Prospectus 2019

Prospa Group Limited
ACN 625 648 722

Important Notices

The Offer

This Prospectus is issued by Prospa Group Limited ACN 625 648 722 ("Prospa Group" or the "Company") for the purposes of Chapter 6D of the Corporations Act 2001 (Cth) ("Corporations Act"). The Offer contained in this Prospectus is an initial public offering to acquire fully paid ordinary shares in the Company ("Shares"). See Section 7 for further information on the Offer.

Lodgement and listing

This Prospectus is dated 16 May 2019 ("Prospectus Date") and was lodged with the Australian Securities and Investments Commission ("ASIC") on that date.

The Company will apply to the Australian Securities Exchange ("ASX") within seven days after the Prospectus Date, for admission of the Company to the Official List and quotation of its Shares on ASX. None of ASIC, ASX or any of their respective officers takes any responsibility for the contents of this Prospectus or the merits of the investment to which this Prospectus relates.

Expiry Date

This Prospectus expires on the date which is 13 months after the Prospectus Date ("Expiry Date"). No Shares will be issued on the basis of this Prospectus after the Expiry Date.

Note to Applicants

The information contained in this Prospectus is not investment or financial product advice and has been prepared as general information only, without consideration for your particular investment objectives, financial situation or particular needs.

It is important that you read this Prospectus carefully and in full before deciding whether to invest in the Company.

In particular, you should consider the assumptions underlying the Pro forma Historical Financial Information and Pro forma Forecast Financial Information (see Section 4) and the risk factors that could affect the business, financial condition and financial performance of the Company. You should carefully consider these risks in light of your investment objectives, financial situation and particular needs (including financial and taxation issues) and seek professional advice from your accountant, financial adviser, stockbroker, lawyer or other professional adviser before deciding whether to invest in Shares. Some of the key risk factors that should be considered by prospective investors are set out in Section 5 of the Prospectus. There may be risk factors in addition to these that should be considered in light of your personal circumstances.

Except as required by law, and only to the extent required, no person named in this Prospectus, nor any other person, warrants or guarantees the performance of the Company, the repayment of capital by the Company or any return on investment in Shares made pursuant to this Prospectus.

No person is authorised to give any information or to make any representation in connection with the Offer which is not contained in this Prospectus. Any information or representation not so contained may not be relied on as having been authorised by the Company, the Directors, the Joint Lead Managers or any other person in connection with the Offer. You should rely only on information in this Prospectus.

Exposure Period

The Corporations Act prohibits the Company from processing Applications in the seven day period after the date of lodgement of the Prospectus ("Exposure Period"). The Exposure Period may be extended by ASIC by up to a further seven days. The purpose of the Exposure Period is to enable this Prospectus to be examined by market participants prior to the raising of funds. Applications received during the Exposure Period will not be processed until after the expiry of the Exposure Period. No preference will be conferred on Applications received during the Exposure Period.

No cooling-off rights

Cooling-off rights do not apply to an investment in Shares issued under this Prospectus. This means that, in most circumstances, you cannot withdraw your Application once it has been accepted.

Obtaining a copy of this Prospectus

During the Exposure Period, an electronic version of this Prospectus (without an Application Form) will be available at https://www.prospa.com/ipo to persons who are Australian residents only. Application Forms will not be made available until after the Exposure Period has expired.

During the Offer Period, this Prospectus is available in electronic form at https://www.prospa.com/ipo. The Offer constituted by this Prospectus in electronic form at https://www.prospa.com/ipo is available only to persons within Australia. The Prospectus is not available to persons in other jurisdictions (including the United States) in which it may not be lawful to make such an invitation or offer. If you access the electronic version of this Prospectus, you should ensure that you download and read the Prospectus in its entirety.

You may, before the Offer Period expires, obtain a paper copy of this Prospectus (free of charge) by telephoning the Prospa IPO Offer Information Line on 1800 451 641 (within Australia) from 8:30am to 5:30pm (Sydney Time), Monday to Friday. If you are eligible to participate in the Offer and are calling from outside Australia, you should call +61 1800 451 641 from 8:30am to 5.30pm (Sydney Time), Monday to Friday.

Applications for Shares may only be made during the Offer Period on an Application Form attached to or accompanying this Prospectus.

The Corporations Act prohibits any person from passing the Application Form on to another person unless it is attached to a paper copy of the Prospectus or the complete and unaltered electronic version of this Prospectus.

Refer to Section 7 for further information.

Statements of past performance

This Prospectus includes information regarding the past performance of the Company. Investors should be aware that past performance should not be relied upon as being indicative of future performance.

Financial Information

Section 4 sets out in detail the Financial Information referred to in this Prospectus and the basis of preparation of that Financial Information.

All references to FY17, FY18 and FY19 appearing in this Prospectus are to the financial years ended or ending 30 June 2017, 30 June 2018 and 30 June 2019 respectively, unless otherwise indicated. References to CY18 and CY19 are to the calendar years ended or ending 31 December 2018 and 31 December 2019 respectively. The Prospectus also includes references to half years H1FY19 and H1FY20 which refer to the six months ended or ending 31 December 2018 and 31 December 2019 respectively.

The Historical Financial Information is presented on both a statutory and pro forma basis (as described in Section 4.1.1) and has been prepared and presented in accordance with the recognition and measurement principles of Australian Accounting Standards ("AAS") (including the Australian Accounting Interpretations) issued by the Australian Accounting Standards Board ("AASB"), which are consistent with International Financial Reporting Standards ("IFRS") and interpretations issued by the International Accounting Standards Board ("IASB").

Investors should note that certain financial data included in the Prospectus is not recognised under the Australian Accounting Standards; and is classified as 'non-IFRS financial information' under Regulatory Guide 230 'Disclosing non-IFRS financial information' published by ASIC. The Company believes that this non-IFRS financial information provides useful information to users in measuring the financial performance and condition of Prospa. The non-IFRS financial measures do not have standardised meanings under the Australian Accounting Standards, and therefore may not be comparable with similarly titled measures presented by other entities, nor should these be interpreted as an alternative to other financial measures determined in accordance with the Australian Accounting Standards. Investors are cautioned not to place undue reliance on any non-IFRS financial information, ratios and metrics included in this Prospectus.

The Financial Information should be read in conjunction with, and qualified by reference to, the information contained in Sections 4 and 5.

This Prospectus also includes Forecast Financial Information for FY19, CY19 and H1FY20 based on the best estimate assumptions of the Directors. The basis of preparation and presentation of the Forecast Financial Information is consistent with the basis of preparation and presentation of the Historical Financial Information. The Forecast Financial Information for FY19 and H1FY20 presented in this Prospectus is presented on both a statutory and pro forma basis and is unaudited.

All financial amounts contained in this Prospectus are expressed in Australian dollars, unless otherwise stated. Any discrepancies between totals and sums of components in tables, figures and components contained in this Prospectus are due to rounding.

Investigating Accountant's Report on Financial Information and financial services guide

The provider of the Investigating Accountant's Report on Financial Information is required to provide Australian retail clients with a financial services guide in relation to the review under the Corporations Act. The Investigating Accountant's Report and accompanying financial services guide are provided in Section 8.

Forward looking statements

This Prospectus contains forward looking statements, including the Forecast Financial Information in Section 4, which may be identified by words such as "anticipates", "may", "should", "could", "likely", "believes", "estimates", "expects", "targets", "predicts", "projects", "forecasts", "intends", "guidance", "plan" and other similar words that involve risks and uncertainties.

These forward looking statements are based on an assessment of present economic and operating conditions, and on a number of assumptions regarding future events and actions that, at the date of the Prospectus, are expected to take place. The Company does not undertake to, and does not intend to, update or revise any forward looking statements, or publishing prospective financial information in the future, regardless of whether new information, future events or any other factors affect the information contained in this Prospectus, except where required by law.

Any forward looking statements are subject to various risks that could cause the Company's actual results to differ materially from the results expressed or anticipated in these statements. Forward looking statements should be read in conjunction with, and are qualified by reference to, the risk factors as set out in Section 5, the general and specific assumptions contained in the Financial Information as set out in Section 4.9, the sensitivity analysis as set out in Section 4.9.9 and other information in this Prospectus. Such forward looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties, assumptions and other important factors, many of which are outside the control of the Company, the Directors and the Company's management. The Company, the Directors, the Company's management and the Joint Lead Managers cannot and do not give any assurance that the results, performance or achievements expressed or implied by the forward looking statements contained in this Prospectus will actually occur and investors are cautioned not to place undue reliance on these forward looking statements.

Industry and market data

This Prospectus, including the Industry Overview in Section 2 and the Company Overview in Section 3, contains statistics, data and other information (including forecasts and projections) relating to markets, market sizes, market shares, market segments, market positions and other industry data pertaining to Prospa's business and markets. The Company has obtained significant portions of this information from market research prepared by third parties.

Investors should note that market data and statistics are inherently predictive and subject to uncertainty and not necessarily reflective of actual market conditions. There is no assurance that any of the forecasts or projections in the surveys, reports and surveys of any third party that are referred to in this Prospectus will be achieved. The Company has not independently verified, and cannot give any assurances to the accuracy or completeness of, this market and industry data or the underlying assumptions used in generating this market and industry data.

Estimates involve risks and uncertainties and are subject to change based on various factors, including those discussed in the risk factors set out in Section 5.

Selling restrictions

This Prospectus does not constitute an offer or invitation to apply for Shares in any place in which, or to any person to whom, it would not be lawful to make such an offer or invitation. No action has been taken to register or qualify the Shares or the Offer, or to otherwise permit a public offering of Shares, in any jurisdiction outside Australia. The distribution of this Prospectus outside Australia (including electronically) may be restricted by law and persons who come into possession of this Prospectus outside Australia should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities laws.

This Prospectus may not be distributed to, or relied upon by, persons in the United States. Shares have not been, and will not be, registered under the United States Securities Act of 1933, as amended (US Securities Act) or the securities laws of any state or other jurisdiction of the United States and may not be offered, sold, pledged or transferred directly or indirectly, in the United States unless the Shares have been registered under the US Securities Act or an exemption from the registration requirements of the US Securities Act and any other applicable US state securities laws is available. See Section 7 for more detail on selling restrictions that apply to the Offer in jurisdictions outside Australia.

Defined terms and time

Defined terms and abbreviations used in this Prospectus have the meanings defined in the Glossary or are defined in the context in which they appear.

Unless otherwise stated or implied, references to times in this Prospectus are to Sydney Time. Unless otherwise stated or implied, references to dates or years are calendar year ("CY") references.

Privacy

By completing an Application Form to apply for Shares, you are providing personal information to the Company through the Share Registry, which is contracted by the Company to manage Applications. The Company and the Share Registry on behalf of the Company, may collect, hold and use that personal information in order to process your Application, service your needs as a Shareholder, provide facilities and services that you request and carry out appropriate administration. Some of this personal information is collected as required or authorised by certain laws including the *Income Tax Assessment Act 1997* (Cth) and the Corporations Act.

If you do not provide the information requested in the Application Form, the Company and the Share Registry may not be able to process or accept your Application.

Your personal information may also be used from time to time to inform you about other products and services offered by the Company, which it considers may be of interest to you.

Your personal information may also be provided to the Company's members, agents and service providers on the basis that they deal with such information in accordance with the Company's

Important Notices

Privacy Policy and applicable laws. The members, agents and service providers of the Company may be located outside Australia, where your personal information may not receive the same level of protection as that afforded under Australian law. The types of agents and service providers that may be provided with your personal information and the circumstances in which your personal information may be shared are:

- the Share Registry for ongoing administration of the Shareholder register;
- printers and other companies for the purpose of preparation and distribution of statements and for handling mail;
- market research companies for the purpose of analysing the Shareholder base and for product development and planning; and
- legal and accounting firms, auditors, contractors, consultants and other advisers for the purpose of administering, and advising on, the Shares and for associated actions.

If an Applicant becomes a Shareholder, the Corporations Act requires the Company to include information about the Shareholder (including name, address and details of the Shares held) in its public Shareholder register.

The information contained in the Shareholder register must remain there even if that person ceases to be a Shareholder. Information contained in the Shareholder register is also used to facilitate dividend payments and corporate communications (including the Company's financial results, annual reports and other information that the Company may wish to communicate to its Shareholders) and compliance by the Company with legal and regulatory requirements. An Applicant has a right to gain access to the information that the Company and the Share Registry hold about that person, subject to certain exemptions under law. A fee may be charged for access. Access requests must be made in writing or by telephone call to the Company's registered office or the Share Registry's office, details of which are disclosed in the Corporate Directory on the inside back cover of this Prospectus. Applicants can obtain a copy of the Company's Privacy Policy by visiting the Company's website www.prospa.com.

You may request access to your personal information held by or on behalf of the Company and you may correct the personal information held by or on behalf of the Company about you. You may be required to pay a reasonable charge to the Share Registry in order to access your personal information. You can request access to your personal information by writing to or telephoning the Share Registry as follows:

Email: registrars@linkmarketservices.com.au

Telephone: +61 1300 554 474

Photographs and diagrams

Photographs and diagrams used in this Prospectus that do not have descriptions are for illustration only and should not be interpreted to mean that any person shown in them endorses this Prospectus or its contents or that the assets shown in them are owned by the Company. Diagrams and maps used in this Prospectus are illustrative only and may not be drawn to scale. Unless otherwise stated, all data contained in charts, graphs and tables is based on information available at the Prospectus Date.

Company website

Any references to documents included on the Company's website at www.prospa.com are for convenience only, and none of the documents or other information available on the Company's website is incorporated into this Prospectus by reference.

Disclaimer

Except as required by law, and only to the extent so required, none of the Company, the Directors, the Company's management, the Joint Lead Managers or any other person warrants or guarantees the future performance of the Company, or any return on any investment made pursuant to this Prospectus.

As set out in Section 7, it is expected that the Shares will be quoted on ASX initially on a conditional and deferred settlement basis. The Company, the Share Registry and the Joint Lead Managers disclaim all liability, whether in negligence or otherwise, to persons who trade Shares before receiving a holding statement, even if such person received confirmation of allocation from the Prospa IPO Offer Information Line or confirmed their firm allocation through a Broker.

Macquarie Capital (Australia) Limited and UBS AG, Australia Branch have acted as Joint Lead Managers to the Offer and have not authorised, permitted or caused the issue or lodgement, submission, dispatch or provision of this Prospectus and there is no statement in this Prospectus which is based on any statement made by either of them or by any of their respective affiliates, officers or employees. To the maximum extent permitted by law, the Joint Lead Managers and each of their respective affiliates, officers, employees and advisers expressly disclaim all liabilities in respect of, make no representations regarding, and take no responsibility for, any part of this Prospectus other than references to their respective names and make no representation or warranty as to the currency, accuracy, reliability or completeness of this Prospectus.

Questions

If you have any questions about how to apply for Shares, call your Broker or the Prospa IPO Offer Information Line on 1800 451 641 between 8:30am and 5:30pm (Sydney Time), Monday to Friday. Instructions on how to apply for Shares are set out in Section 7 of this Prospectus and on the back of the Application Form.

If you have any questions about whether to invest in the Company, you should seek professional advice from your accountant, financial adviser, stockbroker, lawyer or other professional adviser before deciding whether to invest in Shares.

Offer management

Macquarie Capital (Australia) Limited and UBS AG, Australia Branch are jointly managing and underwriting the Offer for the Company.

This document is important and should be read in its entirety.

Contents

Important Information

Key dates	
Prospectus Date	Thursday, 16 May 2019
Retail Offer open	Friday, 24 May 2019
Retail Offer close	Friday, 31 May 2019
Commencement of ASX trading on a conditional and deferred settlement basis	Tuesday, 11 June 2019
Settlement	Wednesday, 12 June 2019
Issue and allotment of Shares (Completion)	Thursday, 13 June 2019
Commencement of ASX trading on an unconditional and deferred settlement basis	Thursday, 13 June 2019
Expected dispatch of holding statements	Friday, 14 June 2019
Expected commencement of trading on ASX on a normal settlement basis	Monday, 17 June 2019

Note: This timetable is indicative only and may be subject to change without notice. Unless otherwise indicated, all times are stated in Sydney Time. The Company, in consultation with the Joint Lead Managers, reserves the right to vary any and all of the above dates and times without notice (including, subject to the ASX Listing Rules and the Corporations Act, to close the Offer early, to extend the date the Offer closes, or to accept late applications, either generally or in particular cases, or to cancel or withdraw the Offer before settlement of the Offer, in each case without notification). If the Offer is cancelled or withdrawn before the Settlement of the Offer, then all application monies will be refunded in full (without interest) as soon as possible in accordance with the requirements of the Corporations Act. Investors are encouraged to submit their applications as soon as possible after the Offer opens.

Key Offer statistics	
Offer Price	$3.78
Total number of Shares offered under this Prospectus[1]	29.0m
Total value of Shares offered under this Prospectus[1]	$109.6m
Total Shares on issue immediately after Completion[2]	161.4m
Total Shares held by Existing Shareholders immediately after Completion	138.9m
Market capitalisation[3] based on the Offer Price	$609.9m
Enterprise value[3,4] based on the Offer Price	$520.3m
Enterprise value[3,4] to FY19F Total pro forma revenue[5]	3.8x
Enterprise value[3,4] to CY19F Total pro forma revenue[5]	3.3x

Notes:
1. The number and value of Shares offered is calculated on the basis that the Employee Offer cap of $1.5 million worth of Shares is taken up under the Employee Offer (at the Employee Final Price, which represents a 10% discount to the Offer Price). Refer to Section 7 for further details.
2. Fully paid ordinary shares only. The Company will also have 12,404,985 Replacement Options and 358,704 NED Options on issue on Completion. Refer to Section 6 for further details.
3. Market capitalisation based on the Offer Price is defined as the Offer Price multiplied by the total number of Shares on issue on Completion of the Offer. Shares may not trade at the Offer Price after listing.
4. Enterprise value is calculated as the sum of market capitalisation based on the Offer Price and pro forma net debt as at 31 December 2018, comprised of $89.6 million of unrestricted cash and cash equivalents. Refer to Section 4 for further detail.
5. The forecast financial information is based on assumptions and accounting policies set out in Section 4 and Appendix 1 and is subject to key risks set out in Section 5. There is no guarantee that the forecasts will be achieved.

How to invest

Applications for Shares can only be made by completing and lodging the Application Form attached to, or accompanying, this Prospectus.

Instructions on how to apply for Shares are set out in Section 7 of this Prospectus and on the back of the Application Form.

Questions

Please call the Prospa IPO Information Line on 1800 451 641 (within Australia) from 8:30am to 5:30pm (Sydney Time), Monday to Friday (excluding public holidays). If you are eligible to participate in the Offer and are calling from outside Australia, you should call +61 1800 451 641 from 8:30am to 5:30pm (Sydney Time), Monday to Friday (excluding public holidays). If you have any questions about whether to invest in the Company you should seek professional advice from your accountant, financial adviser, stockbroker, lawyer or other professional adviser before deciding whether to invest in the Company.

Chairman's Letter

16 May 2019

Dear Investor,

On behalf of the Directors of Prospa, I am pleased to offer you the opportunity to become a Shareholder.

Prospa was founded in 2012, and has grown rapidly to be Australia's #1 online small business lender[1], with over $1 billion in originations in Australia and New Zealand and a current net loan book of over $300 million[2].

Our lending has had a positive economic impact on the Australian economy, and it is estimated we have contributed more than $4 billion to nominal Australian GDP since 2013, and that our lending has resulted in over 57,000 annual FTE positions being maintained over the period 2013 – 2019 to date[3].

Australian small businesses are underserved by banks. Prospa offers a range of fast, flexible cash flow finance solutions, with decisions and funding often made by the next business day. To deliver these quick funding outcomes, our proprietary Credit Decision Engine ("CDE") assesses hundreds of data points and overlays management requirements such as credit quality distribution, compliance and profit margin. We have amassed a large base of small business data and continue to grow our data capability, improving our credit decision framework and predictability of loan book performance.

Over the past few years, we have strategically invested in people and technology. Our Executive Team has expertise across financial services, technology, compliance, marketing and sales, and leads a team of 230 people[4] predominantly based in Sydney. From the outset, we recognised that people would power our success and we have invested in building the right team and culture. We also designed our technology platform and workflow to be scalable, flexible and support our growth strategies. Our customer experience is recognised with a Net Promoter Score ("NPS") in excess of 77 for the twelve months to 31 March 2019 and 68% of existing customers eligible to take another facility with Prospa are doing so[5]. Our business strategy is to continue to invest in the customer experience, technology and people in order to build cash flow products and services that allow small businesses to prosper.

The team has built a profitable, fast growing business in Australia with originations and revenue growing at a compounded annual growth rate ("CAGR") of 102% and 106%, respectively, for the period between FY16 and FY18. We expanded into New Zealand in the second half of 2018. In April this year we launched a new digital line of credit product in Australia and we are currently in the process of beta testing a B2B payments solution.

The Board and Executive Team expect our strong performance to continue, with originations and revenue forecast to grow at 28% and 26% respectively in CY19. The Offer will raise $109.6 million, comprising a $60.0 million primary raise, and the remaining $49.6 million will allow Existing Shareholders an opportunity to realise part of their investment in the Company. The net proceeds from the $60.0 million primary raise will be invested in the business alongside the $43.3 million raised in October 2018 through the issuance of the convertible note. The investments will be focused on funding the equity portion of the growing loan book and working capital, investment in new products and geographies and $17.2 million to repay corporate debt. On Completion, New Shareholders are expected to hold 13.9% of the Shares, with the remainder being held by the Existing Shareholders[6].

This Prospectus contains detailed information about the Offer, as well as the key risks associated with an investment in the Company. These risks include exposure to credit risk and losses, access to and cost of funding, execution of our growth strategy, regulatory risk, reliance on Distribution Partners and reliance on the effective performance of the CDE and IT infrastructure. I encourage you to read this document carefully in its entirety before making an investment decision.

On behalf of the Directors, I look forward to welcoming you as a Shareholder.

Yours sincerely,

Gail Pemberton AO
Chairman, Prospa Group Limited

1 Online lender to small business – Prospa volume as a % of total Australian market volume (measured by loan value) for 2017 (sourced from The Cambridge Centre for Alternative Finance "3rd Asia Pacific Region Alternative Finance Industry Report", November 2018, p86).

2 As at 31 March 2019. Net loan book represents gross loans after deducting allowance for loan impairments and the portion of loans funded by syndicate partners.

3 The Economic Impact of Prospa Lending to Small Business, RFi Group and The Centre for International Economics, January 2019. Represents the estimated nominal GDP increase and the estimated total FTE impact of Prospa lending over the period 1 January 2013 to 31 March 2019, calculated using Prospa lending over the period 1 January 2013 to 31 December 2018. Refer to Section 3.1.4.

4 Includes casual and part-time employees as at 31 March 2019.

5 68% represents the average repeat rate for eligible customers only (where eligible customers are defined as not having defaulted on their Prospa loan), based on the average monthly repeat rates for the 25 month period March 2015 to March 2017. The average unique repeat rate (including ineligible customers) for this same period would be 64%. Cohorts originated after March 2017 are still in the process of seasoning and therefore excluded from this analysis.

6 Certain Existing Shareholders were allocated approximately 6.6 million Shares in the Institutional Bookbuild. Further details are contained in Section 7.

Co-Founders' Letter

16 May 2019

Dear Investor,

We started Prospa in 2012 because it was clear to us there had to be a better way. As small business owners, we'd experienced the frustration of missing opportunities because we couldn't access finance. We found the traditional system slow, cumbersome and disheartening.

We wanted to solve this widespread problem for small business owners. By reimagining what it means to grow and run a small business – and pay for the goods and services to do it – we've been able to create a customer experience that is faster, friendlier and more accessible than traditional options.

In just seven years, our team has helped more than 19,000 Australian and New Zealand small businesses with over $1 billion in funding. We provide them with a way to manage cash flow, facilitate payments and take advantage of new, exciting opportunities.

The contribution of Prospa's lending to nominal Australian GDP since 2013 is now estimated to be more than $4 billion, and even more incredible is the 57,000 more jobs for tradies, hospitality workers, hairdressers, seahorse farmers and accountants that have been maintained across every State and Territory[1]. The results are greater than we ever imagined and give us an immense sense of pride in the role of Prospa in the Australian economy.

Prospa's success has been the result of a group of smart, talented and passionate people united around a common mission to keep small business moving. We'll continue to invest heavily in our people and award-winning culture, creating world-class career opportunities as the business grows.

Our approach is underpinned by the following guiding principles.

- **Be the market leader.** We believe extending our market leadership will strengthen our commercial model and deliver outstanding economic outcomes.
- **Obsess about our customers.** We relentlessly look for better ways to build cash flow products and services that enable small businesses to prosper, knowing our work is never done.
- **Measure everything and make decisions analytically.** Data is the framework on which we have built and will continue to grow our business. We focus on obtaining and using data to make great decisions and better manage risk.
- **Balance growth, cash flow and profitability.** We must move quickly as the opportunity is now, and scale will continue to benefit our business. However, we will do this responsibly by keeping a focus on operational cash flow and profitability.
- **Think long-term.** To achieve superior value for our stakeholders in a fast and ever-changing world we must have the right mix of short-term goal setting and discipline with long-term focus.

We're proud of our achievements so far, but we believe this is just the beginning. The financial services industry is changing rapidly, and our role in supporting small business is now even more vital.

As a public company, our guiding principles won't change. We'll continue to strive to exceed our customers' expectations and deliver for all stakeholders. We aim to build a company that creates value over decades, not just years.

We're excited about the opportunities the future will bring and invite you to partner with us on our journey to achieve something truly extraordinary.

Greg and Beau

1 The Economic Impact of Prospa Lending to Small Business, RFi Group and The Centre for International Economics, January 2019. Refer to Section 3.1.4.

Investment overview

1.1 Introduction

Topic	Summary	For more information
Who are we?	We are a financial technology company. We design, build and utilise cloud-based, data-rich and Application Program Interface-enabled ("API") technologies to deliver seamless customer experiences for the small business economy in Australia and New Zealand. Our product offering has expanded from our first product, the online business loan, to now include line of credit facilities and B2B payments (through Prospa Pay). We have grown to become Australia's #1 online lender to small businesses[1]. Since 2012, we have lent over $1 billion and served over 19,000 unique customers[2]. Headquartered in Sydney, Australia, we employ 230 staff[3] and our net loan book has grown to over $300 million[4].	**Section 3.1.1**
What is our history?	We were founded in 2012 by Joint CEOs, Greg Moshal and Beau Bertoli, who identified an opportunity to offer innovative lending products and services to small business owners in Australia who have traditionally been underserved by major banks. It was this opportunity that prompted our team to create a platform tailored to helping small business owners grow and run their businesses.	**Section 3.1.2**
What products do we offer?	Our current core offering is an amortising term loan offered to small businesses. However, we have invested heavily in our three strategic pillars of technology, funding and distribution to create a platform that is multi-channel, potentially product agnostic and, most importantly, delivers the cash flow products and services that can help small businesses to grow and run their businesses. We officially launched our line of credit product in April 2019, and we are currently in the process of beta testing our B2B payments solution, Prospa Pay. 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 to them by the next business day. **Key features of Prospa's amortising term loan:** – Simple, online business loan; – No asset security required for loans up to $100,000 to access funds[5]; – Principal amount from $5,000 to $300,000; – Terms between three to 24 months; and – Automated direct debit instalments on a daily, weekly or fortnightly basis.	**Section 3.2.1**

1 Online lender to small business – Prospa volume as a % of total Australian market volume (measured by loan value) for 2017 (sourced from The Cambridge Centre for Alternative Finance "3rd Asia Pacific Region Alternative Finance Industry Report", November 2018, p86).

2 Unique customers served from inception to 31 March 2019.

3 Includes casual and part-time employees as at 31 March 2019.

4 As at 31 December 2018. Net lending book represents gross loans after deducting allowance for loan impairments, the portion of loans funded by syndicate partners.

5 For loans over $100,000 Prospa requires security registered on the Personal Property Securities Register ("PPSR"). For all loans a personal guarantee is required. Guarantor(s) are assessed on a loan-by-loan basis and individual guarantors are either directors or shareholders of the borrowing business or a related business or a sole trader or a partner in a partnership operating the borrowing business.

Topic	Summary	For more information
What products do we offer? ***continued***	**Key features of Prospa's line of credit:** – Revolving line of credit facility; – No asset security required to access funds; – Principal amount from $2,000 to $25,000; – Terms of 12 months, with annual renewal; – Automated direct debit instalments of principal and interest on a weekly basis; and – Lump sum principal repayments at any time.	**Section 3.2.1**
What industry and market do we operate in?	We operate within the Australian and New Zealand small business lending sectors in which industry participants provide finance solutions to small businesses to manage cash flow and fund growth initiatives.	**Sections 2 and 3.5.3**
Who do we compete with?	We compete with a number of industry participants who offer financing solutions to small businesses: – **Banks:** These participants typically offer a range of business lending products including secured term loans, overdraft facilities, invoice financing and credit cards; – **Non-bank lenders:** These participants typically specialise in niche products which fall outside of traditional banking institution focus areas. There are a broad range of participants, including equipment finance as well as debtor and invoice finance providers; and – **Fintech or online lenders:** These participants use technology as a focal point of their business model to specifically address the financing needs of small businesses.	**Section 2.5.1**

Why is the Offer being conducted?	The Offer is being conducted to:
	1. Support our growth strategies, including investment in:
	  – Improving and growing our term loan product for small business, including providing cash to fund our investment in the equity portion of the loan book;
	  – Developing operating leverage and other operational efficiencies by investing in technology development and talent; and
	  – Increasing our addressable market through product development and market expansion;
	2. Support working capital;
	3. Repay our PFG Corporate Debt Facility[6];
	4. Provide us with access to listed capital markets for future growth; and
	5. Allow certain Existing Shareholders an opportunity to realise all or part of their investment in the Company.
		Section 7.1.2

6 At Completion, Prospa expects its existing PFG Corporate Debt Facility will be repaid in full and cancelled through redemption for cash ($17 million) and conversion into issued capital ($3 million).

1.2 Key features of our business model

Topic	Summary	For more information
What is our value proposition?	We believe small businesses are attracted to our credit facilities for the following reasons: – **Accessibility:** Our business model is focused around small businesses, many of whom are able to service a loan but do not have the requisite documentation or security to access loans from traditional banks. We are able to service these businesses by assessing credit risk using technology calibrated with hundreds of data points per applicant[7]; – **Customer experience:** We have invested significantly in streamlining and simplifying our customer experience with an aim to provide a seamless lending process. Additionally, our sales and customer success teams seek to offer personalised support to small business owners when it matters most – as is evidenced by our Net Promoter Score ("NPS") being in excess of 77 for the twelve months to 31 March 2019; and – **Speed:** We have developed and calibrated our proprietary internal systems in order to provide same day decisions on most loans, compared to weeks or even months for more traditional lenders. On average, we will provide a credit decision within the same business day.	**Section 3.2.3**
What is our business and earnings model?	We generate revenue by charging our customers: – **Interest:** represents the contracted interest income and origination fees from a loan. When considering a loan, customers typically focus on the total cost of capital and are also provided the Simple Interest Rate, which represents the contractual interest due on a loan; and – **Other income:** represents other fees including any late fees, as well as servicing fees received from our syndicate partners and interest on cash deposits. Our key costs can be split into: – **Transaction costs:** represents commissions paid to our Distribution Partners; – **Funding costs:** represents the interest expense we incur in connection with obtaining debt funding against our loan book; – **Sales & Marketing:** represents direct and indirect sales and marketing costs, including employee expenses in relation to the marketing function; – **Product Development:** represents employee and technology costs associated with the enhancement of our existing technologies and/or the development of new technologies or markets across the business; – **General and Administration:** represents employee expenses, rent and office related costs in relation to activities of loan origination and loan management, as well as central management and functions; and – **Loan impairment:** represents the write off for losses on loans and movement in the loan impairment provision.	**Sections 3.2.5 and 4**

7 For loans above $100,000 we generally require additional documents including statement of financial performance, statement of financial position and aged payables and receivables.

Topic	Summary	For more information
Who are our customers?	Our customers are small businesses looking for financing solutions for working capital requirements and growth initiatives. We lend to a variety of different industries, with a focus on industries which have relatively stable, high frequency cash flows. We have served over 19,000 customers across all states in Australia and in New Zealand. The majority of our customer base to date is from the Australian small business sector (98%), with a small proportion of the portfolio from New Zealand following the launch of our operations in the second half of CY18. Our experience and research into New Zealand small businesses has indicated similar thematics to Australia. The majority of our Australian portfolio is split into the following industries (percentages are based on number of loans disbursed by industry, as at 31 March 2019): – Building and trade (22%); – Hospitality (19%); – Professional services (17%); and – Retail (16%). Furthermore, we have a diversity in age of business in our portfolio, demonstrating there are a variety of customer types that use our funding for different reasons. Businesses trading for more than three years represent 61% of our Australian portfolio by time in trading. **Customer repeatability** We have a strong track record of customer repeatability, with approximately 68%[8] of eligible customers taking a repeat loan, and based on customer cohort trends each new customer on average takes 2.6 loans over their estimated customer lifetime[9].	**Section 3.2.4**
What is our approach to technology?	Our technology platform has been built on cloud-based technologies and has been designed with regard to the following key principles: – drive scale and efficiency; – improve credit decision making; – improve customer experience and engagement, with the aim of driving higher customer satisfaction and repeat rates; – provide seamless integration with Distribution Partners and other third parties; and – ensure there are robust security and customer privacy measures at every layer of the platform. Our technology platform employs cloud-based technologies. We use leading third-party software and service providers for the core components of our technology platform, including Microsoft Azure, Amazon Web Services and Salesforce. This provides an agile, legacy-free development environment, and enables us to more readily innovate and bring new product and features to market in a shorter time frame. Furthermore, we have invested in data analytics and Machine Learning to refine our credit risk model and inform our data-driven decision making.	**Section 3.3.1**

8 68% represents the average repeat rate for eligible customers only (where eligible customers are defined as not having defaulted on their Prospa loan), based on the average monthly repeat rates for the 25 – month period of March 2015 – March 2017. The average unique repeat rate (including ineligible customers) for this same period would be 64%. Cohorts originated after March 2017 are still in the process of seasoning and therefore excluded from this analysis.

9 Quarterly cohort average for the 25 month period of March 2015 – March 2017 (including both eligible and ineligible customers). Cohorts originated after March 2017 are still in the process of seasoning and therefore excluded from this analysis.

Topic	Summary	For more information
What is our approach to technology? ***continued***	We believe we have four key areas of technological innovation: 1. **Customer experience:** Technology that enables customers to quickly complete an application process with limited information requirements and without arduous manual steps, as a result of the multiple data sources we access. Our technology platform is designed to provide a streamlined customer experience and promote customer engagement, which we believe drives increased repeat customers. 2. **Credit Decision Engine:** Our CDE has been purpose-built to quickly assess small business credit applications using proprietary technology and analytics to deliver fast informed decisions. 3. **Partner technical solutions:** A range of technology solutions to assist our partner network to easily submit and track their customers' loan applications with Prospa. 4. **Internal workflow and automation:** In-house technology and processes to help our employees be as efficient as possible across sales, credit, settlements, finance, loan management and collections.	**Section 3.3.1**
How do we fund our operations?	We currently have four principal sources of funding to support our loan book and operations: – **Warehouse Facilities**, revolving, multi-tiered facilities to fund the purchase of loans originated by us; – **Term Facilities**, with a multi-tiered capital structure to fund a select pool of loans originated by us; – **Corporate Debt**, which can be used for general corporate purposes[10]; and – **Cash**, which can be applied for corporate purposes, including the funding of loans and subscribing to notes in our Warehouse Facilities or Term Facilities. As at 31 December 2018, we had $83.5 million in available undrawn capacity under the Warehouse Facilities.	**Section 3.3.2**
How do we distribute our products?	In Australia we have a multi-channel distribution approach across: – **Direct (29% of CY18 new and repeat loan volume):** Direct customer acquisition through all digital channels (online, social and mobile) as well as more traditional forms of customer acquisition including direct mail, TV, radio, print and sponsorship; and – **Partner (71% of CY18 new and repeat loan volume):** Distribution Partners include Finance Brokers, aggregator networks, affiliates and accountants and our strategic partnerships. We integrate with our Distribution Partners' websites as well as providing a suite of other partner tools including lead monitoring, real-time analytics and marketing tools. In New Zealand, our distribution strategy also uses both direct customer acquisition and acquisition through third party Distribution Partners.	**Section 3.3.3**

10 At Completion, Prospa expects its existing PFG Corporate Debt Facility will be repaid in full and cancelled through redemption for cash ($17 million) and conversion into issued capital ($3 million).

Topic	Summary	For more information
How do we manage risk?	Our risk framework revolves around five pillars: – **Credit and funding:** We dynamically combine our credit policy and procedures (which are refined on an ongoing basis by the Credit Risk Team) with our proprietary CDE to assess credit and funding risks. We also monitor and manage our portfolio to ensure liquidity risk and loan funding capacity are optimised; – **Operational:** Operational risks, such as data access, vendor and key person risk, are managed through a number of controls, such as physical and technological controls, diversification, redundancy and succession planning; – **Cyber:** Given we have been built as a technology-enabled business from inception, significant emphasis has been placed on cybersecurity. We are ISO 27001 compliant, which certifies that we continue to implement best practices for securing information assets. Annual third-party audits are conducted to ensure ongoing compliance; – **Legal and regulatory:** We manage our legal risks with third parties through customer and vendor contracts. We have appropriate programs in place to comply with a number of laws and regulations, including the requirements of the Anti-Money Laundering and Counter Terrorism Financing Act 2006 ("AML/ CTF Act"), the Financial Sector Collection of Data Act 2001 ("FSCODA") and Australian Consumer Law; and – **Strategic:** We manage our long-term strategic direction through close monitoring of our competition, and microeconomic and macroeconomic trends in local and offshore markets.	Section 3.4

1.3 Key financial metrics

Topic	Summary	For more information
What is Prospa's pro forma historical and forecast financial performance?	The financial information presented below contains non-IFRS financial measures. It is intended as a summary only and should be read in conjunction with the more detailed discussion of the Financial Information set out in Section 4, including the assumptions, management discussion and analysis and sensitivity analysis, as well as the key risks set out in Section 5.	Section 4

	Pro forma FY			Pro forma CY		Statutory[11]		
$ millions	FY17	FY18	FY19F	CY18	CY19F	FY17	FY18	FY19F
Total revenue	55.8	104.2	136.0	123.9	156.3	56.3	104.7	136.0
Net revenue	53.0	99.3	127.6	116.9	147.0	53.6	99.7	127.6
EBITDA	(0.6)	7.7	6.1	9.5	10.6	3.1	7.4	(3.3)
PBT	(3.4)	2.0	(1.5)	2.6	4.5	1.4	3.0	(20.3)
NPAT	(2.5)	1.3	(1.5)	1.5	2.6	0.7	2.1	(16.9)

11 We report on a 30 June financial year basis, and the Financial Information has been presented consistent with this. In addition to the FY19F forecast covering the financial year ending 30 June 2019, we have also included a pro forma forecast for CY19F and the CY18 comparative. We do not report on a calendar year basis, therefore no statutory financial information is presented for the CY19F and CY18 periods.

1.4 Investment highlights

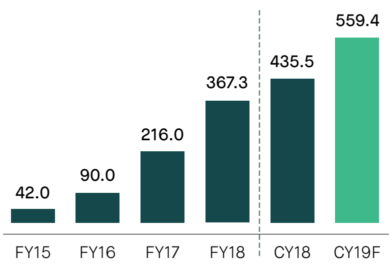
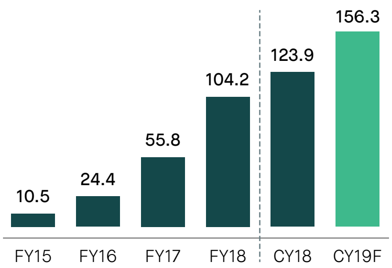
Topic	Summary	For more information
Large potential market opportunity	The small business lending market in Australia (in which we operate) represents a substantial market opportunity, underpinned by the following characteristics: – Small businesses are a major contributor to the economy, with 2.3 million[12] small businesses in Australia employing 44% of Australia's private sector workforce[13] and generating 35% of Australia's GDP[14]; and – We consider that small businesses have been underserved by the traditional banking system. Our market opportunity was further expanded in the second half of CY18, when we entered the New Zealand small business lending market. We believe there is unmet demand for credit-related products for small business; and the application of our technology and marketing demand can stimulate additional demand from New Zealand for our products and expand the total opportunity for small business lending.	**Section 2.4**
Early mover advantage across technology, distribution, funding and scale	Our early mover advantage is reinforced through our three key strengths that combined, lead to scale benefits providing us with a competitive advantage: – **Technology:** Our platform is designed to provide a positive customer experience through a fast application and credit approval process. The platform leverages the history of our proprietary data sets from over 64,000 loan applications, and API integrations, to make fast, informed credit decisions and provide a high-quality customer, intermediary and strategic partner experience; – **Funding:** We created the first Australian warehouse securitisation for small business loans, with the current structure consisting of multi-year funding arrangements with a number of key institutional and bank funders as well as the first Australian rated ABS Issuance for small business loans[15]; and – **Distribution:** We have an established, multi-channel distribution network including strong direct marketing presence and relationships with more than 8,900 Distribution Partners. These factors together deliver significant operating scale and market advantages.	**Section 3.3**

12 Small businesses defined as having fewer than 20 employees, including non-employing businesses; ABS 8165 (Counts of Australian Businesses including Entries and Exits), Jun 2013 – Jun 2018 (released in February 2019).

13 Small businesses defined as having fewer than 20 employees; small businesses provided employment for approximately 4.8 million people in 2017 which was 44% of the workforce excluding the financial, insurance and public services (as defined in the dataset; ABS 8155 (Australian Industry), 2016-17 (released in May 2018)).

14 GDP excluding financial, insurance and public sectors (as defined in the dataset, ABS 8155 (Australian Industry), 2016-17 (released in May 2018)).

15 Based on management knowledge and publicly available information.

Topic	Summary	For more information
Leading online lender to small business	We are Australia's #1 online lender to small business[16]. Our market position is reinforced by strong levels of industry recognition, with Prospa being recognised with numerous business awards since inception, including: – Winner of the Fintech Lender of the Year in the Mortgage Association of Australia Excellence Awards (2018) for all five States, and National winner; – Winner of the Financial Times 1000: High Growth Companies Asia Pacific (2018); – AON Hewitt Employer of Choice (2017 and 2018); – Winner of the Telstra NSW Medium Business Award (2017); – Winner of the Lending Innovator of the Year Award at the Fintech Business Awards (2017); and – Winner of the Deloitte Tech Fast50 Award (2015).	**Section 3.1.5**
Strong track record of growth	We delivered a pro forma total revenue CAGR of 106% from FY16 to FY18, from $24.4 million in FY16 to $104.2 million in FY18. This was driven by an originations CAGR of 102% over the same period. We expect this strong revenue growth to continue, with forecast pro forma total revenue for the 12 month period ending 31 December 2019 of $156.3 million. Originations ($ million)  Pro forma total revenue ($ million) 	**Section 4**
Compelling unit economics	Our financial performance is underpinned by a profitability discipline, including: – Attractive per-loan metrics with an estimated average net loan contribution of $3,200 and contribution margin of 42.5%[17]; – A short customer payback period[18] of four months; and – Strong customer lifetime value, driven by a combination of high levels of repeat business and higher profitability of repeat loans due to lower acquisition and other variable costs. We believe that through our investment in technology, data, distribution, brand, funding and operating leverage initiatives (as outlined in Section 3.3.4), we will be able to improve our cost efficiencies which will further enhance our unit economics for our small business loan product.	**Sections 3.2.5 and 4**

16 Online lender to small business – Prospa volume as a % of total Australian market volume (measured by loan value) for 2017 (sourced from The Cambridge Centre for Alternative Finance "3rd Asia Pacific Region Alternative Finance Industry Report", November 2018, p86).

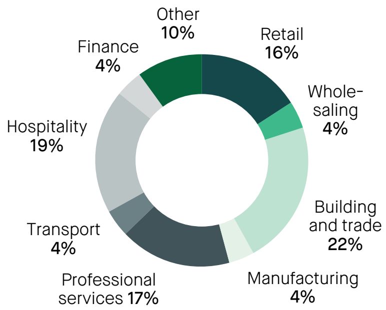
17 Loan unit economics reflect a blend of the new loans and repeat loans, as achieved in CY18.

18 On profit and loss reporting basis. Customer payback period represents the average payback period for sales and marketing, transaction costs, funding costs, processing and settlement costs, and loan impairment costs. Loan unit economics reflect a blend of the new loans and repeat loans, as achieved in CY18.

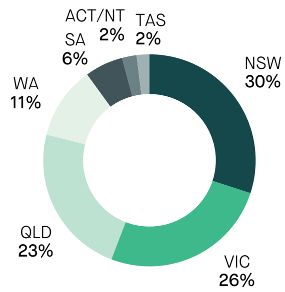
<table>
<tr><th>Topic</th><th>Summary</th><th>For more information</th></tr>
<tr><td>Strong customer value proposition and high satisfaction driving recurring revenue</td><td>Our strong customer value proposition is evident through high levels of customer satisfaction with Prospa achieving an NPS in excess of 77 for the twelve months to 31 March 2019, and a 9.8 out of 10 Trustpilot Rating as at 3 May 2019.

High levels of customer satisfaction have supported customer repeatability, with approximately 68%[19] of eligible customers taking a repeat loan and Fully Seasoned customer cohorts taking on average 2.6 Prospa loans over their estimated customer lifetime[20].</td><td>Section 3.2.3</td></tr>
<tr><td>Diversified loan portfolio</td><td>We have a diverse distribution of customers across industry, geography, time in trading and size.

Portfolio split by sector[21]



Portfolio split by geography[21]


</td><td>Section 3.2.4</td></tr>
<tr><td>Robust risk management</td><td>Our business model is underpinned by a risk management framework that seeks to ensure alignment between our strategic goals and underlying risks across credit and funding, operational, cyber, legal and regulatory, and strategic factors.

Our credit risk framework combines our credit policies and procedures and the CDE to deliver a fast, accurate and consistent credit assessment process.

We actively monitor our credit risk and the ongoing financial health of our portfolio to seek to ensure risk is appropriately managed.</td><td>Section 3.4</td></tr>
<tr><td>Strong growth opportunities</td><td>We have delivered high growth historically focusing on our small business loan product in Australia. Through growing this core offering, we have developed a scalable platform with strong capabilities in funding, technology and distribution.

Our vision is to build cash flow products and services that allow small businesses to pay for the products and services they need to grow and run their businesses. To achieve our vision, we intend to use our scale and leverage our existing capabilities across funding, technology and distribution.</td><td>Section 3.5</td></tr>
</table>

19 68% represents the average repeat rate for eligible customers only (where eligible customers are defined as not having defaulted on their Prospa loan), based on the average monthly repeat rates for the 25 – month period of March 2015 – March 2017. The average unique repeat rate (including ineligible customers) for this same period would be 64%. Cohorts originated after March 2017 are still in the process of seasoning and therefore excluded from this analysis.

20 Quarterly cohort average for the 25 month period of March 2015 – March 2017 (including both eligible and ineligible customers). Cohorts originated after March 2017 are still in the process of seasoning and therefore excluded from this analysis.

21 As at 31 March 2019 (by number of loans disbursed).

Topic	Summary	For more information
Strong growth opportunities *continued*	Our current growth focus for product and market development areas include improving our small business loan product, developing our New Zealand operations, and developing our line of credit product and Prospa Pay (B2B payments solution). Additionally, we are achieving improved operational efficiency through scale and operating leverage, as well as our continued investment in our technology capabilities, process improvements and brand awareness. We will also continue to assess acquisition opportunities (including those that may arise from industry consolidation), where we consider those opportunities to be complementary to our business model and can enhance value for our Shareholders.	**Section 3.5**
Experienced founder-led team	Prospa is led by our Co-Founders and Joint CEOs, Greg Moshal and Beau Bertoli, and senior management, who are deeply committed to the business and oversee all business activity, including the implementation of our business strategy, product development, sales and marketing, distribution and operations. Our senior management team combines significant experience across financial services, technology, risk management and go-to-market excellence, positioning us well for future growth.	**Section 6.2**

1.5 Key risks

Topic	Summary	For more information
Prospa's customers may not repay their financial obligations to Prospa	If Prospa's customers[22] do not pay Prospa the principal, interest and fees owing under their contract then Prospa may experience a decrease in revenue, increase in expenses (including an increase in impairment expenses and an increase in funding costs), and/or decrease in operating cash flows received, which may have a material adverse effect on Prospa's business, financial condition, operating and financial performance, and availability and cost of funding. Prospa's funding arrangements include a term under which no further draw down is permitted to fund new loans where losses increase significantly above expected levels.	**Section 5.2.1**
Prospa may be unable to access funding or funding may only be available on less favourable terms	A loss of, or adverse impact to, one or more of Prospa's funding sources (which include the Warehouse Facilities, the Term Facilities, Corporate Debt Facility and the use of Prospa's equity), could limit Prospa's ability to write new loans or to write new loans on favourable terms. This includes an inability to extend or refinance expiring facilities, an inability to set up new funding platforms to fund growth in loans, or an increase in funding costs which reduces Prospa's profitability or its ability to write profitable loans. This would have a material adverse effect on Prospa's business, financial condition, operating and financial performance, and/or growth.	**Section 5.2.2**
Prospa may not successfully execute one or all of its growth strategies	Prospa plans to achieve high rates of growth by executing its strategies, which include achieving a high level of repeat rates from existing customers, further penetration and activation of its distribution network (including the direct channel, intermediary and partner ecosystems), scaling operations in New Zealand and the launch and scaling of new products. There is no guarantee that all or any of Prospa's growth strategies will be successfully implemented, deliver the expected returns or ultimately be profitable. There is also a risk that the growth strategies may be subjected to unexpected delays and additional implementation costs.	**Section 5.2.3**

22 For the purposes of Section 1.5, 'customer' or 'customers' refer to customers of Prospa's small business loan, line of credit and Prospa Pay products.

Topic	Summary	For more information
Prospa's business may be impacted by existing or new regulations or the threat of regulations	The financial services sector is undergoing a significant period of political and regulatory scrutiny and regulators are showing a heightened willingness to take action. Future changes to law or regulation, or potential changes to law or regulation which oblige industry participants to proactively change their business models, alter their funding arrangements or change their pricing disclosure, or regulator action could have a material adverse effect on Prospa's business, financial position, operating and financial performance, and/or growth.	**Section 5.2.4**
Prospa may fail to comply with key regulations such as those focused on money laundering and privacy	Prospa's business activities are subject to laws and regulations including the FSCODA, AML/ CTF Act and the Privacy Act. Prospa could face civil penalty proceedings, other legal or regulatory sanctions or reputational damage as a result of any failure to comply with applicable laws, regulations, or codes of conduct. A breach in any of these areas could result in fines or penalties and the payment of compensation to affected parties which could have a material adverse effect on Prospa's business, financial condition, operating and financial performance, and/or growth.	**Section 5.2.5**
Prospa is highly reliant on its Distribution Partners	Prospa currently has relationships with a significant number of Distribution Partners including Finance Brokers, aggregator networks, accountants and enterprise partners (in total representing approximately 71% of new and repeat loan originations in CY18). The majority of these relationships are not exclusive and some of these Distribution Partners are likely to also have relationships with competitors of Prospa. Prospa may not be able to retain its existing Distribution Partners (including because short term arrangements are not renewed), or may not be able to increase the number of Distribution Partners in its network, which may have a material adverse effect on Prospa's business, financial condition, operating and financial performance, and/or growth.	**Section 5.2.6**
Prospa's credit framework, credit processes or the CDE may fail to assess credit risk accurately	Prospa relies on its credit risk framework to define the appropriate credit processes, determine the reliance on the CDE, set appropriate parameters for its risk grades to assess credit risk, set pricing appropriate to those risk levels given the expected levels of default and monitor portfolio credit risk. There is a risk that inadequate or failed operation of the credit process may result in Prospa unintentionally accepting additional credit risk above its expectations. This includes a risk that Prospa's current credit processes and CDE may fail to adequately assess and monitor credit risk under periods of changing or worsening economic conditions across the economy or within certain regions or industries which Prospa services. Furthermore, Prospa's CDE has been calibrated with data since 2013, which is largely considered by management as a benign economic environment. This may limit the CDE's efficacy in an economic downturn. Prospa's funding is tied to its loss performance, and any observed deterioration in its ability to assess credit may impact its ability to access funding. Prospa's ability to access funding is predicated on its ability to generate stable static loss rates over time. Additional credit risk and credit losses above expectation may have a material adverse effect on Prospa's business, financial condition, operating and financial performance, availability and cost of funding and/or growth.	**Section 5.2.7**

Topic	Summary	For more information
Prospa may experience a disruption or failure in its technology, or its technology or product offering may become obsolete	Prospa's ability to deliver fast and easy access to finance for its customers and to successfully price credit risk depends on the efficient and uninterrupted operation of its cloud-based technology platform and proprietary CDE. There is a risk that Prospa's technology platform and CDE may experience downtime or interruption from system failures, service outages, corruption of information technology network or information systems as a result of computer viruses, bugs, worms or cyberattacks, as well as natural disasters, fire, power outages or other events outside the control of Prospa, and that measures implemented by Prospa to protect against such events are ineffective. Any systemic failure could cause significant damage to Prospa's reputation, its ability to make informed credit decisions and assess the credit performance of its loan book, its ability to service customers in a timely manner, and its ability to retain existing customers and generate new customers, any of which could have a materially adverse impact on Prospa's business, operating and financial performance, and/or growth.	**Section 5.2.8**
Other risks	A number of other risks relating specifically to an investment in Prospa and generally to an investment in Shares are set out in Section 5, including: – Prospa may experience a security or data breach including from cyberattacks; – Prospa may be unable to pass on an increase in interest rates to customers or an increase in interest rates may reduce demand for loans; – Prospa operates in a competitive market, with a range of alternative products available and increasing levels of competition; – Prospa's cost of direct marketing may increase and/ or its effectiveness may be lower than expected; – Prospa's repeat customers may be lower than expected; – Prospa's intellectual property may be compromised or lost; – Prospa is very reliant on third party vendors, information technology suppliers, and software and infrastructure providers; – Prospa is exposed to adverse economic conditions across the Australian and New Zealand economies and specific segments of them; – Prospa's brand and/or reputation may be damaged; – Prospa is exposed to operational risks including conduct risk and business continuity risk; – Prospa may incur liabilities in relation to funding vehicles, including with respect to originating, servicing, trustee, or trust management contracts; – Prospa is likely to require additional capital in the future to continue its growth in the medium term; – Prospa may be exposed to fraud; – Prospa may suffer a loss of, or be unable to attract key personnel; – Prospa may face potential litigation, claims and disputes; and – Other investment risk factors, including economic factors, liquidity, Shareholder dilution, taxation changes, changes in Australian Accounting Standards and force majeure events.	**Sections 5.2.9 to 5.2.23 and Section 5.3**

1.6 Prospa Directors and senior executives

Topic	Summary	For more information
Who are the Directors and senior management at the Company?	**Directors** – Gail Pemberton, AO – Independent Non-Executive Chairman – Greg Ruddock – Independent Non-Executive Director – Fiona Trafford-Walker – Independent Non-Executive Director – Avi Eyal – Non-Executive Director – Greg Moshal – Joint CEO & Executive Director – Beau Bertoli – Joint CEO & Executive Director **Senior Management** – Greg Moshal – Joint CEO – Beau Bertoli – Joint CEO – Ed Bigazzi – Chief Financial Officer – Ben Lamb – Chief Operating Officer – Damon Pezaro – Chief Product Officer – Richard Miller – Chief Technology Officer – Emma Robinson – Chief Marketing Officer – Matthew Bauld – Executive General Manager, Sales & Business Development – Elise Ward – Executive General Manager, People & Culture	**Sections 6.1 and 6.2**

1.7 Significant interests of key people and related party transactions

Topic	Summary	For more information
Who are the Existing Shareholders and what will be their interest post Completion?	See table below	**Section 7.1.3**

	Economic interest held in Prospa Advance[23] immediately prior to Completion		Shares in the Company held on Completion[24]	
	m[25]	%	m	%
Entrée Capital[26]	54.0	37.1%	54.5	33.8%
Greg Moshal[27]	27.3	18.8%	24.7	15.3%
Beau Bertoli[27]	12.3	8.5%	9.7	6.0%
Airtree Ventures	14.6	10.0%	14.6	9.1%
Square Peg Capital	6.0	4.1%	6.0	3.7%
Other Existing Shareholders	31.1	21.4%	29.4	18.2%
New Shareholders	–	–	22.4	13.9%
Total	**145.4**	**100.0%**	**161.4**	**100.0%**

Topic	Summary	For more information
What significant benefits are payable to Directors and other persons connected with the Company or the Offer and what significant interests do they hold?	On Completion, the Directors and employees will hold (directly or indirectly) the following Shares:	**Section 6.3**

	Immediately prior to Completion		On Completion	
Directors[28]	Shares[29]	Director Options[30]	Shares[31]	Director Options
Gail Pemberton	99,126	95,556	99,126	120,556
Greg Ruddock	1,975,407	–	1,033,611	25,000
Fiona Trafford-Walker	–	95,556	–	120,556
Avi Eyal	3,212,931	92,592	2,419,280	92,592
Greg Moshal	27,346,743	1,286,640	24,701,240	1,286,640
Beau Bertoli	12,346,743	1,286,640	9,701,240	1,286,640

Directors and senior management are entitled to remuneration and fees on commercial terms as described in Section 6.3.

Further, the Directors (or entities associated with them) may each receive proceeds (before agreed fees and expenses) in connection with sales of their economic interest in Prospa Advance to the Company on Completion.

Advisers and other service providers are entitled to fees for services and have other interests as disclosed in Section 6.3.5.

23 Economic interest held by Existing Shareholders is based on a value allocation methodology agreed amongst the Existing Shareholders.

24 Certain Existing Shareholders were allocated approximately 6.6 million Shares in the Institutional Bookbuild, including Entrée Capital who were allocated approximately 1.3 million Shares and AustralianSuper who were allocated approximately 5.3 million Shares. The holding information for the Existing Shareholders excludes any other Shares which they may acquire as part of the Offer subsequent to the Institutional Bookbuild at the Offer Price.

