## 1. Company details

| | |
|---|---|
| Name of entity: | Prospa Group Limited |
| ABN: | 13 625 648 722 |
| Reporting period: | For the half-year ended 31 December 2023 |
| Previous period: | For the half-year ended 31 December 2022 |

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 2023.

## 2. Results for announcement to the market

### Statutory results summary

| | 31 Dec 2023 | 31 Dec 2022 | Change | Change |
|---|---|---|---|---|
| | $'000 | $'000 | $'000 | % |
| Total income | 137,371 | 127,777 | 9,594 | 8 |
| Profit/(Loss) after income tax attributable to the owners of Prospa Group Limited | 6,332 | (5,189) | 11,521 | 222 |
| Total comprehensive income/(loss) for the half-year attributable to the owners of Prospa Group Limited | 5,988 | (5,523) | 11,511 | 208 |

## 3. Net tangible assets

| | 31 Dec 2023 | 30 June 2023 |
|---|---|---|
| | Cents | Cents |
| Net tangible assets per ordinary security | 39.53 | 33.47 |

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

## 4. Entities over which control has been gained or lost

On 1 November 2023, the Group established the PROSPArous Trust 2024-1.

On 15 December 2023, Prospa exercised the Call Option under PROSPArous Trust 2021-1, redeeming all Notes and paying out the Noteholders.

There has been no further gain or loss of control of entities during the half-year ended 31 December 2023.

## 5. Dividends

The Group has not paid nor proposes to pay any dividends for the half-year ended 31 December 2023 (year ended 30 June 2023: $nil).

## 6. Associates and joint ventures

There has been no acquisition or disposal of associates, nor has the Group engaged in any other joint ventures during the half-year ended 31 December 2023 or the previous corresponding period.

## 7. Review conclusion

This Appendix 4D is based on the attached half-year financial report which the independent auditors, Deloitte Touche Tohmatsu, have reviewed. The review report is unqualified.

# Half-Year Report 31 December 2023

**Prospa Group Limited**
**ACN 625 648 722**

# Contents

The Directors present their report, together with the condensed financial statements, on the consolidated entity (referred to hereafter as the "Group") consisting of Prospa Group Limited ("Prospa" or "the Company") and the entities it controlled at the end of, or during, the half-year ended 31 December 2023.

## 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.

Avi Eyal
Beau Bertoli
Fiona Trafford-Walker
Gail Pemberton (Chair)
Greg Moshal
Mary Ploughman

## Review of operations

Established in 2012, Prospa is Australia and New Zealand’s #1 online lender to small business. The Company listed on the Australian Securities Exchange in 2019 and currently serves 20,900 active customers to help them unleash their potential and achieve their business goals.  Prospa has delivered over $3.9 billion in loans and facilities to more than 53,000 unique small business customers since inception.

Prospa engages with a network of more than 16,000 distribution partners, including finance brokers, aggregator networks, online affiliates, accountants and other advisers to facilitate referrals and customer acquisitions across Australia and New Zealand.

Prospa's growth strategy is to scale its credit product portfolio and deliver an all-in-one digitally enhanced experience for every small business owner, saving them time and providing real-time insights specific to their business.

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

Prospa continues to invest in technology, helping to facilitate digital and real-time enhancements, delivering faster approvals and driving greater operational efficiencies. This is combined with Prospa's dynamic risk-based pricing capability, where interest rates associated with a credit request are determined based on a robust credit risk assessment for each individual customer, within Prospa's risk appetite. This capability also enables Prospa to attract and credit assess premium businesses quicker, easier and with competitive offerings.

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

## Financial Overview

Prospa delivered originations of $308.3 million in 1H24, down 27.4% on the prior corresponding period ("pcp") (1H23: $424.8 million[1]), reflecting the deliberate tightening of credit risk settings. Line of Credit originations of $109.5 million were up 7.8% on pcp (1H23: $101.6 million).

New Zealand originations were down 32.3% on pcp to $63.0 million (1H23: $93.1 million). Line of Credit is seeing strong take-up in New Zealand, now representing 35.5% of originations in that country (1H23: 26.2%).

Closing gross loan receivables declined to $807.4 million, a decrease of 6.4% on the prior half (2H23: $862.2 million), with Line of Credit now $296.8 million (2H23: $268.1 million). Active customers rose 5.4% on pcp to 20,900.

Total income before transaction costs increased by 7.4% over pcp to $145.4 million (1H23: $135.3 million), aided by maintaining yield at 34.9% (1H23: 34.8%) in light of the tighter risk appetite, partially offsetting higher interest expense.

Due to the changing environment, Prospa has maintained targeted measures to drive higher credit quality across the portfolio. This has resulted in a reduction in customer approvals in certain sectors. The business has increased its focus on debt collection and recoveries, through increased investment in systems and people.

Provisioning for expected credit losses has decreased to 11.4% of closing gross loans at 31 December 2023 (FY23: 12.7%), with the movement driven by a reduction in the forward-looking economic overlay to 2.2% (FY23: 4.3%) offset by an increase in the base provision to 9.2% (FY23: 8.4%). Overall, the provision decreased by 1.3%, equating to a $17.5 million release. Of this reduction, $10.2 million was related to the lower provision rate and $7.3 million from the smaller loan book.

Whilst continuing to invest in product and technology, Prospa's operating cost base improved to 34.7% (1H23: 44.5%), measured using total employee and operating costs[2] as a percentage of total income before transaction costs. This demonstrates effective cost management discipline and the growing operating leverage in the business.

During the prior year, Prospa ceased capitalisation of technology investment when capitalisation requirements under its accounting policy were no longer met and undertook an impairment of the carrying value of assets (as required by AASB 136 Impairment of Assets). In the half-year to 31 December 2023, there has been no change to this approach and as a result there was no software capitalised in the period. The Board believes that the development of the software remains an appropriate and important use of shareholder capital, with a focus on building a stronger and more sustainable business in the long term. The Group will continue to monitor and account for its investment in technology and platform going forward in accordance with its accounting policy.

[1] Small retrospective changes in origination figures may occur as result of back dated cancellations or modifications to support customer outcomes.
[2] Total employee and operating costs represent all operating (profit and loss) and capital (intangible asset) expense in the period.

## Portfolio Management & Funding

Bad debts net of recoveries at $53.7 million are up 98.9% on pcp (1H23: $27.0 million) but are flat on the prior half (2H23: $54.0 million). As a % of average gross loans, they increased to 12.9% (annualised) (2H23: 12.5%), reflecting the reduction in the gross loans over the period.

As interest rates rose over the period, Prospa's cost of funds[3] increased to 9.7% for the first half of FY24 (1H23: 6.1%), causing the Net Interest Margin ("NIM")[4] to reduce to 26.1% (1H23: 29.3%).

On 7 July 2023, Prospa announced the establishment of a $12 million corporate debt facility to support and provide an additional proactive liquidity option. The proceeds of this loan have not been actively used in the business, and the loan is repayable in full on 7 July 2024.

At 31 December 2023, total cash on balance sheet was $117.2 million, of which $42.9 million was unrestricted including the fully drawn corporate debt facility (FY23: $96.9 million total, $25.8 million unrestricted). Prospa had access to $858.9 million of secured funding facilities, of which $114.2 million was undrawn.

On 15 December 2023, Prospa exercised its option to call the PROSPArous Trust 2021-1, its inaugural term ABS issuance, which was the first of its kind in the Australian market. Prospa intends to undertake its third term ABS in 2H24 as part of its programmatic approach to this market.

