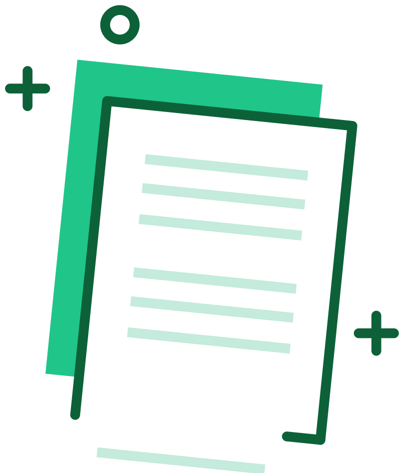
prospa

Prospa Group Limited



Appendix 4E Preliminary Final Report

YEAR ENDED 30 JUNE 2019

Contents

Company Details

Name of entity	PROSPA GROUP LIMITED
ABN	13 625 648 722
Reporting period	For the year ended 30 June 2019
Previous period	For the year ended 30 June 2018

Results for announcement to the market

For the full year ended 30 June 2019

Statutory results summary

	30 June 2019 $'000s	30 June 2018 $'000s	Change %
Total revenue before transaction costs	136,423	103,991	+31%
(Loss)/profit after income tax benefit/(expense) for the year attributable to the owners of Prospa Group Limited	(24,721)	2,094	n/a
Total comprehensive (loss)/income for the year attributable to the owners of Prospa Group Limited	(24,603)	1,990	n/a

Dividend information

Prospa Group Limited ("Prospa", the "Group" or the "Company") has not paid, and does not propose to pay, dividends for the 12 months ended 30 June 2019 (12 months to 30 June 2018: nil).

Earnings per share

	30 June 2019 cents	30 June 2018 cents
Basic (loss)/earnings per share	(21.55)	5.61
Diluted (loss)/earnings per share	(21.55)	5.17

Net tangible asset information

	30 June 2019 cents	30 June 2018 cents
Net tangible assets per share	83.87	68.90

Net tangible assets per share has been calculated by dividing the net assets attributable to equity holders of the Company less intangible assets and deferred tax, by the number of ordinary shares as at year end.

Entities over which control has been gained or lost during the period

There has been no gain or loss of control over entities during the financial period.

Associates and joint ventures

The Group has not engaged in the acquisition or disposal of associates nor has it engaged in any joint ventures in the 12 months to 30 June 2019.

Other information

Prospa Group Limited listed on the Australian Stock Exchange on 11 June 2019 via an Initial Public Offering, raising $60.0 million of primary capital ordinary shares via the issuance of 15.9 million ordinary shares, capitalising the Company at $610.0 million based on the Prospectus offer price of $3.78 per ordinary share. As part of the Initial Public Offer, 100% of the shares in Prospa Advance Pty Ltd were acquired by the Company.

Basis of preparation

The report on the consolidated financial statements was compiled using Australian Accounting Standards and International Financial Reporting Standards. The financial statements are in the process of being 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 Prospa Group Limited at www.prospa.com.

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

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

The non IFRS Pro Forma financial information has not been audited or reviewed. Adjustments to the IFRS information align with the principles by which the Company views and manages itself internally. See the Reconciliation of statutory revenue, EBITDA and NPAT to pro forma revenue, EBITDA and NPAT on page 7 for more information.

Review of operations

Financial highlights from the 12 months to 30 June 2019

- Originations grew to $501.7 million, an increase of 36.6% on prior corresponding period, driven by all key sources of business, plus the addition of incremental originations volume from New Zealand, which commenced operations during the FY19 period.
- Total revenue before transactions costs grew to $136.4 million, an increase of 31.2% on prior corresponding period, driven by the originations growth across the business.
- (Loss)/profit after income tax benefit/(expense) was ($24.7) million (FY18: $2.1 million). This result reflected the one-off impact of the Initial Public Offering in the form of offer costs and fair value adjustments on complex financial instruments.
- Pro forma EBITDA[1] was $6.8 million, which was 11.5% ($0.7m) ahead of Prospectus forecast, driven by outperformance in funding costs and loan impairment expense.
- We are tracking well towards achieving our CY19 Prospectus forecast.

Principal activities

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

The credit facilities we currently offer are typically used to fund small businesses' working capital requirements and growth initiatives. We adopt a risk-based pricing approach, where the interest rate associated with a facility is

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

determined based on our credit risk assessment for that small business customer. This risk assessment process is largely automated and underpinned by technology calibrated with data obtained from our proprietary Credit Risk DataMart of over 73,000 loan applications. We are the #1 online lender to small business. Investment in our three strategic pillars of technology, distribution and funding provides significant leverage and scale relative to competitors. This is underpinned by robust risk management and our people.

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

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

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

Strategic highlights from the 12 months to 30 June 2019

i. Initial Public Offering

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

1. Support growth strategies, including: i) improving the core small business loan product and funding growth in the equity component of the loan book; ii) investing in technology development and talent; iii) invest in product development and market expansion into New Zealand;
2. Support working capital;
3. Repay our corporate debt facility with Partners for Growth;
4. Provide access to capital markets for future growth; and
5. Provide liquidity for certain investors.

ii. Expansion into the New Zealand market

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

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

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

iii. Enhanced core product offering

During the reporting period we made a number of enhancements to the Small Business Loan in the Australian market, including:

2 The premium risk segments represent the top 3 risk grades in our portfolio, which were introduced into the business in May 2017.

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

In the final quarter of the 12 months ended 30 June 2019, we launched an updated rate card for the Small Business Loan with simple annual interest rates from 9.9% to 26.5%. We anticipate the new rate card will allow us to continue to attract certain lower risk profile customers who are typically more price sensitive. This strategy has been a contributor to the growth in the premium[2] segments of our portfolio, from 26% as at 30 June 2018 to 39% as at 30 June 2019.

iv. Launched Line of Credit

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

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

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

v. Entry into the B2B trade payments market with ProspaPay

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

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

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

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

vi. Growth in funding platform

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

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

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

Summary of statutory financial performance

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

Summary Income Statement

	FY19	FY18
Interest income	125.0	95.0
Other income	11.4	9.0
Total revenue	136.4	104.0
Transaction costs	(8.5)	(5.0)
Net revenue	127.9	99.0
Funding costs	(20.1)	(13.7)
Sales & marketing	(27.1)	(21.5)
Product development	(9.4)	(5.4)
General & administrative	(41.5)	(27.5)
Loan impairment	(30.6)	(23.6)
Total operating expenses	(128.7)	(91.7)
EBITDA	(0.8)	7.4
Depreciation	(1.0)	(0.6)
Amortisation	(2.7)	(1.2)
Interest on corporate debt	(2.1)	(2.1)
Fair value movement	(12.4)	0.2
Unwind of embedded derivative	(4.4)	(0.7)
Profit Before Tax	(23.3)	3.0
Tax expense	(1.4)	(0.9)
NPAT[3]	(24.7)	2.1

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

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

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

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

3 NPAT = Net Profit or (Loss) After Tax

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

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

Summary Pro Forma Adjustments

Statutory to Pro Forma	FY19	FY18
Statutory NPAT	(24.7)	2.1
Impact of AASB9	-	(2.2)
Impact of AASB16	(0.4)	(0.3)
Public company costs	(0.7)	(1.1)
Offer costs	5.5	3.2
Executive remuneration	(0.4)	(0.9)
Funding optimisation	1.4	-
Fair value (gains) and losses	16.8	(0.2)
Total pro forma adjustments	22.1	(1.6)
Pro forma effective tax rate applied to Pro forma PBT	1.5	0.7
Pro forma NPAT	(1.0)	1.3
Statutory EBITDA	(0.8)	7.4
Impact of AASB9	-	(2.2)
Impact of AASB16	1.8	1.4
Public company costs	(0.7)	(1.1)
Offer costs	5.5	3.2
Executive remuneration	(0.4)	(0.9)
Funding optimisation	1.4	-
Pro Forma EBITDA	6.8	7.7

The pro forma adjustments are described below:

1. Impact of AASB 9 *Financial Instrument*: represents the increase in provisioning levels in prior reporting periods had the AASB 9 accounting standard been operating since 1 July 2017;
2. Impact of AASB 16 *Leases*: impact of AASB 16 reflects the PBT impact of the application of AASB 16 Leases as if it had been in place since 1 July 2017. We will formally adopt AASB 16 from 1 July 2019 (as required by the accounting standards);
3. Public company costs: reflects our estimate of the additional annual costs associated with being a listed entity. These costs include Directors' fees, listing fees, share registry costs, Directors' and Officers' insurance premiums, investor relations costs, annual general meetings costs, annual reports costs and other public company costs;
4. Offer costs: costs in relation to the Offer, including the Joint Lead Managers' underwriting fees, legal and accounting due diligence fees, tax and structuring advice, associated consultancy and advisory services relating to the Offer;
5. Executive remuneration: reflects the new executive remuneration arrangements that were put in place following the completion of the Initial Public Offering being applied to the historical periods. The adjustment excludes the new long-term incentive component;

6. Funding optimisation: relates to a one-off payment of $1.4 million incurred upon optimising funding facilities; and
7. Fair value (gains) and losses: reflects the profit and loss impact on a statutory basis from the conversion of the convertible notes and the exercise of the Partners For Growth warrants on Completion of the Initial Public Offering, as well as the unwind of the embedded derivative liability in respect of these instruments.

Revenue

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

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

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

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

Operating expenses

Funding costs

Funding costs increased to $20.1 million, an increase of 46.4% on prior corresponding period. This increase included a one-off funding optimisation expense ($1.4 million). After adjusting for this one off item, adjusted growth was 36.5% in the period. The main driver of this increase in funding costs was the increase in drawn funding debt in the period, offset by the reduction in average funding cost[4] from 8.5% in FY18 to 7.5% in FY19.

Sales & marketing expense

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

Product development expense

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

General & administration expense

General & administration expense increased to $41.5 million, an increase of 50.7% on prior corresponding period. General & administration expense was negatively impacted by Initial Public Offer costs ($5.5 million). Growth in general & administration expense was driven across a number of functions in the business, including customer journey, customer support, retention and credit, capital management and treasury, risk management, finance and people & culture. We further incurred a number of up-front investment costs in the form of

4 Average funding cost = interest expense divided by average monthly drawn funding debt.

market due diligence and legal establishment costs for the New Zealand operation, as well as the legal and establishment costs of three new warehouse facilities established in the reporting period. In FY19 there was a material uplift in investment in business infrastructure in preparation for listing and business growth

Loan impairment expense

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

Fair value movement and derivative unwind

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

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

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

Cash flow

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

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

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

Our growth strategy

Our growth strategy has 6 main components:

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

Post balance date events

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

Outlook for the calendar year ending 31 December 2019

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

Preliminary statement of profit or loss and other comprehensive income

For the year ended 30 June 2019

	Note	Consolidated 30 June 2019 $'000s	Consolidated 30 June 2018 $'000s
Interest income		124,987	94,986
Other income	3	11,436	9,005
Total revenue before transaction costs		136,423	103,991
Transaction costs		(8,536)	(4,950)
Net revenue		**127,887**	**99,041**
Operating expenses			
Funding costs	4	(20,070)	(13,708)
Sales and marketing expense		(27,127)	(21,465)
Product development expense		(9,408)	(5,375)
General and administration expense		(41,498)	(27,531)
Loan impairment expense		(30,550)	(23,600)
Total operating expense	5	(128,653)	(91,679)
Earnings before interest on corporate debt, fair value movements, income tax, depreciation and amortisation		(766)	7,362
Depreciation		(955)	(563)
Amortisation		(2,684)	(1,162)
Interest on corporate debt	4	(2,103)	(2,143)
Financial instruments: Fair value (loss)/gain		(12,439)	194
Financial instruments: Unwind of embedded derivative	4	(4,357)	(718)
(Loss)/profit before income tax expense		(23,304)	2,970
Income tax expense	6	(1,417)	(876)
(Loss)/profit after income tax expense for the year attributable to the owners of Prospa Group Limited	19	**(24,721)**	**2,094**
Other comprehensive income/(loss)			
Gain/(loss) on the revaluation of financial assets at fair value through other comprehensive income, net of tax		104	(104)
Foreign currency translation		14	-
Other comprehensive income/(loss) for the year, net of tax		118	(104)
Total comprehensive (loss)/income for the year attributable to the owners of Prospa Group Limited		**(24,603)**	**1,990**
		cents	cents
Basic (loss)/earnings per share	24	(21.55)	5.61
Diluted (loss)/earnings per share	24	(21.55)	5.17

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

Preliminary statement of financial position

As at 30 June 2019

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

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

Preliminary statement of changes in equity

For the year ended 30 June 2019

Consolidated	Issued Capital $'000s	Reserves $'000s	Accumulated losses $'000s	Total equity $'000s
Note	17	18	19	
Balance at 1 July 2017	36,149	596	(2,654)	34,091
Profit after income tax expense for the year	-	-	2,094	2,094
Other comprehensive (loss) for the year, net of tax	-	(104)	-	(104)
Total comprehensive (loss)/income for the year	-	(104)	2,094	1,990
Transactions with owners in their capacity as owners:				
Share-based payments	-	604	-	604
Balance at 30 June 2018	36,149	1,096	(560)	36,685

Consolidated	Issued Capital $'000s	Reserves $'000s	Accumulated losses $'000s	Total equity $'000s
Note	17	18	19	
Balance at 1 July 2018	36,149	1,096	(560)	36,685
Adjustment on adoption of AASB 9 (note 1)	-	-	(3,262)	(3,262)
Balance at 1 July 2018 - restated	36,149	1,096	(3,822)	33,423
Loss after income tax expense for the year	-	-	(24,721)	(24,721)
Other comprehensive income for the year, net of tax	-	118	-	118
Total comprehensive income/(loss) for the year	-	118	(24,721)	(24,603)
Transactions with owners in their capacity as owners:				
Share-based payments	-	1,626	-	1,626
Conversion of options (note 17)	77	-	-	77
Capital buy-back (note 18)	-	(1,284)	-	(1,284)
IPO - Conversion of convertible notes	76,773	-	-	76,773
IPO - Conversion of warrant	4,226	-	-	4,226
IPO - Management performance shares	523	-	-	523
IPO - Issue of ordinary shares, net of transaction costs	57,586	-	-	57,586
IPO - Re-organisation reserve	432,968	(432,968)	-	-
IPO - IPO grants to management	1,247	-	-	1,247
IPO - Proceeds from loan shares	426	-	-	426
Balance at 30 June 2019	609,975	(431,412)	(28,543)	150,020

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

Preliminary statement of cash flows

For the year ended 30 June 2019

	Note	Consolidated 30 June 2019 $'000s	Consolidated 30 June 2018 $'000s
Cash flows from operating activities			
Finance income received		124,921	89,765
Other income received		7,405	9,014
Interest and other finance costs paid		(23,306)	(15,697)
Payments to suppliers and employees		(83,545)	(55,387)
Income taxes paid		(8,613)	(290)
Net cash from operating activities	23	**16,862**	**27,405**
Cash flows from investing activities			
Net increase in loans advanced to customers		(151,800)	(126,881)
Payments for property, plant and equipment		(1,775)	(1,442)
Payments for intangibles		(3,578)	(2,024)
Other investing cash flows		(302)	(796)
Net cash used in investing activities		**(157,455)**	**(131,143)**
Cash flows from financing activities			
Proceeds from borrowings		179,141	207,720
Repayment of borrowings		(61,051)	(78,992)
Payments for capital buy-backs		(1,718)	-
Proceeds from conversion of warrant		2,000	-
Proceeds from issue of shares net of transaction costs	17	57,586	-
Conversion of options	17	77	-
Net cash from financing activities		**176,035**	**128,728**
Net increase in cash and cash equivalents		35,442	24,990
Cash and cash equivalents at the beginning of the financial year		34,397	9,407
Cash and cash equivalents at the end of the financial year	7	**69,839**	**34,397**

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

Notes to the preliminary final report

For the year ended 30 June 2019

1 Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are consistent with those of the previous financial year, except for the changes as a result of AASB 9 *Financial Instruments* and AASB 15 *Revenue from contracts with customers* noted below.

New or amended Accounting Standards and Interpretations adopted

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

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

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

Initial adoption of AASB 9 *Financial Instruments*

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

AASB 9 introduced new requirements for:

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

1. Classification and measurement

Financial assets

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

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

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

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

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

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

Financial liabilities

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

2. Impairment of financial assets

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

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

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

The stage 3 provision looks at the collection status of loans past default and takes into account any collateral present.

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

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

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

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

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

3. Hedging

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

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

Initial adoption of AASB 15 *Revenue from contracts with customers*

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

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

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

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

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

The Group has determined that for servicing fees and late fees, revenue is recognised over time as the customer simultaneously receives and consumes the benefit.

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

Basis of preparation

The Preliminary Final Report (the report) has been prepared in accordance with ASX Listing Rule 4.3A and the disclosure requirements of ASX Appendix 4E.

The report has been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001, as appropriate for for-profit oriented entities. The Report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

The report has 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. All amounts are presented in Australian dollars, unless otherwise noted.

Going concern

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

Reclassification

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

2 Operating segments

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

3 Other income

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

4 Interest expense

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

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

5 Operating expenses

Operating expenses for the year were $128.7 million (June 2018: $91.7 million), of that employee expenses were $40.0 million (June 2018: $29.1 million). In the statement of profit or loss and other comprehensive income these employee expenses are included within the sales & marketing expense, the product development expense and the general and administration expense on a pro-rata basis.

6 Income tax

	Consolidated	
	30 June 2019 $'000s	30 June 2018 $'000s
Income tax expense		
Current tax	3,563	3,505
Deferred tax - origination and reversal of temporary differences	(2,152)	(2,639)
Adjustment recognised for prior periods	6	10
Aggregate income tax expense	**1,417**	**876**
Numerical reconciliation of income tax (benefit)/expense and tax at the statutory rate		
(Loss)/profit before income tax expense	(23,304)	2,970
Tax at the statutory tax rate of 30%	(6,991)	891
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Entertainment expenses	42	27
Share-based payments	991	181
Movement on financial instruments	5,039	-
Sundry items	58	285
Deferred tax adjustment	-	(518)
Foreign tax rate differential	36	-
Initial public offering costs	1,531	-
Depreciation on R&D assets	705	-
	1,411	**866**
Adjustment recognised for prior periods	6	10
Income tax expense	**1,417**	**876**
Amounts credited directly to equity		
Deferred tax assets	(1,398)	(45)

7 Current assets – cash and cash equivalents

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

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

8 Current assets – loan receivables

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

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

9 Non-current assets – loan receivables

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

*The current period balance reflect the adoption of AASB 9. Refer to note 8 for further details.

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

	Consolidated	
	30 June 2019 $'000s	30 June 2018 $'000s
Opening balance*	18,516	8,099
Provisions recognised during the year in the profit or loss	32,610	24,317
Receivables written-off during the year as bad debts	(26,666)	(18,560)
	24,460	13,856

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

10 Non-current assets – property, plant and equipment

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

11 Non-current assets – intangible assets

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

12 Non-current assets – deferred tax assets

Deferred tax asset comprises temporary differences attributable to:

	Opening balance (30 June 2018) $'000s	Adjustment on adoption of AASB 9 to equity (1 July 2018) $'000s	Recognised in profit or loss $'000s	Closing balance $'000s
Note		6	6	
Employee benefits	921	-	237	1,158
Provision for impairment of loan receivables	4,157	1,398	1,763	7,318
Derivatives	22	-	(22)	-
Property, plant and equipment and intangibles	164	-	174	338
	5,264	**1,398**	**2,152**	**8,814**

Deferred tax assets relating to temporary differences are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

13 Current liabilities – borrowings

	Consolidated 30 June 2019 $'000s	Consolidated 30 June 2018 $'000s
Convertible notes interest payable	-	110
Corporate debt interest payable	-	181
Securitisation trust notes	14,852	15,505
Add: interest payable on trusts	746	746
Less: unamortised costs on trusts	(624)	(46)
	14,974	**16,496**

Corporate debt

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

Refer to note 16 for further information on borrowings.

14 Current liabilities – other financial liabilities

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

The borrowings related to trusts, details of which can been seen in note 13 and note 16, are linked to a floating interest rate. To reduce the risk of changing interest rates associated with the borrowings, the Group entered into an interest rate swap contract (with a notional principal of $83.3 million, expired in May 2019) with an independent financial institution with a credit rating of A3 or higher at the time of preparing this financial statement. The Group also holds interest rate cap contracts with other independent financial institutions with credit rating of A3 or higher. The notional value of the interest rate caps are as follows:

Notional Value*	Maturity Date
$67.3 million	February 2020
$12.2 million	April 2021
$50.0 million	June 2021
$75.0 million	February 2021

*The amounts presented above represent the fair value of the derivatives as at 30 June 2019.

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

15 Current liabilities – GST provision

	Consolidated	
	30 June 2019 $'000s	30 June 2018 $'000s
GST provision	-	1,043

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

16 Non-current liabilities – borrowings

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

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

Securitisation trust notes

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

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

(b) in its capacity as the originator of loan receivables and the servicer of these loans on behalf of the trusts has the ability to impact the variable equity returns;

(c) the sole subscriber to the Seller Notes issued by the trusts. These Seller Notes go towards maintaining the minimum equity contribution/subordination buffer and funding non-conforming receivables. In addition to the Seller Notes, the Group's asset backed securitisation program includes multiple classes of Notes including Class A, Class B and Class C Notes which carry a floating interest rate. The facilities under the program have different expiry dates ranging from April 2020 to December 2021.

Convertible notes payable

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

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

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

Refer to note 17 for further details.

Assets pledged as security

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

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

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

Financing arrangements

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

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

17 Equity – issued capital

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

Movements in ordinary share capital

Details	Date	Shares	Issue price	$'000
Balance	1 July 2017	21,712,630		-
Balance	30 June 2018	21,712,630		-
Conversion of options**	Dec 2018	3,333	$2.00	7
Conversion of options	June 2019	36,247	$1.56	57
Conversion of options	June 2019	27,480	$0.49	13
Conversion of convertible notes**	June 2019	6,505,580	$11.34	73,773
Conversion PFG convertible notes**	June 2019	558,968	$5.36	3,000
Conversion of warrant**	June 2019	372,648	$11.34	4,226
Conversion of preference shares**	June 2019	15,645,067	$2.31	36,149

Movements in ordinary share capital (continued)

Details	Date	Shares	Issue price	$'000
Conversion of management performance shares**	June 2019	1,500,000	$0.35	523
Treasury shares converted to ordinary shares**	June 2019	1,769,464	$0.00	-
Share split*	June 2019	96,135,380	$0.00	-
Shares issued - initial public offering	June 2019	15,476,191	$3.78	58,500
Shares issued to employees	June 2019	441,176	$3.40	1,500
Transaction costs arising on IPO eligible for offset against share capital	June 2019	-	$0.00	(2,414)
Share capital restructure	June 2019	-	$0.00	432,968
IPO grants to management	June 2019	330,000	$3.78	1,247
Proceeds from loan shares	June 2019	-	$0.00	426
Balance	30 June 2019	160,514,164		609,975

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

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

Movements in preference share capital

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

Movements in treasury share capital

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

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

Ordinary shares

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

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

Preference shares

Preference shares rank in almost all respects equally with the Ordinary Shares in the share capital of the company and entitle the holder to participate in dividends and carry substantially the same voting rights as applied to the ordinary shares in the company. Upon initial public offering, preference shares were converted into ordinary shares on the basis of one ordinary share for every preference share.

Treasury shares

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

Share buy-back

There is no current on-market share buy-back

18 Equity – reserves

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

Cash flow hedge reserve

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

Share option reserve

The reserve is used to recognise the value of equity benefits provided to employees and directors as part of their remuneration, and other parties as part of their compensation for services. In the current year there was a capital buy-back, being the repurchase of loan shares and options held by certain employees of the Group to the value of $1.28 million.

Re-organisation reserve

On initial public offering a re-organisation reserve was created to align total equity with the net asset position of the Group.

Movements in reserves

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

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

Consolidated	Total hedging (loss) recognised in OCI $'000s	Ineffective-ness recognised in profit or loss $'000s
(Loss)/ gain arising on interest rate swap		
30 June 2018 Interest rate swaps	(149)	38

19 Equity – accumulated losses

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

20 Equity – dividends

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

21 Interests in subsidiaries and trusts

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries and trusts:

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

*Ownership is through Prospa Advance Pty Ltd.

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

22 Events after the reporting period

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

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

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

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

24 Earnings per share

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

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

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