25 Expressed as ordinary shares and reflecting a notional 3 for 1 share split.

26 Avi Eyal is the co-founder and Managing Partner of Entrée Capital.

27 And/or their associated entities.

Topic	Summary	For more information
Will any Shares be subject to restrictions on disposal following Completion?	Yes. Escrowed Shares held at Completion of the Offer by the Escrowed Shareholders will be subject to voluntary escrow arrangements and certain exceptions described in section 9.7. Following Completion, Escrowed Shares held by: – Entrée Capital and the Founder Shareholders will be subject to escrow from Completion until 4:15pm on the date the Company's financial results for the year ending on 30 June 2020 have been released to the ASX; and – All other Escrowed Shareholders, including Airtree Ventures and Square Peg Capital, will be subject to escrow from Completion until 4:15pm on the date the reviewed financial accounts of the Company for the half year ending on 31 December 2019 have been released to the ASX. In aggregate, 114.8 million Shares will be the subject of these escrow arrangements, representing approximately 71% of the total Shares on issue immediately following Completion. Beyond the escrow period, the Co-Founders have confirmed to the Company that as part of their long-term strategies for individual asset diversification, it is their current intention to see the orderly sale of up to 11% per annum of their post-escrow holdings in each of the FY21, FY22 and FY23 periods.	**Section 9.7**

1.8 Overview of the Offer

Topic	Summary	For more information
What is the Offer?	The Offer is an initial public offering under which the Company is offering to issue 29.0 million Shares at the Offer Price of $3.78 per Share (other than Shares under the Employee Offer, which will be issued at a discounted price of 90% of the Offer Price, being $3.40 per Share), raising proceeds of approximately $109.6 million. 132.3 million Shares will also be issued to Existing Shareholders on Completion in connection with the Restructure (see Section 9.4). The Shares issued to the Existing Shareholders will be issued under this Prospectus at the Offer Price. Successful Applicants under the Employee Offer will pay a discounted price of 90% of the Offer Price. Each Share issued and transferred under this Prospectus will, from the time they are issued and transferred, rank equally with all other Shares on issue.	**Section 7.1**
Who is the issuer of this Prospectus?	Prospa Group Limited	**Section 7.1**

28 And/or their associated entities.
29 Expressed as ordinary shares and reflecting a notional 3 for 1 share split.
30 Reflecting a notional 3 for 1 share split.
31 Excludes any Shares which the Directors may acquire as part of the Offer at the Offer Price.

Topic	Summary	For more information
What is the proposed use of funds raised under the Offer?	The Offer is being conducted to: 1. Support our growth strategies, including investment in: – Improving and growing our term loan product for small business, including providing cash to fund our investment in the equity portion of the loan book; – Developing operating leverage and other operational efficiencies by investing in technology development and talent; and – Increasing our addressable market through product development and market expansion; 2. Support working capital; 3. Repay our PFG Corporate Debt Facility[32]; 4. Provide us with access to listed capital markets for future growth; and 5. Allow certain Existing Shareholders an opportunity to realise all or part of their investment in the Company.	**Section 7.1.2**
How is the Offer structured?	The Offer comprises: – the Institutional Offer, which consists of an offer to Institutional Investors in Australia and certain other jurisdictions around the world, made under this Prospectus. – the Retail Offer, consisting of the: – Broker Firm Offer, which is open to Australian resident retail clients and New Zealand resident sophisticated retail clients of Brokers who have received a firm allocation of Shares from their Broker; – Priority Offer, which is open to selected investors in Australia and New Zealand nominated by the Company; and – Employee Offer, which is open to Eligible Employees. No general public offer of Shares will be made under the Offer.	**Section 7.1.1**
Is the Offer underwritten?	Yes. The Offer is fully underwritten by the Joint Lead Managers.	**Section 7.2**
Who are the Joint Lead Managers on the Offer?	The Joint Lead Managers are Macquarie Capital (Australia) Limited and UBS AG, Australia Branch.	**Section 7.2**
Will the Shares be quoted on ASX?	The Company will apply to the ASX within seven days of the Prospectus Date for its admission to the Official List and quotation of Shares on the ASX (under the code "PGL"). It is anticipated that quotation will initially be on a conditional and deferred settlement basis. If approval is not given within three months after such application is made (or any longer period permitted by law), the Offer will be withdrawn and all Application Monies received will be refunded without interest as soon as practicable in accordance with the requirements of the Corporations Act.	**Section 7.2**

32 At Completion, Prospa expects its existing PFG Corporate Debt Facility will be repaid in full and cancelled through redemption for cash ($17 million) and conversion into issued capital ($3 million).

Topic	Summary	For more information
What is the allocation policy?	The allocation of Shares between the Broker Firm Offer, Priority Offer, Employee Offer and Institutional Offer was determined by agreement between the Joint Lead Managers and the Company having regard to the allocation policies outlined in Sections 7.3.4, 7.4.4, 7.5.5 and 7.8.2. – **Institutional Offer:** The allocation of Shares among Applicants in the Institutional Offer was determined by agreement between the Joint Lead Managers and the Company. – **Broker Firm Offer:** With respect to the Broker Firm Offer, it is a matter for the Brokers how they allocate Shares among their retail clients and they (and not the Company or the Joint Lead Managers) will be responsible for ensuring that eligible retail clients who have received an allocation from them receive the relevant Shares. – **Priority Offer:** Allocations under the Priority Offer will be at the absolute discretion of the Company. The Priority Offer is capped at $6.8 million. – **Employee Offer:** Allocations under the Employee Offer will be at the absolute discretion of the Company. The Employee Offer is capped at $1.5 million.	**Section 7.2**
Is there any brokerage, commission or stamp duty payable by Applicants?	No brokerage, commission or stamp duty is payable by Applicants on acquisition of Shares under the Offer.	**Section 7.2**
What are the tax implications of investing in the Shares?	Summaries of certain Australian tax consequences of participating in the Offer and investing in Shares are set out in Section 9.13. The tax consequences of any investment in Shares will depend upon an investor's particular circumstances. Applicants should obtain their own tax advice prior to deciding whether to invest.	**Section 7.2**
When will I receive confirmation that my Application has been successful?	It is expected that initial holding statements will be dispatched by standard post on or about Friday, 14 June 2019.	**Section 7.2**

Topic	Summary	For more information
What is the minimum Application size?	**Broker Firm Offer** The minimum Application size under the Broker Firm Offer is 530 Shares, the nearest number of whole Shares to the value of $2,000 (rounded up) at the Offer Price. There is no maximum value of Shares that may be applied for under the Broker Firm Offer. **Priority Offer** The minimum Application size by Applicants, who have received an invitation to apply for Shares under the Priority Offer, is 530 Shares, the nearest number of whole Shares to the value of $2,000 (rounded up) at the Offer Price. There is no maximum value of Shares that may be applied for under the Priority Offer. **Employee Offer** The minimum Application size by Eligible Employees under the Employee Offer is 295 Shares, the nearest number of whole Shares to the value of $1,000 (rounded up) at a discounted price of 90% of the Offer Price.	**Section 7.2**
How can I apply?	**Institutional Offer Applicants** The Joint Lead Managers have separately advised Institutional Investors of the Application procedure under the Institutional Offer. **Broker Firm Offer Applicants** Broker Firm Offer Applicants may apply for Shares by completing a valid Broker Firm Offer Application Form attached to, or accompanying, this Prospectus and lodging it with the Broker who invited them to participate in the Broker Firm Offer. **Priority Offer Applicants** Priority Offer Applicants who receive an invitation to apply for Shares under the Priority Offer should follow the instructions provided within their personalised letter and Section 7.4. **Employee Offer Applicants** Eligible Employees should have received a letter of offer detailing the terms of the Employee Offer, together with this Prospectus. Eligible Employees may apply for Shares online and must comply with the instructions in the letter of offer and as detailed on the Offer website https://www.prospa.com/ipo. To the extent permitted by law, an Application under the Offer is irrevocable.	**Sections 7.3, 7.4, 7.5 and 7.8**
When can I sell my Shares on the ASX?	It is expected that trading of Shares on the ASX will commence on or about Tuesday, 11 June 2019 on a conditional and deferred settlement basis. It is expected that dispatch of holding statements will occur on or about Friday, 14 June 2019 and that Shares will commence trading on the ASX on a normal settlement basis on Monday, 17 June 2019. It is the responsibility of each Applicant to confirm their holding before trading their Shares. Applicants who sell Shares before they receive an initial holding statement do so at their own risk.	**Section 7.2**

Topic	Summary	For more information
Can the Offer be withdrawn?	The Company may withdraw the Offer at any time before the issue of Shares to Successful Applicants under the Offer. If the Offer, or any part of it, does not proceed, all relevant Application Monies will be refunded. No interest will be paid on any Application Monies refunded as a result of the withdrawal of the Offer.	**Section 7.13**
Where can I find out more information about this Prospectus or the Offer?	All enquiries in relation to this Prospectus should be directed to the Prospa IPO Offer Information Line on: – within Australia: 1800 451 641; or – outside Australia +61 1800 451 641, from 8:30am to 5:30pm (Sydney Time), Monday to Friday. If you have any questions about whether to invest in the Company, you should seek professional advice from your accountant, financial adviser, stockbroker, lawyer or other professional adviser before deciding whether to invest.	**Section 7.2**

Industry overview

2.1 Introduction

We operate primarily in the Australian small business lending sector, in which industry participants provide finance solutions to small businesses to manage cash flow and fund growth initiatives.

This section provides an overview of the small business sector in Australia and the key financing alternatives available, and describes the emergence of online non-bank lending alternatives and relevant key trends.

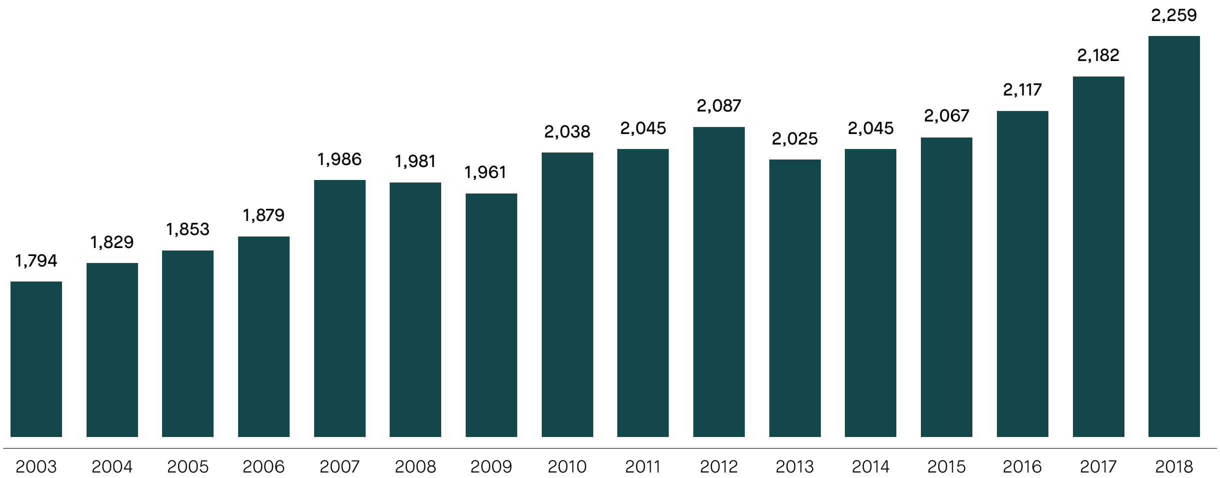
We also entered the New Zealand small business lending sector in the second half of CY18. Refer to Section 3.5.3 for an overview of the small business lending sector in New Zealand.

2.2 Overview of the small business sector in Australia

Small businesses are integral to the Australian economy. According to the Australian Bureau of Statistics ("ABS"), a total of 2.31 million businesses were operating in Australia as at 30 June 2018 of which 2.26 million were small businesses, representing approximately 98% of all businesses[1]. In 2017, small businesses employed 44% of Australia's private sector workforce[2] and generated 35% of Australia's GDP[3].

As shown in Figure 1 below, the number of Australian small businesses has grown modestly at 1.5% per annum over the last 15 years (from 1.79 million in 2003 to 2.26 million in 2018), and remained resilient during the 2008 global financial crisis.

Figure 1: Number of Australian businesses with fewer than 20 employees (thousands)[4]



1 Small businesses defined as having fewer than 20 employees, including non-employing businesses; ABS 8165 (Counts of Australian Businesses including Entries and Exits), June 2013 – June 2018 (released in February 2019).

2 Small businesses defined as having fewer than 20 employees; small businesses provided employment for approximately 4.8 million people in 2017 which was 44% of the workforce excluding the financial, insurance and public services (as defined in the dataset; ABS 8155 (Australian Industry), 2016-17 (released in May 2018)).

3 GDP excluding financial, insurance and public sectors (as defined in the dataset, ABS 8155 (Australian Industry), 2016-17 (released in May 2018)).

4 Small businesses defined as having fewer than 20 employees, including non-employing businesses; ABS 8165 (Counts of Australian Businesses including Entries and Exits), June 2014 – June 2018 (released in February 2019), June 2013 – June 2017 (released in February 2018), June 2008 – June 2012 (released in May 2013); June 2003 – June 2006 (released in February 2007). Numbers as at June year end.

Australian small businesses operate across a wide range of industries and regions as depicted in Figure 2 and Figure 3 below.

Figure 2: Australian small business sector industry split (based on number of employees) as at 30 June 2018[5]

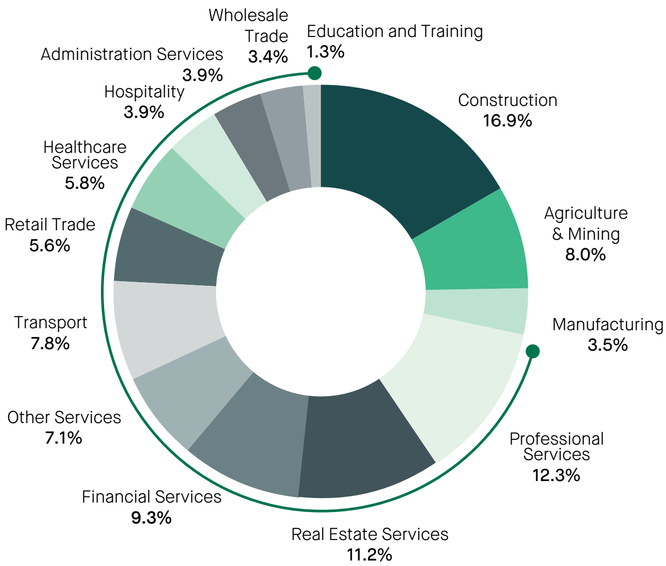
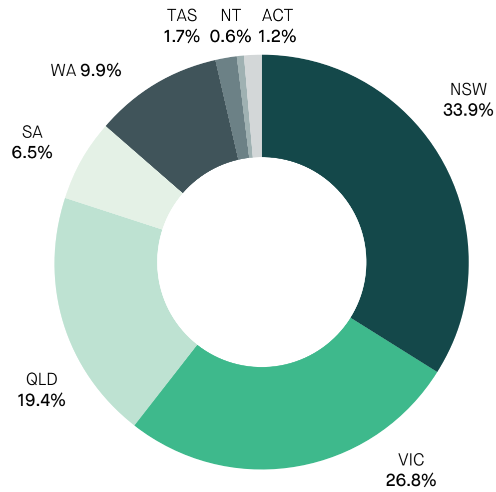


Figure 3: Australian small business sector geographic split (based on number of employees) as at 30 June 2018[5]



Over 70% of the Australian small business sector is comprised of services-related businesses, with the balance consisting of construction (16.9%), agriculture (8.0%) and manufacturing (3.5%). Geographically, Figure 3 shows the majority of Australian small businesses are concentrated in New South Wales, Victoria and Queensland.

2.3 The need for funding by small businesses

Small businesses seek debt or equity finance for a number of business activities. The key reasons include[6]:

- maintaining short-term cash flow or liquidity;
- replacing, upgrading or purchasing additional equipment or machinery;
- pursuing expansion opportunities; and/or
- introducing new or improved goods, services or processes.

Maintaining short-term cash flow or liquidity is the most common reason given by small businesses for seeking finance[6]. This is due to the fact there are often delays between the performance of services or delivery of goods, and the payment of invoices by customers. The 2017 Payment Times and Practices Inquiry, conducted by the Australian Small Business and Family Enterprise Ombudsman ("ASBFEO"), found that in the last financial year one in four businesses experienced an average payment delay of 31 to 60 days past agreed terms[7].

The need for finance may also be attributed to seasonality. For example, a retailer may need to stock up for the holiday season, or a professional services business may need funds to cover rent or wages during the low sales volume month of January. Funding can also be required to help a small business owner seize a growth opportunity, such as a hair salon purchasing bulk stock before the end of financial year to secure a discount, or a builder purchasing materials to start a new contract.

Furthermore, small business owners are often time poor, with research by YouGov showing that approximately 54% of small business owners report working 6 – 7 days a week, and 82% of small business owners cut back on other activities to spend more time working on their business[8]. This further highlights the need for a quick application and funding process.

5 Small businesses defined as having fewer than 20 employees, including non-employing businesses; ABS 8165 (Counts of Australian Businesses including Entries and Exits). June 2018 (released in February 2019).

6 Small businesses defined as having less than 20 employees, including non-employing businesses; ABS 8167 (Selected Characteristics of Australian Business). June 2017 (released in August 2018).

7 ASBFEO Issues Paper – Payment Times and Practices (issued February 2017).

8 YouGov survey for Prospa of small business owners who work full time in their business, November 2018. YouGov is an independent, publicly listed global consumer insight company.

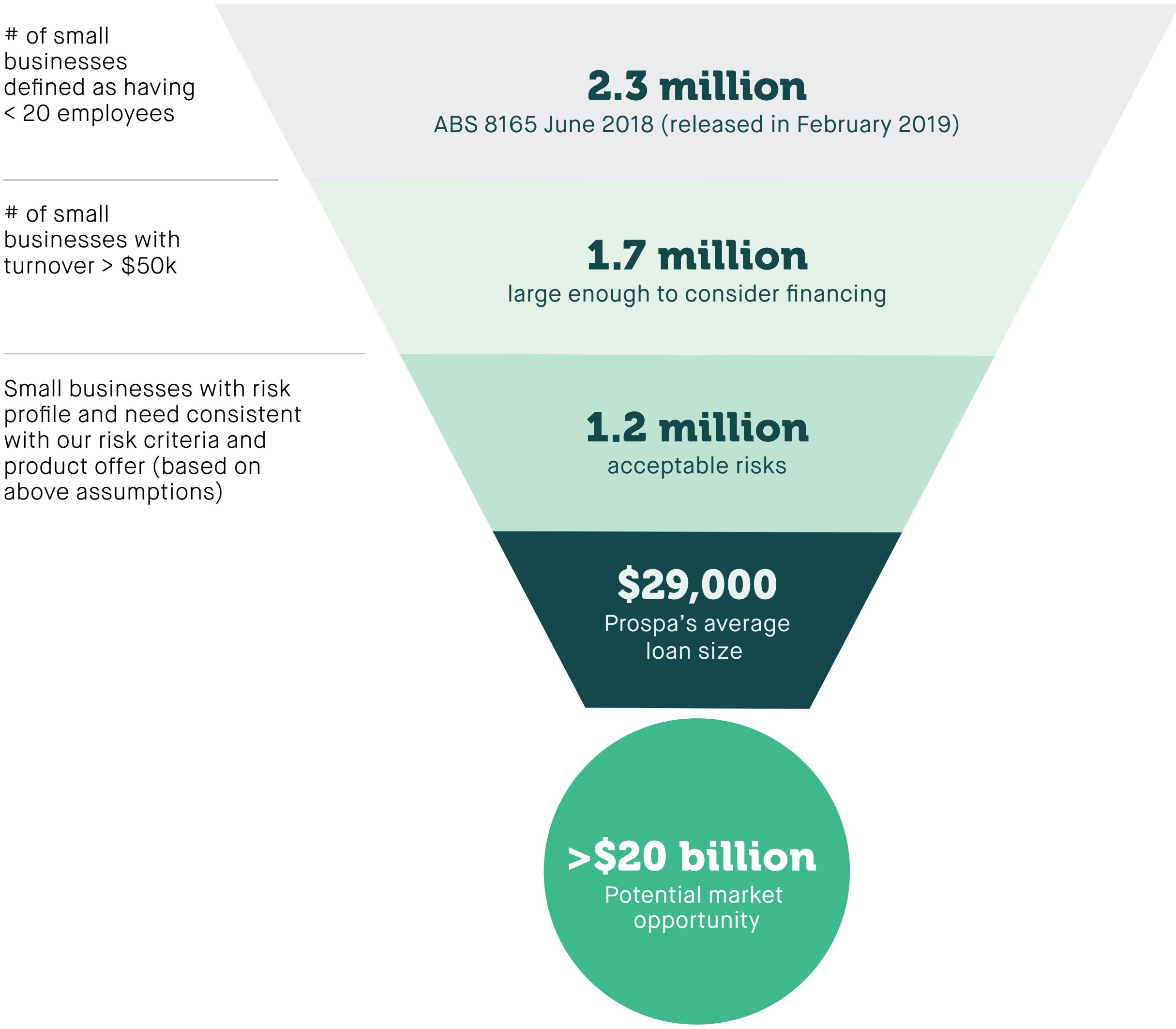
2.4 The small business lending market opportunity

There is no current authoritative published source on the size of the small business lending market opportunity in Australia. In order to estimate the potential market opportunity, we have used a combination of publicly available market data in relation to the number of small businesses in Australia, combined with internally generated data and certain assumptions around their need for finance. The key assumptions include that the broader Australian small business lending market and our current portfolio are similar in composition in terms of need for finance and credit characteristics, and that our average loan size of $29,000 is representative of the average funding need of small businesses. We believe there is unmet demand for credit-related products for small business and that the application of our technology and marketing activity can stimulate additional demand for our products and expand the total opportunity for small business lending.

Of the 2.3 million small businesses in Australia[9], only 1.7 million make an annual turnover of over $50,000, representing businesses we consider to be of a sufficient size to be funded by business loans. Of these small businesses, 1.2 million would have a risk profile and customer need that are consistent with our risk criteria and product offering, based on the above assumptions. At our average loan size of $29,000[10], our estimate of market opportunity for small business lending in Australia is therefore in excess of $20 billion (based on our top down analysis in Figure 4, and the above assumptions).

We have served over 19,000 unique customers since our establishment in 2012, which accounts for approximately 2% of the 1.2 million small businesses in Australia which we have estimated to have acceptable risk profiles (based on the above assumptions).

Figure 4: Top down analysis of total potential market opportunity[11]



9 Small businesses defined as having fewer than 20 employees, including non-employing businesses; ABS 8165 (Counts of Australian Businesses including Entries and Exits). June 2018 (released in February 2019).

10 Average metrics based on loans originated between 1 January 2018 to 31 December 2018.

11 Determined based on the key assumptions set out in Section 2.4.

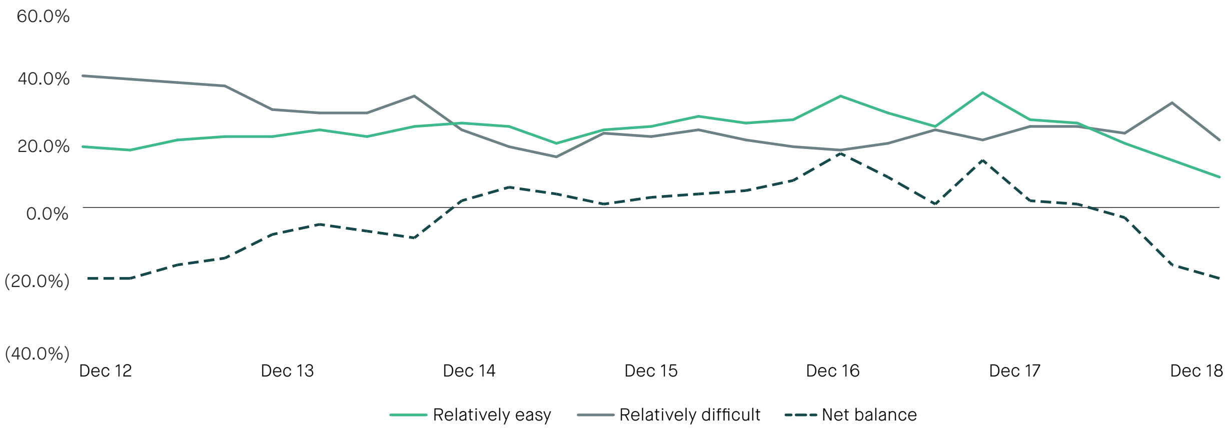
2.5 Small business financing alternatives

Many small businesses in Australia find it challenging to access finance from traditional lenders, such as banks, particularly without providing real property as security.[12] A number of additional factors that impact small businesses' ability and appetite to borrow from traditional lenders include:

- **Structural challenges:** due to regulatory capital requirements, the lending portfolios of Australian banks are typically weighted to residential mortgages, and their commercial lending divisions predominantly focus on sizable debt facilities to larger corporate businesses;
- **Products not well suited to small business:** traditional banks mostly offer business lending products typically with longer approval times, larger amounts, longer terms, inflexible monthly repayments and strict security requirements. We consider the key lending products available to small businesses from traditional banks are either small business loans secured over residential property, personal credit cards and, in some cases, invoice financing;
- **Information requirements:** Banks often have more onerous information requirements to undertake a credit assessment, including requiring the small business to provide a large amount of information and documentation such as profit and loss statements and/or business plans; and
- **Risk appetite:** for a direct small business loan, banks are often reluctant to extend finance without some form of security, such as real property, to reduce the perceived risk of lending to small businesses.[13] Small businesses often have limited business assets, and either do not own property to use as security, or their owners may not wish to provide security over their personal assets[14] .

According to the December 2018 Sensis Business Index, approximately 30% of small businesses that tried to access finance in the previous quarter were unsuccessful. As shown in Figure 5, the portion of businesses reporting difficulty accessing finance increased by 6% to 30% from the December 2017 to December 2018 quarter.

Figure 5: Sensis Business Index, access to finance, 2012-2018[15]



As a result, many small businesses often turn to a fragmented range of finance options, including equipment and vehicle finance, invoice financing, debtor financing, personal credit cards, borrowing from family and friends, or drawing down on their personal home mortgage. Each of these options comes with challenges.

Table 1 outlines some of the current financing alternatives available to small businesses and their related advantages and disadvantages.

12 Access to Small Business Finance – Reserve Bank of Australia (September 2018).
13 Access to Small Business Finance – Reserve Bank of Australia (September 2018).
14 Australian Centre for Financial Studies – Lending to Small and Medium Enterprises – Submission to Financial System Inquiry (2016).
15 Sensis Business Index December 2018 – released February 2019.

Table 1: Key financing products for small businesses

Financing option	Description	Advantages for small businesses	Disadvantages for small businesses
Bank loans	Provision of a range of lending products such as term loans and overdrafts from traditional banking institutions	✓ Relatively lower cost to the customer ✓ Consolidated view of all business accounts	✕ Often requires asset security as collateral (such as residential property) ✕ Small businesses may fall outside credit decision matrices ✕ Often associated with a time-consuming application process
Credit cards	Provision of a line of credit from traditional banking institutions and other specialist providers	✓ Often no asset security required to access finance ✓ Easily accessible ✓ Ongoing access to funds	✕ Small business owners often need to apply for a personal line of credit ✕ Credit limit may be insufficient for both business and personal needs
Equipment financing	Provision of a loan or a lease to purchase equipment or assets for a small business	✓ Tailored solution for asset-based businesses ✓ Relatively lower cost to the customer	✕ Often specific to certain use cases and asset-intensive industries (including construction, mining and agriculture)
Invoice financing	Provision of a cash advance to a small business against the value of their trade receivables	✓ Short-term working capital finance solution ✓ Ongoing access to funds	✕ Only relevant to invoice-based businesses ✕ Requires due diligence by financier over trade receivables counterparties
Debtor financing	Provision of a cash advance to a small business in exchange for the legal transfer of the small business' trade receivables to the financier	✓ Short-term working capital finance solution ✓ Ongoing access to funds	✕ Only relevant to invoice-based businesses ✕ 'Higher friction' model where financier takes control of debtor ledger ✕ Requires due diligence by financier over trade receivables counterparties
Online loans	Provision of financing solutions through online lending platforms such as Prospa	✓ Typically, no asset security is required to access finance[16] ✓ Credit decision predominately based on cash flow serviceability of business using multiple data sources ✓ Ongoing access to funds	✕ Higher cost to the customer relative to traditional funding provided by banks

16 For loans over $100,000 Prospa requires security registered on the PPSR. For all loans a personal guarantee is required. Guarantor(s) are assessed on a loan-by-loan basis and individual guarantors are either directors or shareholders of the borrowing business or a related business or a sole trader or a partner in a partnership operating the borrowing business.

2.5.1 Competitive landscape

The Australian small business lending sector is comprised of a number of industry participants including banks, non-bank lenders and Fintech or online lenders:

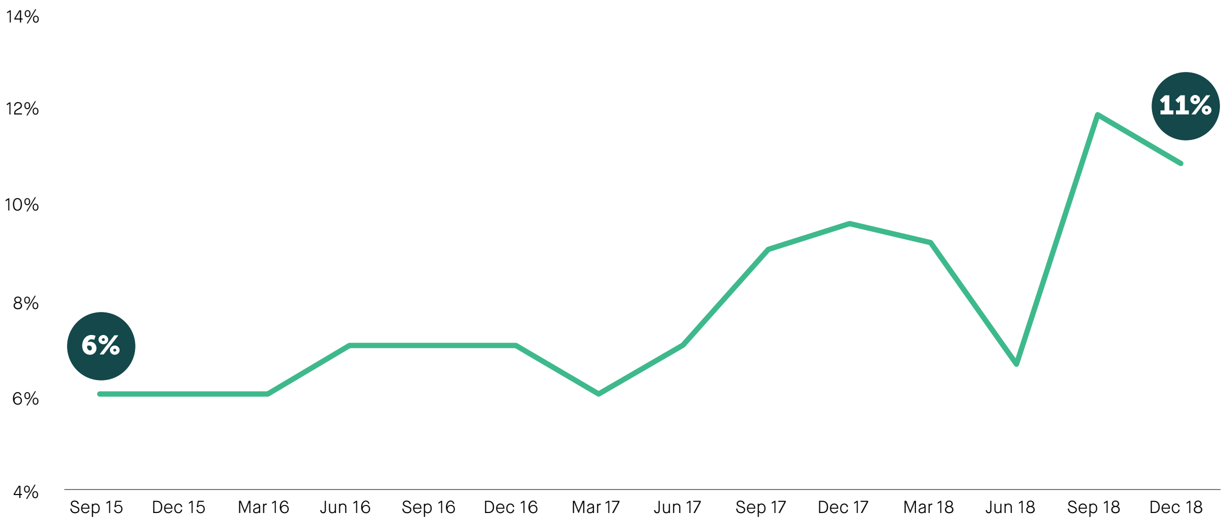
- **Banks:** These participants typically offer a range of business lending products including secured term loans, overdraft facilities, invoice financing and credit cards. Key participants in this group are the major banks (including ANZ, Commonwealth Bank, NAB, and Westpac) alongside smaller banks (including Bank of Queensland and Bendigo and Adelaide Bank). Some banks have launched an offering in the online small business lending market, including NAB's QuickBiz product; while small and medium enterprise lender, Judo Capital, has recently been awarded a banking licence;
- **Non-bank lenders:** These participants typically specialise in niche products which fall outside of traditional banking institution focus areas. There are a broad range of participants, including equipment finance providers (including Eclipx Group, FlexiGroup and Silver Chef) as well as debtor and invoice finance providers (including Scottish Pacific); and
- **Fintech or online lenders:** These participants use technology as a focal point of their business model to specifically address the financing needs of small businesses. Within this category there are two distinct business models: balance sheet lenders and marketplace (peer-to-peer) lenders. The balance sheet model can be broadly characterised by institutional warehouse funding and the use of technology to assess the credit worthiness of customers using multiple data points and sources. Key participants in this group include Prospa, Capify, Get Capital, Moula, OnDeck and SpotCap. A number of technology companies, with large small business networks, have also started diversifying their operations into balance sheet small business lending. Key participants who have already commenced providing lending services, or expressed a strategic intention to do so, include Square, PayPal, Amazon and Tyro. The marketplace model uses technology to match lenders and funders and key participants include BigStone and ThinCats.

2.5.2 Online small business lending

We believe the use of online lenders, such as Prospa, by Australian small businesses is increasing due to their ability to provide easy online application processes, timely credit decisions and funding, unsecured finance, payment flexibility and an excellent customer experience.

According to the Australian SME Banking Council, and as shown in Figure 6 below, as at 31 December 2018, 11% of Australian small businesses surveyed considered alternative forms of financing; a statistic which has almost doubled since September 2015[17]. As awareness of the alternatives for small business financing increase, we expect small business owners will increasingly explore alternative forms of finance.

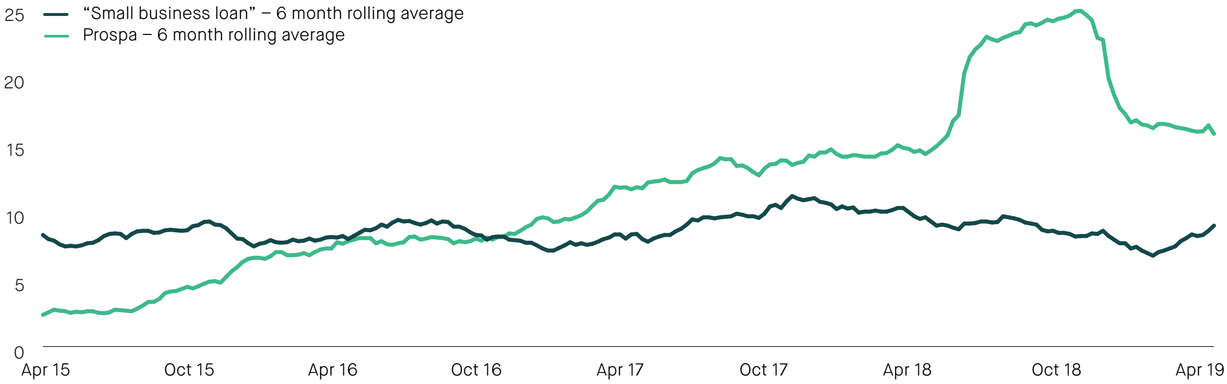
Figure 6: Market consideration for alternative business lender[18]



Increasing awareness of the online small business lending sector can also be seen in the increasing number of online searches for business lending products in recent years. Figure 7 shows the relative interest for the key words "small business loan" and "Prospa" in Google search since April 2015. Google users have increasingly searched for "small business loan", with "Prospa" as a key search term overtaking "small business loan" in November 2016.

17 RFi Group, Australian SME Banking Council, December 2018; market consideration percentage based on survey results.
18 RFi Group, Australian SME Banking Council, December 2018; market consideration percentage based on survey results.

Figure 7: Australian-based, search volume over time for key terms "Small business loan" and "Prospa" on Google[19]



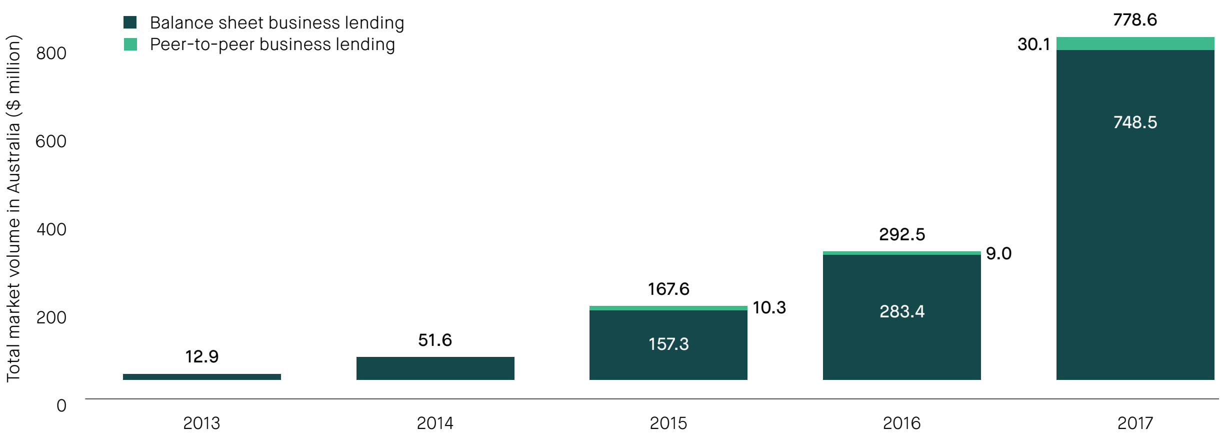
Increased awareness has been driven by a number of factors including:

- Increased number of industry participants;
- Increased marketing investment by industry participants;
- Increased media discussion of online lenders; and
- The Australian government (the "Government") reference to online lenders as a viable alternative source of finance for small business owners (at both the State and Federal level).

The online lending sector in Australia is still relatively new, but recent growth figures indicate it is a viable disruptor to incumbent small business lenders. The Australian online alternative finance market, including both consumer and business lending, grew by 88% in the 12 months to 31 December 2017 to $1.5 billion[20]. As mentioned in Section 2.5.1, online alternative finance providers can be segmented by business model, including balance sheet lending platforms, such as Prospa, typically funded by institutions, together with marketplace or peer-to-peer ("P2P") platforms that match borrowers and lenders.

Balance sheet business lending platforms comprise the largest share of the market with $749 million volume in 2017. This was also the fastest growing segment in that year, with 164% growth in the 12 months to 31 December 2017[20]. These lenders typically bear the risk of holding the loans they approve on their balance sheet or through a special purpose vehicle. Marketplace or P2P business lending platforms represent a smaller portion of the Australian online small business lending sector, with a total market volume of $30.1 million in 2017[20]. Based on these 2017 market volume figures, Prospa held approximately 51% of the Australian online balance sheet small business lending market in 2017, with the remaining volume being held by a number of smaller competitors.

Figure 8: Australian online balance sheet and marketplace business lending volume[20]



19 Google trends as at 14 April 2019 (accessed 17 April 2019); 'Interest over time' defined as interest relative to the highest weekly point since October 2014. A value of 100 is peak popularity for the term, a value of 50 equates to the term being half as popular and a value of 0 means the term was less than 1% as popular as the peak. Note that peak in search interest for Prospa between June – December 2018 coincided with the timing of the previously withdrawn IPO process.

20 Total Market Volume in Australia. KPMG "Diversifying Growth" 3nd Asia Pacific Region Alternative Finance Industry Report, November 2018; USDAUD FX rate of 1.304 (average for CY17).

As shown in Figure 8 above, the online balance sheet small business lending sector has been growing significantly in recent years (176% CAGR between 2013 and 2017) but still remains small in comparison to our estimate of the total potential opportunity for the small business lending market, which, based on the top down analysis in Section 2.4, is over $20 billion[21]. This suggests significant remaining potential opportunity for online lending platforms through increased awareness and penetration.

2.6 Key sector trends for small business lending

There are several key trends impacting the small business lending sector in Australia including:
- growth in small business total income;
- increasing adoption of online and digital services by small business;
- Finance Brokers looking to further diversify their offerings; and
- continued Government support for small businesses.

2.6.1 Growth in small business total income

Between June 2012 and June 2017, Australian small business total income growth averaged 4.5% per annum and represented a significant contribution to total Australian business income[22]. Growth in total income for small businesses supports the scope and potential growth for financing activities to this market segment.

2.6.2 Increasing adoption of online and digital services by small business

Small businesses are increasingly using online services to manage their operations as the adoption of technology-enabled services increases. In a recent survey, Deloitte Access Economics found 89% of small to medium sized businesses were intermediately or highly digitally engaged compared to 55% in 2013[23].

We consider this is driven in part by a younger, tech-enabled segment of small business owners and entrepreneurs. A survey by the National Australia Bank found that 63% of small businesses run by millennials (aged between 18 and 35) would not exist without the internet[24]. Whether it be purchasing supplies online, managing bank accounts or paying bills, the online medium is becoming increasingly fundamental to the operation of many Australian small businesses.

2.6.3 Finance Brokers looking to further diversify offerings

It is estimated over 17,000 Finance Brokers currently operate in the Australian market[25]. Finance Brokers liaise with banks, credit unions and alternative finance providers on behalf of consumers and small businesses to arrange financial solutions in exchange for a commission from the finance provider. Given competitive pressures and regulatory changes in the mortgage broking industry, which is the focus of the majority of Finance Brokers, we have witnessed many Finance Brokers in Australia looking to diversify their income sources into alternative forms of financing such as automotive, personal and business loans.

According to the Mortgage & Finance Association of Australia ("MFAA"), 22% of Finance Brokers have diversified into commercial lending[26]. This can be a logical strategy for Finance Brokers as many of their personal lending clients may also be small business owners looking for finance. This enables Finance Brokers to demonstrate value and strengthen relationships with their client base.

21 Determined based on the assumptions outlined in Section 2.4.

22 Small businesses defined as having less than 20 employees, including non-employing entities. Small businesses statistics excluding the financial, insurance and public services (as defined in the dataset, ABS 8155.0, Australian Industry, 2016-17 (released in May 2018)).

23 Connected Small Businesses 2017, Deloitte Access Economics, October 2017.

24 'Moments that Matter – Understanding Australian SMEs' – National Australia Bank (Report, June 2017).

25 MFAA Submission to Royal Commission Interim Report – MFAA October 2018.

26 'Industry Intelligence Service – Sixth Edition' – MFAA (for the six month period 1 October 2017 – 31 March 2018).

2.6.4 Continued Government support for small businesses

The Government continues to support small and medium businesses through a number of initiatives, including:

- Income tax cuts for businesses with less than $50 million in annual turnover from 27.5% to 25.0% by 2022;
- Allowing immediate tax deductions for assets purchased up to $30,000 (lower thresholds of $25,000 and $20,000 may apply depending on purchase date) for businesses with annual turnover of less than $50 million (less than $10 million for purchases prior to 2 April 2019);
- Allowing access to simplified depreciation rules ("asset pooling");
- Creation of a $61 million Export Market Development Grants scheme;
- Establishment of the Australian Business Securitisation Fund, aimed at providing smaller banks and non-bank lenders focused on small business loans with $2 billion in capital over four years;
- Over $20 million of investment in SME Export Hubs, aimed at facilitating Australian SME export opportunities;
- Increasing the small business turnover threshold from $2 million to $10 million, making more businesses eligible for small business tax concessions;
- An 8% tax offset for unincorporated small businesses (increasing to 13% in 2021, 16% in 2022);
- A refundable tax offset for expenditure on eligible research and development activities;
- Allowing immediate deductibility of professional expenses when establishing new small businesses;
- Allowing immediate deductibility of prepaid expenses which cover a period of 12 months or less;
- Ability to use simplified trading stock rules;
- Access to small business CGT and restructure concessions;
- Access to FBT car-parking and work-related device exemptions;
- Dedicated and personalised small business advisory initiatives such as NSW's Business Connect;
- Establishment of the of the Office of the NSW Small Business Commissioner, a representative of small businesses within Government; and
- Support from Government on draft legislation which extends the regulatory framework around crowd-sourced equity funding to small businesses and other proprietary companies.

2.7 Regulatory environment

The development of the Australian financial technology sector has attracted support from both sides of Government and industry regulators over time, particularly in recognition of its potential to improve consumer and small business outcomes and to increase competition. Some of the key milestones of political support over the last three years include:

- A move towards an Open Banking regime, which was announced in the Federal Budget in May 2017 along with several policy commitments designed to reduce barriers to entry for new, innovative financial technology businesses. These measures were aimed at facilitating the growth of alternatives to traditional models by making it easier to establish and compete with incumbent finance institutions;
- A simple dispute resolution service (under the Australian Financial Complaints Authority) which was announced in the Federal Budget in May 2018 to deal with complaints from consumers and small businesses about financial services and products;
- The Australian Business Securitisation Fund Act which was passed in April 2019 to address a shortfall in supply of wholesale capital in the unsecured small business lending asset class;
- The Federal Budget in April 2019 announced a suite of measures to help "small businesses to prosper"[27] including increasing the instant asset tax write-off threshold to $30,000, and in response to the Financial System Inquiry (FSI)[28], also included targeted and principles-based financial product design and distribution obligations for consumer products to help boost consumer confidence and trust in the system; and
- ASIC's product intervention powers also have potential application to Prospa. See Section 5.2.4.

27 Josh Frydenberg 2019 Budget Speech (2 April 2019).
28 Financial System Inquiry Final Report, November 2014, p251.

2.7.1 Current regulatory environment

We are required to have regard to a number of key laws and regulations in connection with our operations. Table 2 lists some of the most material of these regulatory areas.

Table 2: Regulatory areas impacting Prospa

Regulatory area	Overview
Australian Financial Complaints Authority ("AFCA")	On 1 November 2018 the Government established AFCA, a new dispute resolution scheme for financial services complaints from small businesses and consumers. AFCA has replaced both existing external dispute resolution schemes, including the Financial Ombudsman Service ("FOS") and the Credit & Investment Ombudsman ("CIO"), as well as the Superannuation Complaints Tribunal ("SCT"). We are a member of AFCA and we were a member of its predecessor FOS from 8 November 2013.
Australian Finance Industry Association ("AFIA") Online Small Business Lenders' Code of Lending Practice	We are a founding member of the AFIA Online Small Business Lenders Code of Lending Practice ("Code") which has been in effect since 30 June 2018 with signatories required to demonstrate compliance by 31 December 2018. The Code sets out a series of obligations for the provision of online small business loans, including: – **Loan summary:** Provision of a clear, concise loan summary sheet with every loan contract, including key features of the loan contract in non-technical language; – **Standard pricing comparison document:** Provision of a standardised pricing disclosure tool including key metrics such as the loan amount, disbursement amount, total repayment amount, term, total cost of credit, annual percentage rate and total interest percentage. Prospa and all other Code signatories implemented the standard pricing comparison document in January 2019; – **AFCA membership:** Code signatories must become members of AFCA for the purposes of external dispute resolution. Prospa was a member of FOS from 8 November 2013 for the purposes of external dispute resolution and moved to AFCA from 1 November 2018; – **Legal and regulatory compliance:** Signatories are required to attest to adherence with relevant legislative and regulatory guidelines such as the ASIC Act including in relation to unfair contract terms, the Privacy Act and Anti-Money Laundering laws; and – **Assessment of financial circumstances of applicant:** Before providing a loan, Prospa must form the view that an applicant has the capacity to repay, by assessing information provided by the applicant in response to inquiries by Prospa.

Regulatory area	Overview
Corporations Act	The Corporations Act sets out a number of key areas of law that lenders may be required to adhere to. These include: – **Australian Financial Services Licence ("AFSL"):** Many participants in the financial services industry are required to hold an Australian financial services licence. This requires such participants to comply with a range of obligations relating to disclosure that must be made to Clients, dispute resolution processes, compliance arrangements etc. Based on current activities, we are not required to hold an AFSL; – **Financial product disclosure:** The Corporations Act regulates what forms of disclosure must be made when financial products are offered. Based on current activities, we are not required to prepare any formal prospectus, product disclosure statement or financial services guide in connection with our ordinary business; and – **Australian Credit Licence ("ACL"):** Certain kinds of credit contract require Australian credit licences to be held. Despite not providing services that require an ACL, we have held an ACL since 13 January 2015 and regularly submit reports to ASIC. However, in the future we may choose to allow our current ACL to lapse. If our business activities change, or laws or regulations change, we may be required to re-assess our obligations, including the requirement to hold an AFSL or ACL, depending on the scope of these changes.
Anti-Money Laundering ("AML")	The Australian Transaction Reports and Analysis Centre ("AUSTRAC") oversees the compliance of Australian businesses that offer "designated services" as defined in the AML/CTF Act. When a business provides one or more designated service that entity is referred to as a "reporting entity" and is subject to legislative and regulatory obligations under the AML/CTF Act and AML/CTF Rules. We provide designated services in the form of loan products and we are therefore a reporting entity for the purposes of the AML/CTF Act. Obligations imposed on reporting entities by the AML/CTF Act are summarised below: – Existence of and compliance with an AML/CTF Program – having in place an AML/CTF Program, that is informed by an AML/CTF Risk Assessment and is endorsed by the reporting entity's board. – Applicable Customer Identification Procedures ("ACIP") including Know Your Customer ("KYC") conventions – adequately identifying and authenticating customers before providing a 'designated service' to the customer. – Ongoing Customer Due Diligence ("OCDD") – monitoring customers and their transactions throughout the customer's lifecycle with the reporting entity. – Appointment of an AML/CTF Officer – the registration of an individual with AUSTRAC from within the reporting entity, responsible for the ongoing compliance and oversight of a reporting entity's AML/CTF program. – Enrolment – registering with AUSTRAC and providing prescribed enrolment details within 28 days of providing or commencing to provide a designated service legislated by the AML/CTF Act and governed AUSTRAC. – Compliance reports – submitting an annual compliance report with AUSTRAC; and – Reporting obligations – reporting to AUSTRAC on unusual matters or where suspicious activity has been identified, these are known as Suspicious Matter Reports ("SMRs"). Refer to Section 5.2.5 for information on the risks of non-compliance with AML/CTF Act.

Regulatory area	Overview
Privacy Act	Prospa complies with the Privacy Act 1988, including the Australian Privacy Principles and the Privacy (Credit Reporting) Code 2014, including with respect to credit reporting and the collection, storage, use and disclosure of personal information. Our obligations include: – not disclosing information unless we are required to by law, there is a duty to the public to disclose the information, the customer asks us to and has consented, and we are not otherwise restricted from doing so under applicable laws; – taking reasonable steps to protect personal from misuse or loss, and from unauthorised access, modification or disclosure. We regularly review the security and reliability of our services; and – publishing our Privacy Policy on our website.
APRA	In September 2017, Prospa was registered as a financial corporation under the Financial Sector (Collection of Data) Act 2001 in Category Other (Small). Accordingly, we are required to submit a Statement of Financial Position on a quarterly basis. Prospa is not licensed by APRA and therefore not subject to ongoing supervision. If our business activities change, or laws, rules, or regulations change, we may be required to meet different obligations, depending on the scope of these changes.
ASIC's Debt Collection Guideline: for collector and creditors	We take into account 'ASIC's Debt Collection Guideline: for collectors and creditors' in the design and operation of our debt collection process.

2.7.2 Recent developments

Banking Royal Commission

On 30 November 2017, the Australian Prime Minister at that time, the Hon. Malcolm Turnbull MP, announced the Australian Government would establish a Royal Commission into misconduct in Australia's banking, superannuation and financial services industry.

The Final Report of the Royal Commission was tabled in the Parliament on Monday, 4 February 2019[29] and included 76 recommendations across the financial sector, including changes to the role and power of its regulators.

Of relevance to the small business lending sector:

- Although initially considered by the Commission, the Final Report did not recommend extending legislation designed to protect consumers in credit contracts through the National Credit Consumer Protection Act 2009 ("NCCP Act") to small businesses, noting that the potential cost increase and reduction in credit availability to small businesses would outweigh the possible benefits delivered;
- The mortgage broking industry faces the potential end of trail commissions, and at least some limitation to upfront commissions; and
- Commissioner Hayne has also called for ASIC-approved industry codes to include enforceable provisions, contraventions of which would be considered breaches of the law; and has endorsed the "twin peaks" model of financial services regulation, supporting the unique functions of both ASIC and APRA.

According to a Deloitte Report[30] , as a consequence of publicity surrounding the Royal Commission, the four major Australian banks are experiencing customer, technological and regulatory headwinds as they seek to meet changing customer expectations, increased complexity and costs.

29 Final Report, Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, 1 February 2019.
30 "The way forward to rebuild reputation and trust" Deloitte Trust Index – Banking 2018, page 5.

ASIC review into unfair contract terms

In 2016, Section 23 of the Australian Consumer Law was extended to protect small businesses from unfair terms in standard form contracts. This change was also reflected in the equivalent Section 12BF of the ASIC Act. The revision required online business lenders to review their standard form contracts, and to ensure compliance by 12 November 2016.

We reviewed our loan contract in relation to unfair contract terms in July 2015, in September 2017 and again in August 2018.

In June 2018, Prospa received a letter from ASIC requesting information as part of a broader industry review of small business lending contract terms. Prospa understands that a similar review and consultation process is underway with the other major industry participants in the small business lending space.

We understand that Prospa was the first online small business lender to have undertaken a full review of its loan terms after consultation with ASIC. As part of that review, Prospa agreed to and is implementing certain recommendations from ASIC in relation to removing or amending some of its contract terms. Some of these terms have historically not been relied upon, and other terms were amended to clarify or reflect existing policies and practices. Prospa considers that the amendments agreed with ASIC have not had any material impact on the company financially or operationally. In the media release issued by ASIC, ASIC noted that late payment fees are subject to review under the unfair contract term provisions and it "will be undertaking further monitoring of Prospa's charging of late payment fees to assess whether the manner in which the fees are being charged is unfair in practice".[31]

The Australian Business Securitisation Fund

In November 2018, the Treasurer, the Hon. Josh Frydenberg MP announced the Australian Business Securitisation Fund ("ABSF") to unlock a competitive funding source for smaller lenders, allowing them to compete with the major banks and on-lend to small and medium-sized businesses on more competitive terms. The Australian Business Securitisation Fund (ABSF) Act 2019 received royal assent on 5 April 2019.

The legislation establishes the ABSF to increase the availability and reduce the cost of finance to small and medium enterprises by making targeted interventions in the SME securitisation market. The ABSF Act also establishes the ABSF special account, credits the ABSF special account with $2 billion between 1 July 2019 and 1 July 2023, and provides a framework for investing funds of the ABSF in authorised debt securities.

The legislation provides for the first tranche of $250 million of funds to be made available for investment by the ABSF from 1 July 2019. The Australian Office of Financial Management ("AOFM") is currently developing a number of principles to act as assessment criteria against which investment proposals will be evaluated.

Comprehensive Credit Reporting ("CCR")

Since July 2018, ANZ, Commonwealth Bank, NAB, and Westpac have been subject to mandatory CCR. CCR goes beyond the previous law and requires banks to share more comprehensive information about individual consumers to licensed credit providers in order to make a more balanced assessment of a borrower's credit history. This information may include:

- Information about an individual's current loans or credit facilities, including the balances;
- An individual's repayment history; and
- Information about an individual's bank and other accounts, including the identity of the institution where the account is held and the number of accounts held.

The additional information made available through CCR may allow lenders access to increased disclosure on a small business owners' individual credit information, which could be used as part of the lender's assessment of the creditworthiness of their business.

31 https://asic.gov.au/about-asic/news-centre/find-a-media-release/2018-releases/18-262mr-prospa-removes-unfair-loan-terms-for-small-business-borrowers-and-guarantors/.

Open Banking Regime

In the 2017 – 2018 Budget, the Government at the time announced the introduction of an Open Banking regime in Australia. Open Banking will empower customers to direct their bank (specifically ADIs) to send their transaction and product data to competitors and other third parties, in order to allow customers to compare products and to lift competitive pressures on new entrant banks and finance providers. The Government commissioned an independent review to recommend the best approach to implementing an Open Banking regime in Australia, and released the commissioned report on 9 February 2018.

On 9 May 2018, the Government introduced timelines for the implementation of Open Banking. All major banks must make available product data relating to credit and debit card, deposit and transaction accounts by 1 July 2019, mortgages by 1 February 2020 and all other product data recommended by the review into Open Banking by 1 July 2020. All remaining banks will be provided with a further 12 months to implement these requirements. In December 2018, the Government announced that a phased implementation had been adopted to ensure the long-term success of the regime.

- By 1 February 2020, the four major Australian banks will be required to publicly share product data about credit and debit cards, deposit accounts and transaction accounts.
- Additionally, from 1 July 2019, the ACCC and CSIRO's Data61 will launch a pilot program with the four major Australian banks to test the performance, reliability and security of the Open Banking system.
- Consumers and Fintechs will be invited to participate in these pilots and the ACCC and the CSIRO's Data61 will also work closely with other banks who have expressed an interest in participating in Open Banking earlier than originally envisaged.
- On 1 February 2020, product and consumer data for mortgage accounts will be made available.
- Once the ACCC is comfortable with the robustness of the system, banks will publicly share consumer data about credit and debit cards, deposit accounts and transaction accounts, which is to be no later than 1 February 2020.

From 1 July 2019, the ACCC will begin formally engaging with parties interested in accreditation.

In an open banking environment, where the barriers for customers to exit continue to fall and new entrants can participate through open banking, trustworthiness is expected to play a greater role in shaping consumer choices about where and with whom they bank[32].

The Consumer Data Right ("CDR")

The final report into Open Banking recommended the creation of a "CDR", which will give consumers the right to access to their banking transaction information, as well as their electricity, phone and internet transactions. The Minister for Law Enforcement and Cybersecurity has indicated that this data sharing regime is intended to be applied sector-by-sector across the economy. It is expected that the transaction and product information will be provided in a standard, comparable, simple digital format, that can be accessed quickly by consumers and forwarded to third parties to create more choice and competition across the relevant sectors.

On 13 February 2019, The Treasury Laws Amendment (Consumer Data Right) Bill 2019 to amend the law relating to competition, fair trading, consumer protection and privacy, and for related purposes was introduced into the House of Representatives and referred to the Senate Economics Legislation Committee for report by 21 March 2019. The Bill lapsed at dissolution on 11 April 2019.

Productivity Commission Report on Financial Services

The Productivity Commission Final Report, released on 3 August 2018, found several issues concerning the financing of small to medium-sized enterprises ("SMEs") which centred around:

- SMEs paying relatively more for finance (due to higher risk profiles applied by traditional banks and higher capital provisions required of lenders by APRA);
- Reliance on real estate as collateral (due to limited knowledge of the lender regarding performance of the business driven by limited access to information); and
- Terms and conditions placed on SME loans (specifically the use of complex one-sided contracts that enable lenders to make unilateral changes to terms and conditions).

These issues are highlighted as focus areas for lenders in order to improve the provision of finance to SMEs. The report highlights that improved access to data under the Open Banking and Comprehensive Credit Reporting will allow new, online entrants to develop their systems and expertise to better assess risks involved in SME lending, and erode the competitive advantage of large, incumbent banking institutions.

