Appendix 4E Preliminary Final Report

YEAR ENDED 30 JUNE 2021

Company details

Name of entity:	Prospa Group Limited
ABN:	13 625 648 722
Reporting period:	For the year ended 30 June 2021
Previous period:	For the year ended 30 June 2020

Results for announcement to the market

Statutory Results Summary

	30 June 2021 $'000s	30 June 2020 $'000s	Change %
Total revenue before transaction costs	117,728	142,087	(17.1)
Loss after income tax benefit for the year attributable to the owners of Prospa Group Limited	(9,494)	(24,933)	61.9
Total comprehensive loss for the year attributable to the owners of Prospa Group Limited	(9,567)	(25,124)	61.9

Dividend information

Prospa Group Limited ("Prospa", the "Group" or the "Company") has not paid and does not propose to pay dividends for the year ended 30 June 2021 (30 June 2020: nil).

Earnings per share

	30 June 2021 cents	30 June 2020 cents
Basic earnings per share	(5.87)	(15.48)
Diluted earnings per share	(5.87)	(15.48)

Net tangible asset information

	30 June 2021 cents	30 June 2020 cents
Net tangible assets per ordinary security	63.24	68.39

Right-of-use assets have been included in the net tangible asset calculation.

Entities over which control has been gained or lost

On 25 November 2020, the Group established a new Australian funding structure, the Propela Trust, to support the growth in its Line of Credit and Small Business Loan products. Prospa Group Limited has a 100% interest in the Propela Trust.

On 17 March 2021, the Group established a new funding structure in New Zealand, the Prospa Kea Series 2021-1, to support the ongoing rapid growth of the New Zealand portfolio. Prospa Group Limited has a 100% interest in the Prospa Kea Series 2021-1.

There has been no further gain or loss of control of entities during the year ended 30 June 2021.

Associates and joint ventures

The Group has not engaged in the acquisition or disposal of associates, nor has it engaged in any joint ventures during the year ended 30 June 2021 or the previous corresponding period.

Basis of preparation

This preliminary final report is based on the Consolidated Financial Statements of Prospa Group Limited, audited by Deloitte Touche Tohmatsu. Further information about the results is included in the Full Year Results Presentation and can be obtained via the ASX website or by visiting the Group's website at www.prospa.com.

Review of operations

Additional Appendix 4E disclosure requirements and commentary on the operating performance, the strategic highlights and the financial position of the Group are contained in the Consolidated Financial Statements for the year ended 30 June 2021 and in the Directors' Report for the year ended 30 June 2021.

This document should be read in conjunction with the FY21 Annual Report and any public announcements made in the reporting period by the Group.

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prospa

Annual Report 2021

Prospa Group Limited
ACN 625 648 722

Contents


HOT

Performance Highlights

$2.1b in funding deployed since inception[1]

11,900+ Active customers

80+ NPS World class Net Promoter Score[4]

#1 Online lender to small business in Australia and New Zealand[5]

National winner

Fintech Lender of the Year
NSW/ACT, QLD, SA/NT, VIC/TAS & WA
MFAA Excellence Awards 2021

1. All references to Originations in this document are 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 in Australia and New Zealand, unless otherwise indicated. Small retrospective changes in origination figures may occur as result of back dated cancellations or modifications to support customer outcomes.
2. Cash flow is prior to loan write-offs.
3. Realised portfolio yield represents the interest (excluding transaction costs) and fee income earned during the period on the average portfolio balance during the respective period, annualised.
4. Average for period 1 April 2021 to 30 June 2021. Net Promoter Score was in excess of 80+ for the period 1 April 2021 to 30 June 2021.
5. In the Non-bank Financial Services category, Prospa is the #1 ranked online small business lender in Australia and New Zealand on independent review site TrustPilot with a TrustScore of 4.9 and over 6,200 reviews in Australia and a TrustScore of 4.9 and over 800 reviews in New Zealand as at 30 June 2021.

Originations[1]

$484m

FY20 $448m +8%

Closing Gross Loans

$427m

FY20 $374m +14%

Revenue

$118m

FY20 $142m (17%)

Operating Cash Flow[2]

$35m

FY20 $34m +3%
Unrestricted Cash
$40m

EBITDA

$375k

FY20 ($15.8m) +$16.2m

Realised portfolio yield[3]

32.7%

FY20 32.8%

Our purpose

Small businesses are the backbone of the economy – making up more than 95% of all businesses in Australia and New Zealand and employing a large proportion of the workforce.

But they have been, and continue to be, largely under-served when it comes to finance.

At Prospa, we are changing the way small business experience finance – by offering simple and flexible credit solutions that help them grow, run and pay.

But that's just the beginning. Our team of product and digital experts are creating an integrated digital platform that will transform the ability of small business to make payments, fund growth and reduce their financial administration.

More than

95%

of businesses in AU and NZ are small businesses.

32%

of AU GDP

41%

of AU workforce

25%

of NZ GDP

28%

of NZ workforce

“Finally someone is listening to the people and responding! Thank you Prospa for giving me and my business an opportunity!”

Jodie, VIC

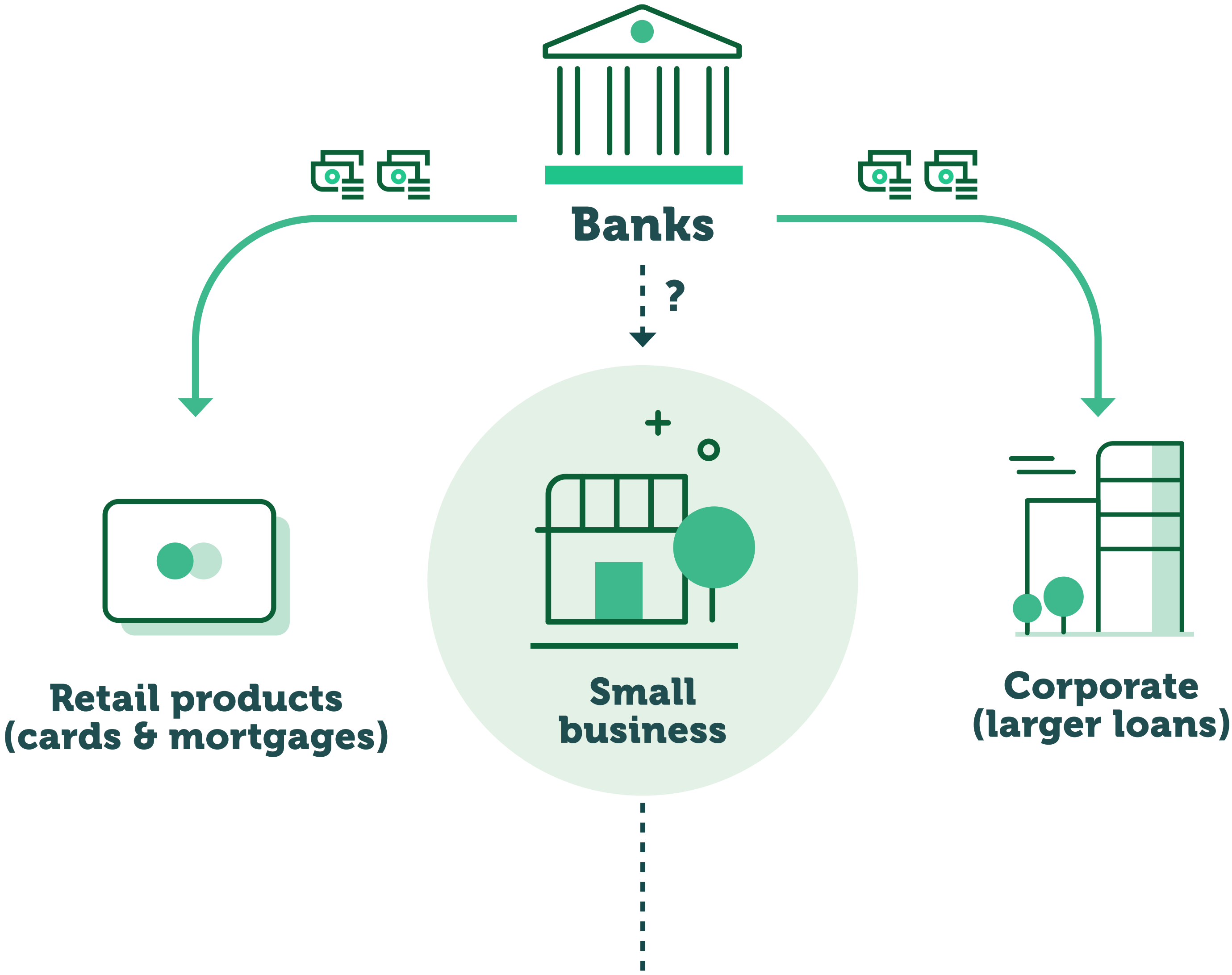
Source:
NZ Ministry of Business, Innovation & Employment
The Australian Small Business and Family Enterprise Ombudsman.

“So I would go to my banks regularly, I have two of them, and I would fill them in on all the amazing things I’m doing. And all I got was a no, sorry I can’t help you.”

Nyoli, NSW

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

The traditional bank model



Barriers for banks

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

How Prospa creates value

Our purpose is to change the way small businesses experience finance.



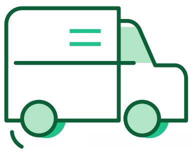

Our resources

Products
- Small Business Loan
- Line of Credit
- Supported by a diverse range of local and international senior and junior lenders

Technology
- Purpose built credit decision engine
- Large proprietary database
- Advanced risk management

Distribution partners
- Multi-channel distribution network
- 10,000+ partners
- Choice of products for customers

Our people
- 230+ employees
- Understand and devoted to supporting small businesses and our partners



…deliver what customers need

- Quick and convenient credit approval
- Simplicity in managing finances and cash flow
- Product flexibility to adapt to changing circumstances
- Engaging and friendly customer experience

…and keep their businesses moving

- Maintain short-term cash flow or liquidity
- Upgrade or purchase tools, equipment or machinery
- Introduce new or improved products and services
- Pursue expansion opportunities

Economic Impact

An independent Australian study from 2019 showed that every $1 million of Prospa lending results in $4 million in GDP and 57 full-time equivalent jobs annually.*

$2.1b
in lending since inception

120k
full time jobs created

$8.4b
added to GDP

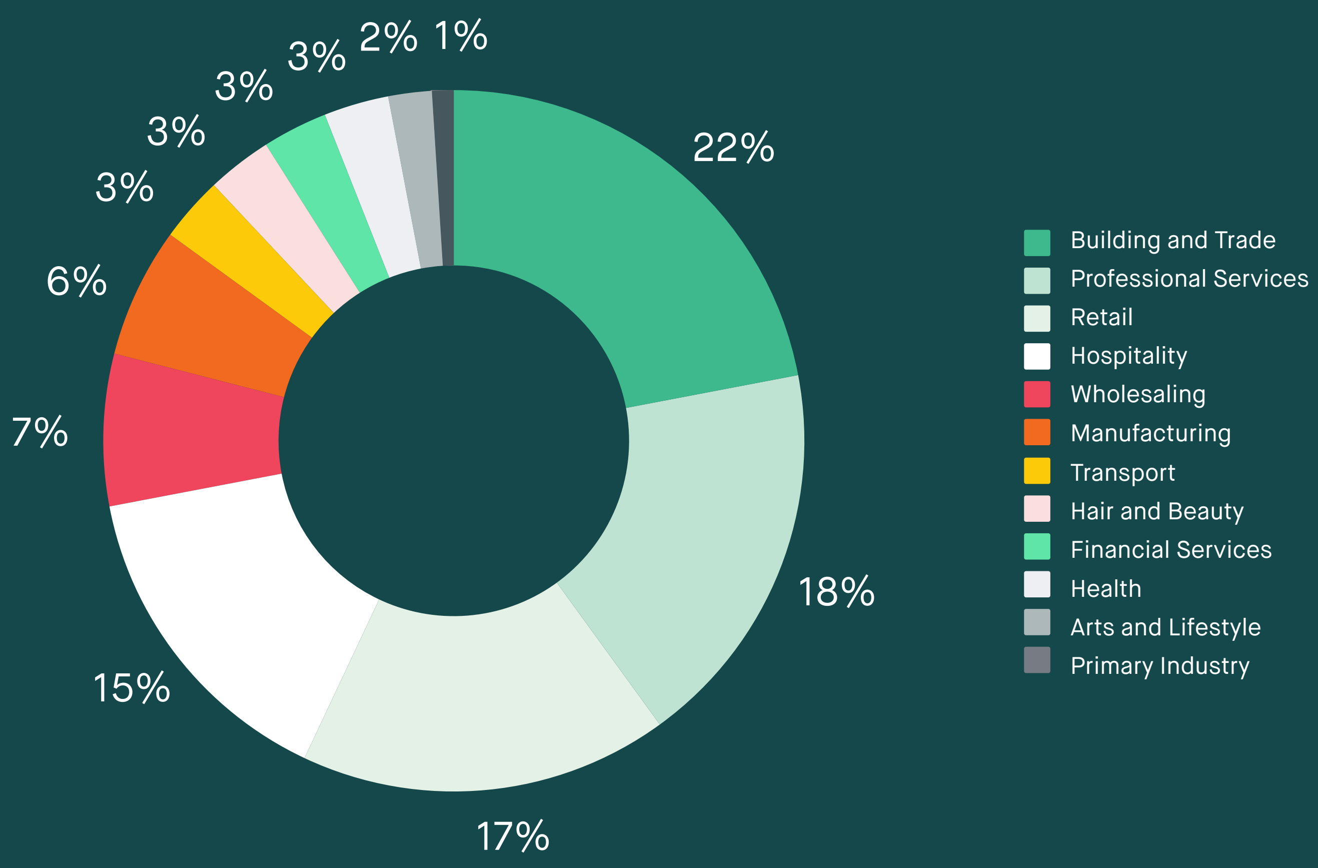
* Source: RFI Group, The economic impact of Prospa lending to small business – prepared for Prospa Group Limited, January 2019

Supporting diverse customers across Australia and New Zealand

We work with small businesses across a broad range of industries from every corner of Australia and New Zealand to provide the funding they need to grow, run and pay.

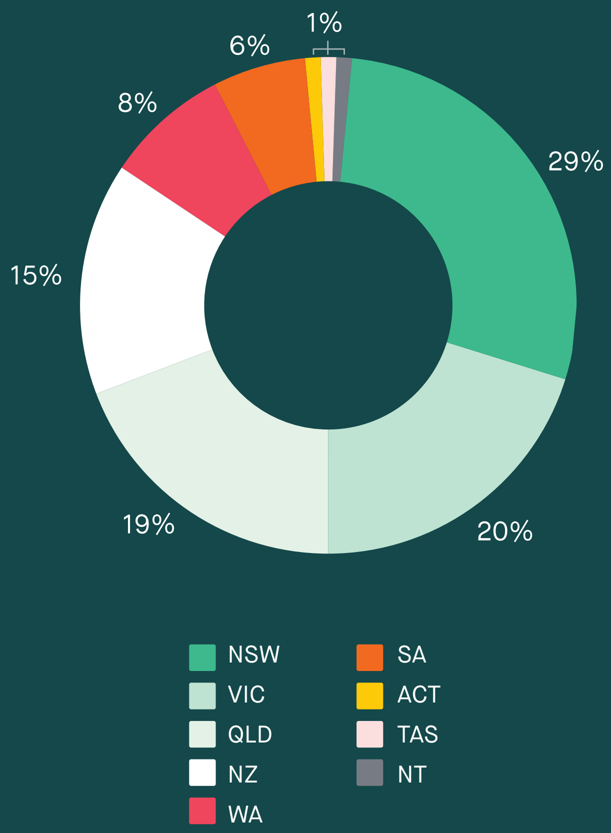
We don't just take businesses at face value. We really try to understand their situation and goals, and help them with quick , hassle-free access to the funds they need to move forward.

Portfolio by industry

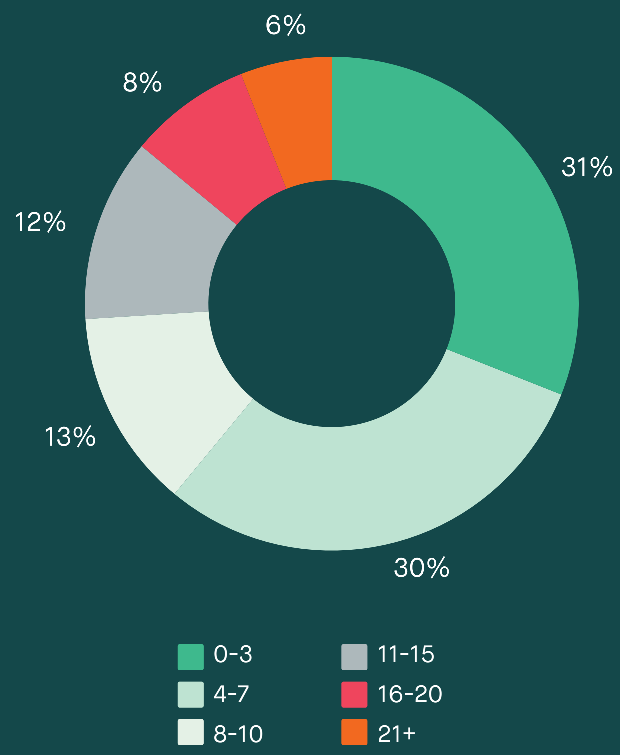


1. Based on the weighted average receivables balance as at 30/06/2021.
2. Average fresh capital originated, excluding re-financed amounts.

