Appendix 4D

Half-year report

1. Company details

Name of entity:	Prospa Group Limited
ABN:	13 625 648 722
Reporting period:	For the half-year ended 31 December 2020
Previous corresponding period:	For the half-year ended 31 December 2019

The information contained in the half-year report should be read in conjunction with the Prospa Group Limited ("Prospa", the "Group" or the "Company") annual financial statements for the year ended 30 June 2020.

2. Results for announcement to the market

Statutory results summary

	31 December 2020 $'000	31 December 2019 $'000	Change $'000	Change %
Total income	52,170	71,451	(19,281)	(27%)
(Loss)/profit from ordinary activities after tax attributable to the owners of Prospa Group Limited	(3,243)	551	(3,794)	(689%)
Total comprehensive (loss)/income for the period attributable to the owners of Prospa Group Limited	(3,191)	610	(3,801)	(623%)

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary share	68.68	68.39

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

4. Control gained over entities

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

5. Dividends

The Group has not paid, and does not propose to pay dividends for the half-year ended 31 December 2020 (year ended 30 June 2020: $nil).

6. Details of associates and joint venture entities

The Group has not engaged in the acquisition or disposal of associates nor has it engaged in any joint ventures for the half-year ended 31 December 2020 or the previous corresponding period.

7. Review conclusion

This report is based on the financial statements for the half-year ended 31 December 2020. The financial statements have been subject to a review by an independent auditor and the review is not subject to qualification.

8. Signed

On behalf of the directors

Greg Moshal
Director and Chief Executive Officer

24 February 2021
Sydney

Gail Pemberton AO
Independent Director and Chairman

24 February 2021
Sydney

prospa

Half year Report

31 December 2020

Prospa Group Limited
ACN 625 648 722

Contents

"Prospa gave me that feeling of 'I don't have to worry as a business owner, and I don't have to press pause on my business goals'. My goal is to make sure we cover every square kilometre of New Zealand, and just build a great team of people around us."

John Lennox (pictured centre)
Auckland, New Zealand


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Directors' Report

"It was such a relief when Prospa decided to help us, because we were juggling a lot at the time. Prospa could help us out straight away – it's just been easy and helpful, when you feel like your business is stuck in a position waiting to take the next step, but you can't because of lack of funds. I'm proud of what we've achieved in the past five years, and Prospa has been there with us for a large part of that."

Kim and Frank
Queensland, Australia

Directors' Report

For the half-year ended 31 December 2020

The directors are pleased to present their report, together with the financial statements, on the consolidated entity (the "Group") consisting of Prospa Group Limited ("Prospa", the "Company" or "parent entity") and the entities it controlled at the end of, or during, the half-year ended 31 December 2020.

These interim financial statements do not include all the notes of the type normally included within the annual financial statements. Accordingly, they cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the Group as the annual financial statements ("Annual Financial Report"). It is recommended that the interim financial statements be read in conjunction with the Group's Annual Financial Report for the year ended 30 June 2020 and considered together with any public announcements made by the Group during the half-year ended 31 December 2020 and up to the date of this report.

Directors

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

Aviad Eyal

Beaumont Bertoli

Fiona Trafford-Walker

Gail Pemberton (Chairman)

Gregory Moshal

Gregory Ruddock

Mary Ploughman (Appointment announced on 22 February 2021, effective 1 March 2021)

Review of Operations

Principal activities

Prospa is an Australian fintech company that is Australia and New Zealand's #1 online lender to small businesses.[1] We design, build and utilise cloud-based, data rich and API-enabled technologies to deliver seamless customer experiences and a range of fast and flexible funding solutions.

Small businesses are critical to the Australian and New Zealand economies, yet they have historically been underserved by banks and traditional lenders. We are proud to have supported small businesses across Australia since 2012, and in New Zealand since 2018, and to have delivered over $1.8 billion in lending to date.[2] Our lending has a significant and positive economic impact and is estimated to have contributed up to $7.2 billion to nominal Australian GDP and maintained up to 102,600 FTE jobs.[3]

We have a multi-channel, scalable distribution network that includes direct customer acquisition and access to over 10,000 distribution partners, including finance brokers, aggregator networks, online affiliates, accountants and other advisers.

Prospa's products are typically used to fund small businesses' working capital requirements and growth opportunities. Our core product, the Small Business Loan, is an amortising fixed term loan, repayable in daily, weekly or monthly instalments. The average Small Business Loan amount in Australia is $36,000[4] with an average contractual term of 15.0 months. In New Zealand, the average Small Business Loan amount is NZ$30,000[5], with an average contractual term of 13.9 months. Our Line of Credit product is a re-drawable facility, which can be utilised for short term cash flow needs or unplanned expenses. Small businesses can complete an application on our platform in minutes, receive a credit decision within the same business day and, if successful, often have funds transferred within 24 hours.

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 6,192 reviews as at 23 February 2021. 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 791 reviews as at 23 February 2021. Prospa also reported the highest prompted and unprompted brand awareness for alternative lenders in research conducted by RFI Group, Australian SME Banking Council, September 2020.
2. Total originations to date from all sources, including Small Business Loan, Line of Credit (including undrawn amounts), Back to Business Loan, Back to Business Line of Credit (including undrawn amount) and ProspaPay; and all geographies including Australia and New Zealand.
3. Using Prospa lending to 31 December 2020. Source: RFI Group and The Centre for International Economics: "The Economic Impact of Prospa Lending to Small Business" (January 2019), commissioned by Prospa.
4. Average fresh capital originated, excluding re-financed amounts, in Australia for the period 1H21.
5. Average fresh capital originated, excluding re-financed amounts, in New Zealand for the 1H21 period.

Prospa's purpose-built Credit Decision Engine and regular data capture enables the business to quickly and proactively evaluate areas of both opportunity and potential stress across our portfolio, allowing us to rapidly scale to meet increased demand. Conversely, this has also allowed us to scale back lending in industries where emerging risks have been identified. Our risk assessment process is largely automated and underpinned by technology calibrated with data obtained from our proprietary Credit Risk DataMart.