32 "Flying through turbulence – Australia's major banks, 2018 Results analysis", Deloitte, Page 7 (Released November 2018).

The New Payments Platform

The New Payments Platform (NPP) was announced in February 2018 and is a fast payments system developed by NPP Australia, a consortium of 13 financial institutions including the Reserve Bank. The NPP operates on a 24/7 basis and allows financial institutions to provide immediate funds availability to payment recipients, even where the payer and payee have accounts with different financial institutions.

The Platform has been designed to be extensible, meaning it will evolve to meet the future needs of Australian consumers and businesses.

NPP Australia is responsible for maintaining and developing the Platform to ensure it evolves to meet the future needs of industry, consumers and businesses with a stated approach to encouraging competition within the Australian financial services sector. NPP Australia operates on a guiding principle of being economically self-sustaining and not profit-maximising.

In October 2018, the Reserve Bank, with support from the ACCC, sought views from stakeholders on issues relating to the functionality and access arrangements for the NPP. In particular, the Reserve Bank sought to understand whether the NPP had been developed with the requisite technical accessibility and eligibility requirements so as to be adequate for different business models, such as Fintechs, who wish to use the NPP to deliver innovative new products and services. No report has yet been released.

Company overview

3.1 Overview

3.1.1 About Prospa

We are a financial technology company. We design, build and utilise cloud-based, data rich and API-enabled technologies to deliver seamless customer experiences for the small business economy in Australia and New Zealand. Our product offering has expanded from our first product, the online business loan, to now include line of credit facilities and B2B payments. We have grown to become Australia's #1 online lender to small businesses[1]. Since 2012, we have lent over $1 billion and served over 19,000 unique customers[2]. Headquartered in Sydney, Australia, we employ 230 staff[3] and our net loan book has grown to over $300 million[4].

Prospa's mission

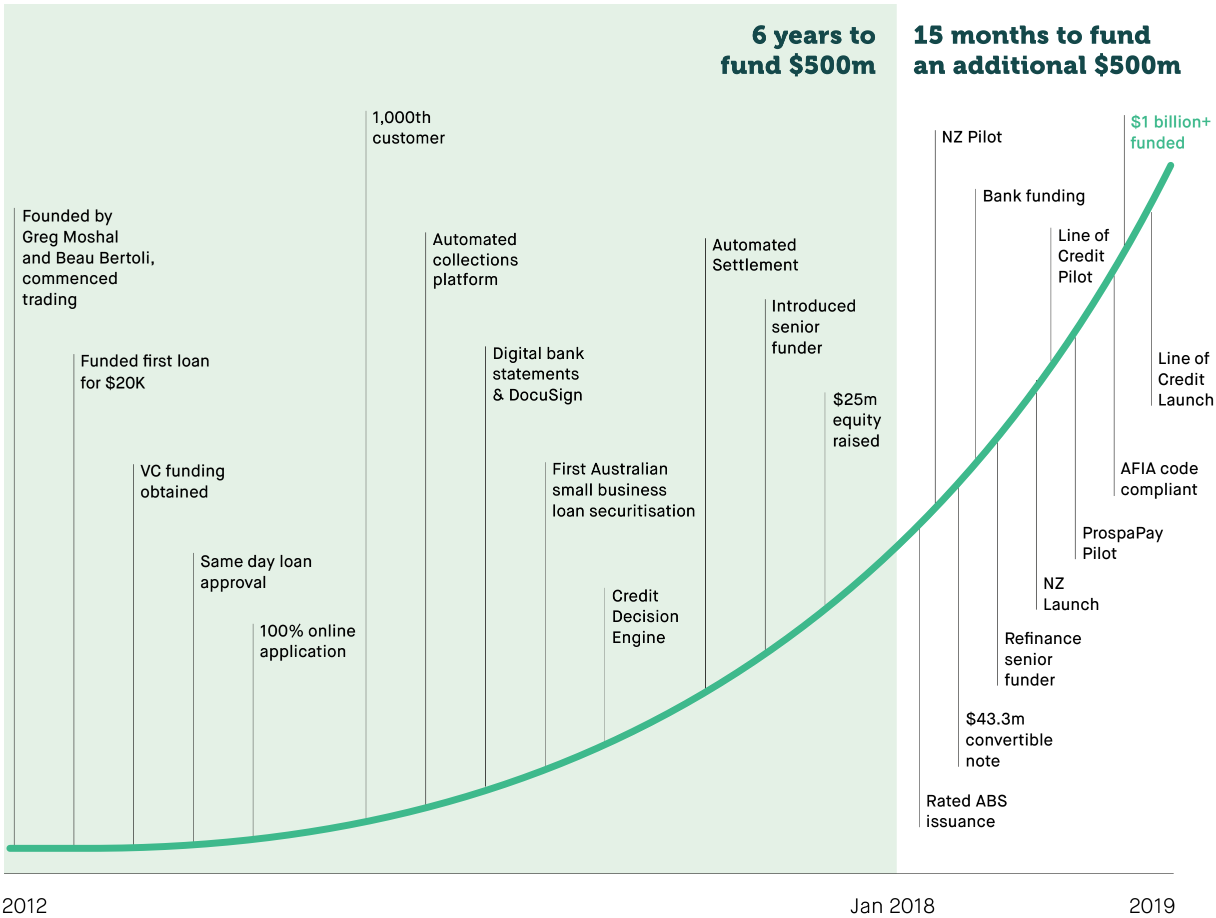
"To keep small business moving"

Under the leadership of Co-Founders and Joint CEOs, Greg Moshal and Beau Bertoli, the team at Prospa aims to create an amazing customer experience focused solely on small businesses. Our senior management team combines significant experience across financial services, technology, risk management and go-to-market excellence, positioning us well for future growth.

3.1.2 Corporate history

Figure 9 details the key company milestones in our operating history.

Figure 9: Key milestones in Prospa's history



1 Online lender to small business – Prospa volume as a % of total Australian market volume (measured by loan value) for 2017 (sourced from The Cambridge Centre for Alternative Finance "3rd Asia Pacific Region Alternative Finance Industry Report", November 2018, p86).

2 Unique customer served from inception to 31 March 2019.

3 Includes casual and part-time employees as at 31 March 2019.

4 As at 31 March 2019. Net loan book represents gross loans after deducting allowance for loan impairments and the portion of loans funded by syndicate partners.

Year	Milestone
2012	– Prospa founded by Greg Moshal and Beau Bertoli with seed funding from Entrée Capital – Originated first loan for $20,000
2013	– Same business day loan approval capability first implemented – 100% online application functionality first introduced on our platform – $13 million debt and equity funding from Entrée Capital
2014	– 1,000th customer served
2015	– $10 million equity funding obtained from Entrée Capital, Carlyle and high net worth investors – Implemented the first Australian small business loan securitisation – Introduced functionality to accept digital bank statements and e-signatures
2016	– First introduced the Credit Decision Engine[5] within the loan application process – Implemented automated settlement functionality into funding process
2017	– Introduced a senior funder into our revolving warehouse securitisation trust structure – Introduced automated collections platform capability – $25 million equity funding round led by AirTree Ventures, Entrée Capital, Square Peg Capital and other financial investors – $20 million of Corporate Debt from Partners for Growth ("PFG") – $500 million of originations funded
2018	– Implemented the first Australian rated ABS Issuance for unsecured small business loans – Founding signatory to AFIA Code of Lending Practice – Pilot launch in New Zealand, offering small business loans to New Zealand small businesses – Introduced a bank into our funding structure ($60 million) with the launch of our Pioneer Trust, our second Warehouse Facility – $43.3 million convertible note participated in by a large institutional investor, AirTree Ventures, Entrée Capital and Square Peg Capital – Pilot launch of line of credit product – Pilot launch of Prospa Pay (B2B payments solution) product
2019	– Adoption of AFIA Code of Lending Practice – Exceeded over $1 billion of originations since inception – Full launch in New Zealand, offering small business loans to New Zealand small businesses – Full launch of line of credit product

5 The CDE is our proprietary system that assess small business credit applications, covering data gathering, data synthesis and decisions.

As illustrated below, our originations volume, revenue, net loan book and number of loans written have grown rapidly.

Figure 10: Originations ($ million)

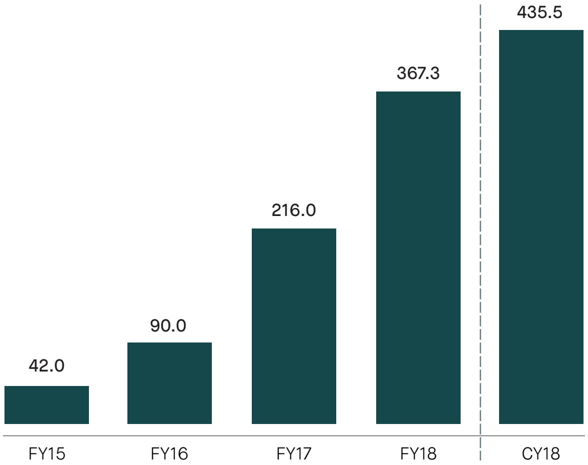


Figure 11: Pro forma total revenue ($ million)

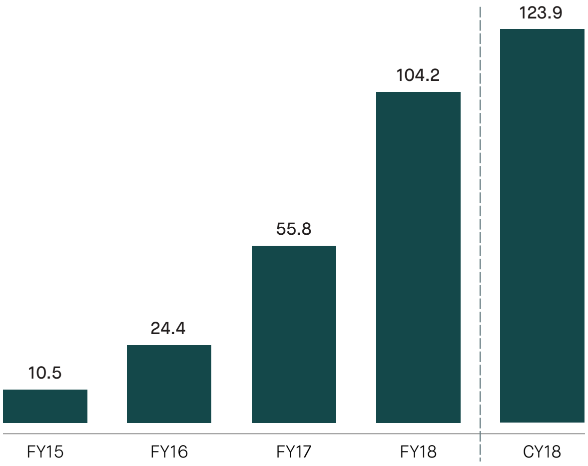


Figure 12: Net loan book ($ million)[6]

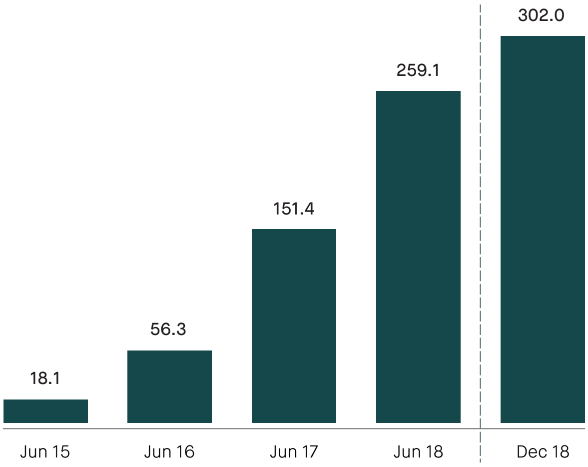
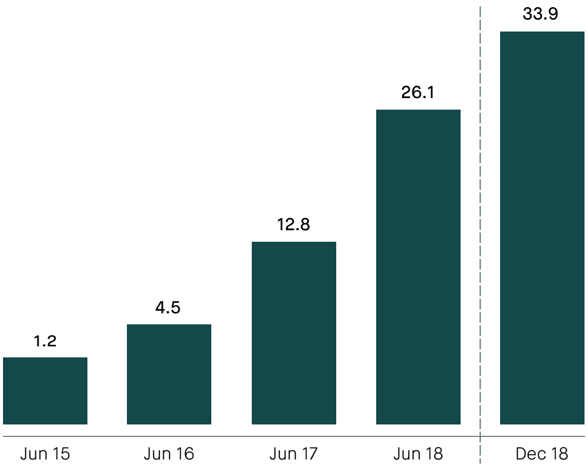


Figure 13: Cumulative number of loans (thousands)[7]



6 Net loan book (as per statutory accounts) represents gross loans after deducting allowance for loan impairments, the portion of loans funded by syndicate partners, and is before any pro forma AASB 9 adjustment. The H1FY19 statutory accounts reflect the adoption of AASB 9.

7 Includes new and refinanced loans.

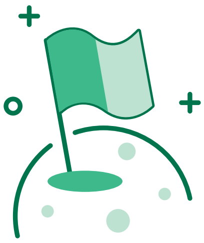
3.1.3 Our people

Our 230 employees[8] come from over 30 different countries. Employees strive to solve our customers' problems by making complex financing solutions simple for the everyday small business owner. This creates a challenging and rewarding environment which has translated into a passionate employee base with an average employee engagement score of 78%[9]. Our culture is demonstrated by our core values that drive the behaviour of our organisation and contribute to our ability to deliver excellent customer experiences:

Figure 14: Prospa's core values

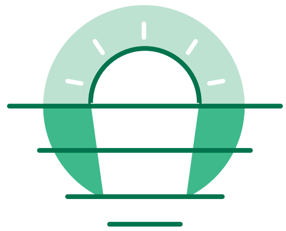
Obsess about customers

Don't just listen, hear what's important



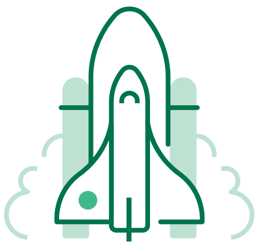
Be bold, open and real

Take smart risks, be transparent and true



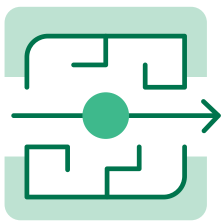
Day 1

Keep our start-up mentality



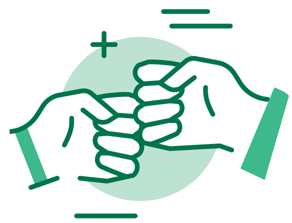
Deliver value fast

Celebrate outcomes, not process



Simplicity

Make the complex simple



One team

We work as one

3.1.4 Our impact on the economy

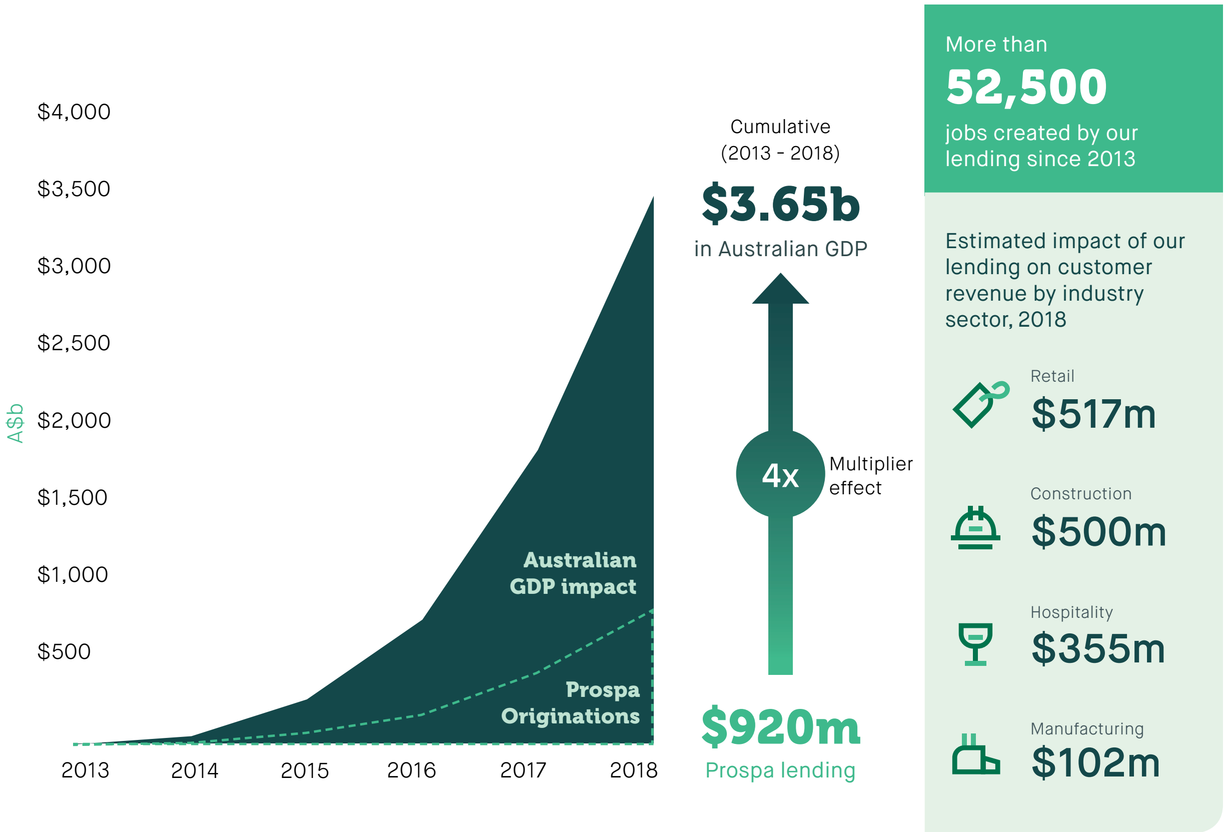
Our lending has a positive economic impact and keeps small business moving. In 2018, we engaged RFi Group and The Centre for International Economics ("The CIE") to investigate the economic impact of our lending to small businesses in Australia. They undertook a detailed economic impact assessment on how funds we lent over the period 2013 – 2018 benefited our customers through increases in revenue and employment and the flow-on effects of these funds to the wider economy. As demonstrated in Figure 15 below, the results of the research indicated:

- Over the period 2013 – 2018, our lending has contributed $3.65 billion to nominal Australian GDP and resulted in more than 52,500 annual FTE positions;
- In 2018 alone, our lending added $1.697 billion to nominal Australian GDP and resulted in close to 24,400 FTE positions being maintained;
- 82% of customers believe their most recent loan from us resulted in an increase in business revenue;
- For every $1 million we lend, there is a corresponding $4 million increase in GDP and 57 annual FTE positions are maintained; and
- The industry sectors where our lending made the biggest impact on employment in 2018 were construction, hospitality, other services and retail.

8 Includes casual and part-time employees as at 31 March 2019.

9 Prospa People Pulse Survey (an internal survey conducted by Prospa management) results, average employee engagement score for November 2018 – January 2019.

Figure 15: Prospa's significant and positive impact on the economy[10]



If we assume the same multiplier effect has continued during 2019, we estimate that Prospa's lending, having now reached over $1 billion, has contributed $4 billion to Australian GDP and resulted in more 57,000 annual FTE positions being maintained since Prospa's inception in 2012[11].

3.1.5 Awards

Our success has been recognised in Australia and internationally. We have won numerous business awards and placed highly in sector rankings including winning Telstra's NSW Medium Business of the Year in 2017 and ranking first in Deloitte's Tech Fast 50 Australia for 2015 and first in the Financial Times High Growth Companies Asia Pacific list for 2018. In 2018, we were awarded National Winner in the Fintech Lender of the Year in the Mortgage and Finance Association of Australia Excellence Awards and we also won this category in every state. Our employee culture is also award-winning, and we have been recognised by industry bodies, such as AON, as one of Australia's leading workplaces in 2017 and 2018.

10 RFi Group and The Centre for International Economics: "The Economic Impact of Prospa Lending to Small Business" (January 2019), commissioned by Prospa.

11 Based on $1 billion of lending by Prospa from inception to 31 March 2019.

Table 3: Prospa's recent awards

2015

Winner
Deloitte TechFast 50

Finalist
Best Start-up
NSW Telstra Business Awards

#33
Global Established Fintech Innovators, and best Australian

#20
AFR FastStarters

#3
Deloitte
Technology Fast 500 Asia Pacific

2016

#6
Deloitte TechFast 50

Finalist
Best Start-up
NSW Telstra Business Awards

#31
Global Established Fintech Innovators, and best Australian

#6
AFR FastStarters

Winner
Smart Company Smart50

Fintech Vendor of the Year, Lending
Frost & Sullivan Australia

#19
Tech Pioneers
Top 50 (Australia and NZ)

2017

#15
Deloitte TechFast 50

Winner
Best Medium Business NSW
Telstra Business Awards

#24
Global Established Fintech Innovators, and best Australian

#2
AFR Fast100

Winner
Leaders of the Year
FINNIES [Fintech Australia]
won by Greg & Beau

Winner
Best Fintech Place to Work
FINNIES [Fintech Australia]

Winner
Lending Innovator of the Year
Fintech Business Awards

Winner
AON Hewitt, Best Employer Award

Winner
NSW Pearcey Tech Entrepreneur Special Recognition Award
won by Greg & Beau

National Winner
Auscontact Association
Customer Experience Champion

National Winner
Auscontact Association
Digital Omni Channel Champion

2018

#20
Deloitte TechFast 50

#5
Deloitte TechFast 50 Leadership

Winner
Financial Times 1000:
High Growth Companies
Asia Pacific

#6
LinkedIn Top Startup Places to Work, Australia

#9
AFR Fast100

Winner
Fintech Lender Award,
State Winner NSW, QLD, SA, VIC, WA, & National Winner
MFAA Excellence Awards

Winner
AON Hewitt, Best Employer Award

3.2 Prospa's business model

3.2.1 What we do

We are a financial technology company that is seeking to meet the cash flow needs of Australian and New Zealand small businesses. Our current core offering is an amortising term loan offered to small businesses. However, we have invested heavily in our three strategic pillars; technology, funding and distribution, to create a platform that is multi-channel, potentially product agnostic and, most importantly, delivers the cash flow products and services that can help small businesses to grow and run their businesses. We officially launched our line of credit product in April 2019, and we are currently in the process of beta testing our B2B payments solution, Prospa Pay.

The credit facilities we currently offer are typically used to fund small businesses' working capital requirements and growth initiatives. We adopt a risk-based pricing approach, where the interest rate associated with a facility is determined based on our credit risk assessment for that customer. This risk assessment process is largely automated and underpinned by technology calibrated with data obtained from our proprietary Credit Risk DataMart of over 64,000 loan applications. We differentiate our product through speed, accessibility and customer experience.

Tables 4 and 5 below illustrate the key features of our amortising term loan and line of credit products. We are currently developing and testing alternative small business funding products that represent logical adjacencies to our existing products, including Prospa Pay. See Section 3.5.2 for further details.

Table 4: Key features of Prospa's amortising term loan[12]

Purpose	– Business purposes, predominantly working capital and growth initiatives
Principal	– $5,000 to $300,000
Term	– 3 to 24 months
Rates and fees	– Pricing based on credit quality with an Annual Simple Interest Rate range of 9.9% – 26.5%[13] – An origination fee is charged on the establishment of each new loan – If repayments are missed, late fees may also be applicable
Payment profile	– Automated direct debit instalments on a daily, weekly or fortnightly basis
Security	– No asset security required to access funds for loans up to $100,000 – For loans over $100,000 security registered on the Personal Property Securities Register ("PPSR") is required – For all loans a personal guarantee[14] is required

12 Based on current product features as at 8 April 2019.

13 Average Simple Interest Rate is total interest as a percentage of the original loan amount. Rates for terms of less than 12 months can start at 6.6% Simple Interest Rate. Another way to measure the cost of a loan is the Annual Percentage Rate ("APR"). The current rates on Prospa's amortising term loan imply an APR range of 17.8% to 47.7%.

14 Guarantor(s) are assessed on a loan-by-loan basis and individual guarantors are either directors or shareholders of the borrowing business or a related business or a sole trader or a partner in a partnership operating the borrowing business.

Table 5: Key features of Prospa's line of credit[15]

Purpose	– Business purposes, predominantly working capital for unexpected cash flow gaps and short-term needs
Principal	– $2,000 to $25,000
Term	– 12 months, annual renewal
Rates and fees	– Pricing based on credit quality with an APR range of 14.95% – 29.95%[16] – Interest is calculated daily at a fixed rate on the outstanding balance and paid weekly – A line establishment fee is charged on first draw down – A $25 per month subscription fee – If repayments are missed, late fees may also be applicable
Payment profile	– Automated direct debit instalments of principal and interest on a weekly basis – Lump sum principal repayments at any time
Security	– No asset security required to access funds – For all lines of credit, a personal guarantee[17] is required

3.2.2 Customer experience

We have combined cloud-based technology and bespoke lending principles in order to attract leads, assess credit risk and streamline the credit approval process so we are able to respond promptly to funding requests.

Small businesses typically come to us directly or through a partner referral. The application process can take under 10 minutes and is available online, over the phone or through an intermediary. Once we have received the application, we often revert back to the customer with a decision within the same business day, including whether or not they have been approved, and, if they have been approved, the credit facility size, pricing and potential term. If the customer accepts these terms, a contract is immediately generated and able to be signed electronically. Once signed, funds are then deposited into the business' bank account (generally by the next business day) and a payment profile is established in the form of a direct debit on a daily, weekly or fortnightly basis.

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

Figure 16 illustrates the key steps in our customer journey from consideration of a loan through to settlement and ongoing facility management.

Figure 16: Illustrative steps in a sample Prospa customer journey

Consider	Lead	Apply	Decision	Notify	Settle	Loan Management
Illustrative timeframe		10 min	15 sec	Same day	1 business day	13 months
Customer needs loan for new growth initiative.	Leads driven organically online or via distribution partners.	Customer applies online. Contacted by Prospa small business specialist.	Loan application assessed by proprietary proprietary Decision Engine.	Final decision verified by credit officer, and customer advised.	Receive loan amount.	Customer makes regular repayments (majority daily or weekly).

15 Based on current product features as at 8 April 2019.

16 Annual Percentage Rate ("APR"). Refer to the glossary for the definition of APR.

17 Guarantor(s) are assessed on a loan-by-loan basis and individual guarantors are either directors or shareholders of the borrowing business or a related business or a sole trader or a partner in a partnership operating the borrowing business.

3.2.3 Value proposition

We identified an opportunity to offer innovative lending products and services to small business owners who have traditionally been underserved by major banks in Australia. It was this opportunity that prompted our team to create a lending platform tailored to the small business market. This bespoke product design has a number of key advantages which are outlined in Table 6 below.

We consider our tailored product design compares favourably to other traditional bank loan products which can take weeks between starting an application and settlement, are designed around larger and longer loan contracts, have less payment flexibility and may require residential property as security.

Table 6: Prospa's customer value proposition

Small business customer needs	Prospa tailored product design
Fast access to capital	Application process can take under 10 minutes/credit decisions and customer notification within the same business day
The right sized credit facility	Smaller loan sizes, between $5,000 and $300,000; and/or Line of credit facilities between $2,000 and $25,000
Short-term funding (e.g. for working capital)	3 – 24 month term for amortising term loans 12 month term for revolving line of credit facilities, with annual renewal
Pain free customer service	A 'real' person to support application process end-to-end
Access to capital to continue running their business	Support for business owners who would rather focus on serving their customers
Understanding of underlying cash flows, including an appreciation for businesses' ability to service loans	Funding against business cash flows, not just accounting profit
Payment flexibility to support cash flow management	Flexibility to set and forget direct debit payments on a daily, weekly or fortnightly interval to match business cash flows
Keep family home and personal assets safe and separate from business	No asset security required to access funds for up to $100,000 (for loans over $100,000, security registered on the PPSR is provided by the borrower)[18]
Approach when facing hardship	Early intervention with flexible approach to prevent default In the Event of Default, we work with the customer to design an appropriate payment solution

Our credit facilities are typically used by small businesses for working capital requirements and to fund growth initiatives. We believe small businesses are attracted to our value proposition for the following reasons.

1. **Accessibility:** Our business model is focused around small businesses, many of whom are able to service a loan but do not have the requisite documentation or security to access loans from traditional banks. We are able to service these businesses by assessing credit risk using technology calibrated with hundreds of data points per applicant[19].
2. **Customer experience:** We have invested significantly in streamlining and simplifying our customer experience with an aim to provide a seamless lending process. Additionally, our sales and customer success teams seek to offer personalised support to small business owners when it matters most – as is evidenced by our NPS being in excess of 77 for the twelve months to 31 March 2019.
3. **Speed:** We have developed and calibrated our proprietary internal systems in order to provide same day decisions on most loans compared to weeks or even months for more traditional lenders. On average, we will provide a credit decision within the same business day.

18 For all loans a personal guarantee is required. Guarantor(s) are assessed on a loan-by-loan basis and individual guarantors are either directors or shareholders of the borrowing business or a related business or a sole trader or a partner in a partnership operating the borrowing business.

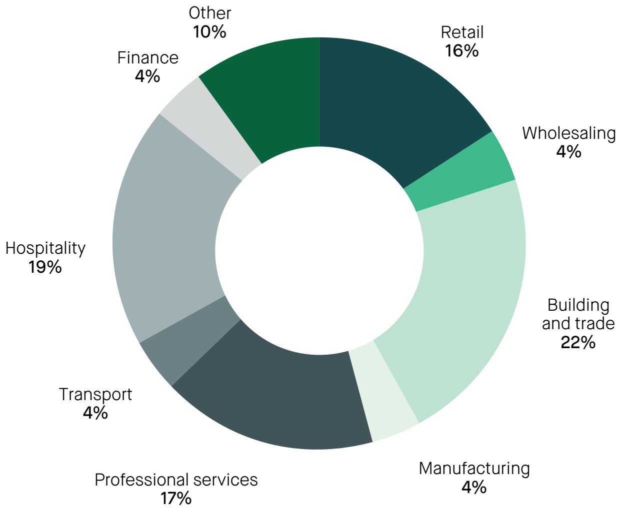
19 For loans above $100,000, we generally require additional documents including statement of financial performance, statement of financial position and aged payables and receivables.

3.2.4 Customer base

We have a diverse distribution of customers across industry, geography, time in trading and size across our Australian business. Refer to Section 3.5.3 for further information on the New Zealand customer base.

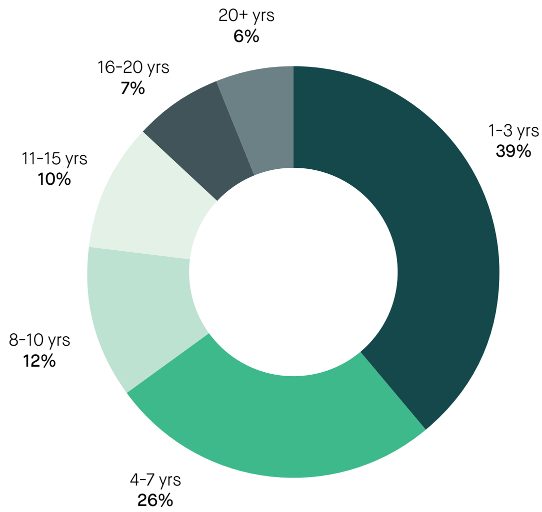
We lend to a variety of different industries with no single industry representing more than 22% of our Australian portfolio. We focus on industries which have relatively stable, high frequency cash flows and, as can be seen by the industry verticals represented in the chart on the right, we are able to address a large portion of the Australian small business sector.

Figure 17: Australian portfolio split by sector as at 31 March 2019 (by number of loans disbursed)



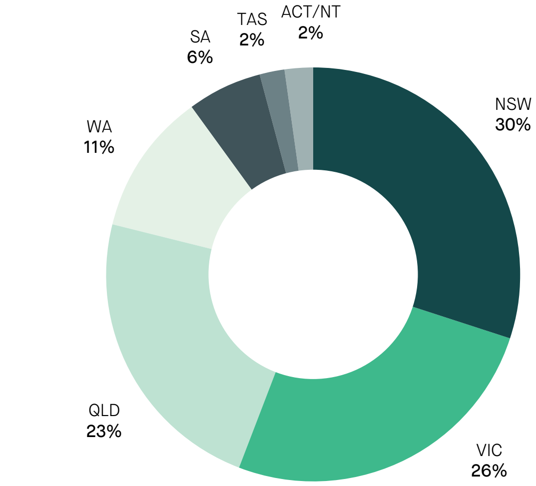
We consider we have a strong portfolio of small business customers, with 61% of the Australian portfolio trading for longer than three years.

Figure 18: Australian portfolio split by time in trading as at 31 March 2019 (by number of loans disbursed)



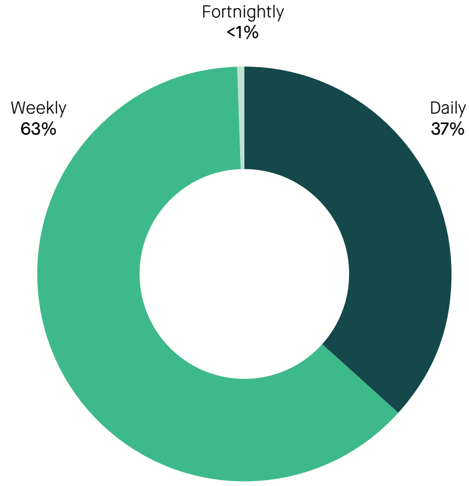
Our geographic portfolio mix largely mirrors the GDP of the states of Australia. In this manner, we are not overly exposed to any particular regional community.

Figure 19: Australian portfolio split by geography as at 31 March 2019 (by number of loans disbursed)



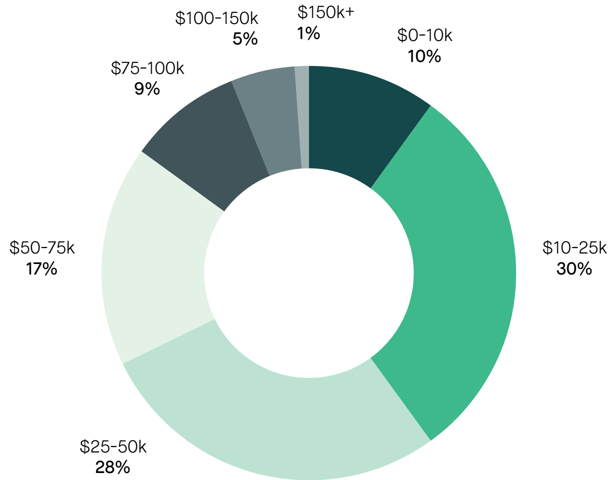
Our Australian portfolio is characterised by high frequency micro-payments with 63% paying weekly, 37% paying daily and a small portion paying fortnightly. We work with the customer to find the payment frequency that best matches the business' cash flow profile.

Figure 20: Australian portfolio split by payment frequency as at 31 March 2019 (by number of loans disbursed)



We have very low levels of individual customer concentration, with 95% of our loans disbursed in Australia having an original loan size under $100,000.

Figure 21: Australian portfolio split by original loan amount as at 31 March 2019 (by number of loans disbursed)



In addition, our clients tend to borrow smaller loan amounts relative to those provided by traditional banks with our average loan being approximately $28,832 and an average term of 12.7 months[20]. Furthermore, 89% of loans have a term of 12 months or less[21].

Figure 22: Average loan size and weighted average loan term

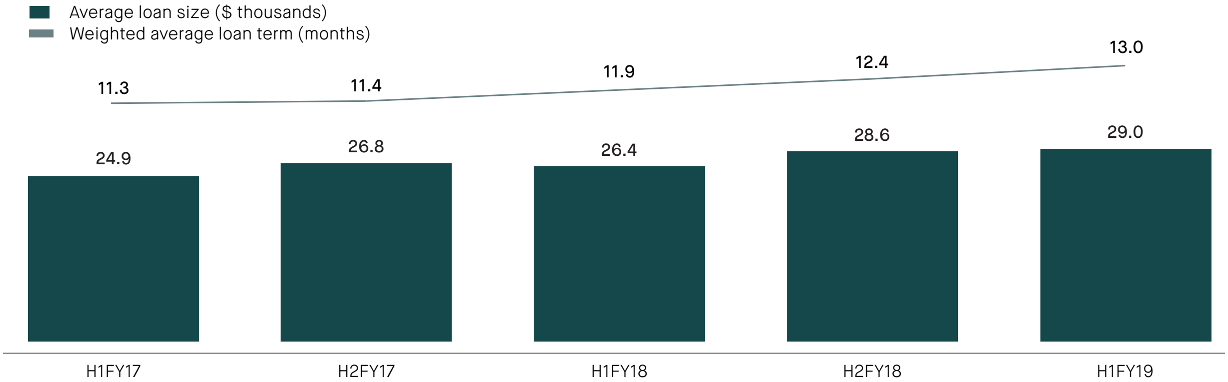
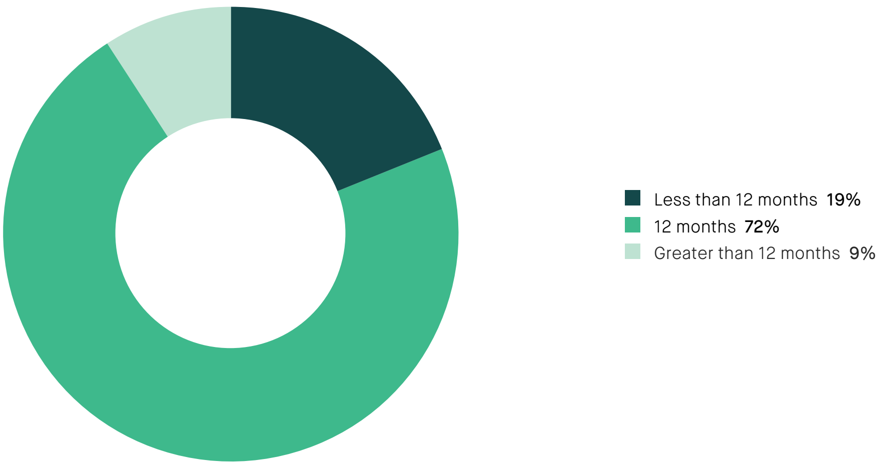


Figure 23: Split of loan terms for loans originated in CY18 (by dollar value)



Repeat customers

We have a strong track record of customer repeatability in Australia, with approximately 68%[22] of eligible customers taking a repeat loan. As shown in Figure 24, quarterly customer cohort trends indicate that each new customer on average takes 2.6 loans over their estimated customer lifetime[23].

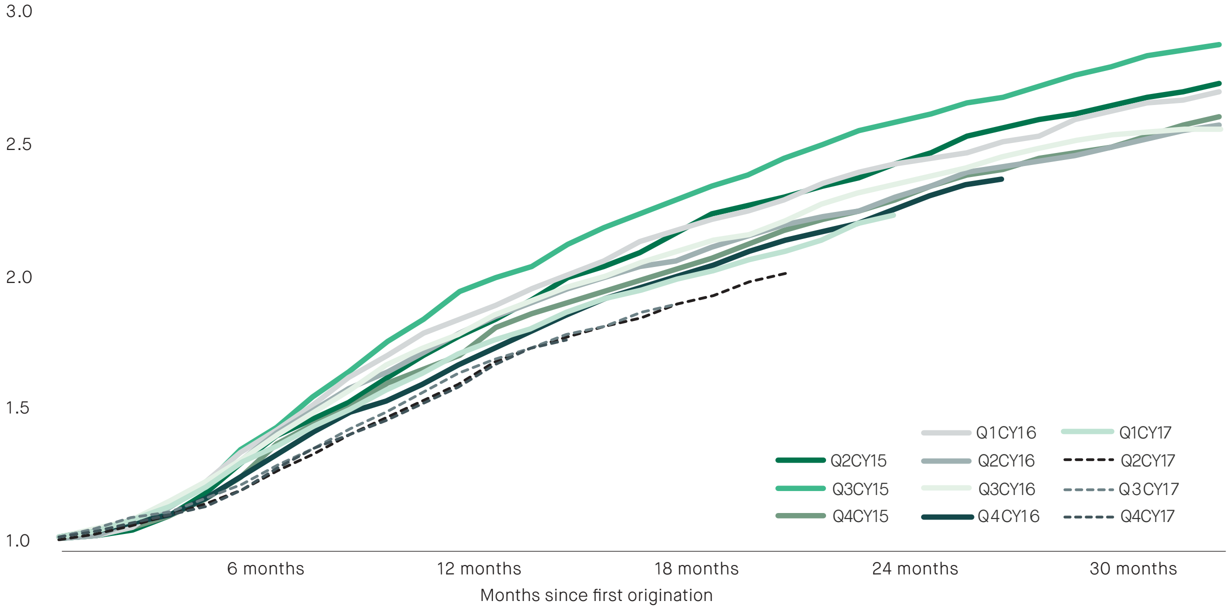
20 Based on loans originated in calendar year 2018.

21 Based on the number of loans originated in calendar year 2018.

22 68% represents the average repeat rate for eligible customers only (where eligible customers are defined as not having defaulted on their Prospa loan), based on the average monthly repeat rates for the 25 month period of March 2015 – March 2017. The average unique repeat rate (including ineligible customers) for this same period would be 64%. Cohorts originated after March 2017 are still in the process of seasoning and therefore excluded from this analysis.

23 Quarterly cohort average for the 25 month period of March 2015 – March 2017 (including both eligible and ineligible customers). Cohorts originated after March 2017 are still in the process of seasoning and therefore excluded from this analysis.

Figure 24: Loans per quarterly cohort[24]

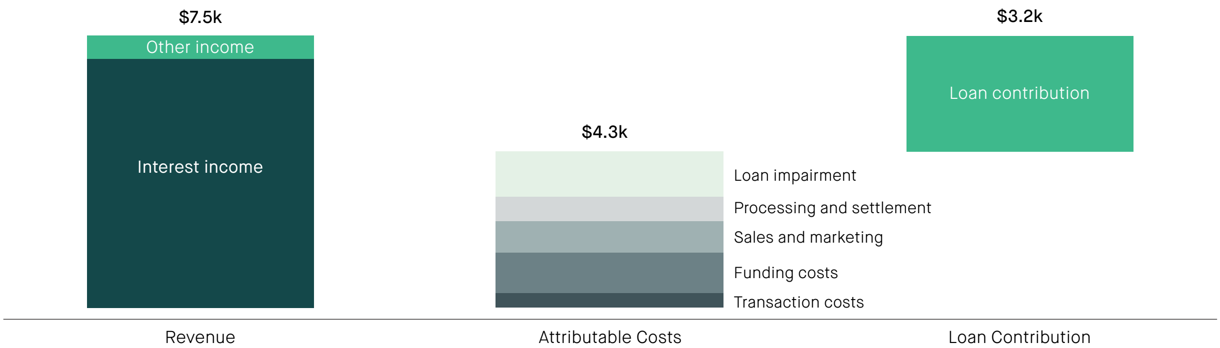


3.2.5 Business and earnings model

We generate revenue by charging interest and fees for the provision of our credit products. In the provision of these products, we incur borrowing costs to fund the loans, sales and marketing costs to generate the facility, operational costs and any credit losses.

During CY18, a typical loan from Prospa had an original principal of $28,832 and a term of 12.7 months. For illustrative purposes, we estimate a loan with these characteristics and our CY18 Simple Interest Rate of 23.9%[25] would contribute $7,500 of revenue, provide a net contribution of $3,200, and have a 42.5% contribution margin[26]. Figure 25 below provides a representation of the unit economics of a loan for CY18, including a breakdown of the material revenue and costs associated with providing the loan.

Figure 25: Illustrative unit economics of a Prospa loan based on CY18 performance[27]



The profit and loss impact of a typical individual loan is negative at origination due to the up-front non-cash provision requirements and non-amortised customer acquisition costs. Figure 26 below provides a representation of the per loan unit profit and loss impact over time of a loan written in CY18, including a representation of the monthly loan contribution. This figure illustrates that, on a profit and loss reporting basis, the average CY18 loan has a net positive monthly loan contribution (or payback) by month four.

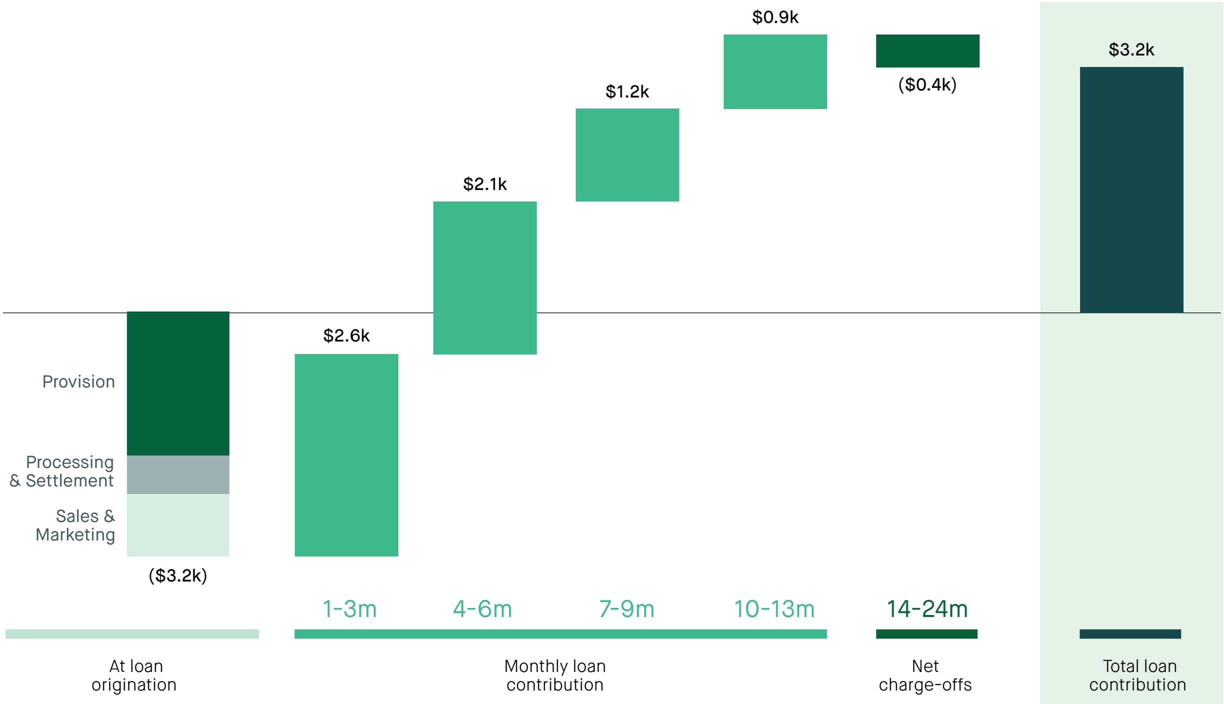
24 For quarterly cohorts between March 2015 – December 2017. Chart reflects cohort averages (including both eligible and ineligible customers). Cohorts originated after March 2017 are still in the process of seasoning.

25 Based on our average loan term of 12.7 months in CY18, the 23.9% Simple Interest Rate is equivalent to an Annualised Simple Interest Rate of 22.6%.

26 Loan unit economics reflect a blend of the new loans and repeat loans, as achieved in CY18.

27 Based on assumptions as listed in Table 7. Loan unit economics reflect a blend of new loans and repeat loans, as achieved in CY18.

Figure 26: Per-loan unit economics over time[28]



The loan economics above reflect the blend of new loans and repeat loans achieved in CY18, both of which are profitable in their own right, with repeat loans being relatively more profitable due to lower customer acquisition costs. A further description of the material revenue and attributable costs is provided in Table 7.

Table 7: Illustrative unit economics of a Prospa loan based on CY18 performance[29]

Item	
Total revenue	
Interest income	– Represents the contracted interest income and origination fees from a loan. When considering a loan, customers typically focus on the total cost of capital and are provided the Simple Interest Rate, which represents the contractual interest due on a loan. – In CY18, our average Simple Interest Rate was 23.9%. Interest income is calculated by applying the Simple Interest Rate to the loan amount at origination. For example, a customer borrowing $100 and repaying this over 12 months would pay interest of $23.90 plus the loan amount of $100. – Our origination fees are typically charged as a percentage of the approved loan amount at origination.
Other income	– Represents other fees we generate including any late fees, as well as servicing fees received from our syndicate partners and interest on cash deposits. – In CY18, other income represented approximately 9% of total revenue.

28 Monthly loan contribution represents effective interest income plus other income, less interest expense, transaction expenses and net charge-offs. Based on assumptions as listed in Table 7. Loan unit economics reflect a blend of the new loans and repeat loans, as achieved in CY18.

29 Assumptions reflect the blend of new loans and repeat loans, as achieved in CY18.

Item	
Attributable costs	
Transaction costs	– Represents commissions paid to our Distribution Partners.
Funding costs	– Represents the interest expense associated with our Warehouse Facilities and Term Facilities used to finance the loan. – In CY18, our funding cost rate averaged 8.1% and approximately 80% of the average loan balance was financed via Warehouse Facilities and Term Facilities, with the remainder funded through equity.
Sales & marketing costs	– Represents direct and indirect sales and marketing costs, including employee expenses in relation to the marketing function. – In CY18, the above costs made up approximately 58% of the total Sales & marketing spend for CY18.
Processing & settlement	– Represents processing and settlement costs for loans, typically associated with credit assessment, sales customer service and collections. – Processing and settlement costs are typically included in General & administration expenses in the income statement.
Loan impairment	– Represents the write off for losses on loans and movement in the loan impairment provision. – For the illustrative unit economics, in CY18 this is calculated as 5.0% (representing the mid-point of our Board mandated target range) of the loan amount at origination[30].

Earnings model over the medium term

We believe that through the initiatives below we will be able to continuously improve our cost efficiencies which will further enhance the unit economics for our small business loan product. As part of our design and monitoring process for new products (including our line of credit product and Prospa Pay), we assess and monitor loan contribution and customer lifetime value to evaluate the product's contribution to Prospa.

- **Investment in technology:** Our investment in proprietary technology, including the CDE, allows us to realise operational and credit efficiencies. Technology also allows us to offer an improved customer experience and engagement which we believe increases the number of our repeat customers.
- **Data:** We have a significant amount of data in our proprietary Credit Risk DataMart obtained from over 64,000 loan applications. Every additional application adds another layer of depth and integrity to the insights in our Credit Risk DataMart. This wealth of data, combined with our proprietary technology, allows us to price risk in order to maximise the risk-return function as well as approve more customers.
- **Distribution:** In Australia, we are one of the first online lenders to capitalise on the latent potential in the intermediary channel, building strong partnerships and demonstrating genuine value add through technology and thought leadership, complemented by competitive commissions. We expect to continue to integrate with our Distribution Partners to reach small business customers in their existing ecosystems, and for our strong existing distribution relationships to continue, and to continue to build additional distributor relationships going forward.
- **Brand:** We are the #1 provider in the online small business loan category in Australia[31]. We have the highest prompted brand awareness among online only small business lenders in Australia[32]. An example of the strength of our brand is that since November 2016, the term "Prospa" is searched more times than "small business loan" on Google. We expect that as market awareness of online lenders increases, our brand awareness increases, and our volume of repeat business increases, our average customer acquisition costs will receive some tail winds from these factors over the medium term.
- **Funding:** With a long track record, a diversified portfolio and controlled loss profile, we are able to access capital pools from multiple funders, reducing our weighted average cost of funds over time (refer to Section 3.3.2 for more details).

30 As at 31 March 2019, our cumulative static loss performance for fully seasoned cohorts was 5.2%.

31 Online lender to small business – Prospa volume as a % of total Australian market volume (measured by loan value) for 2017 (sourced from The Cambridge Centre for Alternative Finance "3rd Asia Pacific Region Alternative Finance Industry Report", November 2018, p86).

32 RFi Group, Australian SME Banking Council survey conducted in December 2017 on a sample of 533 small/medium enterprises (this survey was prepared for Prospa).

- **Operating leverage:** Notwithstanding our ongoing investment for growth, we have experienced strong operating leverage over the last three years (see Section 3.3.4 for further details). We expect this to continue over the medium term, particularly in General and Administration expenses. In CY18 our cost base included $31.0 million General and Administration costs, of which less than 30% relates to personnel costs directly related to activities of loan origination and loan management (including credit assessment, sales customer service and collections).
- **Multiple products and geographies:** We have developed a scalable platform with strong capabilities in funding, technology and distribution. We will seek to leverage these capabilities to enter and scale new markets (New Zealand) and launch and scale complementary new products (our line of credit product and Prospa Pay) in order to offer our customers a range of cash flow solutions that are tailored to the challenges they are facing (see Section 3.5 for further details).

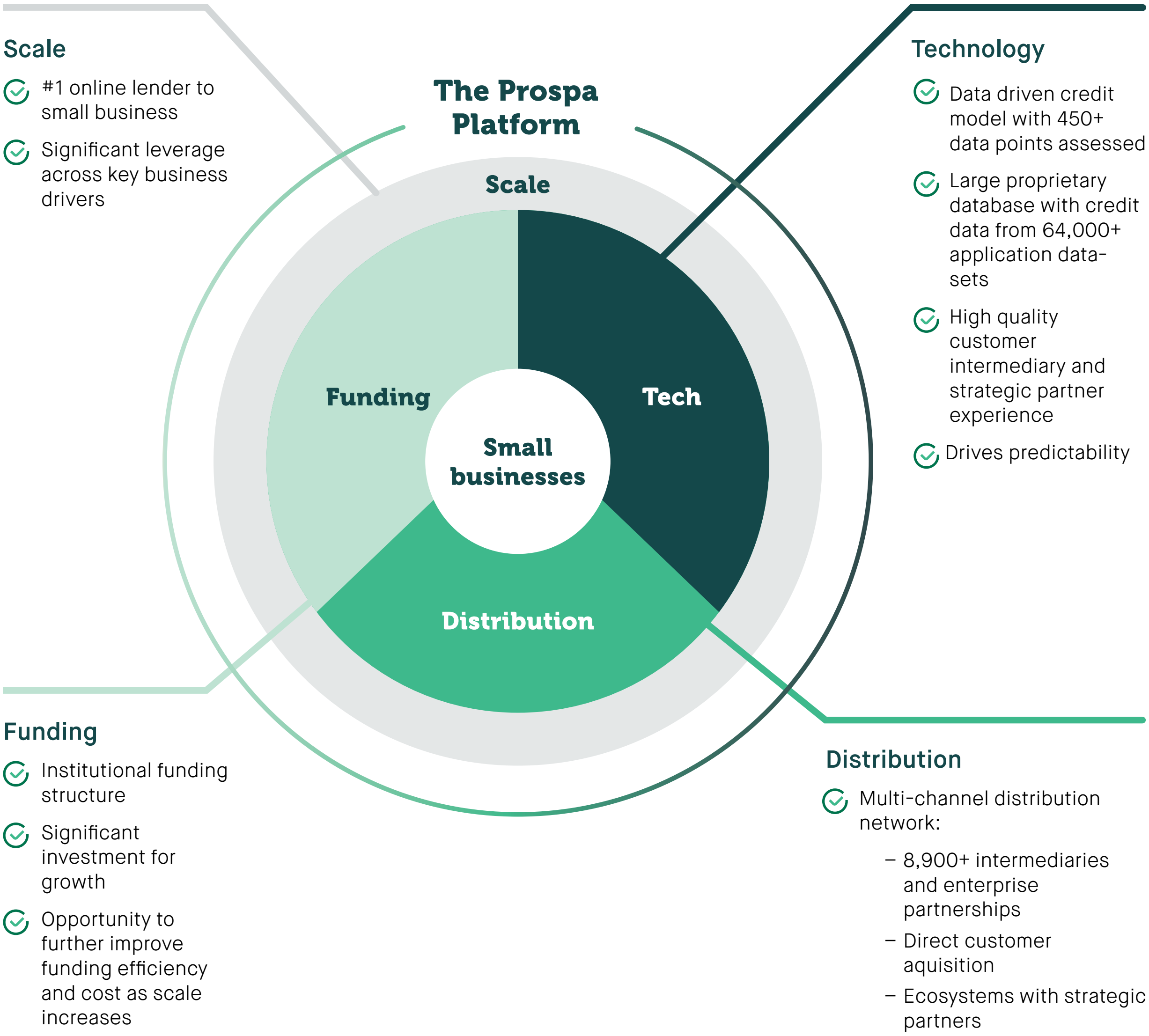
3.3 Our strengths

We have built our business model around three key strengths which, when combined, lead to scale benefit:

- Technology;
- Funding; and
- Distribution.

We have invested significantly in each of these areas leading to significant capabilities across the organisation.

Figure 27: The Prospa Platform and its strategic pillars



3.3.1 Technology

Our technology platform has been built on cloud-based technologies and has been designed with regard to the following key principles:

- Drive scale and efficiency;
- Improve credit decision making;
- Improve customer experience and engagement, with the aim of driving higher customer satisfaction and repeat rates;
- Provide seamless integration with Distribution Partners and other third parties; and
- Ensure there are robust security and customer privacy measures at every layer of the platform.

Our technology platform utilises cloud-based technologies. We use leading third-party software and service providers for the core components of our technology platform, including Microsoft Azure, Amazon Web Services and Salesforce. This provides an agile development environment, and enables us to more readily innovate and bring new product and features to market in a timely manner. Furthermore, we have invested in data analytics and Machine Learning to refine our credit risk model and inform our data-driven decision making.

We believe we have four key areas of technological innovation.

