



Appendix 4E

Preliminary

Final Report

YEAR ENDED 30 JUNE 2020

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Company details

Name of entity:	Prospa Group Limited
ABN:	13 625 648 722
Reporting period:	For the year ended 30 June 2020
Previous period:	For the year ended 30 June 2019

Results for announcement to the market

For the year ended 30 June 2020

Statutory Results Summary

	30 June 2020 \$'000s	30 June 2019 \$'000s	Change %
Total revenue before transaction costs	142,087	136,423	4.2
Loss after income tax for the year attributable to the owners of Prospa Group Limited	(24,933)	(24,721)	0.9
Total comprehensive loss for the year attributable to the owners of Prospa Group Limited	(25,124)	(24,603)	2.1

Dividend information

Prospa Group Limited ("Prospa", the "Group" or the "Company") has not paid, and does not propose to pay dividends for year ended 30 June 2020 (30 June 2019: nil).

Earnings per share

	30 June 2020 cents	30 June 2019 cents
Basic earnings per share	(15.48)	(21.55)
Diluted earnings per share	(15.48)	(21.55)

Net tangible asset information

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	68.39	83.87

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

Entities over which control has been gained or lost

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

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

There has been no further gain or loss of control of entities during the year ended 30 June 2020.

Associates and joint ventures

The Group has not engaged in the acquisition or disposal of associates nor has it engaged in any joint ventures during the year ended 30 June 2020 or the previous corresponding period.

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.

Review of operations

We are an Australian fintech company that has grown to become Australia and New Zealand's #1 online lender to small businesses¹.

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

- Delivering over \$1.6 billion² in loans to small businesses since our launch in 2012;
- Having served more than 28,750³ unique small business customers since inception that have historically been poorly supported by traditional banks and lenders; and
- Facilitating referrals from our network of more than 10,000 distribution partners including brokers, aggregators and accountants.

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

Our Credit Decision Engine ("CDE") has been purpose-built to quickly assess small business credit applications using proprietary technology and analytics to deliver customised decisions. We adopt a risk-based pricing approach, where the interest rate associated with a facility is determined based on our credit risk assessment for that small business customer.

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

¹ Prospa is ranked #1 in Australia in the Non-bank Financial Services category on independent review site TrustPilot with a TrustScore of 4.9 and over 5,434 reviews as at 12 August 2020. Prospa is ranked #1 in New Zealand in the Non-bank Financial Services category on independent review site TrustPilot with a TrustScore of 4.9 and over 546 reviews as at 12 August 2020.

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

³ Total unique customers since inception across Australia and New Zealand as at 30 June 2020. Total active customers as at 30 June 2020 is 13,342.

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

Our Net Promoter Score for the FY20 period was in excess of 77⁴ and we are ranked #1 in the Non-bank Financial Services category in both Australia and New Zealand on independent review site TrustPilot⁵.

In September 2019 Prospa was recognised as a Great Place to Work in Australia⁶. Prospa activated its Business Continuity Plan in early March and our people have been working remotely since then without any operational interruptions to the business. We have a phased voluntary return to office program in place, guided by employee feedback and Government restrictions, with the flexibility to respond to changing scenarios.

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

Financial Overview

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

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

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

Cash and Funding

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

Cash and cash equivalents⁷ grew to \$110.3 million at 30 June 2020 (FY19: \$69.8 million), an increase of 58% from the prior year. This includes unrestricted cash of \$55.3 million (FY19: \$29.0 million), an increase of \$26.3 million or 91% on the prior year.

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

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

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

5 Prospa is ranked #1 in Australia in the Non-bank Financial Services category on independent review site TrustPilot with a TrustScore of 4.9 and over 5,434 reviews as at 12 August 2020. Prospa is ranked #1 in New Zealand in the Non-bank Financial Services category on independent review site TrustPilot with a TrustScore of 4.9 and over 546 reviews as at 12 August 2020.

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

7 Includes cash and cash equivalents as reflected in our consolidated balance sheet in accordance with applicable accounting standards, and includes cash held in securitisation trusts, as explained in our Response to ASX Query letter dated 23 April 2020. This applies to all references to cash and cash equivalents in this document.