Portfolio by geography



Portfolio by years trading[1]



AU Business Loan

$37K

Average Business Loan amount[2]

42%

Growth in average amount vs. FY20

AU Line of Credit

$46K

Average facility limit

18%

Growth in average facility limit vs. FY20

NZ Business Loan

$31K

Average Business Loan amount[2]

29%

Growth in average amount vs. FY20

Our technology platform delivers

Technology-first approach

- Innovative pipeline of products addressing key SME issues
- Leading customer value proposition
- Robust security measures to minimise risk of cyber threats

Data-driven customer experience

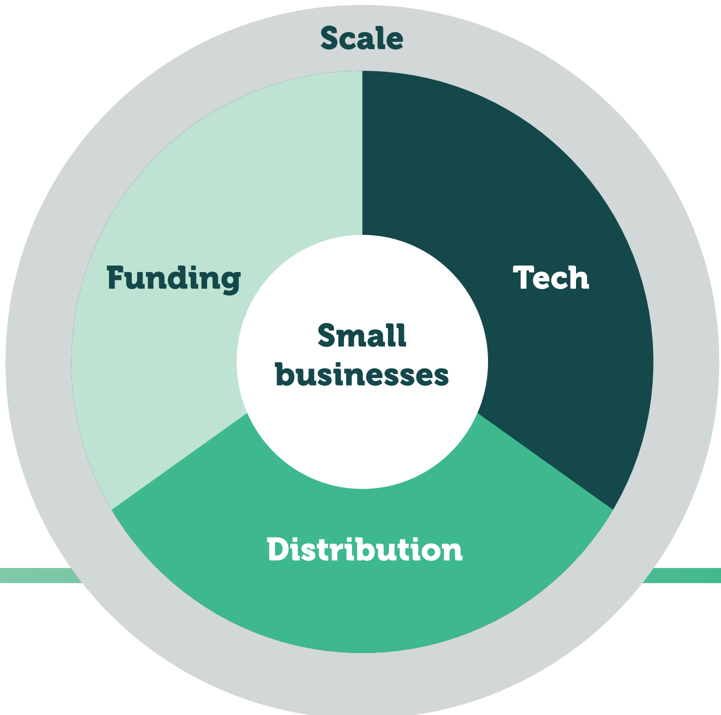
- Data-driven approach to customer insights
- Customer data protected and enriched
- Deeper understanding of customer journey

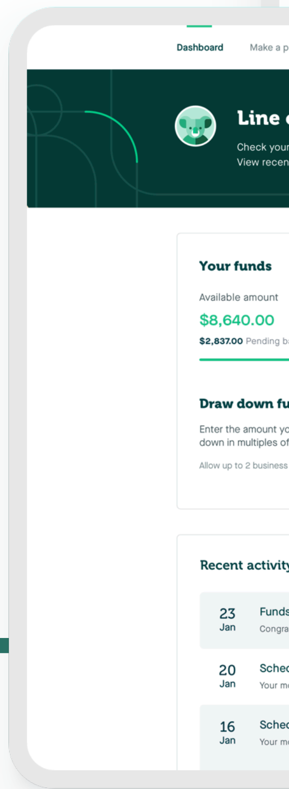
Scalable infrastructure

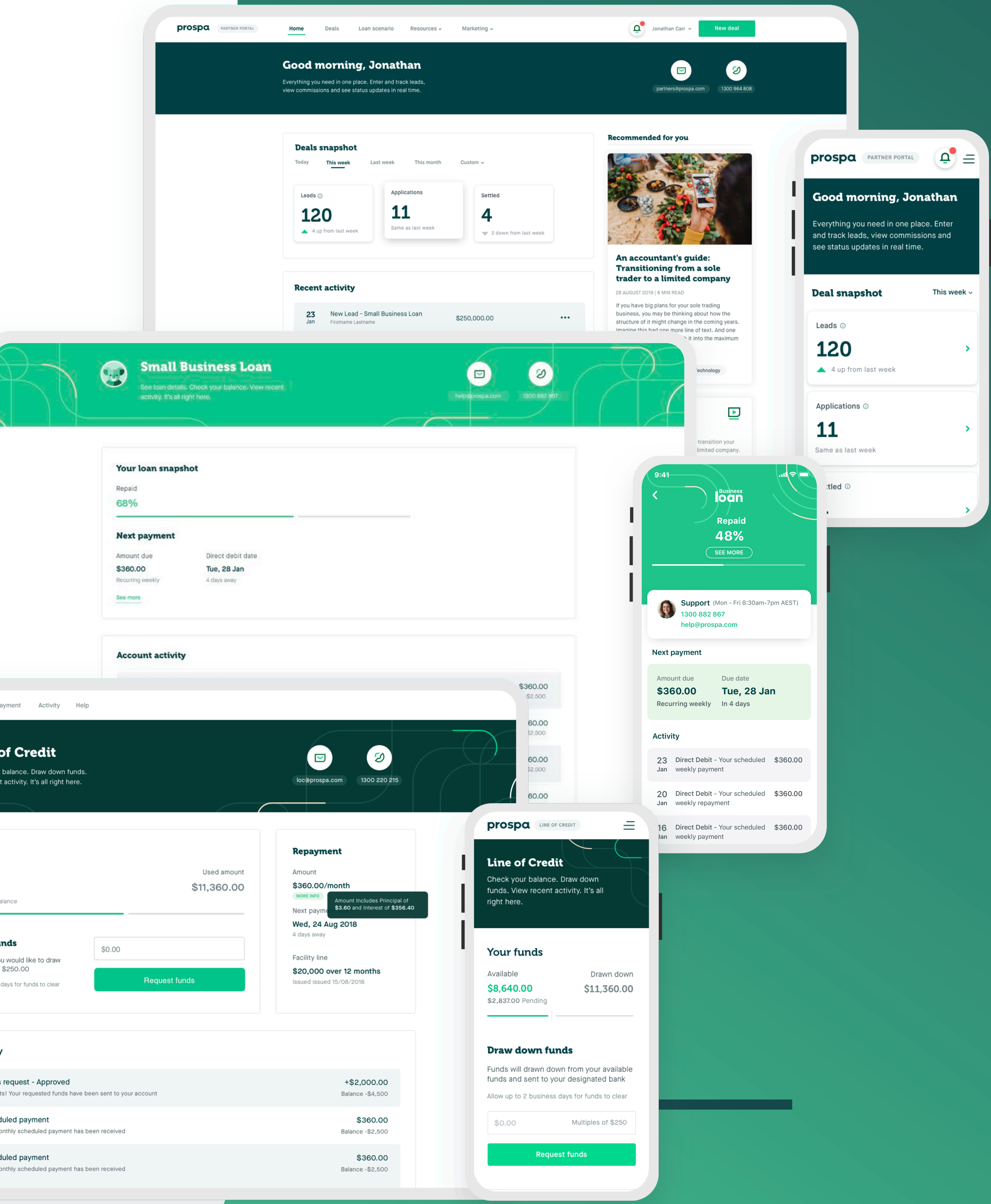
- Ability to grow and scale quickly
- Leverages automation
- Increase operating leverage

Purpose-built credit decision engine

- Proprietary data collected for almost 10 years
- Manages credit risk and leads to stable static loss rate
- Lead to operational efficiencies






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
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
$0.00
Request funds
Repayment
Amount
$360.00/month
MORE INFO
Amount includes Principal of $3.60 and Interest of $356.40
Wed, 24 Aug 2018
4 days away
Facility line
$20,000 over 12 months
+$2,000.00
Balance -$4,500
$360.00
Balance -$2,500
$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

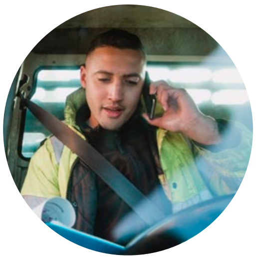
Future state:
A cohesive platform that makes Prospa digitally indispensable to SMEs

Construction

Hospitality

Professional Services

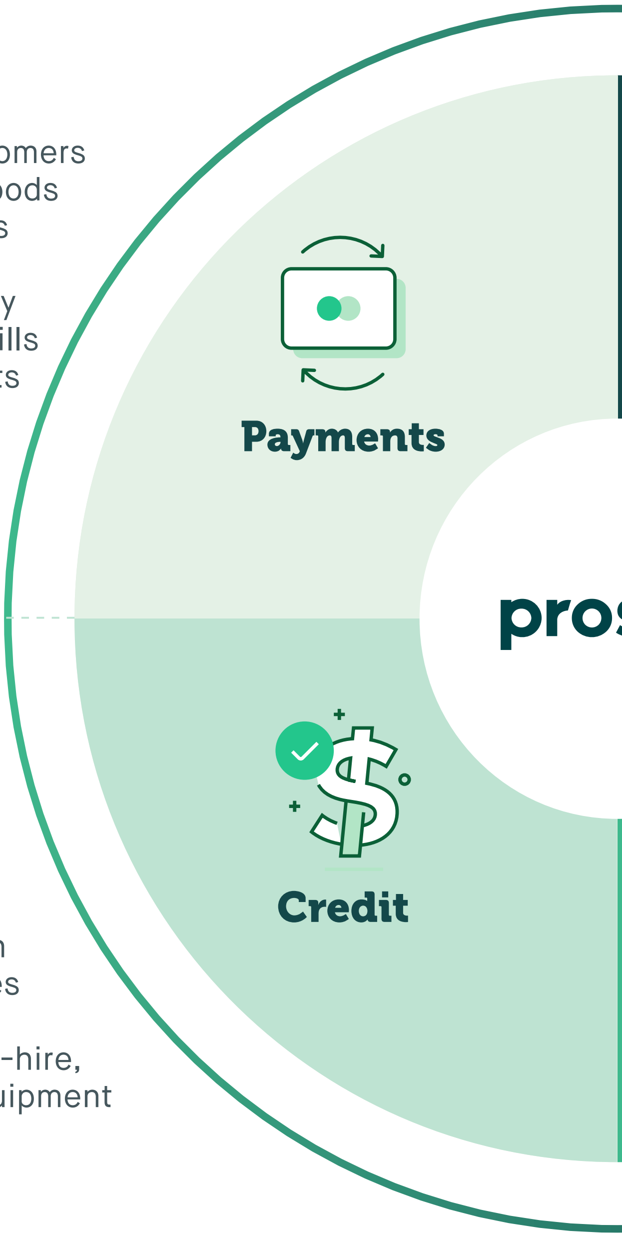
Transportation



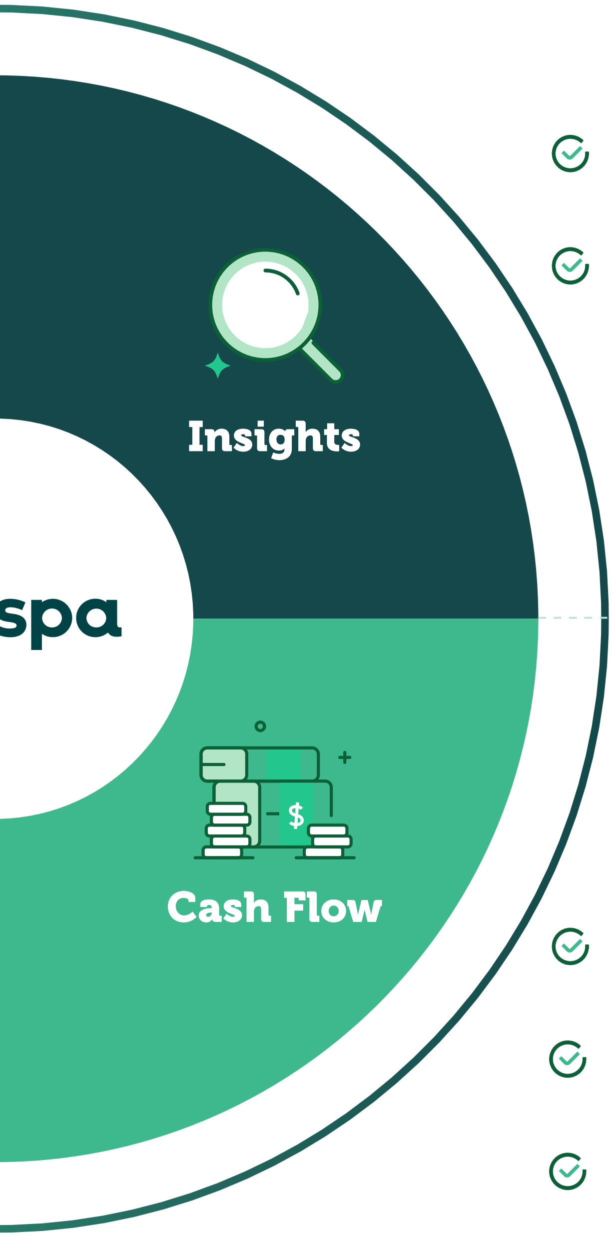
Manufacturing

- Enable customers to pay for goods and services
- Manage daily expenses, bills and accounts payable

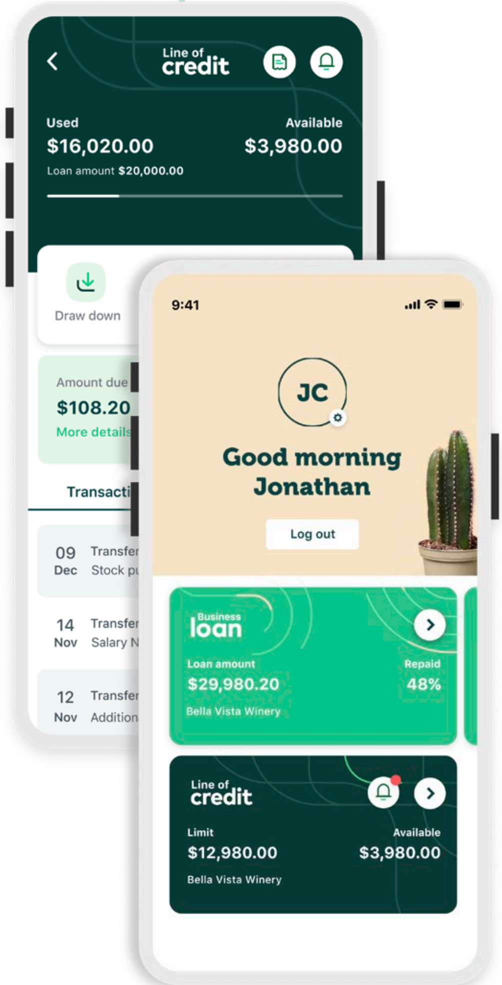
- Fund growth opportunities
- Re-stock, re-hire, upgrade equipment



Helping them grow, run and pay



- Identify challenges and opportunities
- Smarter, data-driven decisions



- Improve cash flow management
- Manage shortfalls and surplus
- Understand cash position and projections

> Strong foundations have been built, and now we look to boost our investment in Prospa's unique scalable platform to three strategic pillars: technology; funding; and distribution.

Greg Moshal, Prospa CEO

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

Strategic priorities

Investment for growth

- Build on our suite of cash flow management products and further enhance our offering with an integrated digital platform that allows Prospa to play an integral role in customers' payments, help them easily fund growth and reduce their financial administration.
- Investing in growth initiatives including increasing investment in sales and marketing capabilities.
- Research and development to deliver new payment solutions to the SME market.

AU/NZ leadership

- Maintain and grow our leadership role in small business lending in Australia and New Zealand.
- Strong brand awareness for customer acquisition and distribution partner marketing.

Customer acquisition

- Identify and target customer sectors and geographies where Prospa has the best opportunity to grow loan originations.

Funding platform for growth

- Continue to focus on funding relationships and diversification to support demand.

Data analysis

- Proactively monitor impacts on risk appetite and customer demand.
- Grow our data insights and underwriting capability.

Chairman's Letter

> **Prospa is a scalable and agile business that is ready to meet increased small business demand for fresh capital and provide services designed to make running a business easier for owners.**

Gail Pemberton AO

Chairman's Letter

Dear Shareholder,

Over the 2021 financial year, it has been both encouraging and inspirational to witness the resurgence of small business economies within Australia and New Zealand. Despite the challenges with ongoing lockdowns and restrictions, Prospa has continued to provide the support that its small business customers need to keep operating and growing.

Prospa was founded with a strong customer-oriented culture which is part of its DNA. Our team takes considerable pride in the social and economic value the company provides to its small business customers. This dedication was demonstrated acutely during the unique challenges brought on by COVID-19, beginning in 2020 and continuing through 2021, when we provided the assistance needed by our customers during a time of significant financial stress. As testament to this commitment, in FY21 the number of returning customers accounted for 54% of originations compared to 52% in the previous financial year. Prospa's Net Promotor Score improved to in excess of 80 during the final quarter, from 77 at the beginning of the year. Prospa continues to be ranked the number one online lender to small business in both Australia and New Zealand.

Strong operational and financial performance

The Company's operating and financial performance also reflects the resilience of the small business economy, despite ongoing lockdowns and restrictions. Improvements the Prospa team has made to our technology platform are also driving operational efficiencies. Prospa recorded originations of $183 million during the final quarter of FY21, an increase of 51% against the prior quarter and eight times the prior corresponding period, and the highest ever quarterly originations recorded in Prospa's nine-year history. Furthermore, static loss rates remained within the Board mandate of between 4% to 6%.

Revenue for FY21 was $118 million down by 17% against the prior corresponding period due to a reduced receivable balance at the start of the year, and closing gross loans at $427 million, was up 14% from the prior year. Pleasingly, operating cash flow remained stable at $35 million due to management's tight control of costs. Prospa has no corporate debt, its balance sheet is strong as is its funding platform, with $459 million in funding facilities, of which $97 million was undrawn as at the close of FY21

Operating expenditure, excluding our investment in technology, fell by 13% to $66 million in FY21 from the year before. As a result, operating efficiency improved with operating expenditure as a percentage of originations reducing to 14% this year from 17% in FY20.

I am also delighted to note that our operating platform has continued to scale in New Zealand. During FY21, we gained strong business and brand traction in New Zealand, resulting in originations growth of $78 million, up an impressive 77% compared to FY20, albeit off a small base. We believe there are considerable future growth opportunities in this market.

Technology platform driving business growth momentum

I am proud of Prospa's nimbleness and ability to scale and grow quickly in response to market conditions. Prospa's technology platform includes a robust credit risk management engine that supports sustainable, quality originations and revenue growth. This is demonstrated by annualised yield for the FY21 financial year remaining stable at 33% (FY20: 33%), despite the significant increase in originations.

It has also allowed Prospa to achieve operational efficiency enhancements; to monitor book yield real time, to tailor products and increase customer engagement using our extensive proprietary data and insights. Looking ahead, the Prospa team is investing in building new capabilities that will help our small business customers to better grow, run and pay for business essentials and, importantly, will enable Prospa to create a pipeline of innovative products that will solve the biggest pain points of our small to medium enterprise ("SME") customers.

Outlook

Today, Prospa is a scalable and agile business that is ready to meet increased small business demand for fresh capital and provide services designed to make running a business easier for owners.

Extensive research on the SME community was conducted by RFi Consulting, on Prospa's behalf, during May 2021. This research showed that 18% of SMEs currently need further credit at an average of $62,776 each – that's a total shortfall of $27 billion; and 548,755 small businesses have a delayed or unachieved strategic objective due to cash flow issues. This research provides confirmation that Prospa's total addressable market remains significant.

As we look ahead to FY22 and beyond, our mission is to become more integral than ever to SMEs across Australia and New Zealand by designing and offering solutions that keep small businesses moving and growing. As a leading, established FinTech company offering financial solutions designed for small business, our vision has expanded and our goal is bigger: to simplify small business cash flow by building an integrated suite of products that makes payments, funds growth and reduces administration – all in a single app. Having started to build these foundations, the Prospa team is very excited about the next phase of our evolution as we deliver an enhanced value proposition to our customers and continue to innovate to underpin the company's future.

In conclusion, Prospa's client-focused culture has never been more apparent in the way its employees moved rapidly to support customers impacted during turbulent times while also delivering on its commitment to grow and innovate to support the small business economy. I am very proud of the entire Prospa team who have worked tirelessly throughout an incredibly challenging year to create a solid future growth pathway for Prospa.

I thank our invaluable Board and management team, who brought their diverse expertise to provide guidance for the growth of the company. With the appointment of Mary Ploughman this year, the Board has been further strengthened to support the management team and, together, we will successfully navigate through the year and beyond.

Finally, I would like to warmly thank our shareholders and our funding partners for their continued strong support.

Yours sincerely,

Gail Pemberton

Gail Pemberton AO
Chairman
Prospa Group Limited

Chief Executive's Report

> Using our extensive data and insights, we plan to scale our existing business loan and line of credit products as well as create new problem-solving product solutions for our customers.
>
> Greg Moshal

Chief Executive's Report

Echoing our Chairman's thanks to you, I would like to start by recognising our shareholders and funding partners for your continued loyalty in Prospa. We do not take your support lightly and remain fully committed to driving the company's future growth.

Empowering small business

Prospa was built to meet the needs of small business. Our aim has always been to develop innovative cash flow products and services that allow small businesses to grow, run and pay.

The Company has worked tirelessly to establish a robust tech-enabled business, focused on servicing the 2.5 million small business owners who were severely underserved by traditional banking institutions.

Today, Prospa is the number one online lender to small business in Australia and New Zealand. Our devotion to the small business community has helped us attain a Net Promoter Score of 80+. At Prospa, we know small businesses are the backbone of the economy. An independent study has shown that for every $1 million of lending, $4 million is added to Australia's GDP and 57 full-time jobs are created annually[1].