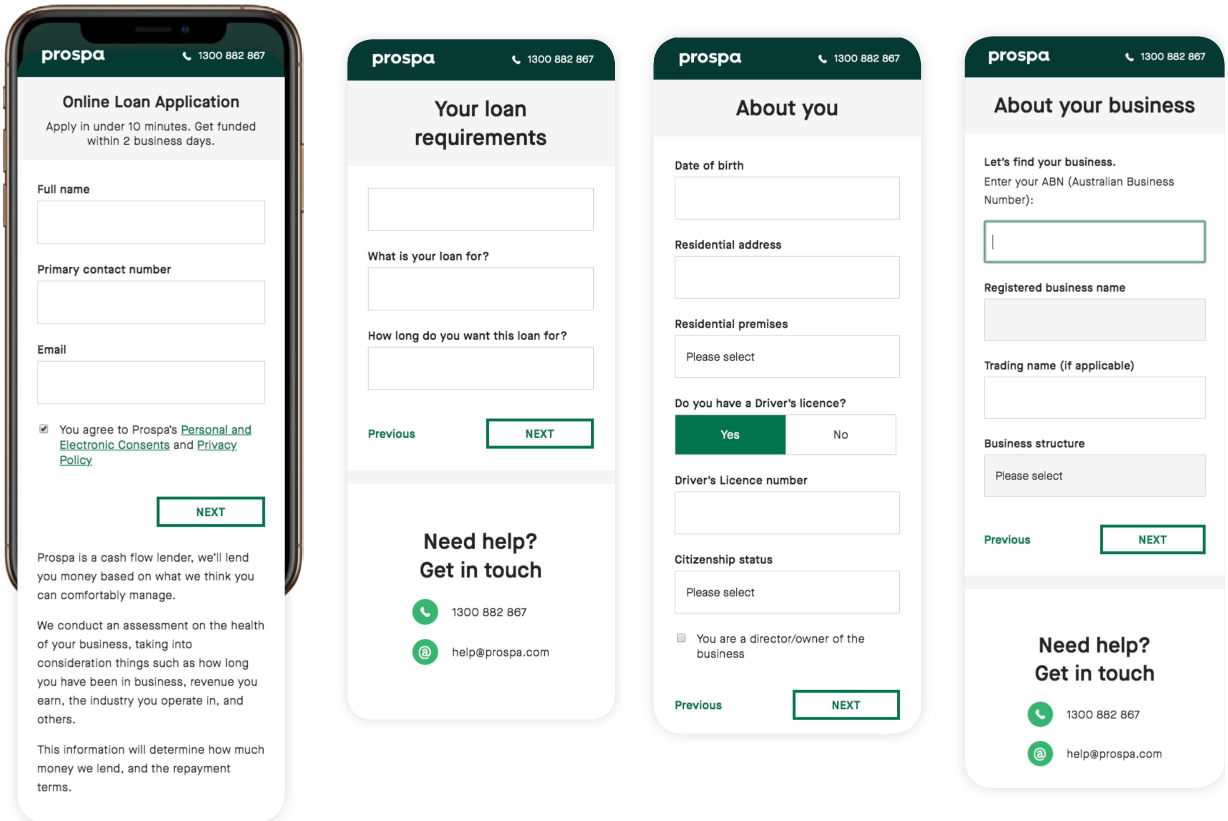
1. **Customer experience:** Technology that enables customers to quickly complete an application process with limited information requirements and without arduous manual steps, as a result of the multiple data sources we access. Our technology platform is designed to provide a streamlined customer experience and promote customer engagement, which management believes drives increased repeat customers.
2. **Credit Decision Engine:** Our CDE has been purpose-built to quickly assess small business credit applications using proprietary technology and analytics to deliver fast informed decisions.
3. **Partner technical solutions:** A range of technology solutions to assist our partner network to easily submit and track their customers' loan applications with Prospa.
4. **Internal workflow and automation:** In-house technology and processes to help our employees be as efficient as possible across Sales, Credit, Settlements, Finance, Loan Management and Collections.

3.3.1.1 Customer experience

Small business owners are typically time poor and traditional loan applications can be time-consuming and require a physical interaction with a sales agent. We have endeavoured to provide a seamless customer experience through an online/mobile-led or phone application process that can typically be completed within 10 minutes.

Our application is a simple four step process that has been designed to reduce the time and effort a small business owner needs to complete an application. These four simple steps are illustrated below:

Figure 28: Prospa application process



We have also sought to provide a unique customer experience in the online/mobile lending space by developing a straight-through approval process called Resolve. For customers that are eligible for the Resolve capability, the technology is able to deliver a credit decision within seconds, which enables us to provide potential customers with an almost instantaneous credit decision.

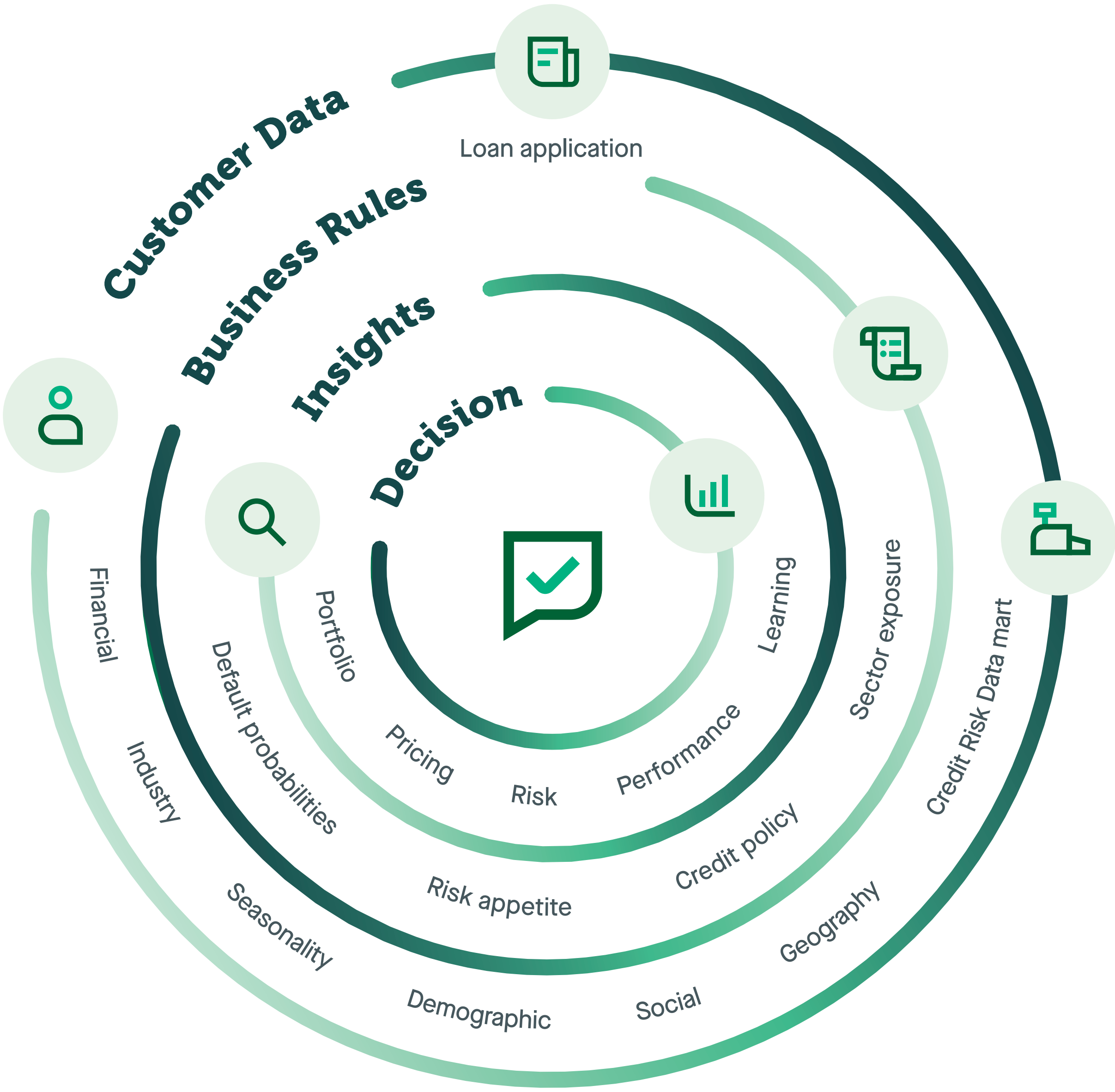
Resolve has been successfully trialled and is currently capable of automating the decision making of up to 15% of applications which fit the strict criteria of our credit policy. We are planning a broader organisational implementation for applicable customers in Q4FY19.

3.3.1.2 Credit Decision Engine

Our CDE has been purpose-built to quickly assess small business credit applications using proprietary technology and analytics to deliver fast informed decisions. There are three main stages to the CDE process:

- **Data gathering:** In addition to data received as part of the customer application, data is gathered digitally via a network of API connections including bank statements, credit bureau and government data. In aggregate hundreds of data points are gathered in each application.
- **Data synthesis:** Data sets are processed and analysed with relevant credit policies and servicing models applied using our proprietary algorithms. These algorithms utilise data analysed in our Credit Risk DataMart which leverages data from over 64,000 loan applications.
- **Decision:** The lending decision is based on the output of the data synthesis process which includes a Prospa Score and a summarised credit output that outlines relevant risk grade, term and loan amount.

Figure 29: Prospa's CDE



The above steps are performed, on average, in 15 seconds[33]. This dramatically reduces the time spent by a credit officer in gathering and synthesising data which drives operating scalability and improves customer experience. Furthermore, our CDE is able to apply policy in a manner that results in highly consistent risk categorisations which in turn drive predictable credit performance.

3.3.1.3 Partner technical solutions

From a distribution perspective, we provide a number of tools and solutions to support our extensive partner network. These technical solutions seek to ensure our 8,900+ Distribution Partners have the ability to provide a streamlined customer experience, whilst also providing our Distribution Partners with tools that are sufficiently flexible for them to service their customers as they wish to.

We survey our Distribution Partners to better understand how they currently acquire and engage with commercial lenders and customers, and to seek feedback on our solutions, to help us to continue to develop improved products and services that suit their needs.

33 Average based on 99% of loan applications.

Table 8: Prospa's Distribution Partners' technical solutions

Resource	Description	Usage statistic
iframe functionality for partner websites	We have developed an iframe which is an HTML document that can be embedded onto our partner websites to refer customer leads directly to Prospa. We also provide API integration with partner websites to facilitate lead capture and delivery. By adding this functionality onto their websites, the referral process for the customer to us is streamlined, saving time for the Partner and Prospa.	✓ iframes and APIs with Distribution Partners comprised 81% of intermediary lead generation in CY18. ✓ iframe lead generation grew 238% Q1CY18 to Q1CY19
Partner Portal	Our Distribution Partners are able to access an online portal that tracks every settled transaction a Partner has referred to us and how much commission we owe the Partner (both upfront and repeat).	✓ 55% of our Distribution Partners have used the portal as at 31 March 2019 ✓ Distribution Partners use the portal for a combination of checking the status of a deal, marketing and education and to submit leads ✓ 180% increase in leads submitted from January 2018 to December 2018
Prospa Dynamic Landing Pages	We provide our Distribution Partners with their own customised landing pages for use with paid search campaigns. The pages display the Distribution Partners' branding and colour palette, with any leads referred from these pages available directly to Prospa. We also offer the our Distribution Partners access to analytics data to allow them to optimise their digital marketing campaigns.	✓ 165% increase in leads submitted from Q4CY17 to Q4CY18 for Distribution Partners using dynamic landing pages
'How to Prospa' resource	An online education resources and series of events deliver insights and best practice specifically targeting the finance industry with a focus on Australian small businesses. This program has also been formally recognised and promoted by the MFAA attracting CPD points to their network of Finance Brokers.	✓ In CY18, we delivered 165 separate communiques with an average engagement rate of 40%[34]

3.3.1.4 Internal workflow and automation

The Prospa platform and our technology-enabled workflow is designed to help our employees be as efficient as possible, to drive scalability and, where applicable, to free up time to focus on customer experience. In order to do this, we prioritised creating an integrated platform across the organisation, providing a single view of the customer across Sales, Credit, Settlements, Finance, Loan Management and Collections. This provides the organisation with significant efficiencies as less time is required to gather data from disparate systems and employees have ready access to relevant customer information, policies and procedures as and when needed. This integrated platform can deal with lead management and initial loan application through to the final digital settlement, contract preparation and issuance.

34 Based on Marketo data for the period 1 January 2018 to 31 December 2018, where engagement rate is equal to open rate.

The product development, technology and analytics team within Prospa has a roadmap that regularly delivers new levels of automation into the platform across our business. Some recent innovations include:

- Dynamic phone system routing whereby incoming calls are fast-tracked to a customer's dedicated relationship manager familiar with that client. This has meant that approximately 70% of customers who call with an enquiry are not required to go through an interactive voice response phone system which can be time-consuming and potentially result in a poor customer experience; and
- The settlement process has been digitised, replacing manual processes, which had the effect of tripling the settlement team's capacity whilst also enhancing the validation process and overall risk mitigation.

3.3.2 Our funding model

History

Our early operational funding capital was the private capital invested by our Co-Founders and a corporate facility extended by our first equity investor, Entrée Capital. This initial capital was key to our ability to grow our loan book, substantially increase our Credit Risk DataMart, and demonstrate the viability of our lending model.

In August 2015, we established the Prospa Trust Series 2015-1 ("2015-1 Trust"), a revolving warehouse securitisation trust structure. Our first funder into the trust was a fund managed by the Carlyle Group ("Carlyle"), which subscribed for $45 million of notes. Carlyle entered the funding structure as the junior financier, with the intention that a senior institutional funder would be introduced into the funding structure at a later date. This trust series was expanded in October 2016 with the issue of $50 million senior notes to a leading Australian institutional fund manager that manages investments on behalf of a range of institutional investors (and was most recently extended in December 2018 as discussed below).

Over the course of 2017, to support the continued growth in our portfolio, the senior notes limit under the 2015-1 Trust was further expanded by an additional $100 million, resulting in the overall warehouse funding of senior and junior note limit increasing to $195 million. In December 2018, the capital structure of this trust was optimised with the Junior Notes issued by the 2015-1 Trust and held by Carlyle reduced to $35 million and refinanced by another fixed income investor that resulted in a lower cost of funding for this trust. The facility was also extended for a further three year period to December 2021. As a final part of the optimisation and diversification process, the Senior Notes were reduced to $120 million in February 2019.

In April 2018, the Prospa Trust Series 2018-1 rated term Asset Backed Securities Issuance was launched ("2018-1 Trust"). The investors were the same syndicate of senior note lenders in the 2015-1 Trust, providing further funding to support the ongoing growth in our portfolio. The total issue size was $90 million and included $79 million of Senior and Junior Notes. The issuance was structured with a one-year substitution period. In March 2019, the substitution period was extended to April 2020.

In December 2018, two additional series were established, being the Prospa Trust Series 2018-2 ("2018-2 Trust") and the Prospa Pioneer Warehouse series ("Pioneer Trust").

The 2018-2 Trust is a single tranche fixed rate trust subscribed to by a global fixed income investment fund. The transaction structure has been designed to facilitate further note issuances by the trust to existing or new fixed income investors.

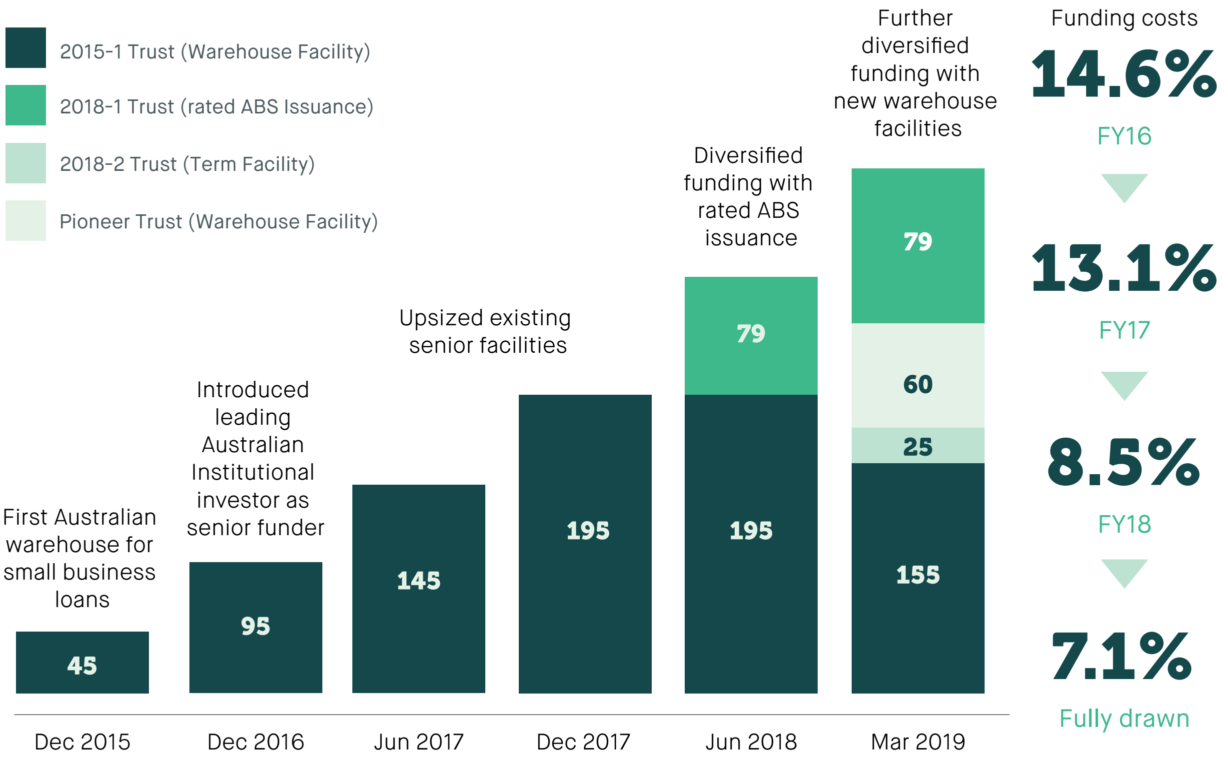
The Pioneer Trust is an unrated revolving warehouse securitisation trust facility with the senior notes subscribed to by a bank. The Pioneer Trust is a part of a long-term funding diversification and optimisation strategy and over time we will introduce a Junior Note investor and progressively seek to increase the size of the facility commensurate with the growth in the underlying portfolio.

In March 2017, we also entered into a five year secured $20 million term note corporate debt facility ("PFG Corporate Debt Facility") provided by a fund managed by Partners for Growth ("PFG") an institutional fixed income investor. As part of the Offer, the PFG Corporate Debt Facility limit will be repaid in full.

We will continue to actively engage with a range of other capital market participants such as institutional investors, domestic and international banks to further diversify our funding sources and increase our funding capacity.

Figure 30 below details the evolution of our funding facilities.

Figure 30: Our history of funding facilities and funding costs[35]



3.3.2.1 Sources of funding

We currently have four principal sources of funding to support our loan book and operations:

1. Warehouse Facilities;
2. Term Facilities;
3. Corporate Debt[36]; and
4. cash.

In addition, from time to time we syndicate a small portion of our loans with select Distribution Partners.

35 Fully drawn funding rate of 7.1% includes funding for Australian and New Zealand operations. Fully drawn weighted average cost of funds for our core Australian business is approximately 6.9%.

36 At Completion, Prospa expects its existing PFG Corporate Debt Facility will be repaid in full and cancelled through redemption for cash ($17 million) and conversion into issued capital ($3 million).

Table 9 below provides a summary of our Warehouse Facilities and Term Facilities.

Table 9: Warehouse Facilities and Term Facilities summary

				As at 31 December 2018[37]		As at 31 March 2019[37]	
Trust	Type	Lender	Availability Period	Drawn	Limit	Drawn	Limit
2015-1 Trust	Warehouse Facility (revolving)	3 senior funders with common fund manager 1 junior funder	3 years expiring December 2021 (and as extended by agreement from time to time)	$161m	$185m	$135m	$155m
2018-1 Trust	Term Facility (rated term ABS Issuance with initial revolving period)	3 investors with common fund manager[38]	1 year expiring April 2020 (and as extended by agreement from time to time)	$79m	$79m	$79m	$79m
2018-2 Trust	Term Facility (with initial revolving period)	1 senior funder	1.5 years expiring July 2020 (and as extended by agreement from time to time)	$25m	$25m	$25m	$25m
Pioneer Trust	Warehouse Facility (revolving)	1 senior funder	2 years expiring December 2020 (and as extended by agreement from time to time)	nil	$60m	$24m	$60m

Note: The limits and drawn amounts shown in the table above are the consolidated figures on a statutory basis.

A. Prospa Trust Series 2015-1

We established the Prospa Trust Series 2015-1 Special Purpose Vehicle ("SPV") under a master securitisation structure to fund the purchase of new loans originated by Prospa. This SPV draws funds from third party facilities to fund the purchase of new loans from Prospa. This revolving facility can be drawn and repaid provided the total amount drawn is within the agreed limits and eligibility criteria, and that all terms and conditions are met.

Table 10 below outlines the key features of the 2015-1 Trust.

Table 10: Key features of the 2015-1 Trust

Features	Description
Limit	$185m (as at 31 December 2018) $155m (as at Completion)[39]
Drawn	$161.4m (as at 31 December 2018)
Revolving period maturity	3 December 2021
Purpose	To fund the loans originated by Prospa

37 Represents statutory figures.
38 Investors are the same syndicate of lenders as under 2015-1 Trust.
39 Prospa reduced the facility limit on the Prospa Trust Series 2015-1 from $185m to $155m in February 2019.

Features	Description
Structure	Four-tiered notes structure: – Class A notes the highest ranking notes with a minimum agreed credit support level being provided by Class B, Class C and Seller Notes; – Class B notes the second highest ranking notes with a minimum agreed credit support level being provided by Class C and Seller Notes; – Class C notes the third highest ranking notes (currently held by Prospa) with a minimum agreed credit support level being provided by the Seller Notes; and – Seller Notes the lowest ranking notes (or first loss capital), held by Prospa.
Commitments	The commitment to subscribe for new notes issued by the SPV has been established for each class of notes through a common subscription agreement entered into between the SPV and the financiers and Prospa. Drawing under the facilities is subject to certain conditions precedent including testing for eligibility criteria set for the loans being acquired by the SPV. There are currently three domestic institutional investors (with a common fund manager) who have subscribed to the Class A Notes. The Class B Notes are issued to a fixed income investor. All Class C Notes and Seller Notes issued are held by Prospa.
Eligible loans	Eligibility criteria for the loans that can be acquired by the SPV have been set with input from the financiers. These are only tested at the time when the loan originated by Prospa is sold into the SPV. These eligibility criteria include for example the requirement that the loan is for business purposes, to an Australian resident, subject to a minimum and maximum loan amount, for a term that does not exceed the agreed maximum term and that the loan is legal, valid, binding and enforceable in accordance with its terms against the borrower, and if applicable, each security provider or guarantor. If it is subsequently determined that a loan did not comply with any of the eligibility criteria at the time it was sold to the SPV, Prospa (as seller of that loan) will be required to repurchase that ineligible loan from the SPV. Loans acquired by the SPV are also subject to monthly compliance parameter tests. Material parameters test include minimum yield and arrears performance metrics. Failure to comply with these parameters may trigger an Amortisation Event and the SPV would no longer be available to acquire new loans originated by Prospa.
Cost of funding	The Class A, Class B and Class C Notes are floating rate notes and as such the interest cost incorporates a combination of base rates (one month benchmark rate) and the agreed margin then applying for each class of notes agreed at the time of extension of the commitments. In addition to the interest cost on the notes, the SPV also incurs fees and charges that are paid to third party service providers to establish and manage the affairs of the SPV.
Non-conforming receivables	The 2015-1 Trust allows for a loan with some repayments in arrears to remain funded in the warehouse. However, once a loan has been in arrears for a certain period of time[40] the loan is classified as a "non-conforming receivable" and needs to be funded solely by Seller Notes held by Prospa[41]. In the event a borrower clears the arrears, the loan is then redesignated as a conforming receivable and once again funded by all notes.
Capital support	Prospa is the sole subscriber to the Seller Notes issued by the SPV. The Seller Notes go towards maintaining a minimum equity contribution/subordination buffer equal to 7.5% of conforming receivables and 100% of the non-conforming receivables. The Seller Notes act as a first loss capital to absorb any losses first and as such provides credit support to the Class A, Class B and Class C Notes. To the extent there is insufficient income in the SPV due to prior higher than expected losses, these Seller Notes may not be repaid in part or in full.

40 Determined in accordance to the agreed scheduled payment arrears limit.

41 Prospa typically funds the additional seller note from excess spread from the cash waterfall in the trust or cash on balance sheet.

Features	Description
Security and limited recourse	The Warehouse Facility financiers are subject to credit risk on the loans acquired by the SPV and seek to be repaid through periodic loan repayments by the borrowers (being Prospa's customers) or through the sale of the SPV loan assets. The SPV's creditors do not have recourse to Prospa other than: – to the extent that the capital invested by Prospa in the Seller Notes is available to meet claims; – during the revolving period to ensure new loans can be acquired, Prospa will be required to provide additional capital support by subscribing for further Seller Notes and selling additional loan assets to the SPV to cover loans that are past an agreed arrears threshold (i.e. non-conforming receivables); and – As a result of claims arising against Prospa in connection with our contractual obligations to the SPV in our capacity as a servicer to the SPV (i.e. where Prospa maintains the ongoing day to day interaction with the borrowers including collecting payments) and seller of loan assets to the SPV.
Income from SPV	Prospa owns the residual income units in the SPV, entitling us to 100% of the net profit of the trust (which is equivalent to net interest margin that is determined after considering interest earned on the loans less the cost of funds) subject to recouping losses on loans, and no breaches of covenants or other lock up or amortisation triggers.

B. Prospa Trust Series 2018-1

In April 2018, we established our inaugural term rated ABS Issuance, on the same master securitisation structure as the 2015-1 Trust, by pooling together a select group of assets that were either funded by the 2015-1 Trust or from our operating cash. The commitments for the 2018-1 Trust are provided by three institutional investors (with a common fund manager) who, subject to the terms and conditions of the transaction documentation, agree to subscribe for Class A and Class B notes issued by the 2018-1 Trust funding SPV. Prospa has subscribed for the Class C and Seller Notes which provide a credit support level of 11.7%[42].

Table 11 below outlines the key features of the 2018-1 Trust.

Table 11: Key features of the 2018-1 Trust

Features	Description
Issuance size	$83.25m[43]
Drawn	$83.25m (as at 31 December 2018)
Substitution period maturity	15 April 2020
Purpose	To fund loans originated by Prospa
Structure	Four-tiered notes structure: – Class A notes the highest ranking notes with a minimum agreed credit support level being provided by Class B, Class C and Seller Notes; – Class B notes the second highest ranking notes with a minimum agreed credit support level being provided by Class C and Seller Notes; – Class C notes the third highest ranking notes (currently held by Prospa) with a minimum agreed credit support level being provided by the Seller Notes; and – Seller Notes the lowest ranking notes (or first loss capital), held by Prospa. Class A, Class B and Class C notes together are the Rated Notes.

42 The Forecast Financial Information assumes Prospa continues to hold the Class C Notes ($3.8 million) during the forecast period. However, the ABS Issuance allows, subject to obtaining certain consents, Prospa to sell down the Class C notes to an external investor.

43 Denotes the available third party debt commitment (i.e, excluding the Seller Notes) assuming the potential sale of the Class C notes (currently held by Prospa). If the Class C notes are not sold the facility limit will be $79 million.

Features	Description
Term of funding	The term of the funding is matched to the term of the underlying loans. The 2018-1 Trust provides for a 12-month substitution period in respect of acquiring new receivables followed by a sequential paydown of the notes by seniority. In March 2019, the substitution period was extended to 15 April 2020. The substitution period provides Prospa the opportunity to offer a slightly longer investment term to investors given the short term of the underlying loans. The ability to substitute loans in the 2018-1 Trust is subject to conditions including testing for eligibility criteria set for any new loans being acquired.
Commitments	The commitment to subscribe for new notes issued by the trustee of the 2018-1 Trust has been established for each class of notes through a common subscription agreement entered into between the trustee of the 2018-1 Trust and the financiers and Prospa. Drawing under the facilities is subject to certain conditions precedent including testing for eligibility criteria set for the loans being acquired by the trustee of the 2018-1 Trust.
Eligible loans	Eligibility criteria for the loans that can be acquired by the trustee of the 2018-1 Trust have been set with input from the financiers. These are only tested at the time when the loan originated by Prospa is sold into the program. These eligibility criteria include for example the requirement that the loan is for business purposes, to an Australian resident, subject to a minimum and maximum loan amount, for a term that does not exceed the agreed maximum term and that the loan is legal, valid, binding and enforceable in accordance with its terms against the borrower, and if applicable, each security provider or guarantor. If it is subsequently determined that a loan did not comply with any of the eligibility criteria at the time it was sold to the program, Prospa (as seller of that loan) will be required to repurchase that ineligible loan from the trustee of the 2018-1 Trust. Loans acquired by the SPV are also subject to monthly compliance parameter tests. Material parameters test include minimum yield and arrears performance metrics. Failure to comply with these parameters may trigger an Amortisation Event and the SPV would no longer be available to acquire new loans originated by Prospa.
Cost of funding	The Class A, Class B and Class C Notes are floating rate notes and as such the interest cost incorporates a combination of base rates (one month benchmark rate) and the agreed margin then applying for each class of notes agreed at the time of extension of the commitments. In addition to the interest cost on the notes, trustee also incurs fees and charges that are paid to third party service providers to establish and manage the affairs of the program.
Non-conforming receivables	The 2018-1 Trust allows for a loan with some repayments in arrears to remain funded in the program. However, once a loan has been in arrears for a certain period of time[44] the loan is classified as a "non-conforming receivable" and needs to be funded solely by Seller Notes held by Prospa[45]. In the event a borrower clears the arrears, the loan is then redesignated as a conforming receivable and once again funded by all notes.
Capital support	Prospa is the sole subscriber to the Seller Notes in the SPV. The Seller Notes go towards maintaining a minimum equity contribution/subordination buffer equal to 7.5% of conforming receivables (plus specified reserving levels) and 100% of non-conforming receivables (or such other amount as may be required to ensure the required rating on the Rated Notes is maintained). The Seller Notes act as a first loss capital to absorb any losses first and as such provides credit support to the externally funded A, B and C Notes. To the extent there is insufficient cash in the SPV due to prior higher than expected losses these Seller Notes may not be repaid in part or in full.

44 Determined in accordance to the agreed scheduled payment arrears limit.
45 Prospa typically funds the additional seller note from excess spread from the cash waterfall in the trust or cash on balance sheet.

Features	Description
Security and limited recourse	The 2018-1 Trust's financiers are subject to credit risk on the loans acquired by the SPV and seek to be repaid through periodic loan repayments by the borrowers (being Prospa's customers) or through the sale of the SPV loan assets. The SPV's creditors do not have recourse to Prospa other than: – to the extent that the capital invested by Prospa in the Seller Notes is available to meet claims; – during the substitution period to ensure new loans can be acquired, Prospa will be required to provide additional capital support by subscribing for further Seller Notes and selling additional loan assets to the SPV to cover loans that are past an agreed arrears threshold (i.e. non-conforming receivables); and – as a result of claims arising against Prospa in connection with our contractual obligations to the SPV in our capacity as a servicer to the SPV (i.e. where Prospa maintains the ongoing day to day interaction with the borrowers including collecting payments) and seller of loan assets to the SPV.
Income from SPV	Prospa owns the residual income units in the 2018-1 Trust, entitling us to 100% of the net profit of the trust (which is equivalent to net interest margin that is determined after considering interest earned on the loans less the cost of funds) subject to recouping losses on loans, and no breaches of covenants or other lock up or amortisation triggers.

C. Prospa Trust Series 2018-2

In December 2018, we established a second term facility under the master securitisation structure to fund the purchase of new loans originated by Prospa. The trustee of the 2018-1 Trust ("SPV") draws funds from a third party facility to fund the purchase of new loans from Prospa or a Warehouse Facility. This facility was fully drawn at financial close. Table 12 below outlines the key features of the 2018-2 Trust.

Table 12: Key features of the 2018-2 Trust

Features	Description
Limit	$25m (as at 31 December 2018)
Drawn	$25m (as at 31 December 2018)
Substitution period maturity	15 July 2020
Purpose	To fund the loans originated by Prospa
Structure	Two tiered notes structure: – Senior Notes: the highest-ranking notes with a minimum agreed credit support level being provided by the Seller Notes together with first loss and liquidity reserves which are required to be maintained (including by drawing on the Seller Notes) at specified levels; and – Seller Notes: the lowest ranking notes, held by Prospa.
Term of funding	The term of the funding is matched to the term of the underlying loans. The program provides for an 18-month substitution period in respect of the Seller Notes in respect of acquiring new receivables followed by a sequential paydown of the notes by seniority. The substitution period provides Prospa the opportunity to offer a slightly longer investment term to investors given the short term of the underlying loans. The ability to substitute loans in the unrated ABS Issuance is subject to conditions including testing for eligibility criteria set for any new loans being acquired.

Features	Description
Eligible loans	Eligibility criteria for the loans that can be acquired by the SPV have been set with input from the financiers. These are only tested at the time when the loan originated by Prospa is sold into the SPV. These eligibility criteria include for example the requirement that the loan is for business purposes, to an Australian resident, subject to a minimum and maximum loan amount, for a term that does not exceed the agreed maximum term and that the loan is legal, valid, binding and enforceable in accordance with its terms against the borrower, and if applicable, each security provider or guarantor. If it is subsequently determined that a loan did not comply with any of the eligibility criteria at the time it was sold to the SPV, Prospa (as seller of that loan) will be required to repurchase that ineligible loan from the SPV. Loans acquired by the SPV are also subject to monthly compliance parameter tests. Material parameters test include minimum yield and arrears performance metrics. Failure to comply with these parameters may trigger an Amortisation Event and the SPV would no longer be available to acquire new loans originated by Prospa.
Cost of funding	The Senior Note is a fixed rate note. In addition to the interest cost on the notes, the SPV also incurs fees and charges that are paid to third party service providers to establish and manage the affairs of the SPV.
Capital support	Prospa is the sole subscriber to the Seller Notes issued by the SPV. The Seller Notes go towards maintaining a minimum equity contribution/subordination and the required first loss and liquidity reserve balances. Seller Notes were 13% of the Class A Notes on issuance.
Security and limited recourse	The program financiers are subject to credit risk on the loans acquired by the SPV and seek to be repaid through periodic loan repayments by the borrowers (being Prospa's customers) or through the sale of the SPV loan assets. The SPV's creditors do not have recourse to Prospa other than: – To the extent that the capital invested by Prospa in the Seller Notes is available to meet claims; – During the substitution period to ensure new loans can be acquired, Prospa may be required to provide additional capital support by subscribing for further Seller Notes (including to maintain the first loss and liquidity reserves at the required balances); and – As a result of claims arising against Prospa in connection with our contractual obligations to the SPV in our capacity as a servicer to the SPV (i.e. where Prospa maintains the ongoing day to day interaction with the borrowers including collecting payments) and seller of loan assets to the SPV.
Income from SPV	We own the residual income units in the SPV, entitling us to 100% of the net profit of the trust (which is equivalent to net interest margin that is determined after considering interest earned on the loans less the cost of funds) subject to recouping losses on loans, and no breaches of covenants or other lock up or amortisation triggers.

D. Prospa Pioneer Trust

A fourth SPV was also established in December 2018 under a master securitisation structure to fund the purchase of new loans originated by Prospa. This SPV draws funds from a third-party facility to fund the purchase of new loans from Prospa. This revolving facility can be drawn and repaid provided the total amount drawn is within the agreed limits and eligibility criteria, and that all terms and conditions are met. The Pioneer Trust has a 24-month substitution period which can be extended if all parties accept the terms of the extension. If not extended, an orderly and sequential pay down commences of the senior most notes outstanding at the time.

Table 13 below outlines the key features of the Pioneer Trust.

Table 13: Key features of the Pioneer Trust

Features	Description
Limit	$90m (as at 31 December 2018)[46]
Drawn	Nil (as at 31 December 2018)
Revolving period maturity	15 December 2020
Purpose	To fund the loans originated by Prospa
Structure	Four-tiered notes structure: – Class A notes the highest-ranking notes with a minimum agreed credit support level being provided by Class B, Class C and Seller Notes; – Class B notes the second highest ranking notes (currently held by Prospa)[47] with a minimum agreed credit support level being provided by Class C and Seller Notes; – Class C notes the third highest ranking notes (currently held by Prospa)[48] with a minimum agreed credit support level being provided by the Seller Notes; and – Seller Notes the lowest ranking notes (or first loss capital), held by Prospa.
Commitments	The commitment to subscribe for new notes issued by the SPV has been established for each class of notes through a common subscription agreement entered into between the SPV and the financiers and Prospa. Drawing under the facilities is subject to certain conditions precedent including testing for eligibility criteria set for the loans being acquired by the SPV. A bank has subscribed to the Class A Notes. All Class B Notes, Class C Notes and Seller Notes issued are held by Prospa. Prospa has the right to sell the Class B and Class C Notes to third party fixed income investors.
Eligible loans	Eligibility criteria for the loans that can be acquired by the SPV have been set with input from the financiers. These are only tested at the time when the loan originated by Prospa is sold into the SPV. These eligibility criteria include for example the requirement that the loan is for business purposes, to an Australian resident, subject to a minimum and maximum loan amount, for a term that does not exceed the agreed maximum term and that the loan is legal, valid, binding and enforceable in accordance with its terms against the borrower, and if applicable, each security provider or guarantor. If it is subsequently determined that a loan did not comply with any of the eligibility criteria at the time it was sold to the SPV, Prospa (as seller of that loan) will be required to repurchase that ineligible loan from the SPV. Loans acquired by the SPV are also subject to monthly compliance parameter tests. Material parameters test include minimum yield and arrears performance metrics. Failure to comply with these parameters may trigger an Amortisation Event and the SPV would no longer be available to acquire new loans originated by Prospa.
Cost of funding	The Class A, Class B and Class C Notes are floating rate notes and as such the interest cost incorporates a combination of base rates (one month benchmark rate) and the agreed margin then applying for each class of notes agreed at the time of extension of the commitments. In addition to the interest cost on the notes, the SPV also incurs fees and charges that are paid to third party service providers to establish and manage the affairs of the SPV.

46 Denotes the available third party debt commitment (i.e, excluding the Seller Notes) assuming the potential sale of the Class B and Class C notes (currently held by Prospa). If the Class B and Class C notes are not sold the facility limit will be $60 million.

47 Class B notes to be sold in due course.

48 Class C notes to be sold in due course.

Features	Description
Non-conforming receivables	The program allows for a loan with some repayments in arrears to remain funded in the warehouse. However, once a loan has been in arrears for a certain period of time[49] the loan is classified as a "non-conforming receivable" and needs to be funded solely by Seller Notes held by Prospa[50]. In the event a borrower clears the arrears, the loan is then redesignated as a conforming receivable and once again funded by all notes.
Capital support	Prospa is the sole subscriber to the Seller Notes issued by the SPV. The Seller Notes go towards maintaining a minimum equity contribution/subordination buffer equal to 7.5% of conforming receivables and 100% of the non-conforming receivables. The Seller Notes act as a first loss capital to absorb any losses first and as such provides credit support to the Class A, Class B and Class C Notes. To the extent there is insufficient income in the SPV due to prior higher than expected losses, these Seller Notes may not be repaid in part or in full.
Security and limited recourse	The financiers are subject to credit risk on the loans acquired by the SPV and seek to be repaid through periodic loan repayments by the borrowers (being Prospa's customers) or through the sale of the SPV loan assets. The SPV's creditors do not have recourse to Prospa other than: – to the extent that the capital invested by Prospa in the Seller Notes is available to meet claims; – during the substitution period to ensure new loans can be acquired, Prospa will be required to provide additional capital support by subscribing for further Seller Notes and selling additional loan assets to the SPV to cover loans that are past an agreed arrears threshold (i.e. non-conforming receivables); and – as a result of claims arising against Prospa in connection with our contractual obligations to the SPV in our capacity as a servicer to the SPV (i.e. where Prospa maintains the ongoing day to day interaction with the borrowers including collecting payments) and seller of loan assets to the SPV.
Income from SPV	Prospa owns the residual income units in the program, entitling us to 100% of the net profit of the trust (which is equivalent to net interest margin that is determined after considering interest earned on the loans less the cost of funds) subject to recouping losses on loans, and no breaches of covenants or other lock up or amortisation triggers.

E. Corporate Debt

We have a $20 million term note facility from a fund managed by PFG for general corporate purposes, including the funding of loans. This facility was established in March 2017 with a five year term, and will be repaid in full and cancelled at Completion through redemption for cash ($17 million) and conversion into issued capital ($3 million).

F. Cash

At Completion (on a pro forma basis), we will have $89.6 million[51] of unrestricted cash which can be applied for general corporate purposes, including the funding of loans. Cash funding of loans occurs for funding of Prospa's contribution to the capital support for the funding facilities or any additional note tranches Prospa determines to hold (for example, the Seller Notes in the Warehouse Facilities and Term Facilities), funding of loans on a month to month basis before placement in to the funding facilities, funding of new products or loans which are outside the agreed parameters for the funding facilities and funding of loans which are in arrears for a certain period of time and are classified as a non-conforming receivable. Funding costs and return on equity are optimised through use of excess cash to part fund originations, where available and not otherwise utilised for investment in growth opportunities.

49 Determined in accordance to the agreed scheduled payment arrears limit.
50 Prospa typically funds the additional seller note from excess spread from the cash waterfall in the trust or cash on balance sheet.
51 Pro forma unrestricted cash as at 31 December 2018.

G. Syndication

We also offer syndication arrangements to select Distribution Partners. Syndication allows for a Distribution Partner to invest in the loans that they introduce creating close alignment between us and our syndicating Distribution Partners. The Distribution Partner will contribute a portion of the initial capital and will be entitled to a pro rata share of principal collections over the life of the loan and will also be responsible for their pro rata share of any losses. An example of a syndicating Distribution Partner is Reckon through Reckon Loans. As at 31 December 2018, approximately 1.7% of the gross loan portfolio was held by syndication partners.

3.3.3 Distribution

We reach our prospective small business customers directly (through mass media and digital marketing) and indirectly through third party Distribution Partners.

Table 14 outlines our primary distribution channels in Australia. In New Zealand, our distribution strategy currently uses both direct customer acquisition and acquisition through third party Distribution Partners.

Table 14: Prospa's distribution channels

	Direct	Partner
% CY18 new and repeat volume	29%	71%
Overview	Direct relationship with customer	Intermediaries/affiliates with established and trusted advisers that small businesses rely on for financial advice Also includes relationships with large corporates with wide ranging small business reach

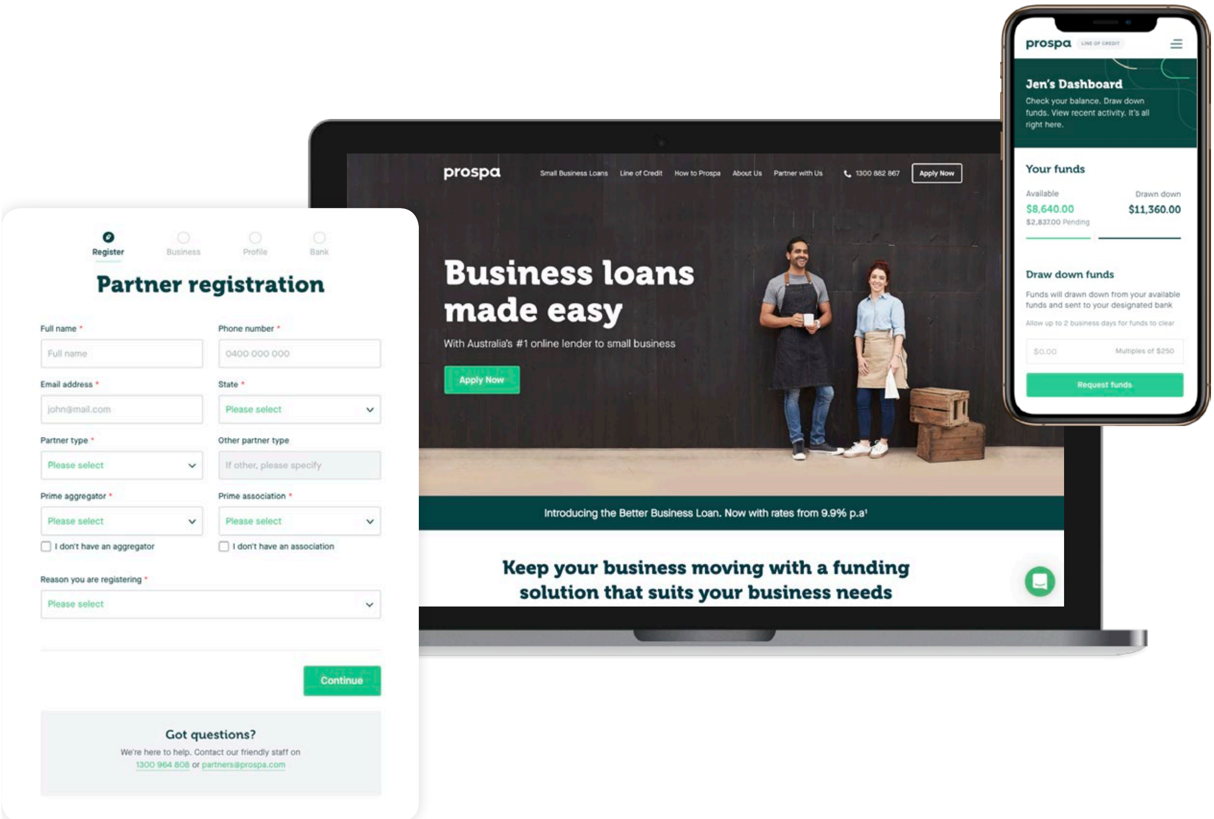
Description of channel	– Digital channels
	– PR
	– Direct mail/radio/TV etc.
	– Sponsorship e.g. Restaurant and Catering Association
	– Social media
		– Finance Brokers, aggregator networks, accountants, other advisers
		  – Integrated with Distribution Partners' websites
		  – Partner Portal with real-time analytics
		  – Marketing activation tools
		– Strategic partnerships with trusted brands that have large small business customer bases

3.3.3.1 Direct

In CY18, 29% of new and repeat originations volume came from customers applying for loans through our direct channels such as search, social and mass marketing activity. We have successfully used a targeted and integrated marketing strategy and leveraged our early mover advantage to become a leading brand name for small business online lending in Australia. This is highlighted in Section 2.5.2, where more Australians search for the term "Prospa" on Google than "small business loan".

Higher brand awareness enables us to attract a significant number of quality leads directly through online and mobile channels. FY18 saw a 124% increase in website sessions through organic search traffic when compared with FY17, and we expect this to increase as we continue to build our brand awareness. Furthermore, in the six months to 31 March 2019, 30% of all users came through organic search, highlighting the importance of this customer acquisition medium.

Figure 31: Prospa's online portal



We look to support and promote the online and mobile direct channels through a Return on Investment ("ROI") driven marketing approach consisting of Search Engine Optimisation ("SEO"), paid search advertising, online display advertising and social channel advertising. In addition, we also adopt a number of traditional advertising mediums including TV, radio and outdoor advertising.

This investment into direct customer acquisition channels has translated into strong levels of brand awareness and customer satisfaction. For the twelve months to 31 March 2019 our NPS was in excess of 77 and we had a Trustpilot Rating of 9.8 out of 10 as at 3 May 2019.

3.3.3.2 Partner

Many small businesses consult an adviser when considering finance. These advisers could be known to them or could be found using an online comparison site. At Prospa, the Partner channel is comprised of Finance Brokers, aggregators, online affiliates, comparison sites, accountants and other advisers who refer small business owners in need of financing solutions to Prospa.

In addition, as discussed in Section 2.6.2, small businesses are increasingly using online services and operating online. We have secured a number of strategic Distribution Partners that provide our product to small businesses within their ecosystems. By developing a simple API integration, we are able to provide our financing solution on a number of online platforms including e-commerce platforms used by small businesses (e.g. Reckon).

In CY18, 71% of our new and repeat volume originated from customers referred to Prospa by its Distribution Partners which highlights the relevance of this channel in reaching the fragmented small business sector.

As at 31 March 2019, we had registered 8,961 Distribution Partners who are able to refer their customers to Prospa for a small business loan. Of these, there were 1,656 unique active Distribution Partners that had referred business to Prospa over the 12 months to 31 December 2018 and a total of 2,899 Distribution Partners that had referred business to Prospa since inception. We provide these Distribution Partners with both upfront commissions, paid at settlement, and repeat commissions, paid on renewal of a customer loan.

As outlined in Section 2.6.3, the number of active Distribution Partners is expected to increase over time as Finance Brokers, which constitute a substantial proportion of the Distribution Partner channel, look to diversify their offering from more traditional lending products (such as mortgages) to other products, such as small business lending. Furthermore, we have engaged with a number of affiliate networks to increase the number of active Finance Brokers within their financial broker community.

Our four key aggregator partnerships contributed 20% of the applications settled for the CY18 period. Our referral network of Distribution Partners is well diversified with no Partner responsible for more than 6% of settled applications for the CY18 period.

Figure 32: Prospa's Distribution Partner Growth over time (# of Distribution Partners)

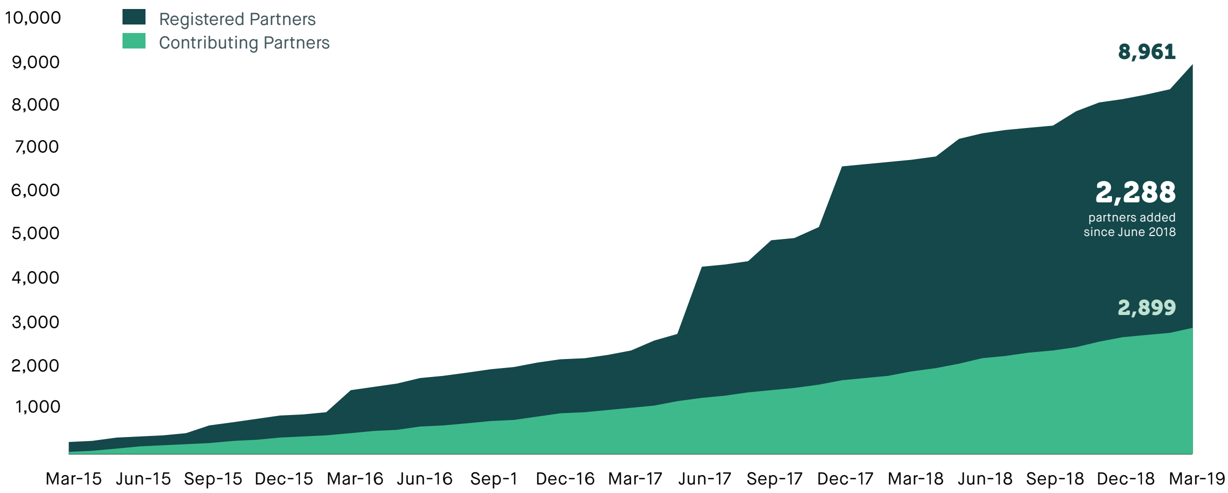
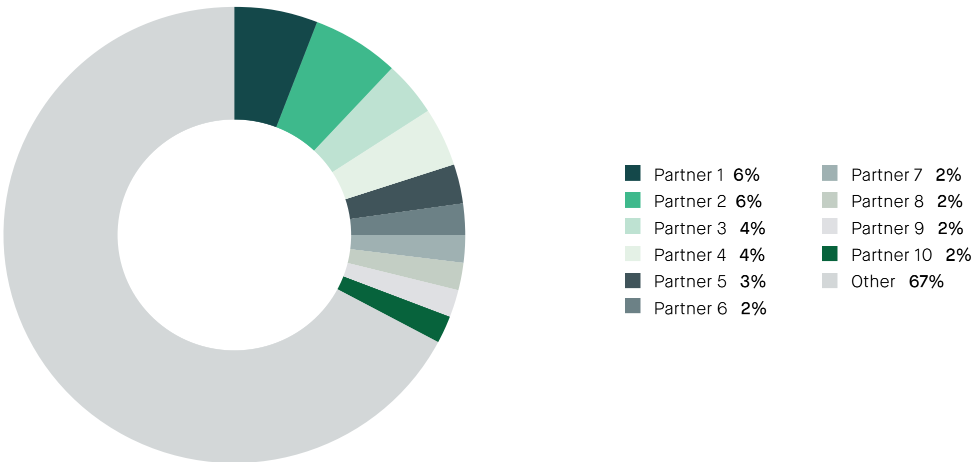


Figure 33: Applications settled for CY18[52]



We attract, manage and increase the engagement of our Distribution Partner relationships through our National Sales Team (business development managers), comprising 27 employees across Australia who provide education and training on using a variety of internally developed resources. Whilst many of our Distribution Partner relationships are not exclusive to Prospa, Distribution Partners typically prefer dealing with one primary lender for specific financial products. The support and resources that we offer, outlined in Section 3.3.1.3 above, provide us with what we consider to be a market leading position amongst our Distribution Partner networks.

52 Applications settled from CY18 across all distribution channels.

3.3.4 Scale

Since inception, we have leveraged our early mover advantage to become the #1 provider of online small business loans in Australia[53]. We have achieved this through significant investment in our three key strategic pillars. This investment has afforded us leading capability across the industry and significant scale relative to competitors in the online small business lending market. Table 15 below illustrates how investment in the three strategic pillars has led to current capabilities and future potential benefits with ongoing scale.

Table 15: Benefits of scale for Prospa

Investment area	Capability	Potential benefits with scale
Technology	– Fully cloud-based technology platform providing high quality customer experience as well as opportunity to improve automation capabilities – Proprietary CDE that is able to quickly collate multiple data points and make timely credit decisions suited to the small business sector – Significant Credit Risk DataMart with data from over 64,000 loan applications	– Ability to fund continued investment in technology and platform to further enhance customer experience and drive customer repeat rates (a single loan yields ~2.6 loans over the life of a customer[54]) – Automation leading to significant operating leverage and efficiency – Increased analytics and predictive credit assessment with the CDE using additional data points to further refine algorithms and enhance its predictive accuracy – Fully Seasoned Static Loss Rates have remained within the Board mandated 4% to 6% target range over the last 5 years
Distribution	– Leading direct channel customer acquisition capabilities with strong brand awareness – Significant investment in direct search advertising and brand campaigns – Extensive third-party distribution network having on-boarded more than 8,900 Distribution Partners that provide us with extensive reach to small businesses	– Origination volume has significantly increased with total leads increasing 6.75x from 2015 to 2018[55] – Increased brand awareness driving more cost-effective customer acquisition (e.g. higher non-paid organic search ranking) – Increased relevance and greater credibility amongst our target Distribution Partners which may drive defensibility against other online lenders – Enhanced opportunity for customer acquisition via trade finance vendors – Investment in partner technology solutions, increasing partner visibility, ease of transacting and ability to activate customer networks
Funding	– On balance sheet funder – First asset-backed warehouse securitisation funding facility for small business loans in the Australian market[56]	– Access to increased funding volume and greater number of lenders – Optimise funding structure to lower funding costs – Expected increased predictability of loss rates backed by a wealth of data and portfolio diversification

53 Online lender to small business – Prospa volume as a % of total Australian market volume (measured by loan value) for 2017 (sourced from The Cambridge Centre for Alternative Finance "3rd Asia Pacific Region Alternative Finance Industry Report", November 2018, p86).

54 Quarterly cohort average for the 25 month period of March 2015 – March 2017 (including both eligible and ineligible customers). Cohorts originated after March 2017 are still in the process of seasoning and therefore excluded from this analysis.

55 This excludes New Zealand-based originations.

56 Based on management knowledge and publicly available information.

Each of these strategic pillars operates in unison and contributes to our competitive advantage. Management believes that ongoing development and achievements in each of these areas will propagate scale across the organisation, driving improved financial performance.

Scale, in itself, has become a significant competitive advantage over other relatively new online small business lenders as it allows us to attract better talent, more attractive funding terms and an increased number of premium Distribution Partners.

Furthermore, our increased scale over time has driven significant operating leverage throughout the business. Two examples of the operating leverage that underscore these efficiencies are detailed in Figures 34 and 35 which illustrate a 173% increase in the average revenue of settled loans per loan specialist and a 625% increase in average number of settlements processed per settlements officer for the same period.

Figure 34: Average revenue of settled loans handled per loan specialist (monthly)

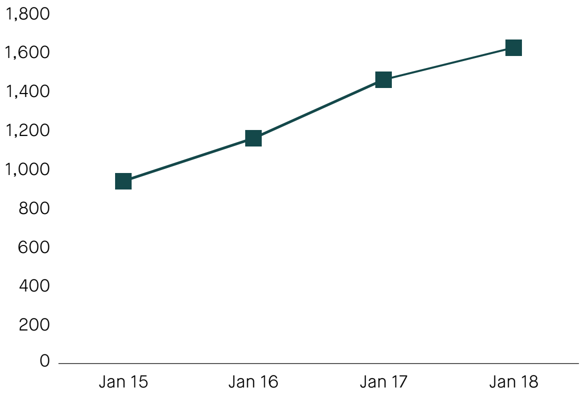
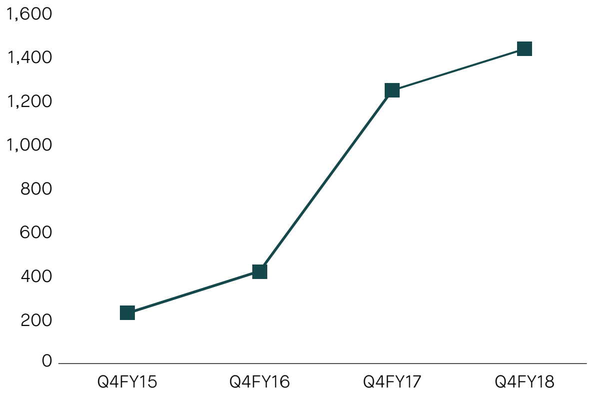
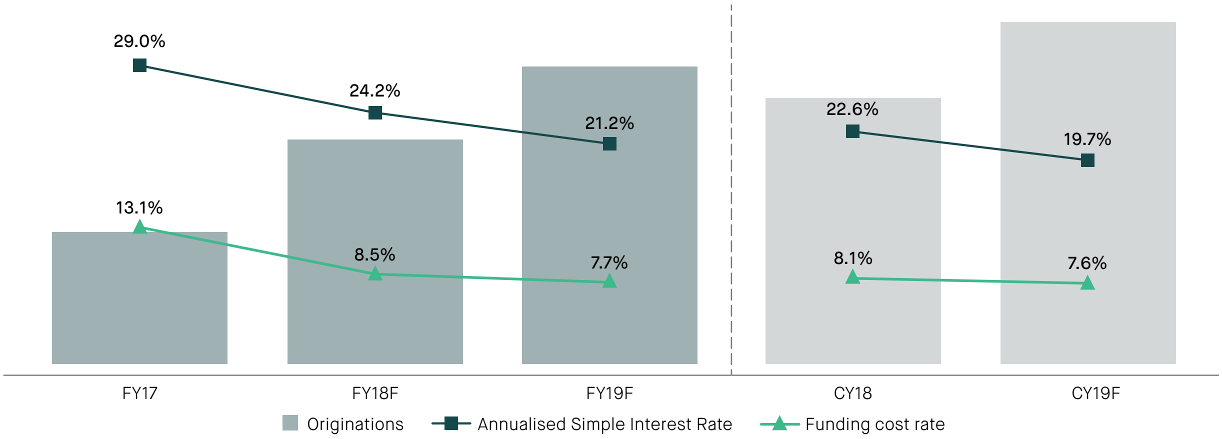


Figure 35: Average number of settlements per settlements officer (quarterly)



As our platform became more established, we were able to pass on the benefits of our lower funding cost rate[57] to customers. As seen in Figure 36 below, this has stimulated top line growth while maintaining an acceptable risk profile.

