prospa

Half year Report 2020

Prospa Group Limited
ACN 625 648 722

Contents

"With a small business loan, we've been able to expand our range of products and give our customers better service, and equally important, I no longer have the thought that I need to sell my animal health company.

Small businesses do have the opportunity to make huge changes in our communities, and thanks to Prospa, we can keep doing that."

Sandy
Orewa, New Zealand

Directors' Report

"What appealed to me in the line of credit is you only pay interest on the amount you draw down. And being on my phone a lot, it's easy to use an app. The Prospa app is very straightforward, it's simple and it's easy to use."

Josh
New South Wales, Australia

Directors' Report

For the half-year ended 31 December 2019

The directors are pleased to present their report, together with the financial statements, on the consolidated entity (the "Group") consisting of Prospa Group Limited ("Prospa", the "Company" or "parent entity") and the entities it controlled at the end of, or during, the half-year ended 31 December 2019.

These interim financial statements do not include all the notes of the type normally included within the annual financial statements. Accordingly, they cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the Group as the annual consolidated financial statements (Annual Financial Report). It is recommended that the interim financial statements be read in conjunction with the Group's annual financial report for the year ended 30 June 2019 and considered together with any public announcements made by the Group during the half-year ended 31 December 2019 and up to the date of this report.

Directors

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

Beaumont Bertoli

Aviad Eyal

Gregory Moshal

Gail Pemberton

Gregory Ruddock

Fiona Trafford-Walker

Review of operations

Financial Highlights from the 6 months to 31 December 2019

- Originations grew to $306.8 million, an increase of 36.6% on prior corresponding period. In the Australian market, this growth on prior corresponding period was driven by ongoing growth in the core Small Business Loan product, in addition to the scaling of our Line of Credit product. In the New Zealand market, we continue to see rapid growth in Small Business Loan originations.
- Total revenue before transaction costs grew to $75.6 million, an increase of 11.7% on prior corresponding period. The pace of growth in originations was partially offset by lower realised interest rates in market. These lower rates were a result of a new rate card deployed in April 2019 to appeal to a higher credit quality, lower risk customer segment; and which was extended to both new customers and existing customers who re-financed.
- Profit/(loss) after income tax (expense)/benefit grew to $0.6 million, compared to prior corresponding period of ($3.0) million. The business continues to invest, particularly in the area of Product Development, which was partly offset by improvements in Funding Costs.
- Loan Impairment provision rate improved from 6.1% as at 30 June 2019 to 5.9% as at 31 December 2019. The new provision rate is inclusive of additional economic buffer to cover any potential impact from the East Coast Bushfires (0.1%), in addition to higher provisioning on undrawn balances of Line of Credit (0.1%). On an underlying basis, the core Small Business Loan product achieved a provision rate of 5.7%, in line with expectations.
- Earnings before interest on corporate debt, fair value movements, income tax, depreciation and amortisation (EBITDA) for the half year was $4.3 million, a decrease of 16.3% on prior corresponding period. During the reporting period, the Company adopted AASB 16 *Leases* retrospectively from 1 July 2019, which has resulted in most operating lease expenses being reclassified to depreciation of right-of-use assets and interest expense (further detail is available in Note 1).
- The company met or exceeded its revised guidance from 18 November 2019 across originations, revenue and EBITDA.

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. Over our eight years in operation, we have grown to become Australia's #1 online lender to small businesses. Since 2012, we have lent over $1.4 billion and served more than 26,900 customers.

The credit facilities we currently offer are typically used to fund small businesses' working capital requirements and growth initiatives. We adopt a risk-based pricing approach, where the interest rate associated with a facility is determined based on our credit risk assessment for that small business customer. This risk assessment process is largely automated and underpinned by technology calibrated with data obtained from our proprietary Credit Risk DataMart of over 88,000 loan applications. 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 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. We have more than 10,000 distribution partners including brokers, aggregators and accountants.

The application process can take less than 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, letting them know whether or not they have been approved, and, if they have, the potential credit facility size, pricing and 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 $30,800 and an average term of 14.5 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 $18,500. Our B2B payments solution, ProspaPay, facilitates trade transactions up to $20,000, with an average transaction value of $2,400.

Our cohesive customer-focused platform allows small business owners to grow and run their business and help them pay for goods and services. 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 6 months to 31 December 2019

1. Market guidance updated in November 2019

On 18 November 2019, we informed the market we were revising our targets for originations, revenue and EBITDA. Our guidance for originations was higher than the 2019 Prospectus and for revenue and EBITDA our guidance was lower. A table summarising the revised guidance is set out below.

Guidance vs Prospectus

	CY19 Guidance	CY19 Prospectus	H1FY20 Guidance	H1FY20 Prospectus
Originations	574.5	559.4	298.2	297.4
Revenue	143.8	156.3	75.0	88.0
EBITDA	4.0	10.6	4.0	11.3

We are actively working to evolve our strategy to position the Group for long-term value creation. In the short-term, we are focused on rebalancing risk and return, reviewing our risk appetite and re-directing resources into yield management, change management and financial planning and analysis to ensure we are maximising existing revenue and scale opportunities.

Further, while we continue to look for opportunities to invest and grow, we have placed greater focus on expense management, and will look to reduce investment in areas which are not delivering the level of return we expect.

2. Small Business Loan in Australia

The Small Business Loan product continued to grow strongly in the 6 months to 31 December 2019. In November and December, we adjusted our rate card and risk appetite settings which increased our rate of return on originations, lifting our Annualised Simple Rate in the half-year period to 19.1% compared to Guidance of 18.6%. We will continue to monitor and adjust for the optimal settings whilst balancing risk and return. We continue to rank first in the non-bank financial services category on independent review site TrustPilot, with over 4,800 reviews and a rating of 4.9/5. Our Net Promoter Score remains above 77.