Our products, service and speed of approval have also been recognised by our partners. Prospa remains a highly regarded non-bank lending partner to brokers and accountants that service small businesses in both Australia and New Zealand. In fact, in July, the Mortgage Finance Association of Australia (MFAA), the peak national body representing over 13,500 professional finance brokers, named Prospa the 2021 Fintech Lender of the Year for the fourth year in a row.

It is an honour to know that customers, and our partners, have such confidence and trust in us to help support small businesses to thrive.

Growth and resilience

Over the past year, our business model has been tested like never before and we have come out stronger than ever. We are confident we have in place robust foundations which will enable us to quickly adapt and withstand any future impacts of restrictions on our customers. We are also ready to meet increased small business demand, despite the recent setbacks, with improved business sentiment and rising confidence of owners wanting to invest in growth.

We observed the emergence of a two-speed SME economy; while some businesses struggled, others grew and strengthened. Indeed, we have been inspired by the resilience and agility of many small business owners to evolve their business models, create new products and adapt their cost structures.

Our team's agility to meet small business needs helped us achieve strong results and milestones. I am proud that, since inception, Prospa has been able to generate in excess of $2 billion in loan originations for our small business customers. The first billion in capital funding took six years, and the second billion only took two years. Our ambitious team made this a reality, which was supported by our rigorous technology-enabled proprietary credit decision engine. Originations in FY21 returned to pre-COVID-19 levels, with the final quarter up 51% on the previous quarter, and a new company record of $183 million in loan originations achieved for the three months to 30 June 2021.

The results reflect our team's unwavering dedication to look after and believe in our small business customers. We worked closely with customers who were impacted by COVID-19, proactively offering a range of payment breaks and relief for those who were experiencing or expressing financial difficulty. During this time, we also enhanced Prospa's purpose-built credit decision engine, managing credit risk and boosting the number of same-day credit approvals.

1. Disclaimer: RFI Group, The economic impact of Prospa lending to small business – prepared for Prospa Group Limited, January 2019.

The power of Prospa's platform

Strong foundations have been built, and now we look to boost our investment in Prospa's unique scalable platform to three strategic pillars: technology; funding; and distribution.

We will soon release the strategic vision to accelerate Prospa's growth and further differentiate us within the market. Our bold ambition is to make Prospa indispensable to SMEs with a range of solutions that simplify small business cash flow by building an integrated platform featuring a suite of digital financial solutions that help our customers reduce administration, make payments and fund growth.

In addition, using our extensive data and insights, we plan to scale our existing business loan and line of credit products as well as create new problem-solving product solutions for our customers, and further digitise customer journeys to improve customer experience and efficiency. This will also allow our incredible customer support team to focus on building strong rapport with business owners, enabling them to understand their needs and provide personalised solutions.

We look forward to updating you in FY22 on the investments in our technology stack to upgrade, futureproof and significantly add to its capabilities thereby enabling the creation of new products at speed and enhancing operational efficiencies.

Acknowledgement and thanks

Prospa has an extraordinary team of people. I want to thank each one of them for their hard work, enthusiasm and commitment to support our small business customers. Their obsession with customer service did not waver and they jumped into action to support our customers. Importantly, team power kept Prospa's culture thriving. I am pleased to report Prospa was re-certified as a Great Place to Work, with 90% of employees participating in the survey.

I want to thank and acknowledge the Prospa Board members for their guidance during the year. Their invaluable advice has been greatly appreciated by the leadership team as we navigated through FY21 together.

Finally, it is with great gratitude that I thank our customers and partners for their immense support. It is your belief in our small business funding solutions that has helped us advance as a customer-centred, sophisticated tech-driven company. Our vision remains clear: to change the way small business owners experience finance. We will continue to be disciplined, rely on our data and invest in our future growth. Our lending to small businesses has been a significant economic enabler, and will continue for many years to come.

Yours sincerely,

Greg Moshal
Chief Executive Officer
Prospa Group Limited

Board of Directors

Board of Directors

Gail Pemberton, AO

Independent Non-Executive Chairman

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

Gail has more than 35 years' experience in bank 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 Chair of Eclipx Group (ASX:ECX), Non-Executive Director of Land Services WA, Sydney Metro and MNF Group (ASX:MNF).

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 the Company since April 2018, and was previously a Director of Prospa Advance Pty Ltd from October 2015.

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 seven years with leading Australian industrial group Wesfarmers in mergers and acquisitions and five years with Gresham Partners and Gresham Private Equity where he led the development of financial services payments provider Cashcard Australia. Greg also spent five 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 was the Chair of the Remuneration, People and Nomination Committee for the year until 31 May 2021 and remains a member of the Committee.

He is a member of the Audit and Risk Committee.

Fiona Trafford-Walker

Independent Non-Executive Director

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

Fiona is currently an Independent Non-Executive Director of Link Administration Holdings (ASX:LNK) where she also chairs the Audit Committee, Perpetual Limited (ASX:PPT), Eclipx Group (ASX:ECX) and the Victorian Funds Management Corporation (VFMC). She is also 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 28 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 Eyal
Non-Executive Director

Avi has been a Director of the Company since May 2018 and was previously a Director of Prospa Advance Pty Ltd from its incorporation in 2012.

Avi has been instrumental to the development of Prospa. 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.

Avi is a current Board Director of monday.com, BreezoMeter, BW Robotics, Torii, Broadlume, Niio, Shopic, and other technology companies in the UK, EU, USA and Israel. Avi has previously served as Board Director for a number of companies including Riskified (NYSE:RSKD), Gastrofix (TSE:LSPD), HouseParty (Epic Games), Flyt (LSE:JE), Scan Inc. (NYSE:SNAP) and Cura Software Solutions .

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, 2019 and 2020 was listed by Forbes Inc as one of the Top 25 European Venture Capitalists (Midas List).

Avi was a member of the Audit and Risk committee until 24 February 2021 and is a member of the Remuneration, People and Nomination Committee.

Mary Ploughman
Independent Non-Executive Director

Mary has been a Director of the Company since March 2021.

Mary has 30 years of financial services, capital markets, securitisation, mergers and acquisitions, governance and risk management experience on a range of financial institutions, infrastructure and not for profit boards in Australia and New Zealand.

Mary is currently Chairman of Plenti Group Limited (ASX:PLT) and serves as Chairman of the Remuneration Committee and as a member of the Audit and Risk Committee. Mary has also been appointed as Chairman of Pitcher Partners. Mary is a Senior Advisor with Gresham Partners Limited and an advisor to Indigenous Business Australia.

Prior to these roles, Mary served as Joint Chief Executive Officer of non-bank lender Resimac and as Non-Executive Director of Sydney Motorway Corporation, until its sale to Transurban in 2018. Mary was also Deputy Chair of the National Committee for the Australian Securitisation Forum from 2013 to 2017. Mary was awarded the Kanga News Market Achievement Award in 2016 and was made a Fellow of the Australian Securitisation Forum.

Mary has a Bachelor of Economics from the University of Sydney, is a Graduate of the Australian Institute of Company Directors, and an Associate of the Securities Institute of Australia.

Mary was appointed Chair of the Remuneration, People and Nomination Committee on 1 June 2021 and is a member of the Audit and Risk Committee.

Greg Moshal
Chief Executive Officer & Executive Director

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

Greg has nine 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.

Beau Bertoli
Chief Revenue Officer & Executive Director

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

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

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

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

Prior to co-founding Prospa, Beau held senior positions including National Sales Manager at financial services company Humm Group Limited (ASX:HUM).

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

Executive Leadership

Greg Moshal
Chief Executive Officer

Ross Aucutt
Chief Financial Officer

Ross joined Prospa in October 2020 from Humm Group Limited (ASX:HUM) where he was CFO for almost four years. In that role, he built a high performing finance team and was responsible for driving growth whilst significantly increasing the efficiency of the business and balance sheet, with management of financial planning and analysis, capital management and treasury as well as M&A.

Before this, Ross was Group Treasurer at Latitude Financial Services (ASX:LFS) where he built a treasury function and was responsible for all funding, cash management, capital reporting and operations. Ross has a strong background in non-bank disruptive finance models and the financial markets where he has worked at a senior level in large domestic and international organisations including the Royal Bank of Scotland / NatWest Group (London), Westpac (Sydney) and Barclays (London).

Ross has a B.Com. in Accounting and Finance from the University of Canterbury (New Zealand) and a Masters in Finance from London Business School and is a Chartered Accountant.

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.

Beau Bertoli
Chief Revenue Officer

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 fifteen 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.

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 Humm Group Limited (ASX:HUM).

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

Directors' Report

"Prospa allows our business to build the gap between where we are now and what we have planned over the next 6 months. It keeps the Business moving and it's been such a great opportunity."

Ayla, NSW

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 2021.

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 2021.

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

Gregory Moshal
24,850,732 ordinary shares and 1,286,640 options in Prospa Group Limited.

Beaumont Bertoli
9,761,301 ordinary shares and 1,286,640 options in Prospa Group Limited.

Aviad Eyal
2,845,914 ordinary shares and 92,592 options in Prospa Group Limited.

Mary Ploughman (Appointed as Director on 1 March 2021)
Chairman of Remuneration, People and Nomination Committee (From 1 June 2021)

Gregory Ruddock
Chairman of the Remuneration, People and Nomination Committee (From 1 July 2020 to 31 May 2021)
1,133,611 ordinary shares and 25,000 options in Prospa Group Limited.

Fiona Trafford-Walker
Chairman of the Audit and Risk Committee
47,719 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 benefit amounted to $9.5 million (30 June 2020: loss of $24.9 million).

The Review of Operations on pages 41 to 44 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 bold ambition is to make Prospa indispensable to SMEs with a range of solutions that simplify small business cash flow by building a suite of online financial solutions that help our customers make payments, fund growth and reduce administration. Using our extensive data and insights, and investing in our technology stack, we plan to scale our existing products as well as create new problem-solving product solutions for our customers, and fully digitise customer journeys to improve customer experience and efficiency.

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 as 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 each Board committee held during the year ended 30 June 2021, and the number of meetings attended by each Director were:

	Board		Remuneration, People and Nomination Committee		Audit and Risk Committee	
	Held	**Attended**	**Held**	**Attended**	**Held**	**Attended**
Gail Pemberton	10	10	5	5	9	9
Fiona Trafford-Walker	10	10	5	5	9	9
Greg Ruddock	10	10	5	5	9	7
Avi Eyal	10	10	5	5	8	7
Greg Moshal	10	10	5	5	9	9
Beau Bertoli	10	10	5	4	9	9
Mary Ploughman	3	3	2	2	1	1

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

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 (February 2019 – 31 May 2021)
Greg Ruddock	Mary Ploughman – Chairman (from 1 June 2021)
Avi Eyal (Resigned 24 February 2021)	Gail Pemberton
Gail Pemberton	Avi Eyal
Mary Ploughman	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
07/10/2016	07/10/2021	$0.67	20,547
27/02/2017	27/02/2022	$0.67	161,878
28/04/2017	28/04/2022	$1.56	165,000
17/11/2017	04/05/2022	$1.56	15,000
17/11/2017	17/11/2022	$1.56	919,769
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	39,999
30/04/2018	04/05/2022	$2.00	62,499
30/04/2018	30/04/2023	$2.00	697,500
30/11/2018	04/05/2022	$3.64	30,000
30/11/2018	15/07/2021	$3.64	277,500
30/11/2018	30/11/2023	$3.64	1,536,993
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	150,000
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	60,000
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	1,892,500
14/04/2020	14/04/2024	$0.95	1,575,000
30/03/2021	30/03/2026	$0.97	250,000
30/03/2021	30/03/2026	$1.07	250,000
			11,816,670

As at 30 June 2021, 11,816,670 options were outstanding, of which 8,109,505 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 as 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	276,719
13/01/2020	n/a	$0.00	130,905
13/07/2020	n/a	$0.00	155,177
15/03/2021	n/a	$0.00	168,669
			731,470

As at 30 June 2021, 731,470 rights were outstanding, of which nil were vested and exercisable. No person entitled to exercise the performance rights had or has any right by virtue of the performance right to participate in any share issue of the Company or of any other body corporate.

Shares issued on the exercise of options

The following ordinary shares of Prospa Group Limited were issued during the year ended 30 June 2021 on the exercise of options granted.

Date options granted	Exercise price	Number of shares issued
17/02/2016	$0.49	344,681
07/10/2016	$0.67	25,002
27/02/2017	$0.67	51,090
		420,773

Shares issued on the exercise of rights

During the year ended 30 June 2021, 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 2021 on the exercise of one-off employee rights granted.

Date performance rights granted	Exercise price	Number of shares issued
13/04/2020	$0.00	1,136,435

Remuneration Report

The Remuneration Report set out on pages 45 to 62 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 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

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

During the financial year, the Company has not paid a premium regarding 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 12 August 2021, Prospa announced the mandate for the PROSPArous Trust 2021-1, a $200 million Term Asset-Backed Securitisation (Term ABS) issuance in the public markets, including both Small Business Loans and Line of Credit products. This the first public ABS issuance of unsecured SME loans in Australia, another ground-breaking activity.

No other matter or circumstance has arisen since 30 June 2021 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 24 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), is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The Directors are of the opinion that the services as disclosed in Note 24 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 under 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

20 August 2021
Sydney

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

Review of Operations

"All my communication with Prospa was so easy. I was able to secure my small business loan quickly, keep the store fresh and new for my customers, and get cracking on growing the business."

Kerry, NZ

Review of Operations

We are an Australian fintech company founded in 2012, that has grown to become Australia and New Zealand's #1 online lender to small business. The Company listed on the Australian Securities Exchange in 2019 to support further growth opportunities.

Continued investment in our cloud-based, data rich and API-enabled technologies has empowered 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 $2.1 billion in loans to small businesses since our launch in 2012;
- Serving more than 33,800 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 11,000 distribution partners including brokers, aggregators and accountants.

Our product suite includes a Small Business Loan and a Line of Credit. During the third quarter, the Line of Credit product was enhanced with an increased facility limit of $150,000 and a Pay Anyone feature with scheduled and recurring payments.

Our purpose-built Credit Decision Engine ("CDE") has been enhanced with extensive data and industry insights captured throughout the year enabling a reduction in coverage required for expected credit losses as a percentage of receivables. The CDE quickly assesses 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 productively evaluate opportunities and potential stressors across our portfolio, enabling static loss rates to remain within the Board mandated 4% to 6% tolerance range.

Our Net Promoter Score increased to an excess of 80 over the fourth quarter of the period, and we continue to be ranked #1 online lender to small business in the Non-bank Financial Services category in both Australia and New Zealand on independent review site TrustPilot. In 2021, Prospa was again certified as a Great Place to Work in Australia.

Prospa activated its Business Continuity Plan in early March 2020 when the COVID-19 pandemic resulted in government lockdowns which restricted economic activity. The activation of this Plan enabled the majority of our people to work remotely, as circumstances dictated, without any operational interruptions to the business as and when was needed.

We are proud to have supported our customers in small businesses across Australia and New Zealand during what is likely to have been one of the most challenging environments for them to have operated in, with government restrictions impacting the small business economy in particular. In 2020, we offered our customers support in the form of deferrals or part payments and this focus on customer experience has strengthened our loyal customer base. We were also able to offer support to our customers within the parameters of the Australian Government's Coronavirus SME Guarantee Scheme and the New Zealand Government's Business Finance Guarantee Scheme (collectively "Schemes"). Since 30 June 2021, we have assisted those impacted by the recent lockdowns of some of our states and territories and will continually monitor the situation and respond to customer requests accordingly.

We continue to support small businesses seeking to rebuild and invest for the future and to that end are building the foundations to offer our small business customers a suite of cash flow management products to help them operate their business more efficiently using a single online platform to manage financial affairs.

Financial Overview

Strong growth in the last two quarters of the year for both Australia and New Zealand saw the Group's originations[1] increase to $483.7 million for the year. This was an increase of 8.1% on the prior year (FY20: $447.5 million[1]). Loan originations in the first quarter were materially impacted by the ongoing impact of COVID-19 on the SME economy, however the Group saw a strong rebound in loan originations commencing in the second quarter, leading to record high quarterly originations by the fourth quarter with strong momentum going into FY22.

Total revenue was $117.7 million for the year, 17.1% lower than FY20. The year's revenue result was impacted by lower revenue in the first two quarters due to lower originations, extended repayment terms for COVID-19 affected customers and lower fees charged. Subsequently, quarter on quarter revenue has returned to growth with total revenue in the fourth quarter increasing 14.9% on the prior corresponding period, driven by higher originations, stable margins and a growing customer base. The business is on track to return to pre-COVID-19 revenue levels as growth in originations continues.

Net cash from operating activities grew to $34.8 million in FY21, compared to $33.8 million in FY20.

Net loss after tax was $9.5 million (FY20 loss: $24.9 million).

Loan Impairment and Operating Expenses

Loan impairment expense reduced to $27.3 million, a decrease of 48.4% on the prior period. Included in this are bad debts written off (net of any recoveries) during FY21 of $35.1 million (2020: $35.9 million including loan receivables review adjustment).

The loan deferral period offered to Prospa's customers during the height of COVID-19 concluded in December 2020. Included in the closing gross loans of $427.1 million at 30 June 2021 is $29.0 million related to COVID-19 loans previously deferred. Of that, $18.5 million are performing, with just $10.5 million showing increased deterioration in credit risk.

In relation to the lockdowns post 30 June 2021, as at 16 August 2021, 2.1% of Australian customer accounts are on part payment arrangements and 1.3% of accounts are on full deferral. For comparison, at its peak in 2020, these figures were 20.1% and 17.9%, respectively. Any expected losses from this group are adequately covered within the provision for expected credit losses.

The total coverage for expected credit losses as a percentage of receivables decreased to 7.9% at 30 June 2021 (30 June 2020: 11.1%), a total provision of $33.7 million. The reduction is due to the improving business conditions and the Group's proactive management of credit risk on new lending using the purpose-built CDE and leveraging its extensive data and industry insights.

Static loss rates remain within the Board mandated 4% to 6% tolerance range.

Operating and employee expenses were $66.1 million for the year, a decrease of $9.7 million (-12.8%) from FY20 as a result of streamlining the business in response to the lower originations, particularly during the first half of the year. Employee expenses of $35.2 million decreased by $5.8 million (-14.1%) and other operating expenses of $30.8 million decreased by $3.9 million (-11.2%) mainly as a result of restrained marketing spend during the first half. Included in the employee cost result was a $2.8 million expense benefit from the Australian Government JobKeeper Payment subsidy.

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

1 All references to Originations in this document are 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 in Australia and New Zealand, unless otherwise indicated. Small retrospective changes in origination figures may occur as result of back dated cancellations or modifications to support customer outcomes. Originations from all sources, including Small Business Loan, Line of Credit (including undrawn amounts) across all geographies including Australia and New Zealand.

Cash and Capital Management

Prospa boasts a strong balance sheet and funding platform, which positions the Group well to support business growth momentum. Prospa has no corporate debt and has committed funding lines from diverse domestic and international senior and mezzanine funders.

Cash and cash equivalents at 30 June 2021 were $80.4 million (FY20: $110.3 million), a decrease of 27% on the prior year. This includes unrestricted cash of $39.8 million (FY20: $55.3 million), a decrease of 28% on the prior year. The reduction in unrestricted cash resulted from funding required to meet the increase in originations during the second half of the year and from additional equity support required for COVID-19 affected receivables.

As at 30 June 2021, Prospa had $458.6 million in available third-party facilities including $97.2 million in available undrawn facilities.