Figure 36: Originations, Annualised Simple Interest Rate and funding cost rate[58]



57 Funding cost rate is calculated as funding costs divided by the average funding debt, which is then annualised using a simple interest formula.

58 For the periods ending June 2016, June 2017 and December 2017, the weighted average portfolio APRs (on a gross loan basis) were 59.0%, 45.2% and 41.3%, respectively. As at 31 March 2019, the weighted average portfolio APR (on a gross loan basis) was 36.5%.

3.4 Risk management

Our business model is underpinned by a risk management framework that seeks to ensure alignment between our strategic goals and underlying risks. This risk framework revolves around five key focus areas, outlined in Table 16 below. We have implemented a number of policies, procedures, techniques and tech-enabled tools in each of these focus areas to ensure that risk management and accountability is embedded across the organisation.

Table 16: Prospa's risk framework

Credit and Funding	Operational	Cyber	Legal and Regulatory	Strategic
We have credit policies and procedures in place to manage our credit and funding risks. This includes the use of the CDE, which strictly applies our credit policies in data gathering and synthesis as well as when aiding our Credit Operations Team in the decision process. We also manage our portfolio to ensure liquidity risk and loan funding capacity are optimised. Discussed in more detail in Section 3.4.1.	We have established an Operational Risk Profile and Framework, including control testing and assurances. Comprehensive policies, processes and technological tools are in place to ensure business continuity through a Business Continuity Plan ("BCP"). We actively manage data access risk through physical and technological controls such as systems access restrictions. Key person risks are identified early and succession plans are implemented to mitigate them. Vendor risk is managed through diversification and redundancy. Financial controls governing cash management.	Given we have been built as a technologically-enabled business from inception, significant emphasis has been placed on cyber security, including the management of information and network security. We are ISO 27001 compliant, which certifies we have implemented best practices around keeping our information assets secure. Annual third-party audits are conducted to ensure continuous compliance.	We manage our legal risks associated with third parties through customer and vendor contracts. We have appropriate programs in place to comply with a number of laws and regulations including the requirements of the AML/CTF Act, FSCODA and Australian Consumer Law. In addition to this, we have membership with the AFCA, which provides an independent, fair and accessible external dispute resolution service.	We manage our long-term strategic direction through close monitoring of our competition, and microeconomic and macroeconomic trends in local and offshore markets. We have plans in place to drive the business to achieve our long-term mission, as well as react to threats in a nimble manner with minimal impacts to business operations.

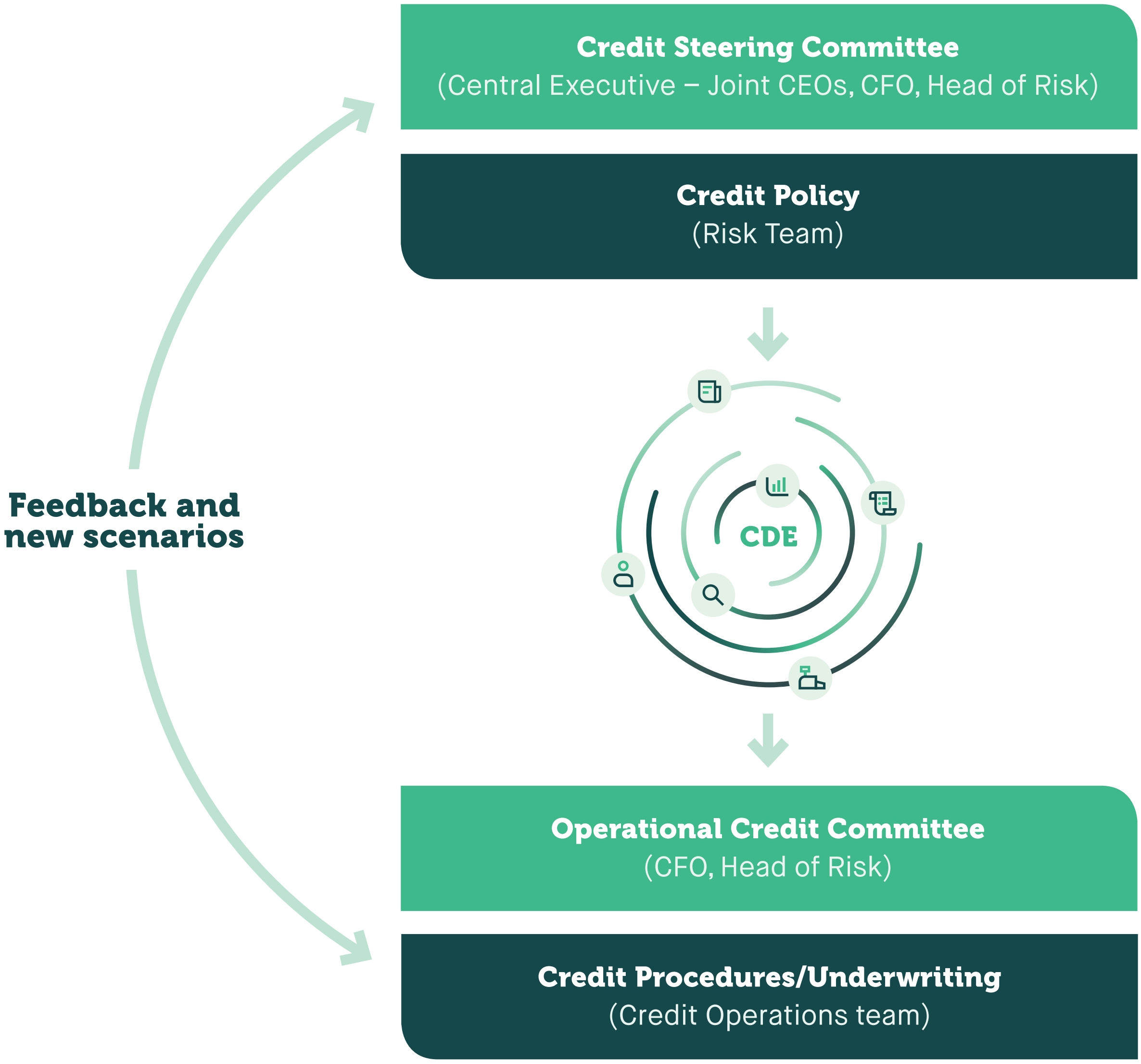
3.4.1 Credit risk framework

Our credit risk framework enables a fast and consistent credit assessment process. The key elements of the credit risk framework include:

- Credit risk policy;
- Credit procedures;
- Global Exposure and Limits Policy;
- Delegated Level of Authority (DLA) Policy;
- The CDE;
- The Credit Steering Committee; and
- The Operational Credit Committee.

Figure 37 below illustrates the interaction between these elements within Prospa.

Figure 37: Interaction between departments and credit risk framework



Our credit risk framework is governed and maintained by the Credit Steering Committee, comprising our Joint CEOs, CFO and Head of Risk. This committee meets once a month and is responsible, along with the Risk Team, for setting and updating our credit policy – in accordance with portfolio analysis and trends, operational feedback and market trends – to ensure that the amount of risk undertaken is within the limits mandated by our Board. The credit policy provides the rules applied by the CDE to formulate a funding decision.

In assessing the creditworthiness of an applicant, the CDE will use hundreds of data points from various sources to assess the applicant's willingness and ability to service the loan. A rules-based filter is also applied to automatically reject applications in accordance of our credit policy. Our credit assessment methodology will assess traditional key parameters, as described in Figure 38 below. However, it is the CDE's ability to leverage technology to accelerate data gathering and synthesis and come to a credit decision that makes it unique.

Figure 38: Prospa's credit assessment factors

Will they pay?	Can they pay?	Policy
Qualitative	**Quantitative**	**Rules Based**
Credit bureau information	Bank statement analysis (e.g. pattern analysis)	Watch List industries
Defaults	Cash flow assessment (e.g. benchmarking)	Time in business
Judgements	Liquidity testing	Domicile
Credit enquiries	Repayment Ratio and Remit	Adverse behavioral (e.g. gambling)
How they use credit		

The CDE's funding decision is then used, in conjunction with agreed upon credit and lending procedures, by the Credit Operations Team, which is governed by the Operational Credit Committee, comprising the CFO and Head of Risk. Credit procedures provide specific guidelines which the Credit Operations Team abides by when underwriting loans to ensure that they are within the risk appetite limits of our Board. The Risk Team will also conduct portfolio performance and credit risk dashboard reviews on a daily and weekly basis, respectively, to ensure the level of risk undertaken by Prospa remains within acceptable limits.

The Operational Credit Committee is responsible for funding decisions above any member of the Credit Operations Team's individual or combined Delegated Level of Authority ("DLA"), which includes loans with a value of $150,000 and above. The Credit Steering Committee is also responsible for setting and updating the DLA policy whilst the Head of Risk administers the policy and its testing regime.

The Operational Credit Committee will inform the Credit Steering Committee and the Risk Team of any suggested policy changes on an ongoing basis to ensure that the appropriate rules are applied to the CDE.

3.4.2 Credit process

Every loan we fund undergoes a comprehensive credit process where our credit policy is applied during each step of the process. The main stages involved in this credit application process are highlighted in Table 17 below.

We have designed roles and workflows to ensure duties are segregated and that different employees are responsible for helping the customer complete the application, assessing creditworthiness, settlement and funding.

Table 17: Prospa's credit application process

Stage	Description

Application	– Submission of key information by the customer through our online platform or over the phone
	  – For loans less than or equal to $150,000, key information will include bank statements (either paper-based or electronic), monthly turnover, use of funds, identification and ABN
	  – For loans above $150,000, additional documents are required including statement of financial performance, statement of financial position and aged payables and receivables, and additional analysis is performed by a member of the Credit Operations Team
	  – For loans above $150,000, the credit decision requires sign off by the Operational Credit Committee
	  – Additional information may be requested at the election of the credit officer, such as Australian Taxation Office ("ATO") information and key contracts, where is it pertinent to the assessment of the loan
	– The CDE gathers data from key sources including customer-provided data, bank statements and transaction information, credit bureau data, government data and online platforms

Processing	– The loan applicant's identity and business details are reviewed and cross-checked by the CDE
	– The CDE will then trigger the Credit Appraisal Memo ("CAM") which is a summarised representation of key source data required for decision making. This allows the Credit Operations Team to come to a decision on whether to fund
	  – For loans less than or equal to $150,000, the CDE will propose a recommendation and the Credit Operations Team will confirm the decision (an increasing proportion of loan applications are being instantly approved as the volume of data the CDE has access to increases)
	  – For loans above $150,000, the Operational Credit Committee will review both the CDE's and the Credit Operations Team's recommendations

Settlement	– Once the application is approved and Simple Interest Rate is determined, loan details including the amount, term, Simple Interest Rate, and payment frequency are agreed with the customer and loan documentation is generated – Executed documents are verified by the Settlements Operations Team and automated daily, weekly or fortnightly direct debit payments are set up before loan funds are transferred to customers' accounts

3.4.3 Collections

At Prospa, our overall approach to collections is conciliatory. We talk with the customer to understand their business' current challenges and work with them to get them back on track.

To fulfil this function, we have a trained team to cover each of the various stages of delinquency. We use technology and automation to send out notification and reminders to make the collections process more scalable and efficient. As the customer moves through the delinquency journey, we explore all relevant avenues to maximise our recovery, including legal enforcement and recovery proceedings, if necessary.

To ensure fairness to our customers, we have an internal and external dispute resolution process and a hardship policy which our customers can access. We are a member of an external dispute resolution service (AFCA) should our customers wish to take their case to an external decision maker. Since inception, we have had 0.26% of total loans proceed to external dispute resolution.

3.4.4 Portfolio monitoring

We have implemented a number of controls which enable the Risk Team to regularly monitor our credit risk and the ongoing financial health of our portfolio. These controls include:

- Automated red flag alerts on missed repayments;
- Regular credit performance reports and monitoring; and
- Monthly portfolio reviews.

Through these controls we are able to monitor a number of key portfolio metrics including contractual vs. realised payments, direct debit failure rate, delinquency rate across industries and risk grades, approval and decline trends and concentration risk.

This ongoing monitoring process allows the Risk Team to quickly detect when certain sectors or geographies are undergoing financial stress and adjust our credit policy accordingly to manage risk.

3.4.4.1 Loss scenario analysis

For illustrative purposes, we have set out below an analysis of the impact on our Warehouse Facilities and Term Facilities for a hypothetical scenario in which the losses and level of non-conforming receivables doubled for the 12 months of CY19F[59].

In order to maintain the required subordination and reserve levels in accordance with the terms of the relevant funding facilities and avoid the occurrence of an Amortisation Event as a result of the increased non-conforming receivables, Prospa would, under this scenario, need to subscribe for additional Seller Notes of approximately $24.8 million to meet the minimum equity requirements for conforming and non-conforming receivables[60]. The incremental Seller Notes requirement would need to be funded from unrestricted cash on balance sheet and any excess spread being returned by the trust.

We expect that, following our subscription for additional Seller Notes and purchase of additional receivables[61], our Warehouse Facilities and Term Facilities would allow us to continue to originate new loans, subject to, amongst other matters, no other Amortisation Events being triggered (as discussed in Section 9.8) and subject to the other risks set out in Section 5 (for example, the ongoing availability of funding as funding facilities mature).

Although not factored into the hypothetical scenario above, we would have a number of mitigating factors and operational levers to help us seek to manage the impact of any such scenario on our business, financial position and financial performance, and provide us with potential growth opportunities:

- Our loan portfolio diversity across industries and geographies lowers our risk of exposure to concentrated incidences of stress;
- Our high frequency loan repayment profile (daily and weekly) provides us with lead indicators of portfolio stress, enabling us to adjust our lending policies and pricing for new loan originations;
- Our business model provides the flexibility to change the structure of our product offering, including the ability to limit loan size, loan duration and provide risk-adjusted pricing on new loan originations; and
- We would look for opportunities to selectively grow our portfolio as other lenders in the small business category withdraw or are unable to fund new loans.

Finally, with multiple funding relationships across the Warehouse Facilities and Term Facilities the counterparty risk associated with third party financiers is mitigated. Prospa will continue to diversify its funding arrangements through onboarding new funders into additional warehouse facilities or by introducing new fixed income investors into its Term Facilities.

3.4.5 Credit outcomes

One of the key indicators of loan loss performance that we use to assess our loan portfolio and make credit decisions is our Fully Seasoned Static Loss Rate. Static Loss Rates represent the principal not ultimately recovered on a given cohort, divided by the cohort's original loan principal. A Fully Seasoned Static Loss Rate for a cohort refers to a Static Loss Rate for a time period from origination to a period that is 18+ months post origination (it takes on average 18 months for a cohort to become Fully Seasoned, where we have a high degree of confidence that the significant majority of the losses relating to the cohort have been incurred).

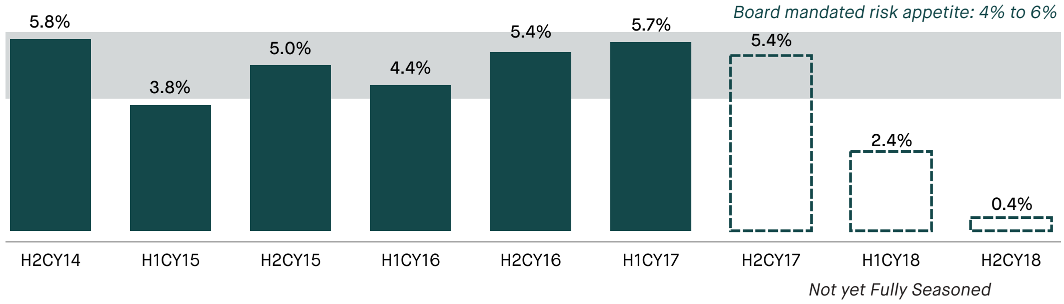
Our Board-mandated Fully Seasoned Static Loss Rate target range is 4% to 6%.

59 In respect of the loan receivables in those financing structures.

60 Assuming the gross loan balance of loan receivables in the Warehouse Facility and Term Facilities is $413 million as at 31 December 2019 and the relationship between the loss rate and the proportion of non-conforming receivables holds in this scenario, meaning that when losses double, non-conforming receivables also doubles.

61 By the relevant trust prior to a breach of the required subordination levels.

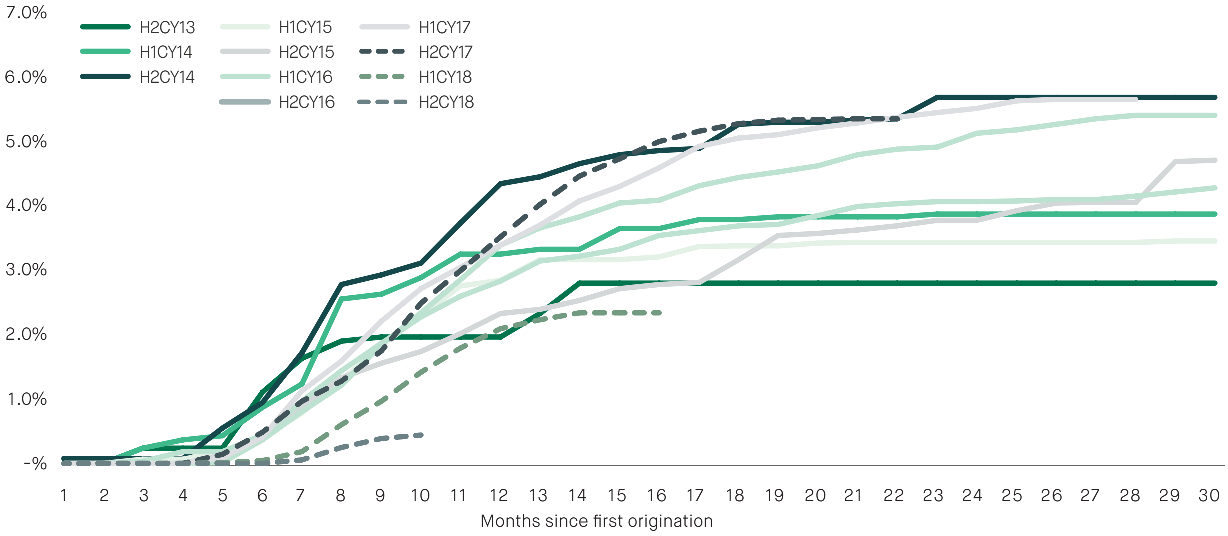
Figure 39: Half yearly Static Loss Rate (net of recoveries)[62,63]



	H2CY14	H1CY15	H2CY15	H1CY16	H2CY16	H1CY17	H2CY17	H1CY18	H2CY18
Originations[64]	$18.6m	$23.4m	$37.4m	$52.6m	$84.6m	$131.4m	$156.4m	$211.0m	$224.5m

Figure 40, displays the cumulative Static Loss Rate over time for each half yearly cohort. The data is shown as a static pool to illustrate how the half yearly cohort has performed and the rate at which each of the cohorts reach their Fully Seasoned Static Loss Rate. Given we have historically charged loans off after 120 days of non-payment, all cohorts have a low Static Loss Rate for the first four months in the below chart.

Figure 40: Cumulative Static Loss Rate by half yearly cohort (net of recoveries)[65]



We also look at more recent measures including delinquency, roll rates and loss leading indicators to assess portfolio health. Of these measures, we have determined that key early indicators of performance include:

- the 30 Days Past Due at four months ("30+ DPD at four months") (taken as an early loss indicator where the loans are segmented by month of origination, and the delinquency is categorised by the time since the loans were originated); and
- the Coincidental 90+ Days Past Due ("90+ DPD") (taken on a Coincidental basis, meaning the delinquency is categorised into segments at a point in time, irrespective of when those loans were originated).

62 Data as at 30 April 2019. Losses have historically been reported and charged off after 120 days of non-payment. As part of our adoption of AASB 9 from 1 July 2018, we amended our charge off policy to 180 days past due for future cohorts. This amendment to the policy is not expected to have any impact on the Fully Seasoned Static Loss Rate, although it will have an impact on the timing of the recognition of the losses and therefore would change the profile of the Cumulative Static Loss Rates chart in Figure 40. Static losses are calculated based on gross originations (i.e. fresh capital provided to customers plus any rollover portion or any pre-existing loan for a given period).

63 The H2CY17, H1CY18 and H2CY18 cohorts are still in the process of seasoning. As the cohort continues to age, we anticipate that the Fully Seasoned Static Loss rate will be within the Board mandated risk appetite range of 4 – 6%.

64 Represents the fresh capital originations (excluding the rollover capital from any repeat loans) for a given period.

65 Data as at 30 April 2019. Losses have historically been reported and charged off after 120 days of non-payment. As part of our adoption of AASB 9 from 1 July 2018, we amended our charge off policy to 180 days past due for future cohorts. This amendment to the policy is not expected to have any impact on the Fully Seasoned Static Loss Rate, although it will have an impact on the timing of the recognition of the losses and therefore would change the profile of the Cumulative Static Loss Rates chart in Figure 40. Static losses are calculated based on gross originations (i.e. fresh capital provided to customers plus any rollover portion or any pre-existing loan for a given period).

As a sensitivity, if these early loss indicators translated into improved loss performance and lower provisioning rates equivalent to 0.80% of CY19 period end gross loans, our CY19 loan impairment expense would reduce by approximately $3.9 million.

Figure 41 below illustrates the 30+ DPD at four months since January 2017. As demonstrated in Figure 41, our 30+ DPD at four months has decreased over the past 18 months. We have historically seen a correlation between early loss indicators (including the 30+ DPD at four months) and eventual net charge-offs. The decreasing early loss indicator is indicative of the improving credit quality in Prospa's portfolio.

Figure 41: 30+ Day Past Due at four months

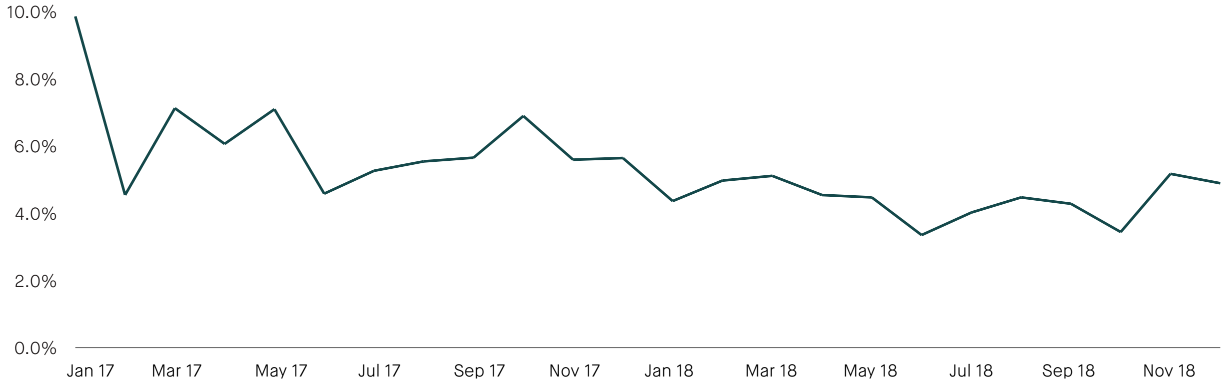
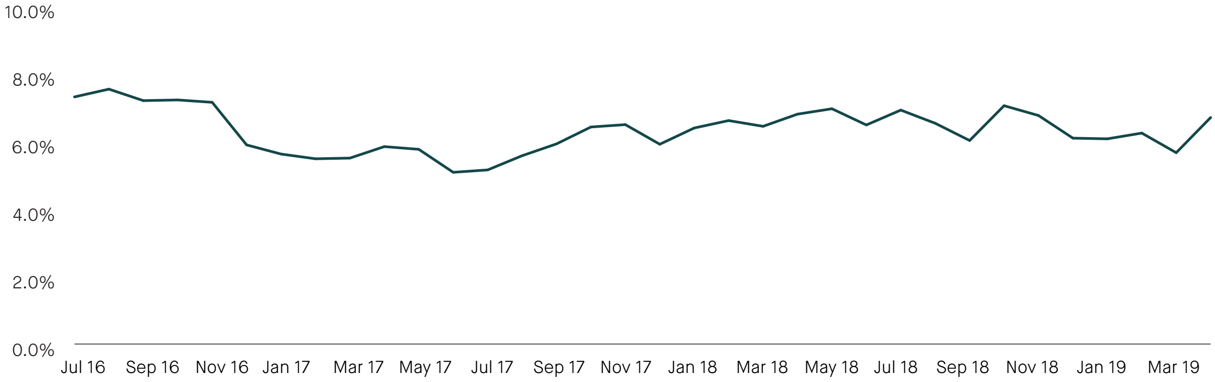


Figure 42 below illustrates the 90+ DPD band over the last 34 months. As demonstrated in Figure 42, our 90+ DPD is subject to seasonality, with the June and December months representing seasonal low points during the year given the strong volume of originations typically experienced in these months.

Figure 42: 90+ Day Past Due



3.5 Growth strategies

Our vision is to build cash flow products and services that allow small businesses to pay for the products and services they need to grow and run their businesses. To achieve our vision we intend to use our scale and leverage our existing capabilities across funding, technology and distribution.

Our current growth focus for product and market development areas include improving our small business loan product, developing our New Zealand operations, and developing our line of credit product and Prospa Pay (B2B payments solution). Additionally, we are achieving improved operational efficiency through scale and operating leverage, as well as our continued investment in our technology capabilities, process improvements and brand awareness.

Our growth strategy has six key components:

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

These components are outlined in further detail below. We will use the primary Offer proceeds[66], alongside the $43.3 million of proceeds raised from the issuance of the convertible note in October 2018 to support these growth strategies.

3.5.1 Improving our core product through innovation

At Prospa, we are continually looking to optimise the way in which small businesses experience finance. We plan to continue innovating to build an even better small business loan for our customers, including:

Increasing loan flexibility

To provide our customers increased flexibility for their small business funding needs, we have incorporated other changes to our amortising small business loan, including:

- increasing the maximum loan size able to use our express pathway from $100,000 to $150,000;
- increasing the maximum loan amount from $250,000 to $300,000;
- providing longer loan terms of up to 24 months for certain customers; and
- improving our credit assessment times for loan amounts between $150,000 and $300,000.

We believe flexibility will increase our product attractiveness to a broader customer set who would be able to access more tailored funding solutions through Prospa and may also have the effect of improving portfolio quality.

Reducing interest costs for our small business customers

As our loan book grows, we have accessed more diverse funding at typically lower funding costs. This has historically allowed us to reduce interest rates for potential customers.

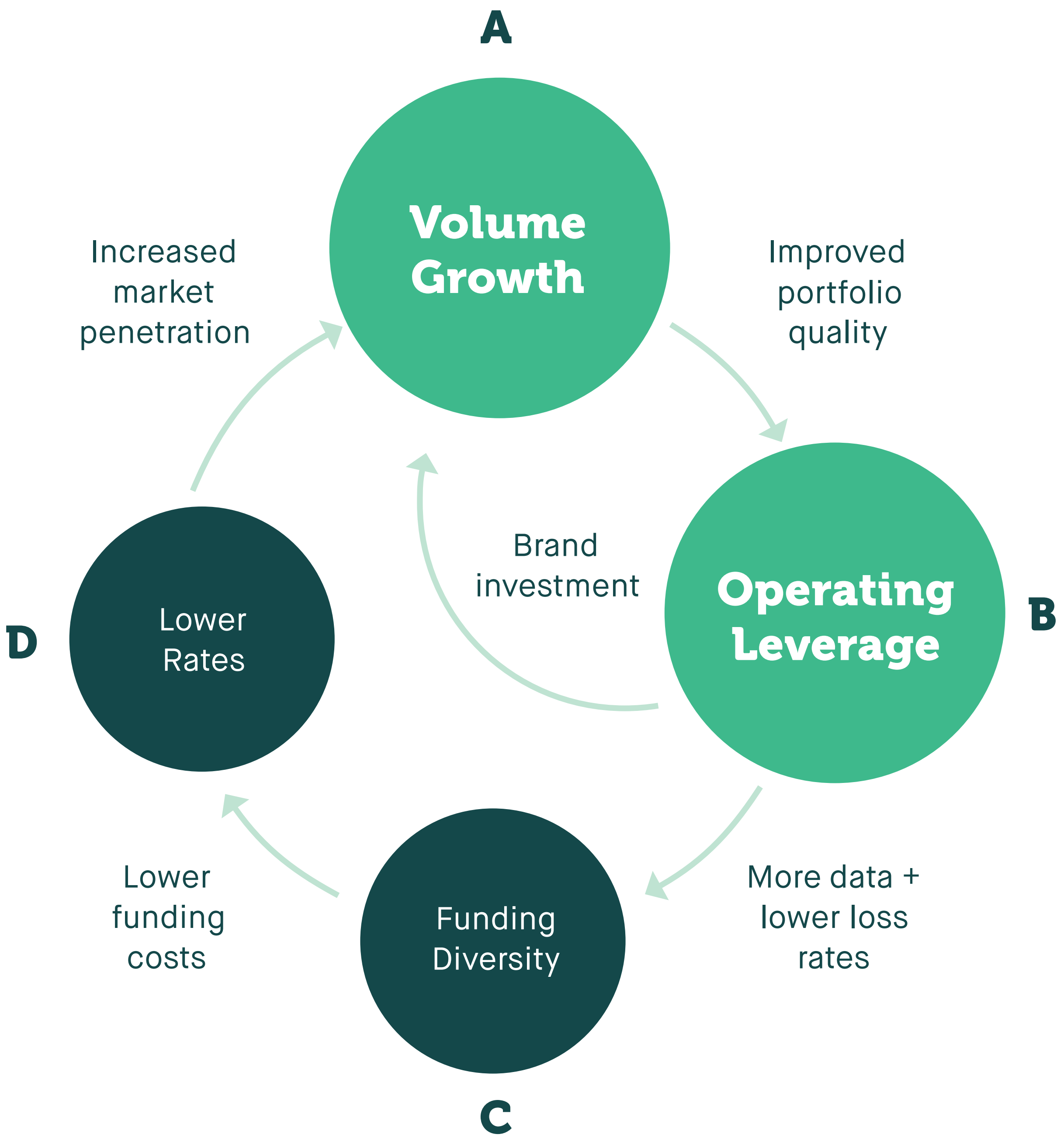
In H2 FY19 we launched an updated rate card for our small business loan product with simple annual interest rates from 9.9% to 26.5% of the loan amount. This pricing was made possible by securing the lower costs of funding as set out in Section 3.3.2.

In addition to enhancing our market penetration and growth prospects, we anticipate the new rate card will allow us to attract certain lower risk grade clients who are typically more price sensitive. This phenomenon was in part experienced from May 2017 when we launched three new premium pricing grades which have quickly grown to account for 36% of the total loan portfolio as at 31 March 2019.

Figure 43 diagrammatically depicts the “fly wheel” within our business model. Our strong volume growth (label A) generates increased scale and further operational leverage in the business (label B). The additional data and the potential for lower, more consistent loss rates allow Prospa to attract a wider range of funding partners, promoting further funding diversity (label C), which has a reinforcing effect on lowering funding costs. Prospa is able to pass some of the lower rates through to customers (label D), including targeting more price-sensitive lower risk clients, improving its market penetration and promoting additional volume (label A).

66 Primary offer proceeds less the repayment of corporate debt and IPO costs.

Figure 43: Impact of reduced funding costs on Prospa

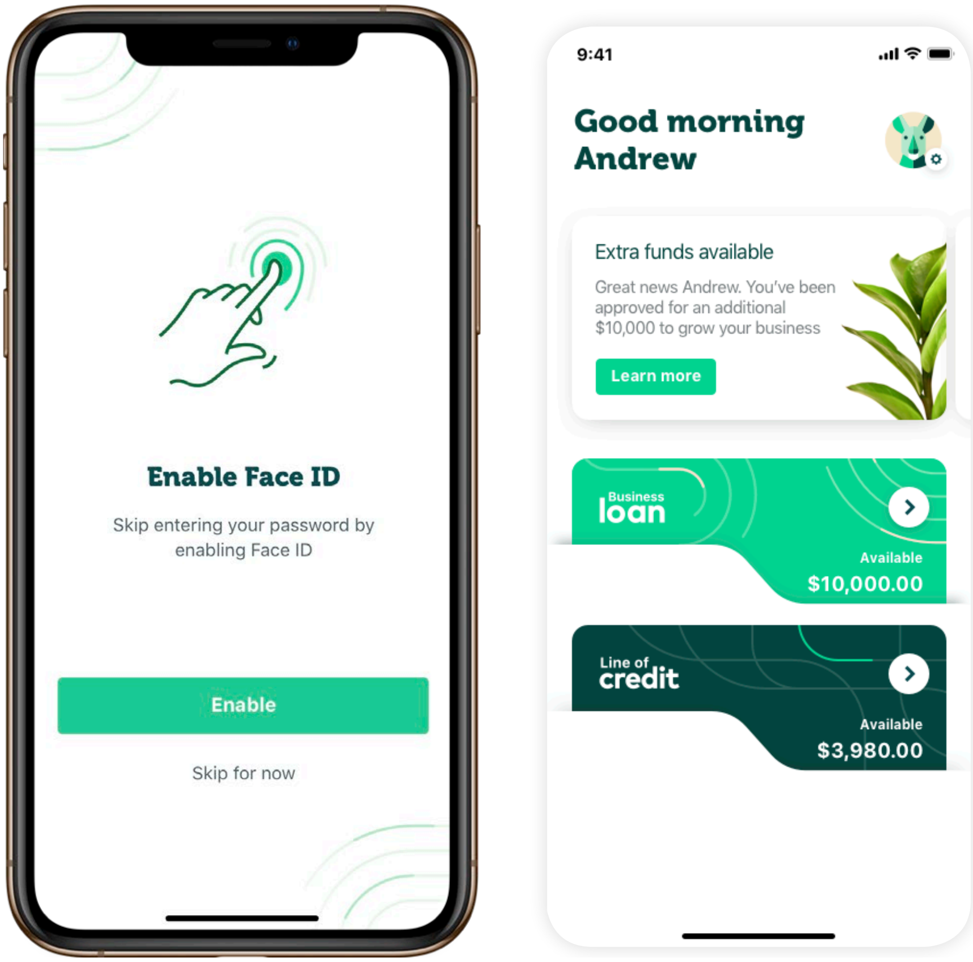


Enhancing our customer journey

We are continuing to invest in the customer journey to streamline the process of applying for a new loan, improving the time to approval and the overall experience with Prospa. As an example, we invested significantly in our online customer interface through ongoing development of our mobile offerings.

We are developing a mobile app for use by all our customers that will enable small business loan customers to check their balance, make a payment, get help with missed payments and seek additional funds.

Figure 44: Prototype of mobile app



By developing the mobile channel, we believe this will drive increased customer engagement leading to loan book growth, greater customer retention and greater opportunities to drive new products and value to our customers.

3.5.2 Increasing the addressable market through product development

Small businesses require access to funding to solve a number of business needs:

- Small business owners looking to **GROW** their business typically need to be able to access a one-off lump sum quickly to take advantage of opportunities such as purchasing tools and equipment, renovating premises, undertaking a marketing campaign or buying stock;
- Small business owners also need a credit facility to help them **RUN** their business day-to-day. They typically experience cash flow fluctuations and need to be able to make regular smaller payments such as paying wages or suppliers and covering unexpected expenses; and
- Small business owners also need ways to help their small business customers **PAY** for goods and services. They may currently be extending trade credit in order to acquire or keep customers, and they may not be able to easily determine the creditworthiness of customers to whom they extend trade credit.

Prospa today solves some of these requirements in Australia and New Zealand with our online, small business loan. We continue to explore, test and launch complementary new products in order to offer our customers a range of cash flow solutions that are tailored to the challenges they are facing in being able to GROW and RUN their business and help their small business customers PAY for their goods or services.

We are investing in our new product capability in several ways. We have adopted a four-stage process to develop new product ideas. We also applied the same methodology before launching in the New Zealand market.

1. **Research and Design:** We conduct qualitative customer research by regularly interviewing customers to better identify and understand their needs and challenges. We use this information to help shape our initial product designs and features to determine which products best solve the customer problem.
2. **Testing:** Once sufficiently developed we beta test the product in-market and then conduct a pilot program to assess the product market fit, credit performance, risk indicators, marketing channel efficiency and customer and partner feedback.
3. **Refinement:** We use the information from our beta testing and customer feedback to refine the design and features of the product, refine positioning and promotional strategies and for market launch.
4. **Scaling:** Once we launch the product and are comfortable with the credit parameters, we then move to scaling it rapidly and efficiently. At this stage we focus on operationalising the product, developing operating efficiencies and cross-sell/up-sell.

3.5.2.1 Business line of credit

Prospa's new line of credit product is designed to help small business owners ***run*** their business day-to-day and handle any unexpected expenses.

Small businesses are looking for a range of flexible finance solutions that are suited to their specific needs, including a facility that will help align payment terms within their business. One of the possible solutions is a revolving facility that enables the customer to draw down and pay back the funds as often as they prefer, and only pay interest on the drawn amount. A survey of our Distribution Partners indicated 27%[67] believed Prospa should provide a revolving facility such as a line of credit or overdraft product.

We believe we are well positioned to offer new and existing customers a revolving working capital facility that is complementary to our existing amortising term loan product and tailored to small business needs.

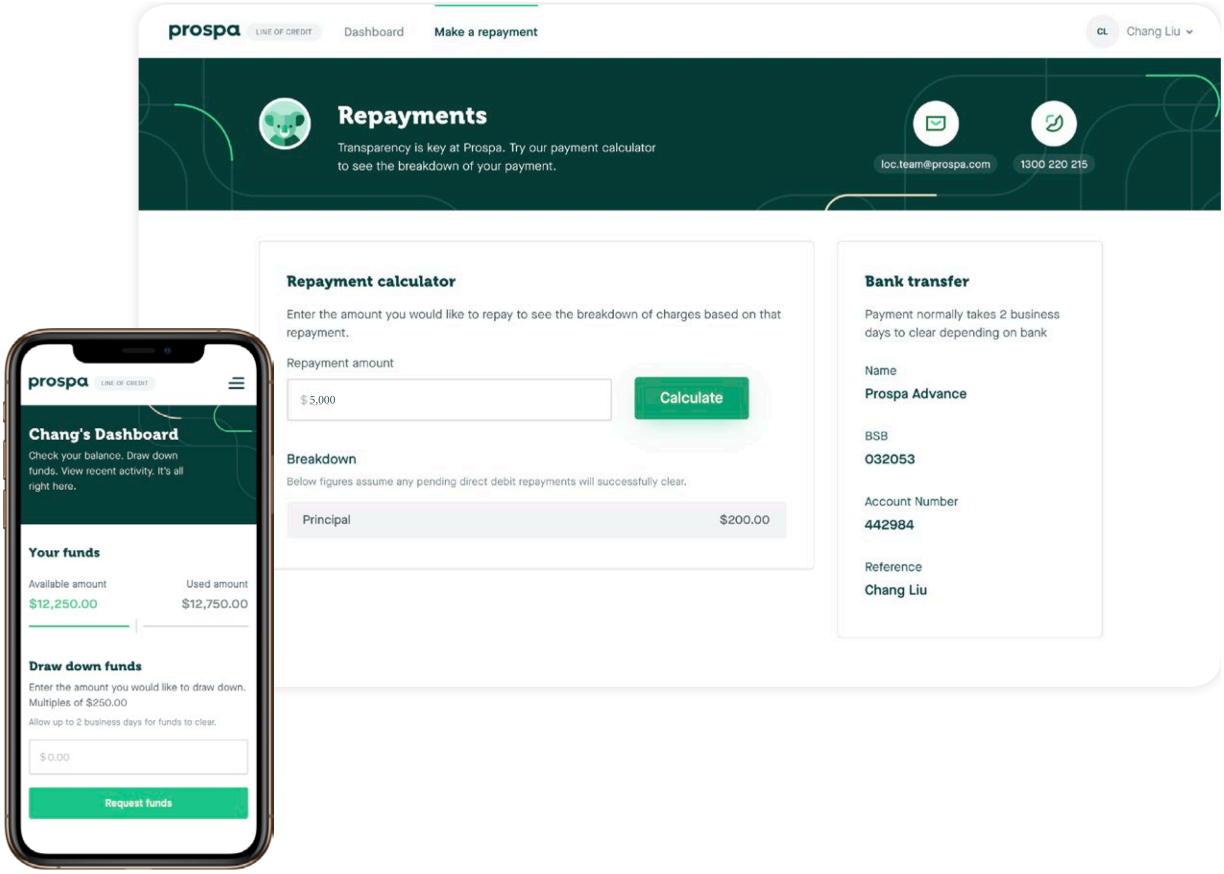
The features of our line of credit product are differentiated from similar products currently offered by other online lenders given the revolving nature of our product, and that funds can be used for any business purpose. In the future, we expect customers' transactions for the line of credit product to be captured within the Prospa App.

We began testing a line of credit product in late 2018 with a select number of customers and had a pilot product built and up and running within 31 days. The product provides small businesses with a line of credit limit that they can draw down on and repay as they choose during a term of 12 months with the possibility of annual renewal. Applications are online and can take less than ten minutes, with funding possible in 24 hours. The current limit on our line of credit product is $25,000, with interest accruing each day on the outstanding balance and paid weekly.

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

67 Prospa Active Broker Survey, July-August 2018.

Figure 45: Line of credit product



3.5.2.2 Prospa Pay

Small business owners also need ways to help their small business customers ***pay*** for goods and services. They may currently be extending trade credit in order to acquire or keep customers, and they may not be able to easily determine the creditworthiness of customers to whom they extend trade credit.

Through detailed analysis of our data, industry and customer base, we identified an opportunity for Prospa to simplify the payment transactions for B2B businesses, particularly in industry sectors that are a key target for Prospa such as hospitality, hair and beauty, trades, and health and fitness.

There are limited point of sale payment offerings for small B2B businesses in the Australian and New Zealand markets. By offering a payment solution for B2B purchases including consumables, low frequency asset purchases such as gym equipment and high frequency purchases such as stock, we believe there is a significant opportunity for the vendor to increase basket size, and for Prospa to support the increase of overall business sales and further integrate into small business ecosystems.

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

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

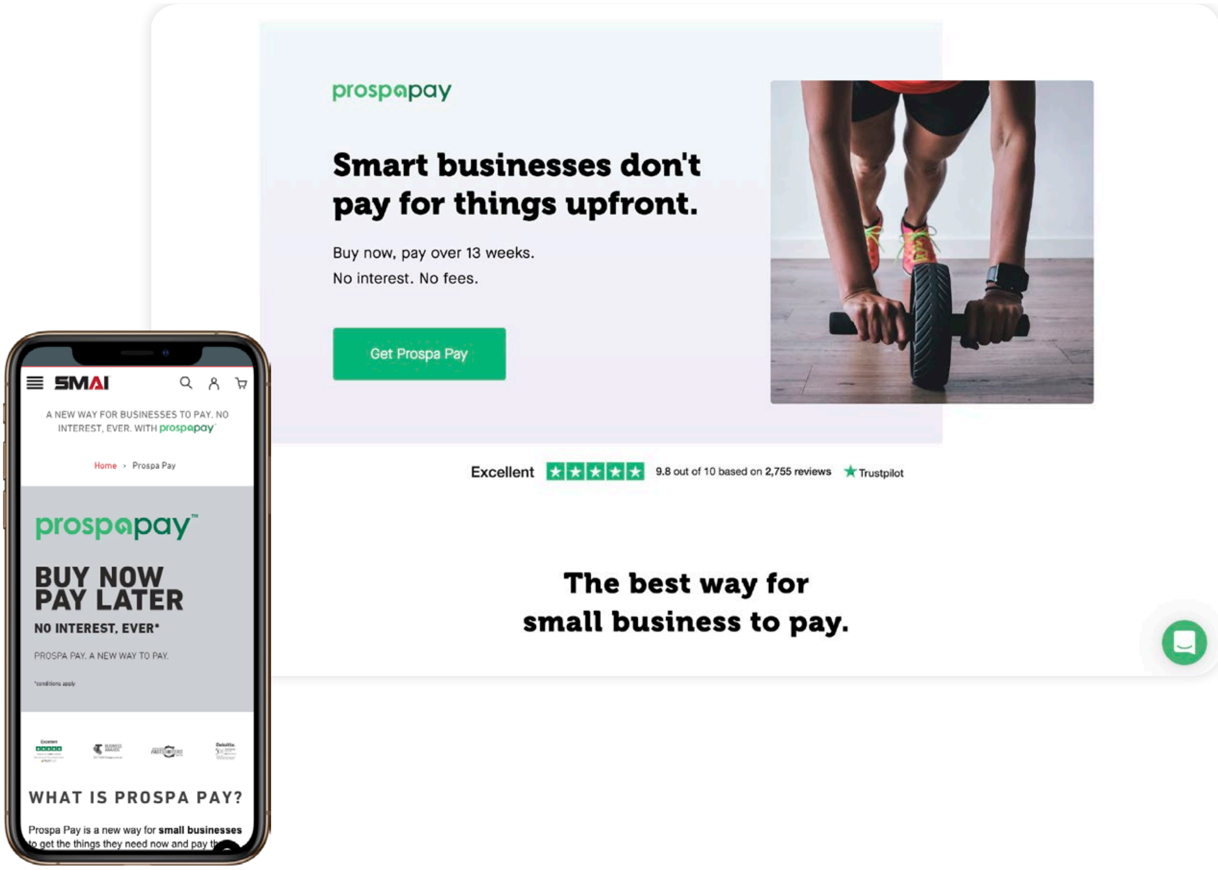
Network Effect

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

We are currently beta testing Prospa Pay. As at 31 March 2019, we have accredited 60 vendors and have settled 350 transactions. In addition to diversifying our revenue sources, Prospa Pay provides us with low cost customer acquisition and we have observed a network effect, with vendors introducing us to new small businesses to whom we have the opportunity to cross sell our existing term loan and line of credit products. Based on our initial trial, we have seen Prospa Pay customers and vendors converting to our small business loan product, highlighting the complementary nature of Prospa Pay with our broader product offering.

We will continue to focus on developing product offerings that help to solve capital and cash flow needs of small business owners and will leverage the distribution channels we already have to bring these to market.

Figure 46: Prospa Pay product



3.5.3 Increasing the addressable market through market expansion

3.5.3.1 New Zealand market

Following positive feedback from our research and focus groups on the New Zealand market, we commenced our pilot phase operations in August 2018. During the pilot phase, we reached NZ$1 million in originations in our first full month of operation (vs. 14 months for our Australian business) and originated NZ$6.8 million of loans to New Zealand small businesses to 31 December 2018. Our risk grade distribution and early credit performance from the pilot phase appears similar to the Australian business.

Additionally, given the scalability of the Australian platform and capabilities, we were able to launch the pilot phase into New Zealand with zero incremental headcount.

Following a successful pilot phase, on 1 March 2019, we formally launched in New Zealand. As at 31 March 2019, we had written a total of NZ$12.5 million in originations (including originations written through the pilot phase). We will make further headcount investments for New Zealand as we continue to scale the opportunity.

As at 31 March 2019, our New Zealand business has over 400 customers, with an average loan size of approximately NZ$27,000 and average loan term of 12 months. Our customer base is diversified across a range of industry sectors including hospitality, retail, professional services and building and trade. We have a TrustPilot rating in New Zealand of 9.8 out of 10 as at 3 May 2019 and rank first in the non-bank finance category.

Market potential

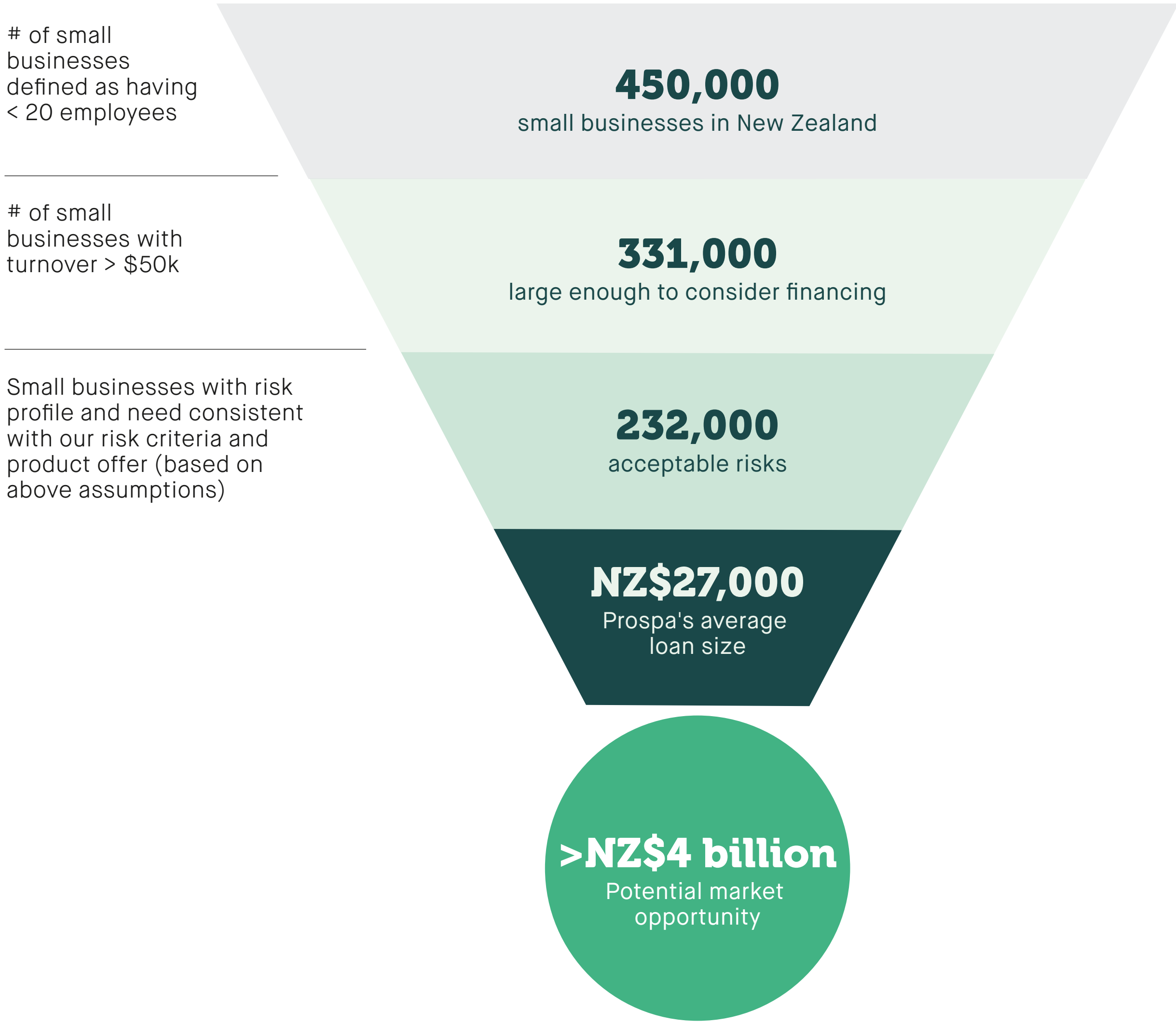
Our research and focus groups[68] in New Zealand indicated cash flow pressures are a key issue for small businesses. In order to estimate the potential market opportunity, we have used a combination of publicly available market data in relation to the number of small businesses in New Zealand[69], combined with internally generated assumptions based on our market research, Australian experience and certain assumptions around their need for finance.

The key assumptions include that the broader New Zealand small business lending market and our Australian portfolio are similar in composition in terms of need for finance and credit characteristics; and an assumed average loan size of NZ$27,000 is representative of the average funding need of small businesses. We believe there is unmet demand for credit-related products for small business and the application of our technology and marketing activity can stimulate additional demand for our products and expand the total opportunity for small business lending.

Based on our top down analysis, the total potential market opportunity for small business lending in New Zealand could be more than NZ$4 billion, assuming:

- Of the estimated 450,000 small businesses in New Zealand, approximately 331,000 small businesses generate an annual average turnover over NZ$50,000 per annum (representing businesses we consider to be of a sufficient size to be funded by business loans);
- Of these businesses, it is assumed approximately 233,000 would have a risk profile and customer need consistent with our risk criteria and product offering;
- Our experience of an average loan size in New Zealand of approximately NZ$27,000; and
- The assumption that the New Zealand small business lending market and our estimated New Zealand portfolio are similar in composition in terms of need for finance, credit characteristics, and estimated average loan size.

68 House of Brand, New Zealand Research for Prospa, March 2018.
69 'Small Business in New Zealand' Ministry of Business, Innovation & Employment, June 2017.



Market dynamics

Our experience to date, including previous research and focus groups of New Zealand small businesses[70], has indicated similar thematics to Australia. These themes include cash flow pressures being a key issue for small business, limited segregation of business and personal finance, alongside market demand for a faster, lower documentation lending with no clear leader in this category.

Additionally, our product is an attractive proposition for intermediaries, who can see the opportunity with their existing client bases, while our success in Australia adds credibility and reinforces our credentials.

Regulation

The Financial Service Providers (Registration and Dispute Resolution) Act 2008 is the umbrella statute that applies across the suite of financial services legislation in New Zealand. The Act requires financial service providers to register on the Financial Service Providers Register, and to join an approved dispute resolution scheme. Prospa NZ is a registered financial service provider for the purposes of providing small business loans in New Zealand and has joined Financial Services Complaints Limited in New Zealand.

Inclusion in forecast financials

We expect to establish a New Zealand partner service team, while loan administration remains based in Australia. The CY19 financial forecasts include operating costs of $7.2 million associated with the New Zealand expansion and capital expenditure of $1.0 million. Some of the proceeds raised under the Offer are expected to be used to fund the growing loan portfolio in New Zealand until third party funding arrangements can be established. Based on current performance of the New Zealand business, we anticipate originations to scale over 2019 and beyond.

70 House of Brand, New Zealand Research for Prospa, March 2018.

3.5.4 Deepening our market penetration through improved distribution capability

3.5.4.1 Improve distribution capability

We continue to enhance our multi-channel distribution network to educate a larger number of small business owners about the availability and benefits of our "better business loans".

Direct customer acquisition

We continue to build brand and product awareness using a combination of direct advertising channels (SEO, paid search advertising, online display advertising and social channel advertising) and by taking a leadership role in industry forums, including publishing research on the economic impact of Prospa. Over the period December 2017 to December 2018, we have increased our brand awareness from 8% to 13%[71].

Build additional value for existing customers

Our customer retention rate of approximately 68%[72] creates a sustainable revenue source. As we continue to develop new products and services that help small business owners grow, run and pay, we intend to leverage the opportunity to offer complementary products to our existing network of customers to achieve a substantially lower cost of acquisition.

Distribution Partners

We plan to continue to drive loan origination volume growth in our Partner channel by seeking to on-board more Distribution Partners and further activating existing Distribution Partners. We will continue to invest in our 'Partner Portal' to provide:

- A faster and more efficient Distribution Partner on-boarding process;
- Additional tools for Distribution Partners to track customer opportunities and performance metrics;
- Additional tools to help Distribution Partners find and win customers; and
- Further education materials about small business lending.

On-boarding additional Distribution Partners

We estimate that there are over 17,000 finance broker intermediaries in Australia, with 8,961[73] currently on-boarded. We will continue to target on-boarding small business advisers including finance brokers, insurance brokers and accountants to drive awareness and uptake of our product and expect this to deliver significant growth in origination volume.

Further activating existing Distribution Partners

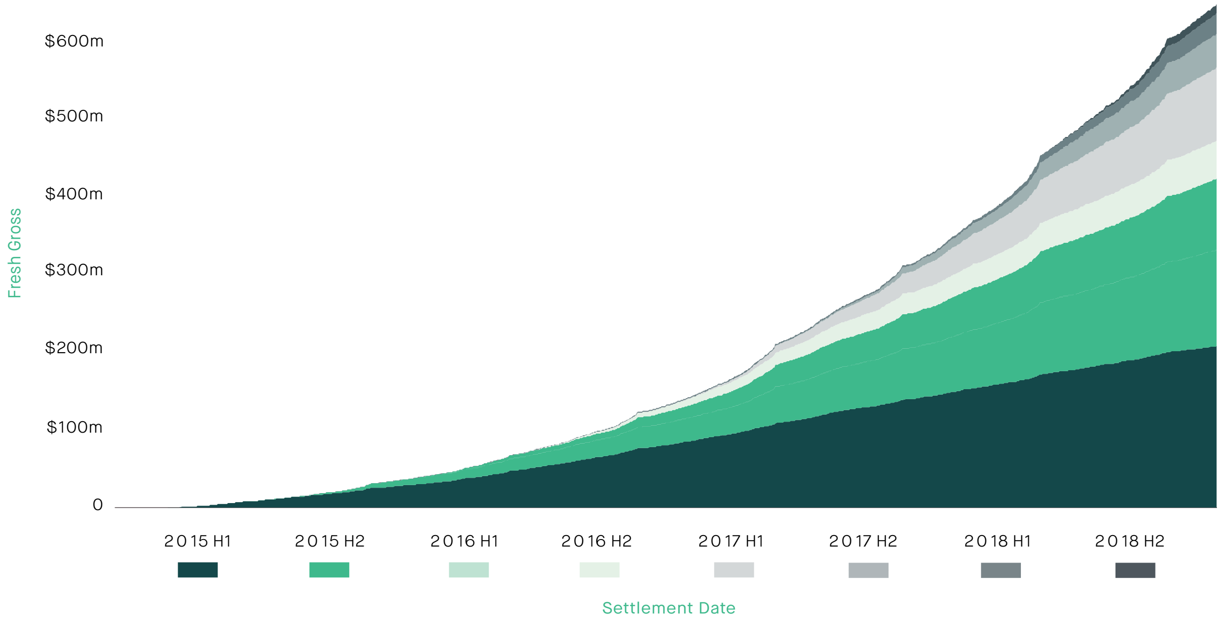
We work to on-board Distribution Partners quickly and provide them with access to our tools and resources to find and win new customers. Small business advisers that have been on-boarded for more than 12 months originate greater volumes of loans due to confidence in and familiarity with our products. Figure 47 below highlights this growth in origination volume by registration half-yearly cohort. We will continue to support and grow our active Distribution Partner network with a dedicated national team.