Loan Impairment and Operating Expenses

Loan impairment expense grew to \$52.9 million, an increase of 73.1% on prior period and includes the additional \$18.0 million forward-looking provision to take into account the impact of the COVID-19 pandemic including restrictions on movements in Victoria and New Zealand announced in July and August 2020.

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

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

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

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

Refer [Note 1](#) in the preliminary financial statements for further information on JobKeeper and Leases.

Capital Management

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

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

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

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

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

Post balance date events

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

Prosopa is already an approved Participating Lender under the current Coronavirus SME Guarantee Scheme which was originally due to end on 30 September 2020. On 20 July 2020 the Federal Treasurer announced that the Scheme would be enhanced and extended to 30 June 2021 to support continued small business recovery. While the final terms of the extension are yet to be announced, the Group anticipates it will apply to be a Participating Lender under the extended Scheme.

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

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

No other matter or circumstance has arisen since 30 June 2020 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Preliminary statement of profit or loss and other comprehensive income

For the year ended 30 June 2020

	Note	Consolidated	
		30 June 2020 \$'000	30 June 2019 \$'000
Interest income		131,441	124,987
Other income	3	10,646	11,436
Total revenue before transaction costs		142,087	136,423
Transaction costs		(9,256)	(8,536)
Net revenue		132,831	127,887
Operating expenses			
Funding costs	4	(20,356)	(20,070)
Sales and marketing expense		(30,407)	(27,127)
Product development expense		(10,748)	(9,408)
General and administration expense		(37,962)	(41,498)
Loan impairment expense	18	(52,881)	(30,550)
Total operating expense	5	(152,354)	(128,653)
Earnings before corporate interest, fair value movements, income tax, depreciation and amortisation		(19,523)	(766)
Depreciation		(3,106)	(955)
Amortisation		(3,084)	(2,684)
Corporate interest	4	(535)	(2,103)
Fair value (loss)/gain on financial instruments		(129)	(12,439)
Fair value (loss)/gain on embedded derivative	4	–	(4,357)
Loss before income tax benefit/(expense)		(26,377)	(23,304)
Income tax benefit/(expense)	6	1,444	(1,417)
Loss after income tax benefit/(expense) for the year attributable to the owners of Prospa Group Limited	16	(24,933)	(24,721)
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Fair value changes in cash flow hedges		–	104
Foreign currency translation		(191)	14
Other comprehensive income for the year, net of tax		(191)	118
Total comprehensive loss for the year attributable to the owners of Prospa Group Limited		(25,124)	(24,603)
		Cents	Cents
Basic earnings per share	22	(15.48)	(21.55)
Diluted earnings per share	22	(15.48)	(21.55)

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 2020

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

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 2020

Consolidated	Issued capital (Note 14) \$'000	Reserves (Note 15) \$'000	Accumulated losses (Note 16) \$'000	Total equity \$'000
Balance at 1 July 2018	36,149	1,096	(3,822)	33,423
Loss after income tax expense for the year	—	—	(24,721)	(24,721)
Other comprehensive income for the year, net of tax	—	118	—	118
Total comprehensive income for the year	—	118	(24,721)	(24,603)
<i>Transactions with owners in their capacity as owners:</i>				
Share-based payments	—	1,626	—	1,626
Conversion of options and performance shares	600	—	—	600
Capital buy-back	—	(1,284)	—	(1,284)
Conversion of financial instruments	80,999	—	—	80,999
Shares issued, net of transaction costs	58,833	—	—	58,833
Group re-organisation on IPO	432,968	(432,968)	—	—
Proceeds from loan shares	426	—	—	426
Balance at 30 June 2019	609,975	(431,412)	(28,543)	150,020
Balance at 1 July 2019	609,975	(431,412)	(28,543)	150,020
Adjustment on adoption of AASB 16 (Note 1)	—	—	(959)	(959)
Balance at 1 July 2019 – restated	609,975	(431,412)	(29,502)	149,061
Loss after income tax benefit for the year	—	—	(24,933)	(24,933)
Other comprehensive loss for the year, net of tax	—	(191)	—	(191)
Total comprehensive loss for the year	—	(191)	(24,933)	(25,124)
<i>Transactions with owners in their capacity as owners:</i>				
Share-based payments	—	3,686	—	3,686
Tax benefit on re-organisation (Note 6)	—	724	—	724
Exercise of options	694	—	—	694
Share repurchase	(18)	—	—	(18)
Balance at 30 June 2020	610,651	(427,193)	(54,435)	129,023

The above 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 2020

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

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

Notes to the preliminary financial statements

For the year ended 30 June 2020

1 Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are consistent with those of the previous financial year, except for the changes as a result of AASB 16 *Leases* noted below.

Basis of preparation

The Preliminary Final Report ("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.

The assets and liabilities of foreign operations are translated into Australian dollars using the exchange rate as at reporting date. Foreign currency transactions are translated to Australian dollars using the exchange rate prevailing at the date of the transaction.

Going concern

The financial statements of the Group have 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 are satisfied the Group has the resources to continue for the foreseeable future and pay debts as they fall due.

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

- Budget and cash flow forecasts have been prepared which extend to 30 September 2021. These demonstrate the Group will have access to sufficient liquid resources to meet forecast operational expenditure and loan originations over that period;
- The Group has access to unrestricted cash of \$55.3 million as at 30 June 2020;
- The Group has \$442.9 million in available third party facilities at 30 June 2020 (30 June 2019: \$389.5 million) including unused facilities of \$114.1 million at 30 June 2020 (30 June 2019: \$76.7 million);
- The Australian Office of Financial Management has approved a maximum investment of \$90 million into a Group warehouse trust through the Structured Finance Support Fund (announced to the ASX on 11 June 2020);
- Amendments to the Group's Australian warehouse facilities have been completed (announced to the ASX on 24 July 2020) and the Group continues to have the support of our funding partners; and
- Prospra is an approved Participating Lender under the current Coronavirus SME Guarantee Scheme which was originally due to end 30 September 2020. The Federal Treasurer recently announced that the Coronavirus SME Guarantee Scheme would be enhanced and extended to 30 June 2021 to support continued small business recovery. Whilst final terms of the extension are yet to be announced, the Group anticipates it will apply to be a Participating Lender under the extended Scheme.

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

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

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

Impact of Coronavirus (“COVID-19”)

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

The estimation uncertainty is associated with:

- (i) the extent and duration of the disruption to businesses arising from the actions by governments, businesses and consumers to contain the spread of the virus;
- (ii) the extent and duration of the expected economic downturn. This includes the disruption to capital markets, deteriorating availability of credit, liquidity concerns, increasing unemployment, declines in consumer discretionary spending, reductions in production because of decreased demand, and other restructuring activities; and
- (iii) the effectiveness of government and central bank measures that have been, and will be, put in place to support businesses and consumers through this disruption and economic downturn.

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

Expected credit loss (“ECL”)

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

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

The impact of the COVID-19 pandemic on the Group’s expected credit loss estimates is disclosed and further explained in [Note 18](#).

Impairment of non-financial assets

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

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

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

Recoverable amount is the higher of an asset’s fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs.

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

Loan receivables review

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

As part of implementing this new process, the Group conducted a comprehensive review of its existing loan receivables balance and in doing so, identified that an adjustment of \$5.5 million was required. This adjustment relates solely to non-cash items and therefore has no impact to the overall cashflows of the Group. The adjustment had the impact of reducing gross loan receivables by \$5.5 million at 30 June 2020 and increasing loan impairment expense by the same amount for the year ended 30 June 2020 (refer to [Note 18](#)). Basic and diluted loss per share increased by 3.41 cents as a result ([Note 22](#)). This is expected to be a one-off adjustment.

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

Revenue recognition

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

Revenue is recognised for key items as follows.

Interest income

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

Effective interest method

The effective interest method is used for the recognition of interest on loans and loan origination fees reported together within interest income, and transaction costs and broker commissions directly attributable to the origination of a loan reported within transaction costs. Interest income and transaction costs together comprise the complete effective interest yield of the loan book. This is a method of calculating the amortised cost of a financial asset, and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Transaction costs

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

Other income

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

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

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

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

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

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

AASB 120 Accounting for Government Grants and Disclosure of Government Assistance

JobKeeper Payment

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

The subsidy has been recognised in profit or loss by reducing employee expenses ([Note 5](#)) and by reducing capital expenditure where eligible employee expenses are treated as an addition to software development ([Note 10](#)) in accordance with AASB 120 Accounting for Government Grants and Disclosure of Government Assistance.

Coronavirus SME Guarantee Scheme

The Group is an approved Participating Lender to the current Coronavirus SME Guarantee Scheme. Under this scheme, the Group has a Government-backed guarantee of 50% against the outstanding balance on eligible products. ECLs in relation to eligible products are calculated in accordance with the methodology outlined in [Note 18](#) and where appropriate, are reduced by 50% to reflect the component covered by this Guarantee.

New or amended Accounting Standards and Interpretations adopted

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

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

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

AASB 16 Leases

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

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

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

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

Impact of adoption

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

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

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

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

AASB Interpretation 23 Uncertainty over Income Tax Treatment

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

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

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

Right-of-use assets

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

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

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

Lease liabilities

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

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

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

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

Fee income is comprised of servicing fees and late fees.

4 Interest expense

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

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

Included in corporate interest for the current year is \$0.5 million (30 June 2019: \$nil) in relation to interest on finance leases which has been recognised in accordance with AASB 16 ([Note 13](#)).

5 Operating expenses

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

6 Income tax

	Consolidated	
	30 June 2020 \$'000	30 June 2019 \$'000
Amounts recognised in profit or loss		
Current tax		
Current year	526	3,563
Adjustment recognised for prior periods	(1,065)	6
	(539)	3,569
Deferred tax		
Origination and reversal of temporary differences	869	(2,152)
Adjustment recognised for prior periods	(1,774)	–
	(905)	(2,152)
Aggregate income tax (benefit)/expense	(1,444)	1,417
Numerical reconciliation of income tax (benefit)/expense and tax at the statutory rate		
Loss before income tax (benefit)/expense	(26,377)	(23,304)
Tax at the statutory tax rate of 30%	(7,913)	(6,991)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Entertainment expenses	25	42
Share-based payments	1,106	991
Movement on financial instruments	32	5,039
Other non-deductible items	258	58
Effect of tax rates in foreign jurisdictions	38	36
Initial public offering costs	–	1,531
Research and development accounting	–	705
Deferred tax assets not brought to account – temporary differences (Note 11)	5,521	–
Deferred tax assets not brought to account – unused losses (Note 11)	2,328	–
	1,395	1,411
Adjustment recognised for prior periods	(2,839)	6
Income tax (benefit)/expense	(1,444)	1,417
Amounts credited directly to equity		
Deferred tax assets	(1,135)	(1,398)

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

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

7 Current assets – cash and cash equivalents

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

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

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

8 Loan receivables

	Consolidated	
	30 June 2020 \$'000	30 June 2019 \$'000
Current		
Loan receivables	254,174	250,260
Less: Allowance for expected credit losses (Note 18)	(28,190)	(15,140)
	225,984	235,120
Non-current		
Loan receivables	119,508	154,053
Less: Allowance for expected credit losses (Note 18)	(13,254)	(9,320)
	106,254	144,733
Total		
Loan receivables	373,682	404,313
Less: Allowance for expected credit losses (Note 18)	(41,444)	(24,460)
	332,238	379,853

9 Non-current assets – property, plant and equipment

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

10 Non-current assets – intangible assets

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

11 Non-current assets – deferred tax assets

Deferred taxes comprise temporary differences attributable to the following.

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

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

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

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

12 Borrowings

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

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

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

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

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

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

Securitisation trust notes

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

- (a) Is exposed to, or has rights to, variable equity returns in its capacity as the residual unit holder (or beneficiary as the case maybe) of these trusts;
- (b) In its capacity as the originator of loan receivables and the servicer of these loans on behalf of the trusts, has the ability to impact the variable equity returns; and
- (c) Is the sole subscriber to the Seller Notes issued by the trusts. These Seller Notes go towards maintaining the minimum equity contribution subordination buffer and funding non-conforming receivables. In addition to the Seller Notes, the Group's asset backed securitisation program includes multiple classes of Notes including Class A, Class B and Class C Notes which carry a floating interest rate. The facilities under the program have different expiry dates ranging from April 2021 to May 2022.

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

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

Assets pledged as security

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

	Consolidated	
	30 June 2020 \$'000	30 June 2019 \$'000
Loan receivables*	354,710	381,129

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

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

Financing arrangements

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

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

Funding costs

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

Interest rate cap

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

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

Changes in fair value are recognised in profit of loss.

13 Leases

Amounts recognised in the statement of financial position

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

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

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

The financial impact to the Group from adopting AASB 16 is detailed in [Note 1](#).

Amounts recognised in profit or loss

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

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

14 Equity – issued capital

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

Movements in ordinary share capital

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

Movements in treasury share capital

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

Ordinary shares

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

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

Treasury shares

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

15 Equity – reserves

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

Foreign currency reserve

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

Share option reserve

The reserve is used to recognise the value of equity benefits provided to employees and directors as part of their remuneration, and other parties as part of their compensation for services.

Re-organisation reserve

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

Consolidated	Foreign currency translation reserve \$'000	Re- organisation reserve \$'000	Cash flow hedge reserve \$'000	Share option reserve \$'000	Total \$'000
Balance at 1 July 2018	–	–	(104)	1,200	1,096
Foreign currency translation	14	–	–	–	14
Share-based payments	–	–	–	1,626	1,626
Capital buy-back	–	–	–	(1,284)	(1,284)
Expiry of interest rate cap	–	–	104	–	104
Group re-organisation on IPO	–	(432,968)	–	–	(432,968)
Balance at 30 June 2019	14	(432,968)	–	1,542	(431,412)
Foreign currency translation	(191)	–	–	–	(191)
Share-based payments	–	–	–	3,686	3,686
Tax benefit on re-organisation (Note 6)	–	724	–	–	724
Balance at 30 June 2020	(177)	(432,244)	–	5,228	(427,193)

16 Equity – accumulated losses

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

17 Equity – dividends

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

Financial risk management objectives

The Group's activities expose it to a variety of financial risks, primarily credit risk, market risk (including price risk, foreign currency risk and interest rate risk) and liquidity risk. The Group's risk management program focuses on understanding drivers of financial risk and seeks to minimise potential adverse effects on financial performance of the Group. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

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

These are discussed individually below.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk for the Group is concentrated in loan receivables.

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

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

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

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

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

Model stages

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

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

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

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

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

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

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

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

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

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

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

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

With respect to credit risk arising from the financial assets of the Group, comprised of cash and cash equivalents and loan receivables, the Group's maximum exposure to credit risk, excluding the value of any collateral or other security at balance sheet date is the carrying amount as disclosed in the statement of financial position and notes to the financial statements. The Group's credit risk on liquid funds is limited as the counterparties are major Australian banks with favourable credit ratings assigned by international credit rating agencies.

Loan receivable balances and portfolio performance are monitored on an ongoing basis. The Group establishes an allowance for loan impairment that represents its estimate of expected future losses in respect of loan receivables.

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

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

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

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

Measurement of Expected Credit Loss

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

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

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

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

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

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

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

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

Expected life

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

Significant Increase in Credit Risk (“SICR”)

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

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

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

Credit-impaired financial assets

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

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

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

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

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

Macroeconomic scenarios

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

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

Economic overlay

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

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

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

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

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

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

Write-offs

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

Modification of financial assets

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

Market risk

Market risk is the risk that changes in market prices such as interest rates will affect the Group's income or the value of holdings in its financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising returns.

Interest rate risk

The Group is exposed to interest rate risk because the Group borrows funds at both fixed and floating interest rates. The interest payable under the Trusts is linked to variable Benchmark Rates (in Australia, either BBSW or BBSY and in New Zealand the Bank Bill Market ("BKBM") rate). The risk is managed by the Group by the use of an interest rate cap contract. Hedging activities are evaluated regularly to align with interest rate views and defined risk appetite, ensuring the most cost-effective hedging strategies are applied. The fair value of the interest rate cap was determined as at 30 June 2020 by an independent valuation specialist. This was calculated to be less than \$0.01 million and has been assessed by the Group as immaterial.

Details of the Group's borrowing facilities are set out in [Note 12](#).

Interest rate sensitivity analysis

As at 30 June 2020, the borrowings of the Group were linked wholly to variable interest rates and we have conducted sensitivity analysis based on the exposure to interest rates for both derivatives and non-derivative instruments at the end of the reporting period. For floating rate liabilities, the sensitivity is prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. A 0.25% increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 0.25% higher/lower and all other variables were held constant, the Group's profit for the year ended 30 June 2020 would decrease/increase by \$0.8 million (30 June 2019: decrease/increase by \$0.8 million). This is attributable to the Group's exposure to interest rates on its variable rate borrowings.

Foreign currency risk

The Group pays certain overseas suppliers in foreign currency and is exposed to foreign currency risk through foreign exchange rate fluctuations. However, payments made in foreign currency are not of a significant value to have a material impact on the Group's result. Borrowings and loans receivables in relation to the Group's foreign operations are denominated in New Zealand Dollars, which is the functional currency of these subsidiaries. As such there is no material foreign currency risk to local operations.

Capital management

For the purpose of the Group's capital management, capital includes issued capital and all other equity reserves attributable to the equity holder of the parent. The Group's objective is to maintain a strong capital base so as to foster the support of its investors, funders and other business partners, and enable the future growth initiatives of the Group. The Board reviews these objectives periodically. There were no changes to the Group's approach to capital management in the period.

Liquidity risk

Liquidity risk is the risk the Group will not be able to meet its financial obligations as they fall due. The Group has a diversified funding model and currently comprises of a mix of securitisation warehouse facilities, equity and balance sheet cash.

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

Remaining contractual maturities

The following tables detail the Group's remaining contractual maturity for its financial instrument liabilities. The tables have been compiled based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

Consolidated – 30 June 2020	1 year or less \$'000	Between 1 and 3 years \$'000	More than 3 years \$'000	Remaining contractual maturities \$'000
Non-derivatives				
Non-interest bearing				
Trade and other payables	6,108	–	–	6,108
Interest-bearing				
Lease liability	2,458	5,541	1,683	9,682
Borrowings	9,580	317,209	–	326,789
Total non-derivatives	18,146	322,750	1,683	342,579

Consolidated – 30 June 2019

Non-derivatives				
Non-interest bearing				
Trade and other payables	6,687	–	–	6,687
Interest-bearing				
Borrowings	14,975	296,547	–	311,522
Total non-derivatives	21,662	296,547	–	318,209

Covenants

The Group has various financial and non-financial covenants under its Securitisation Trust financing facilities that can affect matters such as funding availability, repayments and the liabilities of the Group. Receivables funded within the Securitisation Trust facilities are tested at each drawdown for compliance with these covenants. If the Group's operating results deteriorate, including incurring significant losses, the Group may be unable to meet the covenants governing its indebtedness, which may require the Group to seek amendments, waivers of covenant compliance or alternative borrowing arrangements, or to reduce debt or raise additional equity.

19 Interests in subsidiaries and trusts

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

Name	Principal place of business/Country of incorporation	Ownership interest	
		30 June 2020	30 June 2019
Prosipa Advance Pty Ltd	Australia	100%	100%
Prosipa Trust Series 2015-1 Security Trust ¹	Australia	100%	100%
Prosipa Trust Series 2018-1 Security Trust ¹	Australia	100%	100%
Prosipa Trust Series 2018-2 Security Trust ¹	Australia	–	100%
Prosipa Trust Series Pioneer Security Trust ¹	Australia	100%	100%
Prosipa Trust Series Prosperity Security Trust ¹	Australia	100%	100%
Prosipa Finance Pty Ltd	Australia	100%	100%
Prosipa Innovations Pty Ltd ²	Australia	100%	100%
Prospatarian Pty Ltd ²	Australia	100%	100%
Prosipa NZ Limited ²	New Zealand	100%	100%
Prosipa Kea Trust Series-1 ²	New Zealand	100%	–

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

2 Ownership is through Prosipa Advance Pty Ltd.

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

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

20 Events after the reporting period

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

Prosipa is already an approved Participating Lender under the current Coronavirus SME Guarantee Scheme which was originally due to end on 30 September 2020. On 20 July 2020 the Federal Treasurer announced that the Scheme would be enhanced and extended to 30 June 2021 to support continued small business recovery. While the final terms of the extension are yet to be announced, the Group anticipates it will apply to be a Participating Lender under the extended Scheme.

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

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

No other matter or circumstance has arisen since 30 June 2020 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

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

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

22 Earnings per share

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