During the period, we continued to make adjustments to our underwriting parameters and credit assessment model to reflect the changing macroeconomic environment as well as sensitivities in industry-specific small business trading models. We also used our data to develop insights into different industry sectors and geographies to continue to provide COVID-19 related relief packages to our customers in Australia and New Zealand, predominantly in the first quarter of the financial year (1Q21).

Prospa is ranked #1 in the Non-bank Financial Services category in both Australia and New Zealand on independent review site TrustPilot[6] and has a Net Promoter Score in excess of 77.[7] During the period, we were named Fintech Lender of the Year for the third year in a row at the MFAA National Excellence Awards 2020, achieving a clean sweep across all states and territories. Prospa also won the Excellence in Business Lending Award 2020 at Australia's most prestigious Fintech Business Awards, The Finnies.

At the beginning of FY21, we embarked on a strategic review of our portfolio and capabilities through customer research, close monitoring of the competitive environment and microeconomic and macroeconomic trends in local and global markets. The significant work undertaken by the Group over this period has allowed us to strengthen our core business and create on-going capacity for investment in the technology and capabilities we need for the future. As a result, Prospa will continue to increase investment in its people, its business and its technology to enable the business to scale new credit products faster and more efficiently.

The long-term vision of the Group is to further enhance our product set to include an integrated suite of cashflow management products, allowing us to play a more integral and broader role in the payments and transactions within our customers' businesses. We will provide the market with a more detailed update on strategy at the end of the financial year.

Financial overview

Total originations for the half were $180.7 million, a 41.1% decline on the prior corresponding period (1H20: $306.8 million), as small business demand remained below pre-pandemic levels and we saw significantly lower contribution from Victoria due to the region's extended lockdown. Within this result, originations grew strongly month on month since the original onset of COVID-19 with originations growing 265.3% from 4Q20 to 1Q21 and a further 25.9% from 1Q21 to 2Q21, demonstrating that demand for capital is increasing.

Quarterly originations

1Q20	2Q20	3Q20	4Q20	1Q21	2Q21
$130.0m	$176.8m	$122.2m	$21.9m	$80.0m	$100.7m

Our New Zealand operations performed strongly with originations of A$24.0 million, down 11.1% on the prior corresponding period (1H20: $75.7 million), a result of the ongoing robust performance of the economy post lockdown. We recorded our highest monthly originations in New Zealand to date in December 2020 and have now surpassed $100.0 million in loans originated in the country.

Total income (before transaction costs) of $55.7 million was a decrease of 26.4% on the prior corresponding period (1H20: $75.7 million). Our deliberately restrained risk appetite at the height of the pandemic (particularly during 4Q20) has resulted in lower average gross loans and revenue in this half compared to the prior corresponding period.

Active yield management has led to overall portfolio yield returning towards levels achieved during 1H20.

Realised portfolio yield per quarter, annualised

1Q20	2Q20	3Q20	4Q20	1Q21	2Q21
37.1%	33.6%	32.1%	27.5%	31.8%	33.3%

6. 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 6,192 reviews as at 23 February 2021. 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 791 reviews as at 23 February.
7. Average for the period 1 July 2020 to 31 December 2020.

The number of active customers of 11,300 was down on the prior half (2H20: 13,300[8]) in line with average gross loans, a result of lower customer acquisition at the height of the pandemic and customers with outstanding loans finishing their repayments.

Net loss after tax was $3.2 million (1H20 profit: $0.6 million). Lower income in this half was largely offset by a 31.6% reduction in total employee and operating expenses ($29.0 million in 1H21 compared to $42.4 million in 1H20) as a result of streamlining the business in response to COVID-19.

Cash and funding

We remain well funded to support our activities, with a strong balance sheet and committed funding lines from a diverse range of domestic and international senior and junior funders.

Net cash from operating activities was $13.0 million in 1H21, compared to $14.0 million in 1H20. This excludes the impact of bad debts written off during 1H21 of $17.5 million (1H20: $16.7 million), which is included in the net movement in receivables.

Cash and cash equivalents[9] grew to $110.9 million at 31 December 2020 (30 June 2020: $110.3 million). This includes unrestricted cash of $47.0 million (30 June 2020: $55.3 million), a decrease of $8.3 million in the six months to 31 December 2020.

As at 31 December 2020, we had $420.3 million in available third-party facilities including available undrawn facilities of $120.6 million.

Funding costs of $8.1 million in 1H21 represented a decrease of 13.8% on the prior corresponding period due to lower average drawn notes. The average funding cost rate was maintained (1H21: 5.4% per annum compared to 1H20: 5.4% per annum).

Loan impairment and operating expenses

In the period, we continued to proactively manage credit risk on new lending, leveraging data, industry insights and our purpose-built credit decision engine to lend within the Board's mandated 4-6% stable static loss rate tolerance. Loss indicators on the existing portfolio including COVID-19 affected customers were reviewed daily.

Loan impairment expense fell to $10.9 million, a decrease of 22.7% on the prior corresponding period. This was caused by a 25.5% reduction in gross loan receivables compared to 1H20. Of the total provision percentage, the standard modelled provision percentage reduced from 6.3% at 30 June 2020 to 5.7% at 31 December 2020, whilst the forward looking economic overlay marginally fell from 4.8% to 4.7%.

As a result of improving economic and trading conditions, Prospa's COVID-19 offer of a deferral period for customers has now concluded. The remaining customers have either resumed payment or are now being worked with on a case by case basis through our standard collections processes. As at 31 December 2020, any expected losses from this group are adequately covered within Prospa's provisions for expected credit losses.

Summary of provision for expected credit losses:

	1H20	2H20	1H21
Gross receivables	$458.8m	$373.7m	$341.7m
Total Provision	5.9%	11.1%	10.4%
Modelled Provision	5.2%	6.3%	5.7%
Economic Overlay	0.7%	4.8%	4.7%

Employee and operating expenses were $29.0 million for the half, a decrease of 31.6% from 1H20 and a result of Management's tight focus on costs. Included in Employee expenses was a $2.7 million benefit from the Australian Government JobKeeper Payment subsidy.

Refer note 1 in the financial statements for further information on JobKeeper.

8. Total active customers was 13,300 as at 30 June 2020.
9. 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. This applies to all references to cash and cash equivalents in this document.

Capital management

In August 2020, we allocated $63 million of the Australian Office of Financial Management ("AOFM") approved $90 million investment through the Structured Finance Support Fund ("SFSF") under the Structured Finance Support (Coronavirus Economic Response Package) Act 2020 into an existing warehouse increasing our overall funding capacity.

We continued to provide our customers with loans under the Federal Government's Coronavirus SME Guarantee Scheme with a Government-backed guarantee of 50% against the outstanding facility balance of eligible products until September 2020.

In November 2020, we extended the term of our NZ Warehouse facility for a further 3 years to September 2023. Post the initial government mandated restrictions on activity, trust utilisation has progressively increased as market conditions in NZ have materially improved.

In December 2020, we exercised our call option on the Moody's Rated 2018-1 Term Issuance and repaid all the third party held Rated Notes in full. The Trust holds assets that are funded 100% by Prospa.

In December 2020, we also established a new warehouse (Propela Trust) through the allocation of the remaining $27 million of the $90 million SFSF allocation by the AOFM. The purpose of establishing the new Trust was to provide management with optionality to expand funding to support the growth in the loan portfolio as the economic recovery continues.

Senior management changes

In September 2020, we appointed Ross Aucutt as Chief Financial Officer, replacing Peter Loosmore, Prospa's interim CFO since January 2020.

Ross joined Prospa from FlexiGroup Limited where he was CFO for almost four years. In that role, he built a high performing finance team and was responsible for driving growth whilst significantly increasing the efficiency of business processes and the balance sheet. His role there encompassed management of financial planning and analysis, capital management and treasury as well as M&A.

New Director appointment

On 22 February 2021 we announced the appointment of independent Non-Executive Director, Mary Ploughman, to our Board, effective 1 March 2021.

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

Post balance date events

Other than the appointment of Mary Ploughman mentioned above, there have been no material items, transactions or events subsequent to 31 December 2020 which relate to conditions existing at that date and which require comment or adjustment to the figures dealt with in this report.

Rounding of amounts

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

Auditor's independence declaration

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

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

On behalf of the directors:

Greg Moshal
Director and Chief Executive Officer

Gail Pemberton AO
Independent Director and Chairman

24 February 2021, Sydney

Deloitte.

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

24 February 2021

Dear Board Members

Auditor's Independence Declaration to Prospa Group Limited

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

As lead audit partner for the review of the half year financial report of Prospa Group Limited for the half-year ended 31 December 2020, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

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

Yours faithfully

Deloitte. Touche. Tohmatsu.

DELOITTE TOUCHE TOHMATSU

Mark Lumsden
Partner
Chartered Accountants

Financial Report

For the half-year ended 31 December 2020

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Consolidated statement of profit or loss and other comprehensive income

For the half-year ended 31 December 2020

	Note	Consolidated 31 December 2020 $'000	Consolidated 31 December 2019 $'000
Income			
Interest income	4	49,148	65,596
Other income	5	3,022	5,855
Total income		52,170	71,451
Funding costs	6	(8,146)	(9,398)
Gross profit		**44,024**	**62,053**
Expenditure			
Loan impairment expense	7	(10,902)	(14,133)
Employee expenses	8	(16,466)	(22,360)
Operating expenses	8	(12,476)	(20,048)
Share-based payments	22	(3,241)	(1,242)
Depreciation		(1,422)	(1,520)
Amortisation		(1,496)	(1,255)
Interest on lease liabilities	6	(248)	(280)
Fair value loss on financial instruments		–	(100)
Total expenditure		(46,251)	(60,938)
(Loss)/profit before income tax expense		**(2,227)**	**1,115**
Income tax expense	9	(1,016)	(564)
(Loss)/profit after income tax expense for the half-year attributable to the owners of Prospa Group Limited		**(3,243)**	**551**
Other comprehensive income			
Foreign currency translation		52	59
Other comprehensive income for the half-year, net of tax		52	59
Total comprehensive (loss)/income for the half-year attributable to the owners of Prospa Group Limited		**(3,191)**	**610**

	Cents	Cents
Basic earnings per share	(2.32)	0.34
Diluted earnings per share	(2.32)	0.34

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

Consolidated statement of financial position

As at 31 December 2020

	Note	Consolidated 31 December 2020 $'000	30 June 2020 $'000
Assets			
Current assets			
Cash and cash equivalents	10	110,863	110,319
Loan receivables	11	154,677	225,984
Bank deposits		1,095	1,091
Income tax		40	637
Prepayments and other assets		1,870	1,947
Total current assets		268,545	339,978
Non-current assets			
Loan receivables	11	151,496	106,254
Property, plant and equipment	12	1,037	1,510
Right-of-use assets	13	5,848	6,796
Intangible assets	14	8,239	7,826
Deferred tax assets		10,010	10,854
Total non-current assets		176,630	133,240
Total assets		**445,175**	**473,218**
Liabilities			
Current liabilities			
Trade and other payables		5,937	6,108
Borrowings	15	14,282	9,580
Leases	13	2,146	1,992
Employee benefits		4,027	2,236
Total current liabilities		26,392	19,916
Non-current liabilities			
Borrowings	15	283,668	317,209
Lease liabilities	13	5,548	6,666
Employee benefits		482	404
Total non-current liabilities		289,698	324,279
Total liabilities		**316,090**	**344,195**
Net assets		**129,085**	**129,023**
Equity			
Issued capital	16	610,663	610,651
Reserves	17	(423,900)	(427,193)
Accumulated losses		(57,678)	(54,435)
Total equity		**129,085**	**129,023**