71 Australian SME Banking Council, RFi Group, December 2018 (this survey was prepared for Prospa).

72 68% represents the average repeat rate for eligible customers only (where eligible customers are defined as not having defaulted on their Prospa loan), based on the average monthly repeat rates for the 25 month period March 2015 to March 2017. The average unique repeat rate (including ineligible customers) for this same period would be 64%. Cohorts originated after March 2017 are still in the process of seasoning and therefore excluded from this analysis.

73 Based on total as at 31 March 2019.

Figure 47: Origination volume by registration half yearly cohort



3.5.5 Continue developing operating leverage through scale and other efficiencies

3.5.5.1 Operational efficiencies

We continue to improve our existing platform by adding specific functionality to improve efficiency and customer experience, and by investing further in data analytics and Machine Learning to refine our credit risk model and inform our data driven decision making. To date, this has been achieved through straight-through processing ("STP") and workflow automation, and has led to a an increase in revenue per FTE over the last three years[74].

Examples of planned operational efficiencies for CY19 and beyond include the below initiatives.

Resolve

Our STP function, Resolve, has been developed by calibrating the CDE to make decisions based on historical credit decisions made by our Credit Operations Team. Resolve has been successfully trialled and is currently capable of automating the decision making of up to 15% of applications which fit the strict criteria of our credit policy. We are planning a broader organisational implementation for applicable customers in Q4FY19.

Cost reduction

As we automate an increasing volume of internal processes, we continue to reduce the cost to originate each loan. We will redesign and improve our internal workflow systems that support the customer journey from lead and application to settlement. We believe this will provide greater efficiencies and reduce the time to credit decision for each customer application.

Data insights

We will continue to make substantial investments in our data and analytics capabilities through our Data Science Team. New insights about small businesses and their credit performance, and new data sources for inclusion in our models, will allow us to refine our CDE and lend to more customers. These insights will also provide important input into new product opportunities.

Distributed teams

We have recently set up operations in Manila to reduce group costs with certain back office tasks to be conducted in this lower cost jurisdiction and to enable extended hours for functions such as customer service, credit and collections.

3.5.6 Accelerating execution of product strategy and growth through acquisition

Additionally, we will continue to assess acquisition opportunities (including those that may arise from industry consolidation), where we consider those opportunities to be complementary to our business model and can enhance value for our Shareholders.

74 Excluding Product Development FTE.

Financial information

4.1 Introduction

4.1.1 Overview of the Financial Information

The financial information for Prospa contained in Section 4 includes:
- historical consolidated financial information for the financial years ended 30 June 2017 ("FY17") and 30 June 2018 ("FY18"), the calendar year ended 31 December 2018 ("CY18"), and the six months ended 31 December 2018 ("H1FY19"); and
- forecast consolidated financial information for the financial year ending 30 June 2019 ("FY19F"), the calendar year ending 31 December 2019 ("CY19F"), and the six months ending 31 December 2019 ("H1FY20F").

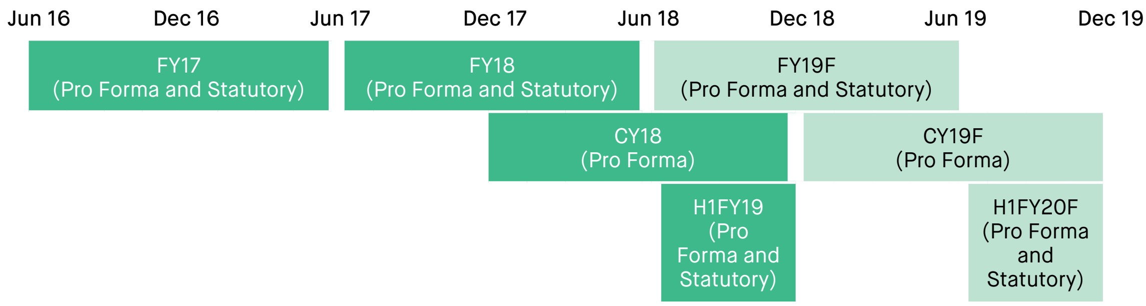
Table 18: Overview of Prospa's Financial Information

	Statutory Financial Information	Pro Forma Financial Information
Historical Financial Information	– Statutory Historical Financial Information includes the: – statutory historical consolidated statements of profit or loss for FY17, FY18 and H1FY19 ("Statutory Historical Results"); – statutory historical consolidated cash flows for FY17, FY18 and H1FY19 ("Statutory Historical Cash Flows"); and – statutory historical consolidated statement of financial position as at 31 December 2018 ("Statutory Historical Statement of Financial Position").	– Pro Forma Historical Financial Information includes the: – pro forma historical consolidated statements of profit or loss for FY17, FY18, CY18 and H1FY19 ("Pro Forma Historical Results"); – pro forma historical consolidated cash flows for FY17, FY18, CY18 and H1FY19 ("Pro Forma Historical Cash Flows"); and – pro forma historical consolidated statement of financial position as at 31 December 2018 ("Pro Forma Historical Statement of Financial Position").
Forecast Financial Information	– Statutory Forecast Financial Information includes the: – statutory forecast consolidated statement of profit or loss for FY19F and H1FY20F ("Statutory Forecast Results"); and – statutory forecast consolidated cash flows for FY19F and H1FY20F ("Statutory Forecast Cash Flows").	– Pro Forma Forecast Financial Information includes the: – pro forma forecast consolidated statement of profit or loss for FY19F and CY19F ("Pro Forma Forecast Results"); and – pro forma forecast consolidated cash flows for FY19F and CY19F ("Pro Forma Forecast Cash Flows"), – *noting that there are no pro forma adjustments to the statutory information for H1FY20F.*

The Historical Financial Information and the Forecast Financial Information defined above together form the Financial Information.

We report on a 30 June financial year basis, and the Financial Information in this Section has been presented consistent with this. In addition to the FY19F forecast covering the financial year ending 30 June 2019, we have also included a pro forma forecast for CY19F and the CY18 comparative. We do not report on a calendar year basis, therefore no statutory financial information is presented for the CY18 and CY19F periods. However, we have presented the statutory forecast financial information for H1FY20F, as this is a statutory (half year) period which we will be reporting on when we announce our interim results for H1FY20 in February 2020.

Figure 48: Overview of the Financial Information contained in this Section 4



Also summarised in this Section 4 are:

- the basis of preparation and presentation of the Financial Information, including the application of relevant new and revised accounting standards had they applied to the Historical Financial Information and the Forecast Financial Information (see Section 4.2);
- information regarding certain non-IFRS financial measures (see Section 4.2.7);
- a summary of the key operating and financial metrics (see Section 4.3.2);
- the pro forma adjustments to the Statutory Historical Financial Information and the Statutory Forecast Financial Information, and reconciliations to the Pro Forma Historical Financial Information and the Pro Forma Forecast Financial Information respectively (see Sections 4.3, 4.4 and 4.5);
- details of our indebtedness and a summary of our funding, including debt facilities, liquidity and capital resources (see Section 4.5.2 and 4.6);
- a description of the key drivers affecting our business including key financial and operating metrics set out in Section 4.3.2 and management discussion and analysis of the Pro Forma Historical Financial Information (see Section 4.8);
- the Directors' best estimate general and specific assumptions underlying the Forecast Financial Information (see Sections 4.9.1 and 4.9.2);
- an analysis of the key sensitivities in respect of the Forecast Financial Information (see Section 4.9.9); and
- a summary of our proposed dividend policy (see Section 4.10).

The Financial Information has been reviewed in accordance with the Australian Standard on Assurance Engagements ASAE 3450 *Assurance Engagement involving Fundraising and/or Prospective Financial Information* by Deloitte Corporate Finance Pty Limited whose Investigating Accountant's Report is contained in Section 8. Investors should note the scope and limitations of that report.

The information in Section 4 should also be read in conjunction with the risk factors set out in Section 5, and other information contained in this Prospectus. In addition, our significant accounting policies are set out in Appendix 1. In preparing the Statutory Historical Financial Information and the Statutory Forecast Financial Information, our accounting policies and standards have been applied consistently throughout the periods presented with the exception of the impact of new accounting standards as follows (refer to Section 4.2.6 for more detail on AASB 9 and AASB 16):

- AASB 9, which was adopted in the statutory accounts for the half year ended 31 December 2018;
- AASB 15, which was adopted in the statutory accounts for the half year ended 31 December 2018; and
- AASB 16, which is forecast to be adopted in the statutory forecast for the half year ending 31 December 2019.

The Pro Forma Historical Financial Information and the Pro Forma Forecast Financial Information include the impact of these standards as if they had applied for each of the periods presented in this Prospectus.

All amounts disclosed in Section 4 and the Appendices are presented in Australian dollars and, unless otherwise noted, are rounded to the nearest million. Some numerical figures included in this Prospectus have been subject to rounding adjustments. Any differences between totals and sums of components in figures or tables contained in this Prospectus are due to rounding.

4.2 Basis of preparation and presentation of the Financial Information

4.2.1 Overview

The Financial Information in this Prospectus is intended to present potential investors with financial information to assist them in understanding our underlying financial performance, cash flows and financial position, together with the forecast financial performance and cash flows to the end of December 2019.

The Financial Information has been prepared in accordance with the measurement and recognition principles of AAS issued by the AASB, which are consistent with IFRS issued by the IASB and our accounting policies. Our significant accounting policies are described in Appendix 1.

The Statutory Financial Information is presented in an abbreviated form insofar as it does not include all the presentation and disclosures, statements or comparative information required by AAS and other mandatory professional reporting requirements applicable to general purpose financial reports prepared in accordance with the Corporations Act. The Statutory Financial Information also includes certain adjustments for the reclassification of line items to align with the basis on which we intend to present our Financial Information going forward. These limited reclassification adjustments are set out in the notes to the Statutory Historical Results set out in Tables 20 and 21.

We currently manage our operations as a single business operation and there are no parts of our business or geographies that qualify as separate operating segments under AASB 8 *Operating Segments*.

In addition to the Statutory Financial Information, Section 4.2.7 describes certain non-IFRS financial measures that we use to manage and report on our business that are not defined under or recognised by AAS or IFRS.

The Directors are responsible for the preparation and presentation of the Financial Information.

4.2.2 Consolidation of the trusts

The Statutory Financial Information in this Prospectus has been prepared on a consolidated basis in accordance with AASB 101 *Presentation of Financial Statements* and AASB 10 *Consolidated Financial Statements*.

New loans that we originate are held on the balance sheet of Prospa Advance Pty Ltd prior to being transferred to warehouse trusts set up for the purpose of funding these originations. The consolidated financial statements for FY17, FY18 and H1FY19 incorporated the assets and liabilities of Prospa Advance Pty Ltd, the Prospa Trust Series 2015-1 and the results of the consolidated group for the financial period then ended. The consolidated financial statements for FY18 and H1FY19 also incorporated the assets and liabilities of the Prospa Trust Series 2018-1, and the consolidated financial statements for H1FY19 also incorporated the assets and liabilities of the Pioneer Trust and the Prospa Trust Series 2018-2.

We are deemed to control the trusts for accounting purposes as per the terms of the trust deeds, we have the power to direct activities and are exposed to and have the ability to affect the returns of the trusts (we own the Seller Notes as detailed in Section 3.3.2), our role as servicer of the trusts and the power to govern the financial and operating policies and activities of the trusts. As a result, we consolidate the assets and liabilities, and income and expenses, pertaining to these limited-recourse trusts in the Financial Information.

4.2.3 Treatment of the Restructure and Capital Reorganisation

Prospa Advance Pty Ltd will report the operating activities and financial results of the business until Completion, when the Restructure will be undertaken by the Company which will become the parent entity of Prospa Advance Pty Ltd and its controlled entities. Refer to Section 9.4 for further details of the Restructure.

Prior to the Prospectus Date and the Restructure which occurs on Completion, Prospa Advance Pty Ltd will undergo a Capital Reorganisation including the following steps:

- Conversion of the PFG Convertible Notes to Preference B Shares in Prospa Advance Pty Ltd;
- Conversion of the two tranches 2018 Convertible Notes to ordinary shares in Prospa Advance Pty Ltd or Preference B Shares in Prospa Advance Pty Ltd; and
- Exercise of the PFG Warrants for Preference B Shares in Prospa Advance Pty Ltd.

The Company and the Existing Shareholders (including holders of ordinary shares, Preference A Shares and Preference B Shares in Prospa Advance Pty Ltd) have entered into conditional contracts for the Company to acquire the holdings of the Existing Shareholders in consideration for cash and shares in the Company on listing. The Company has also entered into conditional contracts to acquire the employee share options in Prospa Advance Pty Ltd issued to certain employees prior to the Prospectus Date, in exchange for options in the Company which are on substantially the same terms of the existing options in Prospa Advance Pty Ltd.

The substance of the above transactions comprising the pre-Completion Capital Reorganisation and the subsequent Restructure at Completion have been evaluated and are considered to be a form of capital restructuring and group reorganisation that will be accounted for at book value.

On this basis:

- the assets and liabilities of the Company at Completion will reflect the carrying values of the assets and liabilities of Prospa Advance Pty Ltd (rather than at their fair values), and the results of the Company will continue to be reported in a manner consistent with those recorded by Prospa Advance Pty Ltd;
- the retained earnings and other equity balances recognised in the consolidated financial statements shall be the existing retained earnings and other equity balances of Prospa Advance Pty Ltd; and
- the amount recognised as issued capital in the consolidated financial statements of the Company will reflect the impact of the Restructure and the Capital Reorganisation, and thereby the market capitalisation of the Company at the date of the Offer (less costs attributable to the Offer that are offset against issued capital). An offsetting Capital Reorganisation reserve will be recognised to align total equity with the net asset position of the Company.

We note that the comparative financial information presented in the consolidated financial statements of the Company for FY19F and H1FY20F will be that of Prospa Advance Pty Ltd.

The accounting for transactions referred to above and contemplated in the Offer is currently being reviewed by the international accounting standard setters and related bodies and is subject to alternative interpretations and may therefore change. The outcome of these deliberations, the timing of any decisions and whether any potential changes are retrospective or only prospective could mean that the financial reporting outcome could be different to that reported in this Prospectus. In the event that the Restructure was required to be recorded at fair value:

- the assets and liabilities of the Company at Completion would increase to reflect the market capitalisation at the date of the Offer (an increase of approximately $457 million based on the Offer Price);
- the excess of the fair value based on the indicative market capitalisation over the book value of the net assets, would be allocated to the fair value of financial assets and liabilities, and the residual to intangibles including customer lists and relationships, Distribution Partner relationships, brand names, proprietary software and technology assets, and the remainder to goodwill based on a purchase price allocation exercise which would be required to be undertaken. A deferred tax liability would be recognised, representing the difference between the accounting and the tax cost base; and
- to the extent any identifiable intangible assets were recognised, the Company's NPAT would be impacted by the annual non-cash amortisation charge in relation to these intangibles.

The impact of any acquisition accounting, if it were required to be applied in the future, cannot be accurately determined at this time, as a formal purchase price allocation has not been carried out as this is not required due to the accounting treatment adopted in respect of the Capital Reorganisation.

4.2.4 Preparation of the Historical Financial Information

The Pro Forma Historical Financial Information has been prepared for the purpose of inclusion in this Prospectus. It has been derived from the Statutory Historical Financial Information to illustrate the revenues, net profit after tax, assets, liabilities and cash flows of the Company adjusted for certain transactions and pro forma adjustments described below.

The Statutory Historical Financial Information has been extracted from the general purpose financial statements of the Company for the financial year ended 30 June 2018 which included restated comparative financial information for the financial year ended 30 June 2017, and the interim financial statements for the half-year reporting period ended 31 December 2018. The general purpose financial statements for the year ended 30 June 2018 were audited, and the interim half-year financial statements for the six months to 31 December 2018 were reviewed, by Deloitte Touche Tohmatsu in accordance with the Australian Auditing Standards. Deloitte Touche Tohmatsu issued unmodified audit opinions and review conclusions in respect of these financial statements and the comparative periods within. The consolidated general purpose financial statements for FY18 and H1FY19 compared to FY17 reflected a revised presentation of operating expense categories consistent with the way the business is currently managed and how it expects to report going forward, and in accordance with AAS. The historical and forecast results for all periods presented in the Prospectus have been aligned with these categories and are presented on a consistent basis. Notes to Tables 20 and 21 set out these reclassifications to the Statutory Historical Results.

The pro forma adjustments in respect of the income statements and cash flows are as described in Section 4.3 (reconciliation between the Statutory Historical Results and the Pro Forma Historical Results) and Section 4.4 (reconciliation between the Statutory Historical Cash Flows and the Pro Forma Historical Cash Flows) of this Prospectus. In particular, pro forma adjustments have been made to reflect the following:

- the application of AASB 9 *Financial Instruments*, with specific reference to the calculation of provision for loan impairment, and consistency in the application of the revised write-off policy in conjunction with the application of the new standard, as if these had occurred as at 1 July 2016 and therefore applied throughout the historical periods presented (see Section 4.2.6 below);
- the application of AASB 16 *Leases*, with specific reference to the reclassification of rental expense into interest expense on lease liabilities and depreciation of right of use asset, as if these had occurred as at 1 July 2016 and therefore applied through the historical periods presented (see Section 4.2.6 below);
- incremental costs associated with being a publicly listed company including Board and governance costs, incremental audit, tax, legal and compliance related costs, and ASX listing fees;
- incremental executive remuneration expenses to align with the fixed and short-term incentives agreed with key executives going forward; and
- the pro forma effective income tax rate which would be applicable going forward.

Investors should note that past results are not a guarantee of future performance.

The Pro Forma Historical Statement of Financial Position is derived from the Statutory Historical Statement of Financial Position, and is adjusted to reflect:

- the impact of the Offer, including costs directly attributable to the Offer offset against share capital;
- impacts of the Capital Reorganisation and the Restructure discussed above;
- the impact of AASB 16; and
- the tax impacts of the above adjustments.

The Pro Forma Historical Statement of Financial Position is provided for illustrative purposes only and is not represented as being necessarily indicative of our view of our future financial position.

4.2.5 Preparation of the Forecast Financial Information

We have prepared the Forecast Financial Information solely for inclusion in this Prospectus. The basis of preparation and presentation of the Statutory Forecast Financial Information and the Pro Forma Forecast Financial Information is consistent with the basis of preparation and presentation of the Statutory Historical Financial Information and Pro Forma Historical Financial Information, respectively.

The Forecast Financial Information has been based on an assessment of the current economic and operating conditions, and should be read in conjunction with the general and specific assumptions set out in Section 4.9.1 and Section 4.9.2, the sensitivity analysis described in Section 4.9.9, the risk factors described in Section 5, the significant accounting policies set out in Appendix 1, and the other information in this Prospectus.

The inclusion of these assumptions and these risks is intended to assist investors in assessing the reasonableness and likelihood of the assumptions occurring, and is not intended to be a representation that the assumptions will occur. The Forecast Financial Information presented in this Prospectus has been reviewed by Deloitte Corporate Finance Pty Limited but has not been audited. Investors should note the scope and limitations of the Investigating Accountant's Report on the Historical and Forecast Financial Information (refer to Section 8).

The Directors believe the general and specific assumptions, when taken as a whole, to be reasonable at the time of preparing the Prospectus. However, the information is not fact, and investors are cautioned not to place undue reliance on the Forecast Financial Information. Investors should be aware that the timing of actual events and the magnitude of their impact might differ from that assumed in preparing the Forecast Financial Information and that this may have a material positive or negative effect on our actual financial performance, cash flows or financial position. In addition, the assumptions upon which the Forecast Financial Information is based are by their very nature subject to significant uncertainties and contingencies, many of which will be outside our control, the Directors and management, and are not reliably predictable. Accordingly, none of the Company, its Directors and management or any other person can give investors any assurance that the outcomes disclosed in the Forecast Financial Information will arise. Events and outcomes might differ in amount and timing from the assumptions, with a material consequential impact on the Forecast Financial Information.

We do not intend to update or revise the Forecast Financial Information or other forward-looking statements or to publish prospective financial information in the future, regardless of whether new information, future events or any other factors affect the information contained in this Prospectus, except where required by law or regulation.

The Forecast Financial Information is presented on both a Statutory and Pro Forma basis. The Forecast Financial Information for H1FY20F on a statutory and pro forma basis is identical as there are no pro forma adjustments to the Statutory Forecast Financial Information for this period. The Statutory Forecast Financial Information and Pro Forma Forecast Financial Information for FY19F include actual results for H1FY19. The statutory forecast results for FY19F also have regard to our current trading performance up until the date of lodgement of the Prospectus.

In preparing the Pro Forma Forecast Results, pro forma adjustments have been made to the Statutory Forecast Results to:

- reflect incremental costs associated with being a publicly listed company and incremental executive remuneration expenses (excluding long-term incentives) for the portion of FY19F before Completion;
- remove the impact of Offer costs which are recognised in the Statutory Forecast Results in FY19F;
- application of a pro forma effective income tax rate which would be applicable to us going forward;
- reflect the application of AASB 16 *Leases* throughout the forecast periods presented, consistent with the Pro Forma Historical Results; and
- removes the impact of a non-recurring payment incurred on optimising funding facilities.

Section 4.3.3 sets out the pro forma adjustments made to the Statutory Forecast Results and a reconciliation of Statutory Forecast Results to Pro Forma Forecast Results.

4.2.6 AASB 9 Financial Instruments and AASB 16 Leases

AASB 9 *Financial Instruments*

We adopted AASB 9 *Financial instruments* in the half year ended 31 December 2018.

AASB 9 required that we adopt the expected credit loss model for accounting for impairment of our financial assets (loan receivables) accounted for at amortised cost rather than the incurred loss model required by AASB 139 (Financial Instruments). The expected loss model requires the full lifetime expected credit loss to be recognised where there has been a significant increase in credit risk in loan receivables and the 12-month expected credit loss to be recognised when there has been no significant increase in credit risk. An expected credit loss model results in the impairment provision being recognised in a period earlier than the incurred loss model. As a result of the adoption of AASB 9, the total loan impairment expense has increased.

This Prospectus presents the Pro Forma Historical Financial Information on a consistent basis to illustrate the impact of AASB 9 had the standard been applied at 1 July 2016 instead of 1 July 2018 when it was actually adopted. Refer to Section 4.3.3 for further detail on the quantification of this impact.

AASB 16 *Leases*

The adoption of the new accounting standard AASB 16 *Leases* is required for financial years commencing on or after 1 January 2019 and therefore we will apply this standard in the accounting period commencing 1 July 2019.

AASB 16 removes the accounting distinction between operating and financial leases and requires recognition of most lease liabilities on the balance sheet, together with a related right of use asset. As a result, the income statement will show lease expense as depreciation relating to the right of use asset and interest relating to the lease liability rather than rent expense being shown as an operating expense. As a result of the adoption of AASB 16, operating expenses are expected to decrease and depreciation and interest expense will increase, and the timing of expense recognition will change due to the change from a straight-line rental expense to depreciation and interest expenses with an accelerated profile.

This Prospectus presents the Pro Forma Historical Financial Information and Pro Forma Forecast Financial Information on a consistent basis to illustrate the impact of AASB 16 had the standard been applied from 1 July 2016. Refer to Sections 4.3.3 and 4.5.1 for further detail on the quantification of this impact.

4.2.7 Explanation of certain non-IFRS financial measures

To assist us in our evaluation of the performance of our business we use certain measures to report on our business that are not recognised under AAS or IFRS. These measures are collectively referred in this Section 4 and under Regulatory Guide 230 *Disclosing Non-IFRS Financial Information* published by ASIC as "non-IFRS financial measures". The principal non-IFRS financial measures that are referred to in this Prospectus are detailed below.

Income statement information

Total revenue represents the sum of interest income and other income.

Net revenue is calculated by subtracting transaction costs, which are a part of the Effective Interest Rate on loans, from total revenue.

Funding costs represent the interest expense we incur in connection with obtaining Funding Debt.

Loan impairment represents the sum of the principal value of loans written off in a period (net of recoveries) and the movement in our loan impairment provision for a given period.

EBITDA represents net profit/(loss) before interest on Corporate Debt, interest on the lease liability recognised under AASB 16, any fair value gains or losses on financial instruments, income tax expense, depreciation (including deprecation of the right of use asset recognised under AASB 16 relating to our premises lease) and amortisation.

EBIT is calculated by deducting depreciation (including deprecation of the right of use asset recognised under AASB 16 relating to our premises lease) and amortisation from EBITDA.

PBT represents net profit/(loss) before income tax credit/(expense).

Cash flow statement information

Net operating cash flow before taxation and funding is net cash flow (inclusive of cash interest expense on Corporate Debt) before financing activities and taxation and before capital expenditure, loan book movements, Funding Debt movements and movement in the lease liability recognised under AASB 16.

Capital expenditure includes capitalised expenditure relating to plant and equipment, as well as capitalised expenditure on software, research, development and technology activities.

Net cash flow before corporate financing activities and taxation is net operating cash flow (inclusive of cash interest on Corporate Debt) before tax and funding activities but after capital expenditure, loan book movements, Funding Debt movements and movement in the lease liability recognised under AASB 16.

Although the Directors believe that these measures provide useful information about our financial performance, they should be considered as supplements to the consolidated statement of profit or loss and consolidated statement of cash flow measures that have been presented in accordance with the AAS and IFRS and not as a replacement for them. Because these non-IFRS financial measures are not based on AAS or IFRS, they do not have standard definitions, and the way we calculated these measures may differ from similarly titled measures used by other companies. Investors and readers of this Prospectus should therefore not place undue reliance on these non-IFRS financial measures.

4.3 Pro Forma and Statutory Historical and Forecast Results

4.3.1 Overview

Table 19 summarises our Pro Forma Historical Results for FY17, FY18 and CY18, Pro Forma Forecast Results for FY19F and CY19F, and Statutory Forecast Results for FY19F.

Table 19: Pro Forma Historical, Pro Forma Forecast and Statutory Forecast Results

		Pro forma FY			Pro forma CY		Statutory
$ millions	**Notes**	**FY17**	**FY18**	**FY19F**	**CY18**	**CY19F**	**FY19F**
Interest income	1	50.8	95.0	124.7	113.1	143.8	124.7
Other income	2	5.0	9.2	11.3	10.8	12.6	11.3
Total revenue		**55.8**	**104.2**	**136.0**	**123.9**	**156.3**	**136.0**
Transaction costs	3	(2.8)	(5.0)	(8.3)	(7.0)	(9.3)	(8.3)
Net revenue	4	**53.0**	**99.3**	**127.6**	**116.9**	**147.0**	**127.6**
Funding costs	5	(9.4)	(13.7)	(19.3)	(16.8)	(21.3)	(20.6)
Sales & marketing	6	(12.4)	(21.6)	(25.9)	(23.2)	(29.3)	(25.9)
Product development	7	(3.0)	(5.6)	(9.6)	(7.5)	(10.9)	(9.6)
General & administration	8	(16.4)	(24.5)	(34.5)	(31.0)	(35.6)	(42.6)
Loan impairment	9	(12.4)	(26.0)	(32.3)	(28.9)	(39.3)	(32.3)
Total operating expenses		**(53.5)**	**(91.5)**	**(121.5)**	**(107.4)**	**(136.4)**	**(131.0)**
EBITDA		**(0.6)**	**7.7**	**6.1**	**9.5**	**10.6**	**(3.3)**
Depreciation	10	(1.3)	(2.0)	(2.5)	(2.1)	(2.8)	(0.8)
Amortisation	11	(0.6)	(1.2)	(2.4)	(2.3)	(1.6)	(2.4)
EBIT		**(2.5)**	**4.6**	**1.2**	**5.1**	**6.1**	**(6.5)**
Interest expense	12	(0.9)	(2.6)	(2.7)	(2.5)	(1.6)	(6.3)
Fair value gains and losses	13	–	–	–	–	–	(7.5)
PBT		**(3.4)**	**2.0**	**(1.5)**	**2.6**	**4.5**	**(20.3)**
Tax credit/(expense)	14	0.8	(0.7)	–	(1.1)	(1.9)	3.4
NPAT		**(2.5)**	**1.3**	**(1.5)**	**1.5**	**2.6**	**(16.9)**

Notes:
1. **Interest income** represents interest and origination fees recognised on the loans that we originate, excluding any direct costs incurred which are reflected in transaction costs.
2. **Other income** represents other fees that we generate from our business activities (including late fees and servicing fees received from syndicate partners) and interest on cash deposits.
3. **Transaction costs** represent commissions paid to Distribution Partners. Transaction costs are recognised on the Effective Interest method over the life of the loan.
4. **Net revenue** is calculated by subtracting transaction costs, which are an integral part of the Effective Interest Rate on loans, from total revenue (which is the sum of interest income and other income).
5. **Funding costs** include the interest charges and set up costs related to our Funding Debt, which is the primary source of funding for our loan originations. Our Funding Debt can only be used to fund the origination of loans and is limited recourse in nature.
6. **Sales & marketing** costs include referral fees, digital acquisition costs, costs incurred in reaching and marketing to customers including advertising costs. They also include employee expenses in relation to our Distribution Partner channel team, and our sales & marketing team.
7. **Product development** includes costs in relation to the enhancement of existing technologies and/or the development of new technologies or markets across the business. This is predominantly comprised of employee expenses for our technology, product, design and analytics functions.
8. **General & administration** costs include employee expenses in relation to customer service, credit assessment, loan processing, retention and collection management, non-executive Directors, key management personnel, finance & risk and people & culture. The statutory forecast general and administration costs for FY19F also include rent and other office related costs, as well as IPO costs forecast to be expensed during FY19F.

9. **Loan impairment costs** represent the principal value of loans charged off in a period (net of recoveries) and the change in our loan impairment provision for a given period. The pro forma historical and forecast loan impairment expense as well as the statutory forecast loan impairment expense has been calculated in accordance with AASB 9 as explained in Section 4.2.6.
10. **Depreciation** is incurred in relation to plant & equipment we use in the business and, in the case of the Pro Forma Financial Information and the statutory financial information for H1FY20F, the depreciation of the right of use asset recognised under AASB 16 relating to our premises lease.
11. **Amortisation** is incurred in relation to the capitalised website costs, purchased software and capitalised software development.
12. **Interest expense** reflects the interest paid on our PFG Corporate Debt Facility up to the date of Completion of the Offer, which is used for general corporate purposes and is forecast to be repaid out of the funds of the Offer. In the case of the Pro Forma Financial Information and the Statutory Forecast Results for H1FY20F, the interest expense on the lease liability recognised under AASB 16 has also been included and, in the case of the Statutory Forecast Results for FY19F, the recognition of interest expense associated with the embedded derivatives as part of the 2018 Convertible Notes.
13. **Fair value gains and losses** reflect the profit and loss impact on a statutory basis expected from the conversion of the 2018 Convertible Notes and the exercise of the PFG Warrants on Completion.
14. **Tax credit/(expense)** reflects the application of a 30% Australian corporate tax rate on Australian taxable profits after adjusting for share based payment expenses and research & development tax credits where applicable, and a 28% New Zealand corporate tax rate on New Zealand taxable profits.

Table 20 sets out the pro forma and statutory results for H1FY19 and H1FY20F. There are no pro forma adjustments to the statutory forecast for H1FY20F.

Table 20: Pro forma and statutory results for H1FY19 and H1FY20F

		Statutory	Pro forma	Statutory & pro forma
$ millions	**Notes**	**H1FY19[16]**	**H1FY19**	**H1FY20F**
Interest income	1	62.4	62.4	81.4
Other income	2	5.3	5.3	6.6
Total revenue		**67.7**	**67.7**	**88.0**
Transaction costs	3	(4.3)	(4.3)	(5.3)
Net revenue	4	**63.4**	**63.4**	**82.7**
Funding costs	5	(10.7)	(9.3)	(11.3)
Sales & marketing	6	(11.8)	(11.8)	(15.2)
Product development	7	(4.4)	(4.4)	(5.8)
General & administration	8	(17.9)	(17.5)	(18.7)
Loan impairment	9	(13.4)	(13.4)	(20.4)
Total operating expenses		**(58.3)**	**(56.5)**	**(71.4)**
EBITDA		**5.1**	**6.8**	**11.3**
Depreciation	10	(0.4)	(1.1)	(1.4)
Amortisation	11	(1.7)	(1.7)	(0.9)
EBIT		**3.0**	**4.1**	**9.0**
Interest expense	12	(2.9)	(1.4)	(0.3)
Fair value gains and losses	13	(3.2)	–	–
PBT		**(3.0)**	**2.7**	**8.7**
Tax credit/(expense)	14	–	(1.0)	(2.9)
NPAT	15	**(3.0)**	**1.7**	**5.8**

Notes:
See notes 1 to 14 under Table 19 and below.

15. Statutory Historical Results presented in this table do not include ‘Other Comprehensive Income’ below NPAT that is included within the statutory financial statements for Prospa Advance Pty Ltd. Other Comprehensive Income amounted to a gain of $0.1 million in H1FY19.
16. The statutory financial result for H1FY19 above has been derived from the general purpose accounts for this period and presented consistent with the individual line items in the Pro Forma Historical and Forecast Results.

Table 21 sets out the statutory results for FY17 and FY18.

Table 21: Statutory results for FY17 and FY18

		Historical	
$ millions	Notes	FY17	FY18
Interest income		50.8	95.0
Other income		5.5	9.7
Total revenue		**56.3**	**104.7**
Transaction costs	1b	(2.8)	(5.0)
Net revenue		**53.6**	**99.7**
Funding costs	1a	(9.4)	(13.7)
Sales & marketing	1b	(12.4)	(21.6)
Product development	2	(3.0)	(5.6)
General & administration	1b, 2	(14.8)	(27.1)
Loan impairment		(10.9)	(24.3)
Total operating expenses		**(50.5)**	**(92.4)**
EBITDA		**3.1**	**7.4**
Depreciation		(0.4)	(0.6)
Amortisation		(0.6)	(1.2)
EBIT		**2.1**	**5.6**
Interest expense	1a	(0.7)	(2.9)
Fair value gains and losses		–	0.2
PBT		**1.4**	**3.0**
Tax credit/(expense)		(0.7)	(0.8)
NPAT	3	**0.7**	**2.1**

Notes:
1. The statutory financial result for FY17 above has been derived from the restated comparative figures for FY17 contained in the general purpose accounts for FY18, and presented consistent with the individual line items with the following key exceptions:
   a. $1.4 million has been reclassified from 'interest expense' to 'funding costs' to reflect the correct classification of certain costs in respect of Funding Debt used for the origination of loans; and
   b. reclassification to correct misapplied employee expense allocation resulting in a $1.6 million decrease in sales and marketing expenses, offset by a $0.2 million increase in transaction costs, $0.2 million increase in product development expense and a $1.3 million increase in general and administration expenses. The net impact of these reclassification adjustments on the Profit before tax is nil. For ease of readability and clarity, these have been presented as adjustments within the Table set out above rather than as pro forma adjustments.
2. The statutory financial result for FY18 above has been derived from the general purpose accounts for FY18 and presented consistent with the individual line items with the exception of reclassifying $1.8 million of IT expenses from product development expenses to general & administration to more appropriately reflect the nature of expenses in the financial statements and to present the financial information on a consistent basis.
3. Statutory Historical Results presented in this table do not include 'Other Comprehensive Income' below NPAT that is included within the statutory financial statements for Prospa Advance Pty Ltd. Other Comprehensive Income amounted to a loss of ($0.1) million in FY18.

4.3.2 Key operating and financial metrics

Table 22 summarises our key operating and financial metrics.

Table 22: Key operating and financial metrics

		Pro forma FY			Pro forma CY		Pro forma HY	
	Notes	FY17	FY18	FY19F	CY18	CY19F	H1FY19	H1FY20F
Originations and credit metrics								
Originations ($m)	1	216.0	367.3	486.5	435.5	559.4	224.5	297.4
Annualised Simple Interest Rate (%)	2	29.0%	24.2%	21.2%	22.6%	19.7%	22.0%	18.9%
Provision rate (%)	3	6.2%	6.2%	6.1%	6.1%	6.1%	6.1%	6.1%
Loan impairment to total revenue (%)	4	22.2%	25.0%	23.7%	23.3%	25.1%	19.8%	23.2%
Loan impairment to average gross loans (%)	5	12.6%	12.5%	10.1%	11.1%	10.2%	9.2%	9.5%
Productivity metrics								
Total revenue per average FTE ($000)	6	518.3	637.1	597.2	622.4	636.5	311.0	347.3
Sales & marketing to total revenue (%)	7	22.2%	20.8%	19.1%	18.7%	18.7%	17.5%	17.3%
General & administration to total revenue (%)	8	29.4%	23.5%	25.4%	25.0%	22.8%	25.9%	21.2%
% growth vs. prior year period								
Originations (%)		139.9%	70.0%	32.5%	51.4%	28.4%	43.6%	32.5%
Total revenue (%)		128.1%	86.9%	30.5%	53.5%	26.2%	40.9%	30.1%

Notes:
1. **Originations** represent the sum of the total credit facilities provided to customers (excluding the rollover portion of any pre-existing facility that is refinanced by us) for a given period.
2. **Annualised Simple Interest Rate** represents the total interest as a percentage of the original loan amount, adjusted for term to be presented on an annual basis. By way of example a Simple Interest Rate of 12% on a nine-month term would require the customer to pay a total of $0.12 interest payments for every $1.00 of principal in the loan (based on an agreed payment schedule over the term of the loan). The Annualised Simple Interest Rate would be 12% divided by nine then multiplied by 12 months to annualise, resulting in an annual rate of 16%.
3. **Provision rate** is the balance sheet provision for impairment against gross loans (net of syndication) at the relevant period end in accordance with AASB 9.
4. **Loan impairment to total revenue** is calculated as loan impairment expense divided by total revenue.
5. **Loan impairment to average gross loans** is calculated as loan impairment divided by average gross loans, which is annualised for H1FY19 and H1FY20F.
6. **Total revenue per FTE** is calculated as total revenue divided by the average number of FTEs for the period.
7. **Sales & marketing to total revenue** is calculated as sales & marketing expense divided by total revenue.
8. **General & administration to total revenue** is calculated as general & administration expense divided by total revenue.

In addition to our key operating and financial metrics (which management use to measure the performance of the business), there are a number of other metrics shown in Table 23.

Table 23: Other metrics

		Pro forma FY			Pro forma CY		Pro forma HY	
	Notes	FY17	FY18	FY19F	CY18	CY19F	H1FY19	H1FY20F
Loan book and originations								
Gross originations ($m)	1	278.6	497.9	662.9	598.5	753.9	311.2	402.2
Gross loans (period end) ($m)	2	165.7	278.8	409.0	326.7	483.2	326.7	483.2
Average gross loans ($m)	3	98.5	207.6	318.6	260.4	384.9	293.0	427.8
Composition of loan impairment								
Loan impairment – Net charge off ($m)	4	6.1	19.0	24.6	21.3	30.0	10.7	16.0
Loan impairment – Provision movement ($m)	5	6.3	7.0	7.7	7.6	9.3	2.7	4.4
Funding								
Funding cost rate (%)	6	13.1%	8.5%	7.7%	8.1%	7.6%	7.9%	7.7%
Average Funding Debt ($m)	7	71.8	161.6	251.2	207.6	280.6	236.1	293.1

Notes:
1. **Gross originations** represents the sum of the total credit facilities provided to customers inclusive of any rollover portion of any pre-existing facility for a given period.
2. **Gross loans** are net loans plus provision for impairment plus syndication. Of our total gross loan book at 31 December 2018, syndicate partners accounted for 1.7% of this balance. Net loans represent the unpaid principal, earned interest and unpaid fee balance (including capitalised up-front origination fees) plus capitalised transaction costs, less the provision for loan impairment and the portion of loans sold to syndicate partners. It excludes any Embedded Interest. At 31 December 2018, Embedded Interest was equal to $40.4 million.
3. **Average gross loans** is calculated as the average of the gross loans values as of the beginning of the selected period and the end of each month in the selected period.
4. **Loan impairment – Net charge off** represents the loan receivables written off in the period net of loss recoveries.
5. **Loan impairment – Provision movement** represents the movement in the loan impairment provision over the period.
6. **Funding cost rate** is calculated as funding costs divided by the average funding debt, which is then annualised for H1FY19 and H1FY20F.
7. **Average Funding Debt** is calculated as the average of the Funding Debt values as at the beginning of the selected period and the end of each month in the selected period. Funding Debt represents the outstanding debt that we use for our lending activities (i.e. the Warehouse Facilities and Term Facilities) and does not include our Corporate Debt. Our forecast Average Funding Debt balance reflects our strategy to optimise funding cost and return on equity through deploying excess cash into our loan book, as described in Section 4.6.

Table 24: Average full-time equivalent employees (FTEs) by function

		Financial year			Calendar year		Financial half-year	
	Notes	FY17	FY18	FY19F	CY18	CY19F	H1FY19	H1FY20F
Sales & marketing	6	24	34	41	40	41	41	41
Product development	7	25	37	64	53	70	63	77
General & administration	8	58	92	123	106	135	114	136
Total		**108**	**164**	**228**	**199**	**246**	**218**	**254**

Notes:
See notes 6 to 8 under Table 19.

4.3.3 Pro forma adjustments to the Statutory Historical Results and Statutory Forecast Results

Table 25 sets out the pro forma adjustments that have been made to revenue and NPAT in the historical and forecast periods.

Table 25: Pro forma adjustments to the Statutory Historical Results and Statutory Forecast Results

		Financial year			Financial half-year	
$ millions	**Notes**	**FY17**	**FY18**	**FY19F**	**H1FY19**	**H1FY20F**
Statutory total revenue	1	56.3	104.7	136.0	67.7	88.0
Reclassification of loss recoveries	2	(0.6)	(0.5)	–	–	–
Pro forma total revenue		**55.8**	**104.2**	**136.0**	**67.7**	**88.0**
Statutory NPAT		**0.7**	**2.1**	**(16.9)**	**(3.0)**	**5.8**
Impact of AASB 9	3	(2.0)	(2.2)	–	–	–
Impact of AASB 16	4	(0.2)	(0.3)	(0.4)	(0.2)	–
Public company costs	5	(1.2)	(1.1)	(0.5)	(0.5)	–
Offer costs	6	–	3.2	7.1	0.5	–
Executive remuneration	7	(1.3)	(0.9)	(0.4)	(0.4)	–
Funding optimisation	8	–	–	1.4	1.4	–
Fair value gains and losses	9	–	0.5	11.7	4.9	–
Total pro forma adjustments		**(4.8)**	**(0.9)**	**18.9**	**5.8**	**–**
Pro forma effective tax rate adjustment applied to Pro forma PBT		1.5	0.1	(3.4)	(1.1)	–
Pro form a NPAT		**(2.5)**	**1.3**	**(1.5)**	**1.7**	**5.8**

Notes:
1. **Statutory total revenue** represents total revenue including interest income and other income, before transaction costs.
2. **Reclassification of loss recoveries** reflects the reclassification of loss recoveries from other income to an offset against loan impairment expenses, which was done in conjunction with AASB 9 adoption (refer to note 3 below).
3. **Impact of AASB 9** reflects the PBT impact of the application of AASB 9 *Financial Instruments* as if it had been in place since the start of FY17. We adopted AASB 9 from 1 July 2018 (as mandatorily required). AASB 9 requires the adoption of an expected credit loss model for accounting for impairment of our loan receivables accounted for at amortised cost rather than the incurred loss model required by AASB 139. See Section 4.2.6 for further information. The pro forma impact also includes a restated bad debts write-off expense to reflect a consistent write-off policy (180 days past due) over the historical period.
4. **Impact of AASB 16** reflects the PBT impact of the application of AASB 16 *Leases* as if it had been in place since the start of FY17. We will formally adopt AASB 16 from 1 July 2019 (as mandatorily required). AASB 16 requires recognition of most lease liabilities on the balance sheet, together with a related right of use asset. As a result, the income statement will show lease expense as depreciation relating to the right of use asset and interest relating to the lease liability rather than rent expense being shown as an operating expense. As a result of the adoption of AASB 16, operating expenses are expected to decrease and depreciation and interest expense will increase, and the timing of expense recognition will change due to the change from a straight-line rental expense to depreciation and interest expenses with an accelerated profile. See Section 4.2.6 for further information.
5. **Public company costs** reflects our estimate of the additional annual costs associated with being a listed entity. These costs include Directors' fees, listing fees, share registry costs, Directors' and Officers' insurance premiums, investor relations costs, annual general meetings costs, annual reports costs and other public company costs.
6. **Offer costs** reflects, in relation to FY19F, costs in relation to the Offer, including the Joint Lead Managers' underwriting fees, legal and accounting due diligence fees, tax and structuring advice, associated consultancy and advisory services relating to the Offer. The forecast Offer costs of $9.4 million in relation to this Prospectus have been apportioned between Equity and Profit and Loss, with $7.1 million forecast to be expensed in accordance with AAS. The offer costs adjustment in relation to FY18 and H1FY19 reflects the aborted IPO process undertaken during calendar 2018. Accordingly, the FY19F offer costs add-back includes $6.6 million in relation to this Prospectus and $0.5 million that was expensed in relation to the earlier process.
7. **Executive remuneration** reflects the new executive remuneration arrangements that will be in place from Completion being applied to the historical periods. The adjustment excludes the new long-term incentive component as an existing long-term incentive program was in place over the historical period which was more reflective of the scale and position of the business at the time.
8. **Funding optimisation** relates to a one-off payment of $1.4 million incurred on optimising funding facilities in anticipation of the Offer on the basis that the new Funding Debt is reflective of the capital structure of the listed entity.
9. **Fair value gains and losses** reflects the forecast profit and loss impact on a statutory basis expected from the conversion of the 2018 Convertible Notes and the exercise of the PFG Warrants on Completion, as well as the interest on the embedded derivative liability in respect of these instruments.

4.4 Pro Forma Historical Cash Flows and Pro Forma and Statutory Forecast Cash Flows

4.4.1 Pro Forma Historical Cash Flows, Pro Forma Forecast Cash Flows and Statutory Forecast Cash Flows

Table 26 summarises our Pro Forma Historical Cash Flows, the Pro Forma Forecast Cash Flows and Statutory Forecast Cash Flows.

Table 26: Summary of Pro Forma Historical Cash Flows, Pro Forma Forecast Cash Flows and Statutory Forecast Cash Flow

		Pro forma FY			Pro forma CY		Statutory
$ millions	Notes	FY17	FY18	FY19F	CY18	CY19F	FY19F
PBT		**(3.4)**	**2.0**	**(1.5)**	**2.6**	**4.5**	**(20.3)**
Add back non-cash items:							
Depreciation and amortisation	1	1.9	3.1	4.9	4.4	4.4	3.1
Loan impairment	2	12.9	26.5	33.2	30.0	39.3	33.2
Fair value gains and losses	3	–	–	–	–	–	11.7
Other non-cash items	4	(1.5)	(4.4)	(10.9)	(11.9)	(12.5)	(10.9)
Working capital movement	5	2.5	2.6	2.4	3.1	3.6	2.4
Net operating cash flow before taxation and funding		**12.5**	**29.9**	**28.1**	**28.2**	**39.3**	**19.2**
Capital expenditure	6	(2.8)	(3.5)	(4.9)	(2.8)	(6.3)	(4.9)
Net movement in loan book	7	(103.9)	(126.9)	(152.0)	(132.4)	(188.1)	(152.0)
Net movement in Funding Debt	8	69.9	128.7	104.8	150.8	85.3	104.8
Net movement in lease liability	9	(0.7)	(1.1)	(1.3)	(1.1)	(1.6)	–
Net cash flow before corporate financing activities and taxation		**(25.0)**	**27.2**	**(25.3)**	**42.7**	**(71.4)**	**(32.9)**
Offer proceeds	10						60.0
Offer costs	11						(2.3)
Impact of the Restructure	12						(14.1)
Other financing cash flows	13						(1.6)
Income tax paid	14			–		(1.9)	(6.6)
Net cash flow				**(25.3)**		**(73.3)**	**2.4**

Notes:
1. **Depreciation and amortisation:** add back of depreciation and amortisation as non-cash items.
2. **Loan impairment:** add back of loan impairment expense as a non-cash item.
3. **Fair value gains and losses:** add back of the non-cash expense pertaining to the conversion of the 2018 Convertible Notes and exercise of the PFG Warrants on Completion.
4. **Other non-cash items:** add back in relation to share option expenses and the net movement in accruals in relation to interest expense, origination fees, commission expense and interest income. In addition, statutory forecast for FY19F includes a non-cash expense relating to the IPO grants to management of approximately $1.0 million.
5. **Working capital movement:** represents movements in working capital balances.
6. **Capital expenditure:** capitalised expenditure relating to plant and equipment, as well as capitalised expenditure on software, research, development and technology activities.
7. **Net movement in loan book:** gross loans disbursed to customers (cash outflow) net of principal collections from customers (cash inflow).
8. **Net movement in Funding Debt:** drawn under warehouse and term facilities (cash inflow) net of debt funding repaid under warehouse and term facilities (cash outflow).

9. **Net movement in lease liability:** change in liability relating to our premises lease recognised on the balance sheet under AASB 16.
10. **Offer proceeds:** gross proceeds from the Offer.
11. **Offer costs:** cash costs incurred in respect of the Offer that are offset against equity on the balance sheet ($2.3 million). The remaining cash Offer costs of $5.9 million are reflected in the Statutory Forecast Income Statement in FY19F (together with non-cash offer costs of $1.2 million).
12. **Impact of the Restructure:** net cash inflow of $2.0 million from the exercise of the PFG Warrants less net cash outflow of $16.1 million for the redemption of the PFG Interest Bearing Notes. The net impact on cash is ($14.1) million.
13. **Other financing cash flows:** reflects the net movement in term deposits ($0.3) million and payments for capital buy-backs ($1.3) million in H1FY19.
14. **Income tax paid:** on a pro forma basis, income taxes paid have been assumed to be consistent with the tax expense forecast for the period. The statutory forecast income tax paid calculation reflects payments for the year at the date of the Prospectus and anticipated payments up until 30 June 2019.

Table 27 sets out the pro forma and statutory cash flows for H1FY19 and H1FY20F.

Table 27: Pro forma and statutory cash flows for H1FY19 and H1FY20F

		Statutory	Pro forma	Statutory & pro forma
$ millions	**Notes**	**H1FY19**	**H1FY19**	**H1FY20F**
PBT		**(3.1)**	**2.7**	**8.7**
Add back non-cash items:				
Depreciation and amortisation	1	2.0	2.8	2.3
Loan impairment	2	14.3	14.3	20.4
Fair value gains and losses	3	4.9	–	–
Other non-cash items	4	(8.1)	(8.1)	(9.7)
Working capital movement	5	0.6	0.6	1.7
Net operating cash flow before taxation and funding		**10.7**	**12.3**	**23.4**
Capital expenditure	6	(1.6)	(1.6)	(3.1)
Net movement in loan book	7	(53.6)	(53.6)	(89.7)
Net movement in Funding Debt	8	87.3	87.3	67.8
Net movement in lease liability	9	–	(0.6)	(0.8)
Net cash flow before corporate financing activities and taxation		**42.8**	**43.8**	**(2.3)**
Income tax paid	14	(6.6)	(1.0)	(2.9)
Other items		(1.6)	–	–
Net cash flow		**34.6**	**42.7**	**5.2**

Notes:
See notes 1 to 9 and 14 under Table 26.

Table 28 sets out the pro forma adjustments that have been made to our historical and forecast statutory net cash flow before corporate financing activities and taxation. These adjustments are summarised and explained below.

Table 28: Pro forma adjustments to the statutory historical and statutory forecast net cash flow before corporate financing activities and taxation

		Financial year			Financial half-year	
$ millions	Notes	FY17	FY18	FY19F	H1FY19	H1FY20F
Statutory net cash flow before corporate financing activities and taxation		**(22.4)**	**26.1**	**(32.9)**	**42.8**	**(2.3)**
Public company costs	5	(1.2)	(1.1)	(0.5)	(0.5)	–
Offer costs	6	–	3.2	7.1	0.5	–
Executive remuneration	7	(1.3)	(0.9)	(0.4)	(0.4)	–
Funding optimisation	8	–	–	1.4	1.4	–
Pro forma net cash flow before corporate financing activities and taxation		**(25.0)**	**27.2**	**(25.3)**	**43.8**	**(2.3)**

Notes:
See notes 5 to 8 under Tables 25.

4.5 Statutory Historical Statement of Financial Position and Pro Forma Historical Statement of Financial Position

4.5.1 Overview

Table 29 sets out a summary of the Statutory Historical Statement of Financial Position as at 31 December 2018, adjusted for certain pro forma adjustments to take into account the effect of the Offer proceeds, Offer costs and other items as set out below. These adjustments reflect the impact of the change in capital structure that will take place as part of the Offer, as if it were in place as at 31 December 2018.

Table 29: Statutory Historical Statement of Financial Position and Pro Forma Historical Statement of Financial Position as at 31 December 2018

$ millions	Notes	Statutory 31 December 2018	Impact of the Offer[1]	Impact of Capital Reorganisation[2]	Impact of Restructure[3]	Impact of AASB 16[4]	Pro Forma 31 December 2018
Cash and cash equivalents	5	70.0	52.3	(15.2)	–	–	107.2
Net loans	6	302.0	–	–	–	–	302.0
Deferred tax asset		9.3	2.7	–	–	–	12.0
Property, plant and equipment		1.3	–	–	–	–	1.3
Right of use asset		–	–	–	–	9.9	9.9
Goodwill and intangible assets		5.6	–	–	–	–	5.6
Other assets		1.6	–	–	–	–	1.6
Total assets		**389.8**	**55.0**	**(15.2)**	**–**	**9.9**	**439.5**

$ millions	Notes	Statutory 31 December 2018	Impact of the Offer[1]	Impact of Capital Reor-ganisation[2]	Impact of Restructure[3]	Impact of AASB 16[4]	Pro Forma 31 December 2018
Trade and other payables		(6.1)	–	–	–	–	(6.1)
Tax payable		(0.6)	–	–	–	–	(0.6)
Provisions		(3.9)	–	–	–	–	(3.9)
Other financial liabilities		(13.2)	–	13.1	–	–	(0.1)
Lease liability		–	–	–	–	(10.6)	(10.6)
Convertible notes		(52.0)	–	52.0	–	–	–
Funding Debt	7	(265.2)	–	–	–	–	(265.2)
Corporate Debt		(19.1)	–	19.1	–	–	–
Total liabilities		**(360.1)**	**–**	**84.2**	**–**	**(10.6)**	**(286.5)**
Net assets		**29.7**	**55.0**	**69.0**	**–**	**(0.7)**	**153.1**
Issued capital		–	59.6	111.9	438.3		609.9
Preferred equity		36.2	–	(36.2)			–
Reserves		0.4	–	–	(438.3)		(437.9)
Retained earnings		(6.8)	(4.6)	(6.8)	–	(0.7)	(18.9)
Total equity		**29.7**	**55.0**	**69.0**	–	**(0.7)**	**153.1**

Notes:
1. Pro forma adjustments to account for the Offer proceeds and costs. Gross Offer proceeds represent the primary issuance of $60.0 million of capital to new investors. Total offer costs (inclusive of GST) are forecast at $8.9 million, comprising $7.7 million in cash costs and $1.2 million in non-cash costs relating to equity issued. Of the total offer costs, $6.6 million is forecast to be expensed and the remainder offset against issued capital on the balance sheet in accordance with accounting standards (both tax effected). The deferred tax asset relates to the income tax benefit of the future deductibility of Offer costs, the recognition of which is split between issued capital and retained earnings reflecting where the expenses have been recognised. As a result of the above, issued capital will increase by $59.6 million ($60.0 million capital raised from the offer, $1.2 million equity issued included within Offer costs, and offset by the portion of Offer costs apportioned against equity in accordance with Accounting Standards of $2.3 million less the associated tax impact of $0.7 million). Cash will increase by $52.3 million reflecting the offer proceeds of $60.0 million offset by cash costs of $7.7 million.
2. The Capital Reorganisation refers to five capital structure-related steps taking place in conjunction with the Offer: (i) 2018 Convertible Notes: investors subscribed for convertible notes in cash ($58.7 million) across two separate note offerings. As part of the Offer, the 2018 Convertible Notes will be converting into ordinary shares or preference shares in accordance with their terms, resulting in a decrease in the liability on the balance sheet of $62.8 million (being the convertible notes and associated embedded derivative carrying value) and an increase in issued capital of $68.6 million (based on the terms of the notes). The balance of $5.8 million is recognised as a fair value loss through the profit and loss and hence booked against retained earnings in the above table; (ii) PFG Convertible Notes: of the $20.0 million PFG Corporate Debt Facility, $3.0 million is convertible into equity in Prospa Advance Pty Ltd. As part of the Offer, the PFG Convertible Notes will be converted into preference shares in accordance with their terms. As a result, Corporate Debt will reduce by $3.0 million and issued capital will increase by $3.0 million; (iii) PFG Interest Bearing Notes: as part of the Offer, the PFG Interest Bearing Notes will be redeemed for cash (forecast at $17.2 million including $16.1 million within Corporate Debt and $1.1 million within Other Financial Liabilities representing the embedded derivative value of the warrant). Post Completion, the Corporate Debt held by us will be reduced to zero and the PFG Corporate Debt Facility will be cancelled; (iv) PFG Warrants: as part of the PFG financing in March 2017, PFG and other investors were granted warrants over preferred shares in Prospa Advance Pty Ltd. As part of the Offer, the PFG Warrants will be converted into issued capital in accordance with their terms. As a result, cash and cash equivalents will increase by $2.0 million, with a decrease in the balance sheet liability of $1.2 million and issued capital will increase by $4.2 million. The balance of $1.0 million is recognised as a fair value loss through the profit and loss and hence booked against retained earnings in the table above; and (v) preference share conversion: as a part of the Offer, holders of preference shares in Prospa Advance Pty Ltd will be exchanging those preference shares for Shares (issued capital) in the Company. Similarly, holders of ordinary shares in Prospa Advance Pty Ltd will be exchanging those ordinary shares for Shares in the Company. As a result, preference shares will decrease by $36.1 million and issued capital will increase by $36.1 million.
3. As part of the Restructure, the existing issued capital in the Company (post conversion and/or exchange) will be marked up to the Offer valuation. This is expected to result in an increase in the cost base of those existing shares. This is a non-cash increase and accounted for against a Capital Reorganisation reserve on the balance sheet.
4. AASB 16 adjustment represents the pro forma impact of the adoption of AASB 16, had it been adopted on or before 31 December 2018. This impact reflects the recognition of a right of use asset relating to our premises lease and corresponding lease liability.
5. Cash and cash equivalents includes restricted cash and cash equivalents of $17.5 million (on a statutory and pro forma basis).
6. Net loans represent unpaid principal, earned interest and unpaid fees balance (including capitalised up-front origination fees) plus capitalised transaction costs, and deducting the provision for loan impairments and the portion of loans sold to syndicate partners.
7. Funding Debt represents the outstanding debt that we use for our lending activities and does not include our corporate operating debt, shown as a separate line item on the balance sheet.