3. New Zealand

We continued to expand in the New Zealand market with our core product, the Small Business Loan, leading the way. During the 6 months to 31 December 2019, New Zealand originations grew by NZ$28.7 million, accelerating the run rate of originations and building upon the solid foundations we have laid. We now have five full time employees on the ground in New Zealand, while leveraging the Australian operations for administration and settlement of loans. The credit performance of the New Zealand portfolio continues to season in line with our expectations.

As at 31 December 2019, our New Zealand business has over 1,400 customers, with an average initial loan size of approximately NZ$25,000 and an average initial term of approximately 12.8 months. Our customer base continues to be diversified across a range of industries including hospitality, retail, professional services and building & trade. We have a TrustPilot rating of 4.9/5 as at 31 December 2019 and rank first in the non-bank financial services category.

4. Line of Credit

In October 2019, we conducted a full market launch of our Line of Credit product, having made a number of improvements to the product features and settings, including increasing the maximum line size to $100,000 and distributing the product to a broader array of customers. The impact of these changes was evident immediately, with monthly run rate originations increasing from less than $1.0 million per month to in excess of $10.0 million per month.

We continue to leverage our existing infrastructure, including credit models, technology, operational flow and distribution channels. We continue to focus on the automation of the product delivery and the self-service element of the product. In time, we believe this will drive better customer experiences and more efficient operational delivery.

As at 31 December 2019, we had $20.7 million in drawn Line of Credit facilities with an average drawn balance of $18,500 and an active utilisation rate of 65%.

5. Funding

In August 2019, we established our first warehouse facility specifically to fund New Zealand Small Business Loans. The facility is for NZ$45 million with a three year committed line, designed to scale with our funding needs over time. We have partnered with a top tier local funding partner who understands the small business lending space, and who has invested in the Class B Notes in the structure, paving the way for investment by Class A Note investors in due course. Securing this funding allowed us to repatriate NZ$6.0 million of equity capital to be redeployed into further growth initiatives.

In December 2019, we announced the addition of a junior funding partner into one of our Australian Warehouse Facilities that funds Small Business Loans and Line of Credit facilities. The committed facility will have an initial capacity of $20.0 million and is designed to scale up over time as we expand our Australian operations across loans and lines. The transaction allowed for the repatriation of $17.8 million in equity back to the core business to be redeployed into further growth initiatives.

Summary Financial Performance

The statement of profit and loss for the half-year is summarised in the table below.

	31 December 2019 $'000	31 December 2018 $'000
Interest income	69,782	62,361
Other income	5,855	5,333
Total revenue before transaction costs	75,637	67,694
Transaction costs	(4,511)	(4,341)
Net revenue	**71,126**	**63,353**
Funding costs	(9,398)	(10,675)
Sales and marketing expense	(15,395)	(11,840)
Product development expense	(6,101)	(4,433)
General and administration expense	(21,829)	(17,896)
Loan impairment expense	(14,133)	(13,407)
Total operating expenses	(66,856)	(58,251)
EBITDA	**4,270**	**5,102**
Depreciation	(1,520)	(381)
Amortisation	(1,255)	(1,663)
Corporate interest	(280)	(1,115)
Fair value (loss)/gain on financial instruments	(100)	(3,252)
Fair value (loss)/gain on embedded derivatives	–	(1,744)
Profit/(loss) before income tax (expense)/benefit	1,115	(3,053)
Income tax (expense)/benefit	(564)	47
NPAT	**551**	**(3,006)**

Originations

During the 6 months to 31 December 2019 we delivered strong originations growth, with Group originations increasing to $306.8 million across all products and geographies, an increase of 36.6% on prior corresponding period. In the Australian market, this growth on prior corresponding period was driven by ongoing growth in the core Small Business Loan product, in addition to the scaling of our Line of Credit product. In the New Zealand market, we continue to see rapid growth in Small Business Loan originations.

Originations by Geography – H1FY20

	Actual	Prior Period	vs Prior $	vs Prior %
Australia	279.8	218.8	61.0	27.9%
New Zealand	27.0	5.8	21.2	365.5%
Total	306.8	224.6	82.2	36.6%

Revenue

Total revenue before transaction costs increased to $75.6 million, an increase of 11.7% on prior corresponding period.

Interest income increased to $69.8 million, an increase of 11.9% on prior period. This growth was driven by the increase in originations noted above, offset by a reduction in the interest rate on originated loans, with Annualised Simple Rate reducing from 22.0% in H1FY19 to 19.1% in H1FY20. This reduction in Annualised Simple Rate was a result of our deployment of a new rate card in market in April 2019, combined with a mix shift of Small Business Loan originations towards lower risk, lower rate customers.

Other Income increased to $5.9 million in the period, an increase of 9.8% on prior corresponding period. Other Income is predominantly made up of late fees. Late fees are a relatively small proportion of total revenue, and are charged based on recovering the cost of collections activities. Late fees have been growing at a slower rate than interest income due to the improving credit quality of our portfolio, as better credit quality customers are less likely to miss payments and incur the associated late payment fees.

Transaction costs increased to $4.5 million, an increase of 3.9% on prior corresponding period. Transaction costs were positively impacted by a GST reversal in the period, to correct an historic over-recognition of expense. This benefit was approximately $1.7 million in the period. On an underlying basis, overall growth in the transaction costs expense line was driven by the recent growth in overall originations.

Net revenue increased to $71.1 million, an increase of 12.3% on prior corresponding period, due to the factors noted above.