## Post balance date events

On 24 January 2024 the Group announced that it had entered into an agreement to acquire the Zip Business loan portfolio from Zip Business Pty Ltd ("Zip") for $15.6 million funded using Prospa's existing warehouse funding arrangements. The acquisition comprised all of Zip's remaining performing Australian business loans, equivalent to $18.4 million of commercial loans.

On 26 February 2024 the Group entered into a Scheme Implementation Deed with a consortium led by Salter Brothers ("Salkbridge" or the "Consortium"), under which 100% of Prospa shares would be acquired under a Scheme of Arrangement. The Scheme is subject to various conditions, including approval by Prospa Shareholders. Please refer to the announcement and the Scheme Implementation Deed attached to it for further information on the transaction (see https://investor.prospa.com/investor-centre/).

There have been no other significant events from 31 December 2023 to the date of signing 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 Corporation's Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

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[3] Cost of funds is equal to interest expense divided by average funding debt, annualised. Cost of funds is non-IFRS information.
[4] NIM is equal to (revenue less interest expense) divided by average gross loans, annualised. NIM includes bank interest and referral income received, and is non-IFRS information.

## 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
Independent Director and Chair

26 February 2024
Sydney

Deloitte Touche Tohmatsu
ABN 74 490 121 060

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Sydney, NSW 2000
Australia

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26 February 2024

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

Dear Board Members,

## Auditor's Independence Declaration to Prospa Group Limited

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the directors of Prospa Group Limited 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 2023, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- The auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- Any applicable code of professional conduct in relation to the review.

Yours faithfully

DELOITTE TOUCHE TOHMATSU

Heather Baister
Partner
Chartered Accountant

**Prospa Group Limited**
**Condensed consolidated statement of profit or loss and other comprehensive income**
**For the half-year ended 31 December 2023**

| | Note | Consolidated half-year ended 31 Dec 2023 $'000 | 31 Dec 2022 $'000 |
|---|---|---|---|
| **Income** | | | |
| Interest income | 4 | 121,721 | 114,614 |
| Other income | 5 | 15,650 | 13,163 |
| Total income | | 137,371 | 127,777 |
| Interest expense | 6 | (36,896) | (21,429) |
| Gross profit | | 100,475 | 106,348 |
| **Expenditure** | | | |
| Loan impairment expense | 7 | (36,298) | (56,612) |
| Employee expenses | | (31,889) | (27,596) |
| Operating expenses | 8 | (18,967) | (21,268) |
| Share-based payments | 21 | (1,801) | (2,088) |
| Depreciation | | (1,203) | (1,233) |
| Amortisation | | - | (3,710) |
| Corporate and lease interest expense | 6 | (1,317) | (125) |
| Total expenditure | | (91,475) | (112,632) |
| **Profit/(loss) before income tax (expense)/benefit** | | 9,000 | (6,284) |
| Income tax (expense)/benefit | 9 | (2,668) | 1,095 |
| **Profit/(loss) after income tax (expense)/benefit for the half-year attributable to the owners of Prospa Group Limited** | | 6,332 | (5,189) |
| **Other comprehensive income/(loss), net of income tax** | | | |
| Foreign currency translation | | 470 | 449 |
| Fair value (loss)/gain on cash flow hedge | | (680) | (535) |
| Fair value (loss)/gain on cost of hedging | | (134) | (248) |
| **Other comprehensive loss for the half-year, net of income tax** | | (344) | (334) |
| **Total comprehensive income/(loss) for the half-year attributable to the owners of Prospa Group Limited** | | 5,988 | (5,523) |
| Basic earnings/(loss) per share | | 3.89 | (3.19) |
| Diluted earnings/(loss) per share | | 3.89 | (3.19) |

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

**Prospa Group Limited**
**Condensed consolidated statement of financial position**
**As at 31 December 2023**

| | | Consolidated | |
|---|---|---|---|
| | **Note** | **31 Dec 2023** | **30 June 2023** |
| | | $'000 | $'000 |
| **Assets** | | | |
| Cash and cash equivalents | 10 | 117,200 | 96,944 |
| Bank deposits | | 1,370 | 41 |
| Loan receivables | 11 | 715,113 | 752,746 |
| Other financial assets | | 973 | 1,313 |
| Derivative financial assets | 12 | - | 656 |
| Prepayments and other assets | | 3,280 | 3,058 |
| Property, plant and equipment | | - | 67 |
| Right-of-use assets | 13 | 4,723 | 5,858 |
| Deferred tax assets | 9 | 36,047 | 38,280 |
| **Total assets** | | 878,706 | 898,963 |
| | | | |
| **Liabilities** | | | |
| Trade and other payables | | 5,499 | 9,981 |
| Employee benefits | | 8,137 | 9,640 |
| Lease liabilities | 13 | 5,966 | 7,262 |
| Borrowings | 14 | 757,848 | 779,120 |
| Derivative | 12 | 506 | - |
| **Total liabilities** | | 777,956 | 806,003 |
| **Net assets** | | 100,750 | 92,960 |
| | | | |
| **Equity** | | | |
| Issued capital | 15 | 610,949 | 610,949 |
| Reserves | 16 | (414,465) | (415,923) |
| Accumulated losses | | (95,734) | (102,066) |
| **Total equity** | | 100,750 | 92,960 |

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

**Prospa Group Limited**
**Condensed consolidated statement of changes in equity**
**For the half-year ended 31 December 2023**

| **Consolidated** | **Issued capital** $'000 | **Reserves** $'000 | **Accumulated losses** $'000 | **Total equity** $'000 |
|---|---|---|---|---|
| **Balance at 1 July 2022** | **611,808** | **(418,407)** | **(57,203)** | **136,198** |
| Loss after income tax expense for the half-year | - | - | (5,189) | (5,189) |
| Fair value loss on cash flow hedge reserve | - | (535) | - | (535) |
| Fair value loss on cost of hedging reserve | - | (248) | - | (248) |
| Foreign currency translation | - | 449 | - | 449 |
| Total comprehensive loss for the half-year | - | (334) | (5,189) | (5,523) |
| Share-based payment transactions: | | | | |
| Share-based payments | - | 2,088 | - | 2,088 |
| Share repurchase | (714) | - | - | (714) |
| *Balance at 31 December 2022* | 611,094 | (416,653) | (62,392) | 132,049 |

| **Consolidated** | **Issued capital** $'000 | **Reserves** $'000 | **Accumulated losses** $'000 | **Total equity** $'000 |
|---|---|---|---|---|
| Balance at 1 July 2023 | 610,949 | (415,923) | (102,066) | 92,960 |
| Profit after income tax benefit for the half-year | - | - | 6,332 | 6,332 |
| Fair value loss on cash flow hedge reserve | - | (680) | - | (680) |
| Fair value loss on cost of hedging reserve | - | (134) | - | (134) |
| Foreign currency translation | - | 470 | - | 470 |
| Total comprehensive income for the half-year | - | (344) | 6,332 | 5,988 |
| Share-based payment transactions: | | | | |
| Share-based payments (Note 21) | - | 1,802 | - | 1,802 |
| Share repurchase | - | - | - | - |
| Balance at 31 December 2023 | 610,949 | (414,465) | (95,734) | 100,750 |

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

**Prospa Group Limited**
**Condensed consolidated statement of cash flows**
**For the half-year ended 31 December 2023**

| | Consolidated half-year ended | |
|---|---|---|
| | **31 Dec 2023** | **31 Dec 2022 Restated*** |
| | **$'000** | **$'000** |
| **Cash flows from operating activities** | | |
| Interest received | 129,231 | 118,418 |
| Other income received | 8,481 | 10,204 |
| Interest paid | (34,874) | (21,271) |
| Payments to suppliers and employees | (64,982) | (60,346) |
| **Net cash provided by operating activities before movement in loans advanced** | 37,856 | 47,005 |
| Net decrease/(increase) in loans advanced to customers | 8,769 | (175,434) |
| **Net cash from/(used) in operating activities** | 46,625 | (128,429) |
| **Cash flows from investing activities** | | |
| Payment from other financial assets | 485 | - |
| Payments for intangibles | - | (10,656) |
| Other investing cash flows | (1,328) | (42) |
| **Net cash used in investing activities** | (843) | (10,698) |
| **Cash flows from financing activities** | | |
| Proceeds from corporate debt | 12,000 | - |
| Proceeds from borrowings | 31,565 | 208,126 |
| Repayment of borrowings | (68,134) | (48,812) |
| Principal repayment of lease liabilities | (1,298) | (1,193) |
| Payments for share repurchase | - | (714) |
| **Net cash (used)/from financing activities** | (25,867) | 157,407 |
| Net increase in cash and cash equivalents | 19,916 | 18,280 |
| Cash and cash equivalents at the beginning of the financial half-year | 96,944 | 105,767 |
| Effects of exchange rate changes on cash and cash equivalents | 340 | 926 |
| **Cash and cash equivalents at the end of the financial half-year** | 117,200 | 124,973 |

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

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

## 1. Significant accounting policies

### Statement of compliance

These general purpose financial statements for the interim half-year reporting period ended 31 December 2023 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 principal accounting policies adopted are consistent with those of the previous period.

### 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 2023, 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".

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 2023 and considered together with any public announcements made by the Group during the half-year ended 31 December 2023 and up to the date of this report.

The financial statements have been prepared under the historical cost convention, except for, where applicable, the revaluation of financial assets and liabilities at fair value through profit or loss, financial assets at fair value through other comprehensive income and loans and other receivables which are measured at amortised cost.

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

Comparatives are consistently presented with current period disclosures.

### Going concern

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

## 1. Significant accounting policies (continued)

- Budget and cash flow forecasts have been prepared, which extend to 30 June 2025. This demonstrates that the Group will have access to sufficient liquid resources to meet forecast operational expenditure and loan originations over that period.
- The Group has access to unrestricted cash of $42.9 million as at 31 December 2023 (30 June 2023: $25.8 million). Included in the $42.9 million unrestricted cash balance is the $12 million corporate debt facility established on 7 July 2023 to support and provide an additional proactive liquidity option. The proceeds of this loan have not been actively used in the business, and the loan is repayable in full on 7 July 2024.
- An increase in net cash provided by operating activities before movement in loans advanced for the year ended 31 December 2023 of $37.9 million (31 December 2023: $47.0 million).
- The Group has $861.6 million in available third-party facilities as at 31 December 2023 (30 June 2023: $921.4 million), including unused facilities of $114.2 million (30 June 2023: $140.1 million).

In addition to the information noted above, the following actions were initiated in FY23 and have continued during the half-year ended 31 December 2023 in response to the current economic environment.

- A focus on cost management with further cost reductions to follow.
- Management tightened credit risk settings and implemented targeted measures to manage credit performance across the portfolio.
- An increased focus on debt collection and recoveries through increased investment in systems and people.

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

### New or amended Accounting Standards and Interpretations adopted

New and revised Standards and amendments thereof and Interpretations issued by the Australian Accounting Standards Board (AASB) effective for the current year that are relevant to the Group include:

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

## 1. Significant accounting policies (continued)

- AASB 2021-2 Amendments to Australian Accounting Standards – Disclosure of Accounting Policies and Definition of Accounting Estimates.

During the period the International Sustainability Standards Board (ISSB) published the following sustainability reporting standards:

IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and IFRS S2 Climate-related Disclosures.

The Group will be required to comply under Group 2 of the standard. The Group acknowledges the growing importance of sustainability related disclosures and will consider the potential impacts of sustainability-related matters in advance of the standard adoption in the financial year commencing 1 July 2026.

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

### Reclassification

For the year ended 30 June 2023, the Group changed its accounting policy for the presentation of cash flows in relation to net increases in loans and advances to customers and reclassified these from cash flows from investing activities to cash flows from operating activities. As a result, the comparative period cash flows herein are reclassified. For further details, refer to the financial report for year ended 30 June 2023.

Where necessary, comparative information has been reclassified to be consistent with current period disclosures. This has resulted in $1.0 million in interest earned on cash deposits being reclassified in the prior period comparative information from other income to interest income.

## 2. Critical accounting judgements, estimates and assumptions

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

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

## 2. Critical accounting judgements, estimates and assumptions (continued)

It also requires management to exercise judgment in applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in the following notes:

- Note 9 Recoverability of deferred tax assets; and
- Note 11 Expected credit loss.

## 3. Operating segments

The Group's operations primarily provide loans to small businesses in Australia and New Zealand. The Group has considered the requirements of AASB 8 *Operating Segments* and assessed that the Group has only one operating segment, representing the consolidated results. The chief operating decision makers include the Non-Executive Directors, Chief Executive Officer, Chief Revenue Officer and Chief Financial Officer. They are responsible for allocating resources to the operating segment and assessing its performance.

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

| | Consolidated half-year ended | |
|---|---|---|
| | **31 Dec 2023** | **31 Dec 2022** |
| | **$'000** | **$'000** |
| Australia | 108,689 | 103,255 |
| New Zealand | 28,682 | 24,522 |
| | 137,371 | 127,777 |

The Group's loan receivables analysed by geography are disclosed in Note 11.

Other non-current assets arise predominantly within Australia.

## 4. Interest income

| | Consolidated half-year ended | |
|---|---|---|
| | 31 Dec 2023 | 31 Dec 2022 |
| | $'000 | $'000 |
| Interest income on lending portfolio | 127,362 | 121,205 |
| Transaction costs amortisation | (8,012) | (7,546) |
| Bank interest | 2,371 | 955 |
| | 121,721 | 114,614 |

## 5. Other income

| | Consolidated half-year ended | |
|---|---|---|
| | 31 Dec 2023 | 31 Dec 2022 |
| | $'000 | $'000 |
| Fee income - late fees | 10,991 | 9,787 |
| Fee income - subscription fees | 4,600 | 3,235 |
| Fee income - miscellaneous | 59 | 141 |
| | 15,650 | 13,163 |

Fee income is comprised of late fees (recognised for services transferred at a point in time), subscription fees (recognised for services transferred over time) and other income (consisting of referral fees and miscellaneous income).

## 6. Interest expense

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

| | Consolidated half-year ended | |
|---|---|---|
| | **31 Dec 2023** | **31 Dec 2022** |
| | $'000 | $'000 |
| Interest expense | 36,896 | 21,429 |
| Corporate and lease interest expense | 1,317 | 125 |
| | 38,213 | 21,554 |

Corporate interest expense includes $1.2 million which is the interest charged on the $12 million corporate debt facility that Prospa entered into in July 2023 (31 December 2022: $nil). The remaining corporate interest expense of $.09 million relates to interest on lease liabilities recognised in accordance with AASB 16 *Leases* (31 December 2022: $0.1 million).

## 7. Loan Impairment expense

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

| | Consolidated half-year ended | |
|---|---|---|
| | **31 Dec 2023** | **31 Dec 2022** |
| | $'000 | $'000 |
| Receivables written-off during the half-year as bad debts | 62,637 | 32,363 |
| Movement in provision (Note 11) | (17,451) | 29,593 |
| Recoveries | (8,888) | (5,344) |
| | 36,298 | 56,612 |

## 8. Operating expenses

| | Consolidated half-year ended | |
|---|---|---|
| | 31 Dec 2023 | 31 Dec 2022 |
| | $'000 | $'000 |
| General and administration expense | 5,794 | 4,629 |
| Sales and marketing expense | 7,185 | 9,963 |
| Product, design, technology and analytical expense | 5,988 | 6,676 |
| | 18,967 | 21,268 |

## 9. Income tax

| | Consolidated half-year ended | |
|---|---|---|
| | 31 Dec 2023 | 31 Dec 2022 |
| | $'000 | $'000 |
| *Amounts recognised in profit or loss* | | |
| **Current tax** | | |
| Current year | - | 6,203 |
| | | |
| **Deferred tax** | | |
| Origination and reversal of temporary differences | 3,237 | (7,298) |
| Adjustment recognised for prior periods | (569) | - |
| Aggregate income tax expense/(benefit) | 2,668 | (1,095) |
| *Numerical reconciliation of income tax expense/(benefit) and tax at the statutory rate* | 9,000 | (6,284) |
| | | |
| Tax at the statutory tax rate of 30% | 2,700 | (1,885) |
| | | |
| Tax effect amounts which are not deductible/(taxable) in calculating taxable income: | | |
| Entertainment expenses | 10 | 22 |
| Share-based payments | 540 | 626 |
| Other (non-taxable)/non-deductible items | (1) | 142 |
| Effects of tax rates in foreign jurisdictions | (12) | - |
| Amounts recognised for prior periods | (569) | - |
| Income tax expense/(benefit) | 2,668 | (1,095) |

Deferred tax assets and liabilities recognised by the Group are outlined below.

| | Consolidated | |
|---|---|---|
| | **31 Dec 2023** | **30 June 2023** |
| | **$'000** | **$'000** |
| Employee benefits | 2,039 | 2,262 |
| Provision for impairment of loan receivables | 27,688 | 32,843 |
| Property, plant and equipment, right-of-use asset and intangibles | 3,276 | 1,761 |
| General provisions and other | 99 | 103 |
| Capitalised borrowing costs | (129) | (768) |
| Derivative financial instruments | 152 | (197) |
| Unused losses | 3,380 | 2,745 |
| Difference on foreign exchange | (457) | (469) |
| Net deferred tax assets | 36,047 | 38,280 |

As at 31 December 2023, the Group has cumulative unused tax losses of $11.2 million (30 June 2023: $9.1 million), equating to a future tax benefit of $3.4 million (30 June 2023: $2.7 million). A deferred tax asset of $3.4 million has been recognised to reflect this (30 June 2023: $2.7 million).

Management has assessed the recoverability of the cumulative unused tax losses and the temporary timing differences as at 31 December 2023. Deferred tax assets relating to unused losses and deductible temporary differences are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised. Management has determined that sufficient profits will be available against which the deferred tax asset can be utilised. This assessment is based on the latest financial forecast. The Group is expected to generate taxable income from 2025 onwards.

## 10. Cash and cash equivalents

| | Consolidated | |
|---|---|---|
| | **31 Dec 2023** | **30 June 2023** |
| | **$'000** | **$'000** |
| Cash and cash equivalents – unrestricted | 42,866 | 25,770 |
| Cash and cash equivalents – restricted | 74,334 | 71,174 |
| | 117,200 | 96,944 |

## 10. Cash and cash equivalents (continued)

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 any excess income to residual unit holder each month after paying interest and fee expenses.

## 11. Loan receivables

| | Consolidated | |
|---|---|---|
| | **31 Dec 2023** | **30 June 2023** |
| | **$'000** | **$'000** |
| Loan receivables | 807,406 | 862,223 |
| Less: Allowance for expected credit losses | (92,293) | (109,477) |
| | 715,113 | 752,746 |

Of the total loan receivables, $548.7 million before Expected Credit Losses ("ECL") is expected to be repaid within 12 months of the reporting date (30 June 2023: $589.8 million), with the remainder to be collected after 12 months.

### 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 primarily in loan receivables.

The Group provides loans to businesses in the small business sector and has a framework and supporting policies for managing credit risk associated with its lending activities. The framework and policies encompass all stages of the credit cycle – origination, evaluation, approval, documentation, settlement, ongoing administration and collection activities. The Group has established criteria for making lending decisions, which can vary by industry segment, past credit performance and loan purpose. When establishing credit risk appetite and ongoing monitoring of exposure to credit risk, the Group focuses on key financial risk ratios, including interest coverage, debt serviceability and balance sheet structure.

When providing finance, the Group obtains security through personal guarantees from the borrower's directors if the borrower is a company. If the global exposure limit[5] of the customer is greater than $150,000, the Group will

[5] Global exposure limit refers to a customer's total exposure limit.

## 11. Loan receivables (continued)

also obtain a charge over assets from the borrower and guarantor if applicable. For loan receivables greater than $10,000 where the account exceeds 30 days past due, a caveat may be lodged against the guarantor.
Due to the changing environment, Prospa has maintained targeted measures to manage credit performance across the portfolio. This has led to a reduction in customer approvals in certain sectors. In addition, the business increased its focus on debt collection and recoveries, through increased investment in systems and people.
Expected loss provisioning has decreased to 11.4% of closing gross loans at 31 December 2023 (30 June 2023: 12.7%), with the movement driven by a reduction in the forward-looking economic overlay to 2.2% (30 June 2023: 4.3%) offset by a slight increase in the base provision to 9.2% (30 June 2023: 8.4%). The provision decreased by $17.5 million during the half-year ended 31 December 2023, and $10.2 million of this decrease was the 1.3% decrease in the provision coverage and $7.2 million from the smaller loan book.

The maximum exposure to credit risk at the reporting date of financial assets is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements. The Group has credit commitments of $163.7 million as at 31 December 2023 in undrawn Line of Credit facilities (30 June 2023: $123.4 million). The ECL in relation to these undrawn facilities is $6.6 million as at 31 December 2023 (30 June 2023: $4.2 million).

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

### Model stages

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

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

## 11. Loan receivables (continued)

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

| | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 |
| **Premium - 31 December 2023** | | | | |
| Loan receivables | 420,228 | 7,362 | 11,985 | 439,575 |
| Allowance for expected credit losses | (20,524) | (3,699) | (10,579) | (34,802) |
| | 399,704 | 3,663 | 1,406 | 404,773 |
| **Non-premium - 31 December 2023** | | | | |
| Loan receivables | 327,809 | 15,885 | 24,137 | 367,831 |
| Allowance for expected credit losses | (27,329) | (8,577) | (21,585) | (57,491) |
| | 300,480 | 7,308 | 2,552 | 310,340 |
| **Total - 31 December 2023** | | | | |
| Loan receivables | 748,037 | 23,247 | 36,122 | 807,406 |
| Allowance for expected credit losses | (47,853) | (12,276) | (32,164) | (92,293) |
| | 700,184 | 10,971 | 3,958 | 715,113 |

| | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 |
| **Premium - 30 June 2023** | | | | |
| Loan receivables | 405,453 | 11,812 | 8,861 | 426,126 |
| Allowance for expected credit losses | (18,646) | (5,354) | (7,088) | (31,088) |
| | 386,807 | 6,458 | 1,773 | 395,038 |
| **Non-premium - 30 June 2023** | | | | |
| Loan receivables | 379,019 | 27,982 | 29,096 | 436,097 |
| Allowance for expected credit losses | (34,898) | (16,691) | (26,800) | (78,389) |
| | 344,121 | 11,291 | 2,296 | 357,708 |
| **Total - 30 June 2023** | | | | |
| Loan receivables | 784,472 | 39,794 | 37,957 | 862,223 |
| Allowance for expected credit losses | (53,544) | (22,045) | (33,888) | (109,477) |
| | 730,928 | 17,749 | 4,069 | 752,746 |

## 11. Loan receivables (continued)

The following table illustrates the movement in loan receivables:

| | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 |
| Opening loan receivable balance (1 July 2023) | 784,472 | 39,794 | 37,957 | 862,223 |
| *Transfers* | | | | |
| Transfers from Stage 1 to Stage 2 | (21,036) | 21,036 | - | - |
| Transfers from Stage 1 to Stage 3 | (35,612) | - | 35,612 | - |
| Transfers from Stage 2 to Stage 1 | 5,001 | (5,001) | - | - |
| Transfers from Stage 2 to Stage 3 | - | (25,099) | 25,099 | - |
| Transfers from Stage 3 to Stage 1 | 668 | - | (668) | - |
| Transfers from Stage 3 to Stage 2 | - | 195 | (109) | 86 |
| Repayments made | (362,786) | (7,883) | (1,797) | (372,466) |
| Funds advanced | 374,831 | - | - | 374,831 |
| Net movement in accrued interest and fees | 2,499 | 205 | 2,665 | 5,369 |
| Receivables written off during the half-year as bad debts | - | - | (62,637) | (62,637) |
| Closing loan receivable balance (31 December 2023) | 748,037 | 23,247 | 36,122 | 807,406 |

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

## 11. Loan receivables (continued)

### Allowance for expected credit losses

Credit risk arising from the financial assets of the Group is limited to the carrying value of cash and cash equivalents, loan receivables, trade receivables and derivative financial instruments. The Group's maximum exposure to credit risk, excluding the value of any collateral or other security at reporting date, is the carrying amount disclosed in the consolidated statement of financial position and notes to the financial statements, plus any undrawn customer facilities. The Group's credit risk on cash and cash equivalents is limited and has been determined not to be material. The counterparties are major Australian and international banks with favourable credit ratings assigned by international credit rating agencies.

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

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

| | Stage 1<br>$'000 | Stage 2<br>$'000 | Stage 3<br>$'000 | Total<br>$'000 |
|---|---|---|---|---|
| Opening allowance for expected credit losses (1 July 2023) | 53,544 | 22,045 | 33,888 | 109,477 |
| *Transfers* | | | | |
| Transfer from Stage 1 to Stage 2 | (862) | 862 | - | - |
| Transfer from Stage 1 to Stage 3 | (1,459) | - | 1,459 | - |
| Transfer from Stage 2 to Stage 1 | 2,526 | (2,526) | - | - |
| Transfer from Stage 2 to Stage 3 | - | (12,677) | 12,677 | - |
| Transfer from Stage 3 to Stage 1 | 580 | - | (580) | - |
| Transfer from Stage 3 to Stage 2 | - | 95 | (95) | - |
| Provisions recognised during the half-year in profit or loss | (6,476) | 4,477 | 47,452 | 45,453 |
| Receivables written off during the half-year as bad debts | - | - | (62,637) | (62,637) |
| Closing allowance for expected credit losses (31 December 2023) | 47,853 | 12,276 | 32,164 | 92,293 |

## 11. Loan receivables (continued)

| | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 |
| Opening allowance for expected credit losses (1 July 2022) | 28,980 | 9,895 | 11,929 | 50,804 |
| Transfer from Stage 1 to Stage 2 | (1,823) | 1,823 | - | - |
| Transfer from Stage 1 to Stage 3 | (4,452) | - | 4,452 | - |
| Transfer from Stage 2 to Stage 1 | 1,029 | (1,029) | - | - |
| Transfer from Stage 2 to Stage 3 | - | (9,690) | 9,690 | - |
| Transfer from Stage 3 to Stage 1 | 87 | - | (87) | - |
| Transfer from Stage 3 to Stage 2 | - | 16 | (16) | - |
| Provisions recognised during the year in profit or loss | 29,723 | 21,030 | 104,433 | 155,186 |
| Receivables written off during the year as bad debts | - | - | (96,513) | (96,513) |
| Closing allowance for expected credit losses (30 June 2023) | 53,544 | 22,045 | 33,888 | 109,477 |

The total allowance for expected credit losses for loan receivables as a percentage of receivables has decreased from 12.7% of the gross receivables balance as at 30 June 2023 to 11.4% as at 31 December 2023.

### 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 by calculating the probability-weighted estimates of cash shortfalls over the expected life of the instrument.

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

- Probability of default (“PD”): the likelihood that a customer will default over a given time frame;
- Loss given default (“LGD”): the magnitude of the expected credit loss in the event of default; and
- Exposure at default (“EAD”): the estimated outstanding balance of the loan receivable at the time of default.

Internally developed statistical models derive these parameters based on historical portfolio information. The measurement of expected credit losses is a function of the probability of default, the loss given default and the exposure at default.

PD is calculated by assessing the probability of loan receivables progressing through successive stages of delinquency through to write-off. The LGD is estimated using historical loss rates adjusted for relevant and supportable factors for individual exposures, such as the customer's credit rating. EAD is modelled as a regression problem, using only defaulted contracts and is calculated using the credit conversion factor.

## 11. Loan receivables (continued)

Various other factors and forward-looking information are considered when calculating PD, LGD and EAD. Considerations include the potential for default due to economic conditions and the credit quality of the loan receivable.

### Expected life

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

### Significant Increase in Credit Risk ("SICR")

The Group considers a combination of qualitative and quantitative information when assessing whether a financial instrument has experienced a significant increase in credit risk. This includes:

- Loan receivables that are greater than 30 days past due (Stage 1 to Stage 2 transfer); and
- Collection status. For example, loan receivables in financial hardship. (Stage 1 to Stage 2 transfer).

### Credit-impaired financial assets (Stage 3)

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

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, 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 gross loan receivables by age.

## 11. Loan receivables (continued)

| | Consolidated | |
|---|---|---|
| | 31 Dec 2023 | 30 June 2023 |
| | $'000 | $'000 |
| Loan receivables aged 0 to 30 days | 754,847 | 795,646 |
| Loan receivables aged 31 to 90 days | 23,673 | 35,769 |
| Loan receivables aged over 90 days | 28,886 | 30,808 |
| | 807,406 | 862,223 |

### Macroeconomic scenarios

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

### Economic overlay

In addition to the standard base provision as at 31 December 2023 of 9.2% (30 June 2023: 8.4%), the Group has set aside an economic overlay of 2.3% (30 June 2023: 4.3%) as a forward-looking provision to arrive at a total expected credit loss as a percentage of gross loan receivables of 11.4% (30 June 2023: 12.7%).

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

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

## 11. Loan receivables (continued)

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 standard base provision. To the observed default data, consideration of forward-looking economic information is applied to appropriately reflect the difference between economic conditions over the period of historic observation, current economic conditions and the Group's view of economic conditions over the expected lives of the loan receivables.

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

The definitions of each scenario and the weighting applied have been revised from 30 June 2023 as more recent data became available. The definitions of forward-looking economic scenarios as at 30 June 2023 have been updated to reflect the current economy whilst also forming a basis for future stress testing. Acknowledging the different economies, different economic forecasts have been used across the Australian and New Zealand scenarios, as well as different weighting of these scenarios. The weights are determined concurrently across all scenarios with the following rationale.

- **Australia -** The scenario weights for the upside and downside scenarios, versus June 2023, have increased. However, the probability weight of the upside scenario, relative to the downside scenario has not changed, this reflects more uncertainty in Prospa's view of the economic outlook, but no change on whether the economy is likely to improve or deteriorate.
- **New Zealand** – All scenarios for New Zealand (Upside, Baseline and Downside) are reasonably pessimistic, with lower GDP growth than pre-COVID levels. However, Prospa has observed that the industry make-up of GDP is not representative Prospa's industry mix. Therefore, Prospa believes that at a micro level it's portfolio will perform better than the macroeconomy. This is reflected in the additional weighting of 10% to the upside in New Zealand when compared with Australia. The downside scenario is updated accordingly.

## 11. Loan receivables (continued)

The following tables provide an overview of the scenarios considered at 31 December 2023 and 30 June 2023.

| **31 Dec 2023**<br>**Scenario** | **Weighting** | **Expectation for Australian** | **Expectation for New Zealand** |
|---|---|---|---|
| Upside | AU – 20%<br>NZ – 30% | This scenario reflects an economy with stronger economic growth driven by relatively lower inflationary pressures. In this scenario, interest rates have already peaked and will be followed by cuts to interest rates in the second half of 2024. This is anticipated to increase disposable income spurring an increase in consumer spending. Gross domestic product is forecast to trend at historical pre-pandemic average with low fluctuations. | This scenario reflects a resilient and stronger outlook for the economy. Less interest-rate-sensitive factors like high net immigration and an increase in international tourism continue to add to demand. Cash rates are expected to ease in 2024. Consumer price inflation will ease gradually in 2024 as global commodity prices moderate. |
| Baseline | AU – 60%<br>NZ – 60% | This scenario is considered the most likely macroeconomic outcome. The baseline scenario inflation decreases gradually and moves towards the RBA's target, leading to interest rates decreasing gradually over second half of 2024. Gross domestic product is forecast to slowly move towards pre-pandemic level. | This scenario expects growth over 2024 to remain subdued. It reflects that macro-economic conditions remain stagnant with softer demand. Interest rates are expected to stay high to bring inflation to the Reserve Bank of New Zealand's target. |
| Downside | AU – 20%<br>NZ – 10% | This scenario reflects less likely but more severe negative macroeconomic conditions. In this scenario, interest rates are projected to increase further due to inflation staying constant at its level from December 2023.<br>Higher interest rates will continue to weigh on demand and consequently this scenario expects GDP growth to be slower and below trend over 2024. | This scenario reflects less likely but more pessimistic macro-economic conditions. Interest rates are forecasted to increase further with a weakening in the demand outlook. |

## 11. Loan receivables (continued)

**30 June 2023**

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

### Write-off policy

The Group writes off loan receivables in whole or in part when there is no longer any reasonable expectation of recovery. Indicators that there is no longer a reasonable expectation of recovery include when the loan is more than 180 days past due or where enforcement activity has ceased due to significant deterioration in collection status, for example, customers impacted by bankruptcy.

During the half-year ended 31 December 2023, loan receivables of $5.9 million (30 June 2023: $3.2 million) were written off but remain subject to enforcement activity by the Group.

Loan impairment expense is reported by the Group net of recoveries from debt sale agreements and internal recoveries. For the half-year ended 31 December 2023, recoveries were $5.2 million (30 June 2023: $11.5 million).

### Change in accounting estimates for write-offs

As a result of continued investment into collection activities, Prospa has experienced improved recoveries on loans in administration or liquidation loans previously fully written off at 30 days past due. Write-offs for loans in

## 11. Loan receivables (continued)

these circumstances now occur at 180 days past due. Consequently, receivables of $6.5 million which would previously have been derecognised continue to be recognised at 31 December 2023, with an associated ECL of $5.9 million.

### Loan receivables classification

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

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

| | Consolidated | |
|---|---|---|
| | 31 Dec 2023 | 30 June 2023 |
| | $'000 | $'000 |
| Art and Lifestyle | 18,244 | 18,674 |
| Building and Trade | 161,656 | 191,417 |
| Financial Services | 24,779 | 25,096 |
| Hair and Beauty | 25,736 | 26,970 |
| Health | 30,486 | 29,497 |
| Hospitality | 129,654 | 130,758 |
| Manufacturing | 48,266 | 50,106 |
| Professional Services | 157,562 | 162,301 |
| Retail | 139,475 | 146,683 |
| Transport | 19,042 | 23,460 |
| Wholesale | 43,457 | 47,352 |
| Other | 9,049 | 9,909 |
| | 807,406 | 862,223 |

## 11. Loan receivables (continued)

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

| | Consolidated | |
|---|---|---|
| | 31 Dec 2023 | 30 June 2023 |
| | $'000 | $'000 |
| Australian Capital Territory | 10,079 | 10,120 |
| New South Wales | 222,650 | 234,228 |
| Northern Territory | 367 | 6,772 |
| Queensland | 143,371 | 158,985 |
| South Australia | 44,668 | 48,215 |
| Tasmania | 11,761 | 11,569 |
| Victoria | 166,696 | 175,526 |
| Western Australia | 57,123 | 60,597 |
| New Zealand | 150,691 | 156,211 |
| | 807,406 | 862,223 |

### Modification of financial assets

The Group sometimes modifies the contractual agreement in respect of loan receivables provided to customers due to commercial renegotiations or for financially distressed customers to maximise recovery. Such restructuring activities include extended payment term arrangements, payment holidays and payment forgiveness. Restructuring policies and practices are based on indicators or criteria which, in management's judgement, indicate that payment will most likely continue. The Group has assessed loans restructured during the period and determined that no material modification gain or loss arose.

## 12. Derivative financial liability

The derivative contract in place at 31 December 2023 is outlined below.

| Contract | Start date | Maturity date | Initial Principal $ | Principal as at 31 December 2023 $ | Hedging ratio | Risk being hedged |
|---|---|---|---|---|---|---|
| Interest Rate Cap | 7 December 2022 | 18 June 2025 | 187,400,000 | 187,400,000 | 1:1 | Hedging movement in cash flow due to movement in base interest rate. |

During the half-year to 31 December 2023, an interest rate cap which commenced in September 2021 was settled.

### Cash flow hedges

The following table details information regarding interest rate cap contract outstanding at the end of the reporting period and its related hedged items.

| 31 December 2023 | Carrying amount of hedging instrument $'000 | Change in hedging instrument for the period $'000 | Change in hedged item $'000 | Settled portion of hedging instrument realised losses / (gain) net of tax $'000 | Hedging gain / (loss) recognised in cash flow hedge reserve net of tax $'000 | Cost of hedging reserve net of tax $'000 |
|---|---|---|---|---|---|---|
| Hedging instruments | (506) | (972) | 972 | (686) | 0 | (354) |

| 30 June 2023 | Carrying amount of hedging instrument $'000 | Hedging instrument $'000 | Hedged item $'000 | Settled portion of hedging instrument realised losses / (gain) $'000 | Hedging gain / (loss) recognised in cash flow hedge reserve net of tax $'000 | Cost of hedging reserve net of tax $'000 |
|---|---|---|---|---|---|---|
| Hedging instruments | 656 | (1856) | 1856 | (1370) | 680 | (221) |

## 12. Derivative financial liability (Continued)

The interest rate cap held by the Group is amortising in nature – the underlying Principal remains static for 12 months following start date and subsequently amortises in line with the expected cash collections from underlying loans.

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

The counterparty to the Group's interest rate cap is a major Australian bank with a Long Term Debt rating of AA3 assigned by Moody's.

## 13. Leases

Amounts recognised in the consolidated statement of financial position are shown below.

| | Consolidated | |
|---|---|---|
| | **31 Dec 2023** | **30 June 2023** |
| | **$'000** | **$'000** |
| Right-of-use assets | | |
| At cost | 14,128 | 13,945 |
| Additions | - | 180 |
| Less: accumulated depreciation | (9,405) | (8,267) |
| | 4,723 | 5,858 |
| | | |
| Lease liabilities | | |
| Current | 2,768 | 2,668 |
| Non-current | 3,198 | 4,594 |
| Total lease liabilities | 5,966 | 7,262 |

## 13. Leases (continued)

**Amounts recognised in profit or loss**

| | Consolidated | |
|---|---|---|
| | **31 Dec 2023** | **31 Dec 2022** |
| | $'000 | $'000 |
| Depreciation | | |
| Right-of-use-assets | 1,137 | 1,126 |
| Interest expense | | |
| Interest on lease liabilities | 92 | 125 |

## 14. 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 Dec 2023** | **30 June 2023** |
| | $'000 | $'000 |
| Securitisation trust notes | 747,444 | 781,680 |
| Corporate debt borrowings | 12,000 | - |
| Less: unamortised transaction costs on trusts and corporate debt | (1,596) | (2,560) |
| | 757,848 | 779,120 |

Securitisation trust notes includes $2.6 million of interest payable on the notes (30 June 2023: ($0.3) million).

The corporate debt borrowings of $12.0 million is repayable in full on 7 July 2024.

The weighted average duration of the availability period of the securitisation trust notes is 21 months (as at 31 December 2023).

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

## 14. Borrowings (continued)

| | 30 June 2023 | Cash flows | Non-cash movements | 31 Dec 2023 |
|---|---|---|---|---|
| Securitisation trust notes | 781,680 | (34,236) | - | 747,444 |
| Corporate debt borrowings | - | 12,000 | - | 12,000 |
| Less: unamortised transaction costs on trusts and corporate debt | (2,560) | 170 | 794 | (1,596) |
| | 779,120 | (22,066) | 794 | 757,848 |

| | 30 June 2022 | Net cash flows | Non-cash movements | 31 Dec 2022 |
|---|---|---|---|---|
| Securitisation trust notes | 643,244 | 159,315 | 917 | 803,476 |
| Less: unamortised transaction costs on trusts | (2,422) | (1,240) | 586 | (3,076) |
| | 640,822 | 158,075 | 1,503 | 800,400 |

Non-cash movements relate to the amortisation of transaction costs associated with the raising of the borrowing. In accordance with the effective interest rate method, initial transaction costs associated with establishing the financial liabilities are capitalised into the securitisation note balances, and subsequently amortised through interest expense in the consolidated statement of profit or loss. The cash flow in relation to the initial expenditure is captured within interest paid within the consolidated statement of cash flows.

**Securitisation trust notes**

As at 31 December 2023, the Group had five securitisation warehouses and one public Term ABS vehicle with a fourteen-month revolving facility. The Group regularly sells its loan receivables to these securitisation trust warehouses and the ABS vehicle whilst in its revolving period.

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 may be) of these trusts;

(ii) in its capacity as the originator of loan receivables and the servicer of these loans on behalf of the trusts, can impact the variable returns; and

(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 February 2024 to March 2026.

## 14. Borrowings (continued)

On 15 December 2023, Prospa exercised the Call Option under PROSPArous Trust 2021-1, redeeming all Notes and paying out the Noteholders.

### Assets pledged as security

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

| | Consolidated | |
|---|---|---|
| | 31 Dec 2023 | 30 June 2023 |
| | $'000 | $'000 |
| Loan receivables | 799,533 | 846,894 |

The amount recognised above represents the carrying value of loan receivables held by the Group's Securitisation Trusts. This excludes loan receivables totalling $7.9 million held by Prospa Advance Pty Ltd and Prospa NZ Limited as at 31 December 2023 (30 June 2023: $15.3 million).

### Financing arrangements

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

| | Consolidated | |
|---|---|---|
| | 31 Dec 2023 | 30 June 2023 |
| | $'000 | $'000 |
| **Total facilities** | | |
| Securitisation trusts | 861,622 | 921,418 |
| **Drawn** | | |
| Securitisation trusts | 747,444 | 781,340 |
| **Undrawn** | | |
| Securitisation trusts | 114,179 | 140,077 |

**Funding costs**

The borrowings related to trusts are linked to floating interest rates. The weighted average interest rate for the half-year ended 31 December 2023 was 9.7% p.a. (31 December 2022: 6.0% p.a.).

## 15. Issued capital

| | 31 Dec 2023 Shares | 30 June 2023 Shares | 31 Dec 2023 $'000 | 30 June 2023 $'000 |
|---|---|---|---|---|
| Ordinary Shares - fully paid | 163,674,936 | 163,358,745 | 611,168 | 611,168 |
| Treasury Shares - fully paid | 124,821 | 16,811 | (219) | (219) |
| | 163,799,757 | 163,375,556 | 610,949 | 610,949 |

### 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 are shares issued to the Employee Share Trust which are pending allocation under the Group's long-term incentive plan (Note 21). Treasury Shares may be transferred to an employee at such time as the employee exercises options or an employee's rights convert. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

## 16. Reserves

| | Consolidated | |
|---|---|---|
| | 31 Dec 2023 $'000 | 30 June 2023 $'000 |
| Foreign currency reserve | (520) | (990) |
| Share option reserve | 18,651 | 16,851 |
| Re-organisation reserve | (432,244) | (432,244) |
| Cash flow hedge reserve, net of tax | - | 680 |
| Cost of hedging reserve, net of tax | (354) | (220) |
| | (414,465) | (415,923) |

Cash flow hedging reserve is shown net of tax expense of $0.3 million (30 June 2023: $0.6 million) Cost of hedging reserve is shown net of tax expense of $0.2 million (30 June 2023: $0.1 million). See Note 9 for further tax expense detail.

## 17. Fair value of financial instruments

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

Where applicable, the Group's assets and liabilities are measured at fair value, using a three-level hierarchy based on the lowest level of input that is significant to the entire fair value measurement.

The fair value of the Group's derivative financial liability as at 31 December 2023 was $0.5 million (30 June 2023: Asset $0.7 million). These are considered to fall within level 2 of the fair value hierarchy which means they are measured using inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. The fair value of the interest rate cap has been determined using the regression analysis valuation method.

There were no transfers between levels during the financial half-year.

The Group has considered all financial assets and liabilities that are not carried at fair value to determine whether the carrying value is an accurate reflection of fair value. In doing so, the fair value of loan receivables with fixed interest rates has been analysed in light of recent interest rate rises and changes in pricing during the period where applicable. This indicates the carrying amount of loan receivables continues to be a reasonable approximation of fair value.

Based on this analysis and the variable rate arrangement of the Group's borrowings, the directors consider that the carrying amounts of financial assets and financial liabilities are a reasonable approximation of their fair values.

## 18. Guarantees and contingent liabilities

The Group has provided guarantees in respect of the leases over its premises of $1,327,384 (30 June 2023: $1,327,384). The Group had no contingent liabilities as at 31 December 2023 or arising since balance date.

## 19. Commitments

As at 31 December 2023, the Group had operating lease commitments of $0.1 million (30 June 2023: $0.2 million).

## 20. Interests in subsidiaries and trusts

On 1 November 2023, the Group established the PROSPArous Trust 2024-1.

On 15 December 2023, Prospa exercised the Call Option under PROSPArous Trust 2021-1, redeeming all Notes and paying out the Noteholders.

## 20. Interests in subsidiaries and trusts (continued)

There has been no further gain, or loss of control of entities during the half-year ended 31 December 2023.

## 21. Share-based payments

Total expense of share-based payment transactions for the half-year ended 31 December 2023 was $1.8 million (31 December 2022: $2.1 million).

### Share options

Non-Executive Director Equity Plan (NEDEP)

The NEDEP allows non-executive directors to acquire rights, options or restricted securities subject to the terms of the individual offers and any requirements for Shareholder approval. The share option granted required that the relevant non-executive director remains in such a role on the applicable vesting date, which falls on the 3-year anniversary of the grant date. The share options are not subject to any performance conditions and the exercise price was determined with reference to the volume weighted average share price prior to grant date.

During the half-year ended 31 December 2023:

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

Long Term Incentive Plan (LTIP)

The LTIP enabled the Group to offer eligible employees options to subscribe for shares in the Company. The Group has previously provided Loan Shares to certain employees, which involve purchasing shares in the Company, funded by loans from the Company. However, since 2017, the Group has ceased to offer new Loan Shares, with existing loan shares now in runoff.

The LTIP requires the holder to remain in 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 2023:

- No options were granted;
- 513,499 options were cancelled or forfeited;
- 212,592 options expired; and
- No options were exercised and converted to shares.

## 21. Share-based payments (continued)

### Employee Incentive Plan (EIP)

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

During the half-year ended 31 December 2023:

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

### Performance rights

Deferred KMP STI (Short Term Incentive)

The KMP Deferred STI was implemented in FY22 to defer 20% of the KMP's STI for 1 year. The Deferred STI is provided in the form of rights.
Performance conditions in relation to these rights are determined by the Board and are linked to both Group and individual performance. These awards vest one-year after the date of grant, following the release of the Company's annual results. Vesting is also subject to continued employment until vesting date.

Rights under the Deferred KMP STI are issued for nil consideration and have no exercise price. During the half-year ended 31 December 2023:

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

### Equity Incentive Plan (EIP)

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

## 21. Share-based payments (continued)

Rights under the EIP are issued for nil consideration and have no exercise price. During the half-year ended 31 December 2023:

- No Rights were granted;
- No Rights were cancelled or forfeited; and
- No Rights were exercised and converted to shares.

### 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 half-year results 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 half-year results as applicable) for the subsequent financial year.

Vesting is also subject to continued employment until vesting date.

Rights under the EEP are issued for nil consideration and have no exercise price. During the half-year ended 31 December 2023:

- No performance rights were granted;
- 39,993 performance rights were cancelled or forfeited; and
- 95,349 performance rights were automatically converted on vesting.

The Group has now ceased to offer new rights under the EEP which has been formally replaced by the Employee Long Term Incentive Plan (see below). All existing rights under the EEP are now in runoff.

### Employee Long Term Incentive Plan (ELP)

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

## 21. Share-based payments (continued)

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

Rights under the ELP are issued for nil consideration and have no exercise price. During the half-year ended 31 December 2023:

- 6,491,166 performance rights were granted;
- 692,141 performance rights were cancelled or forfeited; and
- 1,978,016 performance rights were automatically converted on vesting.

Details of performance rights granted under the ELP and movements in these rights during the half-year ended 31 December 2023 are outlined below.

| Grant date | Expiry date | Exercise Price | Balance at the start of the period | Granted | Exercised | Expired/ forfeited/ other | Balance at the end of the period |
|---|---|---|---|---|---|---|---|
| 22/10/2021[1] | n/a | n/a | 940,330 | - | (389,597) | (173,559) | 377,174 |
| 22/10/2021[2] | n/a | n/a | 1,129,394 | - | (367,250) | (57,275) | 704,869 |
| 24/10/2022[1] | n/a | n/a | 1,613,344 | - | (377,505) | (131,544) | 1,104,295 |
| 24/10/2022[2] | n/a | n/a | 2,430,448 | - | (513,135) | (162,420) | 1,754,893 |
| 15/11/2022[3] | n/a | n/a | 1,030,093 | - | - | - | 1,030,093 |
| 31/10/2023[1] | n/a | n/a | - | 900,000 | | | 900,000 |
| 31/10/2023[2] | n/a | n/a | - | 4,958,236 | (330,529) | (164,050) | 4,463,657 |
| 31/10/2023[5] | n/a | n/a | - | 600,000 | - | - | 600,000 |
| 31/10/2023[4] | n/a | n/a | - | 32,930 | | (3,293) | 29,637 |

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

These rights convert to shares over a three-year period with 25% vesting after year 1, 25% vesting after two years and 50% vesting after three years, subject to individual performance and continued employment. The vesting period is designed to align with the period over which the employee renders services to the Group and can therefore commence at any time during the financial half-year.

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

## 21. Share-based payments (continued)

These rights convert to shares over a two-year period with 50% vesting following the release of the companies FY24 full year financial results and 50% vesting following the release of the companies FY25 full year financial results.

These rights vested on 31/12/2023 and remain exercisable until 31/10/2026.

Amounts disclosed above are in relation to the quantity of equity instruments unless otherwise stated.

## 22. Events after the reporting period

On 24 January 2024 the Group announced that it had entered into an agreement to acquire the Zip Business loan portfolio from Zip Business Pty Ltd ("Zip") for $15.6 million funded using Prospa's existing warehouse funding arrangements. The acquisition comprised all of Zip's remaining performing Australian business loans, equivalent to $18.4 million of commercial loans.

On 26 February 2024 the Group entered into a Scheme Implementation Deed with a consortium led by Salter Brothers ("Salkbridge" or the "Consortium"), under which 100% of Prospa shares would be acquired under a Scheme of Arrangement. The Scheme is subject to various conditions, including approval by Prospa Shareholders. Please refer to the announcement and the Scheme Implementation Deed attached to it for further information on the transaction (see https://investor.prospa.com/investor-centre/).

There have been no other significant events from 31 December 2023 to the date of signing this report.

**Prospa Group Limited**
**Directors' declaration**
**For the half-year ended 31 December 2023**

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 2023 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.

On behalf of the directors

Greg Moshal
Director and Chief Executive Officer

Gail Pemberton
Independent Director and Chair

26 February 2024
Sydney

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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 "Group") and its subsidiaries (the "Group"), which comprises the consolidated condensed statement of financial position as at 31 December 2023, the consolidated condensed statement of profit or loss and other comprehensive income, the consolidated condensed statement of cash flows and the consolidated condensed statement of changes in equity for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration as set out on page 5.

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:

- Giving a true and fair view of the Group's financial position as at 31 December 2023 and of 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.*

*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 auditor independence requirements of the Corporations Act 2001 and 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 Group, 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 Group 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.

Deloitte.

*Auditor's Responsibilities for the Review of the Half-year Financial Report*

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 2023 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

Heather Baister
Partner
Chartered Accountants

Sydney, 26 February 2024