4.5.2 Indebtedness

Our principal source of funding for the purpose of originating new loans are the limited recourse financing arrangements as set out in Section 3.3.2 in conjunction with cash generated from operations, cash balance and borrowings under the PFG Corporate Debt Facility.

The PFG Corporate Debt Facility and operating cash are also used as sources of funding for general corporate expenses.

On a statutory basis, as at 31 December 2018, we had:
- $161.5 million drawn Funding Debt from the 2015-1 Trust (with $23.5 million available undrawn limit);
- $79.5 million drawn Funding Debt from the 2018-1 Trust (fully drawn);
- $25.0 million drawn Funding Debt from the 2018-2 Trust (fully drawn);
- $nil drawn Funding Debt from the Pioneer Trust (with $60.0 million available undrawn limit); and
- $20.0 million drawn Corporate Debt from the PFG Corporate Debt Facility (fully drawn).

On a pro forma basis, on Completion, we expect the PFG Corporate Debt Facility to be repaid in full and cancelled through:
- the conversion of $3.0 million in PFG Convertible Notes into issued capital in accordance with their terms; and
- the redemption of $17.0 million in PFG Interest Bearing Notes for cash from Offer proceeds.

We expect to have sufficient cash flow, including access to the undrawn portions of the 2015-1 Trust and the Pioneer Trust and the proceeds from the Offer, to meet our new loan origination and general operational needs during the Prospectus forecast period.

Table 30 sets out the indebtedness as at 31 December 2018, on a statutory basis (before Completion) and on a pro forma basis (following Completion).

Table 30: Summary indebtedness and capitalisation at 31 December 2018[1]

$ millions	Notes	Statutory (before Completion)	Pro forma (including Offer impacts)
Funding Debt			
Funding Debt	1	265.2	265.2
Less: restricted cash and cash equivalents	2	(17.5)	(17.5)
Net Funding Debt		**247.6**	**247.6**
Corporate Debt			
Corporate Debt	3	19.1	–
Less: unrestricted corporate cash and cash equivalents	4	(52.6)	(52.6)
Net Corporate Debt		**(33.5)**	**(52.6)**
Less: net Offer proceeds	5	–	(37.1)
Net debt		**214.2**	**158.0**
Balance sheet			
Total assets		389.8	439.5
Total equity		29.7	153.1
Key metrics			
Funding Debt / gross loans (net of syndication)		93.3%	93.3%
Net debt / total assets (%)		55.0%	36.0%

Notes:
1. **Funding Debt:** Warehouse Facilities and Term Facilities we use to fund our loan book.
2. **Restricted cash and cash equivalents:** cash in bank accounts controlled by the warehouse and term securitisation trustees.
3. **Corporate Debt:** our PFG Corporate Debt Facility, which will be repaid in full and cancelled on Completion.
4. **Unrestricted cash and cash equivalents:** cash in bank accounts we control.
5. **Offer proceeds:** the cash raised from the Offer in primary issuance ($60.0 million), net of cash fees associated with the Offer ($7.7 million out of a total $8.9 million), redemption of the PFG Interest Bearing Notes net of warrant conversion ($15.2 million).

1 Excludes 2018 Convertible Loan Notes which will be converted on Completion.

4.5.2.1 PFG Corporate Debt Facility

In March 2017, we secured a five-year corporate debt facility with a $20.0 million limit provided by a fund managed by PFG ("PFG Corporate Debt Facility"). The funds under the PFG Corporate Debt Facility were provided by way of subscription for interest bearing notes with a principal balance of $17.0 million ("PFG Interest Bearing Notes") and convertible notes with a principal balance of $3.0 million ("PFG Convertible Notes")[2]. As at the date of the Prospectus these funds were fully drawn to fund the general corporate and working capital needs of the business. As part of the Offer, at Completion the PFG Corporate Debt Facility will be repaid in full and cancelled.

4.5.2.2 Warehouse Facilities

See Sections 3.3.2 and 9.8 for a description of our 2015-1 Trust and Pioneer Trust.

4.5.2.3 Term Facilities

See Sections 3.3.2 and 9.8 for a description of our 2018-1 Trust and 2018-2 Trust.

4.5.2.4 Syndication funding from Distribution Partners

See Section 3.3.2 for a description of our syndication funding arrangements.

4.5.2.5 Off-balance sheet

We have no material contingent liabilities or off-balance sheet arrangements.

4.6 Liquidity and capital resources

Following Completion, our principal sources of funds are expected to be cash flow generated from operations, available cash on balance sheet and Funding Debt (including our Warehouse Facilities and Term Facilities).

As at 31 December 2018 (on a pro forma basis), we had $83.5 million available of undrawn capacity in our Warehouse Facilities and $89.6 million of unrestricted cash and cash equivalents, including net Offer proceeds. Our primary use of the unrestricted cash and cash equivalents is to fund the growth in our business, including growth in the loan portfolio and investment in new product capabilities and new geographic market expansion. We note that our Pro Forma Forecast Results currently assume that funding costs and return on equity are optimised through use of excess cash to part fund originations and growth in our loan book, where those funds are available and not otherwise utilised for investment in growth opportunities. In the near term, we can generate a higher rate of return if we deploy these excess funds into our own loan book, relative to a term deposit. To the extent that these funds are required to fund growth in our business, for example investment in new product capabilities and new geographic market expansion, we intend to redeploy that capital towards those growth opportunities, and growth in the loan book will be funded out of undrawn facilities instead.

Based on the above liquidity position and capital resources, we will have sufficient working capital at the time of our admission to the Official List to carry out our stated objectives and to meet our operational requirements, planned capital investment in the business and the capital requirements to support growth in the loan portfolio over the forecast period. See Section 3.4.4.1 for detail on the liquidity and loss scenario testing we perform on our Warehouse Facilities and Term Facilities.

As detailed in Section 3.3.2, we expect to further diversify and increase our funding sources and progressively introduce new senior and junior portfolio funding financiers on to our funding platform.

Quantitative and qualitative disclosures about market risk sensitive instruments are addressed in Section 4.7.

4.7 Quantitative and qualitative disclosures about market risk

4.7.1 Interest rate risk

We originate loans that generate a fixed rate return and amortise over a relatively short tenor. As such, the interest rate risk associated with long term structural movements in reference cash rates is minimal as the business can adjust changes in the reference rate into new loans originated.

2 Prospa Advance also issued warrants to PFG in respect of Preference B Shares ("PFG Warrants") as part of the PFG Corporate Debt Facility arrangements. These warrants will be exercised on Completion.

However, a basis risk exists as a result of a fixed return on our loan portfolio and the one month BBSY and BBSW rates applicable to the floating rate note issued under our securitisation programs. Given the short duration of the loan portfolio and current size of the portfolio, the basis point risk remains within our approved risk appetite. As part of the ABS Issuance, the trustee of the ABS Issuance has entered into an interest rate hedging arrangement to mitigate against fluctuations in the variable BBSW interest rate applicable to the rated notes it has issued.

4.7.2 Foreign exchange risk

We commenced our pilot phase operations in New Zealand in August 2018 and, following the success of the pilot phase, formally launched operations in March 2019. We intend to expand these operations as part of our growth strategy as set out in Section 3.5.3.1 and there are revenues and costs associated with this expansion in the forecast period that are subject to foreign exchange risk. We have not hedged these relatively small foreign exchange exposures.

4.8 Management discussion and analysis of the Pro Forma Financial Information

4.8.1 General factors affecting our operating results

Section 4.8.1 below is a discussion of the composition of our operating and financial performance during the period of the Historical Financial Information and which we expect may affect our operating and financial performance over the period of the Forecast Financial Information.

The general matters discussed below are a summary only and do not represent all events and factors that affected our historical operating and financial performance, nor everything that may affect our operating and financial performance in future periods. The information in this Section 4.8 should also be read in conjunction with the risk factors set out in Section 5 and the other information contained in this Prospectus.

4.8.1.1 Revenue

We earn revenue from interest income and fees paid by the small businesses that we provide loans to. We also earn revenue from servicing fees paid to us by our syndication partners and interest on cash deposits. We also incur transaction costs including commissions paid to Distribution Partners.

Interest income and up-front origination fees are recognised on an effective interest method over the life of the loan, in accordance with the accounting standards. The effective interest method calculates interest on an amortising balance basis. We use the effective interest method to appropriately apportion each instalment received over the life of the loan between the interest recognised and principal repayments. Where a customer misses a payment, we do not increase the amount of interest that is charged above the original contracted amount; however, late fees might be payable in that example.

The key drivers of revenue are:

- the volume of loan originations; and
- the return we generate on those originations, through the interest that we charge and fees incurred, including origination fees and late fees.

Figures 49 and 50 illustrate our historical and forecast originations and revenue by half year period.

Figure 49: Originations by half year from H1FY17 to H1FY20F ($ million)

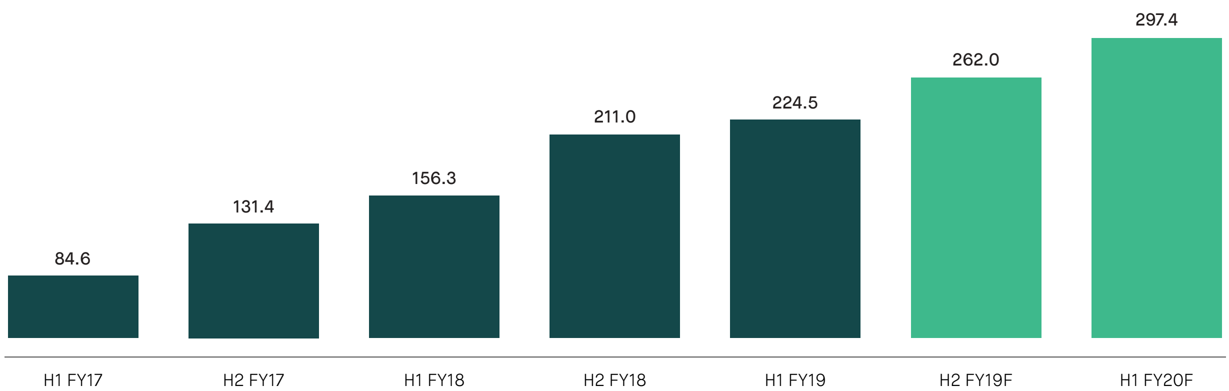
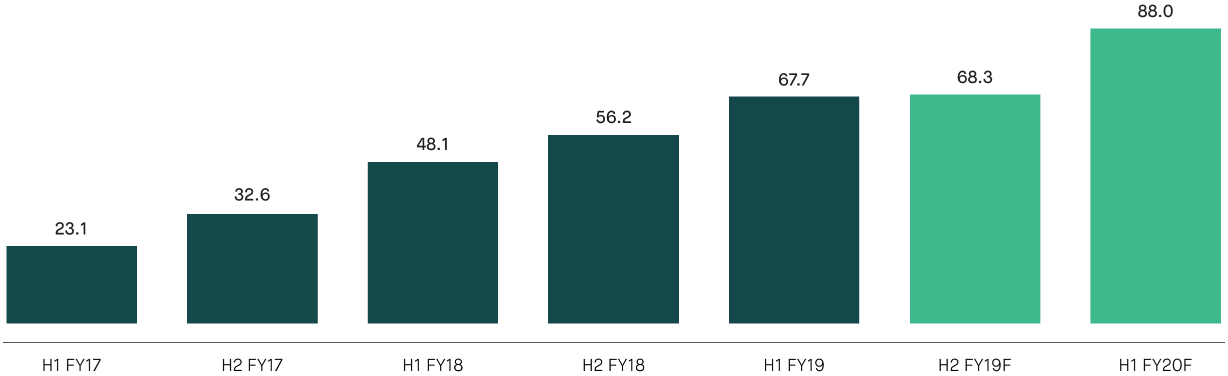


Figure 50: Pro forma total revenue by half year from H1FY17 to H1FY20F ($ million)



Volume of loan originations

Volume of loan originations is driven by several key factors:

- The **number of facilities** we originate, which is a function of attracting new customers and retaining and renewing existing customers.
  - **Attracting new customers**: driven by many factors including continuing to enhance the quality of our product and customer service, the success of our customer acquisition strategies (across both direct and third party channels), and the success of our growth strategies (as detailed in Section 3.5).
  - **Retaining and renewing existing customers**: maintaining high customer satisfaction levels (as reflected in customer NPS scores and Trustpilot Ratings) and actively engaging with customers through the life of their loan, results in qualifying customers taking on repeat loans.
- **Loan size**: average loan size multiplied by the number of loans generated derives the loan originations volume in a period. The average loan size has historically ranged between $25,000 and $30,000 (excluding the rollover capital component of repeat loans). Loan size will be driven by the risk grade of the customer (higher graded customers can typically service higher loan amounts) and the customer's use of the funds.
- **Transaction volume** for Prospa Pay, our B2B vendor finance product. This product is different to our existing credit products, the small business loan and the line of credit, with a smaller average transaction size and faster payback period. We have not forecast any material contribution by Prospa Pay to the forecast period revenue.

Return on loan volume originated

The return we generate on the volume originated is a function of the interest and fees charged on that loan volume:

- **Interest charged**: we use a risk-based pricing model, which means that the higher the risk profile of a customer, the higher the return we need to generate from that loan through interest charged, to compensate for the higher probability of loss. We have multiple risk grades across loan term options ranging from three months to 24 months, and hence there is no single rate we quote to the market. To simplify our offering to the market, we quote an **Annualised Simple Interest Rate** which is the total interest as a percentage of the original loan amount, adjusted for term to be presented on a per annum basis. For example, if a customer borrows $10,000 and contractually pays $1,200 in interest over a term of nine months, the Annualised Simple Interest Rate pricing of that loan will be 16%[3]. The interest that we generate will be a function of the weighted average Annualised Simple Interest Rate of the loan portfolio, which in turn will be driven by the rates we offer to meet the demand of the market and attract our target risk profile (accounting for the risk profile of the customers we lend to and the term options selected by our customers). Interest income also includes **origination fees**, which is an up-front fee charged to the customer at the outset of a loan, to recoup part of the up-front cost we incur to originate that loan. The origination fee is deducted from the loan proceeds and is amortised through the income statement over the life of the loan as a component of interest income.
- **Vendor transaction fees**: for our Prospa Pay product, we charge a small transaction fee for every Prospa Pay transaction. This fee is paid by the vendor and the customer then repays the total value of the goods and/or services to Prospa over a fixed period.

3 Annualised Simple Interest Rate = (interest expense/original loan amount) / (contractual term/12), expressed as a percentage rate.

- **Syndication**: for certain Distribution Partners we offer the ability to invest alongside us in the loan, allowing them to share the risk and reward of that loan. This creates alignment between the syndication partner and us. The return on loan volume generated will also be influenced by the level of syndication on our originations. For loans with a syndication investment:
  - we deduct the syndication partner's pro rata share of interest generated, which will reduce the revenue we recognise; and
  - we charge that syndication partner a **servicing fee** for originating the loan and creating the initial syndication investment, administering the loan, including initiating the direct debit instalments and passing on cleared payments to the syndication partner, in addition to any renewal or collections activity required over the life of the loan.

As at 31 December 2018, syndication accounted for 1.7% of our gross loan portfolio.

- **Other fees**: includes:
  - **late fees**, which are charged when a customer misses any scheduled payments to us and calculated as a percentage of the outstanding balance for every day that the loan is late; and
  - **dishonour fees**, which are charged when there has been a direct debit attempted which has been dishonoured.
- **Interest on cash deposits**: we earn interest on any excess cash at bank through depositing those funds in higher interest bearing bank accounts.
- **Transactions costs**: we pay commissions to our Distribution Partners.

4.8.1.2 Operating expenses

We present our operating expense categories within the consolidated income statement on a functional basis. The categories used are funding costs, sales & marketing, product development, general & administration and loan impairment expenses. With the exception of funding costs and loan impairment expenses, each of these expense categories consists predominantly of salaries and personnel-related costs.

- **Funding costs** include the interest charges and set up costs related to our Funding Debt (i.e. Warehouse Facilities and Term Facilities), which is our primary source of funding for our loan originations. The cost of these facilities is driven by the average funding cost rate incurred on drawn and undrawn balances, the size of the loan book being funded and the level of debt funding we use to fund the loan book. Funding costs are driven by:
  - **Funding cost rate**: we pay interest expenses on drawn Funding Debt and fees on undrawn amounts. In addition, we incur up-front setup costs (including origination and legal fees) that are amortised over the tenor of the debt. Debt providers generally charge a margin on top of market-based interest rates (for example, the Bank Bill Swap Rate ("BBSW") or an equivalent); and
  - **Size of loan book**: the size of the loan book is a function of a number of drivers, including the number of loans originated, the average loan size at origination, the average loan term, and the payment profile of customers.
- **Sales & marketing costs** include digital acquisition costs, costs incurred in reaching and marketing to customers including advertising costs and referral fees. They also include employee expenses in relation to our Distribution Partner channel team and our marketing team.
- **Product development costs** include costs in relation to the enhancement of existing technologies and/or the development of new technologies or markets across the business. This is predominantly comprised of employee expenses for our engineering, product, design and analytics functions.
- **General & administration costs** include employee expenses in relation to customer service, credit assessment, loan processing, retention and collection management, non-executive Directors, key management personnel, finance & risk and people & culture.
- **Loan impairment costs** represent the value of loans written off in a period (net of recoveries) and the movement in our loan impairment provision over a given period. Our Fully Seasoned Static Loss Rate for all cohorts up to and including H1CY17 was 5.2% on a weighted average basis. Cohorts post H1CY17 are still in the process of seasoning (refer to Section 3.4.5). Static Loss Rates represent the principal not ultimately recovered on a given cohort, divided by the cohort's original loan principal (including any rolled over capital for repeat loans). We provision 6.1% of the loan book balance for loan impairments under AASB 9.
- **Interest expense** represents interest expense we incur under our PFG Corporate Debt Facility and interest expense on the lease liability recognised under AASB 16.

4.8.1.3 Capitalised development costs and other capital expenditure

We capitalise product development costs related to the development of new products or significant enhancements to existing products. Expenses can be capitalised if they are directly attributable to development, they can be measured reliably and the future economic benefits are probable. All other product development costs are expensed through the income statement.

Other capital expenditure relates mainly to leasehold improvements and plant and equipment including some IT assets.

4.8.1.4 Depreciation and amortisation

Depreciation is a non-cash expense that predominantly relates to the ongoing use of our fixed asset base, including items such as IT equipment and office furniture. Depreciation expense is based on an existing useful life profile, with any new capital expenditure being depreciated over its useful life in accordance with our accounting policies. Pro forma depreciation expense also includes the depreciation of the right of use asset recognised under AASB 16 relating to our premises lease.

Amortisation is a non-cash expense that relates primarily to intangible assets, such as capitalised internally developed software. Amortisation expense is based on an existing useful life profile, with any new software development being amortised over its useful life in accordance with our accounting policies.

During the reporting period ending 31 December 2018, Prospa changed its useful life assumption for internally generated software development from seven years to five years, to better align with industry practice. This resulted in a catch up of amortisation expense in the H1FY19 period. The forecast period amortisation rate is reflective of this new useful life.

4.8.1.5 Working capital

Working capital is defined to include other receivables and other current assets less payables and provisions. Provisions include employee provisions for annual leave and long service leave as well as bonus accruals, interest accruals to allow for the timing differences between when interest is incurred and when it is paid in cash, and general provisions and accruals to account for the timing differences between when an expense is incurred and when it is paid.

4.8.1.6 Tax

We have operations in Australia, which has a corporate tax rate of 30%, and New Zealand, which has a corporate tax rate of 28%.

Our key non-deductible expenses include share based payment expense associated with the company-wide equity participation scheme and executive long-term incentive plans.

These non-deductible expenses have the impact of increasing our taxable profit relative to the PBT in the profit & loss statement.

We also claimed the ATO research & development tax incentive, which provides a tax offset. We claimed this tax offset in FY17 and FY18, in accordance with the relevant legislation and guidelines. The research and development activities undertaken primarily related to technological developments, including our CDE.

4.8.2 Pro Forma Historical Results: FY18 compared to FY17

Table 31: Pro Forma Historical Results: FY18 compared to FY17

$ millions	FY17	FY18	Change	Change %
Interest income	50.8	95.0	44.2	86.9%
Other income	5.0	9.2	4.3	86.4%
Total revenue	**55.8**	**104.2**	**48.5**	**86.9%**
Transaction costs	(2.8)	(5.0)	(2.2)	77.7%
Net revenue	**53.0**	**99.3**	**46.3**	**87.4%**
Funding costs	(9.4)	(13.7)	(4.3)	45.5%
Sales & marketing	(12.4)	(21.6)	(9.3)	74.9%
Product development	(3.0)	(5.6)	(2.6)	87.4%
General & administration	(16.4)	(24.5)	(8.1)	49.6%
Loan impairment	(12.4)	(26.0)	(13.7)	110.5%
Total operating expenses	**(53.5)**	**(91.5)**	**(38.0)**	**70.9%**
EBITDA	**(0.6)**	**7.7**	**8.3**	**nm**
Depreciation	(1.3)	(2.0)	(0.7)	54.5%
Amortisation	(0.6)	(1.2)	(0.5)	87.6%
EBIT	**(2.5)**	**4.6**	**7.1**	**nm**
Interest expense	(0.9)	(2.6)	(1.7)	nm
Fair value gains and losses	–	–	–	nm
PBT	**(3.4)**	**2.0**	**5.4**	**nm**
Tax credit/(expense)	0.8	(0.7)	(1.6)	nm
NPAT	**(2.5)**	**1.3**	**3.8**	**nm**

4.8.2.1 Revenue

Total revenue increased by $48.5 million, from $55.8 million to $104.2 million, an increase of 87%, driven by:

- an increase in interest income of $44.2 million from $50.8 million to $95.0 million, an increase of 87%, resulting from an increase in originations from $216.0 million to $367.3 million. The Annualised Simple Interest Rate reduced from 29.0% in FY17 to 24.2% in FY18 due to a rate card reduction put into market in September 2016. This rate card reduction was most significant for the higher quality risk grades, which drove better conversion in those risk grades and contributed to the overall originations growth in the period; and
- an increase in other income of $4.3 million from $5.0 million to $9.2 million, an increase of 86%. In the period, late fee income growth was commensurate with interest income growth, however there was slower growth in servicing fees from syndication partners, as one of our historical syndication relationships wound down over the course of FY17.

4.8.2.2 Transaction costs

Transaction costs increased by $2.2 million, from $2.8 million to $5.0 million, an increase of 78%, broadly in line with originations growth.

4.8.2.3 Operating expenses

Operating expenses increased by $38.0 million, from $53.5 million to $91.5 million, an increase of 71%, primarily due to:

- an increase in funding costs of $4.3 million, from $9.4 million to $13.7 million, an increase of 46% driven by:
  - an increase in average Funding Debt consistent with the increase in average gross loans; partially offset by
  - a reduction in the funding cost rate from 13.1% to 8.5%. In FY16, the primary source of capital for funding our loan book was the more expensive junior debt in the 2015-1 Trust. In October 2016, we introduced senior debt funders into the 2015-1 Trust, which reduced our average cost of funds as we continued to draw down on that facility through FY17.
- an increase in sales & marketing expenses of $9.3 million, from $12.4 million to $21.6 million, an increase of 75%, which was driven by increased spend on digital acquisition costs and broad-based marketing in TV and radio to drive further originations. We also increased our headcount in marketing and Distribution Partner sales, increasing average FTE from 24 to 34;
- an increase in product development expenses of $2.6 million, from $3.0 million to $5.6 million, an increase of 87%, which reflected a significant increase in average FTEs from 25 to 37 as we continued to invest in building out our platform technologies and product, design, engineering and analytics teams;
- an increase in general & administration expenses of $8.1 million, from $16.4 million to $24.5 million, an increase of 50%, due to increasing operating costs, higher legal and consulting expenses associated with capital raisings and an increase in average FTEs from 58 to 92. The increases in headcount were across all functions, including those involved in servicing the customer journey, and are a function of volume, in addition to building the support infrastructure of the business in finance & risk, people & culture and operations; and
- an increase in loan impairment expenses of $13.7 million comprising:
  - an increase in net charge-offs of $12.9 million consistent with the increase in the overall loan book, stable credit loss and arrears profile, and collections performing in line with historical experience; and
  - an increase in the loan impairment provision expense of $0.7 million consistent with the increase in gross loans and a steady rate of provisioning. The pro forma impairment provision at 30 June 2018 represents 6.2% of the gross loan book less syndication.

4.8.2.4 EBITDA, depreciation and amortisation and interest expense

EBITDA increased by $8.3 million driven by the growth in the business as described above.

Depreciation increased by $0.7 million driven by increased investment in technology hardware plus fitout of new premises, in addition to ongoing depreciation of the right of use asset recognised under AASB 16 relating to our premises lease. Amortisation increased by $0.5 million resulting from the amortisation of capitalised research, development and technology spend in relation to a number of key initiatives, including a significant investment in the CDE and ongoing optimisation of workflows.

Interest expense increased by $1.7 million reflecting the full-year impact of the issuance of the $20.0 million PFG Corporate Debt Facility in March 2017.

4.8.3 Pro Forma Historical Cash Flows: FY18 compared to FY17

Table 32: Pro Forma Historical Cash Flows: FY18 compared to FY17

$ millions	FY17	FY18	Change	Change %
PBT	**(3.4)**	**2.0**	**5.4**	**nm**
Add back non-cash items:				
Depreciation and amortisation	1.9	3.1	1.2	65.3%
Loan impairment	12.9	26.5	13.5	104.7%
Fair value gains and losses	–	–	–	nm
Other non-cash items	(1.5)	(4.4)	(2.9)	nm
Working capital movement	2.5	2.6	0.1	2.0%
Net operating cash flow before taxation and funding	**12.5**	**29.9**	**17.3**	**138.2%**
Capital expenditure	(2.8)	(3.5)	(0.7)	24.6%
Net movement in loan book	(103.9)	(126.9)	(23.0)	22.1%
Net movement in Funding Debt	69.9	128.7	58.8	84.2%
Net movement in lease liability	(0.7)	(1.1)	(0.3)	46.4%
Net cash flow before corporate financing activities and taxation	**(25.0)**	**27.2**	**52.1**	**nm**

Net operating cash flow before taxation and funding increased by $17.3 million, from $12.5 million to $29.9 million, an increase of 138%, which included the following:

- an increase in PBT from a loss of $3.4 million to a profit of $2.0 million for the reasons described above;
- an increase in depreciation and amortisation add back to PBT from $1.9 million to $3.1 million as a result of increased investment in both fixed assets and capitalised development expenditure and the depreciation of the right of use asset recognised under AASB 16 relating to our premises lease;
- an increase in loan impairment add back to PBT from $12.9 million to $26.5 million consistent with the increase in the overall loan book, stable credit loss and arrears profile, and collections performing in line with historical experience;
- a decrease in other non-cash items from ($1.5) million to ($4.4) million. The FY17 other non-cash item was capitalised interest expense associated with a loan debt facility provided by Entrée Capital. This facility was fully repaid in March 2017, whereupon interest accrued was paid on redemption of the loan; and
- an increase in the net cash inflow from working capital movement from $2.5 million to $2.6 million, which reflects the net movement of working capital balance sheet items over the period.

Net cash flow before corporate financing activities and taxation increased by $52.1 million, from ($25.0) million to $27.2 million, driven by the above factors and:

- an increase in cash used to fund the net movement in loan book from ($103.9) million to ($126.9) million, as we advanced more loans than principal and interest collections made in the period; offset by
- an increase in the net movement in Funding Debt from $69.9 million to $128.7 million, as we drew down further on our funding facilities, mainly through the 2015-1 Trust debt facilities;
- an increase in the net movement in lease liability from ($0.7) million to ($1.1) million driven by additional leased premises taken by us during FY18; and
- an increase in capital expenditure from ($2.8) million to ($3.5) million. In FY18 we continued to investment heavily into the CDE and other internally developed technologies and platforms to support future growth.

4.9 Assumptions underlying the Forecast Financial Information

The Forecast Financial Information is based on various specific and general assumptions, including those set out in this Section 4.9. In preparing the Forecast Financial Information, we have undertaken an analysis of historical performance and applied assumptions where appropriate in order to forecast future performance for FY19F, CY19F and H1FY20F. We believe that we have prepared the Forecast Financial Information with due care and attention and consider all assumptions when taken as a whole to be reasonable at the time of preparing the Prospectus.

The Forecast Financial Information has been prepared based on the significant accounting policies we adopted, which are in accordance with the AAS.

4.9.1 General assumptions

In preparing the Forecast Financial Information, the Directors have adopted the following general assumptions:

- no material change in the competitive environment in which we operate;
- no significant deviation from current economic conditions;
- no material changes in government regulations or policies which impact our business or our customers;
- no significant interruptions, industry disturbances or disruptions in relation to our technology, platform, software solutions or operations;
- no material amendment to any material contract, agreement or arrangement relating to our business;
- no material industrial actions or other disturbances, environmental costs or legal claims;
- no material cash flow or consolidated statement of profit or loss or financial position impact in relation to litigation (existing or otherwise);
- no material changes in key personnel, including key management personnel, and we are able to continue to recruit and retain personnel which will be required to support our future growth;
- no material change in our corporate or funding structure other than as set out in, or contemplated by, this Prospectus;
- the Offer proceeds in accordance with the timetable set out in this Prospectus;
- no material unexpected change in applicable AAS, the Corporations Act or other mandatory professional reporting requirements which have a material effect on our financial performance or cash flows, financial position, accounting policies, or financial reporting or disclosures;
- no material acquisitions, divestments, restructuring or investments other than as set out in, or contemplated by, this Prospectus; and
- none of the key risks listed in Section 5 occur, or if they do, none of them has a material adverse impact on our operations.

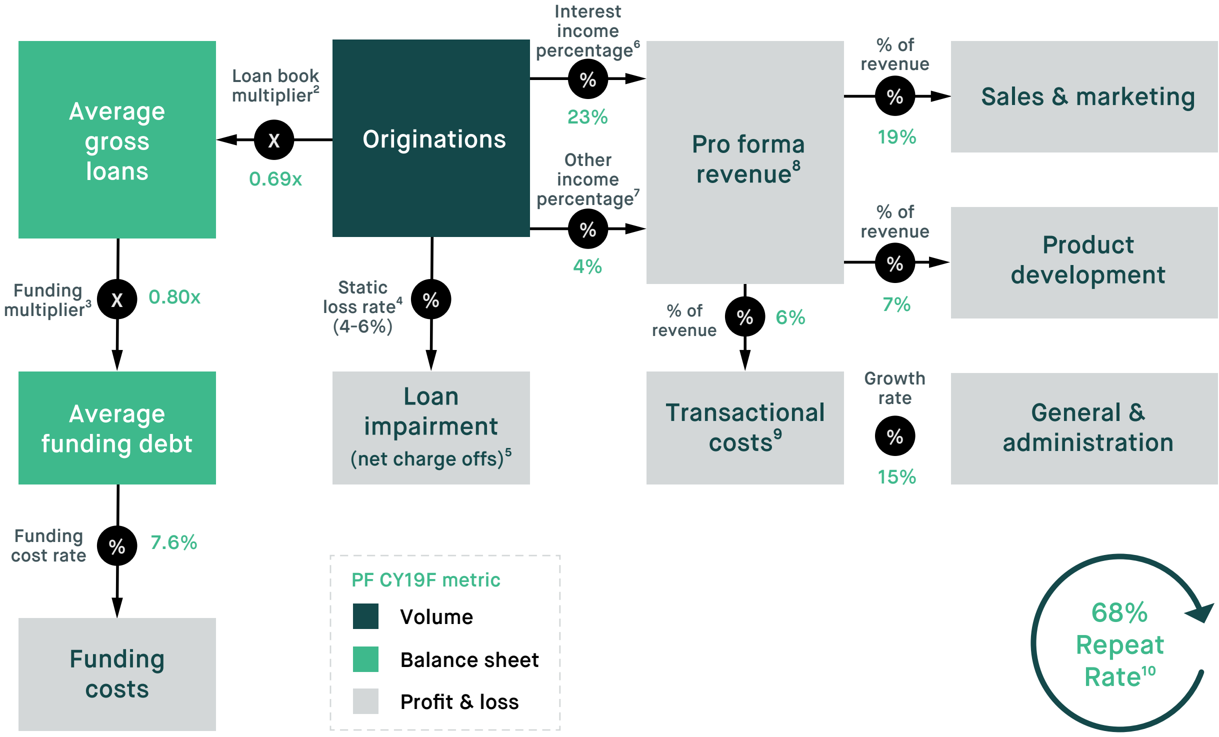
4.9.2 Specific assumptions

The Forecast Financial Information is based on various best estimate assumptions, including those set out below. In preparing the Forecast Financial Information, we have analysed historical performance including the current rates of revenue and expenses and applied assumptions, where appropriate, across the business. The assumptions set out below should be read in conjunction with the sensitivity analysis set out in Section 4.9.9, the risk factors set out in Section 5, the Significant Accounting Policies set out in Appendix 1 and other information contained in this Prospectus. The Investigating Accountant's Report set out in Section 8 also covers the Forecast Financial Information as set out in this Section.

4.9.2.1 Economic model

The economic model for our core product, the small business loan, is presented in Figure 51 below, which illustrates the key factors management takes into consideration when preparing the Forecast Financial Information, consistent with the discussion of Historical Financial Information and the key drivers for historical results presented in Section 4.8.

Figure 51: Small business loan economic model[1]



Notes:
1. The metrics above are based on consolidated financials, inclusive of New Zealand and new products (Line of Credit and Prospa Pay).
2. Calculated as average gross loans divided by originations for CY19F. This metric has increased over the last twelve months due to lower risk customer segments taking up longer term loans.
3. Calculated as average Funding Debt divided by average gross loans for CY18, which we view as more indicative of the steady state gearing levels of the business. The funding multiplier for CY19 is 0.73x, which reflects our return on equity optimisation strategies for CY19, as described in Section 4.6.
4. Based on Board mandated Static Loss Rate range of 4% – 6%. Our Fully Seasoned Static Loss Rate for all cohorts up to and including H1CY17 was 5.2% on a weighted average basis. Cohorts after H1CY17 are still in the process of seasoning.
5. Includes the outstanding balance of loans written off (net of loss recoveries).
6. Calculated as interest income (excluding origination fees) divided by originations for CY19F.
7. Calculated as other income (including origination fees) divided by originations for CY19F.
8. Includes interest income, but excludes origination fees and transaction costs, which are accounted for separately.
9. Includes commissions paid to Distribution Partners.
10. 68% represents the repeat rate for eligible customers only (where eligible customers are defined as not having defaulted on their Prospa loan), based on the average monthly repeat rates for the 25-month period March 2015 to March 2017. The average unique repeat rate (including ineligible customers) for this same period would be 64%. Cohorts originated after March 2017 are still in the process of seasoning and therefore excluded from this analysis.

4.9.2.2 Revenue assumptions

The Forecast Financial Information is based on the following key revenue assumptions:

- Originations growth of $123.9 million or 28% from $435.5 million in CY18 to $559.4 million in CY19F due to:
  - continued growth in direct online channel originations as we continue to increase our brand awareness through broad-based marketing, word of mouth referrals and online digital advertising spend; and
  - increased originations from Distribution Partners, including the ongoing activation of our 8,900+ Distribution Partner network.
- Annualised Simple Interest Rate reduces from 22.6% in CY18 to 19.7% in CY19F reflecting the continued application of our risk-based pricing approach. This includes the full-year impact of the introduction of our three premium risk grades in May 2017 at lower price points and the deployment of our new rate card with lower rates in April 2019, both aimed at increasing the market reach of our product and attracting customers with lower risk profiles. As our platform becomes more established, we expect to pass cost of funds benefits on to customers to stimulate originations growth while maintaining profit margins.

4.9.2.3 Transaction cost assumptions

The Forecast Financial Information is based on the following key transaction cost assumptions:

- Transaction costs increase by $2.4 million or 34% from $7.0 million in CY18 to $9.3 million in CY19F, slightly ahead of originations growth.

4.9.2.4 Operating cost assumptions

The Forecast Financial Information is based on the following key operating cost assumptions:

- operating expenses increased 27% from $107.4 million in CY18 to $136.4 million in CY19F with the increase in employment expenses from additional headcount and the increase in loan impairment expense associated with a larger loan book together accounting for the majority of this increase;
- funding cost rate reduces from 8.1% in CY18 to 7.6% in CY19F due to the issuance of the 2018-1 Trust and the Pioneer Trust (see Section 3.3.2 for more detail) both of which have lower cost of funds than the 2015-1 Trust;
- funding costs and return on equity are optimised through use of excess cash to part fund originations. This includes usage of the cash on the balance sheet and from the Offer raise to fund growth in the loan book in CY19F. To the extent that these funds are required to fund growth in our business including but not limited to investment in new product capabilities and new geographic market expansion, originations will be funded out of undrawn facilities instead and funding costs will accordingly increase;
- the 2015-1, 2018-1, 2018-2 and Pioneer Trusts remain available and are utilised during the forecast period with the percentage of eligible receivables remaining at a steady level. We expect to further diversify and increase our funding sources and progressively introduce new senior and junior portfolio funding financiers on to our funding platform;
- average FTEs increase 23% from 199 in CY18 to 246 in CY19F with the highest percentage increase in headcount forecast in the product development teams (including product development, design, engineering and analytics);
- sales & marketing expenses increase by 26% from $23.2 million in CY18 to $29.3 million in CY19F driven by increased broad-based marketing spend and digital marketing, plus an increase in average headcount from 40 FTEs to 41 FTEs;
- product development expenses increase by 46% from $7.5 million in CY18 to $10.9 million in CY19F largely driven by increased headcount across product, design, engineering and analytics to support enhanced product functionality, workflow and process optimisation, new geographies and new product initiatives;
- general & administration expenses increase by 15% from $31.0 million in CY18 to $35.6 million in CY19F driven by an increase in headcount from 106 FTEs to 135 FTEs. This increase is forecast to occur across the customer journey functions, including customer support, retention and credit. Headcount is also forecast to increase in additional key functions such as capital management & treasury, risk management, finance and people & culture. In CY18, there were a number of legal and consulting costs incurred in relation to geographic expansion, new product development and deployment which are not forecast to be replicated in CY19F; and
- loan impairment expenses increase by 36% from $28.9 million in CY18 to $39.3 million in CY19F in line with our overall portfolio growth, our stable provisioning rate and our losses being consistent with our Board mandated Static Loss range of 4% to 6%.

4.9.2.5 Other assumptions

- **Depreciation:** depreciation policy and useful life assumptions are forecast to remain consistent with historical levels. Depreciation will also be informed by the AASB 16 *Leases* standard, to be first adopted in the 31 December 2019 reporting period.
- **Amortisation:** amortisation policy and useful life assumptions are forecast to remain consistent with current levels, and reflect the reduction in useful life assumption as discussed in Section 4.8.1.4.
- **Tax credit/(expense):** assumes an effective corporate tax rate of 30% in Australia and 28% in New Zealand in the forecast period.
- **Working capital:** reflects forecast movements in trade and other receivables, trade and other payables, provisions and deferred tax assets.

4.9.3 Pro Forma Forecast Results: FY19F compared to FY18

Table 33 sets out the summary Pro Forma Historical Results and Pro Forma Forecast Results and selected key operational and financial metrics for FY18 and FY19F.

Table 33: Pro Forma Forecast Results: FY19F compared to FY18

$ millions	FY18	FY19F	Change	Change %
Interest income	95.0	124.7	29.7	31.3%
Other income	9.2	11.3	2.1	22.4%
Total revenue	**104.2**	**136.0**	**31.8**	**30.5%**
Transaction costs	(5.0)	(8.3)	(3.4)	68.3%
Net revenue	**99.3**	**127.6**	**28.4**	**28.6%**
Funding costs	(13.7)	(19.3)	(5.6)	40.6%
Sales & marketing	(21.6)	(25.9)	(4.3)	19.8%
Product development	(5.6)	(9.6)	(3.9)	69.6%
General & administration	(24.5)	(34.5)	(10.0)	40.7%
Loan impairment	(26.0)	(32.3)	(6.2)	24.0%
Total operating expenses	**(91.5)**	**(121.5)**	**(30.0)**	**32.8%**
EBITDA	**7.7**	**6.1**	**(1.6)**	**(21.1%)**
Depreciation	(2.0)	(2.5)	(0.5)	27.0%
Amortisation	(1.2)	(2.4)	(1.2)	106.1%
EBIT	**4.6**	**1.2**	**(3.4)**	**(73.7%)**
Interest expense	(2.6)	(2.7)	(0.0)	1.8%
Fair value gains and losses	–	–	–	nm
PBT	**2.0**	**(1.5)**	**(3.5)**	**nm**
Tax credit/(expense)	(0.7)	–	0.7	nm
NPAT	**1.3**	**(1.5)**	**(2.8)**	**nm**

4.9.3.1 Revenue

Total revenue is forecast to increase by $31.8 million, from $104.2 million to $136.0 million, an increase of 31%, driven by:

- an increase in interest income of $29.7 million resulting from an increase in overall originations volume and loan book outstanding. In addition, our Annualised Simple Interest Rate reduced from 24.2% to 21.2%, reflecting our introduction of three premium risk grades in May 2017 at lower price points and deployed a new rate card with lower rates in April 2019, both aimed at increasing the market reach of our product and attracting customers with lower risk profiles; and
- an increase in other income of $2.1 million, from $9.2 million to $11.3 million, an increase of 22%, driven by the forecast increase in average gross loans over the period. The growth rate for late fees in the forecast period is expected to be lower than originations growth and loan book growth. This is due to our originations growth being driven by lower risk customer segments, who are less likely to fall into arrears and less likely to incur late fees as a result.

4.9.3.2 Transaction costs

Transaction costs are forecast to increase by $3.4 million, from $5.0 million to $8.3 million, an increase of 68%, reflecting originations growth and the recognition of transaction costs paid in prior periods (transaction costs are recognised on an effective interest method over the life of the loan).

4.9.3.3 Operating expenses

Operating expenses are forecast to increase by $30.0 million, from $91.5 million to $121.5 million, an increase of 33%, primarily due to:

- an increase in funding costs of $5.6 million, from $13.7 million to $19.3 million, an increase of 41% driven by:
  - an increase in average Funding Debt consistent with the increase in loan book outstanding across the period; offset by
  - a reduction in the funding cost rate from 8.5% to 7.7% due to the introduction of lower cost sources of funding, including the 2018-1 Trust and the Pioneer Trust. As we increase the proportion of drawn debt in these warehouses our average funding cost rate decreases;
- an increase in sales & marketing expenses of $4.3 million, from $21.6 million to $25.9 million, an increase of 20%, based on planned increased spend on broad-based marketing in TV and radio, digital marketing acquisition and customer segmentation consulting expense. Further, we expect average FTEs to increase from 34 to 41 as we invest further in marketing and Distribution Partner sales;
- an increase in product development expenses of $3.9 million, from $5.6 million to $9.6 million, an increase of 70%, as we continue to invest in building out our product, design, engineering and analytics teams, with average FTEs increasing from 37 to 64. We expect to deploy these resources to various projects including the ongoing development of our Credit Decision Engine, workflow optimisation, geographic expansion and new product development;
- an increase in general & administration expenses of $10.0 million, from $24.5 million to $34.5 million, an increase of 41%, due to increasing legal expenses as we continue capital raising and other corporate development activity in the period. Further, general & administration employee expenses are expected to increase due to an increase in average FTE from 92 to 123 across functions including the customer journey, customer support, retention and credit, capital management & treasury, risk management, finance and people & culture; and
- an increase in loan impairment expenses of $6.2 million, from $26.0 million to $32.3 million, an increase of 24%, in line with our overall portfolio growth, our stable provisioning rate and our losses being consistent with our Board mandated Static Loss range of 4% to 6%.

4.9.3.4 EBITDA, depreciation and amortisation and interest expense

EBITDA is forecast to decrease by $1.6 million, from $7.7 million to $6.1 million, a decrease of 21%. FY19F is a period of significant ongoing investment in New Zealand and new products (Line of Credit and Prospa Pay), with further funding efficiencies yet to be realised. Refer to Sections 4.9.5.3 and 4.9.5.4 for further detail.

Depreciation is forecast to increase by $0.5 million, from $2.0 million to $2.5 million, an increase of 27%, driven by the increasing fixed asset base, including the purchase of technology hardware and fit-out associated with our expanded rental premises. Amortisation is forecast to increase by $1.2 million due to the reduction in useful life, as discussed in Section 4.8.1.4, and increased costs associated with internally developed software, including our investment in the CDE, product enhancements, loan management system enhancements and Distribution Partner technology integrations and tools.

Interest expense is forecast to increase from $2.6 million to $2.7 million, an increase of 2%, driven by the increase in interest expense associated with our lease liabilities as we took on new lease premises.

4.9.4 Pro Forma Forecast Cash Flows: FY19F compare to FY18

Table 34: Pro Forma Forecast Cash Flows: FY19F compared to FY18

$ millions	FY18	FY19F	Change	Change %
PBT	**2.0**	**(1.5)**	**(3.5)**	**nm**
Add back non-cash items:				
Depreciation and amortisation	3.1	4.9	1.8	56.5%
Loan impairment	26.5	33.2	6.7	25.3%
Fair value gains and losses	–	–	–	nm
Other non-cash items	(4.4)	(10.9)	(6.6)	nm
Working capital movement	2.6	2.4	(0.1)	(5.6%)
Net operating cash flow before taxation and funding	**29.9**	**28.1**	**(1.7)**	**(5.8%)**
Capital expenditure	(3.5)	(4.9)	(1.4)	40.9%
Net movement in loan book	(126.9)	(152.0)	(25.2)	19.8%
Net movement in Funding Debt	128.7	104.8	(23.9)	(18.6%)
Net movement in lease liability	(1.1)	(1.3)	(0.2)	22.9%
Net cash flow before corporate financing activities and taxation	**27.2**	**(25.3)**	**(52.5)**	**nm**

Net operating cash flow before taxation and funding is forecast to decrease by $1.7 million, from $29.9 million to $28.1 million, a decrease of 6%, which is explained as follows:

- a decrease in PBT from $2.0 million to ($1.5) million driven by the factors described above;
- an increase in depreciation and amortisation add back to PBT from $3.1 million to $4.9 million due to: i) the investment in technology hardware and fit-out; ii) the amortisation of ongoing investment into software development for platforms, including our investment in the CDE, product enhancements, loan management system enhancements and Distribution Partner technology integrations and tools; iii) the depreciation of the right of use asset recognised under AASB 16 relating to our premises lease; and iv) the reduction in useful life assumption, as discussed in Section 4.8.1.4;
- an increase in loan impairment add back to PBT from $26.5 million to $33.2 million as described above;
- a decrease in other non-cash items from ($4.4) million to ($10.9) million, which is due to the combined impact of accruals and non-cash share option expense; and
- a decrease in the net cash inflow from working capital movement from $2.6 million to $2.4 million, driven by the timing lag between incurring the spend and the cash payment for those services.

Net cash flow before corporate financing activities and taxation is forecast to decrease by $52.5 million, from $27.2 million to ($25.3) million, driven by the above factors and:

- a decrease in the net movement in Funding Debt from $128.7 million to $104.8 million, as we seek to optimise funding costs and return on equity;
- an increase in cash used to fund the net movement in loan book from ($126.9) million to ($152.0) million, as we forecast to advance more loans relative to principal collections in the period;
- an increase in the net movement in lease liability from ($1.1) million to ($1.3) million driven by additional leased premises we expect to take on during CY19F; and
- an increase in capital expenditure from ($3.5) million to ($4.9) million as we continue to invest heavily in our internally developed software, including our investment in the CDE, product enhancements, loan management system enhancements and Distribution Partner technology integrations and tools.

4.9.5 Pro Forma Forecast Results: CY19F compared to CY18

Table 35 sets out the summary Pro Forma Historical Results and Pro Forma Forecast Results and selected key operational and financial metrics for CY18 and CY19F.

Table 35: Pro Forma Forecast Results: CY19F compared to CY18

$ millions	CY18	CY19F	Change	Change %
Interest income	113.1	143.8	30.7	27.2%
Other income	10.8	12.6	1.8	16.2%
Total revenue	**123.9**	**156.3**	**32.5**	**26.2%**
Transaction costs	(7.0)	(9.3)	(2.4)	34.1%
Net revenue	**116.9**	**147.0**	**30.1**	**25.7%**
Funding costs	(16.8)	(21.3)	(4.5)	26.5%
Sales & marketing	(23.2)	(29.3)	(6.1)	26.3%
Product development	(7.5)	(10.9)	(3.4)	45.9%
General & administration	(31.0)	(35.6)	(4.6)	14.9%
Loan impairment	(28.9)	(39.3)	(10.4)	36.0%
Total operating expenses	**(107.4)**	**(136.4)**	**(29.0)**	**27.0%**
EBITDA	**9.5**	**10.6**	**1.0**	**11.0%**
Depreciation	(2.1)	(2.8)	(0.7)	30.6%
Amortisation	(2.3)	(1.6)	0.6	(28.3%)
EBIT	**5.1**	**6.1**	**1.0**	**20.4%**
Interest expense	(2.5)	(1.6)	1.0	(37.9%)
Fair value gains and losses	–	–	–	nm
PBT	**2.6**	**4.5**	**1.9**	**74.3%**
Tax credit/(expense)	(1.1)	(1.9)	(0.8)	73.4%
NPAT	**1.5**	**2.6**	**1.1**	**74.9%**

4.9.5.1 Revenue

Total revenue is forecast to increase by $32.5 million, from $123.9 million to $156.3 million, an increase of 26%, driven by:

- an increase in interest income of $30.7 million, from $113.1 million to $143.8 million, an increase of 27%, resulting from the following factors:
  - originations increasing from $435.5 million to $559.4 million, driven by growth in all sources of business, supported by the new rate card deployed in April 2019 which is forecast to drive incremental volumes in lower risk customer segments; and
  - offset by a decrease in our Annualised Simple Interest Rate from 22.6% to 19.7%, impacted by the new rate card deployed in April 2019; and
- an increase in other income of $1.8 million, from $10.8 million to $12.6 million, an increase of 16%, driven by the forecast increase in average gross loans over the period. The growth rate for late fees in the forecast period is expected to be lower than originations growth and loan book growth. This is due to our originations growth being driven by lower risk customer segments, who are less likely to fall into arrears and less likely to incur late fees as a result.

4.9.5.2 Transaction costs

Transaction costs are forecast to increase by $2.4 million, from $7.0 million to $9.3 million, an increase of 34%, which is broadly in line with the originations growth rate in CY19F.

4.9.5.3 Operating expenses

Operating expenses are forecast to increase by $29.0 million, from $107.4 million to $136.4 million, an increase of 27%, due to ongoing investment into our business and platform, in particular in the area of product development as we increase our pace of hiring for engineers, data analysts, product managers and design professionals. The increase in each operating expense category is forecast as follows:

- an increase in funding costs by $4.5 million, from $16.8 million to $21.3 million, an increase of 27%, driven by:
  - an increase in the average Funding Debt in dollar terms from $207.6 million to $280.6 million, which includes the usage of funds on the balance sheet and from the Offer raise to part fund the growth in the loan book, as we seek to optimise cost of funds and return on equity. This results in a reduction in the percentage of average Funding Debt to average gross loans during CY19F. This is intended to be replaced by drawdowns of Funding Debt in the medium-term; and
  - offset by a reduction in the funding cost rate from 8.1% to 7.6% due to new, lower cost funding warehouses being drawn down to a greater extent over the course of the forecast period, in particular the Pioneer Trust.

  We note that the fully drawn combined weighted average cost of funds for our core Australian business is approximately 6.9% (which is lower than CY19F, a period during which our securitisation funding is expected to be underutilised with senior funding not fully drawn). If the fully drawn cost of funds of our Australian business were applied to the forecast CY19F average Funding Debt, and the average Funding Debt as a percentage of average gross loans were increased to be consistent with historical levels, the net impact is a $0.8 million decrease in funding costs for CY19F[4];
- an increase in sales & marketing expenses of $6.1 million, from $23.2 million to $29.3 million, an increase of 26%, largely driven by:
  - investment in "brand building" advertising and marketing, including broad-based marketing in TV and radio; and
  - additional headcount in marketing and Distribution Partner sales (with average FTE increasing from 40 to 41);
- an increase in product development expenses of $3.4 million as we continue to invest in building out our product, design, technology and analytics teams;
- an increase in general & administration expenses of $4.6 million, from $31.0 million to $35.6 million, an increase of 15%, due to:
  - higher employee expenses associated with the forecast increase in average FTEs from 106 to 135:
    - increased headcount across the customer journey functions, including customer support, retention and credit, at a slower rate than our originations growth as we achieve scale efficiencies from our ongoing investment in technology; and
    - increased headcount in central functions such as capital management & treasury, risk management and finance;
  - in CY18, we set up operations in Manila to enhance our capacity to carry out certain back office functions as our business grows. During CY19, we plan to maintain duplicate onshore functions, which will add approximately $1.1 million in incremental general & administration expenses; and
- an increase in loan impairment expenses of $10.4 million, from $28.9 million to $39.3 million, an increase of 36%, in line with our overall portfolio growth, our stable provisioning rate and our losses being consistent with our Board mandated Static Loss range of 4% to 6%;
  - the provision rate in CY19F is forecast at 6.1%, which is broadly in line with that applied in our historical periods. However, as we continue to market our new, lower rates we expect to appeal to a lower risk customer segment. We expect this will in turn result in lower losses, consistent with early loss indicator portfolio metrics we have experienced to date (such as 30+ days past due at four months, see Section 3.4.5 for further detail).

4 Net impact of $0.8 million includes: $1.8 million gross improvement in core funding costs (excluding New Zealand) (reflecting a reduction in the funding cost rate from 7.6% to 6.9%), less a $1.1 million adjustment to reflect an increase in average Funding Debt as a percentage of average gross loans in H1FY20F (from 69% to 75%) to be in line with historical levels. Funding utilisation is lower in the H1FY20F period, reflecting our strategy to optimise funding cost and return on equity through deploying excess cash into our loan book, as described in Section 4.6.

4.9.5.4 EBITDA, depreciation and amortisation and interest expense

EBITDA is forecast to increase by $1.0 million in CY19F, from $9.5 million to $10.6 million, an increase of 11%, for the reasons described above. We are forecasting an improvement in general & administration expense as a percent of total revenue from 25.0% in CY18 to 22.8% in CY19F, however this efficiency will be offset by ongoing investment, in particular into product development, where we are forecasting a 46% increase in expenditure in CY19F over CY18.

In addition, during CY19F we expect to make substantial investments in scaling our New Zealand operations and new products (Line of Credit and Prospa Pay). Given these new initiatives are in their early stages, the forecast operating expenses exceed revenue in the forecast period, but we expect they will be profitable when at scale. Excluding the forecast revenue and associated operating expenses from New Zealand operations and new products would increase our CY19F EBITDA by approximately $4.0 million and $2.6 million, respectively.

Depreciation is forecast to increase by $0.7 million driven by the increasing fixed asset base, including the purchase of technology hardware and fit-out associated with our expanded rental premises which has a full year impact in CY19F. Amortisation is forecast to decrease by $0.6 million, reflecting a catch up expense incurred in CY18 as a result of the reduction in our useful life assumption (see Section 4.8.1.4) which is not expected to occur in CY19F.

Interest expense is forecast to decrease by $1.0 million, reflecting the reduction in drawn PFG Corporate Debt to nil following Completion as set out in Section 4.5.2.

4.9.6 Pro Forma Forecast Cash Flows: CY19F compared to CY18

Table 36: Pro Forma Forecast Cash Flows: CY19F compared to CY18

$ millions	CY18	CY19F	Change	Change %
PBT	**2.6**	**4.5**	**1.9**	**74.3%**
Add back non-cash items:				
Depreciation and amortisation	4.4	4.4	–	0.2%
Loan impairment	30.0	39.3	9.3	30.8%
Fair value gains and losses	–	–	–	nm
Other non-cash items	(11.9)	(12.5)	(0.6)	4.7%
Working capital movement	3.1	3.6	0.5	14.6%
Net operating cash flow before taxation and funding	**28.2**	**39.3**	**11.1**	**39.2%**
Capital expenditure	(2.8)	(6.3)	(3.5)	124.7%
Net movement in loan book	(132.4)	(188.1)	(55.7)	42.1%
Net movement in Funding Debt	150.8	85.3	(65.5)	(43.4%)
Net movement in lease liability	(1.1)	(1.6)	(0.4)	40.5%
Net cash flow before corporate financing activities and taxation	**42.7**	**(71.4)**	**(114.1)**	**nm**

Net operating cash flow before taxation and funding is forecast to increase by $11.1 million, from $28.2 million to $39.3 million, an increase of 39%, explained by the following:

- an increase in PBT from $2.6 million to $4.5 million driven by the factors described above;
- stable depreciation and amortisation add back to PBT of $4.4 million;
- an increase in loan impairment add back to PBT from $30.0 million to $39.3 million driven by the factors described above;
- a decrease in other non-cash items from ($11.9) million to ($12.5) million, which is due to the combined impact of accruals and non-cash share option expense; and
- an increase in the net cash inflow from working capital movement from $3.1 million to $3.6 million, which reflects the net movement of working capital balance sheet items over the period.

Net cash flow before corporate financing activities and taxation is forecast to decrease by $114.1 million, from $42.7 million to ($71.4) million, driven by the above factors and the net movement in the loan book exceeding the net movement in Funding Debt:

- cash required to fund the net movement in loan book is forecast to increase from ($132.4) million to ($188.1) million, as the gross loans outstanding are forecast to increase in the period which will result in a higher level of ongoing cash collections we can use to originate loans;
- net movement in Funding Debt is forecast to decrease in excess of the above from $150.8 million to $85.3 million, as we seek to optimise funding costs and return on equity;
- net movement in lease liability is forecast to decrease from ($1.1) million to ($1.6) million; and
- capital expenditure is forecast to increase from ($2.8) million to ($6.3) million as we invest in product development and our New Zealand expansion.

4.9.7 Pro Forma Forecast Results: H1FY20F compared to H1FY19

Table 37 sets out the summary Pro Forma Historical Results and Pro Forma Forecast Results and selected key operational and financial metrics for H1FY19 and H1FY20F.

Table 37: Pro Forma Forecast Results: H1FY20F compared to H1FY19

$ millions	H1FY19	H1FY20F	Change	Change %
Interest income	62.4	81.4	19.1	30.6%
Other income	5.3	6.6	1.3	23.6%
Total revenue	**67.7**	**88.0**	**20.3**	**30.1%**
Transaction costs	(4.3)	(5.3)	(1.0)	23.0%
Net revenue	**63.4**	**82.7**	**19.3**	**30.5%**
Funding costs	(9.3)	(11.3)	(2.0)	21.4%
Sales & marketing	(11.8)	(15.2)	(3.3)	28.2%
Product development	(4.4)	(5.8)	(1.4)	30.9%
General & administration	(17.5)	(18.7)	(1.2)	6.6%
Loan impairment	(13.4)	(20.4)	(7.0)	52.3%
Total operating expenses	**(56.5)**	**(71.4)**	**(14.9)**	**26.3%**
EBITDA	**6.8**	**11.3**	**4.5**	**65.5%**
Depreciation	(1.1)	(1.4)	(0.3)	27.7%
Amortisation	(1.7)	(0.9)	0.8	(45.4%)
EBIT	**4.1**	**9.0**	**4.9**	**120.8%**
Interest expense	(1.4)	(0.3)	1.1	(79.5%)
Fair value gains and losses	–	–	–	nm
PBT	**2.7**	**8.7**	**6.0**	**nm**
Tax credit/(expense)	(1.0)	(2.9)	(1.9)	nm
NPAT	**1.7**	**5.8**	**4.1**	**nm**

4.9.7.1 Revenue

Total revenue is forecast to increase by $20.3 million, from $67.7 million to $88.0 million, an increase of 30%, driven by:

- an increase in interest income of $19.1 million, from $62.4 million to $81.4 million, an increase of 31%, resulting from:
  - originations increasing from $224.5 million to $297.4 million, driven by increases in originations volumes from all sources of business;
  - offset by a decrease in the Annualised Simple Interest Rate from 22.0% to 18.9%, driven by the deployment of the new rate card in April 2019, aimed at driving further volume in lower risk customer segments; and
  - a small increase in origination fee rate in conjunction with the new rate card in April 2019; and
- an increase in other income of $1.3 million, from $5.3 million to $6.6 million, an increase of 24%, driven by the forecast increase in average gross loans over the period. The rate of growth for late fees in the forecast period is expected to be lower than originations growth and loan book growth. This is due to our originations growth being driven by lower risk customer segments, who are less likely to fall into arrears and less likely to incur late fees as a result.

4.9.7.2 Transaction costs

Transaction costs are forecast to increase by $1.0 million, from $4.3 million to $5.3 million, an increase of 23%, reflecting originations growth and the recognition of transaction costs paid in prior periods (transaction costs are recognised on an effective interest method over the life of the loan).

4.9.7.3 Operating expenses

Operating expenses are forecast to increase by $14.9 million, from $56.5 million to $71.4 million, an increase of 26%, primarily due to:

- an increase in funding costs by $2.0 million driven by:
  - an increase in average Funding Debt reflecting the usage of funds on the balance sheet and from the Offer raise to part fund the growth in the loan book, as we seek to optimise cost of funds and return on equity, as described in Section 4.6. This is intended to be replaced by drawdowns of Funding Debt in the medium-term; and
  - a reduction in the funding cost rate from 7.9% to 7.7%;
- an increase in sales & marketing expenses of $3.3 million, from $11.8 million to $15.2 million, an increase of 28%, driven by increased spend on broad-based marketing in TV and radio and digital market spend to acquire direct customers. We are forecasting a significant increase in brand building marketing expenditure in H1FY20F. Employee expenses are also forecast to increase, despite the average FTE count remaining flat at 41;
- an increase in product development expenses of $1.4 million, from $4.4 million to $5.8 million, an increase of 31%, driven by an increase in average FTE from 63 to 77, mainly in the engineering and product functions;
- an increase in general & administration expenses of $1.2 million, from $17.5 million to $18.7 million, an increase of 7%, driven by an increase in average FTE from 114 to 136 and growth in general overheads to support the growth of the business, partly offset by the incurrence of growth costs in H1FY19 which are not expected to be incurred in H1FY20F; and
- an increase in loan impairment expenses of $7.0 million, from $13.4 million to $20.4 million, an increase of 52%, in line with our overall portfolio growth, our stable provisioning rate and our losses being consistent with our Board mandated Static Loss range of 4% to 6%.

4.9.7.4 EBITDA, depreciation and amortisation and interest expense

EBITDA is forecast to increase by $4.5 million for the reasons described above, from $6.8 million to $11.3 million, an increase of 65%. In H1FY20F we expect to see the benefits of operating leverage emerge following a heavy investment period in FY19F.

Depreciation is forecast to increase by $0.3 million, from $1.1 million to $1.4 million, an increase of 28%, driven by the increasing fixed asset base, including the purchase of technology hardware and fit-out associated with our expanded rental premises which has a full period impact in H1FY20F. Amortisation is forecast to decrease by $0.8 million, from $1.7 million to $0.9 million, a decrease of 45%, reflecting a catch up expense incurred in H1FY19 as a result of the reduction in our useful life assumption (see Section 4.8.1.4), which is not expected to occur in H1FY20F.

Interest expense is forecast to decrease from $1.4 million to $0.3 million, reflecting the reduction in drawn PFG Corporate Debt to nil following Completion as set out in Section 4.5.2.

4.9.8 Pro Forma Forecast Cash Flows: H1FY20F compared to H1FY19

Table 38: Pro Forma Forecast Cash Flows: H1FY20F compared to H1FY19

$ millions	H1FY19	H1FY20F	Change	Change %
PBT	**2.7**	**8.7**	**6.0**	**nm**
Add back non-cash items:				
Depreciation and amortisation	2.8	2.3	(0.5)	(16.3%)
Loan impairment	14.3	20.4	6.1	42.6%
Fair value gains and losses	–	–	–	nm
Other non-cash items	(8.1)	(9.7)	(1.6)	19.3%
Working capital movement	0.6	1.7	1.1	nm
Net operating cash flow before taxation and funding	**12.3**	**23.4**	**11.2**	**91.3%**
Capital expenditure	(1.6)	(3.1)	(1.5)	89.0%
Net movement in loan book	(53.6)	(89.7)	(36.1)	67.3%
Net movement in Funding Debt	87.3	67.8	(19.5)	(22.3%)
Net movement in lease liability	(0.6)	(0.8)	(0.2)	44.3%
Net cash flow before corporate financing activities and taxation	**43.8**	**(2.3)**	**(46.1)**	**nm**

Net operating cash flow before taxation and funding is forecast to increase by $11.2 million, from $12.3 million to $23.4 million explained as follows:

- an increase in PBT from $2.7 million to $8.7 million driven by the factors described above;
- a decrease in depreciation and amortisation add back to PBT from $2.8 million to $2.3 million driven by the factors described above;
- an increase in loan impairment add back to PBT from $14.3 million to $20.4 million driven by the factors described above;
- a decrease in other non-cash items from ($8.1) million to ($9.7) million, which is due to the combined impact of interest accruals and non-cash share option expense, including the long-term incentive plan as discussed in Section 6.3.3 that will come into effect from Completion; and
- an increase in the net cash inflow from working capital movements from $0.6 million to $1.7 million, driven by the deferral of the cash collection of interest income associated with promotional period activity at the end of the calendar year.

Net cash flow before corporate financing activities and taxation is forecast to decrease by $46.1 million, from $43.8 million to ($2.3) million, driven by the above factors and:

- an increase in cash used to fund the net movement in loan book from ($53.6) million to ($89.7) million, as the gross loans outstanding are forecast to increase in the period which results in a higher level of ongoing cash collections we use to originate loans;
- a decrease in the net movement in Funding Debt from $87.3 million to $67.8 million, as we seek to optimise funding costs and return on equity;
- an increase in the net movement in lease liability from ($0.6) million to ($0.8) million, reflecting a static lease profile in H1FY20F; and
- an increase in capital expenditure from ($1.6) million to ($3.1) million as we invest in product development and our New Zealand expansion.

4.9.9 Sensitivity analysis

The Forecast Financial Information is based on a number of estimates and assumptions that are subject to business, economic and competitive uncertainties and contingencies, many of which are beyond our control, and upon assumptions with respect to future business developments, which are subject to change.

Investors should be aware that future events cannot be predicted with certainty and as a result, deviations from the figures forecast in this Prospectus are to be expected. To assist investors in assessing the impact of these assumptions on the forecasts, set out below is a summary of the sensitivity of certain Forecast Financial Information to changes in a number of key variables. The changes in key variables as set out in the sensitivity analysis are not intended to be indicative of the complete range of variations that may be experienced. For the purposes of the analysis below, the effect of the changes in key assumptions on the CY19F pro forma forecast PBT is presented.

It is important to note that the sensitivity analysis calculations assume changes in a variable are not impacted by changes in other variables. The sensitivity analysis is intended as a guide only and variations in actual performance could exceed the ranges shown.

Table 39: Sensitivity analysis on the pro forma forecast PBT for CY19F

Assumption	Notes	Variance	CY19F PBT impact ($m) +/-	
Annualised Simple Interest Rate	1	+/ – 100 bps	3.8	(3.8)
Originations	2	+/ – 5%	2.3	(2.3)
Loan impairment as a percentage of total revenue	3	+/ – 100 bps	1.6	(1.6)
Funding cost rate	4	+/ – 100 bps	(2.3)	2.3
Total operating expenses, excluding funding costs and loan impairments, as a percentage of total revenue	5	+/ – 2.5%	(3.9)	3.9

Notes:
1. The Annualised Simple Interest Rate forecast for CY19F is 19.7%. The sensitivity above illustrates the impact of the Annualised Simple Interest Rate for CY19F originations being 100 basis points higher (i.e. 20.7%) and 100 basis points lower (i.e.18.7%). For the purpose of the sensitivity, we have assumed no pricing impact on loans outstanding during CY19F that have been originated in years prior to CY19F.
2. CY19F originations are forecast to be $559 million. The sensitivity above illustrates the impact of the originations being 5% higher or lower.
3. The loan impairment to total revenue for CY19F is 25.1%. The sensitivity above illustrates the impact of this percentage being 100 basis points higher (i.e. 26.1%) and 100 basis points lower (i.e. 24.1%).
4. CY19F funding cost rate has been forecast at 7.6%. The sensitivity above illustrates the impact of the funding cost rate being 100 basis points higher (i.e. 8.6%) or 100 basis points lower (i.e. 6.6%).
5. Total operating expenses, excluding funding costs and loan impairments, as a percentage of total revenue have been forecast at 48.5% in CY19F. The sensitivity above illustrates the impact of this percentage being 2.5 percentage points higher (i.e. 46.0%) and 2.5 percentage points lower (i.e. 51.0%).

4.10 Dividend policy

We do not have any present plan to pay dividends on our shares. Any future determination as to the declaration and payment of dividends, if any, will be at our discretion and will depend on then existing conditions including our financial condition, operating results, contractual restrictions, capital requirements, business prospects and other factors we deem relevant.

Risks

5.1 Introduction

This Section 5 describes some of the potential risks associated with an investment in the Company.

An investment in the Company is subject to risk factors specific to the Company and its business activities and those of a more general nature including general risks associated with investing in Shares. Any, or a combination, of these risk factors may have a material adverse effect on the Company's business, financial condition, operating and financial performance, growth, and/or the value of its Shares. Many of the circumstances giving rise to these risks and the occurrence of consequences associated with each risk are partially or completely outside the control of the Company, its Directors and Management.

Section 5 does not purport to list every risk that may be associated with an investment in Shares now or in the future. Additional risks that the Company is unaware of, or that the Company currently considers to be immaterial, also have the potential to have a material adverse effect on Prospa's business, financial condition, operating and financial performance, growth, and/or the value of the Shares.

The selection of risks in this section has been based on an assessment of a combination of the probability of the risk occurring and the impact of the risk if it did occur. The assessment is based on the knowledge of the Directors as at the Prospectus Date, however, there is no guarantee or assurance that the importance of risks will not change or that other risks will not emerge.

Before deciding whether to invest in the Company by applying for Shares, you should read the entire Prospectus and satisfy yourself that you have a sufficient understanding of these matters and should consider whether Shares are a suitable investment for you having regard to your own investment objectives, financial circumstances and particular needs (including financial and taxation issues). If you do not understand any part of the Prospectus or are in any doubt as to whether to invest in the Company, you should seek professional advice from your stockbroker, accountant, lawyer, financial adviser or other independent professional adviser before deciding whether to invest.

5.2 Business risk factors

5.2.1 Prospa's customers may not repay their financial obligations to Prospa

If Prospa's customers[1] do not pay Prospa the principal, interest and fees owing under their contract then Prospa may experience a decrease in revenue, increase in expenses (including an increase in impairment expenses and an increase in funding costs), and/or decrease in operating cash flows received, which may have a material adverse effect on Prospa's business, financial condition, operating and financial performance, and availability and cost of funding. Prospa's funding arrangements include a term under which no further draw down is permitted to fund new loans where losses increase significantly above expected levels.

Three main drivers for why a customer may not repay their financial obligations to Prospa per the contract include:

1. A deterioration in that customer's business financial performance specific to that customer (including the business experiencing financial difficulty, insolvency or reduced cash flow), or the customer prioritises other financial payments ahead of their payments to Prospa (for example, payments to key suppliers or the ATO);
2. A general economic slow-down resulting in a deterioration of the financial performance of the customer and an inability to pay (discussed in Section 5.2.16, below); and
3. Prospa has failed to appropriately assess which customers can and will repay their obligations and as a consequence, money has been lent to customers who have not repaid, and who do not have the capacity to repay, their obligations to Prospa (discussed in Section 5.2.7, below).

As Prospa does not require security on loans below $100,000 it may have less ability to enforce its contractual rights and successfully recover against a customer who may have other financiers and creditors with a superior security position[2]. In addition, it may not be economical to pursue repayment of some loans through legal claims even where Prospa has rights against the borrower or their guarantor(s) due to the amount outstanding on a particular loan.

1 For the purposes of Section 5.2, 'customer' or 'customers' refer to customers of Prospa's small business loan, line of credit and Prospa Pay products.

2 Prospa will be granted security for loans above $100,000, or where the customer defaults under the loan contract. For loans above $100,000, Prospa does take security and registers a charge on the PPSR.

5.2.2 Prospa may be unable to access funding or funding may only be available on less favourable terms

A loss of, or adverse impact to, one or more of Prospa's funding sources (which include the Warehouse Facilities, the Term Facilities, Corporate Debt Facility and the use of Prospa's equity), could limit Prospa's ability to write new loans or to write new loans on favourable terms. This includes an inability to extend or refinance expiring facilities, an inability to set up new funding platforms to fund growth in loans, or an increase in funding costs which reduces Prospa's profitability or its ability to write profitable loans. A number of Prospa's funding contracts contain change of control provisions or other consent requirements which may be triggered by future transactions following the IPO. In the event the relevant consents are not obtained from the relevant counterparty, there is a risk that the contract could be terminated. These events would have a material adverse effect on Prospa's business, financial condition, operating and financial performance, and/or growth.

Interest rates

Some of Prospa's funding arrangements (including Warehouse Facilities, which are linked to the Benchmark Rate) may not be hedged against fluctuations in interest rates. An increase in the interest rates charged for Prospa's debt facilities cannot be passed onto the existing loan portfolio due to the interest rate being fixed on Prospa's customer loans. As a result, an increase in the interest rate for Prospa's existing unhedged funding or funding which may be unhedged in the future, may impact the profitability of the business. The trustee of the ABS Issuance has entered in to a hedging arrangement to mitigate against fluctuations in the variable Benchmark Rate applicable to the Rated Notes it has issued.

Warehouse Facilities and Term Facilities

There is a risk that Events of Default or Amortisation Event triggers (refer to Section 9 for further detail) under Prospa's Warehouse Facilities and Term Facilities may impact the profitability, financial position and prospects of Prospa.

An Event of Default or Amortisation Event trigger may arise from, amongst other things, a breach by Prospa of its origination, or servicing obligations or may arise from credit related factors, such as a deterioration in the credit quality or performance of the pool of loans funded under the program and Prospa's financial performance.

Any such event could have a number of impacts, depending on the severity of the event concerned. For example, if an Amortisation Event were to occur, this would prevent Prospa from selling further loan receivables to the Warehouse Facilities and Term Facilities and also act as a draw stop to further funding from the funders of that facility. If an Event of Default were to occur, this would have consequences similar to those for an Amortisation Event and would also result in the ability for certain creditors to direct enforcement of the security over assets of the funding vehicle under that facility, and, depending on the circumstances, for certain creditors to direct the trustee of the trust to remove Prospa as servicer of the Warehouse Facilities and Term Facilities as relevant. In addition, the timing and depending on the circumstances, quantum, of payments to Prospa in respect of its interests in the trust for the relevant Warehouse Facilities and Term Facilities may be adversely affected by such events.

There is also a risk that Prospa may not be able to extend its Warehouse Facilities and Term Facilities (when due for extension) and/or may not be able do so on favourable terms. Prospa may not be able to introduce new warehouse facilities or funding arrangements. Any or all of these risks could impact Prospa's ability to refinance existing loans, write new loans or write new loans on competitive terms.

As discussed in 5.2.19, Prospa is required to repurchase loan assets from the Warehouse Facilities and Term Facilities, as the case may be, which did not meet the eligibility criteria for that facility at the time they were transferred into it. Example eligibility criteria are set out in section 3.3.2. The eligibility criteria for the Warehouse Facilities and Term Facilities also include a requirement that a loan asset sold by Prospa to the relevant facility is at the time of the sale legal, valid, binding and enforceable in accordance with its terms against the relevant borrower, and if applicable, guarantor and security provider.

Equity

Prospa subscribes for the Seller Notes in the Warehouse Facilities and Term Facilities. As the size of Prospa's loan book increases and it seeks to transfer additional loan receivables into the Warehouse Facilities and Term Facilities, the aggregate quantum of the first loss capital (and liquidity reserves where required) will also increase. Prospa is also effectively required to contribute additional collateral into the facilities to support loans that have reached a certain pre-determined level of delinquency.

If the losses on loans in the Warehouse Facilities and Term Facilities are sufficiently high, this will result in a reduction in the income that Prospa receives from that facility and the erosion of required "first loss" capital positions. While Prospa generally has no obligation to provide additional capital to support the Warehouse

Facilities and Term Facilities it may be appropriate to do so to support ongoing access to bank and capital market funding and to ensure access to distributions of surplus income of the relevant funding vehicle on an ongoing basis. There is also a risk that local regulators could implement new or increased requirements that would oblige the inclusion of, or increase in, a minimum level of "first loss" capital in securitisations that exceeds the level of capital currently held by Prospa in the Warehouse Facilities and Term Facilities, which could force it to raise additional capital which could materially adversely affect Prospa's business, operating and financial performance.

Prospa also uses its own capital to fund new products and geographies and any loans ineligible for its Warehouse Facilities and Term Facilities. In the event Prospa increases its proportion of ineligible receivables, or is unable to secure third party debt funding for new products or new geographies, Prospa's capital requirement may increase.

Prospa's ability to fund these obligations is determined by prevailing equity market conditions. If Prospa is unable to fund these obligations through cash and equity, its access to warehouse funding may be restricted, which would impact Prospa's ability to originate new loans, resulting in a materially adverse impact on Prospa's business, operating and financial performance, and/or growth.

5.2.3 Prospa may not successfully execute one or all of its growth strategies

Prospa plans to achieve high rates of growth by executing its strategies, which include achieving a high level of repeat rates from existing customers, further penetration and activation of its distribution network (including the direct channel, intermediary and partner ecosystems), scaling operations in New Zealand and the launch and scaling of new products. There is no guarantee that all or any of Prospa's growth strategies will be successfully implemented, deliver the expected returns or ultimately be profitable. There is also a risk that the growth strategies may be subjected to unexpected delays and additional implementation costs.

For example, Prospa's entry into New Zealand and launch of two new products (line of credit and Prospa Pay) are still in early stages, with Prospa Pay still in the beta testing phase. There is no guarantee that these initiatives will be successful.

Prospa's pricing strategy may also not result in the level of growth in business volume that it anticipates.

Prospa may also fail to adopt and execute growth strategies that will enable it to successfully maintain or improve its product offering and match any change in customer preferences. Failure to do so could result in customers choosing Prospa's competitors for their requirements, which could have a materially adverse impact on Prospa's business, operating and financial performance, and/or growth.

As a fast-growing company, any change to Prospa's ability to achieve any or all of its growth strategies, or the market's perception of Prospa's ability to deliver growth to Shareholders, is likely to have a significant impact on Prospa's share price.

5.2.4 Prospa's business may be impacted by existing or new regulations or the threat of regulations

The financial services sector is undergoing a significant period of political and regulatory scrutiny and regulators are showing a heightened willingness to take action. Future changes to law or regulation, or potential changes to law or regulation which oblige industry participants to proactively change their business models, alter their funding arrangements or change their pricing disclosure, or regulator action could have a material adverse effect on Prospa's business, financial position, operating and financial performance, and/or growth.

Regulatory developments that could impact Prospa's business model

There are a number of regulatory developments that could impact Prospa, including the following:

- Industry participants (including Prospa) have recently agreed to adhere to an industry code of conduct which outlines best practice principles and provides measures for standardising transparency and disclosure, including use of common lending terms and an easy-to-understand contract summary page. If Prospa fails to remain compliant with this code of conduct this may lead to adverse reputational and commercial consequences, as well as potential breach by Prospa of contractual obligations to the extent its customer contracts require compliance.
- The interpretation and application of the ASIC Act can also impact Prospa's business. Contract terms that are 'unfair' under the ASIC Act are void (although the unfair contract terms laws do not apply to the terms that define the main subject matter of the contract or to the disclosed 'upfront price' terms in a contract).

  Although the question of whether a particular loan term is unfair can ultimately only be determined by a court, there is a risk that ASIC could seek a court declaration that a contract term is unfair, or that customers could take legal action against Prospa arguing unfairness as a basis for avoiding certain terms of the loan contract.

As referred to in Section 2.7.2, in June 2018, ASIC reviewed Prospa's loan terms. As part of that review, Prospa agreed to and is implementing certain recommendations from ASIC in relation to removing or amending some of its contract terms. In the media release issued by ASIC, ASIC noted that late payment fees are subject to review under the unfair contract term provisions and it "will be undertaking further monitoring of Prospa's charging of late payment fees to assess whether the manner in which the fees are being charged is unfair in practice"[3]. ASIC may review Prospa's contract terms again, as part of a further industry wide review or specifically in respect of Prospa. If that review is made public or Prospa's contractual terms are found to breach the unfair contract terms legislation, Prospa may suffer negative reputational and commercial consequences.

Additionally, if it is determined that a loan contract term is unfair, Prospa's ability to fund, and maintain funding, against that loan through its Warehouse Facilities and Term Facilities may be affected and receivables might need to be repurchased.

- In February 2019, the Royal Commission into Australia's banking, superannuation and financial services industry handed down its report and final recommendations. Although the subject was canvassed before the Royal Commission, the report did not recommend that responsible lending obligations should be imposed on lenders to small business. However, the report did recommend structural changes to the mortgage broking industry, including removal of commissions paid by the credit provider, although a credit provider could advance to a borrower the amount of commission payable by that borrower to a broker. Depending on how (and whether) these recommendations are introduced as law, it is possible that changes will be made to the structure of the entire broking industry. This may affect the amount and structure of commissions that Prospa may pay to Finance Brokers, and this may impact the volumes of loans referred by Finance Brokers. The heightened attention associated with the Banking Royal Commission may precipitate a more assertive approach by regulators which could adversely affect Prospa's operations and business model.
- New legislation has granted APRA greater powers to regulate the non-bank lending sector. These powers apply to registerable entities with FSCODA, of which Prospa is one. APRA now has additional oversight capabilities for the non-ADI sector including the power to regulate lending activities of non-ADI lenders (including Prospa) for the purpose of addressing financial stability risks. While no active regulation of non-ADI lenders is currently mandated, APRA may choose to use this power and impose certain rules where it considers there may be a material risk to the security of Australia's financial system. Some potential risks of this kind of regulation by APRA include a requirement to hold minimum levels of capital to support lending activity, or a restriction on specific activities.
- The Productivity Commission released its final report on the Competition in the Australian Financial System on 3 August 2018. Among other things, and although not mentioned in the final report, an earlier draft report recommended that APRA should consider proposals by ADIs for variations to the standardised risk assessment for business lending (based on the bank's data and risk management systems), which, if enforced, could lower the risk weightings for small business lending in certain ADIs, enhancing the effective return on equity and making the products more compelling for the ADI. If implemented by APRA, this could result in increased pricing competition in small business lending.
- Legislation which commenced on 1 July 2018 which limited the ability of creditors to exercise rights (including to demand payment and enforce security) as a result of certain insolvency and related processes occurring in respect of its customers could impact the timing of recoveries by Prospa from insolvent customers (and guarantors).
- With effect from 5 April 2021, new design and distribution obligations are expected to apply to certain loan or other financial products offered by Prospa and other Australian lenders. Under these obligations, by 5 April 2021, Prospa would need to determine the target market for its loan contracts offered to borrowers who are 'retail clients' (as defined in the Corporations Act), and take reasonable steps to distribute consistently with those determinations. Prospa expects to build on its existing design and distribution framework that covers eligibility, suitability, distribution and credit criteria to meet these obligations. If Prospa fails to meet these obligations, ASIC will have product intervention powers including powers to issue stop orders or to impose conditions on retail distribution of specific products. In these circumstances ASIC can also apply to a Court for orders that include declaring a term to be void or varying the terms and conditions of a loan contract or contracts.

  Since 6 April 2019 ASIC has had powers to make intervention orders restraining particular conduct by a party such as Prospa in offering certain financial products to 'retail clients'. ASIC's power arises only where ASIC is satisfied that providing the financial product has resulted in, or will or is likely to result in, significant detriment to a retail client or clients. Significant detriment is given its ordinary meaning and ASIC can take into account any actual or potential financial loss to retail clients.
- As referred to in Section 2.7.1, Prospa is a member of AFCA. AFCA has jurisdiction to hear disputes between Prospa and its customers, and if it determines there is a systemic issue it is obliged to refer the issue to ASIC. This may result in monetary fines, remediation actions, legal proceedings and reputational damage.

3 https://asic.gov.au/about-asic/news-centre/find-a-media-release/2018-releases/18-262mr-prospa-removes-unfair-loan-terms-for-small-business-borrowers-and-guarantors/.

Regulatory changes impacting funding

Prospa's financiers may be subject to regulatory changes which may adversely affect their ability to advance funding, increase the cost of funding, or increase the amount of capital they need to hold to advance that funding (including in respect of warehouse lines). As an example, APS 120 is the Australian regulatory standard that governs capital requirements for securitisation lending for banks operating in Australia. The regulator (APRA) has recently revised the APS 120 standard (effective as of 1 January 2018) to change the regulatory capital approach to securitisation facilities. APS 120 only applies to the extent that a financier is regulated by APRA.

Prospa's competitors may also experience favourable regulatory changes to their funding arrangements which could result in increased competition for small business lending.

5.2.5 Prospa may fail to comply with key regulations such as those focused on money laundering and privacy

Prospa's business activities are subject to laws and regulations including the FSCODA, AML/CTF Act and the Privacy Act. Prospa could face civil penalty proceedings, other legal or regulatory sanctions or reputational damage as a result of any failure to comply with applicable laws, regulations, or codes of conduct. A breach in any of these areas could result in fines or penalties and the payment of compensation to affected parties which could have a material adverse effect on Prospa's business, financial condition, operating and financial performance, and/or growth.

In 2018, Prospa arranged for an external review of its AML/CTF Program, Risk Assessment and associated compliance procedures. This review identified some issues with Prospa's processes and procedural documents to comply with what is required under the AML/CTF Act, and areas of non-compliance. Following this, Prospa engaged external consultants to prepare an updated AML/CTF Risk Assessment and AML/CTF Program, which has been adopted by the Prospa Board and implemented by Prospa management.

Although there is no positive obligation to disclose breaches to AUSTRAC, in March 2018 Prospa made voluntary disclosures to AUSTRAC regarding these issues, and the strengths and weaknesses of its past program and procedures, and the steps it is taking to correct its position. AUSTRAC policy does not allow for the issue of a 'no action' letter regarding a disclosure of this kind, as it will not waive its right to re-open the subject matter of these disclosures should any further information emerge, or potential breaches occur, in the future. However, in April 2018 Prospa received a letter from AUSTRAC indicating that it had formed the view that while serious contraventions had occurred, after noting Prospa's actions to rectify the issues disclosed, AUSTRAC would not be taking any further action unless more information were to come to light.

In the event of a breach, AUSTRAC may commence proceedings in the Federal Court seeking Civil Penalty Orders. For a body corporate, these orders carry a maximum pecuniary penalty of 100,000 penalty units ($21,000,000) per breach. For some forms of breach AUSTRAC also has power to issue infringement notices that in the past have resulted in fines ranging between about $10,000 and $400,000 imposed by the regulator itself on reporting entities. While civil penalty proceedings are theoretically possible, Prospa considers such proceedings unlikely, providing it continues to comply with its AML/CTF Program, and no further information or potential material breaches come to light.

About 20% (by number of loans) of Prospa's customers are trustees[4]. In the past Prospa obtained information regarding the trust from the customer, and this approach has been disclosed to AUSTRAC. Under the AML CTF Rules, before any lender first provides a loan to a customer that is a trustee, it should obtain information regarding the trust and its beneficiaries from a reliable and independent source. Prospa has applied to AUSTRAC for a modification to the applicable rules, subject to conditions acceptable to Prospa, that would allow for collection of a copy of the trust deed from the customer and the use of adjusted verification processes for beneficial ownership of the trust. At the time of issue of this Prospectus, AUSTRAC had not indicated whether it would grant the requested modification. In the absence of the modification, Prospa uses a system that enables it to apply the technical requirements of the AML CTF Rules described above by conducting verification from reliable and independent sources.

Prospa has arranged for a further external review and further updated AML/CTF program in 2019.

5.2.6 Prospa is highly reliant on its Distribution Partners

Prospa currently has relationships with a significant number of Distribution Partners including Finance Brokers, aggregator networks, accountants and enterprise partners (in total representing approximately 71% of new and repeat loan originations in CY18). The majority of these relationships are not exclusive and some of these Distribution Partners are likely to also have relationships with competitors of Prospa.

4 Based on active number of loans and customers as at 31 March 2019.

The success of Prospa's business and its ability to maintain its existing loan volumes and grow its portfolio profitably heavily rely on Prospa's ability to:

- Retain its existing key distribution relationships and maintain or increase the number of loans referred by each Distribution Partner;
- Increase the number of on-boarded Distribution Partners that are referring new customers to Prospa and maintaining or increasing the number of loans referred by them;
- Increase the number of Prospa products offered by its Distribution Partners; and
- Distribute through these Distribution Partners at acceptable commission rates.

Prospa may not be able to retain its existing Distribution Partners (including because short term arrangements are not renewed), or may not be able to increase the number of Distribution Partners in its network, which may have a material adverse effect on Prospa's business, financial condition, operating and financial performance, and/or growth. Reasons for this might include:

- Prospa not offering the type of products that the Distribution Partners want to distribute to their small business customers;
- Prospa's current or targeted Distribution Partners might sign up to exclusive arrangements with Prospa's competitors;
- Prospa's competitors might achieve a higher share of the referred volume from Prospa's current or targeted Distribution Partners; or
- Prospa's Distribution Partners may seek to insource the provision of loans and offer it from their own balance sheets.

An increase in competition for Distribution Partner volume between Prospa and its competitors may result in higher commissions levels in market (measured as a percentage of the loan amount introduced), which may become uneconomic for Prospa to match, and may reduce Prospa's ability to write new loans profitably and have a material adverse effect on Prospa's business, financial condition, operating and financial performance, and/or growth.

5.2.7 Prospa's credit framework, credit processes or the CDE may fail to assess credit risk accurately

Prospa relies on its credit risk framework to define the appropriate credit processes, determine the reliance on the CDE, set appropriate parameters for its risk grades to assess credit risk, set pricing appropriate to those risk levels given the expected levels of default and monitor portfolio credit risk. While Prospa expects to generate some losses in relation to its loan portfolio, the credit risk framework seeks to set these at a level where Prospa continues to generate an appropriate return for Shareholders from its lending activities, funders remain comfortable with the level of risk in the portfolio and loan loss covenants in the funding arrangements are not triggered.

There is a risk that inadequate or failed operation of the credit process (including failure of staff to follow defined processes, errors in decisions to override the CDE or a failure of the CDE itself – for example, a technical failure in the data gathering or algorithm, bugs in the CDE which have not been sufficiently tested) may result in Prospa unintentionally accepting additional credit risk above its expectations. This includes a risk that Prospa's current credit processes and CDE may fail to adequately assess and monitor credit risk under periods of changing or worsening economic conditions across the economy or within certain regions or industries which Prospa services. Furthermore, Prospa's CDE has been calibrated with data since 2013, which is largely considered by management as a benign economic environment. This may limit the CDE's efficacy in an economic downturn.

Furthermore, as Prospa expands into new geographies (such as its entrance into New Zealand in H1 FY19) and launches new products (including its line of credit product and Prospa Pay) there is a risk that the application of Prospa's existing credit framework, credit processes or CDE fails to appropriately assess or measure the credit risk for these geographies and/or products, given the limited seasoned credit performance data available to calibrate its credit decisions in these circumstances and the potential for idiosyncratic risk factors specific to that geography/product not to be captured within the broader credit framework appropriate for Australian small business loans.

Prospa's funding is tied to its loss performance, and any observed deterioration in its ability to assess credit may impact its ability to access funding. Prospa's ability to access funding is predicated on its ability to generate stable static loss rates over time. If these Static Loss Rates increase dramatically, funders may lose confidence in Prospa's ability to underwrite credit to the standards expected. Prospa has loss-based funding covenants which if triggered, may result in an Event of Default and withdrawal of that funding, and/or its cost of funding might increase substantially.

Additional credit risk and credit losses above expectation may have a material adverse effect on Prospa's business, financial condition, operating and financial performance, availability and cost of funding and/or growth.

5.2.8 Prospa may experience a disruption or failure in its technology, or its technology or product offering may become obsolete

Prospa's ability to deliver fast and easy access to finance for its customers and to successfully price credit risk depends on the efficient and uninterrupted operation of its cloud-based technology platform and proprietary CDE.

There is a risk that Prospa's technology platform and CDE may experience downtime or interruption from system failures, service outages, corruption of information technology network or information systems as a result of computer viruses, bugs, worms or cyberattacks, as well as natural disasters, fire, power outages or other events outside the control of Prospa, and that measures implemented by Prospa to protect against such events are ineffective. Any systemic failure could cause significant damage to Prospa's reputation, its ability to make informed credit decisions and assess the credit performance of its loan book, its ability to service customers in a timely manner, and its ability to retain existing customers and generate new customers, any of which could have a materially adverse impact on Prospa's business, operating and financial performance, and/or growth.

Prospa's technology platform, proprietary CDE or product offering may also become obsolete or outdated through the investment of its peers in superior technology and/or product offerings, increased access to data through the introduction of positive credit reporting reforms or general market developments. This could necessitate Prospa to undertake substantial investment in updating or improving its current technology platform and product offering, which could have a materially adverse impact on Prospa's business, operating and financial performance, and/or growth.

5.2.9 Prospa may experience a security or data breach including from cyberattacks

Prospa uses secure cloud-based technology platforms to host a number of its key systems and processes including customer data. Prospa has had regard to maintaining the confidentiality and security of the wide range of confidential customer information that Prospa collects, through the ordinary course of business, when designing its technology platform. Despite seeking to maximise the protection of customer and Company data, there is a risk that Prospa is exposed to a security breach or successful cyberattack.

Any data security breaches or Prospa's failure to protect confidential customer information (including through cyberattacks) could result in a significant disruption to Prospa's systems, reputational damage, loss of system integrity, breaches of Prospa's obligations under applicable laws, an obligation under privacy laws to notify individuals and the Australian Information Commission of the breach, and could reduce its ability to retain existing customers and generate new customers, any of which could have a materially adverse impact on Prospa's business, operating and financial performance, and/or growth.

5.2.10 Prospa may be unable to pass on an increase in interest rates to customers or an increase in interest rates may reduce demand for loans

The cash rate set by the Reserve Bank of Australia (which has been very low since the establishment of Prospa in 2012), has been a significant driver of low interest rates for wholesale funding in the Australian market, including the BBSY and BBSW which are the Benchmark Rates of Prospa's Warehouse Facilities or Term Facilities.

An increase in the cash rate may increase the cost of funding available to Prospa, which is a key variable cost of the business. For example, for:

- existing loans, an increase in the cash rate may result in an increase in the interest charged by Prospa's lenders to the extent that they are not hedged, which cannot be passed on to customers and will increase Prospa's interest expense; and/or
- new loans, an increase in the cash rate may result in an inability to pass on some or all of the impact of the increase in interest rates to customers in a timely manner and may result in reduced profitability for Prospa. Alternatively, an increase in the pricing of Prospa's loan products may reduce demand for these loans.

One or a combination of these factors may have a material adverse effect on Prospa's business, financial condition, operating and financial performance, and/or growth.

5.2.11 Prospa operates in a competitive market, with a range of alternative products available and increasing levels of competition

Online small business lending is a competitive market. In addition to its direct competitors, Prospa's products also compete against other finance products in market which may be available to small businesses, including bank loans, credit cards, equipment financing, invoice financing and debtor financing.

Traditional bank and non-bank lenders, which may have access to lower funding costs, scale and resource benefits, already offer or may decide to offer a product focused on small business and undercut Prospa on pricing as well as invest heavily in marketing. For example, National Australia Bank launched an online small business lending product, Quickbiz, in 2016.

In the Fintech or online lender segment, Prospa's direct competitors may seek to imitate Prospa's strategies, and/or may attempt to aggressively take market share from Prospa. In the technology company space, there are businesses with large embedded small business customer bases that already offer, or new businesses which may decide to offer, that customer base a small business finance product to supplement its existing technology offering.

With the launch of Prospa's new products, there is also a risk that they cannibalise the revenues of Prospa's simple business loan to a greater extent than expected.

The level of current and future competition in the market and changes in competitive behaviour may result in one or more of the following for Prospa:

- Lower levels of originations, leading to lower revenue;
- Lowering of Simple Interest Rates in order to remain competitive, leading to lower revenue;
- An increase in the acquisition costs of customers in both the Direct channel (through increased marketing spend) and the intermediary channel (through increased commissions); and
- Higher levels of customer churn and more early repayments, reducing customer lifetime value.

Any or all of these factors may have a material adverse effect on Prospa's business, financial condition, operating and financial performance, and/or growth.

5.2.12 Prospa's cost of direct marketing may increase and/or its effectiveness may be lower than expected

The growth of new direct clients depends in part on the effectiveness of the direct marketing efforts of Prospa. There is a risk that Prospa's direct advertising and direct marketing channels may become less effective or more expensive as a result of:

- Increased competition or costs associated with bidding for search engine key words;
- Increased competition or cost for online and social media advertisements;
- Changes to the algorithms or terms of services for search engines, such as Google, which may cause Prospa to be ranked lower or excluded from search results; and
- Reduced effectiveness of mass marketing.

If the costs of direct advertising materially increase, or the effectiveness of Prospa's direct marketing strategies decrease, Prospa may be unable to continue to grow at the expected rate or profitably, which would have a material adverse effect on Prospa's business, financial condition, operating and financial performance, and/or growth.

5.2.13 Prospa's repeat customers may be lower than expected

A significant driver of Prospa's growth is repeat customers who access additional funding following the initial loan, driving a lifetime value of that customer which is above and beyond that original loan written.

There is a risk that customer repeat levels may fall due to Prospa's customers moving to competitors for better terms or service or Prospa's intermediaries being offered better commission rates than those offered by Prospa to encourage the transfer of those customers to Prospa's competitors.

There is also a risk that over time Prospa may no longer have products which suit the market, or other products may enter the market which customers prefer.

Any decrease in the rate of repeating customers is likely to have a significant material adverse effect on Prospa's business, financial condition, operating and financial performance, and/or growth.

5.2.14 Prospa's intellectual property may be compromised or lost

Prospa has developed a proprietary technology platform, including the CDE, which is key for Prospa to make informed assessments of credit risk and for the successful operation and growth of Prospa's business. The commercial value of Prospa's intellectual property in the technology platform is dependent in part on operational procedures to maintain confidentiality and legal protections provided by a combination of copyright, trade secrecy laws, confidentiality obligations on employees and third parties and other intellectual property rights.

There is a risk that Prospa's intellectual property may be compromised in a number of ways, including:

- Prospa employees may breach operational procedures, or employees or third parties may breach confidentiality obligations, or infringe or misappropriate Prospa's intellectual property, compromising Prospa's competitive advantage;
- Prospa's third party vendors may gain insights into Prospa's intellectual property, including Prospa's proprietary systems, and use these findings to develop alternative technologies which compete with Prospa; and/or
- Third parties may develop non-infringing competitive technology.

Any such breaches or competing technologies could erode Prospa's competitive position, which could have a materially adverse impact on Prospa's business, operating and financial performance, and/or growth.

5.2.15 Prospa is very reliant on third party vendors, information technology suppliers, and software and infrastructure providers

Prospa's business is dependent on maintaining relationships with key third party vendors, information technology suppliers, and software and infrastructure providers. For example:

- Prospa uses information from third party credit agencies (such as Equifax) in its credit assessment process. Prospa relies on the availability and accuracy of this information to make informed credit assessments of potential customers;
- Prospa uses a third-party software provider for electronic execution of loan agreements;
- Prospa uses third party software providers in its technology offering (such as Salesforce, which forms its core workflow system) which forms a critical component of Prospa's work flow processes. Prospa relies on the availability of this software to service customers and originate new loans;
- Prospa relies on multinational IT companies for data warehousing and cloud-hosting services, and consequently there are a range of potential operational issues which are outside its control; and
- Prospa relies on contracts with third party information technology suppliers to maintain and support its technology platform and customer interface.

Consequently, Prospa could face significant additional costs or business disruption if:

- any such supplier fails to enable Prospa to provide its customers with reliable, real-time access to its technology platform;
- a change in access to data services such as banks changing or restricting access to their customers data via services such as Bank Statements, or credit reporting bodies such as Equifax changing the inputs relied upon by Prospa to make credit decisions; and/or
- Prospa's arrangements with such suppliers are terminated or altered in any way (including an increase in the cost of supply) that is detrimental to Prospa, and Prospa cannot find alternative sources of technology or systems on commercially reasonable terms or on a timely basis.

Operational or business delays

Any change or interruption to Prospa's key third party vendor and software and infrastructure provider relationships, or reduced accuracy or availability of their services may disrupt Prospa's business operations, necessitate Prospa to update its general business processes, replace their offering with a competitor or undertake investment to build its own service offering. Operational or business delays, damage to reputation and loss of customers, may result from any disruption of Prospa's systems and infrastructure, which may arise due to matters outside of Prospa's influence or control.

Inability to renew its contracts or less favourable terms

Prospa may be adversely affected by an inability to renew its contract with key third party vendors and software and infrastructure providers, including contracts with Amazon Web Services which are on a rolling 30 day notice term, or as a result of any alterations in its arrangements with Amazon Web Services and Microsoft Azure, including an increase in the cost of supply or changes in service levels. As a consequence, Prospa may face an increased cost of doing business and a disruption in its ability to provide a simple and fast interface to its customers, including as a result of potentially having to source an alternate provider of such services, adversely impacting its business, financial performance and operations.

The majority of Prospa's existing IT supplier contracts in relation to the Prospa technology platform are based on the suppliers' standard terms and conditions. A number of suppliers maintain the right to amend their standard terms and conditions from time to time. The majority of the IT supplier contracts in relation to the technology platform are short term contracts, typically on rolling 12 month terms, month-by-month terms or open length terms. There can be no guarantee that Prospa will be able to renew any contract on similar or not less favourable terms. While some of these services could be replaced, other services are fundamental to the provision of Prospa's services and are highly integrated in, or form a core part of, Prospa's platform (for example Salesforce). As a result, any change to the relationships with these third-party vendors, or software or infrastructure providers and the services they provide could have a materially adverse impact on Prospa's business, operating and financial performance, and/or growth.

5.2.16 Prospa is exposed to adverse economic conditions across the Australian and New Zealand economies and specific segments of them

Australia and New Zealand's small businesses, who are Prospa's customers, are exposed to the general economic cycle. When the economic cycle turns negative, Prospa's customers may experience a deterioration in their financial performance and be unable to repay their loans, resulting in lower revenue collections and higher loss expense to Prospa as well as lowering Prospa's loan approval rates and originations, impacting Prospa's ongoing earnings, cash flows and/or financial position.

The indicators of a deterioration in the economic cycle might include (macroeconomic factors):
- Lower GDP growth (or negative GDP growth);
- Lower consumer confidence;
- Lower business investment;
- Contractionary government fiscal and monetary policy; and/or
- Unfavourable exchange rate movements.

Other factors which may impact a small business include (microeconomic factors):
- Technological developments;
- Evolving consumer spending habits;
- Increased competition from offshore competitors;
- Industry consolidation; and/or
- Government policy changes.

Within the broader context of the Australian and New Zealand economies, there are industry sectors which are impacted by macroeconomic and microeconomic factors to varying degrees. Even in benign general economic conditions, there could be industry sectors which are deteriorating, which may present a risk if Prospa is exposed to those industry sectors.

The Australian and New Zealand economies can also be split along geographical lines. To the extent that one region is experiencing adverse economic conditions, this can materially affect Prospa's financial performance and portfolio health to the extent Prospa is exposed to this region.

In addition to lower revenue and higher bad debts, adverse economic conditions can constrict funding markets, which may reduce Prospa's access to capital and reduce its ability to grow at a fast pace, and/or increase the cost of those funds, which may not be capable of being passed on to customers which could reduce Prospa's ongoing earnings.

5.2.17 Prospa's brand and/or reputation may be damaged

Prospa relies heavily on its reputation in the day-to-day business activities. Prospa's brand and reputation are very important in attracting and retaining Distribution Partners (including financial intermediaries) and customers (through both direct and indirect distribution and employees). They are also very important to Prospa maintaining its existing funding arrangements and obtaining new funding.

Prospa manages risks relating to a number of issues and events, including risks relating to legal and regulatory requirements, responsible lending and sales practices, potential conflicts of interest, privacy laws and ethical issues, among other considerations, which may cause harm to Prospa's brand, image or reputation through negative publicity, heightened regulatory focus, or negative Distribution Partner and customer experience. Actions or failures by other market participants could also negatively impact the reputation of the industry and Prospa.

Any factors that diminish Prospa's brand and reputation may limit Prospa's ability to execute its growth strategy (including attracting and retaining new customers, and maintaining and increasing its funding) and any adverse perception on the part of investors, customers, Distribution Partners, counterparties, ratings agencies or regulators could have a materially adverse impact on Prospa's business, operating and financial performance, and/or growth.

5.2.18 Prospa is exposed to operational risks including conduct risk and business continuity risk

Prospa is exposed to operational risk and conduct risk arising from a number of factors, including human error, processing and communication errors and employees not carrying out their duties responsibly. For example, there is a risk that a Prospa employee provides a customer with misleading communications in relation to the cost of their loan or their loan repayment options which could result in an unfair customer outcome. Failure of Prospa's controls and procedures to manage operational risk could result in reputational damage and potential litigation for Prospa and may have a materially adverse impact on Prospa's business, operating and financial performance, and/or growth.

Prospa may also suffer reputational and other damage as a result of misleading communications or other misconduct of third parties, such as referrers or brokers, even if not authorised by Prospa.

Prospa's business is highly dependent on its ability to process a large number of loans on a daily basis. Prospa's financial, accounting, data processing, CDE and other operating systems and facilities may fail to operate or become partially disabled as a result of events that are wholly or partly outside Prospa's control.

In addition, Prospa is exposed to the risk of loss resulting from pricing risk, credit risk, customer servicing risk, incorrect evaluation, record or accounting for loans, human error, breaches of Prospa's internal policies and regulations, breaches of security, theft and fraud and improper business practices. Prospa's inability to maintain business continuity in such a situation could materially adversely affect Prospa's business, financial condition, operating and financial performance, and growth.

5.2.19 Prospa may incur liabilities in relation to funding vehicles, including with respect to originating, servicing, trustee, or trust management contracts

There is a risk that Prospa is required to repurchase loan assets from, or to contribute collateral equal to the amount of loan assets into the Warehouse Facilities or Term Facilities as a consequence of breaches of certain representations or obligations relating to those loan assets, including with respect to eligibility of the assets to be held within the relevant facility under the terms of that arrangement. Prospa also provides indemnities to the trustees of its funding vehicles in respect of losses arising from its negligence or breach of its origination, servicing obligations, and in respect of certain other matters. Should any such obligation or liability emerge, they may materially adversely affect Prospa's profitability and financial position and prospects.

Any decrease in the rate of repeating customers is likely to have a significant material adverse effect on Prospa's business, financial condition, operating and financial performance, and/or growth.

5.2.20 Prospa is likely to require additional capital in the future to continue its growth in the medium term

As a fast-growing business, Prospa is likely to require additional debt and equity capital in the future to pursue business objectives and respond to business opportunities, challenges or unforeseen circumstances. Prospa's growth initiatives include origination growth, technology investment, new product offerings, and further funding for Prospa's expansion in New Zealand, which would typically require a significant investment and funding requirement before the offering became cash flow positive. Whilst some of the proceeds raised from this Offer will be utilised for this, further funding is expected to be required in the medium term. A failure to raise incremental debt and/or equity capital in the medium term could have a material adverse effect on Prospa's business, financial condition, operating and financial performance, and/or growth.

5.2.21 Prospa may be exposed to fraud

Prospa is exposed to the risk that its customers, employees or partners may seek to commit fraud against Prospa or its customers. Fraudulent behaviours could include:

- customers undertaking identity theft, providing fraudulent information, misrepresenting their ability to service the loans or overstating the value of their collateral in order to obtain finance; or
- employees or partners, individually or in collusion with others, obtaining a financial or other benefit, for example, by submitting unauthorised loan applications.

There can be no assurance that Prospa's internal controls will prevent the incidence of fraud. Failure of Prospa's internal controls to detect fraud may result in damage to Prospa's reputation or standing with funding providers, significant losses due to non-repayment of loan obligations, or impact Prospa's ability to attract customers, each of which could have a materially adverse impact on Prospa's business, operating and financial performance, and/or growth.

5.2.22 Prospa may suffer a loss of, or be unable to attract key personnel

The successful operation of Prospa relies on its ability to attract and retain experienced and high performing employees with specialist skills (including technology, distribution and credit risk assessment). Failure to attract and retain certain key employees may adversely affect Prospa's ability to execute its growth strategy, may result in a material increase in the costs of obtaining experienced and high-performing employees and could have a materially adverse impact on Prospa's business, operating and financial performance, and/or growth.

5.2.23 Prospa may face potential litigation, claims and disputes

Prospa may be subject to litigation and other claims and disputes in the course of its business, including employment disputes, contractual disputes, indemnity claims, occupational health and safety claims, or criminal or civil proceedings in the course of its business. Such litigation, claims and disputes, including the cost of settling claims or paying any fines, operational impacts and reputational damage, could materially adversely affect Prospa's business, operating and financial performance.

5.3 Investment risk factors

5.3.1 Economic factors

Once the Company becomes a publicly listed company on the ASX, it will become subject to general market risk that is inherent for all entities whose securities are listed on a securities exchange. This may result in fluctuations in the Share price that are not explained by the fundamental operations and activities of the Company.

The price of Shares quoted on ASX may rise or fall and the Shares may trade below or above the Offer Price due to a number of factors. These include, but are not limited to, the following:

- the number of potential buyers or sellers of Shares on the ASX at any given time;
- fluctuations in the domestic and international market for listed stocks;
- general economic conditions including the unemployment rate, interest rates, inflation rates, exchange rates, commodity and oil prices, and changes to government fiscal, monetary or regulatory policies, legislation or regulation;
- recommendations by brokers or analysts;
- inclusion in, or removal from, market indices;
- global hostilities, tensions, and acts of terrorism;
- the nature of the markets in which the Company operates; and
- general operational and business risks.

These factors may cause the Shares to trade at prices below the price at which the Shares are being offered under this Prospectus. There is no assurance that the price of the Shares will increase following quotation on the ASX, even if the Company's earnings increase.

General economic conditions (both domestically and internationally) may adversely impact on the price of the Shares after Listing as well as the Company's ability to pay dividends. This includes an increase in unemployment rates, negative consumer and business sentiment and changes in interest rates, among other factors. As a result of the above-mentioned factors, the Company is unable to forecast the market price for Shares and they may trade on ASX at a price that is below the Offer Price.

5.3.2 Liquidity

There is currently no public market through which Shares may be sold. From Listing, there can be no guarantee that an active market will develop or that the price of the Shares will increase.

There may be relatively few or many potential buyers or sellers of the Shares on the ASX at any time, which may increase the volatility of the market price of the Shares, prevent investors from acquiring more Shares or disposing of Shares they acquire under the Offer, or result in Shareholders receiving a market price for their Shares that is less than the price that Shareholders paid.

The Escrowed Shareholders will hold approximately 71% of the Shares following Completion, which may impact on liquidity, as discussed in Section 9.7.

5.3.3 Shareholder dilution

In the future, the Company may elect to issue Shares to fund or raise proceeds for growth in the loan book, acquisitions, to repay debt, or for any other reason.

While the Company will be subject to the constraints of the ASX Listing Rules regarding the percentage of its capital that it is able to issue within a 12 month period (other than where exceptions apply), Shareholder interests may be diluted and Shareholders may experience a loss in value of their equity as a result of such issues of Shares and fundraisings.

5.3.4 Taxation changes

Tax laws in Australia and New Zealand are complex and are subject to change periodically as is their interpretation by the relevant courts and the tax revenue authorities. Changes in tax law (including transfer pricing, GST, stamp duties and employment taxes), or changes in the way tax laws are interpreted may impact the tax liabilities of Prospa, Shareholder returns, the level of dividend imputation or franking, or the tax treatment of a Shareholder's investment.

In particular, both the level and basis of taxation may change. The tax information provided in this Prospectus is based on current taxation law in Australia and New Zealand as at the Prospectus Date. Tax law is frequently being changed, both prospectively and retrospectively. Furthermore, the status of some key tax reforms remains unclear at this stage.

In addition, tax authorities may review the tax treatment of transactions entered into by Prospa. Any actual or alleged failure to comply with, or any change in the application or interpretation of, tax rules applied in respect of such transactions, may increase Prospa's tax liabilities or expose it to legal, regulatory or other actions.

An interpretation of the taxation laws by Prospa which is contrary to that of a revenue authority in Australia or New Zealand may give rise to additional tax payable. In order to minimise this risk, Prospa obtains external expert advice on the application of the tax laws to its operations (as applicable).

5.3.5 Australian Accounting Standards

Changes to the Australian Accounting Standards ("AAS") are determined by the Australian Accounting Standards Board ("AASB"). The AASB may, from time to time, introduce new or refined AAS, which may affect the future measurement and recognition of key income statement and balance sheet items, including revenue and receivables. There is also a risk that interpretations of existing AAS, including those relating to the measurement and recognition of key statements of profit and loss and balance sheet items, including revenue and receivables, may differ. Changes to AAS issued by the AASB or changes to the commonly held views on the application of those standards could materially and adversely affect the financial performance and position reported in Prospa's financial statements.

5.3.6 Force majeure events

Events may occur within or outside Australia that could impact upon the global and Australian economies, the operations of Prospa, or the price of the Shares. These events include, but are not limited to, terrorism, an outbreak of international hostilities, fires, floods, earthquakes, labour strikes, civil wars, natural disasters, outbreaks of disease or other man-made or natural events or occurrences that can have an adverse effect on the demand for Prospa's products and services. Prospa has only a limited ability to insure against some of these risks.

Key people, interests and benefits

6.1 Board of Directors

Profiles of each member of the Board are set out below:

Director	Experience and qualifications
	**Gail Pemberton, AO** **Independent Non-Executive Chairman** Gail has been a Director of Prospa Advance since February 2018 and has been Chairman since February 2019. Gail has more than 35 years' experience in banking and wealth management and is a specialist in technology and operations. Prior to taking up a Non-Executive Director career, Gail was COO, UK at BNP Paribas and CEO and Managing Director, BNP Paribas, Australia and New Zealand. She was previously Group Chief Information Officer and Financial Services Group COO at Macquarie Bank. Gail is currently a Non-Executive Director of Eclipx Group and Sydney Metro. Gail has previously served on the Boards of ARQ Group (ASX:ARQ), OneVue (ASX:OVH), SIRCA and RoZetta Technology and Onthehouse (ASX:OTH) as independent Chair, and as a Non-Executive Director on PayPal Australia, QIC, UXC (ASX:UXC), Baycorp, Alleron Funds Management, Air Services Australia, the Sydney Opera House Trust and Harvey World Travel (ASX:HWT). Gail has an MA from UTS, and a Graduate Certificate in Finance from Griffith University. She is also a Fellow of the Australian Institute of Company Directors. In January 2018 Gail was awarded an Order of Australia for distinguished service to the finance and banking industry, to business through a range of roles, as an advocate for technology, and as a mentor to women. Gail is a member of the Audit and Risk Committee and a member of the Remuneration, People and Nomination Committee.
	**Greg Ruddock** **Independent Non-Executive Director** Greg has been a Director of Prospa Advance since October 2015. Greg has more than 30 years' experience in private equity and operations management and specialises in investment strategy, business development and mergers & acquisitions. Greg is a founder and Joint Chief Executive Officer of Ironbridge where he co-leads Investment and Portfolio Management activities. Since 2003 Greg has led many of its successful financial services investments including Prospa, Judo Capital, Eclipx Group and Stardex Insurance. Greg also led and served on the Boards of Easternwell, Super A-mart, BBQs Galore, Tandem Group, and AOS. