

1. Company details

Name of entity:	Prospa Group Limited
ABN:	13 625 648 722
Reporting period:	For the year ended 30 June 2023
Previous period:	For the year ended 30 June 2022

1. Results for announcement to the market

Statutory Results Summary

	30 June 2023	30 June 2022	Change
	\$'000	\$'000	%
Total income	270,181	166,874	62
(Loss)/profit after income tax benefit attributable to the owners of Prospa Group Limited	(44,863)	6,726	767
Total comprehensive (loss)/income for the period attributable to the owners of Prospa Group Limited	(46,261)	11,077	518

Dividend information

Prospa Group Limited ("Prospa", the "Group" or the "Company") has not paid nor proposes to pay dividends for the year ended 30 June 2023 (30 June 2022: nil).

Earnings per share

	30 June 2023	30 June 2022
	cents	cents
Basic (loss)/earnings per share	(27.54)	4.12
Diluted (loss)/earnings per share	(27.54)	4.12

2. Net tangible assets

	30 June 2023	30 June 2022
	cents	cents
Net tangible assets per ordinary security	60.12	62.94

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

3. Entities over which control has been gained or lost

On 7 December 2022, the Group established the PROSPArOUS Trust 2022-1, a \$200 million Term Asset-Backed Security issuance in the public markets, secured on Small Business Loans and Line of Credit products.

During the year ended 30 June 2023, the Group decided not to extend the Prospa Trust Series 2018-1 Security Trust and the Prospa Trust Series 2019-1 Security Trust. Formal closure of both Trusts was effected on 3 February 2023.

There has been no other gain or loss of control of entities during the year ended 30 June 2023.

4. 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 2023 or the previous corresponding period.

5. 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.

6. 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 2023 and in the Directors' Report for the year ended 30 June 2023.

This document should be read in conjunction with the FY23 Annual Report and any public announcements made in the reporting period by the Group.

Annual Report

30 June 2023

Prospa Group Limited
ACN 625 648 722

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Chair's and Chief Executive Officer's Letter

Dear Shareholder,

Financial markets and the operating environment for our small business customers faced another year of challenging economic conditions. Small businesses across Australia and New Zealand were faced with higher costs of doing business due to rising interest rates, energy prices, cost of and access to labour and falling demand. In these times, we have remained focused on supporting the needs of our customers while at the same time pro-actively managing our credit risk settings.

The strength of our business model in complex operating environments underwrote our revenue in FY23 of \$285.6 million, which was an increase of 60.2% from FY22, with FY23 closing gross loans of \$862.2 million, up 22.9% on FY22.

The challenging economic environment has highlighted the importance of our real-time dynamic credit risk settings that allow us to continually adjust commercial and risk settings to optimise financial outcomes. We were pleased to have achieved originations of \$753.7 million in FY23, up 2.9% on FY22; supported by our agile business model.

In response to these tighter conditions, we have witnessed higher level of arrears in certain industry verticals, and accordingly, the Company has implemented a set of targeted measures to manage credit performance across its portfolio. These adjustments have resulted in a reduction in total customer approvals in certain sectors. We are pleased to note, however, that the Company has begun to witness a decline in early-stage arrears demonstrating the positive results of those measures. We also closed FY23 with elevated Expected Credit Loss (ECL) provisioning of 12.7%. The 5.5% increase on FY22 is representative of an increasingly difficult environment incorporated into our economic overlay.

We have continued to invest in our new banking platform which is now partially operational. We expect to complete the full rollout of the new platforms by the end of FY24, and at that time, we will deliver a lower technology and operations cost base for the core business making it a much more scalable business. Given the emphasis that the current economic environment necessitates on credit quality, we will also be investing in refining our proprietary Credit Decision Engine (CDE). Our CDE allows us to continually adjust commercial and risk settings to optimise financial outcomes and facilitates real-time dynamic risk-profiling so we can specifically target customers and sectors based on changing market conditions.

We remain focused on delivering shareholder value while supporting our customers in a sustainable manner and consistent with these ambitions, we have streamlined our operating cost base generating a run rate improvement of \$12 million p.a. and leading to an operating cost to revenue ratio of 37.5% for FY23.

During FY23, we incurred impairments of \$24.9 million, related to our software intangible assets. The Board believes the development of the software remains an appropriate and important use of shareholder capital, with focus on building a stronger and more sustainable business. Together with elevated provisioning, this led to a decrease in Profit Before Tax to \$64.1 million loss.

Prospa Group Limited
Chair's and Chief Executive Officer's Letter
For the year ended 30 June 2023

The business continued to deliver strong cash generation during the year and we were pleased with a 64.5% increase in operating cashflow (before cash advanced to customers) to \$96.8 million at 30 June 2023. Cash and cash equivalents for FY23 were \$96.9 million (of which \$25.8 million was unrestricted cash) and unused funding facilities were at \$140.1 million at 30 June 2023. In July 2023, the Company established a \$12 million corporate debt facility, which was a proactive and prudent decision to support the growth of the business and act as a buffer should economic headwinds intensify.

Throughout the year our cost of funds rose to 7.0% and whilst this was expected, given a backdrop of rate rises, pleasingly the business maintained an attractive yield reflected in a 0.7% increase in FY23's portfolio yield to 34.8%. The Group's net interest margin was 28.5% for FY23.

As operating conditions remain uncertain, we have chosen to focus on the existing product offerings within the business and as a result we have paused the development of the Prospa Business Overdraft product. We will continue to evaluate our capital investment plans and are committed to delivering innovation to our customers over the medium term. Our outstanding Net Promoter Score of 70+ is representative of our continued commitment to our small business customers.

Our performance over the last 12 months would not have been possible without the efforts from all our employees. On behalf of the board and management, we would like to thank each staff member for their hard work and enthusiasm in helping maintain Prospa as the number one online small business lender in Australia and New Zealand.

Thank you to our customers and partners for their loyalty and support throughout the year - your contributions are integral to Prospa operating as a successful technology-enabled lender with a customer-centric focus.

A final thanks to our shareholders, funders, and banking partners for their ongoing support. We are committed to delivering sustainable growth, driving further operating efficiencies and creating a profitable business. We look forward to updating you on the progress we make over the next 12 months.

Yours sincerely,



Gail Pemberton AO
Chair



Greg Moshal
Chief Executive Officer

Directors	Gail Pemberton – Chair and Independent Non-Executive Director Fiona Trafford-Walker – Independent Non-Executive Director Mary Ploughman – Independent Non-Executive Director Avi Eyal – Non-Executive Director Greg Moshal – Chief Executive Officer & Executive Director Beau Bertoli – Chief Revenue Officer & Executive Director
Company Secretary	Stephanie Rowland
Registered office	Level 1, 4-16 Yurong Street Sydney NSW 2000 Australia 1300 882 867
Principal place of business	Level 1, 4-16 Yurong Street Sydney NSW 2000 Australia 1300 882 867
Share register	Link Market Services Limited Level 12, 680 George Street Sydney NSW 2000 1300 554 474
Auditor	Deloitte Touche Tohmatsu Quay Quarter Tower Level 46, 50 Bridge Street Sydney, NSW, 2000 +612 9322 7000
Stock exchange listing	Prospa Group Limited shares are listed on the Australian Securities Exchange (ASX: PGL).
Website	www.prospa.com
Corporate Governance Statement	The Directors and management are committed to conducting the business of Prospa Group Limited in an ethical manner and in accordance with the highest standards of corporate governance. Prospa Group Limited has complied with the ASX Corporate Governance Council’s Corporate Governance Principles and Recommendations (Fourth Edition) (“Recommendations”) to the extent appropriate to the size and nature of its operations. The Corporate Governance Statement sets out the Recommendations that were followed during the reporting period and identifies and explains any Recommendations that were not followed. This was approved by the Board of Directors at the same time as the Annual Report and can be found at https://investor.prospa.com/investor-centre/ .

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 2023.

Directors

The following persons were Prospa Group Limited directors during the whole financial year and up to the date of this report unless otherwise stated.

Information on Directors

Name: Gail Pemberton, AO

Title: Independent Non-Executive Chair

Qualifications: 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

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

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

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).

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.

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.

Other current directorships: Gail is currently a Non-Executive Director and the Chair of FleetPartners (ASX:FPR) and a Non-Executive Director of Land Services WA, Sydney Metro, Symbio (ASX:SYM) and HSBC Australia.

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

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Directors' Report
For the year ended 30 June 2023

Name:	Fiona Trafford-Walker
Title:	Independent Non-Executive Director
Qualifications:	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.
Experience and expertise:	<p>Fiona has been a Director of the Company since May 2018, and was previously a Director of Prospa Advance Pty Ltd from March 2018.</p> <p>Fiona was previously an Investment Director at Frontier Advisors, where she was a member of the firm's Investment Committee and Governance Advisory team. She was the inaugural Managing Director at Frontier Advisors and played a critical role in growing the firm. Fiona has more than 25 years' experience advising institutional asset owners and investors on investment and governance-related issues.</p> <p>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.</p>
Other current directorships:	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), the Victorian Funds Management Corporation (VFMC) and FleetPartners (ASX:FPR), where she chairs the Audit and Risk Committee. She is also a member of the Investment Committee for the Walter and Eliza Hall Institute.
Special responsibilities:	Fiona is the Chair of the Audit and Risk Committee and a member of the Remuneration, People and Nomination Committee.

Name:	Mary Ploughman
Title:	Independent Non-Executive Director
Qualifications:	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.
Experience and expertise:	<p>Mary has been a Director of the Company since March 2021.</p> <p>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.</p> <p>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</p>

Prospa Group Limited
Directors' Report
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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.

Other current directorships: Mary is currently Chair of Plenti Group Limited (ASX:PLT) and a member of the People and Culture Committee. Mary is also on the Board of Qualitas Limited (ASX:QAL) and Chair of the Nomination, Remuneration and Governance Committee. Mary is currently Chair of Pitcher Partners, a Senior Advisor with Gresham Partners Limited and an advisor to Indigenous Business Australia.

Special responsibilities: Mary is the Chair of the Remuneration, People and Nomination Committee and is a member of the Audit and Risk Committee.

Name: **Avi Eyal**

Title: Non-Executive Director

Qualifications: Avi has a BSc in Electronic and Computer Engineering from the University of Natal in South Africa.

Experience and expertise: 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 in each funding round. Avi brings extensive finance and technology and governance, risk and compliance (GRC) knowledge to Prospa.

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), Torii and others.

In 2010 Avi received the Johnnie Walker Entrepreneur of the Year Award and in 2018 through 2023 was listed by Forbes Inc as rising to #3 on the Top 25 European Venture Capitalists (Midas List). He is also listed #46 on the Forbes Global Investors Midas List.

Other current directorships: Avi is a current Board Director of Monday.com (NASDAQ:MNDY), BW Robotics, Broadlume, Anchor, Broadlume, Rivery and other technology companies in the UK, EU, USA and Israel.

Special responsibilities: Avi is a member of the Remuneration, People and Nomination Committee.

Name:	Greg Moshal
Title:	Chief Executive Officer & Executive Director
Qualifications:	Greg has a BCom in Accounting from Monash University.
Experience and expertise:	<p>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.</p> <p>Greg has ten 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.</p> <p>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.</p> <p>Greg is passionate about product, design and technology and developing cash flow products and services that help small businesses to prosper.</p> <p>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.</p>
Other current directorships:	None
Special responsibilities:	None

Name:	Beau Bertoli
Title:	Chief Revenue Officer & Executive Director
Qualifications:	Beau has a BCom in Economics and Finance from Sydney University.
Experience and expertise:	<p>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 since 2013. Beau has been instrumental to the establishment of Prospa.</p> <p>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.</p> <p>Beau is passionate about building and growing high performing teams and creating cash flow products and services that keep small business moving.</p>

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

Prior to co-founding Prospa, Beau held senior positions including National Sales Manager at financial services company FlexiGroup (now humm) (ASX:FXL).

Other current
directorships: None

Special
responsibilities: None

Directors' interests in Prospa shares, rights and options are outlined in the Remuneration Report.

Dividends

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

Review of operations

Principal Activities

Established in 2012, Prospa is Australia and New Zealand's #1 online lender to small business. The Company listed on the Australian Securities Exchange in 2019 and currently serves 21,000 active customers to help them unleash their potential and achieve their business goals. Prospa has delivered over \$3.6 billion in loans and facilities to more than 50,000 unique small business customers since inception.

Prospa engages with a network of more than 15,000 distribution partners, including finance brokers, aggregator networks, online affiliates, accountants and other advisers to facilitate referrals and customer acquisitions across Australia and New Zealand.

Prospa's growth strategy is to scale its credit product portfolio and deliver an all-in-one digitally enhanced experience for every small business owner, saving them time and providing real time insights specific to their business. Since launching Prospa's Line of Credit product in New Zealand in March 2022, over 1,100 small businesses have taken up the offer as an effective revolving product that supports businesses with frequent or seasonable cash flow fluctuations.

Prospa's All-in-One Business Account integrates Prospa's credit products, financial management and payment tools to deliver a frictionless solution. This opens up new ways for Prospa to regularly engage with customers, gaining further insights to enable delivery of personalised service and product offerings, extending lifetime value and driving greater customer retention.

Prospa continues to invest in technology, helping to facilitate digital and real-time enhancements delivering faster approvals and driving greater operational efficiencies. This has been combined with Prospa's dynamic risk-based pricing capability, where interest rates associated with a credit request are determined based on a robust credit risk assessment for each individual customer within Prospa's risk appetite.

The overall quality of Prospa's customer experience remains highly engaged, with Prospa continuing to hold a market-leading Net Promoter of 70+, and Prospa being ranked #1 in the Non-bank Financial Services category for small business loans in Australia and New Zealand on independent review site TrustPilot.

Financial Overview

Prospa delivered originations of \$753.7 million, up 2.9% on the prior corresponding period ("pcp") (FY22: \$732.5 million¹). Small business loans represented 72.6% (FY22: \$547.5 million) of originations during the year, down 5.3% on pcp (FY22: \$578.2 million) whereas the Line of Credit originations were \$206.2 million, up 33.6% on pcp (FY22: \$154.3 million).

¹ Small retrospective changes in origination figures may occur as result of back dated cancellations or modifications to support customer outcomes.

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The New Zealand business continues to grow, with originations contributing \$160.9 million for the year (FY22: \$122.9 million), bolstered by the national launch in July 2022 of Line of Credit in New Zealand.

Prospra achieved 30.6% year-on-year growth in active customers to 21,000. As a result of continued demand for funds, closing gross loans reached \$862.2 million, an increase of 22.9% on pcp (FY22: \$701.3 million), of which Line of Credit was \$268.1 million.

Total revenue increased by 60.2% over pcp to \$285.6 million (FY22: \$178.3 million), due to a higher portfolio yield of 34.8% (FY22: 34.1%). The yield was supported by continuing customer demand and some targeted increases in interest rates, offset by tightening credit standards.

Bad debts net of recoveries increased over the year to a total of \$81.0 million (FY22: \$30.1 million). This is reflective of the more challenging environment that small businesses are enduring as a result of increasing interest rates and slowing customer demand. Due to the changing environment, Prospra tightened credit risk settings and implemented targeted measures to manage credit performance across the portfolio. This has led to a reduction in customer approvals in certain sectors. During the year, the business increased its focus on debt collection and recoveries, through increased investment in systems and people.

Expected credit loss provisioning increased to 12.7% of closing gross loans (FY22: 7.2%), including a macroeconomic overlay of 4.2% (FY22: 1.3%). The provision increased by \$58.5 million during the half-year, \$47 million of this increase was the 2.6 percentage point increase in the provision coverage driven by the slowing economy putting pressure on small business owners' cashflow. \$11.5 million of the increase was due to a \$160.9 million increase in closing gross loans from 30 June 2022. The overlay increase was driven by economic forecasts for FY24 and beyond, suggesting further pressure on the economy through reduced GDP and higher cash rates.

During the year, Prospra continued to invest in system re-platforming, improving and building new products. Some of this investment was capitalised during the first half of the year in line with Prospra's accounting policy. Prospra ceased capitalisation when the requirements under the policy were no longer met. As part of the year-end assessment of the carrying value of assets (as required by AASB 136 Impairment of Assets), Prospra tested for impairment and as a result, the Group recognised a full impairment loss of \$24.9 million on its software intangible assets. The Group will continue to monitor and account for its investment in technology and platform going forward in accordance with its accounting policy. The Board believes that the development of the software remains an appropriate and important use of shareholder capital, with a focus on building a stronger and more sustainable business in the long term.

Despite investment in product and technology, Prospra's operating cost base, measured using employee and operating costs as a percentage of revenue, improved to 37.5% (FY22: 47.2%) demonstrating the scalability of the business. In March 2023, Prospra undertook a cost restructure, resulting in streamlining of our operating model and rationalisation of product builds. This resulted in a \$0.8 million restructuring charge and a \$1.0 million run rate saving per month.

Portfolio Management & Funding

Prospa continues to take proactive measures to address credit performance across all risk grades and industry segments. As at 30 June 2023, any expected credit losses are adequately covered within the increased expected credit loss provision percentage. Net bad debts as a percentage of average gross loans are 9.9%, compared to 5.7% in FY22.

The focus remains on maintaining the credit quality of the book, given the continued uncertainty in the operating environment for small businesses.

While interest rates continue to rise, Prospa's cost of funds has increased at a slower pace, from 5.0% in FY22 to 7.0% in FY23. The Net Interest Margin (NIM) is only down 1.1 percentage points to 28.5% (FY22: 29.6%), as the business focused on maintaining yield.

In December 2022, Prospa undertook its second Asset Backed Securitisation ("ABS") of \$200 million, following on from its inaugural issue in H1 FY22. As of 30 June 2023, Prospa had \$921.4 million of secured funding facilities, a 31.3% increase on pcp (FY22: \$702.0 million), of which \$140.1 million was undrawn (FY22: \$59.2 million).

Total cash ended the year at \$96.9 million (FY22: \$105.8 million), of which \$25.8 million was unrestricted (FY22: \$49.9 million). In addition, and not included in the closing cash position, as advised to the ASX on 7 July 2023, Prospa announced the establishment of a \$12 million corporate debt facility to support and provide an additional proactive liquidity option.

Share Buyback

Prospa is committed to enhancing shareholder returns and purchased 1.55 million shares via an on-market buyback between July 2022 and December 2022. The buyback expired on 16 February 2023, and there is no current intention to re-introduce the buyback, as the Board has determined to preserve capital.

Material business risks

The following is a summary of material business risks that could adversely affect our financial performance and growth potential in future years. These risks should be considered within the context of the current period of continued economic uncertainty, which is impacting the small business sectors in Australia and New Zealand. Deterioration of the economic environment could have a negative impact on many of the areas detailed below, as well as Prospa's ability to fulfil its strategy as a whole.

Credit

Credit risk is the risk of financial loss to Prospa if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Prospa has exposure to credit risk on all its term loans and revolving facilities. To manage and mitigate credit risk, Prospa has developed a comprehensive credit risk framework and policies, which encompass all stages of the credit cycle – origination, evaluation, approval, documentation, settlement, ongoing administration, and collection activities. Prospa has established criteria for making small business lending decisions, which can vary by loan purpose, industry segment, past credit performance and cash flow. For

Prospa Group Limited
Directors' Report
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larger exposures, Prospa reviews key financial risk ratios, including interest coverage, debt serviceability and balance sheet structure.

The credit risk framework is also designed in such a way that it allows for adequacy of lending controls and commercial flexibility in a closed feedback, approval, and communication loop. As such, the risk framework is designed to remain relevant and responsive to evolving external conditions.

Prospa has bolstered its recoveries capability through operational process improvements, the use of specialist collection agencies, and renegotiated debt sale arrangements.

Financial & Funding

Prospa needs to be a financially sustainable, competitive, and efficient organisation, with a balance sheet and access to funding that can consistently support its strategic and growth ambitions. We continue to build our long-term financial viability and overall financial strength. Prospa has long-term relationships with key funding partners providing \$921.4 million of funding lines through warehouse funding and public ABS's. The business accessed the public markets for its second ABS in December 2022 and borrowed \$12 million from a corporate debt facility in July 2023.

Liquidity risk

Given Prospa's reliance on third-party funding, Prospa is exposed to liquidity risk. Liquidity risk is the risk that Prospa will not meet its financial obligations as they fall due. Prospa has a diversified funding model and comprises a mix of securitisation warehouse facilities (funded through multiple domestic and global funders), corporate debt facilities, equity, and balance sheet cash.

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

Market risk

Market risk, specifically interest rate and foreign exchange risk, can adversely impact Prospa's earnings.

Prospa is exposed to interest rate risk because Prospa borrows funds at variable interest rates. The interest payable under its funding arrangements is linked to variable Benchmark Rates (in Australia, either Bank Bill Swap Rates ("BBSW") or Bank Bill Swap Bid Rate ("BBSY") and in New Zealand, the Bank Bill Market (BKBM) rate). Where necessary, Prospa partly manages the risk 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.

Prospa is exposed to foreign exchange risk through its New Zealand operations. To minimise this risk, Prospa has funded its New Zealand operations in local currency, restricting the exchange rate translation and transaction risk to Prospa's equity invested in the New Zealand operations. Prospa also pays certain overseas suppliers in foreign currency. However, payments made in foreign currency are not of significant value to have a material impact on Prospa's results.

Legal, Regulatory and Compliance

Prospa places great importance on meeting its legal, regulatory and compliance requirements and understands that successfully adhering to the letter and the spirit of any laws, regulations, and guidelines will enable it to

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meet the expectations of its key internal and external stakeholders, including customers and regulatory and governance bodies.

Prospa's products are significantly influenced by government policy, regulations and industry-based codes of practice, which apply to the financial services and non-bank lending industries in which Prospa operates. Prospa is exposed to compliance risk, being the risk of regulatory action or policy change resulting from a failure to abide by compliance obligations, which may negatively affect Prospa's financial position or reputation.

In addition, any material new or altered law, regulation or policy which impacts Prospa's products could require Prospa to increase spending and employee resources on regulatory compliance and/or change its business practices, which could adversely affect Prospa's operations and profitability.

Technology, including Cyber & IT Security

Prospa has invested and will continue to invest in having strong technological capability, systems and controls in keeping the data it holds secure and safe.

Prospa is dependent on the effective performance, reliability and availability of its technology platforms, communications systems, the internet, and cloud-based hosting services through which it operates.

There is a risk that Prospa's security and technical precaution measures will not be sufficient to prevent unauthorised access to its systems. Operational or business delays, and damage to reputation, may result from any disruption or failure of Prospa's systems and product delivery platforms, which may be caused by events outside Prospa's control. This could lead to claims against Prospa by its customers, reduce the attractiveness of Prospa's products and services to its customers, partners, and subject Prospa to legal action, penalties and/or regulatory scrutiny and the potential termination of customer contracts.

Operational

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. Prospa has in place a framework to allow for the identification, assessment, management, monitoring and reporting of operational risks. The framework helps inform, establish, and define policies, strengthen processes, test control effectiveness and drive improvement in the way Prospa manages and mitigates operational risks and obligations.

Prospa also has in place a fit-for-purpose compliance framework that provides a strong foundation for all credit risk assessments and ongoing monitoring. All applications are screened in accordance with Prospa's Anti-Money Laundering and Counter-Terrorism Financing Program. Prospa pro-actively manages fraud risk through various fraud checks at the onboarding stage and continuous transaction monitoring throughout the customer lifecycle.

Prospa 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.

Prospa manages all operational risk and compliance settings in accordance with its Risk Appetite Statement via a dedicated Operational Risk & Compliance Team. This team regularly reports insights, incident detail and Internal Audit findings to Prospa's Audit & Risk Committee.

Future developments

Our bold ambition is to make Prospa indispensable to SMEs with solutions that simplify small business cash flow by building digital financial solutions to help our customers make payments, fund growth and reduce administration. Leveraging our extensive data and insights, we are investing in our technology stack to scale existing products and create new financial management tools that will help improve customer experiences, drive efficiencies, and proactively manage portfolio performance.

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, State, or Territory law.

Prospa is aware of the Sustainability Disclosure Standards issued by the International Sustainability Standards Board in June 2023. Prospa acknowledges the importance of sustainability reporting and will consider their applicability for our future reporting.

Company Secretary

Mr Ross Aucutt held the position of Company Secretary of the Group from 1 June 2022 to 20 April 2023. Mr Aucutt is the Chief Financial Officer of Prospa. Mr Aucutt has a strong background in non-bank disruptive finance business models and the financial markets generally, where he has worked at a senior level in large domestic and international organisations.

Ms Stephanie Rowland was appointed to the position of Company Secretary of the Group on 20 April 2023. Ms Rowland is also Prospa's Legal Counsel and is admitted to the Supreme Court of New South Wales. Ms Rowland has a background in banking and finance law, general corporate law and disputes, with experience working on a broad range of matters relating to financial services domestically and internally.

Meetings of Directors

The number of meetings of the Company's Board of Directors ("the Board") held during the year ended 30 June 2023, 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	13	13	6	6	7	7
Greg Moshal	13	13	6	6	7	7
Beau Bertoli	13	13	6	6	7	7
Avi Eyal	13	10	6	5	-	-
Mary Ploughman	13	13	6	6	7	7
Fiona Trafford-Walker	13	12	6	6	7	7

Held: represents the number of meetings held when 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 & Risk Committee	Remuneration, People and Nomination Committee
Fiona Trafford-Walker - Chair	Mary Ploughman - Chair
Gail Pemberton	Avi Eyal
Mary Ploughman	Gail Pemberton
	Fiona Trafford-Walker

Remuneration Report (audited)

1. Key Management Personnel

The Committee presents the Remuneration Report of the Group for the period 1 July 2022 to 30 June 2023. 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 entity's activities, directly or indirectly, including all Directors. Table 1 outlines the KMP of the Group during FY23.

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	Full year
Non-Executive Directors		
Gail Pemberton	Independent Non-Executive Chair	Full year
Fiona Trafford-Walker	Independent Non-Executive Director and Chair of the Audit and Risk Committee	Full year
Avi Eyal	Non-Executive Director	Full year
Mary Ploughman	Independent Non-Executive Director Chair of the Remuneration, People and Nomination Committee	Full year

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. Full details of the executive reward framework are provided in section 6.

The Committee is responsible for determining and reviewing executive remuneration arrangements for Executives and Directors in line with our Strategy and the Prospa Culture and Values. The Executive remuneration framework is designed to align executive and shareholder interests consistent with the following 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; and
- Be fair and transparent.

Our Reward framework is a mix of fixed, variable, short-term and long-term remuneration underpinned by a performance management framework based on “what” executives are delivering and “how” they are delivering it.

Remuneration governance

The Remuneration, People and Nominations Committee is responsible for reviewing and recommending to the Board the nature and amount of remuneration for 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 will be made under any of the Company's employee equity incentive plans.

From time to time, the Committee may engage independent consultants to provide remuneration advice. During the 2023 financial year, Ernst & Young were engaged as independent remuneration advisor.

No remuneration recommendations, as defined in the Corporations Act 2001, were provided by Ernst & Young or any other advisor during the year.

3. Prospa Performance and Shareholder Return

As shown below in Table 2, Prospa has achieved year-on-year growth in total income with a 14.6% CAGR over FY19 to FY23. In FY23, a total income of \$270.2 million was achieved, a 61.9% improvement from FY22.

Net Profit after tax (“NPAT”) was a loss of \$44.9 million, down from last year’s profit of \$6.7 million. See the Review of Operations in the FY23 Annual Report for commentary on the results.

Table 2 summarises the statutory earnings and share price performance of the Group for the last five financial years.

Table 2. Group performance summary

\$ million	FY23	FY22	FY21	FY20	FY19
Total income	270.2	166.9	110.5	133.2	136.4
NPAT	(44.9)	6.7	(9.5)	(24.9)	(24.7)
Share price high (\$)	0.85	1.25	1.09	5.09	4.55
Share price low (\$)	0.27	0.55	0.67	0.40	3.49
Share price close (\$)	0.34	0.65	1.00	0.96	3.63

4. FY23 Remuneration Outcomes

Executive KMP remuneration in FY23

The Board determines Executive KMP remuneration outcomes. The Remuneration, People and Nomination Committee (“RPNC”) reviews and recommends Executive KMP remuneration outcomes to the Board considering incumbent capability, experience, market movements, the remuneration principles and individual, business unit and Group performance.

Fixed remuneration

For FY23, the KMP received increases of approximately 4% to their base salary (excluding superannuation) in line with the company-wide base salary increase budget.

Short term incentive plan (“STIP”)

No short-term incentive payments were awarded for FY23, notwithstanding that Executives achieved 79% of combined business and individual measures. For FY23, the Board and Executive Directors adjusted all Executive KMP STI outcomes to nil to reflect the Company’s financial performance.

Table 3. STI performance and outcomes

Performance measures	Weighting	% Combined performance achieved	% Adjusted outcome
Business measures of success:			
- Gross Profit			
- Originations			
- Total active customers	70%	79%	0%
- Net Promoter Score ("NPS")			
- People			
Individual measures of success	30%		

Long term incentive plan ("LTI")

The LTI relating to FY23 was granted to the Executive KMP in November 2022. Refer to Table 10 for further details of the FY23 LTIP grants.

No current on-foot or legacy LTI vested in FY23.

The remuneration outcomes table below summarises the remuneration the current Executives received in their KMP roles during the financial year ended 30 June 2023. Presenting this information gives shareholders greater clarity and transparency of Executive take-home pay. It complements Table 5, the statutory remuneration table, in accordance with accounting standards.

Table 4. Executive KMP Cash and Variable Remuneration Outcomes in FY23

KMP	Fixed Remuneration ¹	STIP awarded for FY23	Face Value Performance Rights awarded during FY23 ²
G. Moshal	565,638	-	316,890
B. Bertoli	565,638	-	316,890
R. Aucutt	462,715	-	197,317

In contrast to Table 4, details of the FY23 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 the statutory table below, Table 5.

¹ Fixed remuneration is inclusive of superannuation.

² This represents the face value of Performance Rights granted to KMP under the FY22 Executive LTI as approved by Shareholders at the FY22 AGM.

Table 5. Statutory Executive KMP Remuneration Outcomes in FY23

Name	Year	Short-term employee benefits				Other benefits	Post-employment benefits	Other long-term benefits	Share-based payments ¹	Total remuneration	Performance related
		Salary and fees ²	Cash bonus ³	Rights	Superannuation						
G. Moshal	2023	540,346	-	-	-	25,292	16,272	185,198	767,108	24%	
	2022	511,539	147,000	36,750	-	23,568	28,395	157,789	905,041	38%	
B. Bertoli	2023	540,346	-	-	-	25,292	21,771	185,198	772,607	24%	
	2022	511,539	147,000	36,750	-	23,568	22,604	157,789	899,250	38%	
R. Aucutt	2023	437,423	-	-	1,200	25,292	3,655	167,373	634,943	26%	
	2022	425,000	165,430	28,858	1,200	23,568	1,143	85,203	730,402	34%	

5. FY24 Remuneration

In considering the ongoing health of the business and the focus on FY24 performance, the Board has determined to make no LTI grant to KMP or Executives in FY24.

Although no LTI will be granted in FY24, the Executive KMP retain substantial shareholdings or existing awards on foot ensuring continued alignment between Executive KMP and shareholders. Please refer to Tables 11 and 12 for details of current KMP equity holdings.

To focus Executives on stabilising the business and returning to profitability through a challenging economic and performance period, the Board has approved increasing the FY24 STI Maximum to 150% of each KMP's current STI maximum. The FY24 STI will remain subject to the same deferral restrictions (20% deferred for one year) as prior awards under the STI scheme. In the absence of an FY24 grant under the LTI, the STI will also provide an element of retention to the Executive KMP.

The FY24 Short Term Incentive framework is proposed to incorporate additional profitability metrics as a part of the Incentive scorecard and as a gate on any STI outcome at year end.

6. Remuneration Framework Overview

The executive remuneration framework balances key business value drivers in the STIP by incorporating measures such as profitability, originations and customer metrics with a long-term shareholder value creation in the LTIP. Vesting of the LTIP is subject to meeting the EBITDA and Revenue performance conditions; the LTI is delivered as performance rights.

¹ This represents the share-based payment expense for options and rights granted to executive KMP. The values of the options and rights are calculated 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 the grant date to vesting date.

² Salary and fees excludes the movement in the annual leave provision.

³ The minimum possible cash bonus value payable to each KMP is \$nil. The Board determines the maximum possible value and has overall discretion to reduce, cancel or claw back any remuneration.

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The structure consists of the following.

- Fixed remuneration set by benchmarking against a 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") - Offered in FY23, which consisted of performance exercisable rights that will vest subject to EBITDA and Revenue performance conditions. Options remain exercisable for two years following vesting. Vesting occurs after three years and is subject to meeting a minimum performance threshold.

