $'000
Loan receivables aged 0 to 30 days	326,798	373,290
Loan receivables aged 31 to 90 days	17,192	10,992
Loan receivables aged over 90 days	29,692	20,031
	373,682	404,313

Macroeconomic scenarios

Expected credit losses are a probability-weighted estimate of credit losses over the expected life of the financial instrument. The Group has a process for incorporating forward looking economic scenarios and determining the probability weightings assigned to each scenario in determining the overall ECL. The Group prepared a base, downturn and severe downturn scenario based on economic variables relevant to the respective jurisdictions of the customer, either Australia or New Zealand. Further information on each of these scenarios is described below. The Group has incorporated this into the overall allowance for expected credit losses by use of an economic overlay, which is described in more detail below.

The economic overlay is a forward looking provision in addition to the standard modelled provision.

Economic overlay

As at 30 June 2020, the Group expects there to be further impacts as a result of the COVID-19 pandemic, including anticipated increases in delinquencies, as Government stimulus and other measures are progressively removed and we potentially see continued outbreaks of the virus leading to Government mandated restrictions on activity. These impacts would flow through to the modelled expected loss provision, but currently due to the evolving economic impact of the pandemic, may not be fully captured in the modelled outcome. In addition, the Group has specifically considered the likely exposures in different industry and geography segments through an economic overlay. Over time, it is anticipated the economic overlay will reduce as additional factors are embedded into the base case of the modelled provision.

The economic environment remains challenging for small businesses and as a result, in addition to the standard modelled provision as at 30 June 2020 of 6.3% (30 June 2019: 5.5%) we have set aside a further provision of 4.8% (30 June 2019: 0.6%) as forward looking provision to arrive at a total expected credit loss as a percentage of receivables of 11.1% (30 June 2019: 6.1%).

The total forward looking provision required under this approach is determined by performing economic stress testing on the Group's customer base. In making this assessment, the loan receivables portfolio was segmented into a number of different risk and industry categories against which the customer's capacity to pay as well as the expected recovery period could be assessed.

In addition to the PD, LGD and EAD inputs described above, a range of other observable data points including but not limited to credit risk grade, recent dishonours, days past due, total arrears, Equifax Individual Report score and industry classification were captured in the Group's assessment. The observed default data was then multiplied by scalar factors to reflect the difference between economic conditions over the period of historic observation, current economic conditions and the Group's view of economic conditions over the expected lives of the receivables.

The resulting model provides an analysis of expected credit losses under three alternative macroeconomic scenarios. In arriving at the reported economic overlay, a probability weighted outcome of each macroeconomic scenario was considered by the Group. The following table provides an overview of the scenarios considered.

Scenario	Weighting	Expectation
Base	60%	This scenario is considered the most likely macroeconomic outcome. This contemplates a deterioration in economic activity and the business environment in the short to medium term with subsequent recovery.
Downside	20%	This scenario is set relative to the assumptions applied in the base scenario. Higher expected credit losses are assumed in the downside scenario driven by a sharper decline in economic activity and a slower economic recovery.
Severe downside	20%	This scenario is the most conservative and is included to consider the impact of less likely but more severe negative macroeconomic conditions. This contemplates a more prolonged economic downturn with a sustainable recovery delayed beyond 12 months from the current financial year end.

Write-offs

The Group writes off loan receivables in whole or in part, when the loan is more than 180 days past due and 30 consecutive days of non-payment, the Group has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include: (i) ceasing enforcement activity, and (ii) where the Group's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of full recovery. There are no loan receivables written off during the year ended 30 June 2020 that remain subject to enforcement activity by the Group.

Modification of financial assets

The Group sometimes modifies the contractual agreement in respect of loan receivables provided to customers due to commercial renegotiations, or for financially distressed customers, with a view to maximising recovery. Such restructuring activities include extended payment term arrangements, payment holidays and payment forgiveness. Restructuring policies and practices are based on indicators or criteria which, in the judgement of management, indicate that payment will most likely continue. In particular, the Group has assessed loans deferred during the period as part of our response to COVID-19 and determined that no material modification gain or loss arose.

Market risk

Market risk is the risk that changes in market prices such as interest rates 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 returns.

Interest rate risk

The Group is exposed to interest rate risk because the Group borrows funds at both fixed and floating interest rates. The interest payable under the Trusts is linked to variable Benchmark Rates (in Australia, either BBSW or BBSY and in New Zealand the Bank Bill Market ("BKBM") rate). The risk is managed by the Group by the use of 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. The fair value of the interest rate cap was determined as at 30 June 2020 by an independent valuation specialist. This was calculated to be less than $0.01 million and has been assessed by the Group as immaterial.

Details of the Group's borrowing facilities are set out in Note 13.

Interest rate sensitivity analysis

As at 30 June 2020, the borrowings of the Group were linked wholly to variable interest rates and we have conducted sensitivity analysis 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 sensitivity is prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. A 0.25% 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 0.25% higher/lower and all other variables were held constant, the Group's profit for the year ended 30 June 2020 would decrease/increase by $0.8 million (30 June 2019: decrease/increase by $0.8 million). This is 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. Borrowings and loans receivables in relation to the Group's foreign operations are denominated in New Zealand Dollars, which is the functional currency of these subsidiaries. As such there is no material foreign currency risk to local operations.

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. 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.

Liquidity risk

Liquidity risk is the risk 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 compiled 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 2020	1 year or less $'000	Between 1 and 3 years $'000	More than 3 years $'000	Remaining contractual maturities $'000
Non-derivatives				
Non-interest bearing				
Trade and other payables	6,108	–	–	6,108
Interest-bearing				
Lease liability	2,458	5,541	1,683	9,682
Borrowings	9,580	317,209	–	326,789
Total non-derivatives	18,146	322,750	1,683	342,579

Consolidated – 30 June 2019	1 year or less $'000	Between 1 and 3 years $'000	More than 3 years $'000	Remaining contractual maturities $'000
Non-derivatives				
Non-interest bearing				
Trade and other payables	6,687	–	–	6,687
Interest-bearing				
Borrowings	14,975	296,547	–	311,522
Total non-derivatives	21,662	296,547	–	318,209

Covenants

The Group has various financial and non-financial covenants under its Securitisation Trust financing facilities that can affect matters such as funding availability, repayments and the liabilities of the Group. Receivables funded within the Securitisation Trust 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.

20 Fair value measurement

Fair value hierarchy

Where applicable, the Group's assets and liabilities are 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
- Level 3: Unobservable inputs for the asset or liability

There were no transfers between levels during the financial year.

The Group has considered all financial assets and liabilities to determine whether the carrying value is an accurate reflection of fair value. In all cases, the carrying amount of financial assets and financial liabilities, which include cash, loan receivables, payables and borrowings, are considered to be a reasonable approximation of their fair values.

Interest rate cap

These derivative financial instruments are measured initially at fair value and carried subsequently at fair value through profit or loss. The fair value as at 30 June 2020 was less than $0.01 million (30 June 2019: $0.13 million) and was determined using the regression valuation approach. Refer to Note 13 for further detail.

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 2018	1,744	440	2,184
Additions – on issuance of convertible notes	–	7,773	7,773
Disposals – convertible note was 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	–	–	–
Balance at 30 June 2020	–	–	–

21 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 2020 $'000	30 June 2019 $'000
Salaries and other short-term employee benefits	1,567	2,089
Termination benefits	–	–
Post-employment benefits	88	82
Other long-term benefits	29	35
Share-based payment	1,703	332
	3,387	2,538

22 Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by Deloitte, the auditor of the Company, its network firms and unrelated firms.

	Consolidated	
	30 June 2020 $'000	30 June 2019 $'000
Deloitte and related network firms[1]		
Audit or review of financial reports		
– Group	471,350	398,573
– Subsidiaries and joint operations	11,000	10,000
	482,350	408,573
Statutory assurance services required by legislation to be provided by the auditor	16,500	–
Other services		
– Tax compliance services	211,747	75,290
– IPO due diligence and tax restructuring	56,100	759,880
	267,847	835,170
Total paid or payable to Deloitte and related network firms	766,697	1,243,743
Other Auditors and their related network firms		
Audit or review of financial reports:		
Subsidiaries and joint operations	56,595	36,080
	56,595	36,080

1 The auditor of the Group is Deloitte Touche Tohmatsu.

23 Contingent liabilities

The Group had no contingent liabilities as at 30 June 2020 and 30 June 2019.

24 Commitments

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

	Consolidated 30 June 2020 $'000	Consolidated 30 June 2019 $'000
Operating lease commitments – land and buildings		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	20	2,248
One to five years	–	3,301
Total minimum lease payments – land & buildings	20	5,549
Committed at the reporting date and recognised as liabilities, payable:		
Within one year	196	338
One to five years	78	305
Total minimum lease payments – computer equipment	274	643
	–	–
	274	643

The Group has adopted AASB 16 *Leases* from 1 July 2019. The standard replaces AASB 117 *Leases* and for lessees eliminates the classifications of operating leases and finance leases. Except for short-term leases and leases of low-value assets, right-of-use assets and corresponding lease liabilities are now recognised in the statement of financial position and not as an operating lease commitment.

The amounts included in operating lease commitments for the year ended 30 June 2020 represent short term leases and leases assessed as low value by the Group. The assessment of "low value" and short term leases is consistent with AASB 16.

AASB 16 was adopted using the modified retrospective approach and as such the comparatives have not been restated.

For further detail on the impact of adoption and a reconciliation between previously reported operating lease commitments and lease liabilities, refer to Note 1.

25 Related party transactions

Parent entity

Prospa Group Limited is the parent entity.

Subsidiaries

Interests in subsidiaries are set out in Note 27.

Key management personnel

Disclosures relating to key management personnel are set out in Note 21.

Transactions with related parties

There were no transactions with related parties during the year ended 30 June 2020.

During the year ended 30 June 2019 the following transactions with related parties took place.

- 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 IPO. The total exposure of this participation was $2.2 million of the $20 million provided 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.
- Attached to the corporate debt facility outlined above was a $2 million warrant that some of the directors had participated in. This was also repaid with the proceeds from the IPO. 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.
- A second convertible note was 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. These were repaid with the proceeds from the IPO.

Receivable from and payable to related parties

There were no trade receivables from or trade payables to related parties at the current and previous reporting date.

Loans to/from related parties

There were no loans to or from related parties at the current and previous reporting date.

Terms and conditions

All transactions were made on normal commercial terms and conditions and at market rates.

26 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 2020 $'000	30 June 2019 $'000
Profit/(loss) after income tax	(629)	(4,169)
Total comprehensive income	(629)	(4,169)

Statement of financial position

	Parent	
	30 June 2020 $'000	30 June 2019 $'000
Total current assets	173,145	170,964
Total assets	174,952	173,562
Total current liabilities	1,343	724
Total liabilities	1,343	724
Equity		
Issued capital	610,651	609,975
Re-organisation reserve	(432,244)	(432,968)
Retained profits/(accumulated losses)	(4,798)	(4,169)
Total equity	173,609	172,838

Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2020 and 30 June 2019.

Capital commitments - Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2020 and 30 June 2019.

Significant accounting policies

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

27 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 2020 %	Ownership interest 30 June 2019 %
Prospa Advance Pty Ltd	Australia	100%	100%
Prospa Trust Series 2015-1 Security Trust[1]	Australia	100%	100%
Prospa Trust Series 2018-1 Security Trust[1]	Australia	100%	100%
Prospa Trust Series 2018-2 Security Trust[1]	Australia	–	100%
Prospa Trust Series Pioneer Security Trust[1]	Australia	100%	100%
Prospa Trust Series Prosparity Security Trust[1]	Australia	100%	100%
Prospa Finance Pty Ltd	Australia	100%	100%
Prospa Innovations Pty Ltd[2]	Australia	100%	100%
Prospatarian Pty Ltd[2]	Australia	100%	100%
Prospa NZ Limited[2]	New Zealand	100%	100%
Prospa Kea Trust Series-1[2]	New Zealand	100%	–

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

2 Ownership is through Prospa Advance Pty Ltd.

On 8 August 2019, the Group announced the establishment of a New Zealand funding structure, the Prospa Kea Trust Series-1, to fund the ongoing growth of the New Zealand portfolio. Prospa Group Limited has a 100% interest in the Prospa Kea Trust Series-1.

During the year ended 30 June 2020, the Group took the decision that the Prospa Trust Series 2018-2 Security Trust would not be extended beyond June 2020. The Trust progressively paid down all third-party notes during the year, with these being fully repaid on 15 May 2020. Formal closure of the Trust was effected on 25 June 2020.

28 Deed of cross guarantee

The parent entity, Prospa Group Limited and the subsidiaries set out below are party to a deed of cross guarantee under which each Company guarantees the debts of the others:

Prospa Advance Pty Ltd

Prospa Innovations Pty Ltd

Prospa Finance Pty Ltd

Prospatarian Pty Ltd

By entering into the deed, the wholly-owned subsidiaries 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.

The above companies represent a Closed Group for the purposes of the Corporations Instrument. Set out below is a consolidated statement of profit or loss and other comprehensive income and statement of financial position of the Closed Group.

Statement of profit or loss and other comprehensive income

	30 June 2020 $'000	30 June 2019 $'000
Interest income	119,178	122,353
Other income	13,841	13,022
Total revenue before transaction costs	133,019	135,375
Transaction costs	(8,509)	(8,438)
Net revenue	124,510	126,937
Operating expenses		
Funding costs	(18,809)	(20,070)
Sales and marketing expense	(29,111)	(26,713)
Product development expense	(10,610)	(9,784)
General and administration expense	(36,295)	(41,303)
Loan impairment expense	(49,208)	(29,465)
Total operating expense	(144,033)	(127,335)
Earnings before corporate interest, fair value movements, income tax, depreciation and amortisation	(19,523)	(398)
Depreciation	(3,106)	(955)
Amortisation	(3,083)	(2,684)
Corporate interest	(535)	(2,103)
Fair value (loss)/gain on financial instruments	(129)	(12,439)
Fair value (loss)/gain on embedded derivative	-	(3,486)
Loss before income tax benefit/(expense)	(26,378)	(22,065)
Income tax benefit/(expense)	1,868	(1,761)
Loss after income tax benefit/(expense)	(24,508)	(23,826)
Other comprehensive income for the year, net of tax	-	104
Total comprehensive loss for the year	(24,508)	(23,722)

Equity - accumulated losses

	30 June 2020 $'000	30 June 2019 $'000
Accumulated losses at the beginning of the financial year	(27,650)	(3,928)
Adjustment on adoption of AASB 16	(959)	-
Loss after income tax benefit/(expense)	(24,510)	(23,826)
Fair value change in cash flow hedge	-	104
Accumulated losses at the end of the financial year	(53,117)	(27,650)

Statement of financial position

	30 June 2020 $'000	30 June 2019 $'000
Assets		
Current assets		
Cash and cash equivalents	60,114	28,099
Loan receivables	204,829	225,539
Intercompany loan receivables	12,210	10,451
Bank deposits	1,091	1,098
Income tax	1,169	391
Prepayments and other assets	1,936	3,257
	281,349	268,835
Non-current assets		
Loan receivables	100,731	138,836
Investment in subsidiary	7,149	7,149
Property, plant and equipment	1,510	2,354
Right-of-use assets	6,796	–
Intangible assets	7,823	6,577
Deferred tax assets	10,343	8,526
	134,352	163,442
Total assets	415,701	432,277
Liabilities		
Current liabilities		
Trade and other payables	6,026	6,610
Borrowings	9,580	14,974
Lease liabilities	1,992	–
Employee benefits	2,236	3,792
	19,834	25,376
Non-current liabilities		
Borrowings	258,279	255,740
Lease liabilities	6,666	–
Employee benefits	404	262
	265,349	256,002
Total liabilities	285,183	281,378
Net assets	130,518	150,899
Equity		
Issued capital	610,651	609,975
Reserves	(427,016)	(431,426)
Accumulated losses	(53,117)	(27,650)
Total equity	130,518	150,899

29 Events after the reporting period

On 6 July 2020, due to its limitations in funding new products such as Line of Credit or Government Guarantee Scheme Loans and Lines, the Group ended the Prospa Trust Series 2018-1 substitution period and no new loans are being sold into this Securitisation Trust. Principal collected from loans in this Securitisation Trust will progressively reduce the aggregate outstanding balance of loans remaining in the Trust.

Prospa is already an approved Participating Lender under the current Coronavirus SME Guarantee Scheme which was originally due to end on 30 September 2020. On 20 July 2020 the Federal Treasurer announced that the Scheme would be enhanced and extended to 30 June 2021 to support continued small business recovery. The final terms of the extension are not yet finalised, and the Group is in the process of considering whether it will apply to be a Participating Lender under the extended Scheme.

On 24 July 2020, the Group announced amendments to the warehouse facilities that fund the Group's small business loans and lines of credit had been completed. This confirmed the ongoing support of our funding partners and enhanced the Group's ability to provide its customers with appropriate assistance during the impact of COVID-19.

On 6 August 2020, Prospa allocated $63 million of the AOFM's $90 million maximum investment to support the growth in its Line of Credit, and the "Back to Business" Small Business Loan and "Back to Business" Line of Credit products, with the remainder to be allocated over FY21.

On 17 September 2020 the Group announced the appointment of Ross Aucutt as CFO. Ross replaces Peter Loosmore, Prospa's interim CFO since 28 January 2020.

No other matter or circumstance has arisen since 30 June 2020 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.

30 Reconciliation of loss after income tax to net cash from operating activities

	Consolidated	
	30 June 2020 $'000	30 June 2019 $'000
Loss after income tax benefit/(expense) for the year	(24,933)	(24,721)
Adjustments for:		
Depreciation and amortisation	6,190	3,639
Share-based payments	3,686	2,869
Foreign exchange differences	–	26
Origination fees	(2,086)	2,644
Purchase of options	–	434
Loan impairment expense	52,881	30,550
Promotion interest adjustment	3,845	(2,756)
Amortisation of borrowing costs	(108)	3,225
Outstanding late fees	(1,544)	(4,075)
Net interest income accrual	(2,040)	–
Financial instruments: Fair value loss	129	12,439
Change in operating assets and liabilities:		
Decrease/(increase) in prepayments and other assets	953	(517)
Increase in deferred tax assets (Note 7)	(905)	(2,152)
Decrease in trade and other payables	(675)	(1,492)
(Decrease)/increase in employee benefits	(1,414)	1,886
Decrease in current tax liability	–	(5,137)
Increase in current tax asset	(190)	–
Net cash from operating activities	33,789	16,862

31 Earnings per share

	Consolidated	
	30 June 2020 $'000	30 June 2019 $'000
Loss after income tax attributable to the owners of Prospa Group Limited	(24,933)	(24,721)
	Number	**Number**
Weighted average number of ordinary shares used in calculating basic earnings per share	161,105,944	114,727,396
Weighted average number of ordinary shares used in calculating diluted earnings per share	161,105,944	114,727,396
	Cents	**Cents**
Basic earnings per share	(15.48)	(21.55)
Diluted earnings per share	(15.48)	(21.55)

32 Share-based payments

Share options

The employee long-term incentive plan ("Plan") 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 Plan is designed to incentivise performance.

The Plan requires the holder to satisfy certain vesting conditions, which may cover key performance indicators including both financial and non-financial measures.

During the year ended 30 June 2020:

- 4,695,000 options were granted with an exercise price ranging from $0.88 to $0.95;
- 1,759,937 options were cancelled or forfeited; and
- 850,735 options were exercised and converted to shares for consideration of $0.7 million.

Total expense arising from share-based payment transactions for the year ended 30 June 2020 was $3.7 million (30 June 2019: $1.6 million).

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

	2020 Number	2020 WAEP (cent)	2019 Number	2019 WAEP (cent)
Outstanding at 1 July	12,259,167	277	5,659,906	138
Granted during the year	4,695,000	92	7,584,039	364
Forfeited or cancelled during the year	(1,759,937)	338	(911,052)	134
Exercised during the year	(850,735)	82	(73,726)	104
Outstanding at 30 June	14,343,495	220	12,259,167	277
Exercisable at 30 June	5,368,749	–	2,363,750	–

The weighted average share price during the year ended 30 June 2020 was $2.47 (30 June 2019: $3.72, measured from IPO on 11 June 2019 to 30 June 2019).

The remaining contractual life of share options outstanding as at 30 June 2020 was 4 years (30 June 2019: 4 years).

The exercise price of the share options is generally equal to the volume-weighted average price of the underlying shares immediately prior to the date of grant. The range of exercise prices for options outstanding at the financial year end was $0.49 to $4.35 (30 June 2019: $0.49 to $4.35).

The contractual term of share options ranges from 4 to 5 years.

For the options granted during the current and previous financial year, the valuation model inputs used to determine the fair value at the grant date, are as follows.

Grant date	Expiry date	Share price at grant date	Exercise price	Expected volatility	Dividend yield	Risk-free interest rate	Fair value at grant date
30/11/2018	30/11/2023	$3.09	$3.64	64.30%	–	1.93%	$2.260
01/12/2018	01/12/2023	$3.09	$3.64	64.30%	–	1.93%	$0.753
25/01/2019	25/01/2024	$4.19	$4.19	46.30%	–	1.69%	$2.089
01/04/2019	01/04/2024	$3.64	$3.64	46.08%	–	1.39%	$2.380
10/04/2019	10/04/2024	$3.64	$3.64	46.08%	–	1.39%	$2.380
14/05/2019	14/05/2024	$3.78	$3.33	47.49%	–	1.10%	$3.420
14/05/2019	14/05/2024	$3.78	$3.64	47.49%	–	1.10%	$3.014
14/05/2019	14/05/2024	$3.78	$3.78	47.49%	–	1.10%	$2.849
11/06/2019	11/06/2024	$3.78	$4.35	47.49%	–	1.10%	$2.277
14/04/2020	14/04/2024	$1.01[1]	$0.88	52.60%	–	0.14%	$0.371
14/04/2020	14/04/2024	$1.01[1]	$0.95	52.60%	–	0.14%	$0.373

1 The exercise price for these share options was determined with reference to the Group's 10 day volume weighted average share price ("VWAP"). This was $0.60 for the 10 business days prior to grant date.

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.

Performance rights

In June 2019, Prospa established an Executive Incentive Plan ("EIP"), an Employee Equity Plan ("EEP") and a Non-Executive Director Equity Plan ("NEDEP").

Executive Incentive Plan ("EIP")

The EIP was created to assist in the motivation, reward and retention of senior management and has been designed to align the interests of senior management with the interests of Shareholders by providing an opportunity for eligible employees to receive a cash incentive and an equity interest in the Group subject to the satisfaction of certain performance conditions.

No rights were granted, exercised or forfeited under the EIP during the year ended 30 June 2020. Given business uncertainty and our focus on prudent cost management, Prospa has elected to suspend the EIP for FY21.

Non-Executive Director Equity Plan ("NEDEP")

The NEDEP allows non-executive directors to acquire rights, in lieu of some of their cash Board fees. The NEDEP is not subject to any performance or service conditions and the rights have an exercise price of $nil. The rights in relation to the current financial year were granted under the NEDEP on 14 June 2019.

50% of these Rights vested on 28 February 2020, the day following the release of the HY20 financial results. The shares allocated to the Directors on vesting of the rights are held subject to dealing restrictions until the earlier of two years or the date on which the Director ceases to hold office as a Director. The remaining 50% of the Rights were forfeited on 21 April 2020.

No rights were granted under the NEDEP during the year ended 30 June 2020 (30 June 2019: 50,926).

Employee Equity Plan ("EEP")

The EEP was created to assist in the motivation, reward and retention of employees who do not participate in the EIP.

Performance conditions in relation to these Rights are tested over a one-year performance period which is linked to the Company's annual and half-yearly reporting periods.

Following testing of the performance conditions at the end of the performance period, any Rights that remain on foot will vest as follows:

- 50% after one year on the day following the release of the Company's full year audited results (or the day falling 6 months after, as applicable) for the relevant financial year; and
- 50% on the day following the release of the Company's full year audited results (or the day falling 6 months after, as applicable) for the subsequent financial year. Vesting is also subject to continued employment until vesting date.

As a worked example, for the rights issued on 12 August 2020:

- Performance period is from 1 July 2019 to 30 June 2020.
- To the extent performance conditions are achieved, 50% vest after the release of the Group's FY21 results; and
- 50% vest after the release of the Group's FY22 results.

Rights under the EEP are issued for nil consideration and have no exercise price.

During the year ended 30 June 2020 506,932 rights were granted under the EEP (30 June 2019: Nil).

One-off employee rights

On 13 April 2020 a one-off grant of 1,372,000 share rights was awarded to employees with a one year vesting period. Provided the employee remains employed by the Group at the end of the vesting period, 100% of these rights will vest on 13 April 2021.

Details of rights granted during the year ended 30 June 2020 are outlined below.

Grant date	Expiry date	Exercise price	Balance at the start of the period	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the period
12/08/2019	n/a	n/a	–	287,213	–	(25,040)	262,173
13/01/2020	n/a	n/a	–	219,719	–	(26,496)	193,223
13/4/2020	n/a	n/a	–	1,372,000	–	–	1,372,000

The fair value of performance rights and one off rights has been determined as follows.

Grant date	Expiry date	Share price at grant date	Exercise price	Expected volatility	Dividend yield	Risk-free interest rate	Fair value at grant date
12/08/2019	n/a	$4.30	$0.00	–	–	–	$4.30
13/01/2020	n/a	$2.08	$0.00	–	–	–	$2.08
13/04/2020	n/a	$0.75	$0.00	–	–	–	$0.75

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 2020 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 members of the Extended Closed Group 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 described in Note 28 to the financial statements.

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 Chief Executive Officer

Gail Pemberton
Independent Director and Chairman

24 September 2020
Sydney

Auditor's Report

"The salon was closed for just three days at the start of COVID restrictions and by the time we opened back up again, we had all done COVID-safe training and implemented new sanitation procedures in the salon. We've been busy. We're using our Prospa loan to expand to a new location and expand our services."

Peter & Amanda,
Queensland, Australia

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Australia

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Independent Auditor’s Report to the Members 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 2020, 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 2020 and of its financial performance for the year then ended; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 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 auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional & Ethical Standards Board’s APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (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.

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Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
Expected credit loss provisioning As at 30 June 2020, the Group recognised \$41.4m of expected credit losses (ECL) provisions in accordance with *AASB 9 Financial Instruments* as disclosed in Note 9 and Note 19 of the annual report. The Group's disclosure over impairment of financial assets is disclosed in Note 1 of the annual report. The expected credit loss models developed by management to determine expected credit losses require significant judgement and assumptions to be made by management, including: • Selection of criteria for identifying a significant increase in credit risk, including when payment holidays are provided to customers; • Selection of parameters input into the models in relation to probability of default, loss given default and exposure at default; and • Forward looking economic scenarios that consider the impact on expected credit losses of potential macro-economic events, including the impact of COVID-19 related economic downturn.	Our procedures in conjunction with our specialists included, but were not limited to: • Obtaining an understanding of the judgements made within the expected credit loss models; • Testing the design and implementation of relevant controls relating to customer loan approval process and identification of overdue amounts; • Testing the data inputs in calculating the probability of default and loss given default, as well as agreeing a sample of loan information to source documentation; • Assessing the provisioning methodology with reference to relevant accounting standards and market practices; • Evaluating the reasonability of management's assumptions and judgments in relation to the selection of parameters and criteria input into the expected credit loss models in relation to the calculation of probability of default, loss given default, exposure at default, significant increase in credit risk, macroeconomic forecasts and scenarios; and • Challenging management's judgements in respect to the macroeconomic factors and judgemental overlays in response to the current macroeconomic environment. We have also assessed the appropriateness of the disclosures in Note 1, 9 and 19 to the financial statements.
Effective Interest Rate The Group reported interest income of \$131.4m in the year to 30 June 2020 and net loans receivable were \$332.2m as at 30 June 2020. Interest income received from loan receivables is determined using the effective interest rate (EIR) method in accordance with *AASB 9 Financial instruments*. The loan receivable balance is measured and presented at amortised cost using the effective interest rate method. In addition, the Group implemented and enhanced loan reconciliation process which resulted in a \$5.5m one-off adjustment, reducing gross loan receivables as disclosed in Note 1. This adjustment relates solely to non-cash items and therefore has no impact to the overall cashflows of the Group. The Group's disclosure over the effective interest rate is disclosed in Note 1 of the annual report.	Our procedures included, but were not limited to: • Assessing the Group's accounting policy for revenue recognition with reference to the relevant accounting standards including the appropriateness of the inclusion of fees received and transaction costs paid between parties to the loan contract in the determination of the EIR; • Evaluating the design and implementation of controls relating to the calculation of the EIR; • Challenging management's assumptions used in the EIR model, including estimated future cash flows, historical repayment patterns and the behavioural life of each lending product; • Agreeing a sample of data inputs used in calculating the EIR to underlying source data such as signed loan agreements and bank statements; • Testing on a sample basis the cash and non-cash loan book reconciliation items to underlying supporting documents such as signed loan agreements and bank statements; and

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Significant management judgement is required in calculating the EIR, including: • Identifying the fees received and transaction costs paid between parties to the loan contract which need to be included in the determination of the EIR; and • Determining the period over which expected cash flows are estimated to be received.	• Assessing the accuracy and completeness of interest income by recalculating interest income under the EIR method. We have also assessed the appropriateness of the disclosures in Note 1 to the financial statements.

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 2020, 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.

- 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.

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- 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, actions taken to eliminate threats or safeguards applied.

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.

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Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 44 to 56 of the Directors' Report for the year ended 30 June 2020.

In our opinion, the Remuneration Report of Prospa Group Limited, for the year ended 30 June 2020, 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.

Deloitte. Touche. Tohmatsu.

DELOITTE TOUCHE TOHMATSU

Mark Lumsden
Partner
Chartered Accountants
Sydney, 24 September 2020

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 31 August 2020 (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	32.19
SPINOZA INVESTMENTS PTY LTD	ORDINARY SHARES	24,701,240	15.26
INTERNATIONAL GROUP OF COMPANIES PTY LTD	ORDINARY SHARES	9,701,240	5.99
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	ORDINARY SHARES	9,579,138	5.92
AIRTREE VENTURES OPPORTUNITY FUND TRUSCO PTY LTD	ORDINARY SHARES	9,487,236	5.86
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	ORDINARY SHARES	9,333,473	5.77

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	2041
OPTIONS TO ACQUIRE ORDINARY SHARES	110
RIGHTS TO ACQUIRE ORDINARY SHARES	210

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:

UMP Shares	UMP Holders	% of Issued Shares held by UMP Holders
160,100	481	0.13

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 2,041 holders of a total of 161,850,437 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:

Distribution of ordinary shareholders

Holdings Range	Holders	Total Units	% of Issued Capital
100,001 and Over	39	150,134,393	92.76
10,001 to 100,000	283	7,455,236	4.61
5,001 to 10,000	246	1,957,310	1.21
1,001 to 5,000	740	1,912,455	1.18
1 to 1,000	733	391,043	0.24
Total	**2,041**	**161,850,437**	**100.00**

Distribution of option holders

Holdings Range	Holders	Total Units	%
100,001 and Over	31	12,147,777	85.38
10,001 to 100,000	50	1,825,722	12.83
5,001 to 10,000	28	250,000	1.76
1,001 to 5,000	1	4,998	0.04
1 to 1,000	0	0	0
Total	**110**	**14,228,497**	**100.00**

Distribution of holders of rights

Holdings Range	Holders	Total Units	%
100,001 and Over	0	0	–
10,001 to 100,000	60	877,736	44.16
5,001 to 10,000	135	1,091,820	54.94
1,001 to 5,000	6	11,376	0.57
1 to 1,000	9	6,513	0.33
Total	**210**	**1,987,445**	**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	32.19
2	SPINOZA INVESTMENTS PTY LTD	24,701,240	15.26
3	INTERNATIONAL GROUP OF COMPANIES PTY LTD	9,701,240	5.99
4	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	9,579,138	5.92
5	AIRTREE VENTURES OPPORTUNITY FUND TRUSCO PTY LTD	9,487,236	5.86
6	J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	9,333,473	5.77
7	SQUARE PEG GLOBAL FUND 2015 PTY LTD	5,809,758	3.59
8	AIRTREE VENTURES GP PTY LTD	5,117,949	3.16
9	PACIFIC CUSTODIANS PTY LIMITED	5,093,401	3.15
10	DANITA LOWES	2,826,246	1.75
11	NATIONAL NOMINEES LIMITED	2,605,129	1.61
12	EUCLID CAPITAL PARTNERS LLC	2,566,437	1.59
13	AVIAD EYAL	2,419,280	1.49
14	CS THIRD NOMINEES PTY LIMITED	1,318,713	0.81
15	PARTNERS FOR GROWTH IV LP	1,189,186	0.73
16	TUBBIN INVESTMENTS PTY LTD	1,033,611	0.64
17	AMUR INVESTMENTS LIMITED	777,717	0.48
18	SUNTRACK INVESTMENTS (BEVILLE) PTY LTD	527,256	0.33
19	PROSPATARIAN PTY LTD	476,075	0.29
20	CITICORP NOMINEES PTY LIMITED	322,255	0.20
	Total number of Shares of Top 20 Holders	**146,978,103**	**90.81**
	Total Remaining Holders' Balance	**14,872,334**	**9.19**
	Grand total	**161,850,437**	**100.00**

Escrow

Class of Restricted Securities	Type of Restriction	Number of Securities	End date of Escrow Period
ORDINARY SHARES	VOLUNTARY ESCROW	34,402,480	31 December 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	14,228,497	110
RIGHTS TO ACQUIRE ORDINARY SHARES	1,987,445	210

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

Securities purchased on-market

The following 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:

Class of Equity Securities	Total number of securities purchased during the reporting period	Average price per security at which the securities were purchased during the reporting period
FULLY PAID ORDINARY SHARES	16,000	$1.0950

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.

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 Stock 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 St
Sydney NSW 2000

Solicitors

Herbert Smith Freehills
161 Castlereagh St
Sydney NSW 2000

Website

www.prospa.com

Due to COVID-19 travel and on-site photography restrictions,
customer stock images are in use.


PROSPA