Funding costs decreased to $16.7 million in FY21, a decrease of 17.8% on prior corresponding period, driven by a reduction in the weighted average funding rate from 5.7% in FY20 to 5.5% in FY21 as a result of further efficiencies gained in our funding facilities.

On 6 July 2020, due to the limitations of the terms of the Prospa Trust Series 2018-1 in funding new products such as Line of Credit or Government Guarantee Scheme Loans and Lines, the Group ceased selling new loans into this Securitisation Trust. All rated notes held by external investors were repaid during the year, with Prospa exercising its call option.

On 24 July 2020, with the support of our funding partners, Prospa announced amendments to its warehouse facilities to provide assistance to customers during the COVID-19 pandemic.

During the year, Prospa allocated the entire AOFM's approved $90.0 million maximum investment. Of that, $63.0 million was allocated on 6 August 2020 to its existing warehouse and the remaining $27.0 million was allocated to the newly established Propela Trust on 25 November 2020.

Throughout the second half, Prospa has continued to evaluate its funding structure against economic stresses and growth opportunities. In March 2021, Prospa established a second series Trust in New Zealand to support strong origination growth within the NZ market. The Kea Series 2021-1 Trust has an initial capacity of up to NZ$32.5 million and matures in September 2024.

In the third quarter, the Pioneer Trust warehouse facility was extended to February 2023, and in the fourth quarter, the PROSPArity Trust warehouse facility was similarly extended to May 2024 to maintain a diverse maturity profile. Multiple warehouse limits for the Line of Credit have also been increased to ensure a strong funding platform for future growth and support for increasing demand for the Line of Credit product.

Throughout the fourth quarter, strong outlook led to the cancellation of $63.0 million of allocated AOFM funding, offset by a combined increase in facility limits of $93.1 million in Prospa's two largest Trust warehouses.

Prospa also received access to the New Zealand Government's Business Finance Guarantee Scheme, providing access to a government backed guarantee of up to 80% of the outstanding balance of eligible loans approved under the Scheme.

On 12 August 2021, Prospa announced the mandate for the PROSPArous Trust 2021-1, a Term Asset-Backed Securitisation (Term ABS) issuance in the public market, including both Small Business Loans and Line of Credit products. This the first public ABS issuance of unsecured SME loans in Australia, another ground-breaking activity.

Remuneration Report

"Unbelievably quick and great service. From initial contact to drawdown, everything was transparent and seamless. I cannot recommend Prospa more highly."

Anthony, NSW

Remuneration Report

Letter from the Chairman of Remuneration, People and Nomination Committee

Dear Shareholders,

We are pleased to present Prospa Group Limited's ("Prospa", the "Group" or the "Company") Remuneration Report for FY21. The Remuneration Report covers remuneration arrangements and outcomes for the FY21 period together with highlights of our remuneration arrangements for FY22.

As Gail outlined in her letter, FY21 has been a significant year for Prospa with the Company achieving a cumulative milestone of delivering over A$2 billion in lending through its technology lending platform. The results have been driven by continued economic recovery, improved technology capabilities, and strong repeat customer originations.

We are also delighted that Prospa was recognised as a Great Place to Work, with over 90% of Prospa staff participating in an externally benchmarked survey. The results highlight our customer and employee support during the COVID-19 pandemic.

Leadership Changes

On 17 September 2020, we announced the appointment of Ross Aucutt as our new CFO. Ross was previously the CFO of Humm Group Limited for almost four years. Ross commenced as the CFO on 7 October 2020, bringing his passion for fintech and extensive finance experience to the executive leadership team.

Prospa welcomed Mary Ploughman to the Board of Directors on 1 March 2021. Mary brings over 30 years of financial services, capital markets, securitisation, mergers and acquisitions, governance and risk management experience on a range of financial institutions, infrastructure and not-for-profit boards in Australia and New Zealand. She is currently Chairman of Plenti Group Limited (ASX: PLT).

Executive Remuneration

As announced in our Remuneration Report for FY20, Executive Directors Greg Moshal and Beau Bertoli again voluntarily declined to participate in the variable incentive plan in FY21 in order to support the ongoing recovery of the business and challenges faced due to COVID-19. There were also no fixed remuneration increases for the Executive Directors for FY21. Ross Aucutt was offered options upon his appointment and participated in a Short-Term Incentive ("STI") pro-rated for the period since his commencement.

Our New Remuneration Framework

During the year, the Committee reviewed the executive remuneration framework and this report outlines the proposed simplified structure for FY22. The new structure is designed to focus executives on both key short- and long-term business objectives and shareholder outcomes through targeted Short-Term Incentive and Long-Term Incentive plans.

Looking Forward

We look forward to working together as we transition the Chair of the Remuneration, People and Nomination Committee from Greg Ruddock to Mary Ploughman, effective 1 June 2021. The Board considers this an appropriate transition point as the business evolves and Prospa seeks to embed a new executive remuneration framework.

Looking to FY22, we aim to continue building on our strong 2H21 performance and are ramping up investment in research and development, technology capabilities to build and trial new payment solutions in market and accelerate customer engagement.

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 24th November 2021.

Yours sincerely,

Greg Ruddock
Chairman (1 July 2020 – 31 May 2021)
Remuneration, People and
Nomination Committee

Mary Ploughman
Chairman (From 1 June 2021)
Remuneration, People and
Nomination Committee

1. Key Management Personnel

The Committee presents the Remuneration Report of the Group for the period 1 July 2020 to 30 June 2021. This Report forms part of the Directors' Report and has been audited in accordance with section 300A of the Corporations Act 2001.

The Remuneration Report details the remuneration arrangements for Prospa's Key Management Personnel ("KMP"). KMP are those persons who have 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 FY21.

Table 1. Prospa KMP

Name	Position	Term as KMP
Executive KMP		
Greg Moshal	Executive Director and Chief Executive Officer	Full year
Beau Bertoli	Executive Director and Chief Revenue Officer	Full year
Ross Aucutt	Chief Financial Officer	Commenced 7 October 2020
Non-Executive Directors		
Gail Pemberton	Independent Non-Executive Chairman	Full year
Greg Ruddock[1]	Independent Non-Executive Director and Chairman of the Remuneration, People and Nomination Committee[1]	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
Mary Ploughman[2]	Independent Non-Executive Director Chairman of the Remuneration, People and Nomination Committee[2]	Commenced 1 March 2021

1 Greg Ruddock ceased as the Chairman of the Remuneration, People and Nomination Committee on 31 May 2021.

2 Mary Ploughman commenced as the Chairman of the Remuneration, People and Nomination Committee on 1 June 2021.

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 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. For FY22, Prospa will be implementing a new executive reward framework to support our ongoing growth and drive performance into the future. Full details of the new plan are provided in section 5.

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 Directors 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 five Non-Executive Directors, four of which are independent Directors:

- Greg Ruddock (Chair to 31 May 2021)
- Gail Pemberton
- Fiona Trafford-Walker
- Avi Eyal
- Mary Ploughman (Chair from 1 June 2021)

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 Executive KMP are formalised in service agreements. Details of these agreements are outlined in Table 2.

Table 2. Executive contractual arrangements

	Greg Moshal Chief Executive Officer	Beau Bertoli Chief Revenue Officer	Ross Aucutt Chief Financial Officer
Contract type	Ongoing	Ongoing	Ongoing
Fixed remuneration	$475,000	$475,000	$425,000
Maximum short-term incentive	N/A	N/A	30% of fixed remuneration
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 the Group; and – Restrictions against soliciting the Group's employees, contractors or Directors.		
Sign-on or termination payments	N/A		500,000 options (see Section 4 for details of options terms)

4. FY21 Remuneration Outcomes

Executive KMP fixed remuneration in FY21

No Executive KMP received an increase to their fixed remuneration in FY21. The Board is reviewing Executive KMP fixed remuneration for FY22 as part of the executive remuneration framework review.

Executive KMP variable remuneration in FY21

As in FY20, Greg Moshal and Beau Bertoli voluntarily declined to participate in the variable incentive plan in FY21 in order to support the ongoing recovery of the business and challenges faced due to COVID-19.

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

Following his appointment as CFO, Ross Aucutt received a grant of 500,000 options, awarded on 30 March 2021 that are subject to vesting 50% over 3 years with a strike price at a 30% premium to the Prospa share price at the date of appointment, and 50% vesting over 4 years with a strike price at a 50% premium to the Prospa share price at the date of appointment. The two tranches are due to vest on 30 March 2024 and 30 March 2025 respectively.

The CFO was also entitled to a short-term incentive for FY21, equivalent to 30% of his fixed remuneration and prorated for the period since his commencement as CFO. The short-term incentive was assessed against a scorecard of measures including revenue, originations, yield, NPS (totalling 70% weighting of STI) and a series of individual strategic measures (30% weighting of STI). The Board assessed the STI for Ross Aucutt and determined the STI outcome for the year to be $89,201.

Measure	Weighting	% Achieved
Company: – Revenue – Originations – Yield – Net Promoter Score (NPS)	70%	100%
Individual	30%	87%
Overall		96%

Details of the FY21 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.

The Board determines executive KMP remuneration outcomes. The Remuneration, People and Nomination Committee reviews and recommends Executive KMP 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 FY21

KMP	Fixed Remuneration[1]	Cash Variable Remuneration paid/payable during FY	Variable Equity Remuneration received during FY[2]
G. Moshal	465,866	Nil	881,485
B. Bertoli	465,866	Nil	881,485
R. Aucutt	307,308	89,201	12,264

1 In response to COVID-19, Executive KMP reduced their base salary by 50% for a three-month period concluding in July 2020. Fixed remuneration is presented after taking this base salary reduction into account.

2 This represents the share-based payment expense for options granted to KMP. For Ross Aucutt, the option value is calculated as at the grant date (30 March 2021). The amounts disclosed as part of remuneration for the financial year have been determined by amortising the grant date fair value on a straight-line basis over the period from grant date to vesting date.

Table 4. Statutory Executive KMP remuneration outcomes in FY21

		Short-term employee benefits			Post employment benefits	Other long-term benefits	Share based payments[1]		
Name	Year	Salary and fees[2]	Cash bonus[3]	Other benefits	Super -annuation	Long service leave	Options, rights, loan shares	Total remun -eration	Perform -ance related
Current executives									
G. Moshal	2021	465,866	–	–	21,694	15,518	881,485[6]	1,384,563	64%
	2020	429,327	–	–	24,474	16,530	745,628	1,215,959	61%
B. Bertoli	2021	465,866	–	–	21,694	10,659	881,485[6]	1,379,703	64%
	2020	429,327	–	–	24,474	12,450	745,628	1,211,879	62%
R. Aucutt[4]	2021	307,308	89,201	877	16,271	252	12,264	426,172	24%
	2020								
Former executives									
E.Bigazzi[5]	2020	346,720	–	900	19,188	–	15,316	382,124	4%

1 This represents the share-based payment expense for options granted to executive KMP . 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 were granted to executive KMP during the year ended 30 June 2020. A grant of options was made to Ross Aucutt on 30 March 2021 following his appointment as CFO. No options or rights were granted to Greg Moshal or Beau Bertoli during the year ended 30 June 2021.

2 Salary and fees excludes the movement in the annual leave provision. For the year ended 30 June 2021, the provision movement for Greg Moshal was an increase of $35,148 (2020: increase of $2,091), for Beau Bertoli a decrease of $8,487 (2020: increase of $6,353) and for Ross Aucutt an increase of $8,144.

3 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.

4 Salary and fees relate to the period from appointment on 7 October 2020 to 30 June 2021.

5 Salary and fees relate to the period from 1 July 2019 to 27 March 2020 when employment ceased.

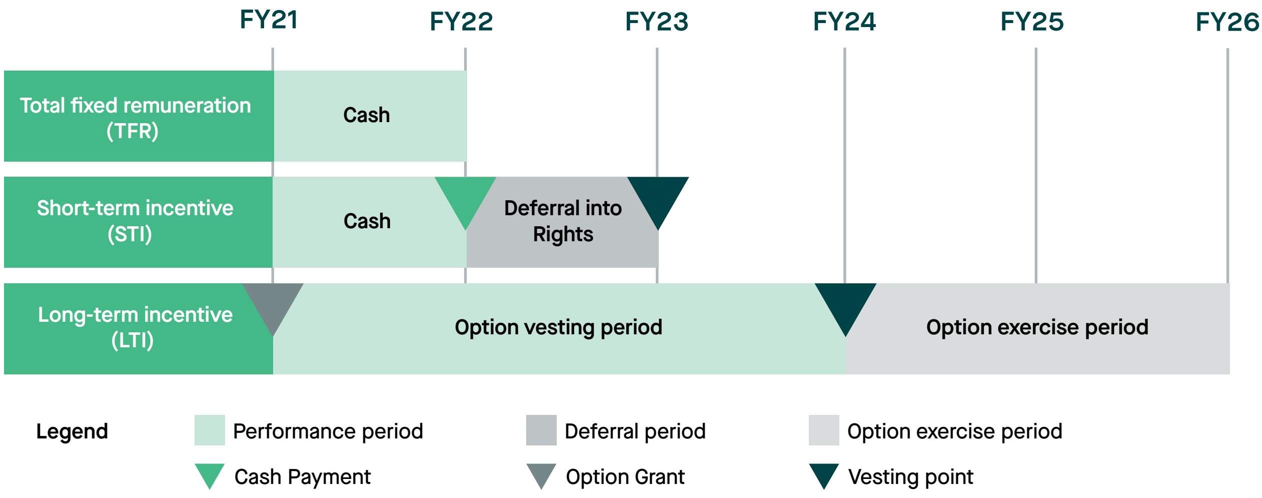
6 As noted in Table 9 on page 60, vesting and exercise dates relating to the May 2019 grant of options to Greg Moshal and Beau Bertoli were incorrectly reported in the FY20 Annual Report as Nov-19 to May-22 instead of Sept-20 to Sept-21. This error has been corrected during FY21. As a result, the share-based payment expense reported above for FY21 includes an amount of $0.6 million ($0.3 million for each of Greg Moshal and Beau Bertoli) to align with the corrected vesting period.

5. FY22 Remuneration Framework Changes

As foreshadowed in the FY20 Remuneration Report, Prospa has developed a new fit for purpose executive remuneration framework aimed at creating greater shareholder alignment to be implemented for FY22 (commencing 1 July 2021). The Committee commenced the review in light of the changed business and market circumstances since Prospa listed on the ASX in 2019. A remuneration framework was developed that more appropriately aligns to shareholders, incentivises our senior leaders, and builds on Prospa's strong employee shareholder culture.

The new executive remuneration framework balances key business value drivers in the STI through the incorporation of proposed measures such as originations, credit loss management and yield performance metrics, with a long term shareholder value creation in the LTI. Vesting of the LTI is subject to meeting Absolute Total Shareholder Return (ATSR) targets, and the LTI is being delivered as options so that executive reward will only arise where share price growth is positive.

The diagram below illustrates the proposed incentive structure for Prospa's Executive KMP:



The structure consists of the following:

- Fixed remuneration positioned against a comparator group of peer organisations.
- Short-Term Incentive Plan ("STIP") – A cash payment subject to annual performance targets, with 20% deferred into restricted rights for one year.
- Long-Term Incentive Plan ("LTIP") – Market priced options that will be net-settled as equity, subject to a 12% Absolute Total Shareholder Return ("ATSR") Compound Annual Growth Rate ("CAGR") performance condition. Options remain exercisable for 2 years following vesting. Vesting occurs after three years, and subject to minimum ATSR CAGR being met.

FY22 Short-Term Incentive Plan

STIP Design	Key Terms
Purpose of the STIP	– To align executives with the Company's strategy, culture and values and shareholder interests.

Award delivery	– Provided performance conditions are met over the one-year performance period, the STIP award at the end of FY22 will be delivered as follows:
	  – 80% in cash at the end of the performance period; and
	  – 20% granted in restricted rights, with allocation on a face value basis from the 10-day Volume Weighted Average Price, vesting on the one year post grant.

Performance metrics	– For FY22, it is proposed that STIP performance will be assessed according to:
	  – Financial measures (70%):
	    – Originations;
	    – Credit loss management;
	    – Yield/Revenue; and
	  – Non-financial and/or individual measures (30%):
	    – An assessment of non-financial measures such as Group/ business unit plan/strategy, safety/health/environment, people, customers, delivery of key strategic projects.

<table>
<tr><th>STIP Design</th><th>Key Terms</th></tr>
<tr><td>Performance thresholds</td><td>– A minimum performance threshold of 75% of target will be applied to any financial metric before an incentive can be paid.
<table>
<tr><th></th><th>Threshold</th><th>Target</th></tr>
<tr><td>Performance</td><td>75%</td><td>100%</td></tr>
<tr><td>% Outcome</td><td>80%</td><td>100%</td></tr>
</table>
– STI outcomes will be assessed on a straight-line basis between threshold and target.
– The originations threshold target must be met in order for the non-financial/individual performance metric to be payable.</td></tr>
<tr><td>Restricted rights vesting</td><td>– Restricted rights will vest after one year and automatically convert to shares (subject to trading windows).</td></tr>
<tr><td>Dividends and voting rights</td><td>– Rights do not carry dividend or voting rights prior to vesting. Shares allocated on vesting of rights carry the same dividend and voting rights as other ordinary shares.</td></tr>
<tr><td>Cessation of employment and change of control</td><td>Cessation of employment
– Where a participant ceases employment prior to payment of cash / vesting of restricted rights, all STIP awards are forfeited.
– An employee must be employed at the STIP payment date to receive a payment in respect of their STIP award.
– Good leavers may receive a pro-rata award, subject to Board and management discretion.
Change of control
– Board retains full discretion to determine deferred award treatment where a change of control event has occurred.</td></tr>
<tr><td>Governance</td><td>Prior to vesting, all STIP awards are subjected to Board risk review, and should any substantial breach of regulatory compliance or material misstatements be identified, the award can be reduced, including to zero.</td></tr>
</table>

FY22 Long-Term Incentive Plan

LTIP Design	Key Terms
Purpose of the LTIP	To motivate and retain key employees through the alignment of the shareholder value they create.
Eligibility	All Executive KMP

LTIP Design	Key Terms
Performance period and condition	– LTIP awards will vest subject to an ATSR measure, based on a 12% CAGR of Prospa's TSR over the performance period. <table><tr><th>ATSR CAGR threshold</th><th>ATSR CAGR maximum</th><th>Vesting schedule minimum</th><th>Vesting schedule maximum</th></tr><tr><td>10%</td><td>12%</td><td>50%</td><td>100%</td></tr></table> – Awards will vest on a straight-line basis for ATSR CAGR between threshold and maximum. – KMP roles will be subject to an ATSR CAGR performance assessment at the end of the 3-year vesting period. – The start and end period for ATSR will be determined using the 60-day VWAP of the Prospa share price to 30 June. – The Board retains discretion to adjust the ATSR target and/or how ATSR performance is calculated to address matters that materially affect TSR outcomes and are considered by the Board to be outside management's influence and/or control.
Vesting restrictions	– Options will vest following testing of the performance condition at the end of the performance period.
Cessation of employment and change of control	*Cessation of employment* – Unless the Board determines otherwise, unvested awards will lapse on cessation of employment due to either resignation, or termination for cause/ gross misconduct. – In all other cases, unless the Board determines otherwise, participants who cease employment holding unvested rights may have their rights prorated subject to board discretion and continue to be performance tested under the vesting schedule. *Change of control* – Board retains full and complete discretion to determine award treatment where a change of control event has occurred.
Governance	Prior to vesting, all LTIP awards are subjected to Board risk and reputation review, and should any substantial breach of regulatory compliance and material misstatements be identified, the award can be reduced, including to zero.

Employee Equity Arrangements

Prospa has a strong history of employee share ownership and offered equity awards to employees during the financial year. Prospa intends to align employee equity grants with shareholder returns and realisation of the Company's strategy.

Please refer to Note 33 to the consolidated financial statements for further details on these share-based payments. The Executive KMP elected not to participate in the employee rights or options issued during FY21.

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.

6. Prospa performance and shareholder return

As shown below in Table 5, Prospa has achieved year on year growth in revenue with a 20.2% CAGR over the period FY17 to FY21. Throughout the challenges of COVID-19 in FY21, the business remained focused on tighter management of costs and portfolio yield while continuing to execute on growth initiatives in line with strategy.

For the 12-month period to 30 June 2021, total revenue before transaction costs was $117.7 million, down from $142.1 million the prior year. A positive adjusted FY21 EBITDA of $0.4 million was achieved against a $15.8 million loss in FY20. Importantly, the NPAT figure saw a marked improvement, from a loss of $24.9 million in FY20 to a $9.5 million loss in FY21.

The realised portfolio yield for FY21, which measures reported total revenue as a percentage of Average Gross Loans, remained stable at 32.7% for the 12 months compared with 32.8% in FY20 despite the significant increase in originations.

Prospa's portfolio remains well-balanced and diversified, and its balance sheet and funding platform have been further strengthened.

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

Table 5. Group performance summary

$ million	Statutory FY21	Statutory FY20	Statutory FY19	Statutory FY18	Statutory FY17
Total revenue before transaction costs	117.7	142.1	136.4	104.0	56.3
EBITDA[1]	0.4	(15.8)	0.9	8.0	4.8
NPAT	(9.5)	(24.9)	(24.7)	2.1	0.7
Share price high ($)	1.09	5.09	4.55	n/a	n/a
Share price low ($)	0.67	0.40	3.49	n/a	n/a
Share price close ($)	1.00	0.96	3.63	n/a	n/a

1 All references to EBITDA in this document represent Earnings Before Corporate Interest, Tax, Depreciation and Amortisation, Share-Based Payments and Fair Value movements.

The 1H21 results, announced in February 2021, showed signs of a rebound from the COVID-19 period, with originations growing 265.3% from 4Q20 to 1Q21 and a further 25.9% from 1Q21 to 2Q21. The New Zealand business also continued to grow, reaching its highest monthly levels of originations since inception, with the Company surpassing $100 million in cumulative loans originated.

3Q21 showed good momentum for Prospa, with a return to growth in revenue and average gross loans. Total originations returned to pre-COVID-19 levels, with originations of A$121.0 million largely in line with the prior corresponding period (3Q20: A$122.2 million) and up 20% on prior quarter (2Q21: A$100.7 million).

The 4Q21 trading update reported a significant increase in originations of A$182.7 million, up 51% from 3Q21 and nearly eight times on the prior corresponding period (4Q20). Demonstrating an accelerating growth trend, Prospa recording its highest ever quarterly originations and achieved the highest ever originations for any month on record in June, with A$79.8 million recorded. This figure increased from A$61.4 million in May and April's originations stood at A$41.5 million. Of the total originations for 4Q21, 74% were from Prospa's Small Business Loan, and 26% were from the Company's recently enhanced Line of Credit product.

The New Zealand business continued to see strong growth in originations with A$34.3 million achieved in the 4Q21. This is a 72% increase on 3Q21 (A$19.9 million).

The acceleration in 4Q21 originations and a 17% lift in revenue to A$33.4 million was strongly supported by Prospa's improved technology capability and follows an increased investment during the final quarter of the year. This resulted in streamlining the customer experience and approval process, which has enabled Prospa to assist more customers. Furthermore, Prospa continues to demonstrate a loyal customer base with repeat and returning customers accounting for more than 50% (A$91.6 million) of total originations. This is at a materially lower cost of acquisition than customers new to Prospa.

Prospa's Net Promoter Score stands at more than 80 and Prospa is ranked #1 online lender to small business in the Non-bank Financial Services category in both Australia and New Zealand on independent review site TrustPilot[1].

Greg Moshal and Beau Bertoli voluntarily elected not to participate in an incentive plan for FY21 to support the recovery of the business.

1 In the Non-bank Financial Services category, Prospa is the #1 ranked online small business lender in Australia and New Zealand on independent review site TrustPilot with a TrustScore of 4.9 and over 6,200 reviews in Australia and a TrustScore of 4.9 and over 800 reviews in New Zealand as at 30 June 2021.

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.

Table 6. Non-Executive Director fees

Board and Committee fees to 30 June 2021 ($ 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 FY21.

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

Prospa conducted a review of Non-Executive Director fees during the year against a peer group of ASX listed comparator organisations. As an outcome of this review, the Remuneration, People and Nomination committee approved the following changes to the Non-Executive Director fee structure effective from 1 July 2021.

Board and Committee fees from 1 July 2021 ($ incl super)	Chair	Member
Board	180,000	100,000
Audit and Risk Committee	25,000	Nil
Remuneration, People and Nomination Committee	15,000	Nil

Non-Executive Director Equity Plan ("NEDEP")

In line with Prospa's ownership culture, the Company had a NEDEP 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.

No rights were granted to Directors under the NEDEP during FY21 (FY20: 25,463).

Non-Executive Director statutory remuneration

Table 7 outlines statutory remuneration paid to Non-Executive Directors in FY21 in accordance with AAS.

Table 7. Non-Executive Director statutory remuneration

Name	Year	Fees $	Superannuation benefits $	Share-based payments[3] $	Total[4] $
G. Pemberton	2021	156,744	14,891	22,500	194,135
	2020	113,716	10,803	84,314	208,833
G. Ruddock	2021	98,525	9,360	5,931	113,815
	2020	96,593	9,176	11,006	116,775
F. Trafford-Walker[1]	2021	103,955	4,691	22,500	131,146
	2020	78,833	–	68,063	146,896
A. Eyal[2]	2021	98,333	–	–	98,333
	2020	71,667	–	32,563	104,230
M. Ploughman[5]	2021	29,101	3,098	–	32,199
	2020	–	–	–	–

1 From 1 July 2019 to 31 July 2020 fees relating to Fiona Trafford-Walker were 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 2021. 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 during FY20.

5 Fees relate to the period from appointment on 1 March 2021 to 30 June 2021.

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 8.

No grant of Non-Executive Director options occurred during FY21.

Table 8. 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 Jun 22	14/06/2024	$4.35	$2.28
G. Ruddock	25,000	14/06/2019	Dec 19 to Jun 22	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 Jun 22	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 at the 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 Executive KMP hold equity as part of their incentive arrangements.

Prior to IPO, Executive KMP 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 date, vested options must be exercised within 90 days of cessation.

Details relating to each grant held by Executive KMP are set out in Table 9.

Table 9. Terms and Conditions of Executive KMP 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	Sep 20 to Sep 21[1]	14/05/2024	$3.33	$4.36
	743,517	14/05/2019	Sep 20 to Sep 21[1]	14/05/2024	$3.78	$4.61
B. Bertoli	543,123	14/05/2019	Sep 20 to Sep 21[1]	14/05/2024	$3.33	$4.36
	743,517	14/05/2019	Sep 20 to Sep 21[1]	14/05/2024	$3.78	$4.61
R. Aucutt	250,000	30/03/2021	Mar 24	30/03/2026	$0.93	$0.34
	250,000	30/03/2021	Mar 25	30/03/2026	$1.07	$0.33

1 Vesting and exercise dates relating to the May 2019 grant of options to Greg Moshal and Beau Bertoli were incorrectly reported in the FY20 Annual Report as Nov-19 to May-22. This error has been corrected during FY21. As a result, the share-based payment expense reported in Table 4 above includes an amount of $0.6 million ($0.3 million for each of Greg Moshal and Beau Bertoli) to align with the corrected vesting period.

Table 10. KMP equity movements

KMP	Balance of rights, options, loan shares as at 1 July 2020	Rights, options, loan shares granted in FY2021	Rights, options, loan shares vested in FY2021	Rights, options, loan shares exercised in FY2021	Rights, options, loan shares forfeited in FY2021	Balance of rights, options, loan shares as at 30 June 2021	Balance of rights, options, loan shares as at 30 June 2021 (vested)
G. Moshal	543,123	–	271,560	–	–	543,123	271,560
	743,517		371,757	–	–	743,517	371,757
B. Bertoli	543,123	–	271,560	–	–	543,123	271,560
	743,517		371,757	–	–	743,517	371,757
R. Aucutt	–	500,000	–	–		500,000	–
G. Pemberton	95,556	–	47,778	–	–	95,556	95,556
	25,000[1]	–	–	–	–	25,000	25,000
G. Ruddock	25,000[1]	–	–	–	–	25,000	25,000
F. Trafford-Walker	95,556	–	47,778	–	–	95,556	95,556
	25,000[1]	–	–	–	–	25,000	25,000
A. Eyal	92,592	–	–	–	–	92,592	92,592

1 Vested Options under escrow that became exercisable on the day following the release of the FY20 results.

The number of shares in the Company held during the financial year by each Non-Executive Director and Executive KMP of the Group, including their personally related parties, is outlined in Table 11.

Table 11. KMP equity holdings

KMP	Balance at 1 July 2020	Received on exercise of rights, options, loan shares	Purchased/ Acquired	Disposed	Balance at 30 June 2021
G. Moshal	24,772,428	–	78,304	–	24,850,732
B. Bertoli	9,745,636	–	15,665	–	9,761,301
R. Aucutt	–	–	–	–	–
G. Pemberton	227,102	–	–	–	227,102
G. Ruddock	1,133,611	–	–	–	1,133,611
F. Trafford-Walker	33,079	–	14,640	–	47,719
A. Eyal	2,748,466	–	97,448	–	2,845,914
M. Ploughman	–	–	–	–	–

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 10, 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 30 September each year until the day following the announcement to ASX of the trading update;
- 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;
- The period from the close of trading on the ASX on 31 March each year until the day following the announcement to ASX of the trading update; 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 Executive Incentive Plan ("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

“Prospa has been there for us when we needed help with expanding our business, and we feel confident that they’ll be there to help us in the future.”

Amanda, QLD

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 2021.

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 1 August 2021 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 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 and Safety;
- Ethical Business Practices;
- Management Systems; and
- Environment.

Modern Slavery Statement

In March 2021, Prospa published its first Modern Slavery Statement under the Commonwealth Modern Slavery Act 2018 (“the Act”). The statement addresses the key activities carried out in accordance with the reporting requirements in section 16 of the Act for the financial year ended 30 June 2020 (FY20).

Prospa is committed to eliminating modern slavery, which encompasses a range of situations where a person’s freedom has been taken away or exploited. We believe respecting and protecting human rights enables individuals, societies and businesses to flourish. Preventing our own involvement in modern slavery practices is essential to this. Included in this is a strong focus on ensuring we have the right processes in place to identify and prevent, to the best of our ability, the existence of modern slavery practices in our operations and supply chain.

Prospa holds itself and each of its service providers to the highest of ethical and compliance standards, including basic human rights, encouraging fair and equal treatment for all persons, the provision of safe and healthy working conditions, respect for the environment, the adoption of appropriate management systems and the conduct of business in an ethical manner.

Prospa’s Modern Slavery statement for FY20 is available to download from the Modern Slavery register.

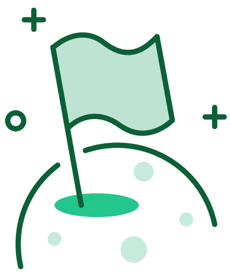
Our core values

Our more than 230 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

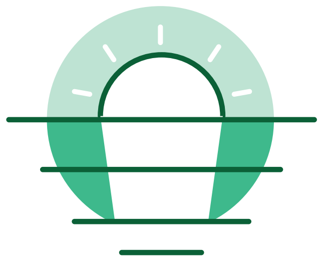
Obsess about customers

Don’t just listen, hear what’s important



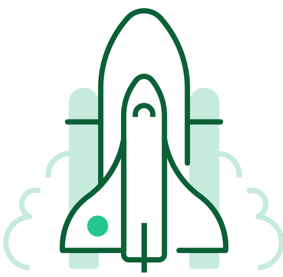
Be bold, open and real

Take smart risks, be transparent and true



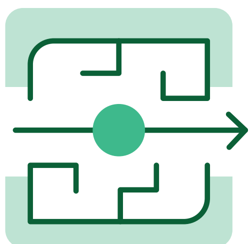
Day 1

Keep our start-up mentality



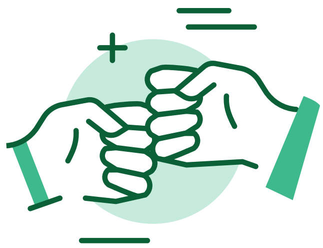
Deliver value fast

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 and Growth plans.

Prospa's Key Capabilities

- Create value at every opportunity
- Solve problems 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 opportunity employment. 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 FY21 for all employees were 45% women and 55% men; and for the Leadership Team 30% women and 70% men. Members of the Leadership Team are the Executives and other people leaders who are in a position to influence, motivate and enable others to contribute to the Company's success. As at the end of FY21, we employed 44% women and 56% men (all employees) and our Leadership Team comprised of 36% women and 64% men. We acknowledge we did not meet our gender targets for FY21 and we intend to increase our focus on improving gender diversity in FY22.

Our Executive Team is comprised of 17% women and 83% men. Executives are the most senior managers who sit on our Executive Team and determine the strategic direction of the business.

The Board is comprised of 43% women and 57% men.

Prospa was compliant with the Workplace Gender Equality Act 2012 in FY21.

To further support our gender diversity goals, Prospa has partnered with Project F's Program 50/50 to create a tailored roadmap to help us invest in and cultivate our female technology talent and close the gender gap in our technology teams. Prospa's Chief Technology Officer is our executive sponsor for the program.

We provide long-term flexible working arrangements to support the diverse needs of our employees and have an ambassador group dedicated to evolving and improving these policies, with a particular focus on supporting employee wellbeing.

Other initiatives to promote workplace diversity include a recently increased paid parental leave policy. This saw us increase our offer from 8 weeks to 12 weeks for primary caregivers. We also have a Parents at Prospa network group to which we roll out various initiatives including workshops. Two recent examples include the following:

– A Parents at Prospa event run by a specialist in the area of adolescents, (Life Street, our employee assistance programme "EAP" and Wellbeing provider), involved a facilitated conversation with Parents of this age group, focusing on questions submitted by attendees.

– Our most recent initiative was working with the company KidsCo to offer Parents at Prospa a two-week facilitated virtual program for their children aged between 5-12 years during the most recent lockdown. Children could register to attend two-hour daily sessions, run every Monday-Friday during this period. The idea behind this was to help working parents to occupy their children for two hours each day whilst they were home.

We are currently reviewing our internal policies to ensure that our offerings are progressive and supportive of parents returning to work. Our office space is wheelchair accessible. We have a wellness room offering a safe and private space available to all employees at any point of time. This room is designed for employees to escape when they are feeling stressed, unwell or for any other reasons such as mothers returning to work who need a private space to express breastmilk. We have a multi-purpose room to provide a 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. The impacts of COVID-19 further reinforced our commitment to supporting our employees' health and wellbeing, recognising that mental health issues were of particular concern. Prospa also partners with external organisation Life Street to offer an EAP and ensure all Prospa employees are provided with the right support, tools and resources to help manage work, relationships, caring responsibilities and finances.

We recently announced as part of our Parental leave policy, a two-week paid bereavement leave period for any employee who suffers a loss of pregnancy. We also now offer a two-week paid period of leave for any employee experiencing domestic violence and accompanying this is a full domestic and family violence policy that covers additional support provided during this time. There are no status or minimum tenure requirements to access these types of leave. We are also proud to announce that we have joined the Great Aussie Vaccine Drive – allowing for permanent employees to take paid vaccination leave of four hours per vaccination.

Prospa surveys its employees quarterly 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 quarterly company updates while people managers are supported by the People & Culture team to commit to team-based action plans. Prospa also participated again in the 2021 Great Place to Work program, which is assessed based on an independent benchmark of our policies, practices, and programs; together with feedback from our people obtained through a Trust Index© employee survey. We are pleased to share that we have been certified again following our 2019 participation and certification.

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.

During FY21, Prospa was proud to strengthen our partnership with Kiva, a non-profit focused on expanding financial access to underserved communities. Through our partnership with Kiva, we are joining a global mission to help entrepreneurs around the world to grow and prosper. Prospa supports Kiva through employee engagement campaigns and loan matching initiatives such as the #InvestInHer campaign for International Women's Day 2021.

Prospa is also committed to giving back to our local community and donated to the Australian Red Cross to support communities and small businesses impacted by the NSW floods in 2021. We are committed to supporting local suppliers and customers through our company events program whenever possible, including our annual Mardi Gras celebration and monthly Company All Hands. Prospa also supported Aussie Tech for India, donating to the Medical Oxygen for All fund to support urgent COVID-relief efforts in India.

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 contributed to Australian GDP and supports 57 FTE jobs. Based on this research, Prospa has contributed an estimated $8.4 billion to Australian GDP and supported around 119,700 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

Prospa has eight risk pillars under the company's Board approved Risk Appetite Statement. These are Strategic; Financial and Funding; Credit; People and Culture; Customer and Conduct; Legal; Regulatory;Compliance and Fraud; Cyber and IT Security and Technology; and Operational. This is underpinned by operational risk and compliance frameworks, including three lines of defence.

As part of our continued focus on effective risk identification, mitigation and management, Prospa's Board of Directors has adopted these pillars as useful and appropriate classifications of the areas of risk in the business. The Board sets the Risk Appetite Statement with clear tolerances for each risk pillar. The Group's CEO and executive team 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 Know Your Customer (KYC) and Anti-Money Laundering (AML) rules in accordance with our AML and Counter Terrorism Financing 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 lockdowns caused by the COVID-19 pandemic and continue to write business within our risk appetite. The effectiveness of Prospa's purpose-built Credit Decision Engine is evident with static loss rates remaining within the board mandated 4% to 6% range and early loss indicators stable.

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.

The Group is exposed to foreign exchange translation and transaction risk through its New Zealand operations. 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 and Compliance

Operational risk is 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 Management 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, processes and controls used to manage and mitigate operational risks and obligations.

The Group's Risk Appetite Statement, which both frameworks support, are positioned around the eight risk pillars. 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 two geographies.

Auditor's Independence Declaration

"Professional, Fast & Fantastic. When we dealt with the Prospa team they were transparent, professional, and went above and beyond to treat us as individuals who they really wanted to help."

Trustpilot review

Auditor's Independence Declaration

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

Grosvenor Place
225 George Street
Sydney, NSW, 2000
Australia

Phone: +61 2 9322 7000
www.deloitte.com.au

20 August 2021

The Board of Directors
Prospa Group Limited
Level 1, 4-16 Yurong Street
Sydney NSW 2000

Dear Board Members

Auditor's Independence Declaration to 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 report of Prospa Group Limited for the year ended 30 June 2021, 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 faithfully

Deloitte. Touche. Tohmatsu.

DELOITTE TOUCHE TOHMATSU

Mark Lumsden
Partner
Chartered Accountants

FY2

Financial Statements

Consolidated statement of profit or loss and other comprehensive income

For the year ended 30 June 2021

	Note	Consolidated 30 June 2021 $'000	Consolidated 30 June 2020 $'000
Income			
Interest income	4	101,205	122,547
Other income	5	9,264	10,646
Total income		110,469	133,193
Funding costs	6	(16,734)	(20,356)
Gross profit		93,735	112,837
Expenditure			
Loan impairment expense	7	(27,284)	(52,881)
Employee expenses	8	(35,242)	(41,076)
Operating expenses	8	(30,832)	(34,717)
Share-based payments	33	(4,791)	(3,686)
Depreciation		(2,684)	(3,106)
Amortisation	14	(5,395)	(3,084)
Interest on lease liabilities	6	(467)	(535)
Fair value loss on financial instruments		–	(129)
Total expenditure		106,695	139,214
Loss before income tax benefit		(12,960)	(26,377)
Income tax benefit	9	3,466	1,444
Loss after income tax benefit for the year attributable to the owners of Prospa Group Limited	19	(9,494)	(24,933)
Other comprehensive loss			
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation		(73)	(191)
Other comprehensive loss for the year, net of tax		(73)	(191)
Total comprehensive loss for the year attributable to the owners of Prospa Group Limited		(9,567)	(25,124)
		Cents	Cents
Basic earnings per share	32	(5.87)	(15.48)
Diluted earnings per share	32	(5.87)	(15.48)

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 2021

	Note	Consolidated 30 June 2021 $'000	Consolidated 30 June 2020 $'000
Assets			
Cash and cash equivalents	10	80,377	110,319
Loan receivables	11	393,425	332,238
Bank deposits		1,095	1,091
Income tax		–	637
Prepayments and other assets		2,452	1,947
Property, plant and equipment	12	728	1,510
Right-of-use assets	13	4,959	6,796
Intangible assets	14	7,213	7,826
Deferred tax assets	15	14,261	10,854
Total assets		504,510	473,218
Liabilities			
Trade and other payables		7,763	6,108
Borrowings	16	359,889	326,789
Leases	13	6,732	8,658
Employee benefits		5,611	2,640
Total liabilities		379,995	344,195
Net assets		124,515	129,023
Equity			
Issued capital	17	610,919	610,651
Reserves	18	(422,475)	(427,193)
Accumulated losses	19	(63,929)	(54,435)
Total equity		124,515	129,023

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 2021

Consolidated	Issued capital (Note 17) $'000	Reserves (Note 18) $'000	Accumulated losses (Note 19) $'000	Total equity $'000
Balance at 1 July 2019	609,975	(431,412)	(28,543)	150,020
Adjustment on adoption of AASB 16	–	–	(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 33)	–	3,686	–	3,686
Tax benefit on re-organisation (Note 9)	–	724	–	724
Exercise of options	694	–	–	694
Share repurchase	(18)	–	–	(18)
Balance at 30 June 2020	610,651	(427,193)	(54,435)	129,023

Consolidated	Issued capital (Note 17) $'000	Reserves (Note 18) $'000	Accumulated losses (Note 19) $'000	Total equity $'000
Balance at 1 July 2020	610,651	(427,193)	(54,435)	129,023
Loss after income tax benefit for the year	–	–	(9,494)	(9,494)
Other comprehensive loss for the year, net of tax	–	(73)	–	(73)
Total comprehensive loss for the year	–	(73)	(9,494)	(9,567)
Transactions with owners in their capacity as owners:				
Share-based payments (Note 33)	–	4,791	–	4,791
Exercise of options	219	–	–	219
Sale of loan shares	54	–	–	54
Share repurchase	(5)	–	–	(5)
Balance at 30 June 2021	610,919	(422,475)	(63,929)	124,515

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 2021

	Note	Consolidated 30 June 2021 $'000	Consolidated 30 June 2020 $'000
Cash flows from operating activities			
Customer income received		109,207	131,154
Other income received		9,993	9,113
Interest paid		(17,881)	(21,928)
Payments to suppliers and employees		(71,141)	(86,020)
Net income tax refunded		696	348
JobKeeper payments received		3,913	1,122
Net cash from operating activities	31	34,787	33,789
Cash flows from investing activities			
Net increase in loans advanced to customers		(90,715)	(3,258)
Payments for property, plant and equipment		–	(321)
Payments for intangibles		(4,782)	(4,330)
Net cash used in investing activities		(95,497)	(7,909)
Cash flows from financing activities			
Proceeds from borrowings		136,935	105,793
Repayment of borrowings		(104,448)	(90,420)
Principal repayment of lease liabilities		(1,987)	(1,449)
Payments for share repurchase		(5)	(18)
Proceeds from exercise of options		219	694
Proceeds from sale of loan shares		54	–
Net cash from financing activities		30,768	14,600
Net (decrease)/increase in cash and cash equivalents		(29,942)	40,480
Cash and cash equivalents at the beginning of the financial year		110,319	69,839
Cash and cash equivalents at the end of the financial year	10	80,377	110,319

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 2021

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 following the 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 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 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 is satisfied the Group has the resources to continue for the foreseeable future and pay debts as they fall due.

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

- Budget and cash flow forecasts have been prepared, which extend beyond 31 August 2022. 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 $39.8 million as at 30 June 2021 (30 June 2020: $55.3 million); and
- The Group has $458.6 million in available third party facilities at 30 June 2021 (30 June 2020: $442.9 million), including undrawn amounts of $97.2 million at 30 June 2021 (30 June 2020: $114.1 million).

Management and the Board are satisfied the Group will continue as a going concern. This conclusion is based on the items described above, which include sufficient cash headroom and the ongoing support of our funding partners and the actions taken during the financial year ended 30 June 2021 to reduce operating expenses.

Impact of COVID-19

The emergence of the COVID-19 pandemic during 2020 had a significant economic impact as many restrictions were imposed on both individuals and businesses in an attempt to limit the spread of the virus. The impact of the pandemic has resulted in increased uncertainty and judgment in relation to our critical accounting assumptions and estimates. Whilst the specific areas of judgment 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 effects of COVID-19 in preparing its financial statements and sets out the key financial statement areas impacted below.

Expected credit loss ("ECL")

The impact of the COVID-19 pandemic on the Group's expected credit loss estimates is disclosed and further explained in Note 21.

Impairment of non-financial assets

Consistent with the Group's accounting policies, and relevant Australian Accounting Standards, the Group has considered indicators of impairment arising as at 30 June 2021. 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. The valuation approach and estimation techniques adopted for the year are consistent with those used as at 30 June 2020.

It was determined that no impairment to non-financial assets was required as a result of this assessment.

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.

Business Finance Guarantee Scheme

In addition, the Group is an approved Lender to the New Zealand Government's Business Finance Guarantee Scheme ("BFGS"). Under the BFGS, the Group has a Government-backed guarantee of up to 80% against the outstanding balance of eligible products.

ECLs in relation to eligible products under these schemes are calculated using the methodology outlined in Note 21 and where appropriate, are reduced to reflect the component covered by the Guaranteed portion.

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 initially provided $1,500 before tax per fortnight for eligible employees over six months from 30 March 2020 to 27 September 2020. From 28 September 2020 to 3 January 2021, the JobKeeper extension 1 came into force. This extension assessed eligible employees between two tiers depending on the number of hours worked per fortnight, providing $1,200 before tax per fortnight for eligible employees within Tier 1 and $750 before tax per fortnight for eligible employees within Tier 2.

Employers were eligible to participate in the subsidy during the initial JobKeeper period and during extension 1 if the turnover tests specified by the Government were met. The Group was an eligible recipient of JobKeeper and JobKeeper extension 1 and received the subsidy during the year ended 30 June 2021.

The subsidy has been recognised in profit or loss by reducing employee expenses and reducing capital expenditure where eligible employee expenses are treated as an addition to software development (Note 14) according to AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance*. For the financial year ended 30 June 2021, the Group recorded a total benefit of $3.3 million under the JobKeeper Payment scheme. This has been reflected in the financial statements by reducing employee expenses by $2.8 million and reducing additions to software development by $0.5 million to reflect the benefits of the scheme received and receivable.

Parent entity information

Under the Corporations Act 2001, these financial statements present the results of the Group only. Supplementary information about the parent entity is disclosed in Note 28.

Principles of consolidation

These consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Prospa Group Limited ("Company" or "parent entity") as at 30 June 2021, 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 can affect those returns through its power to direct the entity's activities. 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 Prospa Group Limited's functional and presentation currency.

Foreign currency transactions

Foreign currency transactions are translated into Australian dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Foreign operations

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

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

New or amended Accounting Standards and Interpretations adopted

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

The following standards and amendments have been adopted for the first time for the reporting period commencing 1 July 2020:

- Definition of Material (AASB 2018-7) – amendments to AASB 101 *Presentation of Financial Statements* and AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*;
- Definition of a Business (AASB 2018-6) – amendments to AASB 3 *Business Combinations*;
- Interest Rate Benchmark Reform on Hedge Accounting (AASB 2019-3) – amendments to AASB 7 *Financial Instruments: Disclosures*, AASB 9 *Financial Instruments* and AASB 139 *Financial Instruments: Recognition and Measurement*;
- Revised Conceptual Framework for Financial Reporting (AASB 2019-1); and
- COVID-19 related rent concessions (AASB 2020-4).

The amendments listed above did not impact the amounts recognised in prior periods and are not expected to affect the current or future periods significantly.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted and are not likely to have a significant impact.

Software-as-a-Service arrangements

The International Financial Reporting Standards Interpretations Committee ("IFRIC") has issued two agenda decisions related to accounting for Software-as-a-Service ("SaaS") arrangements.

- In March 2019, the IFRIC considered the accounting for SaaS arrangements and concluded that for many arrangements, the entity has contracted to receive services rather than the acquisition (or lease) of software assets. This is because, in a cloud-based environment, the SaaS contract generally only gives the customer the right to receive access to the cloud provider's application software, rather than a license over the intellectual property, i.e. control over the software code itself.
- In April 2021, the IFRIC specifically considered how an entity should account for configuration and customisation costs incurred in implementing these SaaS service arrangements. The IFRIC concluded that these costs should be expensed unless the criteria for recognising a separate asset are met.

The Group has reviewed this guidance and determined that this is consistent with the existing accounting treatment for SaaS arrangements and other software development costs. No change in accounting policy is required and there has been no restatement to historical financial information presented.

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.

Employee benefits

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

The liability for annual leave and long service leave is measured at the present value of expected future payments 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.

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.

Fair value through profit or loss ("FVTPL")

All financial assets not measured at amortised cost are measured at FVTPL. All financial assets that are equity instruments are 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.

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

Statement of profit or loss and other comprehensive income

For the year ended 30 June 2021, the Group has adopted a revised presentation approach in relation to interest income to ensure a clear correlation between the Group's interest income presentation and the requirements of AASB 9 – *Financial Instruments*.

The Group also adopted a revised presentation for expenditure.

The historic presentation is compared to the revised presentation below.

	Historic presentation	Reclassifications				Revised presentation
	30 June 2020 $'000	Transaction Costs $'000	Funding Costs $'000	Employee Expenses $'000	Operating Expenses $'000	30 June 2020 $'000
Interest Income	131,441	(8,894)	–	–	–	122,547
Other income	10,646	–	–	–	–	10,646
Total revenue before transaction costs/ Total income	142,087	(8,894)	–	–	–	133,193
Transaction costs	(9,256)	9,256	–	–	–	–
Funding costs	–	–	(20,356)	–	–	(20,356)
Net revenue/Gross profit	**132,831**	**9,256**	**(20,356)**	**–**	**–**	**112,837**
Operating expenses/Expenditure						
Funding costs	(20,356)	–	20,356	–	–	–
Sales and marketing expense	(30,407)	–	–	14,207	16,200	–
Product development expense	(10,748)	–	–	10,748	–	–
General and administration expense	(37,962)	–	–	19,826	18,136	–
Loan impairment expense	(52,881)	–	–	–	–	(52,881)
Employee expenses	–	–	–	(41,076)	–	(41,076)
Operating expenses	–	(362)	–	(19)	(34,336)	(34,717)
Share-based payments	–	–	–	(3,686)	–	(3,686)
Total operating expense	**(152,354)**					
Depreciation	(3,106)	–	–	–	–	(3,106)
Amortisation	(3,084)	–	–	–	–	(3,084)
Interest on lease liabilities	(535)	–	–	–	–	(535)
Fair value loss on financial instruments	(129)	–	–	–	–	(129)
Total expenditure		**–**	**–**	**–**	**–**	**(139,214)**
Loss before income tax (expense)/benefit	**(26,377)**	**–**	**–**	**–**	**–**	**(26,377)**

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

Statement of financial position

For the year ended 30 June 2021, the Group has adopted to present the Statement of Financial Position on a liquidity basis.

This view is consistent with AASB 101 *Presentation of Financial Statements*, which allows an entity to adopt a presentation based on liquidity where this provides information that is reliable and more relevant. The Group considers a presentation of assets and liabilities in decreasing order of liquidity provides reliable information and is more relevant than a current/non-current presentation because the Group does not supply goods or services within an identifiable operating cycle.

To ensure the Group continues to adhere to the presentational requirements set out in AASB 101, the amount expected to be recovered or settled after more than twelve months for each asset and liability line item (where applicable) is disclosed in the notes to the accounts.

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.

2 Critical accounting judgements, estimates and assumptions

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

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

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

The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within subsequent reporting periods 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 ECL assessment requires a degree of estimation and judgement and is modelled using assumptions concerning the ECL, including the evaluation 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 COVID-19 in measuring ECL. The actual credit losses in future years may be higher or lower.

Allowance for expected credit losses is further discussed in Note 21.

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 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 33.

Impairment of non-financial assets

At the end of each reporting period, the Group reviews its non-financial assets to assess any impairment indications, in accordance with AASB 136 *Impairment of Assets*. In doing so, the Group considers both internal and external sources of information. If there is any sign of impairment identified during this review, the Group will compare the asset's estimated recoverable amount to the carrying amount. Where the carrying amount is higher, the asset is written down to its estimated recoverable amount.

The recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The Group typically determines the 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 9.

Recovery of deferred tax assets

Deferred tax assets are recognised for temporary deductible differences and unused tax losses 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 15.

3 Operating segments

The Group's operations consist primarily of providing 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. This is the only segment that meets the requirements of AASB 8.

4 Interest income

Accounting policy

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

Revenue is recognised for key items as follows:

Interest income

Interest income is recognised using the effective interest method in accordance with AASB 9.

Effective interest method

The effective interest method calculates the amortised cost of a financial asset and allocates the interest income over the relevant period using the effective interest rate. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

When calculating the effective interest rate, the Group considers interest on loans, fees that are an integral part of the loan, such as origination fees and all transaction costs directly attributable to the loan. The calculation does not consider future expected credit losses.

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.

	Consolidated	
	30 June 2021 $'000	30 June 2020 $'000
Interest income	108,464	131,441
Transaction costs	(7,259)	(8,894)
	101,205	122,547

5 Other income

Accounting policy

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. Fee income is comprised of servicing fees, late fees, and subscription fees.

AASB 15 *Revenue* 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 is recognised using the effective interest method in accordance with AASB 9.

	Consolidated	
	30 June 2021 $'000	30 June 2020 $'000
Fee income	9,166	10,267
Bank interest	98	379
	9,264	10,646

6 Interest expense

Accounting policy

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

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

	Consolidated	
	30 June 2021 $'000	30 June 2020 $'000
Funding costs	16,734	20,356
Interest on lease liabilities	467	535
	17,201	20,891

Interest on lease liabilities is recognised in accordance with AASB 16 *Leases*.

7 Loan impairment expense

The loan impairment expense reported in the statement of profit or loss and other comprehensive income is comprised of the following key items:

	Consolidated	
	30 June 2021 $'000	30 June 2020 $'000
Receivables written-off during the year as bad debts	40,368	36,990
Net movement in provision	(7,744)	16,984
Adjustment in relation to loan receivables review	–	5,535
Recoveries	(5,307)	(6,664)
Difference due to exchange rate variance	(33)	36
	27,284	52,881

8 Expenditure

Operating expenses for the year were $30.8 million (June 2020: $34.7 million).

	Consolidated	
	30 June 2021 $'000	30 June 2020 $'000
General and administration expense	13,133	12,652
Sales and marketing expense	11,934	16,487
IT expense	5,765	5,578
	30,832	34,717

Employee expenses for the year ended 30 June 2021 include a $2.8 million benefit in relation to the JobKeeper Payment subsidy (Note 1) (30 June 2020: $1.4 million).

9 Income tax

Accounting policy

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 amounts 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. Consequently, 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.

	Consolidated	
	30 June 2021 $'000	30 June 2020 $'000
Amounts recognised in profit or loss		
Current tax		
Current year	31	526
Adjustment recognised for prior periods	(79)	(1,065)
	(48)	(539)
Deferred tax		
Origination and reversal of temporary differences	(3,558)	869
Adjustment recognised for prior periods	140	(1,774)
	(3,418)	(905)
Aggregate income tax benefit	(3,466)	(1,444)
Numerical reconciliation of income tax benefit and tax at the statutory rate		
Loss before income tax benefit	(12,960)	(26,377)
Tax at the statutory tax rate of 30%	(3,888)	(7,913)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Entertainment expenses	18	25
Share-based payments	1,437	1,106
Movement on financial instruments	–	32
Other non-deductible items	24	258
Effect of tax rates in foreign jurisdictions	(66)	38
Deferred tax assets not brought to account – temporary differences (Note 15)	337	5,521
Previously unrecognised deferred tax assets on temporary differences (Note 15)	(5,521)	–
Deferred tax assets not brought to account – unused losses (Note 15)	4,132	2,328
	(3,527)	1,395
Adjustment recognised for prior periods	61	(2,839)
Income tax benefit	(3,466)	(1,444)
Amounts credited directly to equity		
Deferred tax assets	–	(1,135)

Deferred tax assets credited directly to equity for the year ended 30 June 2021 are $nil (30 June 2020: $1.1 million). Deferred tax assets credited directly to equity for the year ended 30 June 2020 included $0.7 million in relation to IPO costs and $0.4 million in relation to the initial adoption of AASB 16 *Leases*.

10 Cash and cash equivalents

Accounting policy

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.

	Consolidated	
	30 June 2021 $'000	30 June 2020 $'000
Cash and cash equivalents – unrestricted	39,757	55,304
Cash and cash equivalents – restricted	40,620	55,015
	80,377	110,319

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);
- Pay down the warehouse facility in the relevant trust; and
- Distribute each month any excess income to Group entities after paying interest expenses.

11 Loan receivables

Accounting policy

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.

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 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.

	Consolidated	
	30 June 2021 $'000	30 June 2020 $'000
Current		
Loan receivables	188,290	254,174
Less: Allowance for expected credit losses (Note 21)	(14,856)	(28,190)
	173,434	225,984
Non-current		
Loan receivables	238,835	119,508
Less: Allowance for expected credit losses (Note 21)	(18,844)	(13,254)
	219,991	106,254
Total		
Loan receivables	427,125	373,682
Less: Allowance for expected credit losses (Note 21)	(33,700)	(41,444)
	393,425	**332,238**

12 Property, plant and equipment

Accounting policy

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.

	Consolidated	
	30 June 2021 $'000	30 June 2020 $'000
Plant and equipment – at cost	4,457	4,457
Less: Accumulated depreciation	(3,729)	(2,947)
	728	1,510

13 Leases

Accounting policy

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 following:

- 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,
- 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 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.

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.

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.

Amounts recognised in the statement of financial position

	Consolidated	
	30 June 2021 $'000	30 June 2020 $'000
Right-of-use assets		
At cost	8,802	8,737
Less: Accumulated depreciation	(3,843)	(1,941)
	4,959	**6,796**
Lease liabilities		
Current	2,375	1,992
Non-current	4,357	6,666
Total lease liabilities	**6,732**	**8,658**

Amounts recognised in profit or loss

	Consolidated	
	30 June 2021 $'000	30 June 2020 $'000
Depreciation		
Right-of-use assets	1,902	1,941
Interest expense		
Interest on lease liabilities	467	543

14 Intangible assets

Accounting policy

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 intangible asset's carrying amount. 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 and 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)	3-5 years

During the year ended 30 June 2021 the Group revised the estimated useful life attached to its loan management system from 5 years to 3 years, resulting in an increased amortisation expense of $2.3 million. Remaining software development (in-house) continues to be amortised over 5 years.

Software-as-a-Service ("SaaS") arrangements

During the year, the Group reviewed its accounting policy in relation to upfront configuration and customisation costs incurred in implementing SaaS arrangements in response to the IFRIC agenda decision clarifying its interpretation of how current accounting standards apply to these types of arrangements. The accounting policy for such arrangements is presented below.

SaaS arrangements are service contracts providing the Group with the right to access the cloud provider's application software over the contract period. Costs incurred to configure or customise and the ongoing fees for obtaining access to the cloud provider's application software are recognised as operating expenses when the services are received.

Capitalised costs are predominantly incurred for developing "in-house" software code that enhances or modifies, or creates additional capability to, existing on-premise systems and meets the definition of and recognition criteria for an intangible asset. These costs are recognised as intangible software assets and amortised over the useful life of the software on a straight-line basis. The useful lives of these assets are reviewed at least at the end of each financial year, and any change accounted for prospectively as a change in accounting estimate.

	Consolidated	
	30 June 2021 $'000	30 June 2020 $'000
Website – at cost	820	820
Less: Accumulated amortisation	(813)	(751)
	7	69
Software acquired – at cost	394	394
Less: Accumulated amortisation	(378)	(322)
	16	72
Software development (in-house) – at cost	18,827	14,045
Less: Accumulated amortisation	(11,637)	(6,360)
	7,190	7,685
	7,213	7,826

Movement in intangible assets

	Consolidated	
	30 June 2021 $'000	30 June 2020 $'000
Opening balance	7,826	6,577
Additions	4,782	4,333
Amortisation expense	(5,395)	(3,084)
Closing balance	7,213	7,826

15 Deferred tax assets

Deferred taxes comprise temporary differences attributable to the following.

	Consolidated	
	30 June 2021 $'000	30 June 2020 $'000
Deferred tax assets		
Employee benefits	1,382	1,083
Provision for impairment of loan receivables	10,110	12,433
Property, plant and equipment, right-of-use asset and intangibles	1,729	1,090
Blackhole expenditure booked in relation to IPO	1,154	1,807
General provisions	157	–
Deferred tax assets not brought to account	(337)	(5,521)
Difference on foreign exchange	66	(38)
Net deferred tax assets	14,261	10,854

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 history of generating taxable profits. Whilst a tax loss has been incurred for the year ended 30 June 2021, the Group expects to return to a tax payable position based on forecasts prepared for future periods. 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 $0.3 million (30 June 2020: $5.5 million) for which no deferred tax asset has been recognised.

The Group has also considered the extent to which its unused tax losses will be recoverable in the short term. Based on this review, it was determined that a deferred tax asset shall not be recognised in relation to the Group's unused tax losses. As of 30 June 2021, the Group has cumulative unused tax losses of $22.2 million (30 June 2020: $8.1 million), equating to a future tax benefit of $6.6 million (30 June 2020: $2.4 million).

16 Borrowings

Accounting policy

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.

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 2021 $'000	30 June 2020 $'000
Current		
Securitisation trust notes	47,430	10,451
Add: interest payable on trusts	171	50
Less: unamortised transaction costs on trusts	(1,048)	(921)
	46,553	9,580
Non-current		
Securitisation trust notes	313,902	318,394
Less: unamortised transaction costs on trusts	(566)	(1,185)
	313,336	317,209
Total borrowings	**359,889**	**326,789**

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

	30 June 2020	Cash flows	Non-cash movements	30 June 2021
Securitisation trust notes	328,845	32,487	–	361,332
Add: interest payable on trusts	50	–	121	171
Less: unamortised transaction costs on trusts	(2,106)	(668)	1,160	(1,614)
	326,789	**31,819**	**1,281**	**359,889**

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 consolidated 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 2021, the Group had seven 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 may be) of these trusts;

b. In its capacity as the originator of loan receivables and the servicer of these loans on behalf of the trusts, can 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 December 2021 to September 2024.

Key events concerning the Group's borrowings during the year ended 30 June 2021 are outlined below.

- On 6 July 2020, due to the limitations of the terms of this Trust 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. It ceased selling new loans into this Securitisation Trust. All rated notes held by external investors in the Moody's rated Prospa Trust Series 2018-1 were repaid during the year, with Prospa exercising its call option.
- On 24 July 2020, the Group announced amendments to the warehouse facilities that fund the Group's small business loans and lines of credit were completed – allowing the Group 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.
- On 25 November 2020, the Group established a new Australian funding structure, the Propela Trust, to support the growth in its Line of Credit and Small Business Loan products. The remaining $27 million of the AOFM's $90 million maximum investment has been allocated to this new warehouse. Prospa Group Limited has a 100% interest in the Propela Trust.
- On 17 March 2021, the Group established a new funding structure in New Zealand, the Kea Series 2021-1 Trust. The facility will have an initial capacity of up to NZ$32.5 million and matures in September 2024.

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 2021 $'000	30 June 2020 $'000
Loan receivables[1]	399,916	354,710

1. The amount recognised above represents the carrying value of loan receivables held by the Group's Securitisation Trusts. This excludes loan receivables totalling $27.2 million held by Prospa Advance Pty Ltd as at 30 June 2021 (30 June 2020: $18.9 million).

Financing arrangements

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

	Consolidated	
	30 June 2021 $'000	30 June 2020 $'000
Total facilities		
Securitisation trusts	458,550	442,936
Used at 30 June		
Securitisation trusts	361,332	328,845
Unused at 30 June		
Securitisation trusts	97,218	114,091

Funding costs

The borrowings related to trusts are linked to floating interest rates. The weighted average funding cost for the year ended 30 June 2021 was 5.5% (30 June 2020: 5.7%).

17 Issued capital

Accounting policy

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

Where the Group reacquires its own equity instruments these are presented within Treasury Shares. These are recognised at cost and deducted from equity. Treasury shares also include new shares issued which are pending allocation under the Group's long-term incentive plan (Note 33). Treasury Shares are converted to Ordinary Share Capital at such time as the employee exercises share options or performance rights vest. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

	Consolidated			
	30 June 2021 Shares	30 June 2020 Shares	30 June 2021 $'000	30 June 2020 $'000
Ordinary shares – fully paid	162,926,570	161,348,899	610,919	610,651
Treasury shares – fully paid	1,560,302	1,538	–	–
	164,486,872	**161,350,437**	**610,919**	**610,651**

Movements in ordinary share capital

Details		Shares	$'000
Balance	1 July 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
Exercise of options		420,773	219
Conversion of NED rights		25,463	–
Conversion of employee rights		1,136,435	–
Share repurchase		(5,000)	(5)
Sale of loan shares		–	54
Balance	30 June 2021	162,926,570	610,919

Movements in treasury share capital

Details		Shares	$'000
Balance	1 July 2019	836,273	–
Exercise of options		(850,735)	–
Share repurchase		16,000	–
Balance	30 June 2020	1,538	–
Exercise of options		(420,773)	–
Conversion of NED rights		(25,463)	–
Conversion of employee rights		(1,136,435)	–
Share repurchase		5,000	–
Increase to issued capital		3,136,435	–
Balance	30 June 2021	1,560,302	–

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.

18 Reserves

	Consolidated	
	30 June 2021 $'000	30 June 2020 $'000
Foreign currency reserve	(250)	(177)
Re-organisation reserve	(432,244)	(432,244)
Share option reserve	10,019	5,228
	(422,475)	(427,193)

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 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 9)	–	724	–	–	724
Balance at 30 June 2020	(177)	(432,244)	–	5,228	(427,193)
Foreign currency translation	(73)	–	–	–	(73)
Share-based payments	–	–	–	4,791	4,791
Balance at 30 June 2021	**(250)**	**(432,244)**	**–**	**10,019**	**(422,475)**

19 Accumulated losses

	Consolidated	
	30 June 2021 $'000	30 June 2020 $'000
Accumulated losses at the beginning of the financial year	(54,435)	(28,543)
Adjustment on adoption of AASB 16	–	(959)
Accumulated losses at the beginning of the financial year – restated	(54,435)	(29,502)
Loss after income tax benefit for the year	(9,494)	(24,933)
Accumulated losses at the end of the financial year	**(63,929)**	**(54,435)**

20 Dividends

The Group has not paid, and does not propose to pay dividends for the year ended 30 June 2021 (30 June 2020: $nil).

21 Financial risk management

Financial risk management objectives

The Group's activities expose it to various 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 the 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 establishing and operating the Group's enterprise risk management framework, identifying and analysing risks faced by the Group, and developing procedures responding to these risks under the Board approved Risk Appetite Statement. The Board is responsible for monitoring these risks and the continued oversight of the risk management policies and procedures.

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 borrower's directors if the borrower is a company. If the loan is greater than $150,000, the Group will also obtain a charge over assets from the borrower and guarantor. For loan receivables greater than $10,000 where the account exceeds 30 days past due, a caveat may be lodged against the guarantor. As at 30 June 2021, the Group had loan receivables of $nil, which are credit impaired but have not been fully written off by virtue of collateral held (30 June 2020: $3.4 million).

The Group is an approved Participating Lender to the current Coronavirus SME Guarantee Scheme in Australia. Under this Scheme, the Group has a Government-backed guarantee of 50% against the outstanding balance of eligible products. As at 30 June 2021, loan receivables under the Scheme of $1.6 million were credit-impaired (30 June 2020: $nil).

In addition, the Group is an approved Lender to the New Zealand Government's Business Finance Guarantee Scheme ("BFGS"). Under the BFGS, the Group has a Government-backed guarantee of up to 80% against the outstanding balance of eligible products. As at 30 June 2021, loan receivables under the BFGS of $nil were credit-impaired (30 June 2020: $nil).

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 $64.6 million as at 30 June 2021 in undrawn Line of Credit facilities (30 June 2020: $28.9 million).

The Group's customers are grouped into categories of similar risk using two proprietary categories of Premium and Non-premium, with Premium including customers with lower credit risk. 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.

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

The 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 2021				
Loan receivables	172,581	3,895	3,091	179,567
Allowance for expected credit losses	(5,265)	(973)	(2,300)	(8,538)
	167,316	2,922	791	171,029
Non-premium – 30 June 2021				
Loan receivables	220,535	15,231	11,792	247,558
Allowance for expected credit losses	(12,178)	(5,035)	(7,949)	(25,162)
	208,357	10,196	3,843	222,396
Total – 30 June 2021				
Loan receivables	393,116	19,126	14,883	427,125
Allowance for expected credit losses	(17,443)	(6,008)	(10,249)	(33,700)
	375,673	13,118	4,634	393,425

	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

The following table illustrates the movement in loan receivables.

	Stage 1 $'000	Stage 2 $'000	Stage 3 $'000	30 June 2021 $'000	30 June 2020 $'000
Opening loan receivable balance	318,669	23,784	31,229	373,682	404,313
Transfers					
Transfers from Stage 1 to Stage 2	(18,824)	18,824	–	–	–
Transfers from Stage 1 to Stage 3	(20,067)	–	20,067	–	–
Transfers from Stage 2 to Stage 1	1,528	(1,528)	–	–	–
Transfers from Stage 2 to Stage 3	–	(7,307)	7,307	–	–
Transfers from Stage 3 to Stage 1	22	-	(22)	–	–
Transfers from Stage 3 to Stage 2	–	16	(16)	–	–
Repayments made	(362,635)	(14,698)	(3,264)	(380,597)	(434,199)
Loans originated	472,675	–	–	472,675	448,173
Net movement in accrued interest and fees	1,748	35	(50)	1,733	(2,080)
Receivables written off during the year as bad debts	–	–	(40,368)	(40,368)	(36,990)
Adjustment in relation to loan receivables review	–	–	–	–	(5,535)
Closing loan receivable balance	393,116	19,126	14,883	427,125	373,682

Allowance for expected credit loss

Credit risk arising from the financial assets of the Group is 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 disclosed in the consolidated 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 and international 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 movement in the Group's allowance for expected credit losses is detailed below.

	Stage 1 $'000	Stage 2 $'000	Stage 3 $'000	30 June 2021 $'000	30 June 2020 $'000
Opening allowance for expected credit losses	19,400	6,146	15,898	41,444	24,460
Transfers					
Transfer from Stage 1 to Stage 2	(553)	553	–	–	–
Transfer from Stage 1 to Stage 3	(589)	–	589	–	–
Transfer from Stage 2 to Stage 1	457	(457)	–	–	–
Transfer from Stage 2 to Stage 3	–	(2,186)	2,186	–	–
Transfer from Stage 3 to Stage 1	15	–	(15)	–	–
Transfer from Stage 3 to Stage 2	–	11	(11)	–	–
Provisions recognised during the year in profit or loss	(1,287)	1,941	26,663	27,317	52,845
Receivables written off during the year as bad debts	–	–	(40,368)	(40,368)	(36,990)
Adjustment in relation to loan receivables review	–	–	–	–	(5,535)
Recoveries	–	–	5,307	5,307	6,664
Closing allowance for expected credit losses	**17,443**	**6,008**	**10,249**	**33,700**	**41,444**

Of the amount included in stage 3, $1.0 million relates to loan receivables with specific credit provisions (30 June 2020: $8.3 million).

The allowance for expected credit losses for loan receivables as a percentage of receivables has decreased from 11.1% of the gross receivables balance as at 30 June 2020 to 7.9% as at 30 June 2021.

The reduction in the provision rate is driven largely by loans written off during the year, which were reported and specifically provisioned within stage 3 as at 30 June 2020, and the improved performance of the portfolio and economic outlook compared to the prior year. Stage 3 gross receivables have reduced to $14.9 million as at 30 June 2021 (30 June 2020: $31.2 million).

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 by calculating 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 ("PD"): the likelihood that a customer will default over a given time frame;
- Loss given default ("LGD"): the magnitude of the expected credit loss in the event of default; and
- Exposure at default ("EAD"): the estimated outstanding balance of the loan receivable at the time of default.

Internally developed statistical models are used to derive these parameters based on historical portfolio information. The measurement of expected credit losses is a function of the probability of default, the loss given 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 as adjusted for relevant and supportable factors for individual exposures, such as the customer's credit rating. EAD is modelled as a regression problem, using only contracts which have defaulted and is calculated using the credit conversion factor.

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, COVID-19) and the credit quality of the loan receivable.

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 period for expected credit losses in stages 2 and 3, the standard generally requires using 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, the estimated lifetime is based on historical behaviour.

Significant Increase in Credit Risk ("SICR")

The Group considers a combination of qualitative and quantitative information when assessing whether a financial instrument has experienced a significant increase in credit risk. This includes:

- Loan receivables which are greater than 30 days past due (Stage 1 to Stage 2 transfer); and
- Collection status. For example, loan receivables with modified repayment terms, such as temporary full or partial payment deferrals or restructured loans. (Stage 1 to Stage 2 transfer).

During the year ended 30 June 2021, a specific review was also conducted concerning customers who received a full or partial repayment deferral in connection with the Group's COVID-19 relief package.

As a result of improving economic and trading conditions, the Group's COVID-19 deferral period for customers concluded in December 2020. Included in gross loan receivables as at 30 June 2021 of $427.1 million is $29.0 million related to COVID-19 loans previously deferred. Of that, $18.5 million are performing, with $10.5 million showing increased deterioration in credit risk. Prospa continues to work with those remaining customers on a case-by-case basis through the Company's standard collections process. Expected losses from this group are adequately covered within the Group's allowance for expected credit losses and captured as necessary within the Group's SICR assessment described above.

Credit-impaired financial assets (Stage 3)

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.

Portfolio ageing

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 2021 $'000	30 June 2020 $'000
Loan receivables aged 0 to 30 days	398,793	326,798
Loan receivables aged 31 to 90 days	14,400	17,192
Loan receivables aged over 90 days	13,932	29,692
	427,125	373,682

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, upside and downside 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 using 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

Australia and New Zealand are beginning to recover from the downturn experienced in 2020. However, as at 30 June 2021, the Group anticipates there is likely to be a continuing impact as a result of the COVID-19 pandemic, albeit to a lesser extent than anticipated as at 30 June 2020. This includes delinquencies, as Government stimulus and other measures conclude, and 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.

Since 30 June 2021, we have assisted those impacted by the recent lockdowns of some of our states and territories and will continually monitor the situation and respond to customer requests accordingly. As at 16 August 2021, 2.1% of Australian customer accounts are on part payment arrangements and 1.3% of accounts are on full deferral. For comparison, at its peak in 2020, these figures were 20.1% and 17.9%, respectively. Any expected losses from this group are adequately covered within the provision for expected credit losses

In addition, the Group has specifically considered the likely exposures in different industry and geography segments through an economic overlay. The economic overlay has reduced over the year as model sophistication was upgraded and additional risk factors were embedded into the standard modelled provision.

To reflect that the economic environment remains challenging for some small businesses, in addition to the standard modelled provision as at 30 June 2021 of 6.4% (30 June 2020: 6.3%), we have set aside a further provision of 1.5% (30 June 2020: 4.8%) as a forward-looking provision to arrive at a total expected credit loss as a percentage of receivables of 7.9% (30 June 2020: 11.1%).

The total forward looking provision required 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 and 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. To the observed default data, consideration of forward-looking economic information is applied so as to appropriately 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 definitions of each scenario and the weighting applied have been revised from 30 June 2020 as more recent data became available. The definitions of forward looking economic scenarios as at 30 June 2021 have been updated to reflect the current economy whilst also forming a basis for future stress testing. The following tables provide an overview of the scenarios considered at 30 June 2021 and 30 June 2020.

30 June 2021

Scenario	Weighting	Expectation
Upside	5%	This scenario reflects an economy that has recovered to pre-COVID-19 levels; for example, international and domestic borders have opened, and supply chains are back to normal.
Baseline	70%	This scenario is considered the most likely macroeconomic outcome. The baseline scenario contemplates that business performance (benchmarked against revenue performance) continues to operate at the most current stable level. This assumes that recoveries remain stabilised for most businesses and select locations and that no material national Government imposed restrictions are introduced.
Downside	25%	This scenario is the most conservative and is included to consider the impact of less likely but more severe negative macroeconomic conditions.

30 June 2020

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-off policy

The Group writes off loan receivables in whole or in part when there is no longer any reasonable expectation of recovery. Indicators that there is no longer a reasonable expectation of recovery include when the loan is more than 180 days past due or where enforcement activity has ceased due to significant deterioration in collection status, for example, customers impacted by bankruptcy or liquidation. The Group's expectation of recovery was reassessed during the year which resulted in a stricter and more timely application of the policy.

During the year ended 30 June 2021, loan receivables of $4.7 million were written off that remain subject to enforcement activity by the Group.

Loan receivables classification

The portfolio of loan receivables to which the Group is exposed is well diversified across industries, geographies, and customers. 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 2021 $'000	30 June 2020 $'000
Art and Lifestyle	7,906	8,535
Building and Trade	94,698	72,400
Financial Services	12,680	10,672
Hair and Beauty	12,511	13,164
Health	11,171	10,490
Hospitality	63,700	63,560
Manufacturing	25,744	23,680
Professional Services	74,221	69,290
Retail	76,216	62,734
Transport	13,423	10,044
Wholesale	28,785	26,219
Other	6,070	2,894
	427,125	373,682

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

	Consolidated	
	30 June 2021 $'000	30 June 2020 $'000
Australian Capital Territory	5,822	5,080
New South Wales	121,476	107,699
Northern Territory	4,877	2,888
Queensland	79,078	70,945
South Australia	25,607	24,694
Tasmania	5,641	4,783
Victoria	84,566	93,334
Western Australia	34,162	34,591
New Zealand	65,896	29,668
	427,125	373,682

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, to maximise 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. The Group has assessed loans restructured during the period 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 non recourse funding arrangements are linked to variable Benchmark Rates (in Australia, either BBSW or BBSY and in New Zealand the Bank Bill Market ("BKBM") rate). The Group manages the risk where necessary using interest rate cap contracts held with other independent financial institutions with a credit rating of A3 or higher. 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 interest rate cap contracts in place as at 30 June 2020 have since matured. Given the reduction in interest rates in 2020, the Group took the decision that these would not be renewed. Accordingly, no financial asset or financial liability is recognised in relation to these derivative financial instruments as at 30 June 2021 (30 June 2020: less than $0.01 million).

Details of the Group's borrowing facilities are set out in Note 16.

Interest rate sensitivity analysis

As at 30 June 2021, the borrowings of the Group were linked wholly to variable interest rates. We have conducted sensitivity analysis based on the exposure to interest rates for 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 throughout the year had been 0.25% higher/lower and all other variables were held constant during the year, the Group's profit for the year ended 30 June 2021 would decrease/increase by $0.9 million (30 June 2020: decrease/increase by $0.8 million).

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.

Liquidity risk

Liquidity risk is the risk that the Group will not meet its financial obligations as they fall due. The Group has a diversified funding model and comprises 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 prepared using 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 2021	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	7,763	–	–	7,763
Interest-bearing				
Lease liability	2,716	4,573	–	7,289
Borrowings	66,313	335,473	13,085	414,871
Total non-derivatives	**76,792**	**340,046**	**13,085**	**429,923**

Covenants

The Group has various financial and non-financial covenants under its Securitisation Trust financing facilities that can affect funding availability, repayments, and the Group's liabilities. 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.

22 Fair value measurement

Accounting policy

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.

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 not carried at fair value 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, client 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 Group had no outstanding interest rate cap contracts at year end, so the fair value as at 30 June 2021 was $nil (30 June 2020: < $0.01 million).

23 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 2021 $'000	30 June 2020 $'000
Salaries and other short-term employee benefits	1,816	1,567
Post-employment benefits	92	88
Other long-term benefits	26	29
Share-based payment	1,826	1,703
	3,760	3,387

24 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 2021 $'000	30 June 2020 $'000
Deloitte and related network firms[1]		
Audit or review of financial reports		
– Group	620,400	471,350
– Subsidiaries and joint operations	22,000	11,000
	642,400	482,350
Statutory assurance services required by legislation to be provided by the auditor	16,500	16,500
Other services		
Tax compliance services	52,640	211,747
IPO due diligence and tax restructuring	–	56,100
	52,640	267,847
Total paid or payable to Deloitte and related network firms	711,540	766,697
Other Auditors and their related network firms		
Audit or review of financial reports		
Subsidiaries and joint operations	62,700	56,595
	62,700	56,595

1 The auditor of the Group is Deloitte Touche Tohmatsu.

25 Contingent liabilities

The Group had no contingent liabilities as at 30 June 2021 and 30 June 2020.

26 Commitments

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

	Consolidated	
	30 June 2021 $'000	30 June 2020 $'000
Operating lease commitments – land and buildings		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	–	20
Total minimum lease payments – land and buildings	–	20
Operating lease commitments – computer equipment		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	254	196
One to five years	238	78
Total minimum lease payments – computer equipment	492	274
	492	**294**

27 Related party transactions

Parent entity

Prospa Group Limited is the parent entity.

Subsidiaries

Interests in subsidiaries are set out in Note 29.

Key management personnel

Disclosures relating to key management personnel are set out in Note 23 and the remuneration report included in the Directors' report.

Transactions with related parties

There were no transactions with related parties during the year ended 30 June 2021 and the year ended 30 June 2020.

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.

28 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 2021 $'000	30 June 2020 $'000
Loss after income tax	(604)	(629)
Total comprehensive loss	(604)	(629)

Statement of financial position

	Parent	
	30 June 2021 $'000	30 June 2020 $'000
Total assets	173,273	173,609
Total liabilities	–	–
Equity		
Issued capital	610,919	610,651
Re-organisation reserve	(432,244)	(432,244)
Accumulated losses	(5,402)	(4,798)
Total equity	173,273	173,609

Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2021 and 30 June 2020.

Capital commitments – Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2021 and 30 June 2020.

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the Group, as disclosed in relevant notes to the consolidated financial statements.

29 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 2021 %	Ownership interest 30 June 2020 %
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 Pioneer Security Trust[1]	Australia	100%	100%
Prospa Trust Series Prosparity Security Trust[1]	Australia	100%	100%
Prospa Trust Series Propela Security Trust[1]	Australia	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 Series 2019-1[2]	New Zealand	100%	100%
Prospa Kea Series 2021-1[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 25 November 2020, the Group established a new Australian funding structure, the Propela Trust, to support the growth in its Line of Credit and Small Business Loan products. Prospa Group Limited has a 100% interest in the Propela Trust.

On 17 March 2021, the Group established a new funding structure in New Zealand, the Prospa Kea Series 2021-1, to fund the ongoing growth of the New Zealand portfolio. Prospa Group Limited has a 100% interest in the Prospa Kea Series 2021-1.

30 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' reports 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 2021 $'000	30 June 2020 $'000
Interest income	88,276	110,986
Other income	8,211	9,798
Total income	96,487	120,784
Funding costs	(13,985)	(18,809)
Gross profit	82,502	101,975
Loan impairment expense	(22,417)	(49,206)
Employment expenses	(34,286)	(40,497)
Operating expenses	(18,085)	(28,109)
Share-based payments	(4,696)	(3,686)
Depreciation	(2,679)	(3,106)
Amortisation	(5,394)	(3,083)
Interest on lease liabilities	(466)	(535)
Fair value loss on financial instruments	–	(129)
Loss before income tax benefit	(5,521)	(26,376)
Income tax benefit	2,546	1,868
Loss after income tax benefit	(2,975)	(24,508)
Other comprehensive income for the year, net of tax	–	–
Total comprehensive loss for the year	(2,975)	(24,508)

Equity – accumulated losses

	30 June 2021 $'000	30 June 2020 $'000
Accumulated losses at the beginning of the financial year	(53,117)	(27,650)
Loss after income tax benefit	(2,975)	(24,508)
Adjustment on adoption of AASB 16	–	(959)
Accumulated losses at the end of the financial year	(56,092)	(53,117)

Statement of financial position

	30 June 2021 $'000	30 June 2020 $'000
Assets		
Cash and cash equivalents	46,758	60,114
Loan receivables	332,526	305,560
Intercompany loan receivables	18,582	12,210
Bank deposits	1,095	1,091
Income tax	2,411	1,936
Prepayments and other assets	–	1,169
Investment in subsidiary	7,149	7,149
Property, plant and equipment	728	1,510
Right-of-use assets	4,900	6,796
Intangible assets	7,211	7,823
Deferred tax assets	12,912	10,343
Total assets	434,272	415,701
Liabilities		
Trade and other payables	7,159	6,025
Borrowings	282,319	267,859
Leases	6,673	8,658
Employee benefits	5,519	2,641
Total liabilities	301,670	285,183
Net assets	132,602	130,518
Equity		
Issued capital	610,919	610,651
Reserves	(422,225)	(427,016)
Accumulated losses	(56,092)	(53,117)
Total equity	132,602	130,518

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

	Consolidated	
	30 June 2021 $'000	30 June 2020 $'000
Loss after income tax benefit for the year	(9,494)	(24,933)
Adjustments for:		
Depreciation and amortisation	8,079	6,190
Share-based payments	4,791	3,686
Foreign exchange differences	(12)	–
Origination fees	1,687	(2,086)
Loan impairment expense	27,284	52,881
Net interest income accrual	(172)	1,805
Amortisation of borrowing costs	493	(108)
Outstanding late fees	729	(1,544)
Trust interest expense	121	–
Financial instruments: Fair value loss	–	129
Change in operating assets and liabilities:		
(Increase)/decrease in prepayments and other assets	(505)	953
Increase in deferred tax assets	(3,407)	(905)
Decrease/(increase) in current tax asset	637	(190)
(Increase)/decrease in bank deposits	(4)	–
Increase/(decrease) in trade and other payables	1,642	(675)
Increase/(decrease) in employee benefits	2,918	(1,414)
Net cash from operating activities	34,787	33,789

32 Earnings per share

Accounting policy

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.

	Consolidated	
	30 June 2021 $'000	30 June 2020 $'000
Loss after income tax benefit attributable to the owners of Prospa Group Limited	(9,494)	(24,933)

	Consolidated	
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	161,733,915	161,105,944
Weighted average number of ordinary shares used in calculating diluted earnings per share	161,733,915	161,105,944

	Cents	Cents
Basic earnings per share	(5.87)	(15.48)
Diluted earnings per share	(5.87)	(15.48)

33 Share-based payments

Accounting policy

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

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

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

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

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

Share options

The employee long-term incentive plan ("LTIP") enables the Group to offer eligible employees options to subscribe for shares in the Company. The Group has previously provided Loan Shares to certain employees, which involve purchasing shares in the Company, funded by loans from the Company. However, since 2017, the Group has ceased to offer new Loan Shares, with existing loan shares now in runoff. The LTIP is designed to incentivise performance.

The LTIP requires the holder to remain in employment for options to vest. There are a number of key performance indicators covering both financial and non-financial measures.

During the year ended 30 June 2021:

- 500,000 options were granted with an exercise price ranging from $0.93 to $1.07;
- 2,606,052 options were cancelled or forfeited; and
- 420,773 options were exercised and converted to shares for consideration of $0.2 million.

The total expense of share-based payment transactions for the year ended 30 June 2021 was $4.8 million (30 June 2020: $3.7 million).

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

	2021 Number	2021 WAEP (cent)	2020 Number	2020 WAEP (cent)
Outstanding at 1 July	14,343,495	220	12,259,167	277
Granted during the year	500,000	102	4,695,000	92
Forfeited or cancelled during the year	(2,606,052)	206	(1,759,937)	338
Exercised during the year	(420,773)	52	(850,735)	82
Outstanding at 30 June	11,816,670	221	14,343,495	220
Exercisable at 30 June	8,109,505	–	5,368,749	–

The weighted average share price during the year ended 30 June 2021 was 84 cents (30 June 2020: 247 cents). The weighted average remaining contractual life of share options outstanding as at 30 June 2021 was 2.7 years (30 June 2020: 3.7 years).

The exercise price of the share options is equal to the market price of the underlying shares on the date of grant. The range of exercise prices for options outstanding at the financial year end was $0.67 to $4.35 (30 June 2020: $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
14/04/2020	14/04/2024	$1.01	$0.88	52.60%	–	0.14%	$0.371
14/04/2020	14/04/2024	$1.01	$0.95	52.60%	–	0.14%	$0.373
30/03/2021	30/03/2026	$0.85	$0.93	55.04%	–	0.87%	$0.342
30/03/2021	30/03/2026	$0.85	$1.07	55.04%	–	0.87%	$0.329

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") to supplement the Group's existing long-term incentive plan.

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 2021. Given business uncertainty and our focus on prudent cost management during the year ended 30 June 2021, Prospa 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.

No rights were granted under the NEDEP during the year ended 30 June 2021 (30 June 2020: 25,463).

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 concerning these rights are determined by the board and are linked to both Group and individual performance. These are tested over a one-year performance period, linked to the Company's annual and half-yearly reporting periods.

Following testing of the performance conditions and 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 half or full year audited results (as applicable) for the relevant financial year: and
- 50% after one year on the day following the release of the Company's half or full year audited results (as applicable) for the subsequent financial year.

Vesting is also subject to continued employment until vesting date.

Rights under the EEP are issued for nil consideration and have no exercise price. During the year ended 30 June 2021:

- 457,087 performance rights were granted; and
- 181,013 performance rights were cancelled or forfeited.

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 subject to continued employment with the Group. During the year ended 30 June 2021, 235,565 of these performance rights were cancelled or forfeited. Therefore, 1,136,435 of these share rights remained on foot on vesting date. These were automatically exercised and converted into ordinary shares.

There were no one-off rights granted during the year ended 30 June 2021.

Details of performance rights granted under the EEP during the year ended 30 June 2021 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	262,173	66,138	–	(51,592)	276,719
13/01/2020	n/a	n/a	193,223	–	–	(62,318)	130,905
13/07/2020	n/a	n/a	–	222,280	–	(67,103)	155,177
15/03/2021	n/a	n/a	–	168,669		–	168,669

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	12/08/2024	$4.30	$0.00	–	–	–	$4.300
13/01/2020	13/01/2025	$2.08	$0.00	–	–	–	$2.080
13/04/2020	13/04/2022	$0.75	$0.00	–	–	–	$0.755
13/07/2020	13/07/2025	$0.95	$0.00	–	–	–	$0.945
15/03/2021	15/03/2025	$0.88	$0.00	–	–	–	$0.880

34 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.

35 Post balance date events

On 12 August 2021, Prospa announced the mandate for the PROSPArous Trust 2021-1, a $200 million Term Asset-Backed Securitisation (Term ABS) issuance in the public markets, including both Small Business Loans and Line of Credit products. This the first public ABS issuance of unsecured SME loans in Australia.

No other matter or circumstance has arisen since 30 June 2021 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.

Directors' declaration
for the year ended 30 June 2021

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 2021 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 30 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

20 August 2021
Sydney

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

Auditor's Report

"We needed quick access to finance, and with Prospa everything was completed in 48 hours, which made it very easy for us to make that move."

John, NZ

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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 2021, 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:

- Giving a true and fair view of the Group's financial position as at 30 June 2021 and of its financial performance for the year then ended; and
- 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
<u>Expected credit loss provisioning</u> As at 30 June 2021, the Group recognised $33.7m of expected credit losses (ECL) provisions in accordance with *AASB 9 Financial Instruments* as disclosed in Note 11 and Note 21. The expected credit loss models developed by management to determine expected credit losses require significant judgement and assumptions 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.	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 model 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 2, 7, 11 and 21 to the financial statements.
<u>Effective Interest Rate</u> The Group reported interest income of $101.2m in the year to 30 June 2021 and net loans receivable were $393.4m as at 30 June 2021. 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. The Group's disclosure over the effective interest rate is disclosed in Note 4 of the financial statements. 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 are required to be included in the determination of the EIR; and	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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• Determining the period over which expected cash flows are estimated to be received.	• Testing on a sample basis 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 4 to the financial statements.
<u>IT systems</u> The Group's financial reporting processes are reliant on automated processes, controls and data managed by IT systems. The integrity of the financial reporting process and underlying IT systems form a key component of our audit.	Our procedures included, but were not limited to: • Determining, through discussions with management, the IT systems that were integral to the financial reporting process and inclusion of relevant systems in the scope of our audit; • Understanding business process controls; • Assessing the design and operating effectiveness of any controls that mitigated identified risks. In respect of IT identified control matters, we performed a combination of additional controls and extended substantive procedures (as required).

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 2021, 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.

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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.

- 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 46 to 62 of the Directors' Report for the year ended 30 June 2021.

In our opinion, the Remuneration Report of Prospa Group Limited, for the year ended 30 June 2021, 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, 20 August 2021

Shareholders' Information

In accordance with ASX Listing Rule 4.10, the Company provides the following information to shareholders not elsewhere disclosed in this Annual Report. The information provided is current as at 30 July 2021 (**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	31.67
SPINOZA INVESTMENTS PTY LTD	ORDINARY SHARES	24,701,240	15.02
AUSTRALIAN SUPER PTY LTD	ORDINARY SHARES	18,455,402	11.22
AIRTREE VENTURES GP PTY LTD	ORDINARY SHARES	14,605,185	8.88
INTERNATIONAL GROUP OF COMPANIES PTY LTD	ORDINARY SHARES	9,701,240	5.90

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	1,740
OPTIONS TO ACQUIRE ORDINARY SHARES	94
RIGHTS TO ACQUIRE ORDINARY SHARES	128

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
44,162	243	0.03

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 1,740 holders of a total of 164,486,872 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	40	154,277,419	93.79
10,001 to 100,000	238	6,651,104	4.04
5,001 to 10,000	206	1,608,774	0.98
1,001 to 5,000	646	1,638,420	1.00
1 to 1,000	610	311,155	0.19
Total	**1,740**	**164,486,872**	**100.00**

Distribution of option holders

Holdings Range	Holders	Total Units	%
100,001 and Over	25	9,544,888	83.10
10,001 to 100,000	43	1,714,235	14.92
5,001 to 10,000	26	227,000	1.98
1,001 to 5,000	0	0	0
1 to 1,000	0	0	0
Total	**94**	**11,486,123**	**100.00**

Distribution of holders of rights

Holdings Range	Holders	Total Units	%
100,001 and Over	0	0	0
10,001 to 100,000	14	303,907	42.94
5,001 to 10,000	25	175,385	24.78
1,001 to 5,000	78	220,790	31.19
1 to 1,000	11	7,728	1.09
Total	**128**	**707,810**	**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	31.67
2	SPINOZA INVESTMENTS PTY LTD	24,701,240	15.02
3	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	11,397,171	6.93
4	INTERNATIONAL GROUP OF COMPANIES PTY LTD	9,701,240	5.90
5	AIRTREE VENTURES OPPORTUNITY FUND TRUSCO PTY LTD	9,487,236	5.77
6	J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	8,968,166	5.45
7	SQUARE PEG GLOBAL FUND 2015 PTY LTD	5,809,758	3.53
8	PACIFIC CUSTODIANS PTY LIMITED	5,288,589	3.22
9	AIRTREE VENTURES GP PTY LTD	5,117,949	3.11
10	NATIONAL NOMINEES LIMITED	3,796,770	2.31
11	DANITA LOWES	2,826,246	1.72
12	EUCLID CAPITAL PARTNERS LLC	2,566,437	1.56
13	AVIAD EYAL	2,419,280	1.47
14	PROSPATARIAN PTY LTD	1,545,302	0.94
15	PARTNERS FOR GROWTH IV LP	1,189,186	0.72
16	TUBBIN INVESTMENTS PTY LTD	1,033,611	0.63
17	GARRETT SMYTHE LTD	557,266	0.34
18	SUNTRACK INVESTMENTS (BEVILLE) PTY LTD	527,256	0.32
19	CITICORP NOMINEES PTY LIMITED	520,252	0.32
20	CERTANE CT PTY LTD	504,925	0.31
	Total number of Shares of Top 20 Holders	**150,050,643**	**91.22**
	Total Remaining Holders' Balance	**14,436,229**	**8.78**
	Grand total	**164,486,872**	**100.00**

Escrow

As at the Reporting Date, the Company does not have any securities on issue that are being subject to escrow.

Unquoted equity securities

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

Class of Equity Securities	Number of Securities	Number of Holders
OPTIONS TO ACQUIRE ORDINARY SHARES	11,486,123	94
RIGHTS TO ACQUIRE ORDINARY SHARES	707,810	128

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	5,000	$0.9800

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 Street
Sydney NSW 2000

Solicitors

Herbert Smith Freehills
161 Castlereagh Street
Sydney NSW 2000

Website

www.prospa.com


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