FY23 Short-term Incentive Plan ("STIP")

STIP Design	Key Terms									
Purpose of the STIP	Aligning executives with the Company's strategy, culture, values, and shareholder interests.									
Award delivery	<p>Provided performance conditions are met over the one-year performance period; the STIP award is delivered as follows:</p> <ul style="list-style-type: none"> - 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 date one-year post-grant. 									
Performance metrics	<p>Performance metrics are assessed annually and set according to business needs. For FY23, STIP performance was assessed according to:</p> <ul style="list-style-type: none"> - Business measures of success (70%): <ul style="list-style-type: none"> - Gross Profit - Originations - Total active customers - NPS - People - Individual measures of success (30%): <ul style="list-style-type: none"> - An assessment of individual measures such as achievement of corporate goals, budget alignment, people, customers, and delivery of key strategic projects. 									
Performance Targets	<p>A minimum performance threshold of 75% of targets applied to any financial metric before an incentive can be paid.</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th></th> <th style="background-color: #e0f0e0;">Threshold</th> <th style="background-color: #e0f0e0;">Target</th> </tr> </thead> <tbody> <tr> <td>Performance</td> <td>75%</td> <td>100%</td> </tr> <tr> <td>% Outcome</td> <td>80%</td> <td>100%</td> </tr> </tbody> </table> <p>STI outcomes are assessed on a straight-line basis between threshold and target. The originations threshold target must be met for the non-financial/individual performance metrics to be payable.</p>		Threshold	Target	Performance	75%	100%	% Outcome	80%	100%
	Threshold	Target								
Performance	75%	100%								
% Outcome	80%	100%								

STIP Design	Key Terms
Restricted rights vesting	Restricted rights vest one-year following grant and automatically convert to shares (subject to trading windows).
Dividends and voting rights	Restricted rights do not carry dividends or voting rights before vesting. Shares allocated on vesting of rights have the same dividend and voting rights as other ordinary shares.
Cessation of employment and change of control	<p><i>Cessation of employment</i></p> <ul style="list-style-type: none"> – Where a participant ceases employment before 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 for their STIP award. – Good leavers may receive a pro-rata award, subject to Board and management discretion. <p><i>Change of control</i></p> <ul style="list-style-type: none"> – Board retains full discretion to determine deferred award treatment where a change of control event has occurred.
Governance	Before vesting, all STIP awards are subjected to Board risk review. Should any substantial breach of regulatory compliance or material misstatements be identified, the award can be reduced to zero.

FY23 Long-term Incentive Plan

The terms of the FY23 LTIP grant are outlined below.

LTIP Design	Key terms
Purpose of the LTIP	To motivate and retain key employees by aligning to the shareholder value they create.
Award Delivery	The FY23 LTIP is structured as Performance Rights, being a Right to receive a Prospa share for nil consideration on the exercise date, subject to meeting the performance conditions. The Performance Rights will be issued for nil consideration and are not transferable.
Eligibility	All Executive KMP
Performance period and condition	<p>FY23 LTIP Rights vest at the end of three years, subject to testing against an aggregate Annual EBITDA and Revenue performance condition. 50% of the award will be tested independently against each metric, so one performance condition may vest regardless of whether the other performance condition has been achieved.</p> <p>At the start of each relevant financial year (FY23, FY24, and FY25), the Board will set annual EBITDA and Revenue targets for the relevant financial year. Threshold targets will also be set at 80% of Prospa's annual EBITDA target and 90% of Prospa's annual Revenue target for each relevant financial year.</p>

LTIP Design	Key terms
	<p>Following the end of the performance period, the Company will aggregate the threshold and maximum annual targets for each metric. 50% of the Rights tested against each metric will vest if Prospa achieves the aggregated threshold target, and 100% of the Rights tested will vest if Prospa achieves the aggregated maximum performance target. Rights will vest on a straight-line basis between the threshold and maximum targets. The Board retains discretion to adjust the targets and/or how EBITDA and Revenue is calculated to address matters that materially affect the EBITDA and Revenue outcomes and are considered by the Board to be outside management's influence and/or control.</p>
Vesting restrictions	<p>FY23 LTIP Rights will vest on the Vesting Date to the extent the performance conditions are determined to have been satisfied by the Board at the end of the performance period.</p>
Cessation of employment and change of control	<p><i>Cessation of employment</i></p> <ul style="list-style-type: none"> – Unless the Board determines otherwise, unvested awards 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. <p><i>Change of control</i></p> <ul style="list-style-type: none"> – The Board retains full and complete discretion to determine award treatment where a change of control event occurs.
Governance	<p>Prior to vesting, all FY23 LTIP Rights 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.</p>
Dividend and other rights	<p>FY23 LTIP Rights do not carry any dividend or voting rights. Shares allocated on vesting and exercise carry the same dividend and voting rights as other shares issued by the Company.</p> <p>The Executive Incentive Securities:</p> <ul style="list-style-type: none"> – Do not confer any right to a return of capital, whether in a winding up, upon a reduction in capital or otherwise; – Do not confer any right to participate in the surplus profit or assets of the entity upon a winding up; and – Do not confer any right to participate in new issues of securities such as bonus issues or entitlement issues.
Dealing	<p>Performance Rights as part of the FY23 LTIP cannot be dealt with. Shares allocated on vesting and exercise of Performance Rights can be dealt with subject to the Company's Securities Dealing Policy.</p>

Employee Equity Arrangements

Please refer to Note 35 to the consolidated financial statements for details of Employee share-based payments.

7. Contractual Arrangements

Remuneration and other terms of employment for Executive KMP are formalised in service agreements. Details of these agreements are outlined in Table 6.

Table 6. Executive KMP contractual arrangements

	Greg Moshal Chief Executive Officer	Beau Bertoli Chief Revenue Officer	Ross Aucutt Chief Financial Officer
Contract type	Ongoing	Ongoing	Ongoing
Fixed remuneration	\$546,000 + superannuation	\$546,000 + superannuation	\$442,000 + superannuation
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: <ul style="list-style-type: none"> – Non-competition restraints, some of which purport to operate across Australia only; – Restrictions against soliciting certain Group clients and customers and from providing certain services to those clients or customers; – Restrictions against inducing suppliers of the Group to cease supply to the Group; and – Restrictions against soliciting the Group's employees, contractors or Directors. 		

8. 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 7 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 a General Meeting of the Company.

Table 7. Non-Executive Director fees

Board and committee fees (\$ incl super)	Chair	Member
Board	180,000	100,000
Audit and Risk committee	25,000	Nil
Remuneration, People and Nomination committee	15,000	Nil

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Directors are entitled to the reimbursement of travel and other expenses 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 cash fees were paid to the Non-Executive Directors in FY23.

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

Table 8 outlines statutory remuneration paid to Non-Executive Directors in FY23 in accordance with AAS.

Table 8. Non-Executive Director Statutory Remuneration

Name	Year	Fees \$	Superannuation benefits \$	Share-based payments \$	Total
G. Pemberton	2023	167,444	12,556	22,101	202,101
	2022	163,592	16,359	7,558	187,509
F. Trafford-Walker	2023	125,000	-	15,348	140,348
	2022	125,000	-	7,558	132,558
A. Eyal ¹	2023	100,000	-	12,278	112,278
	2022	100,000	-	-	100,000
M. Ploughman	2023	104,072	10,928	14,120	129,120
	2022	104,545	10,455	-	115,000

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.

¹ Avi Eyal is based overseas, and all fees are paid in Australian Dollars.

FY23 Non-Executive Director Options

Non-Executive Director Options were granted in November 2022, subject to continued service at the vesting date. Options will be net-settled upon exercise in the form of shares. Upon exercise, the number of shares issued will be equivalent to the net market value of Prospa's shares at exercise minus the net exercise price of the Options being exercised. The options granted to each Non-Executive Director are outlined in Table 9.

Table 9. Terms and Conditions of Non-Executive Director Options Granted

Name	Number of options granted	Grant date	Vesting date and exercisable date	Expiry date	Exercise price	Fair value per option at grant date
G. Pemberton	459,571	23/11/2022	23/11/2025	23/11/2028	\$0.7602	\$0.25
F. Trafford-Walker	319,147	23/11/2022	23/11/2025	23/11/2028	\$0.7602	\$0.25
A. Eyal	255,317	23/11/2022	23/11/2025	23/11/2028	\$0.7602	\$0.25
M. Ploughman	293,615	23/11/2022	23/11/2025	23/11/2028	\$0.7602	\$0.25

9. Additional Statutory Disclosures

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

Long-Term Incentive Plan and other equity awards information

No LTI options or deferred rights vested in FY23.

Table 10 outlines the details of the Executive KMP FY23 LTIP grants.

Legacy Equity Plans

The sign-on options granted to Ross Aucutt in March 2021 remain unvested and on-foot.

The pre-IPO options granted to Gail Pemberton, Fiona Trafford-Walker and Aviad Eyal in December 2018, January 2019 and June 2019 remain on-foot as vested options. They will expire in December 2023, January 2024 and June 2024.

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Table 10. Executive KMP Equity Awards Granted in FY23

Name		Number granted	Grant date	Number forfeited / lapsed	Number Vested	Granted (\$)	Vesting date and exercisable date	Expiry date	Fair value per right at grant date
G. Moshal	2022 STIP Deferral	48,343	23/11/2022	-	-	29,006	23/11/2023	23/11/2023	\$0.60
	2023 LTIP Grant	528,150	23/11/2022	-	-	316,890	01/08/2025	23/11/2027	\$0.60
B. Bertoli	2022 STIP Deferral	48,343	23/11/2022	-	-	29,006	23/11/2023	23/11/2023	\$0.60
	2023 LTIP Grant	528,150	23/11/2022	-	-	316,890	01/08/2025	23/11/2027	\$0.60
R. Aucutt	2022 STIP Deferral	37,961	23/11/2022	-	-	22,777	23/11/2023	23/11/2023	\$0.60
	2023 LTIP Grant	328,861	23/11/2022	-	-	197,317	01/08/2025	23/11/2027	\$0.60

Table 11. KMP Equity Movements

KMP	Balance of rights, options, and loan shares as at 30 June 2022	Rights, options, and loan shares granted in FY23	Rights, options, loan shares vested in FY23	Rights, options, and loan shares exercised in FY23	Rights, options, and loan shares forfeited in FY23	Balance of rights, options, and loan shares as at 30 June 2023	Balance of rights, options, and loan shares as at 30 June 2023 (vested)
G. Moshal	1,029,487	-	-	-	-	1,029,487	-
	-	48,343	-	-	-	48,343	-
	-	528,150	-	-	-	528,150	-
B. Bertoli	1,029,487					1,029,487	-
	-	48,343				48,343	-
	-	528,150				528,150	-
R. Aucutt	500,000	-	-	-	-	500,000	-
	641,026 ¹	-	-	-	-	641,026	-
	-	37,961	-	-	-	37,961	-
	-	328,861	-	-	-	328,861	-
G. Pemberton	95,556	-	-	-	-	95,556	95,556
	25,000	-	-	-	-	25,000	25,000
	-	459,571	-	-	-	459,571	-
F. Trafford-Walker	95,556	-	-	-	-	95,556	95,556
	25,000	-	-	-	-	25,000	25,000
	-	319,147	-	-	-	319,147	-
A. Eyal	95,592	-	-	-	-	95,592	95,592
	-	255,317	-	-	-	255,317	-
M. Ploughman	-	293,615	-	-	-	293,615	-

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 12.

¹ The Grant of 641,026 Long Term Incentive Options to R. Aucutt in FY22 was incorrectly labelled as G. Pemberton in the 2022 Remuneration Report. This has been corrected in the table above.

Table 12. KMP Equity Holdings

KMP	Balance at 1 July 2022	Received on exercise of rights, options, loan shares	Purchased / Acquired	Disposed	Balance at 30 June 2023
G. Moshal	24,850,732	-	311,100	-	25,161,832
B. Bertoli	9,761,301	-	-	-	9,761,301
R. Aucutt	-	-	-	-	-
G. Pemberton	373,320	-	-	-	373,320
F. Trafford-Walker	47,719	-	-	-	47,719
A. Eyal	2,970,914	-	-	-	2,970,914
M. Ploughman	50,000	-	-	-	50,000

Loans and other transactions

No loans have been granted to any KMP. There were no transactions involving equity instruments, other than those outlined in Tables 10, 12 and 13, with KMP or related parties.

Securities Dealing Policy

The Company has adopted a Securities Dealing Policy, which provides that Directors and employees must not deal in the Company's securities when they are aware of inside information. Directors and certain restricted employees must not deal in the Company's securities during any of the following blackout periods:

- The period from the close of trading on the ASX on 30 June each year until the day following the announcement to ASX of the full-year results;
- The period from the close of trading on the ASX on 31 December each year until the day following the announcement to ASX of the half-year results;
- The period from the close of trading on the ASX at the end of the relevant month until the day following the announcement to ASX of any 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 arrangements 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.

This concludes the Remuneration Report which has been audited.

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
30/11/2018	30/11/2023	\$3.64	191,499
01/12/2018	01/12/2023	\$3.64	92,592
25/01/2019	25/01/2024	\$4.19	191,112
1/04/2019	01/04/2024	\$3.64	54,000
10/04/2019	10/04/2024	\$3.64	72,501
14/05/2019	14/05/2024	\$3.64	60,000
11/06/2019	11/06/2024	\$4.35	75,000
14/04/2020	14/04/2024	\$0.88	1,397,500
14/04/2020	14/04/2024	\$0.95	1,180,000
30/03/2021	30/03/2026	\$0.97	250,000
30/03/2021	30/03/2026	\$1.07	250,000
31/08/2021	31/08/2025	\$0.89	252,320
22/10/2021	30/06/2026	\$0.96	700,000
22/10/2021	22/10/2026	\$0.96	1,815,583
01/12/2021	22/10/2026	\$0.96	2,700,000
23/11/2022	23/11/2028	\$0.76	1,327,650
			10,609,757

As of 30 June 2023, 10,609,757 options were outstanding, of which 3,916,524 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 under rights	Number
13/07/2020	n/a	\$0.00	50,328
15/03/2021	n/a	\$0.00	28,856
07/09/2021	n/a	\$0.00	90,044
22/10/2021	n/a	\$0.00	2,069,724
28/02/2022	n/a	\$0.00	131,760
29/08/2022	n/a	\$0.00	52,783
24/10/2022	n/a	\$0.00	4,043,792
15/11/2022	n/a	\$0.00	1,030,093
23/11/2022	n/a	\$0.00	1,519,808
			9,017,188

As of 30 June 2023, 9,017,188 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 any other body corporate.

Shares issued on the exercise of options

There were no ordinary shares of Prospa Group Limited issued during the year ended 30 June 2023 on the exercise of options granted.

Shares issued on the exercise of rights

The following ordinary shares of Prospa Group Limited were issued during the year ended 30 June 2022 on exercise of employee rights granted.

Date performance rights granted	Exercise price	Number of shares issued
12/08/2019	\$0.00	80,088
12/08/2019	\$0.00	33,069
13/01/2020	\$0.00	41,640
13/07/2020	\$0.00	58,715
15/03/2021	\$0.00	55,477
22/10/2021	\$0.00	1,104,540
24/10/2022	\$0.00	712,819
		2,086,348

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 for a contract to insure the Directors and Executives of the Company against liability to the extent permitted by the Corporations Act 2001. The insurance contract 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 7 July 2023, Prospa announced the establishment of a \$12 million corporate debt facility to support and provide an additional proactive liquidity option.

No other matter or circumstance has arisen since 30 June 2023 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 26 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.

Prospa Group Limited
Directors' report
For the year ended 30 June 2023

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

- all non-audit services have been 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 Corporation's 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 Chair

29 August 2023
Sydney



Deloitte Touche Tohmatsu
ABN 74 490 121 060

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29 August 2023

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 2023, 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


Heather Baister
Partner
Chartered Accountants

Prospa Group Limited
Consolidated statement of profit or loss
and other comprehensive income
For the year ended 30 June 2023

		Consolidated	
	Note	30 June 2023	30 June 2022
		\$'000	\$'000
Income			
Interest income	4	240,366	151,957
Other income	5	29,815	14,917
Total income		270,181	166,874
Interest Expense	6	(52,044)	(23,311)
Gross profit		218,137	143,563
Expenditure			
Loan impairment expense	7	(139,448)	(47,316)
Employee expenses		(66,215)	(48,201)
Operating expenses	8	(41,388)	(35,856)
Share-based payments	35	(3,882)	(2,950)
Depreciation		(2,467)	(2,580)
Amortisation	15	(3,710)	(4,687)
Impairment of intangible asset	15	(24,880)	-
Interest on lease liabilities	6	(237)	(308)
Total expenditure		(282,227)	(141,898)
(Loss)/profit before income tax benefit		(64,090)	1,665
Income tax benefit	9	19,227	5,061
(Loss)/profit after income tax benefit for the year attributable to the owners of Prospa Group Limited	21	(44,863)	6,726
Other comprehensive income/(loss), net of income tax			
Items that may be subsequently reclassified to profit or loss			
Foreign currency translation		129	(869)
Fair value (loss)/gain on cash flow hedge	20	(1,299)	1,979
Fair value (loss)/gain on cost of hedging	20	(228)	8
Other comprehensive (loss)/income for the year, net of income tax		(1,398)	1,118
Total comprehensive (loss)/income for the year attributable to the owners of Prospa Group Limited		(46,261)	7,844
Basic (loss)/earnings per share			
Basic (loss)/earnings per share	34	(27.54)	4.12
Diluted (loss)earnings per share			
Diluted (loss)earnings per share	34	(27.54)	4.12

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

Prospa Group Limited
Consolidated statement of financial position
As at 30 June 2023

		Consolidated	
	Note	30 June 2023	30 June 2022
		\$'000	\$'000
Assets			
Cash and cash equivalents	10	96,944	105,767
Bank deposits		41	-
Loan receivables	11	752,746	650,525
Other financial assets		1,313	610
Derivative financial assets	12	656	2,838
Prepayments and other assets		3,058	3,244
Property, plant and equipment	13	67	274
Right of use assets	14	5,858	7,938
Intangible assets	15	-	17,934
Deferred tax assets	9	38,280	19,734
Total assets		898,963	808,864
Liabilities			
Trade and other payables	16	10,554	12,846
Employee benefits	17	9,067	8,001
Lease liabilities	14	7,262	9,545
Borrowings	18	779,120	640,822
Current tax liabilities	9	-	1,452
Total liabilities		806,003	672,666
Net assets		92,960	136,198
Equity			
Issued capital	19	610,949	611,808
Reserves	20	(415,923)	(418,407)
Accumulated losses	21	(102,066)	(57,203)
Total equity		92,960	136,198

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

Prospa Group Limited
Consolidated statement of changes in equity
For the year ended 30 June 2023

Consolidated	Issued capital (Note 19) \$'000	Reserves (Note 20) \$'000	Accumulated losses (Note 21) \$'000	Total equity \$'000
Balance at 1 July 2021	610,919	(422,475)	(63,929)	124,515
Profit after income tax benefit for the year	-	-	6,726	6,727
Fair value gain on cash flow hedge reserve	-	1,979	-	1,979
Fair value gain on cost of hedging reserve	-	8	-	8
Foreign currency translation	-	(869)	-	(869)
Total comprehensive income for the year	-	1,118	6,726	7,844
Share-based payment transactions:	-	-	-	-
Share-based payments (Note 35)	-	2,950	-	2,950
Exercise of options	20	-	-	20
Cash settled rights	(16)	-	-	(16)
Share buyback	(416)	-	-	(416)
Sale of loan shares	1,301	-	-	1,301
Balance at 30 June 2022	611,808	(418,407)	(57,203)	136,198
	Issued capital (Note 19) \$'000	Reserves (Note 20) \$'000	Accumulated losses (Note 21) \$'000	Total equity \$'000
Consolidated	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2022	611,808	(418,407)	(57,203)	136,198
Loss after income tax benefit for the year	-	-	(44,864)	(44,864)
Fair value loss on cash flow hedge reserve	-	(1,299)	-	(1,299)
Fair value loss on cost of hedging reserve	-	(228)	-	(228)
Foreign currency translation	-	129	-	129
Total comprehensive loss for the year	-	(1,398)	(44,864)	(46,262)
<i>Share-based payment transactions:</i>				
Share-based payments (Note 35)	-	3,882	-	3,882
Share buyback	(640)	-	-	(640)
Treasury share purchase	(219)	-	-	(219)
Balance at 30 June 2023	610,949	(415,923)	(102,067)	92,959

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

Prospa Group Limited
Consolidated statement of cash flows
For the year ended 30 June 2023

		Consolidated	
	Note	30 June 2023	30 June 2022
		\$'000	Restated* \$'000
Cash flows from operating activities			
Interest received		256,226	161,483
Other income received		17,705	11,546
Interest paid		(52,646)	(24,225)
Payments to suppliers and employees		(124,507)	(89,969)
Net cash provided by operating activities before movement in loans advanced		96,778	58,835
Net increase in loans advanced to customers	1	(230,289)	(297,941)
Net cash used in operating activities	33	(133,511)	(239,106)
Cash flows from investing activities			
Payment for other financial assets		(225)	(610)
Payments for intangibles		(10,656)	(15,408)
(Increase)/decrease in bank deposits		(41)	1,095
Net cash used in investing activities		(10,922)	(14,923)
Cash flows from financing activities			
Proceeds from borrowings		430,845	389,066
Repayment of borrowings		(292,323)	(107,579)
Principal repayment of lease liabilities		(2,462)	(2,294)
Share buyback		(640)	(416)
Treasury share purchase		(219)	-
Proceeds from exercise of options		-	20
Proceeds from sale of loan shares		-	1,301
Cash settled employee rights		-	(16)
Net cash from financing activities		135,201	280,082
Net (decrease)/increase in cash and cash equivalents		(9,232)	26,053
Cash and cash equivalents at the beginning of the financial year		105,767	80,377
Effects of exchange rate changes on cash and cash equivalents		409	(663)
Cash and cash equivalents at the end of the financial year	10	96,944	105,767

*Comparative information has been restated to align to the presentation with the current period in respect of the reclassification of net movement in loans advances to customers from investing activities to operating activities.

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

1. Significant accounting policies

The principal accounting policies adopted in preparing the financial statements are set out below. These policies have been consistently applied to all the years presented unless otherwise stated. The financial statements show the results of the Group together with supplementary information about the parent entity.

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 which are measured at amortised cost.

Going concern

The financial statements of the Group have been prepared on a going concern basis. The Board of Directors has assessed the Group's ability to continue as a going concern. In making this assessment, the Board has considered the following key factors:

- Budget and cash flow forecasts have been prepared which extend to 30 September 2024. These demonstrate that 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 \$25.8 million as at 30 June 2023 (30 June 2022: \$49.9 million). See Note 10;
- The establishment of a \$12 million corporate debt facility announced on 7 July 2023 to support and provide an additional proactive liquidity option (not included in unrestricted cash at 30 June 2023);
- An increase in net cash provided by operating activities before movement in loans advanced for the year ended 30 June 2023 of \$96.8 million (30 June 2022: \$58.8 million);
- The statutory loss before tax for the year ended 30 June 2023 of \$64.1 million is driven by the increase in expected credit loss provision (\$58.5 million) and the intangible asset impairment (\$24.9 million). These are non-cash items totalling \$83.4 million;
- The Group has \$921.4 million in available third-party facilities as at 30 June 2023 (30 June 2022: \$442.9 million) including unused facilities of \$140.1 million (30 June 2022: \$59.2 million), with a weighted average duration of 38 months. See Note 18; and
- The key events concerning the Group's borrowings as described in Note 18, which demonstrate confidence by Prospa's funders in the performance of the portfolio and the available liquidity.

In addition to the information noted above, steps have been taken during the year ended 30 June 2023 in response to the worsening economic environment.

Prospa Group Limited
Notes to the consolidated financial statements
For the year ended 30 June 2023

- Management tightened credit risk settings and implemented targeted measures to manage credit performance across the portfolio;
- An increased focus on debt collection and recoveries, through increased investment in systems and people; and
- A cost restructure was undertaken, resulting in a simplification and reduction of certain product builds. This resulted in a \$0.8 million restructuring charge and a \$1.0 million run rate saving per month.

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

Foreign currency translation

The financial statements are presented in Australian dollars, which is Prospa Group Limited's functional and presentation currency, and includes foreign currency transactions translated into Australian dollars using the exchange rates prevailing at the dates of the transactions.

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 Corporation's Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

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 2023 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 as the "Group" in these financial statements.

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 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 the Group are applied consistently by all subsidiaries and trusts.

New or amended Accounting Standards and Interpretations adopted

The Group has adopted all the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that are relevant to its operations and effective for an accounting period that begins on or after 1 July 2022.

New and revised Standards and amendments thereof and Interpretations effective for the current year that are relevant to the Group include:

Prospa Group Limited
Notes to the consolidated financial statements
For the year ended 30 June 2023

- AASB 2020-3 Amendments to Australian Accounting Standards – Annual Improvements 2018-2020 and Other Amendments
- AASB 2021-7 Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections

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

Reclassification of cash flows

For the year ended 30 June 2023, the Group has changed its accounting policy for the presentation of cashflows in relation to net increase in loans and advances to customers and reclassified these from cash flows from investing activities to cash flows from operating activities. The change provides more relevant and reliable information for users of the financial statements by providing information in a more comparable manner to other market participants.

As a result, the comparative period cash flows were reclassified with net increase in loans advanced to customers in cash flows from investing activities to operating activities. Net cash used in investing activities reduced by \$297 million from \$312.8 million to \$14.9 million with a corresponding change to operating activities from a cash inflow of \$58.8 million to a cash outflow of \$239.1 million in the consolidated statement of cash flows for the year ended 30 June 2022. This reclassification had no impact on the statement of financial position or to profit or loss. The historic presentation is compared to the revised presentation below.

	30 June 2022 \$'000 (After reclassification)	30 June 2022 \$'000 (Previously presented)
Cash flow from operating activities		
Net cash provided by operating activities before movement in loans advanced to customers	58,835	-
Net movement in loans advanced to customers	(297,941)	-
Net cash (used in)/from operating activities	(239,106)	58,835
Cash flows from investing activities		
Net movement in loans advances to customers	-	(297,941)
Net cash used in investing activities	(14,923)	(312,864)

Where necessary, comparative information has been reclassified to be consistent with current period disclosures. This has resulted in \$0.1 million in interest earned on cash deposits being reclassified in the prior period comparative information from other income to interest income.

2. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements, which, by definition, will seldom equal the actual results. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and other factors, including expectations of future events, which they believe to be reasonable under the circumstances. There are no critical accounting judgements, estimates and assumptions that are likely to affect the current or future financial years.

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.

It also requires management to exercise judgment in 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 the following notes:

- Note 4 Effective interest rate
- Note 9 Recoverability of deferred tax assets
- Note 11 Expected credit loss
- Note 15 Impairment of Intangible assets

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 only one operating segment, representing the consolidated results. The chief operating decision makers include the Non-Executive Directors, Chief Executive Officer, Chief Revenue Officer and Chief Financial Officer. They are responsible for allocating resources to operating segments and assessing their performance.

The Group's total income can be analysed by geography as follows.

	Consolidated	
	30 June 2023	30 June 2022
	\$'000	\$'000
Australia	216,463	138,148
New Zealand	53,718	28,726
Total	270,181	166,874

The Group's loan receivables analysed by geography are disclosed in Note 23.

Other non-current assets include intangible assets and right of use assets that arise predominantly within Australia.

4. Interest income

Accounting policy

The Group provides financing to small businesses and derives the majority of its revenue from the loans and receivables 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 Financial Instruments, based on estimated future cash receipts over the expected life of the financial asset. 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. Interest income for loans with objective evidence of impairment, Stage 3 loans (See Note 23), is recognised on a net basis and fully impaired.

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

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

Transaction costs

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.

Critical accounting judgements, estimates and assumptions

Effective interest method

This estimate requires judgement as to the expected life of the financial asset, which may differ due to early repayment and deferrals to its contractual life and is reviewed on an ongoing basis.

	Consolidated	
	30 June 2023	30 June 2022
	\$'000	\$'000
Interest income on lending portfolio	253,163	163,231
Transaction costs amortisation	(15,389)	(11,410)
Bank interest	2,592	136
	240,366	151,957

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 or over time when the performance obligation has been satisfied, at the transaction price determined in the loan contract. Fee income is comprised of late fees (recognised for services transferred at a point in time) and subscription fees (recognised for services transferred over time).

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 from items such as financial instruments where the revenue is assessed to be in scope of AASB 9.

Fee revenue for loans with objective evidence of impairment, Stage 3 loans (See Note 23), is not recognised as the Group does not consider it probable that it will collect the consideration to which it is entitled.

	Consolidated	
	30 June 2023	30 June 2022
	\$'000	\$'000
Fee income - late fees	22,544	10,670
Fee income - subscription fees	7,271	4,247
	29,815	14,917

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 interest expense.

Transaction costs directly attributable to the establishment of warehouse facilities and term facilities are initially capitalised and then recognised in interest expense over the expected life of the related facility.

Prospa Group Limited
Notes to the consolidated financial statements
For the year ended 30 June 2023

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

	Consolidated	
	30 June 2023	30 June 2022
	\$'000	\$'000
Interest expense	52,044	23,311
Interest on lease liabilities	237	308
	52,281	23,619

Interest expense for the year to 30 June 2023 was reduced by \$2.0 million from the realised gains on the settled portion of the hedging instrument (30 June 2022: \$nil). See Note 12.

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 comprises the following key items.

	Consolidated	
	30 June 2023	30 June 2022
	\$'000	\$'000
Receivables written-off during the year as bad debts	96,513	47,123
Movement in provision (Note 23)	58,493	17,254
Recoveries	(15,558)	(17,061)
	139,448	47,316

8. Expenditure

Accounting policy

Foreign currency transactions

Operating expenses include the realised and unrealised impact of foreign currency transactions.

Foreign currency gains and losses arise from the settlement of foreign currency transactions throughout the year and from the translation of financial assets and liabilities denominated in foreign currencies at year-end.

Operating Expenses

	Consolidated	
	30 June 2023	30 June 2022
	\$'000	\$'000
General and administration expense	10,827	10,639
Sales and marketing expense	17,690	17,178
Product, design, technology and analytical expense	12,871	8,039
	41,388	35,856

9. Taxation

Accounting policy

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in profit or loss because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates enacted or substantively enacted by the end of the reporting period.

A provision is recognised for those matters for which the tax determination is uncertain, but it is considered probable that there will be a future outflow of funds to a tax authority. The provisions are measured at the best estimate of the amount expected to become payable. The assessment is based on the judgement of tax professionals within the Company supported by previous experience in respect of such activities and, in certain cases, based on specialist independent tax advice.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, a deferred tax liability is not recognised if the temporary difference arises from the initial recognition of goodwill.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates expected to apply when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the reporting date.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the

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manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current tax and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items recognised in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

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 receivable or payable under the Tax Funding Agreement are recognised as a contribution to (or distribution from) the Tax Consolidated Group members.

Other 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 acquiring 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.

Critical accounting judgements, estimates and assumptions

Recovery of deferred tax assets

Deferred tax assets are recognised for temporary deductible differences and unused tax losses only if the Group considers it probable that future taxable amounts will be available to utilise those temporary differences and losses. The Group assesses the extent to which deferred tax assets will be recoverable in the short term by comparing forecast taxable profits to existing deferred tax assets and unused tax losses. The assessment of recoverability involves the use of judgement as to future performance of the business, which is by its nature an estimate and uncertain.

	Consolidated	
	30 June 2023	30 June 2022
	\$'000	\$'000
<i>Amounts recognised in profit or loss</i>		
<i>Current tax</i>		
Current year	27	1,308
Adjustment recognised for prior periods	(1,452)	-
	(1,425)	
<i>Deferred tax</i>		
Origination and reversal of temporary differences	(17,695)	(6,369)
Adjustment recognised for prior periods	(107)	-
Aggregate income tax benefit	(19,227)	(5,061)
<i>Numerical reconciliation of income tax (benefit)/expense and tax at the statutory rate</i>		
(Loss)/profit before income tax benefit	(64,090)	1,665
Tax at the statutory tax rate of 30%	(19,227)	500
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Entertainment expenses	53	35
Share-based payments	1,165	885
Other non-deductible items	27	(92)
Effect of tax rates in foreign jurisdictions	314	255
Deferred tax assets brought to account on unused losses	-	(6,644)
Adjustment recognised for prior periods	(1,559)	-
Income tax benefit	(19,227)	(5,061)

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Deferred taxes comprise temporary differences attributable to the following.

	Consolidated	
	30 June 2023	30 June 2022
	\$'000	\$'000
Deferred tax assets		
Employee benefits	2,262	2,167
Provision for impairment of loan receivables	32,843	15,241
Property, plant and equipment, right-of-use asset and intangibles	1,761	1,838
Blackhole expenditure booked in relation to IPO	-	502
General provisions and other	103	122
Capitalised borrowing costs	(768)	(727)
Derivative financial instruments	(197)	(851)
Unused losses	2,745	1,688
Difference on foreign exchange	(469)	(246)
Net deferred tax assets	38,280	19,734

As at 30 June 2023, the Group has cumulative unused tax losses of \$9.1 million (30 June 2022: \$5.6 million), equating to a future tax benefit of \$2.7 million (30 June 2022: \$1.7 million). A deferred tax asset of \$2.7 million has been recognised to reflect this (30 June 2022: \$1.7 million).

Management has assessed the recoverability of the cumulative unused tax losses and the temporary timing differences as at 30 June 2023. Deferred tax assets relating to unused losses and deductible 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. Management has determined that sufficient profits will be available against which the deferred tax asset can be utilised. This assessment is based on the latest multi-year budget approved by the Board. The Group is expected to generate taxable income from 2024 onwards.

10. Cash and cash equivalents

Accounting policy

Cash and cash equivalents include cash on hand, deposits held at call with financial institutions and 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 2023	30 June 2022
	\$'000	\$'000
Cash and cash equivalents - unrestricted	25,770	49,905
Cash and cash equivalents - restricted	71,174	55,862
	96,944	105,767

Restricted cash is held by the Securitisation Trusts, and whilst the cash held in the Securitisation Trusts 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 any excess income to the residual unit holder each month after paying interest and fee 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.

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

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.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset

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and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Critical accounting judgements, estimates and assumptions

Expected credit losses ("ECL")

The allowance for ECL assessment requires a high degree of estimation and judgement. It is modelled using assumptions concerning the ECL, including evaluating significant increases in credit risk since initial recognition, recent loss experience, historical collection rates, forward looking information and assessment of default. The Group has updated its macroeconomic forward-looking scenarios with current inflation and consumption-related scenarios for the current year. The actual credit losses in future years may be higher or lower. See Note 23 for further details.

	Consolidated	
	30 June 2023	30 June 2022
	\$'000	\$'000
Loan receivables	862,223	701,329
Less: Allowance for expected credit losses (Note 23)	(109,477)	(50,804)
	752,746	650,525

Of the total loan receivables, \$589.8 million before ECL is expected to be repaid within 12 months of the reporting date (30 June 2022: \$423.1 million), with the remainder to be collected after 12 months.

12. Derivative financial assets

Accounting policy

Interest rate cap

To reduce the risk of changing interest rates associated with the Group's borrowings, Prospa holds two interest rate cap contracts. The Group seeks to minimise the effects of interest rate risks by using this derivative financial instrument to hedge risk exposures. Derivatives are initially recognised at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at each reporting period. The resulting gain or loss is immediately recognised in profit or loss unless the derivative is designated and effective as a hedging instrument. In this event, the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

See Notes 18, 20 and 23 for further details.

Hedge accounting

The Group designates certain hedging instruments, which includes derivatives in respect of interest rate risk, as cash flow hedges. At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and hedged item, its risk management objectives and its strategy for undertaking various hedge transactions.

Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk, which is when the hedging relationships meet all the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- the hedge value is largely reflective of the hedged item.

The Group designates only the intrinsic value of option contracts as a hedged item, i.e. excluding the time value of the option. The changes in the fair value of the aligned time value of the option are recognised in other comprehensive income and accumulated in the cost of hedging reserve. As the hedged item is transaction-related, the time value is reclassified to profit or loss when the hedged item affects profit or loss. Those reclassified amounts are recognised in profit or loss in the same line as the hedged item.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated under the heading of cash flow hedge reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss. Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss, in the same line as the recognised hedged item.

Cost of hedging

The cost of hedging reflects the gain or loss on the portion excluded from the designated hedging instrument that relates to the time value option of the interest rate cap contract. It is initially recognised in other comprehensive income and accounted for similarly to gains or losses on cash flow hedges.

Hedge accounting is discontinued when:

- the hedging instrument expires or is sold, terminated, or exercised; or
- the Group no longer qualifies for hedge accounting.

Any cumulative gain or loss recognised in other comprehensive income and accumulated in equity at that time remains in equity. It is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss in finance costs.

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Derivatives

Derivative transactions are administered under International Swaps and Derivatives Association (“ISDA”) Master Agreements. The derivatives are presented on a gross basis since the Group does not have any legally enforceable right to set-off nor intends to settle on a net basis. In addition, the Group’s master netting arrangement (ISDA) does not allow for the right to off-set as a result of credit events, such as default.

Contract	Start Date	Maturity Date	Initial Principal	Principal as at 30 June 2023	Hedging Ratio	Risk being hedged
Interest Rate Cap #1	15 September 2021	15 June 2024	\$190,000,000	\$146,962,163	1:1	Hedging movement in cash flow due to movement in base interest rate.
Interest Rate Cap #2	7 December 2022	18 June 2025	\$187,400,000	\$187,400,000	1:1	Hedging movement in cash flow due to movement in base interest rate.

Cash Flow Hedges

The following table details interest rate cap contracts outstanding at the end of the reporting period and their related hedged items.

	Carrying amount of hedging instrument	Change in hedging instrument for the period	Change in hedged item for the period	Settled portion of hedging instrument realised losses/(gain) net of tax	Hedging gain/(loss) recognised in cash flow hedge reserve net of tax	Cost of hedging reserve net of tax
30 June 2023	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Hedging instruments	656	(1,856)	1,856	(1,370)	680	(221)
	656	(1,856)	1,856	(1,370)	680	(221)

	Carrying amount of hedging instrument	Change in Hedging instrument	Change in Hedged item	Settled portion of hedging instrument realised losses/(gain)	Hedging gain/(loss) recognised in cash flow hedge reserve net of tax	Cost of hedging reserve net of tax
30 June 2022	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Hedging instruments	2,838	2,827	(2,827)	-	1,979	8
	2,838	2,838	(2,838)	-	1,979	8

The interest rate caps held by the Group are amortising in nature - the underlying principal remains static for 12 months following the start date and subsequently amortises in line with the expected cash collections from underlying loans.

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The interest rate caps settle monthly. The floating rate on the interest rate caps is 1-month BBSW. The Group will settle the difference between the fixed and floating interest rate on a net basis. The interest rate cap contracts exchange floating rate interest amounts for fixed rate interest amounts and are designated as a cash flow hedge to reduce the Group's cash flow exposure resulting from variable interest rates on borrowings. The interest rate cap and the interest payments on the loan occur simultaneously. The amount accumulated in equity is reclassified to profit or loss over the period that the floating rate interest payments on debt affect profit or loss.

The counterparties to the Group's interest rate caps are major Australian banks with credit ratings of A3 or higher assigned by international credit rating agencies.

Cash flow hedge reserve

The cash flow hedge reserve represents the cumulative gains and losses on hedging instruments deemed effective in cash flow hedges. The cumulative deferred gain or loss on the hedging instrument is recognised in profit or loss only when the hedged transaction affects the profit or loss, or is included directly in the initial cost.

	Consolidated	
	30 June 2023	30 June 2022
	\$'000	\$'000
Balance at 1 July (net of tax)	1,979	-
Gain/(loss) arising on changes in fair value of hedging instruments during the period	101	2,827
Income tax arising on changes in fair value of hedging instruments during the period	(30)	(848)
(Gain)/loss reclassified to profit or loss – hedged item has affected profit or loss	(1,957)	-
Income tax related to amounts reclassified to profit or loss	587	-
Balance at 30 June (net of tax)	680	1,979

Cost of Hedging reserve

The cost of hedging reserve represents the effects of changes in fair value of the time value of an option when only the intrinsic value of the option is designated as the hedging instrument. The changes in fair value of the time value of an option and their related reclassification adjustments and amortisation per risk category is presented below.

	Consolidated	
	30 June 2023	30 June 2022
	\$'000	\$'000
Balance at 1 July (net of tax)	8	-
Changes in fair value of the time value of an option in relation to time-period related hedged items during the period	(641)	11
Income tax related to changes in fair value of the time value of an option	192	(3)
Amortisation to profit or loss of changes in fair value of the time value of an option in relation to time-period related hedged items	315	-
Income tax related to time-period related hedged items amortised to profit or loss	(95)	-
Balance at 30 June (net of tax)	(221)	8

13. Property, plant and equipment

Accounting policy

Property, plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure 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 2023	30 June 2022
	\$'000	\$'000
Plant and equipment - at cost	4,457	4,457
Less: Accumulated depreciation	(4,390)	(4,183)
	67	274

14. 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

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reviewed for impairment in accordance with relevant Australian Accounting Standards (see Note 15) and are 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 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. See Note 28 for further detail.

Amounts recognised in the statement of financial position

	Consolidated	
	30 June 2023	30 June 2022
	\$'000	\$'000
Right-of-use assets		
At cost	13,945	8,802
Additions	180	5,143
Less: Accumulated depreciation	(8,267)	(6,007)
	5,858	7,938
Lease liabilities		
Current	2,668	2,442
Non-current	4,594	7,103
Total lease liabilities	7,262	9,545

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Lease payment maturity analysis

	Consolidated	
	30 June 2023	30 June 2022
	\$'000	\$'000
Less than 1 year	2,843	2,442
1 to 2 years	2,951	2,616
2 to 3 years	1,746	2,786
3 to 4 years	-	1,701
	7,540	9,545

Amounts recognised in profit or loss

	Consolidated	
	30 June 2023	30 June 2022
	\$'000	\$'000
Depreciation		
Right-of-use assets	2,260	2,128
Interest expense		
Interest on lease liabilities	237	308

The movement in the Group's leases is further analysed below.

	30 June 2022	Interest incurred	Net cash flows	Non-cash movements	30 June 2023
Lease liability	9,545	237	(2,967)	138	7,262

	30 June 2021	Interest incurred	Net cash flows	Non-cash movements	30 June 2022
Lease liability	6,732	308	(2,602)	5,107	9,545

15. 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

Expenditure on acquiring and developing software costs are recognised as intangible assets if, and only if, all of the following conditions have been demonstrated:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- The intention to complete the intangible asset and use or sell it;
- The ability to use or sell the intangible asset;
- How the intangible asset will generate probable future economic benefits;
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- The ability to measure reliably the expenditure attributable to the intangible asset during its development.

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 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.

Software (acquired)	5 years
Software development (in-house)	2-5 years

During the year ended 30 June 2022, the Group revised the estimated useful life attached to its legacy loan management system from 3 years to 2 years. As a result of this change there was no material increased amortisation expense. Remaining software development (in-house) continued to be amortised over 5 years during the financial period prior to the impairment assessment referenced below.

Software-as-a-Service (“SaaS”) arrangements

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 software code that enhances or modifies, or creates additional capability to enhance or create 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.

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Non-financial Assets

Non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Consistent with the Group's accounting policies and relevant Australian Accounting Standards, the Group has considered impairment indicators arising as of 30 June 2023.

During the year, Prospa continued to invest in system re-platforming, improving and building new products. Some of this investment was capitalised during the first half of the year in line with Prospa's accounting policy. Prospa ceased capitalisation when the requirements under the policy were no longer met. As part of the year-end assessment of the carrying value of assets (as required by AASB 136 Impairment of Assets), Prospa has tested for an impairment and as a result software intangible assets have been fully impaired. The Group will continue to monitor and account for its investment in technology and platform going forward in accordance with its accounting policy.

As a result, during the year ended 30 June 2023, the Group recognised an impairment loss of \$24.9 million on its software intangible assets.

The carrying amounts of the Group's intangible assets at 30 June 2023 are \$nil (30 June 2022: \$17.9 million).

	Consolidated	
	30 June 2023	30 June 2022
	\$'000	\$'000
Software development (in-house) - at cost	44,892	34,235
Less: Accumulated amortisation	(20,012)	(16,301)
Less: Impairment expense	(24,880)	-
	-	17,934

Movement in intangible assets

	Consolidated	
	30 June 2023	30 June 2022
	\$'000	\$'000
Opening balance	17,934	7,213
Additions	9,442	15,408
Amortisation expense	(2,496)	(4,687)
Impairment of intangible assets	(24,880)	-
Closing balance	-	17,934

The increase in software development in the year relates to the Group's increased investment in technology and new products capitalised in accordance with the Group's accounting policy in the first half of the year, prior to the performance of the impairment test noted above.

16. Trade and other payables

Accounting policy

These amounts represent liabilities for goods and services provided to the Group before the end of the financial year and which are unpaid. They are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. The amounts are unsecured and due to their short-term nature, are not discounted.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

	Consolidated	
	30 June 2023	30 June 2022
	\$'000	\$'000
Trade creditors	3,706	4,281
Other payables	610	779
Accruals	4,600	5,663
Other taxation and superannuation	1,638	2,123
	10,554	12,846

As at 30 June 2023, trade and other payables of \$10.6 million are current (30 June 2022: \$12.8 million).

17. Employee benefits

Accounting policy

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.

	Consolidated	
	30 June 2023	30 June 2022
	\$'000	\$'000
Annual leave provision	3,221	2,659
Long service leave provision	920	674
Employee benefits	4,926	4,668
	9,067	8,001

As at 30 June 2023, employee benefits of \$8.4 million are current (30 June 2022: \$7.4 million) and \$0.7 million are non-current (30 June 2022: \$0.6 million).

18. Borrowings

Accounting policy

Borrowings are initially recognised at the fair value of the consideration received, net of transaction costs directly attributable to the issuance of the financial liability. They are subsequently measured at amortised cost using the effective interest method.

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

Other financial instruments

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

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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 2023	30 June 2022
	\$'000	\$'000
Securitisation trust notes	781,680	643,244
Less: unamortised transaction costs on trusts	(2,560)	(2,422)
	779,120	640,822

The weighted average duration of the availability period of the securitisation trust notes is 38 months (as at 30 June 2023).

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

	30 June 2022	Net cash flows	Non-cash movements	30 June 2023
Securitisation trust notes	643,244	138,521	(85)	781,680
Less: unamortised transaction costs on trusts	(2,422)	(1,389)	1,251	(2,560)
	640,822	137,132	1,166	779,120

	30 June 2021	Net cash flows	Non-cash movements	30 June 2022
Securitisation trust notes	361,503	281,487	254	643,244
Less: unamortised transaction costs on trusts	(1,614)	(2,149)	1,341	(2,422)
	359,889	279,338	1,595	640,822

Non-cash movements relate to the amortisation of transaction costs on trusts. In accordance with the effective interest rate method, initial transaction costs associated with establishing the financial liabilities are capitalised into the securitisation note balances, and subsequently amortised through interest expense in the consolidated statement of profit or loss. 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.

Securitisation trust notes

As at 30 June 2023, the Group had five securitisation trust warehouses and two public Term Asset Backed Securitisation ("ABS") vehicles with a twelve to fourteen-month revolving facility. The Group regularly sells its loan receivables to these securitisation trust warehouses and the ABS vehicles whilst in their revolving period.

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The trusts are consolidated as the Group:

- a) Is exposed to, or has rights to, variable 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 returns; and
- c) Is the sole subscriber to the Seller Notes issued by the trusts. These Seller Notes maintain 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 to Class F Notes that carry a floating interest rate. The notes are secured on a limited recourse basis on the receivables within the Trusts. The facilities under the program have different maturity dates ranging from February 2024 to February 2028.

Key events concerning the Group's borrowings during the year ended 30 June 2023 are outlined below.

- From July 2022, Prospa Advance Pty Limited replaced Perpetual Nominees Limited as Manager across all of its securitisation trust warehouses and was appointed Manager to the latest public Term ABS vehicle.
- On 1 July 2022, Prospa increased the capacity of Propela Trust by \$67.5 million to \$135.0 million.
- On 26 August 2022, Prospa extended the term of the Prospa Kea Trust Series 2021-1 by 18 months.
- On 30 September 2022, Prospa increased the capacity of the Prospa Kea Trust Series 2021-2 by NZ \$36.0 million to NZ \$126.0 million.
- On 18 November 2022, Prospa increased the capacity of the Prospa Kea Trust Series 2021-1 by NZ \$60.0 million to NZ \$92.5 million by introducing a senior funder into the class A Notes.
- On 7 December 2022, Prospa established the PROSPARous Trust 2022-1, a \$200 million public Term ABS issuance, secured by both Small Business Loans and Line of Credit products. This ABS has a 14-month revolving facility and will then commence paydown in March 2024. This is the second public ABS issuance of its kind in Australia, the first being the PROSPARous Trust 2021-1.

During the year ended 30 June 2023, the Group took the decision that the Prospa Trust Series 2018-1 and the Prospa Kea Trust Series 2019-1 would not be extended and formal closure of both Trusts was effected on 3 February 2023.

Assets pledged as security

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

	Consolidated	
	30 June 2023	30 June 2022
	\$'000	\$'000
Loan receivables	846,894	671,305

The amount recognised above represents the carrying value of loan receivables held by the Group's Securitisation Trusts. This excludes loan receivables totalling \$15.3 million held by Prospa Advance Pty Ltd and Prospa NZ Limited as at 30 June 2023 (30 June 2022: \$30.0 million)

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Financing arrangements

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

	Consolidated	
	30 June	30 June
	2023	2022
	\$'000	\$'000
Total facilities		
Securitisation trusts	921,418	701,984
Drawn		
Securitisation trusts	781,340	642,819
Undrawn		
Securitisation trusts	140,077	59,165

Funding Costs

The borrowings related to trusts are linked to floating interest rates. The weighted average interest rate for the year ended 30 June 2023 was 7.0% p.a. (30 June 2022: 5.0% p.a.).

19. 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 Issued capital as Treasury shares. These are recognised at cost and deducted from equity. Treasury shares are shares issued to the Employee Share Trust which are pending allocation under the Group's long-term incentive plan (See Note 35). Treasury Shares may be transferred to an employee as the employee exercises options or an employee's rights convert. No gain or loss is recognised in profit or loss on the Group's own equity instruments' purchase, sale, issue or cancellation.

	Consolidated			
	30 June	30 June	30 June	30 June
	2023	2022	2023	2022
	Shares	Shares	\$'000	\$'000
Ordinary shares - fully paid	163,358,745	162,497,355	611,168	611,808
Treasury shares - fully paid	16,811	1,469,335	(219)	-
	163,375,556	163,966,690	610,949	611,808

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Movements in ordinary share capital

Details	Date	Shares	\$'000
Balance	30 June 2021	162,926,570	610,919
Exercise of options		90,967	20
Conversion of employee rights		186,576	-
Cash elected employee rights		(15,882)	(16)
Share buyback		(690,876)	(416)
Increase to issued capital		33,069	-
Treasury share transfer		(33,069)	-
Sale of loan shares		-	1,301
Balance	30 June 2022	162,497,355	611,808
Conversion of employee rights		2,086,348	-
Share buyback		(861,134)	(640)
Treasury share purchase		(363,824)	(219)
Increase to issued capital		270,000	-
Treasury share transfer		(270,000)	-
Balance	30 June 2023	163,358,745	610,949

On 16 February 2022, the Group announced an on-market share buyback program of up to 10% of the Group's issued share capital.

During the year ended 30 June 2023, the Group repurchased 861,134 shares (30 June 2022: 690,876 shares) for \$0.6 million (30 June 2022: \$0.4 million) under this program. The shares were repurchased at the prevailing market price on the date of the buyback. The buyback ended on the 14 February 2023.

Movements in treasury share capital

Details	Date	Shares	\$'000
Balance	1 July 2021	1,560,302	-
Exercise of options		(90,967)	-
Conversion of employee rights		(33,069)	-
Ordinary share capital transfer		33,069	-
Balance	30 June 2022	1,469,335	-
Conversion of employee rights		(2,086,348)	-
Share purchase		363,824	-
Ordinary share capital transfer		270,000	-
Balance	30 June 2023	16,811	-

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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.

20. Reserves

	Consolidated	
	30 June 2023	30 June 2022
	\$'000	\$'000
Foreign currency reserve	(990)	(1,119)
Share option reserve	16,851	12,969
Re-organisation reserve	(432,244)	(432,244)
Cash flow hedge reserve, net of tax	680	1,979
Cost of hedging reserve, net of tax	(220)	8
	(415,923)	(418,407)

Foreign currency reserve

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

Share option reserve

The reserve recognises 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.

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Cash flow hedge reserve

Cash flow hedging reserve is shown net of tax benefit of \$0.6 million (30 June 2022: tax expense of 0.8 million). See Note 9 for further tax expense detail.

Cost of hedging reserve

Cost of hedging reserve is shown net of tax benefit of \$0.1 million (30 June 2022: nil). See Note 9 for further tax expense detail.

	Foreign currency translation reserve	Re- organisation reserve	Cash flow hedge reserve	Cost of hedging reserve	Share option reserve	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 30 June 2021	(250)	(432,244)	-	-	10,019	(422,475)
Foreign currency translation	(869)	-	-	-	-	(869)
Fair value changes in cash flow hedges	-	-	1,979	8	-	1,987
Share-based payments	-	-	-	-	2,950	2,950
Balance at 30 June 2022	(1,119)	(432,244)	1,979	8	12,969	(418,407)
Foreign currency translation	129	-	-	-	-	129
Fair value changes in cash flow hedges	-	-	(1,299)	(228)	-	(1,528)
Share-based payments	-	-	-	-	3,882	3,882
Balance at 30 June 2023	(990)	(432,244)	680	(220)	16,851	(415,923)

21. Accumulated losses

	Consolidated	
	30 June 2023	30 June 2022
	\$'000	\$'000
Accumulated losses at the beginning of the financial year	(57,203)	(63,929)
(Loss)/profit after income tax benefit for the year	(44,863)	6,726
Accumulated losses at the end of the financial year	(102,066)	(57,203)

22. Dividends

The Group has not paid and does not propose to pay dividends for the year ended 30 June 2023 (30 June 2022: nil).

23. 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 for speculative purposes, including derivative financial instruments.

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 collection activities. The Group has established criteria for making lending decisions, which can vary by industry segment, past credit performance and loan purpose. When establishing credit risk appetite and ongoing monitoring of exposure to credit risk, the Group focuses on key financial risk ratios, including interest coverage, debt serviceability and balance sheet structure.

When providing finance, the Group obtains security through personal guarantees from the borrower's directors if the borrower is a company. If the global exposure limit of the customer is greater than \$150,000, the Group will also obtain a charge over assets from the borrower and guarantor if applicable. For loan receivables greater than \$10,000 where the account exceeds 30 days past due, a caveat may be lodged against the guarantor.

Due to the more challenging environment that small businesses are enduring as a result of increasing interest rates and slowing customer demand, Prospa tightened credit risk settings and implemented targeted measures to manage credit performance across the portfolio. This has led to a reduction in customer approvals in certain sectors. In addition, the business increased its focus on debt collection and recoveries. The changing performance of the portfolio and the deteriorating economic environment has resulted in the increased provision for expected credit losses in the year.

The maximum exposure to credit risk at the reporting date of 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 \$123.4 million as at 30 June 2023 in undrawn Line of Credit facilities (30 June 2022: \$95.3 million). The Expected Credit Loss ("ECL") in relation to these undrawn facilities is \$4.2 million as at 30 June 2023 (30 June 2022: \$2.5 million).

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The Group's customers are grouped into similar risk categories 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	Stage 2	Stage 3	Total
	\$'000	\$'000	\$'000	\$'000
Premium – 30 June 2023				
Loan receivables	405,453	11,812	8,861	426,126
Allowance for expected credit losses	(18,646)	(5,354)	(7,088)	(31,088)
	386,807	6,458	1,773	395,038
	Stage 1	Stage 2	Stage 3	Total
	\$'000	\$'000	\$'000	\$'000
Non-premium – 30 June 2023				
Loan receivables	379,019	27,982	29,096	436,097
Allowance for expected credit losses	(34,898)	(16,691)	(26,800)	(78,389)
	344,121	11,291	2,296	357,708

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	Stage 1	Stage 2	Stage 3	Total
	\$'000	\$'000	\$'000	\$'000
Total – 30 June 2023				
Loan receivables	784,472	39,794	37,957	862,223
Allowance for expected credit losses	(53,544)	(22,045)	(33,888)	(109,477)
	730,928	17,749	4,069	752,746
Premium – 30 June 2022				
Loan receivables	307,153	9,433	1,998	318,584
Allowance for expected credit losses	(9,325)	(1,883)	(1,678)	(12,886)
	297,828	7,550	320	305,698
Non-premium – 30 June 2022				
Loan receivables	345,198	24,062	13,485	382,745
Allowance for expected credit losses	(19,655)	(8,012)	(10,251)	(37,918)
	325,543	16,050	3,234	344,827
Total – 30 June 2022				
Loan receivables	652,351	33,495	15,483	701,329
Allowance for expected credit losses	(28,980)	(9,895)	(11,929)	(50,804)
	623,371	23,600	3,554	650,525

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The following table illustrates the movement in loan receivables.

	Stage 1	Stage 2	Stage 3	Total
	\$'000	\$'000	\$'000	\$'000
Opening loan receivable balance (1 July 2022)	652,351	33,495	15,483	701,329
Transfers				
Transfers from Stage 1 to Stage 2	(41,201)	41,201	-	-
Transfers from Stage 1 to Stage 3	(100,591)	-	100,591	-
Transfers from Stage 2 to Stage 1	1,941	(1,941)	-	-
Transfers from Stage 2 to Stage 3	-	(18,286)	18,286	-
Transfers from Stage 3 to Stage 1	100	-	(100)	-
Transfers from Stage 3 to Stage 2	-	19	(19)	-
Repayments made	(648,460)	(12,874)	(1,728)	(663,062)
Loans originated	923,521	-	-	923,521
Net movement in accrued interest and fees	(3,189)	(1,820)	1,957	(3,052)
Receivables written off during the year as bad debts	-	-	(96,513)	(96,513)
Closing loan receivable balance (30 June 2023)	784,472	39,794	37,957	862,223

	Stage 1	Stage 2	Stage 3	Total
	\$'000	\$'000	\$'000	\$'000
Opening loan receivable balance (1 July 2021)	393,116	19,126	14,883	427,125
Transfers				
Transfer from Stage 1 to Stage 2	(32,849)	32,849	-	-
Transfer from Stage 1 to Stage 3	(39,312)	-	39,312	-
Transfer from Stage 2 to Stage 1	279	(279)	-	-
Transfer from Stage 2 to Stage 3	-	(9,330)	9,330	-
Transfer from Stage 3 to Stage 1	215	-	(215)	-
Transfer from Stage 3 to Stage 2	-	86	(86)	-
Repayments made	(467,975)	(8,841)	(2,373)	(479,189)
Loan originated	799,006	-	-	799,006
Net movement in accrued interest and fees	(129)	(116)	1,755	1,510
Receivables written off during the year as bad debts	-	-	(47,123)	(47,123)
Closing loan receivable balance (30 June 2022)	652,351	33,495	15,483	701,329

Allowance for expected credit loss

Credit risk arising from the financial assets of the Group is limited to the carrying value of cash and cash equivalents, loan receivables, trade receivables and derivative financial instruments. The Group's maximum exposure to credit risk, excluding the value of any collateral or other security at reporting date, is the carrying amount disclosed in the consolidated statement of financial position and notes to the financial statements, plus

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any undrawn customer facilities. The Group's credit risk on cash and cash equivalents is limited and has been determined not to be material. The counterparties are major Australian and international banks with favourable credit ratings assigned by international credit rating agencies.

The Group establishes an allowance for loan impairment that represents its estimate of expected future losses regarding loan receivables. Loan receivables and portfolio performance are subject to ongoing assessment and continuous monitoring by the Group to ensure adequate allowance for expected credit losses.

The movement in the Group's allowance for expected credit losses is detailed below.

	Stage 1	Stage 2	Stage 3	Total
	\$'000	\$'000	\$'000	\$'000
Opening allowance for expected credit losses (1 July 2022)	28,980	9,895	11,929	50,804
Transfer from Stage 1 to Stage 2	(1,823)	1,823	-	-
Transfer from Stage 1 to Stage 3	(4,452)	-	4,452	-
Transfer from Stage 2 to Stage 1	1,029	(1,029)	-	-
Transfer from Stage 2 to Stage 3	-	(9,690)	9,690	-
Transfer from Stage 3 to Stage 1	87	-	(87)	-
Transfer from Stage 3 to Stage 2	-	16	(16)	-
Provisions recognised during the year in the profit or loss	29,723	21,030	104,433	155,186
Receivables written off during the year as bad debts	-	-	(96,513)	(96,513)
Closing allowance for expected credit losses (30 June 2023)	53,544	22,045	33,888	109,477
	Stage 1	Stage 2	Stage 3	Total
	\$'000	\$'000	\$'000	\$'000
Opening allowance for expected credit losses (1 July 2021)	17,443	6,008	10,249	33,700
Transfer from Stage 1 to Stage 2	(1,006)	1,006	-	-
Transfer from Stage 1 to Stage 3	(1,204)	-	1,204	-
Transfer from Stage 2 to Stage 1	79	(79)	-	-
Transfer from Stage 2 to Stage 3	-	(2,267)	2,627	-
Transfer from Stage 3 to Stage 1	163	-	(163)	-
Transfer from Stage 2 to Stage 2	-	65	(65)	-
Provisions recognised during the year in profit or loss	13,505	5,522	45,200	64,227
Receivables written off during the year as bad debts	-	-	(47,123)	(47,123)
Closing allowance for expected credit losses (30 June 2022)	28,980	9,895	11,929	50,804

The allowance for expected credit losses for loan receivables as a percentage of receivables has increased from 7.2% of the gross receivables balance as at 30 June 2022 to 12.7% as at 30 June 2023.

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 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 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 defaulted contracts 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 and the credit quality of the loan receivable.

Expected life

In considering the lifetime time frame for expected credit losses in stages 2 and 3, the standard generally requires use of the remaining contractual life adjusted where appropriate for prepayments, extension and other options. For revolving lines of credit that include both a drawn and undrawn component, the Group's contractual ability to demand repayment and cancel the undrawn commitment does not limit the 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).

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.

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

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

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

	Consolidated	
	30 June 2023	30 June 2022
	\$'000	\$'000
Loan receivables aged 0 to 30 days	795,646	670,329
Loan receivables aged 31 to 90 days	35,769	17,770
Loan receivables aged over 90 days	30,808	13,230
	862,223	701,329

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 described in more detail below.

Economic overlay

In addition to the standard modelled provision as at 30 June 2023 of 8.4% (30 June 2022: 5.9%), the Group has set aside an economic overlay of 4.3% (30 June 2022: 1.3%) as a forward-looking provision to arrive at a total expected credit loss as a percentage of receivables of 12.7% (30 June 2022: 7.2%).

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

The Group is cognisant of the challenges to the economic outlook due to inflationary pressures, lower consumer demand and rising interest rates. Prospa continues to adjust financial and risk settings to optimise commercial outcomes, and despite rising interest rates, demand for small business credit remains strong. The Group has updated its macroeconomic scenarios; with current inflation and consumption related scenarios.

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

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score and industry classification, were captured in the Group's standard modelled provision. To the observed default data, consideration of forward-looking economic information is applied 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 loan receivables.

The resulting model analyses expected credit losses under three alternative macroeconomic scenarios. In arriving at the reported economic overlay, the Group considered a probability-weighted outcome of each macroeconomic scenario.

The definitions of each scenario and the weighting applied have been revised from 30 June 2022 as more recent data became available. The definitions of forward-looking economic scenarios as at 30 June 2023 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 2023 and 30 June 2022.

30 June 2023

Scenario	Weighting	Expectation
Upside	10%	This scenario reflects an economy with stronger economic growth driven by lower inflationary pressures. This scenario contemplates a peak in interest rates in June 2023 followed by aggressive cuts to interest rates which increase disposable income spurring an increase in consumer spending. Gross domestic product is forecast to return to the historical pre-pandemic average trend.
Baseline	80%	This scenario is considered the most likely macroeconomic outcome. The baseline scenario contemplates inflation to have peaked, leading to interest rates remaining at similar levels over the next twelve months. Gross domestic product is forecast to slow in 2023 and then moderately growing in the first and second half of 2024.
Downside	10%	This scenario is the most conservative and reflects the less likely but more severe negative macroeconomic conditions. In this scenario, further interest rate rises are expected, driven by persistent high inflation. Interest rates stay elevated into 2024 dragging down consumer spending due to reduced disposable income and consequently slowing GDP growth for the remainder of 2023 and into 2024.

30 June 2022

Scenario	Weighting	Expectation
Upside	5%	This scenario reflects the economy recovering at an accelerated pace followed by sustained moderate growth. In this scenario, household consumption and higher inflation driven by stronger wealth effects and reduced uncertainty related to positive health outcomes.
Baseline	75%	This scenario is considered the most likely macroeconomic outcome. The baseline scenario contemplates that inflationary pressures will persist for the next twelve months due to strong demand and ongoing capacity constraints and return to levels consistent with official targets beyond that horizon. This assumes gross domestic product is forecast to return to its pre-pandemic trend in 2023.
Downside	20%	This scenario is the most conservative and reflects the less likely but more severe negative macroeconomic conditions of a recession due to the economic

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shock caused by US-led recession or the tightened supply chain caused by regional conflicts, e.g. the current Russian-Ukraine war. This assumes much lower Australian GDP growth and a rise in cash rate beyond current market expectations.

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.

During the year ended 30 June 2023, loan receivables of \$3.2 million (30 June 2022: \$4.7 million) were written off but remain subject to enforcement activity by the Group.

Loan impairment expense is reported by the Group net of recoveries including recoveries from debt sale agreements. For the year ended 30 June 2023, recoveries in connection with debt sale agreements were \$11.5 million (30 June 2022: \$8.6 million).

Loan receivables classification

The portfolio of loan receivables the Group is exposed to is well diversified across industries, geographies, and customers. Therefore, the Group has no material credit risk exposure to any single debtor or group of debtors under the loan receivables contracts entered into by the Group.

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

	Consolidated	
	30 June 2023	30 June 2022
	\$'000	\$'000
Art and Lifestyle	18,674	13,876
Building and Trade	191,417	174,274
Financial Services	25,096	20,082
Hair and Beauty	26,970	20,197
Health	29,497	21,004
Hospitality	130,758	91,802
Manufacturing	50,106	39,475
Professional Services	162,301	127,857
Retail	146,683	118,500
Transport	23,460	22,463
Wholesale	47,352	41,693
Other	9,909	10,106
	862,223	701,329

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

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	Consolidated	
	30 June 2023	30 June 2022
	\$'000	\$'000
Australian Capital Territory	10,120	9,079
New South Wales	234,228	190,420
Northern Territory	6,772	6,721
Queensland	158,985	134,964
South Australia	48,215	39,150
Tasmania	11,569	8,271
Victoria	175,526	142,620
Western Australia	60,597	55,690
New Zealand	156,211	114,414
	862,223	701,329

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 management's judgement, 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 those outlined below, will affect the Group's income or the value of holdings in its financial instruments. Market risk management aims 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 variable interest rates. The interest payable under the non-recourse funding arrangements is 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. Prospa holds two interest rate cap contracts which partially manages interest rate risk. These derivative financial instruments are initially measured at fair value with changes in fair value recognised in other comprehensive income. 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 exposure of the Prospa Trust Series PROSPARous 2021-1 Security Trust and the Prospa Trust Series PROSPARous 2022-1 Security Trust is hedged by these interest rate caps. See Note 12 for further detail.

The Group has responded to the rising interest rate environment through yield focus and margin monitoring, repricing customer interest rates where reasonable.

Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivative and non-derivative instruments at the reporting date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the reporting date was outstanding for the whole year. A 0.25 per cent increase or decrease is used when reporting interest rate risk internally to key management personnel and represents a linear sensitivity assessment of a change in interest rates.

If interest rates had been 0.25 per cent higher/lower and all other variables were held constant, the Group's:

- Profit for the year ended 30 June 2023 would decrease/increase by \$1.5 million (30 June 2022: decrease/increase by \$1.3 million). This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings, and does not take into account the benefit of interest rate increases on loans to customers; and
- Other comprehensive income would increase by \$0.3 million (30 June 2022: increase/decrease by \$0.8 million) as a result of the interest rate cap contracts classified as a cashflow hedge.

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 enough value to have a material impact on the Group's result. Borrowings and loan 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 cash. Subsequent to the end of the financial period, the Group has accessed additional liquidity through the provision of a corporate debt facility. See note 37 for further detail.

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.

Liquidity risk is managed by ensuring:

- Total third-party facilities in each currency to have minimum committed undrawn headroom of 10%;
- Ensuring no more than 40% of all funding matures in any twelve-month window;
- Term ABS's are settled every twelve to eighteen months;
- The weighted average duration of the availability period of the trust warehouse facilities is at least 18 months; and
- Minimum unrestricted cash holdings.

Remaining contractual maturities

The following tables detail the Group's remaining contractual maturity for its non-derivative financial 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.

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Consolidated - 30 June 2023	1 year or less	Between 1 and 3 years	More than 3 years	Remaining contractual maturities
	\$'000	\$'000	\$'000	\$'000
Non-derivatives				
<i>Non-interest bearing</i>				
Trade and other payables	10,554	-	-	10,554
<i>Interest-bearing</i>				
Lease liability	2,773	4,613	-	7,386
Borrowings	64,419	642,502	336,783	1,042,704
Total non-derivatives	77,746	646,115	336,783	1,060,644

Consolidated 30 June 2022	1 year or less	Between 1 and 3 years	More than 3 years	Remaining contractual maturities
	\$'000	\$'000	\$'000	\$'000
Non-derivatives				
<i>Non-interest bearing</i>				
Trade and other payables	12,846	-	-	12,846
<i>Interest-bearing</i>				
Lease liability	2,649	5,632	1,716	9,997
Borrowings	63,114	586,056	78,398	727,568
Total non-derivatives	78,609	591,688	80,114	750,411

Covenants

The Group has various financial and non-financial triggers and portfolio parameters under its Securitisation Trust financing facilities to ensure a good mix of assets within the portfolios which ultimately perform within the Group's desired risk thresholds. Ongoing non-compliance of such triggers and portfolio parameters can affect funding availability, repayments, and the Group's liabilities. Receivables funded within the Securitisation Trust facilities are tested against these triggers and parameters each time a receivable is sold into the Trusts and monthly. These triggers and parameters are closely monitored and pro-active and/or corrective steps taken to ensure ongoing compliance and availability of funding, which may require the Group to seek amendments, waivers or consider alternative borrowing arrangements, which could result in additional debt or raising equity. There were no unauthorised breaches of any triggers or portfolio parameters at year-end.

24. 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. Transfers between levels are determined based on a reassessment of the lowest level of input significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either unavailable or when the valuation is deemed 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 data sources.

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

The following table presents the classification into the three levels for each of the Group's assets and liabilities carried at fair value.

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	Consolidated	
	30 June 2023	30 June 2022
	\$'000	\$'000
<hr/>		
Assets		
Interest rate cap (Level 2)	656	2,838
Total assets	656	2,838

The Group has considered all financial assets and liabilities not carried at fair value to determine whether the carrying value accurately reflects 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.

There were no transfers between levels during the financial year.

25. Key management personnel

Key management personnel are those persons with authority and responsibility for planning, directing and controlling the entity's activities, 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 2023	30 June 2022
	\$'000	\$'000
<hr/>		
Salaries and other short-term employee benefits	2,016	2,496
Post-employment benefits	99	115
Other long-term benefits	42	52
Share-based payment	602	418
	<hr/> 2,759	<hr/> 3,081

26. Remuneration of auditors

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

	Consolidated	
	30 June 2023	30 June 2022
	\$	\$
<hr/>		
Deloitte and related network firms		
Audit or review of financial reports		
- Group	539,770	521,003
- Subsidiaries and joint operations	27,500	22,000
	<hr/> 567,270	<hr/> 543,003
Statutory assurance services required by legislation to be provided by the auditor	52,250	52,250
	<hr/>	<hr/>
<i>Other services</i>		
Tax compliance services	31,066	33,185
	<hr/>	<hr/>
Total paid or payable to Deloitte and related network firms	650,586	628,438
	<hr/>	<hr/>
<i>Other Auditors and their related network firms</i>		
Audit or review of financial reports:		
- Subsidiaries and joint operations	94,600	65,189
	<hr/>	<hr/>

27. Guarantees and contingent liabilities

The Group has provided guarantees in respect of the leases over its premises of \$1,327,384 (FY22: \$1,327,384). The Group had no contingent liabilities as at the end of the financial year or arising since balance date.

28. Commitments

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

	Consolidated	
	30 June 2023	30 June 2022
	\$'000	\$'000
<i>Operating lease commitments - computer equipment</i>		
Committed at the reporting date and recognised as liabilities, payable:		
Within one year	203	262
One to five years	14	237
Total minimum lease payments	217	499

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.

29. Related party transactions

Parent entity

Prospa Group Limited is the parent entity.

Subsidiaries

Interests in subsidiaries are set out in note 31.

Key management personnel

Disclosures relating to key management personnel are set out in Note 25, and the remuneration report included in the Directors' report.

Transactions with related parties

On 7 July 2023, Prospa announced the establishment of a \$12 million corporate debt. See Note 37.

Of the \$12 million, some of the directors and Key Management Personnel of the Group have invested in the facility. The total exposure of this participation is \$1.0 million. This participation was via a funding trust provided by an independent third party and, therefore, on arms' length terms and consistent with other debt investors in the facility.

There were no other transactions with related parties during the year ended 30 June 2023 and the year ended 30 June 2022.

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.

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Loans to/from related parties

Other than as noted above, 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.

30. Parent entity information

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

Statement of profit or loss and other comprehensive income

	Consolidated	
	30 June 2023	30 June 2022
	\$'000	\$'000
Profit/(loss) after income tax	(451)	(605)
Total comprehensive income	(451)	(605)

Statement of financial position

	Consolidated	
	30 June 2023	30 June 2022
	\$'000	\$'000
Total assets	189,099	186,526
Total liabilities	-	-
Equity		
Issued capital	610,949	611,808
Re-organisation reserve	(432,244)	(432,244)
Share-based payments reserve	(16,851)	(12,969)
Accumulated losses	(6,457)	(6,007)
Total equity	189,099	186,526

Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2023 and 30 June 2022.

Capital commitments - Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2023 and 30 June 2022.

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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.

31. Interests in subsidiaries and trusts

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

Name	Principal place of business / Country of incorporation	Ownership interest	
		30 June 2023	30 June 2022
		%	%
Prospa Advance Pty Ltd	Australia	100%	100%
Prospa Trust Series 2018-1 Security Trust ¹	Australia	-	100%
Prospa Trust Series Pioneer Security Trust ¹	Australia	100%	100%
Prospa Trust Series Prosperity Security Trust ¹	Australia	100%	100%
Prospa Trust Series Propela Security Trust ¹	Australia	100%	100%
Prospa Trust Series PROSPARous 2021-1 Security Trust ¹	Australia	100%	100%
Prospa Trust Series PROSPARous 2022-1 Security Trust ¹	Australia	100%	0%
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%
Prospa Kea Series 2021-1 ²	New Zealand	100%	100%
Prospa Kea Series 2021-2 ²	New Zealand	100%	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 7 December 2022, the Group established the PROSPARous Trust 2022-1, a \$200 million Term Asset-Backed Security issuance in the public markets, secured on Small Business Loan and Business Line of Credit products.

During the year ended 30 June 2023, the Group decided not to extend the Prospa Trust Series 2018-1 Security Trust and the Prospa Trust Series 2019-1 Security Trust. Formal closure of both Trusts was effected on 3 February 2023.

32. 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.

During the year ended 30 June 2022, Prospa Advance Pty Ltd became a limited Australian Financial Services License ("AFSL") holder. As an AFSL holder, Prospa Advance Pty Ltd is required to prepare annual general purpose financial statements.

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 consolidated statement of financial position of the 'Closed Group'.

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	30 June 2023	30 June 2022
	\$'000	\$'000
Consolidated statement of profit or loss and other comprehensive income		
Interest income	192,165	124,754
Other income	24,299	13,395
Interest Expense	(36,696)	(15,995)
Gross profit	179,768	122,154
Loan impairment expense	(111,480)	(40,294)
Employment expenses	(64,730)	(47,086)
Operating expenses	(21,582)	(20,344)
Share-based payments	(3,882)	(2,886)
Depreciation	(2,418)	(2,558)
Amortisation	(3,709)	(4,686)
Impairment of intangible asset	(24,880)	-
Interest on lease liabilities	(229)	(305)
(Loss)/profit before income tax benefit	(53,143)	3,995
Income tax benefit	16,195	2,928
(Loss)/profit after income tax benefit	(36,948)	6,923
Other comprehensive income		
Fair value (loss)/gain on cash flow hedge	(1,299)	1,979
Fair value (loss)/gain on cost of hedging	(228)	8
Other comprehensive income for the year, net of tax	(1,527)	1,987
Total comprehensive (loss)/income for the year	(38,475)	8,910

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	30 June 2023	30 June 2022
	\$'000	\$'000
Equity - accumulated losses		
Accumulated losses at the beginning of the financial year	(49,169)	(56,092)
(Loss)/profit after income tax benefit	(36,948)	6,923
Accumulated losses at the end of the financial year	(86,117)	(49,169)

	30 June 2023	30 June 2022
	\$'000	\$'000
Consolidated statement of financial position		
Assets		
Cash and cash equivalents	33,994	58,718
Bank deposits	-	-
Loan receivables	617,674	543,093
Intercompany loan receivables	16,183	8,008
Other financial assets	1,313	610
Derivative Financial Asset	656	2,838
Prepayments and other assets	3,037	3,163
Investment in subsidiary	21,444	21,444
Property, plant and equipment	67	274
Right-of-use asset	5,732	7,901
Intangible assets	-	17,933
Deferred tax	31,709	14,908
Total assets	731,809	678,890
Liabilities		
Trade and other payables	9,872	12,307
Current tax liabilities	0	1,452
Employee benefits	8,884	7,864
Lease liabilities	7,123	9,507
Borrowings	595,692	503,454
Total liabilities	621,571	534,584
Net assets	110,238	144,306

Equity		
Issued capital	610,949	611,808
Reserves	(414,592)	(418,333)
Accumulated losses	(86,119)	(49,169)
Total equity	110,238	148,925

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

	Consolidated	
	30 June	30 June
	2023	2022
	\$'000	\$'000
Profit/(loss) after income tax benefit for the year	(44,863)	6,726
Adjustments for:		
Depreciation and amortisation	6,167	7,267
Impairment of intangible asset	24,880	-
Share-based payments	3,882	2,950
Foreign exchange differences	(279)	(59)
Interest income accrual	708	(1,751)
Other income	(12,346)	(3,503)
Amortisation of borrowing costs	(224)	(554)
Loan impairment expense	139,449	47,316
Tax on derivatives recognised in equity	2,040	(2,383)
Movement in other accruals	(220)	(1,219)
Change in operating assets and liabilities:		
(Increase)/decrease in prepayments and other assets	186	(793)
Increase in deferred tax assets	(19,933)	(4,087)
Increase/(decrease) in current tax liability	(1,452)	1,452
Increase/(decrease) in trade and other payables	(2,290)	5,083
Increase/(decrease) in employee benefits	1,064	2,390
Net cash provided by operating activities before movement in loans advanced	96,769	58,835
Net increase in loans advanced to customers	(230,289)	(297,941)
Net cash used in operating activities	(133,520)	(239,106)

34. 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.

	30 June 2023	30 June 2022
	\$'000	\$'000
Profit/(loss) after income tax attributable to the owners of Prospa Group Limited	(44,863)	6,726

	Number	
Weighted average number of ordinary shares used in calculating basic earnings per share	162,916,535	163,129,046
Weighted average number of ordinary shares used in calculating diluted earnings per share	162,916,535	163,151,960

	Cents	
Basic (loss)/earnings per share	(27.54)	4.12
Diluted (loss)/earnings per share	(27.54)	4.12

35. Share-based payments

Accounting policy

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

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

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using the Binomial, Monte Carlo simulation approach or Black-Scholes option pricing model that

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

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

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

The fair value is determined by using either the Monte Carlo simulation approach or 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.

In 2018, Prospa established the Equity Incentive Plan Rules, under which the following plans were created - Executive Incentive Plan ("EIP"), an Employee Equity Plan ("EEP") and a Non-Executive Director Equity Plan ("NEDEP"). This supplemented the Group's existing long-term incentive plan ("LTIP").

In FY21, the Board commenced a review of the Group's remuneration strategy in light of the changed business and market circumstances since Prospa listed on the Australian Stock Exchange in 2019. A remuneration framework was developed that aimed to more appropriately align outcomes to shareholders, incentivise the firm's senior leaders, and build on Prospa's strong employee shareholder culture.

In FY22, following a review of Prospa's remuneration framework, share options were granted under the EIP (rather than performance rights) and the Employee LTI Plan ("ELP") was created under the Equity Incentive Plan Rules and offers of Performance Rights were made to certain employees.

Total expense of share-based payment transactions for the year ended 30 June 2023 was \$3.9 million (30 June 2022: \$3.0 million).

Share options

LTIP

The LTIP enabled 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

Prospa Group Limited
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For the year ended 30 June 2023

Shares, with existing loan shares now in runoff.

The LTIP requires the holder to remain in full-time 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 2023:

- No options were granted under the LTIP;
- 573,000 options were cancelled or forfeited;
- 1,846,124 options expired without being exercised;
- No options were exercised and converted to shares; and
- No options were exercised through net settlement.

EIP

The EIP was created to assist in the motivation, reward and retention of key employees and has been designed to align with the interests of Shareholders. The EIP requires the holder to remain in employment for options to vest and in some tranches has performance conditions subject to Absolute Total Shareholder Return over the vesting period.

During the year ended 30 June 2023:

- No options were granted under the EIP;
- No options were cancelled or forfeited; and
- No options were exercised and converted to shares.

Non-Executive Director Options

The issue of options under the Non-Executive Director Options Plan was approved by Shareholders at the 2022 Annual General Meeting and requires the holder to remain a Non-Executive Director of the company for options to vest.

During the year ended June 2023:

- 1,327,650 options were granted under the Non-Executive Director Options Plan with an exercise price of \$0.76;
- No options were cancelled or forfeited; and
- No options were exercised and converted to shares.

Prospa Group Limited
Notes to the consolidated financial statements
For the year ended 30 June 2023

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

	2023	2023	2022	2022
	Number	WAEP	Number	WAEP
Outstanding at 1 July	11,701,231	\$1.27	11,816,670	\$2.21
Granted during the year	1,327,650	\$0.76	5,467,903	\$0.96
Forfeited, cancelled, or expired during the year	(2,419,124)	\$1.26	(5,299,705)	\$3.18
Exercised during the year	-	-	(283,637)	\$0.75
Outstanding at 30 June	10,609,757	\$1.13	11,701,231	\$1.27
Exercisable at 30 June	3,916,524	-	6,315,644	-

The weighted average share price during the year ended 30 June 2023 was 59 cents (30 June 2022: 89 cents). The remaining contractual life of share options outstanding as at 30 June 2023 was 2.9 years (30 June 2022: 3.1 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 \$0.76 to \$4.35 (30 June 2022: \$0.88 to \$4.35).

The contractual term of share options ranges from 4 to 6 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
31/08/2021	31/08/2025	\$0.91	\$0.89	60.00%	-	0.58%	\$0.328
22/10/2021	30/06/2026	\$0.96	\$0.96	60.00%	-	1.20%	\$0.371
22/10/2021	30/06/2026	\$0.96	\$0.96	60.00%	-	1.20%	\$0.402
22/10/2021	22/10/2026	\$0.96	\$0.96	60.00%	-	1.20%	\$0.423
22/10/2021	22/10/2026	\$0.96	\$0.96	60.00%	-	1.20%	\$0.412
22/10/2021	22/10/2026	\$0.96	\$0.96	60.00%	-	1.20%	\$0.389
01/12/2021	22/10/2026	\$0.80	\$0.96	60.00%	-	1.35%	\$0.274
23/11/2022	23/11/2028	\$0.60	\$0.76	58.50%	-	3.29%	\$0.247

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.

Prospa Group Limited
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For the year ended 30 June 2023

The fair value of the options is calculated at the date of grant using either the Black Scholes option-pricing model or Monte Carlo simulation approach 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

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 2023 (30 June 2022: nil).

Deferred KMP STI (Short Term Incentives)

The KMP Deferred STI was implemented in FY22 to defer 20% of the KMP's STI for 1 year. The Deferred STI is provided in the form of rights.

Performance conditions in relation to these rights are determined by the Board and are linked to both Group and individual performance. These awards vest one-year after the date of grant, following the release of the Company's annual results. Vesting is also subject to continued employment until vesting date.

Rights under the Deferred KMP STI are issued for nil consideration and have no exercise price. During the year ended 30 June 2023:

- 134,647 performance rights were granted;
- No performance rights were exercised and converted to shares; and
- No performance rights were cancelled or forfeited.

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
23/11/2022	23/11/2023	n/a	-	134,647	-	-	134,647

EIP

The Executive Incentive Plan (EIP) was reviewed in FY23 to assist in the motivation, reward, and retention of KMP. The EIP in FY23 was issued in Performance Rights (rather than options) and is linked to Group EBITDA and Revenue performance at the end of a three-year period. Vesting is also subject to continued employment until vesting date.

Rights under the EIP are issued for nil consideration and have no exercise price. During the year ended 30 June 2023:

- 1,385,161 performance rights were granted;
- No performance rights were exercised and converted to shares; and
- No performance rights were cancelled or forfeited.

Prospa Group Limited
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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
23/11/2022	15/11/2027	n/a	-	1,385,161	-	-	1,385,161

EEP

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

Performance conditions in relation to these rights are 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.

After testing 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 full year audited results (or the day falling 6 months after, as applicable) for the relevant financial year: and
- 50% after one year on the day following the release of the Company's full year audited results (or the day falling 6 months after, as applicable) for the 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 2023:

- 65,123 performance rights were granted;
- 235,920 performance rights were exercised and converted to shares; and
- 121,075 performance rights were cancelled or forfeited.

During the year ended 30 June 2022:

- 311,112 performance rights were granted;
- 193,176 performance rights were cancelled or forfeited.

Prospa Group Limited
Notes to the consolidated financial statements
For the year ended 30 June 2023

Details of performance rights granted under the EEP during the year ended 30 June 2023 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	118,157	-	(113,157)	(5,000)	0
13/01/2020	n/a	n/a	46,936	-	(41,640)	(5,296)	0
13/07/2020	n/a	n/a	117,431	-	(58,715)	(8,388)	50,328
15/03/2021	n/a	n/a	115,404	-	(55,477)	(31,071)	28,856
07/09/2021	n/a	n/a	102,908	-	-	(12,864)	90,044
28/02/2022	n/a	n/a	177,876	-	-	(46,116)	131,760
29/08/2022	31/08/2025	n/a	-	65,123	-	(12,340)	52,783

ELP

The ELP was launched in October 2021 and replaces the EEP. Performance conditions in relation to these rights are determined by the Board and are linked to individual performance.

Following testing of the performance conditions and the end of the performance period, any rights that remain on foot will vest.

Rights under the ELP are issued for nil consideration and have no exercise price. During the year ended 30 June 2023:

- 7,019,799 performance rights were granted;
- 1,817,359 performance rights were exercised and converted to shares; and
- 2,151,933 performance rights were cancelled or forfeited.

The following rights will convert to shares at the end of a three-year period, subject to company EBITDA and revenue targets, individual performance and continued employment.

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
15/11/2022	n/a	n/a	-	1,030,093	-	-	1,030,093

The following rights will convert to shares over a three-year period, vesting annually in thirds, subject to individual performance and continued employment.

Prospa Group Limited
Notes to the consolidated financial statements
For the year ended 30 June 2023

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
22/10/2021	n/a	n/a	1,619,287	-	(539,750)	(139,207)	940,330
24/10/2022	n/a	n/a	-	2,030,202	(172,286)	(244,572)	1,613,344

The following rights will convert to shares over a three-year period with 25% vesting after year 1, 25% vesting after 2 years and 50% vesting after 3 years, subject to individual performance and continued employment.

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
22/10/2021	n/a	n/a	2,473,815	-	(564,790)	(779,631)	1,129,394
24/10/2022	n/a	n/a	-	3,959,504	(540,533)	(988,523)	2,430,448

The fair value of performance 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
13/07/2020	13/07/2025	\$0.95	\$0.00	-	-	-	\$0.945
15/03/2021	15/03/2025	\$0.88	\$0.00	-	-	-	\$0.880
07/09/2021	07/09/2026	\$1.10	\$0.00	-	-	-	\$1.100
22/10/2021	22/10/2026	\$0.96	\$0.00	-	-	-	\$0.960
28/02/2022	28/02/2027	\$0.82	\$0.00	-	-	-	\$0.823
29/08/2022	31/08/2025	\$0.85	\$0.00	-	-	-	\$0.850
24/10/2022	24/10/2025	\$0.70	\$0.00	-	-	-	\$0.70
15/11/2022	31/08/2025	\$0.64	\$0.00	-	-	-	\$0.64
23/11/2022	23/11/2023	\$0.60	\$0.00	-	-	-	\$0.60
23/11/2022	29/08/2025	\$0.60	\$0.00	-	-	-	\$0.60

36. Capital management

The Group's 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 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.

Prospa Group Limited
Notes to the consolidated financial statements
For the year ended 30 June 2023

Prospa purchased 1.55 million shares via an on-market buyback between July 2022 and December 2022. The buyback expired on 16 February 2023, and there is no current intention to re-introduce the buyback, as the Board has determined to preserve capital.

There were no other changes to the Group's approach to capital management during the period.

37. Post balance date events

On 7 July 2023, Prospa announced the establishment of a \$12 million corporate debt facility to support and provide an additional proactive liquidity option.

No other matter or circumstance has arisen since 30 June 2023 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.

Prospa Group Limited
Directors' declaration
For the year ended 30 June 2023

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 2023 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 32 to the financial statements.

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 Chair

29 August 2023
Sydney



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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 2023, 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 material accounting policy information and other explanatory information, 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 2023 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.



Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
<p>IT Systems</p> <p>The Group's operations and financial reporting processes are reliant on automated processes, controls and data managed by IT systems.</p> <p>As a result, the integrity of the financial reporting process and underlying IT systems form a key component of our audit as a significant number of account balances are impacted by the IT systems.</p> <p>We identified the IT systems that impact financial reporting as a key audit matter because of the:</p> <ul style="list-style-type: none"> • Reliance on technology that is integral to the operation of key business processes and financial reporting; • Importance of the IT controls in maintaining an effective control environment. A key interdependency exists between the ability to rely on IT controls and the ability to rely on financial data, system configured automated controls and system reports; and • Continued investment in IT controls supporting the application systems relevant to the Group's financial reporting activities. 	<p>In conjunction with our IT specialists, our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> • Developing an understanding of the IT environment and the identification of key financial systems and processes; • Testing the design, implementation, and operating effectiveness of the IT relevant financial reporting systems and processes of the Group, including the key IT controls related to user access, change management, data reliability and data integrity; • Testing the IT automated controls and IT dependant manual controls that were key to our audit testing in order to assess the accuracy of certain system reports and calculations, such as the automated calculations of interest; and • Evaluating the remediation of previously identified IT control matters, including mitigating controls in order to respond to the impact on our overall audit approach.
<p>Expected credit loss provision</p> <p>As at 30 June 2023, the Group has recognised \$109.5m of expected credit loss (ECL) provisions on loans and advances in accordance with AASB 9 Financial Instruments as disclosed in Note 11 and Note 23.</p> <p>The ECL models developed by management to determine expected credit losses require significant judgement and assumptions including:</p> <ul style="list-style-type: none"> • Selection of criteria for identifying a significant increase in credit risk; • Selection of parameters input into the models in relation to probability of default and loss given default; and • Forward looking economic scenarios that consider the impact on expected credit losses of potential macro-economic events, including the interest rate environment and inflation pressures. 	<p>Our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> • Obtaining an understanding of the judgements made within the expected credit loss models; • Understanding relevant controls relating to customer loan approval processes and identification of overdue amounts; • Assessing the provisioning methodologies with reference to Australian Accounting Standards and market practices; • Evaluating management's assumptions and judgments in relation to the selection of parameters and criteria input into the expected credit loss model. This included: <ul style="list-style-type: none"> ○ Assessing the probability of default, loss given default and exposure at default applied within the credit provision model; ○ Challenging management's judgements in respect to the macroeconomic factors and judgemental overlays in response to the current macroeconomic environment; and ○ Testing a sample of write-offs and recoveries; ○ Testing the completeness of the credit loss provision. <p>We have also assessed the appropriateness of the disclosures in Note 7, 11 and 23 to the financial statements.</p>



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 2023, but does not include the financial report and our auditor's report thereon.

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

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

Responsibilities of the Directors for the Financial Report

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

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

Auditor's Responsibilities for the Audit of the Financial Report

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

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

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- 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.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 16 to 30 of the Directors' Report for the year ended 30 June 2023.

In our opinion, the Remuneration Report of Group, for the year ended 30 June 2023, 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.

The logo for Deloitte Touche Tohmatsu, featuring the company name in a cursive script.

DELOITTE TOUCHE TOHMATSU

A handwritten signature in black ink, appearing to read "Heather Baister".

Heather Baister
Partner
Chartered Accountant

Sydney, 29 August 2023

Shareholders' Information

In accordance with ASX Listing Rule 4.10, the Company provides the following information to shareholders not elsewhere disclosed in this Annual Report. The information provided is current as at 31 July 2023 (**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	31.89
GREGORY MOSHAL	ORDINARY SHARES	25,161,832 ¹	15.40
AIRTREE VENTURES ENTITIES	ORDINARY SHARES	14,605,185 ²	8.94
BEAUMONT BERTOLI	ORDINARY SHARES	9,761,301 ³	5.97
AUSTRALIAN SUPER	ORDINARY SHARES	6,771,718	4.14

¹ The equity securities held by Gregory Moshal reflect his current interests as disclosed in his Appendix 3Y change of director's interest notice released to the ASX on 24 April 2023.

² Airtree Ventures entities are Airtree Ventures Opportunity Fund Trusco Pty Ltd and Airtree Ventures GP Pty Ltd.

³ The equity securities held by Beaumont Bertoli reflect his current interests as disclosed in his Appendix 3Y change of director's interest notices released to the ASX on 7 December 2021.

Prospa Group Limited
Shareholders' Information
For the year ended 30 June 2023

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	1,513
OPTIONS TO ACQUIRE ORDINARY SHARES	40
RIGHTS TO ACQUIRE ORDINARY SHARES	140

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
469,560	674	0.29

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 1,513 holders of a total of 163,375,556 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	54	153,093,473	93.71
10,001 to 100,000	239	7,026,950	4.49
5,001 to 10,000	168	1,307,921	0.80
1,001 to 5,000	546	1,396,213	0.85
1 to 1,000	506	284,444	0.15
Total	1,513	163,375,556	100.00

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Distribution of option holders

Holdings Range	Holders	Total Units	%
100,001 and Over	18	9,996,757	94.22
10,001 to 100,000	10	505,000	4.76
5,001 to 10,000	12	108,000	1.02
1,001 to 5,000	0	-	-
1 to 1,000	0	-	-
Total	40	10,609,757	100.00

Distribution of holders of rights

Holdings Range	Holders	Total Units	%
100,001	24	4,988,003	55.76
10,001	69	3,746,368	41.88
5001	15	100,807	1.13
1001	32	109,798	1.23
1	0	-	-
Total	140	8,944,976	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	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	63,054,456	38.59
2	SPINOZA INVESTMENTS PTY LTD	25,012,340	15.40
3	INTERNATIONAL GROUP OF COMPANIES PTY LTD	9,701,240	5.94
4	AIRTREE VENTURES OPPORTUNITY FUND TRUSCO PTY LTD	9,487,236	5.81
5	J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	6,771,718	4.14
6	SQUARE PEG GLOBAL FUND 2015 PTY LTD	5,809,758	3.56
7	AIRTREE VENTURES GP PTY LTD	5,117,949	3.13
8	DANITA LOWES	2,826,246	1.73
9	PACIFIC CUSTODIANS PTY LIMITED	2,676,368	1.64
10	EUCLID CAPITAL PARTNERS LLC	2,566,437	1.57
11	AVIAD EYAL	2,419,280	1.48
12	PROSPATARIAN PTY LTD	1,711,599	1.05
13	GARRETT SMYTHE LTD	1,457,780	0.89
14	HOLMNER INVESTMENTS PTY LTD	1,200,000	0.73
15	PARTNERS FOR GROWTH IV LP	1,189,186	0.73

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16	MR RICHARD MILLER	1,066,147	0.65
17	TUBBIN INVESTMENTS PTY LTD	1,033,611	0.63
18	ALUA NOMINEES PTY LTD	650,000	0.40
19	SENGLEA HOLDINGS PTY LTD	634,045	0.39
20	BNP PARIBAS NOMS PTY LTD	610,455	0.37
	Total number of Shares of Top 20 Holders	144,995,851	88.75
	Total Remaining Holders' Balance	18,379,705	11.25
	Grand total	163,375,556	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	10,609,757	40
RIGHTS TO ACQUIRE ORDINARY SHARES	8,944,976	140

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

Securities purchased on-market

No securities were purchased on-market during the reporting period.

Other Information

On 16 February 2022, the Company announced an on-market share buy-back of up to 10% of its issued share capital on market over a 12-month period. The buyback ended on 14 February 2023. A total of 1,552,010 shares were bought back under the share buy-back program.

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.