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

Consolidated statement of changes in equity

For the half-year ended 31 December 2020

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

Consolidated	Issued capital $'000	Reserves $'000	Accumulated losses $'000	Total equity $'000
Balance at 1 July 2020	610,651	(427,193)	(54,435)	129,023
Loss after income tax expense for the half-year	–	–	(3,243)	(3,243)
Other comprehensive income for the half-year, net of tax	–	52	–	52
Total comprehensive (loss)/income for the half-year	–	52	(3,243)	(3,191)
Transactions with owners in their capacity as owners:				
Share-based payments	–	3,241	–	3,241
Share repurchase	(5)	–	–	(5)
Conversion of options	17	–	–	17
Balance at 31 December 2020	**610,663**	**(423,900)**	**(57,678)**	**129,085**

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

Consolidated statement of cash flows

For the half-year ended 31 December 2020

	Note	Consolidated 31 December 2020 $'000	Consolidated 31 December 2019 $'000
Cash flows from operating activities			
Customer income received		48,364	71,242
Other income received		3,286	3,191
Interest paid		(8,685)	(10,036)
Payments to suppliers and employees		(33,286)	(47,864)
Income tax refunded/(paid)		425	(2,555)
JobKeeper payments received		2,936	–
Net cash from operating activities		**13,040**	**13,978**
Cash flows from investing activities			
Net decrease/(increase) in loans advanced to customers		19,449	(65,136)
Payments for property, plant and equipment		–	(268)
Payments for intangibles		(1,908)	(2,607)
Net cash from/(used in) investing activities		**17,541**	**(68,011)**
Cash flows from financing activities			
Proceeds from borrowings		69,421	86,906
Repayment of borrowings		(98,505)	–
Principal repayment of lease liabilities		(965)	(799)
Proceeds from exercise of share options	22	17	599
Payments for share repurchase		(5)	–
Net cash (used in)/from financing activities		**(30,037)**	**86,706**
Net increase in cash and cash equivalents		544	32,673
Cash and cash equivalents at the beginning of the financial half-year		110,319	69,839
Cash and cash equivalents at the end of the financial half-year		**110,863**	**102,512**

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

Notes to the consolidated financial statements

For the half-year ended 31 December 2020

1. Significant accounting policies

Statement of compliance

These general purpose financial statements for the interim half-year reporting period ended 31 December 2020 have been prepared in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting.*

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

The principal accounting policies adopted are consistent with those of the previous period, except for the adoption of new and amended accounting standards which were effective as of 1 July 2020 and are set out below.

Basis of preparation

These financial statements cover Prospa Group Limited as a consolidated entity and incorporate the assets and liabilities of all subsidiaries of Prospa Group Limited (the "Company" or "parent entity") as at 31 December 2020 and the results of all subsidiaries and trusts for the half-year then ended. Prospa Group Limited and its subsidiaries and trusts together are referred to in these financial statements as the "Group" or "Prospa".

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

Where necessary, comparative information has been reclassified to be consistent with current period disclosures.

Critical accounting estimates

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

Going concern

The financial statements of the Group have been prepared on a going concern basis. The Board of Directors 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 28 February 2022. These demonstrate the Group will have access to sufficient liquid resources to meet forecast operational expenditure and loan originations over that period;
- The Group has access to unrestricted cash of $47.0 million as at 31 December 2020 (30 June 2020: $55.3 million); and
- The Group has $420.3 million in available third-party facilities at 31 December 2020 (30 June 2020: $442.9 million) including unused facilities of $120.6 million at 31 December 2020 (30 June 2020: $114.1 million).

Management and the Board are satisfied the Group will continue as a going concern. This conclusion is based on the items described above which include sufficient cash headroom, the ongoing support of our funding partners and the actions taken during the calendar year ended 31 December 2020 to reduce operating expenses.

Impact of COVID-19

The emergence of the COVID-19 pandemic during 2020 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 impact of the pandemic has also resulted in increased 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 recoverability of the Group's loan receivables as well as on new lending volumes.

Whilst the specific areas of judgment noted under critical accounting estimates in note 2 will not change, the impact of COVID-19 has resulted in the application of further judgement within some of the areas identified. The Group has assessed the impact of COVID-19 in preparing its financial statements and sets out the key financial statement areas impacted below.

Expected credit losses ("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 11.

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 31 December 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.

The 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. The valuation approach and estimation techniques adopted for the half year are consistent with those used as at 30 June 2020.

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

AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance*

JobKeeper Payment

In March 2020, the Government announced a temporary wage subsidy program to support businesses affected by COVID-19. This subsidy initially provided $1,500 before tax per fortnight for eligible employees over a six month period from 30 March 2020 to 27 September 2020. From 28 September 2020, the JobKeeper extension 1 came into force. This extension assessed eligible employees between two tiers depending on the number of hours worked per fortnight, providing $1,200 before tax per fortnight for eligible employees within Tier 1 and $750 before tax per fortnight for eligible employees within Tier 2.

Employers were eligible to participate in the subsidy during the initial JobKeeper period and during extension 1 if the turnover tests specified by the Government were met. The Group was an eligible recipient of JobKeeper and JobKeeper extension 1 and received the subsidy during the half-year ended 31 December 2020.

The subsidy has been recognised in profit or loss by reducing employee expenses and by reducing capital expenditure where eligible employee expenses are treated as an addition to software development (note 14) in accordance with AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance*. For the half-year ended 31 December 2020, the Group recorded a total benefit of $3.2 million under the JobKeeper Payment scheme. This has been reflected in the financial statements by reducing employee expenses by $2.7 million and by reducing additions to software development by $0.5 million to reflect benefits of the scheme received and receivable.

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 11 and where appropriate, are reduced by 50% to reflect the component covered by this Guarantee.

Adoption of new and revised Accounting Standards

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

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

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

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

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

2. Critical accounting judgements, estimates and assumptions

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

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

The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within subsequent reporting periods are discussed below.

Revenue recognition

The Group recognises revenue on loan receivables using the effective interest rate method (in accordance with AASB 9 *Financial Instruments*), based on estimated future cash receipts over the expected life of the financial asset. In making its judgement of the timing and amount of estimated future cashflows and expected life of the loan receivables balance, the Group has considered the historical repayment pattern of the loan receivables on a portfolio basis.

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

Allowance for expected credit losses

The allowance for ECL assessment requires a degree of estimation and judgement and is modelled using assumptions in relation to the ECL, including the assessment of significant increases in credit risk since initial recognition, recent loss experience, historical collection rates and forward-looking information and assessment of default. During the current period, the Group has also considered the impact of COVID-19 in measuring ECL. The actual credit losses in future years may be higher or lower.

Allowance for expected credit losses is further discussed in note 11.

Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted, the probability of non-market conditions being met and the likelihood of employees meeting tenure conditions.

The fair value is determined by using the Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

Share-based payments are further discussed in note 22.

Impairment of non-financial assets

At the end of each reporting period, the Group reviews its non-financial assets to assess whether there are any indications of impairment. In doing so, the Group considers both internal and external sources of information. If any indication of impairment is identified during this review, the Group determines the estimated recoverable amount of the asset and compares this to the carrying amount. Where the carrying amount is found to be higher, the asset is written down to its estimated recoverable amount.

The recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The Group typically determines recoverable amount by calculating the present value of the estimated future cash flows relating to the asset over a five-year period, at which point terminal value is assessed. Cash flows are then discounted to present value by applying a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs.

Income tax

The Group is subject to income taxes in the jurisdictions in which it operates. Significant judgement is required in determining the provision for income tax. Where the final tax outcome of these matters is different from the carrying amounts, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if the Group considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses. The extent to which deferred tax assets will be recoverable in the short term is assessed by the Group by comparing forecast taxable profits to existing deferred tax assets and unused tax losses.

3. Operating segments

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

4. Interest income

	Consolidated	
	31 December 2020 $'000	31 December 2019 $'000
Interest income	52,733	69,782
Transaction costs	(3,585)	(4,186)
	49,148	**65,596**

5. Other income

	Consolidated	
	31 December 2020 $'000	31 December 2019 $'000
Fee income	2,941	5,628
Bank interest	81	227
	3,022	**5,855**

Fee income is comprised of servicing fees and late fees.

6. Interest expense

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

	Consolidated	
	31 December 2020 $'000	31 December 2019 $'000
Funding costs	8,146	9,398
Interest on lease liabilities	248	280
	8,394	**9,678**

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

7. Loan Impairment expense

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

	Consolidated	
	31 December 2020 $'000	31 December 2019 $'000
Receivables written-off during the half-year as bad debts	17,507	16,736
Net movement in provision	(5,906)	2,706
Recoveries from debt sales	–	(4,680)
Recoveries	(634)	(610)
Difference due to exchange rate variance	(65)	(19)
	10,902	**14,133**

During the half-year ended 31 December 2019, Prospa entered into several Sale of Debt Agreements under which proceeds of $4.7 million were received by the Group. There were no Sale of Debt transactions for the half-year ended 31 December 2020.

8. Expenditure

Operating expenses for the half-year were $12.5 million (31 December 2019: $20.0 million).

	Consolidated	
	31 December 2020 $'000	31 December 2019 $'000
General and administration expense	5,026	6,459
Sales and marketing expense	4,633	10,550
IT expense	2,817	3,039
	12,476	**20,048**

Employee expenses for the half-year ended 31 December 2020 include a $2.7 million benefit in relation to the JobKeeper Payment subsidy (note 1) (31 December 2019: $nil).

9. Income tax

	Consolidated	
	31 December 2020 $'000	31 December 2019 $'000
Amounts recognised in profit or loss		
Current tax		
Current year	172	2,307
Adjustment recognised for prior periods	–	(40)
	172	(2,267)
Deferred tax		
Origination and reversal of temporary differences	844	(1,703)
Adjustment recognised for prior periods	–	–
	844	(1,703)
Aggregate income tax expense	**1,016**	**564**
Numerical reconciliation of income tax expense and tax at the statutory rate		
(Loss)/profit before income tax expense	(2,227)	1,116
Tax at the statutory tax rate of 30%	(668)	335
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Entertainment expenses	11	19
Share-based payments	972	405
Movement on financial instruments	–	30
Other non-deductible items	(14)	(185)
Deferred tax assets not brought to account – unused losses	1,449	–
Previously unrecognised deferred tax assets on temporary differences	(734)	–
	1,016	604
Adjustment recognised for prior periods	–	(40)
Income tax expense	**1,016**	**564**

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

The Group has a history of generating taxable profits. Whilst a tax loss has been incurred for the half-year ended 31 December 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 $4.8 million (30 June 2020: $5.5 million) 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 31 December 2020, the Group had unused tax losses of $12.8 million (30 June 2020: $8.1 million) for which no deferred tax asset has been recognised. This equates to a future tax benefit of $3.9 million (30 June 2020: $2.4 million).

10. Cash and cash equivalents

	Consolidated	
	31 December 2020 $'000	30 June 2020 $'000
Cash and cash equivalents - unrestricted	47,036	55,304
Cash and cash equivalents - restricted	63,827	55,015
	110,863	**110,319**

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

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

11. Loan receivables

	Consolidated	
	31 December 2020 $'000	30 June 2020 $'000
Current		
Loan receivables	172,631	254,174
Less: Allowance for expected credit losses	(17,954)	(28,190)
	154,677	225,984
Non-current		
Loan receivables	169,080	119,508
Less: Allowance for expected credit losses	(17,584)	(13,254)
	151,496	106,254
Total		
Loan receivables	341,711	373,682
Less: Allowance for expected credit losses	(35,538)	(41,444)
	306,173	**332,238**

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 borrower is a company. If the loan is greater than $100,000, the Group will also obtain a charge over assets from the borrower and guarantor. For loan receivables greater than $10,000 where the account exceeds 30 days past due, a caveat may be lodged against the guarantor. 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 31 December 2020, the Group had loan receivables of $2.7 million which are credit impaired but have not been fully written off by virtue of collateral held (30 June 2020: $3.4 million).

The Group is an approved Participating Lender to the current Coronavirus SME Guarantee Scheme. Under this Scheme, the Group has a Government-backed guarantee of 50% against the outstanding balance of eligible products. As at 31 December 2020, none of the loan receivables under the Scheme were credit impaired (30 June 2020: $nil).

The maximum exposure to credit risk at the reporting date to recognised financial assets is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the consolidated statement of financial position and notes to the financial statements. The Group has credit commitments of $39.9 million as at 31 December 2020 in relation to undrawn Line of Credit facilities (30 June 2020: $28.9 million).

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

Model stages

Under AASB 9, a three-stage approach is applied to measuring expected credit losses based on credit migration between the stages 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.
Stage 3	Financial assets that have objective evidence of impairment. For these assets, lifetime expected credit losses are recognised.

The following tables summarise loan receivables by stage and by risk category.

	Stage 1 $'000	Stage 2 $'000	Stage 3 $'000	Total $'000
Premium - 31 December 2020				
Loan receivables	131,808	8,515	3,007	143,330
Allowance for expected credit losses	(7,493)	(2,527)	(2,264)	(12,284)
	124,315	**5,988**	**743**	**131,046**
Non-premium - 31 December 2020				
Loan receivables	166,606	21,199	10,576	198,381
Allowance for expected credit losses	(10,319)	(6,871)	(6,064)	(23,254)
	156,287	**14,328**	**4,512**	**175,127**
Total - 31 December 2020				
Loan receivables	298,414	29,714	13,583	341,711
Allowance for expected credit losses	(17,812)	(9,398)	(8,328)	(35,538)
	280,602	**20,316**	**5,255**	**306,173**

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

The Group's loan receivables are typically settled prior to contractual date, so that the actual average life is less than 12 months. Accordingly, the staging transfer disclosures have not been provided.

Of the amount included in stage 3, $4.0 million relates to loan receivables against which specific provision has been made (30 June 2020: $8.3 million).

The movement in loan receivables during the half-year ended 31 December 2020 and the year ended 30 June 2020 is summarised below.

	Consolidated	
	31 December 2020 $'000	30 June 2020 $'000
Opening balance	373,682	404,313
Repayments made	(198,578)	(434,199)
Loans originated	176,253	448,173
Net movement in accrued interest and fees	7,861	(2,080)
Receivables written-off during the half-year/year as bad debts	(17,507)	(36,990)
Adjustment in relation to loan receivables review	–	(5,535)
	341,711	**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	
	31 December 2020 $'000	30 June 2020 $'000
Art and Lifestyle	6,421	8,535
Building and Trade	70,609	72,400
Financial Services	9,437	10,672
Hair and Beauty	10,765	13,164
Health	8,753	10,490
Hospitality	52,520	63,560
Manufacturing	20,940	23,680
Professional Services	63,543	69,290
Retail	59,576	62,734
Transport	10,124	10,044
Wholesaling	24,433	26,219
Other	4,590	2,894
	341,711	**373,682**

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

	Consolidated	
	31 December 2020 $'000	30 June 2020 $'000
Australian Capital Territory	4,643	5,080
New South Wales	100,745	107,699
Northern Territory	3,821	2,888
Queensland	61,583	70,945
South Australia	22,072	24,694
Tasmania	4,496	4,783
Victoria	78,538	93,334
Western Australia	30,567	34,591
New Zealand	35,246	29,668
	341,711	**373,682**

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 consolidated statement of financial position and notes to the financial statements. The Group's credit risk on liquid funds is limited as the counterparties are major Australian 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 half-year ended 31 December 2020 and the year ended 30 June 2020.

	Consolidated	
	31 December 2020 $'000	30 June 2020 $'000
Opening balance	41,444	24,460
Provisions recognised during the half-year/year in profit or loss	10,902	52,881
Receivables written-off during the half-year/year as bad debts	(17,507)	(36,990)
Adjustment in relation to loan receivables review	–	(5,535)
Recoveries from debt sales	–	5,892
Recoveries	634	772
Difference due to exchange rate variance	65	(36)
	35,538	**41,444**

The allowance for expected credit losses as a percentage of gross loan receivables has decreased from 11.1% as at 30 June 2020 to 10.4% as at 31 December 2020.

The reduction in the provision rate is driven largely by loans written off during the half-year which were reported and specifically provisioned within stage 3 at 30 June 2020. Stage 3 gross receivables have reduced to $13.6 million as at 31 December 2020 (30 June 2020: $31.2 million).

The allowance of 10.4% is comprised of 10.1% in relation to loan receivables and 0.3% for undrawn Line of Credit balances (30 June 2020: 10.9% and 0.2% respectively). The basis of calculation is described in more detail below.

Measurement of expected credit losses

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 ("PD"): the likelihood that a customer will default;
- Loss given default ("LGD"): 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 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 at 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.

In addition, the Group has made an assessment of assets that are not yet 30 days past due but have likely experienced a SICR. In making this assessment, we have considered the impact of the COVID-19 pandemic on the Group's customers, particularly those who received a deferral under the Group's COVID-19 related relief package.

Since the start of the COVID-19 pandemic in March 2020, a total of 5,727 customers across Australia were provided with assistance as part of this 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, the Group provided 792 customers with COVID-19 relief packages, typically full deferrals of 3-4 weeks' duration or a partial deferral of up to 50% of the typical repayment for 9 weeks.

As a result of improving economic and trading conditions, the Group's COVID-19 deferral period for customers has now concluded. The remaining customers have either resumed payment or are now being worked with on a case by case basis through the Group's standard collections process. As at 31 December 2020, any expected losses from this group are adequately covered within the Group's allowance for expected credit losses.

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	
	31 December 2020 $'000	30 June 2020 $'000
Loan receivables aged 0 to 30 days	319,294	326,798
Loan receivables aged 31 to 90 days	12,635	17,192
Loan receivables aged over 90 days	9,782	29,692
	341,711	**373,682**

Macroeconomic scenarios

Expected credit losses are a probability-weighted estimate of credit losses over the expected life of the financial instrument. The Group has a process for incorporating forward looking economic scenarios and determining the probability weightings assigned to each scenario in determining the overall ECL. The Group prepared a base, upside and downside scenario based on economic variables relevant to the respective jurisdictions of the customer, either Australia or New Zealand. Further information on each of these scenarios is described below. The Group has incorporated this into the overall allowance for expected credit losses 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 31 December 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 the potential for 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.

Although Australia and New Zealand are beginning to recover from the downturn experienced in 2020, the economic environment remains challenging for small businesses and as a result, in addition to the standard modelled provision as at 31 December 2020 of 5.7% (30 June 2020: 6.3%) we have set aside a further provision of 4.7% (30 June 2020: 4.8%) as a forward looking provision to arrive at a total expected credit loss as a percentage of receivables of 10.4% (30 June 2020: 11.1%).

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 definitions of each scenario and the weighting applied have been revised from 30 June 2020 as more recent data became available. The definitions of economic scenarios as at 31 December 2020 have been updated to reflect the current economy whilst also forming a basis for future stress testing. The following tables provide an overview of the scenarios considered as at 31 December 2020 and at 30 June 2020.

31 December 2020

Scenario	Weighting	Expectation
Upside	5%	This scenario reflects an economy that has recovered to pre-COVID-19 levels, for example international and domestic borders have opened, and supply chains are back to normal.
Baseline	50%	This scenario is considered the most likely macroeconomic outcome. The baseline scenario contemplates that business performance (benchmarked against revenue performance) continues to operate at the most current stable level. This assumes that recoveries remain stabilised for most businesses and select locations and that no material Government imposed restrictions are introduced.
Downside	45%	This scenario is the most conservative and is included to consider the impact of less likely but more severe negative macroeconomic conditions.

30 June 2020

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

Write-offs

The Group writes off loan receivables in whole or in part, when the loan is more than 180 days past due, has experienced 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. During the half-year ended 31 December 2020, loan receivables of $3.9 million were written off 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.

12. Property, plant and equipment

	Consolidated	
	31 December 2020 $'000	30 June 2020 $'000
Plant and equipment - at cost	4,457	4,457
Less: Accumulated depreciation	(3,420)	(2,947)
	1,037	**1,510**

13. Leases

Amounts recognised in the consolidated statement of financial position

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

	Consolidated	
	31 December 2020 $'000	30 June 2020 $'000
Right-of-use assets		
At cost	8,737	8,737
Less: accumulated depreciation	(2,889)	(1,941)
	5,848	**6,796**
Lease liabilities		
Current	2,146	1,992
Non-current	5,548	6,666
	7,694	**8,658**

Amounts recognised in profit or loss

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

	Consolidated	
	31 December 2020 $'000	31 December 2019 $'000
Depreciation		
Right-of-use-assets	948	978
Interest expense		
Interest on lease liabilities	248	280

14. Intangible assets

	Consolidated	
	31 December 2020 $'000	30 June 2020 $'000
Website - at cost	820	820
Less: Accumulated amortisation	(794)	(751)
	26	69
Software acquired – at cost	394	394
Less: Accumulated amortisation	(352)	(322)
	42	72
Software development (in-house) – at cost	15,953	14,045
Less: Accumulated amortisation	(7,782)	(6,360)
	8,171	7,685
	8,239	**7,826**

15. Borrowings

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

	Consolidated	
	31 December 2020 $'000	30 June 2020 $'000
Current		
Securitisation trust notes	15,209	10,451
Add: interest payable on trusts	110	50
Less: unamortised transaction costs on trusts	(1,037)	(921)
	14,282	9,580
Non-current		
Securitisation trust notes	284,552	318,394
Less: unamortised transaction costs on trusts	(884)	(1,185)
	283,668	317,209
Total borrowings	**297,950**	**326,789**

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

	30 June 2020	Cash flows	Non cash movements	31 December 2020
Securitisation trust notes	328,845	(29,084)	–	299,761
Add: interest payable on trusts	50	–	60	110
Less: unamortised transaction costs on trusts	(2,106)	(367)	552	(1,921)
	326,789	**(29,451)**	**612**	**297,950**

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

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

Securitisation trust notes

As at 31 December 2020, the Group had six 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:

i. 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;

ii. 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

iii. 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 September 2021 to June 2024.

Key events which took place in relation to the Group's borrowings during the half-year ended 31 December 2020 are outlined below.

- 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 Prospa Trust Series 2018-1 substitution period and ceased selling new loans into this Securitisation Trust. All rated notes held by external investors in the Moody's rated Prospa Trust Series 2018-1 were repaid during the half-year with Prospa exercising its call option.
- On 24 July 2020, the Group announced amendments to the warehouse facilities that fund the Group's small business loans and lines of credit 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, Prospa allocated $63 million of the AOFM's $90 million maximum investment to support the growth in its Line of Credit, and the "Back to Business" Small Business Loan and "Back to Business" Line of Credit products.
- On 25 November 2020, the Group established a new Australian funding structure, the Propela Trust, to support the growth in its Line of Credit and Small Business Loan products. The remaining $27 million of the AOFM's $90 million maximum investment has been allocated to this new warehouse. Prospa Group Limited has a 100% interest in the Propela Trust.

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	
	31 December 2020 $'000	30 June 2020 $'000
Loan receivables	336,668	354,710

The amount recognised above represents the carrying value of loan receivables held by the Group's Securitisation Trusts. This excludes loan receivables totalling $5.0 million held by Prospa Advance Pty Ltd as at 31 December 2020 (30 June 2020: $18.9 million).

Financing arrangements

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

	Consolidated	
	31 December 2020 $'000	30 June 2020 $'000
Total facilities		
Securitisation trusts	420,344	442,936
Used		
Securitisation trusts	299,761	328,845
Unused		
Securitisation trusts	120,583	114,091

Funding costs

The borrowings related to trusts are linked to floating interest rates. The weighted average funding cost for the half-year ended 31 December 2020 was 5.4% (31 December 2019: 5.4%).

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 through the use of interest rate cap contracts held with other independent financial institutions with a credit rating of A3 or higher. Hedging activities are evaluated regularly to align with interest rate views and defined risk appetite, ensuring the most cost-effective hedging strategies are applied.

Given the reduction in interest rates in 2020, the fair value of the interest rate cap was determined as being nil at 31 December 2020. These contracts had a fair value as at 30 June 2020 of less than $0.01 million.

Changes in fair value are recognised in profit or loss.

16. Equity – issued capital

	31 December 2020 Shares	30 June 2020 Shares	31 December 2020 $'000	30 June 2020 $'000
Ordinary Shares - fully paid	161,403,362	161,348,899	**610,663**	**610,651**
Treasury Shares - fully paid	447,075	1,538	—	—
	161,850,437	**161,350,437**	**610,663**	**610,651**

Treasury Shares

Where the Group reacquires its own equity instruments these are presented within Treasury Shares. These are recognised at cost and deducted from equity. Treasury shares also include new shares issued which are pending allocation under the Group's long-term incentive plan (note 22). Treasury Shares are converted to Ordinary Share Capital at such time as the employee exercises share options or performance rights vest. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

17. Equity – reserves

	Consolidated	
	31 December 2020 $'000	30 June 2020 $'000
Foreign currency reserve	(125)	(177)
Share option reserve	8,469	5,228
Re-organisation reserve	(432,244)	(432,244)
	(423,900)	**(427,193)**

18. Fair value of financial instruments

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

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

Interest rate cap

These derivative financial instruments are measured initially at fair value and carried subsequently at fair value through profit or loss. The fair value as at 31 December 2020 was nil (30 June 2020: < $0.01 million).

19. Contingent liabilities

The Group had no contingent liabilities as at 31 December 2020 or 30 June 2020.

20. Commitments

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

	Consolidated	
	31 December 2020 $'000	30 June 2020 $'000
Short term lease commitments - land and buildings		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	–	20
One to five years	–	–
Total minimum lease payments – land & buildings	**–**	**20**
Low value lease commitments - computer equipment		
Committed at the reporting date and recognised as liabilities, payable:		
Within one year	202	196
One to five years	99	78
Total minimum lease payments – computer equipment	**301**	**274**

The amounts included in lease commitments represent short term leases and leases assessed as low value by the Group. The Group has elected to apply the practical expedient available in AASB 16 *Leases* to account for these as an expense on a straight line basis over the period of the lease. The assessment of low value and short term leases is consistent with AASB 16.

21. Interests in subsidiaries

During the half-year ended 31 December 2020, the Group established a new warehouse facility in Australia. The Propela Trust was established on 25 November 2020 and is 100% owned by Prospa Group Limited.

22. Share-based payments

Share options

The employee long-term incentive plan ("LTIP") enables the Group to offer eligible employees options to subscribe for shares in the Company. The Group has previously provided Loan Shares to certain employees, which involve the purchase of shares in the Company, funded by loans from the Company, however the Group currently does not offer Loan Shares. The LTIP is designed to incentivise performance.

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

During the half-year ended 31 December 2020:

- No options were granted;
- 1,482,050 options were cancelled or forfeited; and
- 34,000 options were exercised and converted to shares for consideration of $0.02 million.

Total expense arising from share-based payment transactions for the half-year ended 31 December 2020 was $3.2 million (31 December 2019: $1.2 million).

Performance rights

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

Executive Incentive Plan ("EIP")

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

No rights were granted, exercised or forfeited under the EIP during the half-year ended 31 December 2020. Given business uncertainty and our focus on prudent cost management during the year ended 30 June 2020, Prospa elected at that time to suspend the EIP for FY21.

Non-Executive Director Equity Plan ("NEDEP")

The NEDEP allows non-executive directors to acquire rights, in lieu of some of their cash Board fees. The NEDEP is not subject to any performance or service conditions.

No rights were granted under the NEDEP during the half-year ended 31 December 2020 (30 June 2020: nil).

Employee Equity Plan ("EEP")

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

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

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

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

Vesting is also subject to continued employment until vesting date.

Rights under the EEP are issued for nil consideration and have no exercise price. The contractual term of the rights is 5 years. During the half-year ended 31 December 2020:

- 288,418 performance rights were granted; and
- 106,466 performance rights were cancelled or forfeited.

Details of performance rights granted under the EEP during the half-year ended 31 December 2020 are outlined below.

Grant date	Expiry date	Exercise price	Balance at the start of the period	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the period
12/08/2019	**n/a**	n/a	262,173	66,138	–	(17,199)	311,112
13/01/2020	**n/a**	n/a	193,223	–	–	(30,552)	162,671
12/07/2019	**n/a**	n/a	–	222,280	–	(58,715)	163,565

As at 31 December 2020, nil performance rights had vested (31 December 2019: nil).

23. Events after the reporting period

On 22 February 2021 we announced the appointment of independent Non-Executive Director, Mary Ploughman, to our Board, effective 1 March 2021.

No other matter or circumstance has arisen since 31 December 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.

Directors' Declaration

In the directors' opinion:

the attached financial statements and notes comply with the *Corporations Act 2001*, Australian Accounting Standard AASB 134 *Interim Financial Reporting*, the *Corporations Regulations 2001* and other mandatory professional reporting requirements;

- the attached financial statements and notes give a true and fair view of the Group's financial position as at 31 December 2020 and of its performance for the financial half-year ended on that date; and
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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

No matter or circumstance has arisen since 31 December 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.

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

On behalf of the directors

Greg Moshal
Director and Chief Executive Officer

Gail Pemberton AO
Independent Director and Chairman

24 February 2021
Sydney

Auditor's Report

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

Conclusion

We have reviewed the half-year financial report of Prospa Group Limited (the "Company") and its subsidiaries (the "Group"), which comprises the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration as set out on pages 10 to 36.

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

(a) giving a true and fair view of the Group's financial position as at 31 December 2020 and of its performance for the half-year ended on that date; and

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

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Half-Year Financial Report* section of our report. We are independent of the Group in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's review report.

Directors' Responsibilities for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2020 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

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

Deloitte. Touche. Tohmatsu.

DELOITTE TOUCHE TOHMATSU

Mark Lumsden
Partner
Chartered Accountants
Sydney, 24 February 2021

Corporate Information

Company Secretary

Ms Nicole Johnschwager

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Stock Exchange Listing

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

Auditor

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Solicitors

Herbert Smith Freehills
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