Operating expenses

Funding costs

Funding costs decreased to $9.4 million, a reduction of 12.0% on prior corresponding period. The drivers for the improvement in funding costs were as follows:

- Lower base rate flowing through to overall funding cost;
- Increasing the weighting of tier 1 bank facilities drawn in our funding mix, which further lowered our weighted average cost of funds; and
- Use of excess equity capital to part fund the junior note position in our funding structures, to optimise our return on capital.

The drivers reducing funding costs were partially offset by the draw down during the period of the New Zealand warehouse funding facility, which is a junior facility and replaced the equity capital we had deployed into the New Zealand loan book.

Sales & marketing expense

Sales & marketing expense grew to $15.4 million, an increase of 30.0% on prior corresponding period. Marketing spend increased in the period to support the 36.6% top-line originations growth, with investment across broad-based marketing in TV and radio, in addition to digital acquisition. We continued to invest in building our brand presence in New Zealand, building upon the early success in that market. Sales & marketing costs included modest increases in headcount expense in marketing and channel management functions. Sales & marketing expense was negatively impacted by a GST reversal in the period, to correct an historic under-recognition of expense. This impact was approximately $0.5 million in the period.

Product development expense

Product development expense grew to $6.1 million, an increase of 37.6% on prior corresponding period. We continued to upweight our investment into product, engineering, design and analytics functions within the business to enhance our technology capacity and capability. This additional resource has been critical to:

- Building out the functionality in products such as Line of Credit and ProspaPay;
- Building new features for the Small Business Loan; and
- Delivering technology improvements that allow the business to continue to scale.

Product development expense was negatively impacted by a GST reversal in the period, to correct an historic under-recognition of expense. This impact was approximately $0.3 million in the period.

General & administration expense

General & administration expense grew to $21.8 million, an increase of 22.0% on prior corresponding period. Expense growth in this area was driven by a number of factors, including:

- Increased legal expenses associated with establishing two additional funding facilities during the period;
- Public markets costs incurred in the current period, which were not incurred in the prior period on a statutory basis;
- Increased expenditure on technology and software licences as the business becomes larger and more complex;
- Increases in headcount related expenses across customer journey, finance and people & culture.

General & administration expense was negatively impacted by a GST reversal in the period, to correct an historic under-recognition of expense. This impact was approximately $0.5 million in the period.

Loan impairment expense

Loan impairment expense grew to $14.1 million, an increase of 5.4% on prior corresponding period. Total loan impairment expense was comprised of a net charge off expense of $11.4 million plus provision movement expense of $2.7 million. Net charge off was benefitted by the company's first debt sales to third parties, which resulted in proceeds of $4.7 million to the business. Moving forward, we expect to have a regular cadence of debt sales as loans are charged off. Loan Impairment provision rate improved from 6.1% as at 30 June 2019 to 5.9% as at 31 December 2019. While the early results of our analysis have not indicated a material increase in risk, we have elected to include an additional economic buffer (0.1%) to our provision rate to cover any potential impact from the East Coast Bushfires. We will continue to review as more information becomes available. In addition, we carried higher provisioning on undrawn balances of Line of Credit (0.1%), due to the rapid growth of the Line of Credit product during the period. On an underlying basis, the core Small Business Loan product achieved a provision rate of 5.7%, in line with expectations. The improvement in the loan impairment expense is reflective of the improving credit quality of the portfolio.

Depreciation and amortisation

Depreciation expense grew to $1.5 million, compared to $0.4 million in prior corresponding period. The primary driver for this increase was our transition to AASB 16 *Leases*, whereby most operating lease expenditure is now recognised as depreciation on right-of-use assets and interest expense on lease liabilities.

Amortisation expense reduced to $1.3 million, a reduction of 24.5% on prior corresponding period. The prior period reflected a one-off adjustment from revising our estimated useful life assumption on software development from 7 year to 5 years.

Interest on corporate debt

Interest on corporate debt reduced to $0.3 million, compared to $1.1 million in prior corresponding period. As part of our Initial Public Offering, we paid down our corporate debt, which drove the expense in the prior period. In the current period, interest on corporate debt solely reflects the interest expense incurred on lease liabilities under AASB 16 *Leases*.

Financial instruments

Movement in financial instruments expense (across both fair value gain/(loss) on financial instruments and embedded derivatives) was $0.1 million, compared to $5.0 million in prior corresponding period. In the prior corresponding period, we had several complex financial instruments on foot, including a number of tranches of convertible notes, which were subject to fair value adjustments through the P&L. Upon Initial Public Offering in June 2019, these complex financial instruments were paid out or converted, and hence minimal expense being recognised in the 6 months to 31 December 2019.

Cash flow

The group generated strong operating cash flow, with net cash from operating activities increasing to $14.0 million, an increase of 345.3% on prior corresponding period. Cash income collected grew strongly, offset by a reduction in our cash funding costs and cash income tax paid.

We continued to invest in our technology, with $2.6 million of investment in intangibles in the period, an increase of 70.4% on prior corresponding period. Investment in intangibles is comprised of capitalised vendor spend and internal development cost.

In our funding cash flows, we drew down on $86.9 million in warehouse facilities, to fund the overall growth in the portfolio. Part of this draw down was in relation to our two new funding facilities completed during the period:

- Our NZ$45 million New Zealand warehouse trust to fund New Zealand Small Business Loan originations; and
- Our $20.0 million junior facility funded into one of our tier 1 bank warehouse facilities.

Each of these new funding arrangements released equity capital which was then available for redeployment into new growth opportunities.

Our growth strategy

Our growth strategy has 7 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. Continuing to develop operating leverage through scale and other efficiencies;
6. Accelerating execution of product strategy and growth through acquisition; and
7. Focusing on risk and return through active yield management.

Post balance date events

On 24 January 2020, the Group announced the resignation of Mr Edoardo Bigazzi from his position as Chief Financial Officer. Mr Peter Loosmore was appointed as interim Chief Financial Officer on 28 January 2020.

On 17 February 2020, the Group announced the introduction of a new funding partner into one of its Australian Warehouse Facilities. The funding partner has subscribed to Class B Notes in the warehouse facility with an initial capacity of $32.5 million over a 4-year term.

There have been no further material items, transactions or events subsequent to 31 December 2019 which relate to conditions existing at that date and which require comment or adjustment to the figures dealt with in this report.

Rounding of amounts

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

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this directors' report.

This report is made in accordance with a resolution of directors, pursuant to section 306(3)(a) of the Corporations Act 2001.

On behalf of the directors

Greg Moshal Director and Joint Chief Executive Officer	Gail Pemberton AO Independent Director and Chairman

26 February 2020
Sydney

Auditor's Independence Declaration

Deloitte.

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

26 February 2020

Dear Board Members

Prospa Group Limited

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

As lead audit partner for the review of the financial statements of Prospa Group Limited for the half-year ended 31 December 2019, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

(ii) any applicable code of professional conduct in relation to the review.

Yours sincerely

Deloitte. Touche. Tohmatsu.

DELOITTE TOUCHE TOHMATSU

Mark Lumsden
Partner
Chartered Accountants

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For the half-year ended
31 December 2019

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Consolidated statement of profit or loss and other comprehensive income

For the half-year ended 31 December 2019

	Note	Consolidated 31 December 2019 $'000	31 December 2018 $'000
Interest income		69,782	62,361
Other income	4	5,855	5,333
Total revenue before transaction costs		75,637	67,694
Transaction costs		(4,511)	(4,341)
Net revenue		**71,126**	**63,353**
Operating expenses			
Funding costs	5	(9,398)	(10,675)
Sales and marketing expense		(15,395)	(11,840)
Product development expense		(6,101)	(4,433)
General and administration expense		(21,829)	(17,896)
Loan impairment expense	6	(14,133)	(13,407)
Total operating expense	7	(66,856)	(58,251)
Earnings before interest on corporate debt, fair value movements, income tax, depreciation and amortisation		**4,270**	**5,102**
Depreciation		(1,520)	(381)
Amortisation		(1,255)	(1,663)
Corporate interest	5	(280)	(1,115)
Fair value (loss)/gain on financial instruments		(100)	(3,252)
Fair value (loss)/gain on embedded derivatives	5	–	(1,744)
Profit/(loss) before income tax (expense)/benefit		**1,115**	**(3,053)**
Income tax (expense)/benefit		(564)	47
Profit/(loss) after income tax (expense)/benefit for the half-year attributable to the owners of Prospa Group Limited		**551**	**(3,006)**
Other comprehensive income			
Foreign currency translation		59	–
Fair value changes in cashflow hedges		–	136
Other comprehensive income for the half-year, net of tax		59	136
Total comprehensive income for the half-year attributable to the owners of Prospa Group Limited		**610**	**(2,870)**

	Cents	Cents
Basic earnings per share	0.34	(8.05)
Diluted earnings per share	0.34	(8.05)

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

Consolidated statement of financial position

As at 31 December 2019

	Note	Consolidated 31 December 2019 $'000	Consolidated 30 June 2019 $'000
Assets			
Current assets			
Cash and cash equivalents	8	102,512	69,839
Loan receivables	9	248,638	235,120
Bank deposits		1,083	1,098
Other financial assets		29	130
Income tax		1,146	447
Prepayments and other assets		4,341	3,171
Total current assets		357,749	309,805
Non-current assets			
Loan receivables	10	182,970	144,733
Property, plant and equipment	11	2,081	2,354
Intangible assets	12	7,929	6,577
Right-of-use assets	13	7,496	–
Deferred tax assets		10,517	8,814
Total non-current assets		210,993	162,478
Total assets		**568,742**	**472,283**
Liabilities			
Current liabilities			
Trade and other payables		5,918	6,687
Borrowings	14	63,169	14,974
Lease liabilities	15	1,901	–
Employee benefits		3,470	3,792
Total current liabilities		74,458	25,453
Non-current liabilities			
Borrowings	16	335,256	296,548
Lease liabilities	17	7,143	–
Employee benefits		373	262
Total non-current liabilities		342,772	296,810
Total liabilities		**417,230**	**322,263**
Net assets		**151,512**	**150,020**
Equity			
Issued capital	18	610,574	609,975
Reserves	19	(430,111)	(431,412)
Accumulated losses		(28,951)	(28,543)
Total equity		**151,512**	**150,020**

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

Consolidated statement of changes in equity

For the half-year ended 31 December 2019

Consolidated	Issued capital $'000	Reserves $'000	Accumulated losses $'000	Total equity $'000
Balance at 1 July 2018	36,149	1,096	(560)	36,685
Adjustment on adoption of AASB 9	–	–	(3,262)	(3,262)
Balance at 1 July 2018 – restated	36,149	1,096	(3,822)	33,423
Loss after income tax benefit for the half-year	–	–	(3,006)	(3,006)
Other comprehensive income for the half-year, net of tax	–	136	–	136
Total comprehensive income for the half-year	–	136	(3,006)	(2,870)
Transactions with owners in their capacity as owners:				
Contributions of equity, net of transaction costs	7	–	–	7
Share-based payments	–	449	–	449
Capital buy-back	–	(1,284)	–	(1,284)
Balance at 31 December 2018	**36,156**	**397**	**(6,828)**	**29,725**

Consolidated	Issued capital $'000	Reserves $'000	Accumulated losses $'000	Total equity $'000
Balance at 1 July 2019	609,975	(431,412)	(28,543)	150,020
Adjustment on adoption of AASB 16 (note 1)	–	–	(959)	(959)
Balance at 1 July 2019 – restated	609,975	(431,412)	(29,502)	149,061
Profit after income tax expense for the half-year	–	–	551	551
Other comprehensive income for the half-year, net of tax	–	59	–	59
Total comprehensive income for the half-year	–	59	551	610
Transactions with owners in their capacity as owners:				
Share-based payments	–	1,242	–	1,242
Conversion of options	599	–	–	599
Balance at 31 December 2019	**610,574**	**(430,111)**	**(28,951)**	**151,512**

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

Consolidated statement of cash flows

For the half-year ended 31 December 2019

	Consolidated	
	31 December 2019 $'000	31 December 2018 $'000
Cash flows from operating activities		
Finance income received	71,242	55,816
Other income received	3,191	3,614
Interest and other finance costs paid	(10,036)	(12,183)
Payments to suppliers and employees	(47,864)	(37,476)
Income taxes paid	(2,555)	(6,632)
Net cash from operating activities	**13,978**	**3,139**
Cash flows from investing activities		
Net increase in loans advanced to customers	(65,136)	(52,689)
Payments for property, plant and equipment	(268)	(102)
Payments for intangibles	(2,607)	(1,530)
Other investing cash flows	–	(289)
Net cash used in investing activities	**(68,011)**	**(54,610)**
Cash flows from financing activities		
Proceeds from issue of shares	–	7
Proceeds from exercise of options	599	–
Proceeds from borrowings	86,906	132,300
Repayment of borrowings	–	(45,000)
Payments for capital buy-backs	–	(1,284)
Principal repayment of lease liabilities	(799)	–
Net cash from financing activities	**86,706**	**86,023**
Net increase in cash and cash equivalents	32,673	34,552
Cash and cash equivalents at the beginning of the financial half-year	69,839	34,397
Cash and cash equivalents at the end of the financial half-year	**102,512**	**68,949**

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

Notes to the consolidated financial statements

For the half-year ended 31 December 2019

1. Significant accounting policies

Statement of compliance

These general purpose financial statements for the interim half-year reporting period ended 31 December 2019 have been prepared in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

The financial statements cover Prospa Group Limited as a Group consisting of Prospa Group Limited and the entities it controlled at the end of, or during, the half-year.

The principal accounting policies adopted are consistent with those of the previous period, except for the adoption of new and amended accounting standards which were effective as of 1 July 2019 and are set out below.

Basis of preparation

These financial statements cover Prospa Group Limited as a consolidated entity and incorporate the assets and liabilities of all subsidiaries of Prospa Group Limited (the 'company' or 'parent entity') as at 31 December 2019 and the results of all subsidiaries and trusts for the half-year then ended. Prospa Group Limited and its subsidiaries and trusts together are referred to in these financial statements as the 'Group' or 'Prospa'.

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

Comparatives

During the year ended 30 June 2019, the Group undertook an Initial Public Offering and group reorganisation. This included establishing a listed entity, Prospa Group Limited. The reverse acquisition accounting principles of AASB 3 *Business Combinations* were applied to this transaction, with the effect that Propsa Group Limited assumed the position of the parent entity of the Group.

The reorganisation was effective from 11 June 2019. The comparative financial information presented for the half-year ended 31 December 2018 therefore pertains to Prospa Advance Pty Limited in accordance with AASB 3. The financial information presented in relation to 30 June 2019 is of Prospa Group Limited.

Critical accounting estimates

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

Going concern

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

Adoption of new and revised Accounting Standards

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

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

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

AASB 16 *Leases*

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

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

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

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

Impact of adoption

AASB 16 was adopted using the modified retrospective approach and as such the comparatives have not been restated. The impact of adoption on opening retained profits as at 1 July 2019 was as follows:

	Consolidated 1 July 2019 $'000
Operating lease commitments disclosed as at 30 June 2019	6,192
Discount based on the incremental borrowing rate at the date of initial application	(409)
Discounted amount of low-value and short term leases not recognised as a right-of-use asset	(601)
Adjustment as a result of a different treatment of extension and termination options	4,662
Lease liabilities recognised as at 1 July 2019	9,844
Lease liabilities at 1 July 2019 (AASB 16)	(9,844)
Right-of-use assets at 1 July 2019 (AASB 16)	8,474
Tax effect on the above adjustments	411
Increase in opening accumulated losses as at 1 July 2019	(959)

The extension option on the premises leased by the Group is for two years.

Right-of-use assets

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

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

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

Lease liabilities

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

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. 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 fully written down.

AASB Interpretation 23 *Uncertainty over Income Tax Treatment*

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

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

The Group's existing accounting policies are aligned with the requirements of Interpretation 23 and hence no transition adjustment to retained earnings was required on adoption.

2. Critical accounting judgements, estimates and assumptions

In preparing the half-year report, the consolidated entity has been required to make certain estimates and assumptions concerning future occurrences. There is an inherent risk that the resulting accounting estimates will not equate exactly with actual events and results.

Revenue recognition

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

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

Revenue with respect to the Group's Line of Credit offering has been recognised on the same basis as revenue on Small Business Loans.

Allowance for expected credit losses

The allowance for expected credit loss assessment requires a significant level of estimation and is modelled using assumptions in relation to the expected credit loss, within 12 months or over the lifetime, grouped based on days overdue, and allocates an overall expected credit loss rate for each stage. These assumptions include recent loss experience, historical collection rates and estimates of economic overlay. For the half-year ended 31 December 2019, the model is also segmented by risk grade.

Share-based payment transactions

The group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using 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.

3. Operating segments

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

4. Other income

	Consolidated	
	31 December 2019 $'000	31 December 2018 $'000
Fee income	5,628	4,972
Bank interest	227	361
	5,855	5,333

Fee income is comprised of servicing fees and late fees.

5. Interest expense

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

	Consolidated	
	31 December 2019 $'000	31 December 2018 $'000
Funding costs	(9,398)	(10,675)
Corporate interest	(280)	(1,115)
Fair value gain/(loss) on embedded derivatives	–	(1,744)
	(9,678)	(13,534)

6. Loan impairment expense

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

	Consolidated	
	31 December 2019 $'000	31 December 2018 $'000
Receivables written-off during the year as bad debts	16,736	13,151
Net movement in provision	2,706	1,166
Recoveries from debt sales	(4,680)	–
Recoveries	(610)	(910)
Difference due to exchange rate variance	(19)	–
	14,133	13,407

During the half-year ended 31 December 2019, Prospa entered into several Sale of Debt Agreements which has resulted in proceeds of $4.7 million being received by the Group (31 December 2018: $ nil).

7. Operating expenses

Operating expenses for the half-year ended 31 December 2019 were $66.9 million (31 December 2018: $58.3 million), of which employee expenses were $23.6 million (31 December 2018: $18.9 million). In the statement of profit or loss and other comprehensive income, employee expenses are allocated to the line items to which they relate by function and form part of sales & marketing expense, product development expense and general and administration expense.

8. Current assets – cash and cash equivalents

At 31 December 2019, the Group held cash and cash equivalents of $102.5 million (30 June 2019: $69.8 million). Of this, $58.7 million is restricted cash (30 June 2019: $40.8 million). Restricted cash is held by the securitisation trusts and is not available to settle the creditors of the Group.

9. Current assets – loan receivables

	Consolidated	
	31 December 2019 $'000	30 June 2019 $'000
Loan receivables	264,288	250,260
Less: Allowance for expected credit losses	(15,650)	(15,140)
	248,638	235,120

10. Non-current assets – loan receivables

	Consolidated	
	31 December 2019 $'000	30 June 2019 $'000
Loan receivables	194,486	154,053
Less: Allowance for expected credit losses	(11,516)	(9,320)
	182,970	144,733

The remaining qualitative and quantitative information contained in this note applies to loan receivables as a whole and combines both current and non-current loan receivables.

The following table summarises movements in the allowance for expected credit losses during the half-year:

	Consolidated	
	31 December 2019 $'000	30 June 2019 $'000
Opening balance	24,460	18,516
Provisions recognised during the year in profit or loss	14,133	30,550
Receivables written-off during the year as bad debts	(16,736)	(26,678)
Recoveries from debt sales	4,680	–
Recoveries	610	2,060
Difference due to exchange rate variance	19	12
	27,166	24,460

Loan receivables which are greater than 180 days past due and 30 days of consecutive non-payment are written off. The allowance for expected credit losses for loan receivables as a percentage of receivables has reduced from 6.1% of the gross receivables balance as at 30 June 2019 to 5.9% as a result of improvements in the underlying credit quality of the portfolio. The allowance of 5.9% is comprised of 5.8% in relation to loan receivables and 0.1% for undrawn Line of Credit balances (30 June 2019: 6.1% and nil respectively).

Measurement of expected credit loss

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

1. Probability of default: the likelihood of default;
2. Loss given default: the magnitude of the expected credit loss in the event of default; and
3. Emergence period.

Internally developed statistical models are applied to derive these parameters, based on historical portfolio information. For the half-year ended 31 December 2019, the model is also segmented by risk grade.

The model generates provision levels required for each of Stage 1, Stage 2 and Stage 3, based on the expected loss for each of these segments of the portfolio. We then add an economic overlay to the stage 1-3 provision. Macro-economic data and forward-looking indicators are incorporated through this overlay assumption which forms part of the overall loan impairment provision levels. Macro-economic factors taken into consideration include the unemployment rate, interest rate, inflation, gross domestic product, commercial and residential property prices.

The categorisation of the Group's loan receivables between the three stages of the expected credit loss model is described in further detail in the table below:

Stage 1	Financial assets that have not had a significant increase in credit risk since initial recognition. For these assets, 12 months expected credit losses are recognised. There is a rebuttable presumption that Stage 1 assets comprise loans less than or equal to 30 days past due.
Stage 2	Financial assets that have experienced a significant increase in credit risk since initial recognition but do not have objective evidence of impairment. For these assets, lifetime expected credit losses are recognised. There is a rebuttable presumption that Stage 2 assets comprise of loans less than or equal to 90 days past due.
Stage 3	Financial assets that have objective evidence of impairment. For these assets, lifetime expected credit losses are recognised.

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

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

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

The following table summarises loan receivables by stage:

	Stage 1 $'000	Stage 2 and Stage 3 $'000	Total $'000
31 December 2019			
Loan receivables	414,732	44,042	458,774
Allowance for expected credit losses	(7,359)	(19,807)	(27,166)
Net loan receivables	407,373	24,235	431,608
30 June 2019			
Loan receivables	373,290	31,023	404,313
Allowance for expected credit losses	(7,878)	(16,582)	(24,460)
Net loan receivables	365,412	14,441	379,853

Of the amount included in Stage 2 and Stage 3, $7.9 million relates to loan receivables against which specific provision has been made (30 June 2019: $6.2 million).

A metric used by management 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	
	31 December 2019 $'000	30 June 2019 $'000
Loan receivables aged 0 to 30 days	414,732	373,290
Loan receivables aged 31 to 90 days	12,556	10,992
Loan receivables aged over 90 days	31,486	20,031
	458,774	404,313

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

	Consolidated	
	31 December 2019 $'000	30 June 2019 $'000
Plant and equipment – at cost	4,405	4,136
Less: Accumulated depreciation	(2,324)	(1,782)
	2,081	2,354

12. Non-current assets – intangible assets

	Consolidated	
	31 December 2019 $'000	30 June 2019 $'000
Website – at cost	820	820
Less: Accumulated amortisation	(691)	(615)
	129	205
Software acquired – at cost	394	394
Less: Accumulated amortisation	(289)	(252)
	105	142
Software development (in-house) – at cost	12,814	10,207
Less: Accumulated amortisation	(5,119)	(3,977)
	7,695	6,230
	7,929	6,577

13. Non-current assets – right-of-use assets

	Consolidated	
	31 December 2019 $'000	30 June 2019 $'000
Right-of-use assets at cost	8,474	–
Less: Accumulated depreciation	(978)	–
	7,496	–

The Group has adopted AASB 16 *Leases* from 1 July 2019. In doing so, the Group has taken advantage of certain practical expedients permitted by the standard and as such, comparatives have not been restated. The financial impact to the Group from adopting AASB 16 is detailed in note 1.

14. Current liabilities – borrowings

	Consolidated	
	31 December 2019 $'000	30 June 2019 $'000
Securitisation trust notes	63,853	14,852
Add: Interest payable on trusts	50	746
Less: Unamortised transaction costs	(734)	(624)
	63,169	14,974

15. Current liabilities – lease liabilities

	Consolidated	
	31 December 2019 $'000	30 June 2019 $'000
Lease liabilities	1,901	–

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	
	31 December 2019 $'000	30 June 2019 $'000
Securitisation trust notes	336,514	297,923
Less: Unamortised transaction costs	(1,258)	(1,375)
	335,256	296,548

Securitisation trust notes

In August 2019, the Group established its first New Zealand warehouse funding facility, which brings the Group's total warehouse funding structures up to six. The 3-year committed facility will have an initial capacity of NZ$45 million and has been designed with a similar structure to the Group's Australian funding platform.

These facilities have been established as a part of the Group's asset backed securitisation program. The Group regularly sells its loan receivables to these securitisation trust warehouses.

Cash flow hedges

The borrowings related to trusts are linked to a floating interest rate. To reduce the risk of changing interest rates associated with the borrowings, the Group holds interest rate cap contracts with other independent financial institutions with a credit rating of A3 or higher. These contracts had a fair value as at 31 December 2019 of $0.03 million (30 June 2019: $0.13 million).

Assets pledged as security

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

	Consolidated	
	31 December 2019 $'000	30 June 2019 $'000
Loan receivables*	413,643	356,908

* The amount recognised above represents the carrying value of the loan receivables held by the Prospa Trusts and is net of provisions for expected credit loss and unearned future income. This excludes loan receivables totalling $18.0 million held by Prospa Advance Pty Ltd at 31 December 2019 (30 June 2019: $23.1 million).

Financing arrangements

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

	Consolidated	
	31 December 2019 $'000	30 June 2019 $'000
Total facilities		
Securitisation trusts	452,729	389,470
Used at the reporting date		
Securitisation trusts	400,366	312,775
Unused at the reporting date		
Securitisation trusts	52,363	76,695

17. Non-current liabilities – lease liabilities

	Consolidated	
	31 December 2019 $'000	30 June 2019 $'000
Lease liabilities	7,143	–

18. Equity – issued capital

	31 December 2019 Shares	30 June 2019 Shares	31 December 2019 $'000	30 June 2019 $'000
Ordinary shares – fully paid	161,195,165	160,514,164	610,574	609,975
Treasury shares – fully paid	155,272	836,273	–	–
	161,350,437	161,350,437	610,574	609,975

19. Equity – reserves

	Consolidated	
	31 December 2019 $'000	30 June 2019 $'000
Foreign currency reserve	71	14
Share option reserve	2,786	1,542
Re-organisation reserve	(432,968)	(432,968)
	(430,111)	(431,412)

During the year ended 30 June 2019, the Group undertook an Initial Public Offering and group reorganisation, 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.

20. Fair value of financial instruments

Financial instruments recognised in the statement of financial position include cash, client receivables, payables and borrowings.

The Group has considered all financial assets and liabilities which are not carried at fair value to determine whether the carrying value is an accurate reflection of fair value. The directors consider that due to the short-term nature and/or the variable rate arrangement of the borrowings, the carrying amounts of financial assets and financial liabilities are a reasonable approximation of their fair values.

Interest rate cap

To reduce the risk of changing interest rates associated with the Group's borrowings, Prospa holds a number of interest rate cap contracts with other independent financial institutions with a credit rating of A3 or higher.

These derivative financial instruments are measured initially at fair value and carried subsequently at fair through profit or loss. The fair value as at 31 December 2019 was determined using the regression valuation approach and has been assessed at $0.03 million (30 June 2019: $0.13 million).

21. Contingent liabilities

The Group had no contingent liabilities as at 31 December 2019 and 30 June 2019.

22. Commitments

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

	Consolidated	
	31 December 2019 $'000	30 June 2019 $'000
Operating lease commitments – land and buildings		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	43	2,248
One to five years	–	3,301
Total minimum lease payments – land & buildings	43	5,549
Operating lease commitments – computer equipment		
Committed at the reporting date and recognised as liabilities, payable:		
Within one year	313	338
One to five years	233	305
Total minimum lease payments – computer equipment	546	643
	589	6,192

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

The amounts included in operating lease commitments for the half-year ended 31 December 2019 represent short term leases and leases assessed as low value by the Group. The assessment of 'low value' and short term leases is consistent with AASB 16.

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

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

23. Interests in subsidiaries

During the half-year ended 31 December 2019, the Group established its first warehouse facility specifically to fund New Zealand small business loans. The Prospa Kea Trust Series-1 was established on 8 August 2019 and is 100% owned by Prospa Group Limited.

24. Events after the reporting period

On 24 January 2020, the Group announced the resignation of Mr Edoardo Bigazzi from his position as Chief Financial Officer. Mr Peter Loosmore was appointed as interim Chief Financial Officer on 28 January 2020.

On 17 February 2020 the Group announced the introduction of a new funding partner into one of its Australian Warehouse Facilities. The funding partner has subscribed to Class B Notes in the warehouse facility with an initial capacity of $32.5 million over a 4-year term.

There have been no further material items, transactions or events subsequent to 31 December 2019 which relate to conditions existing at that date and which require comment or adjustment to the figures dealt with in this report.

25. Share-based payments

The employee long-term incentive plan ('LTIP') enables the Group to offer eligible employees options to subscribe for shares or loan shares in the Company. Loan shares involve the purchase of shares in the Company by certain employees, funded by loans from the Company. The LTIP is designed to incentivise performance.

No share options were granted during the half-year ended 31 December 2019 and no modifications were made to the existing share option plans. During the half-year, 632,007 share options were forfeited and 681,001 options were exercised and converted to shares to the value of $0.6 million. The expense reported for the half-year in relation to existing share options was $0.9 million.

Performance rights

In June 2019, Prospa established an Executive Incentive Plan ('EIP'), an Employee Equity Plan ('EEP') and a Non-Executive Director Equity Plan ('NEDEP') to supplement the Group's existing long-term incentive plan.

Executive Incentive Plan ('EIP')

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

Performance conditions in relation to these rights will be tested over a one-year performance period and must be satisfied for EIP participants to receive awards.

To the extent the performance conditions are achieved, at the end of the performance period rights will vest as follows:

- 50% on the day following the release of the Group's full year audited results for FY2021; and
- 50% on the day following the release of the Group's full year audited results for FY2022.

Rights under the EIP are issued for nil consideration and will lapse five years after the start of the performance period if not exercised or lapsed before this date. The Group has allocated a pool of 450,000 rights to be granted under the EIP.

The original intention was to grant rights in the half-year ended 31 December 2019. However, following a review of the plan, the decision was taken to grant these in the second half of the financial year. These are expected to be granted in early 2020.

Non-Executive Director Equity Plan ('NEDEP')

The NEDEP allows non-executive directors to acquire rights, in lieu of some of their cash Board fees. The initial offer to NEDs under the plan was made at the end of FY19 with pre-tax fee contributions commencing in FY20. For the FY20 offer, each director was allocated a number of rights, based on the portion of fees each director nominated to sacrifice under the NEDEP divided by the Offer Price. The rights were granted at the time of listing in June 2019.

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

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

No rights were granted, exercised or forfeited under the NEDEP during the half-year ended 31 December 2019. The expense reported for the half-year in relation to rights outstanding as at 31 December 2019 was $0.1 million.

Employee Equity Plan ('EEP')

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

Performance conditions in relation to these rights are tested over a one-year performance period, being 1 July 2019 to 30 June 2020 and must be satisfied for EEP participants to receive awards.

To the extent the performance conditions are achieved, at the end of the performance period rights will vest as follows:

- 50% on the day following the release of the Group's full year audited results for FY2021; and
- 50% on the day following the release of the Group's full year audited results for FY2022.

Rights under the EEP are issued for nil consideration and have no exercise price. The contractual term of the rights is 5 years.

The Group has allocated a pool of 1,200,000 rights to be granted under the EEP. Details of rights granted during the half-year ended 31 December 2019 are outlined below:

		31 December 2019					
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	12/08/2024	$0.00	–	287,213	–	(3,969)	283,244

The expense reported for the half-year in relation to rights outstanding as at 31 December 2019 was $0.2 million.

— Directors' declaration

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 *Interim Financial Reporting*, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes give a true and fair view of the Group's financial position as at 31 December 2019 and of its performance for the financial half-year ended on that date; and
- there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors made pursuant to section 303(5)(a) of the Corporations Act 2001.

On behalf of the directors

Greg Moshal
Director and Joint Chief Executive Officer

Gail Pemberton AO
Independent Director and Chairman

26 February 2020
Sydney

Auditor's Report

> "Prospa is definitely more appealing than the traditional banking system as we've experienced. Naturally the first place you go is to your own bank and from memory that was going to be a six week process to find out if we were going to be eligible for a loan. Six weeks isn't going to cut it. The loan from Prospa has enabled us to expand our business several times."

Sam
Queensland, Australia

Deloitte.

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Independent Auditor's Review Report to the members of Prospa Group Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Prospa Group Limited, which comprises the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information and, the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year as set out on pages 14 to 32.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year 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 half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements *ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of Prospa Group Limited's financial position as at 31 December 2019 and its performance for the half-year ended on that date; and complying with Accounting Standard *AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Prospa Group Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Auditor's Independence Declaration

In conducting our review, we have complied with the independence requirements of the Corporations Act 2001. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Prospa Group Limited, would be in the same terms if given to the directors as at the time of this auditor's review report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Prospa Group Limited is not in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2019 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard *AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

Deloitte. Touche. Tohmatsu.

DELOITTE TOUCHE TOHMATSU

Mark Lumsden
Partner
Chartered Accountants
Sydney, 26 February 2020

Corporate Information

Company Secretary

Ms Nicole Johnschwager

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SYDNEY NSW 2000

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Share Registry

Link Market Services Limited
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680 George Street
SYDNEY NSW 2000

Telephone: 1300 554 474

Stock Exchange Listing

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

Auditor

Deloitte Touche Tohmatsu
Grosvenor Place
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Sydney NSW 2000

Solicitors

Herbert Smith Freehills
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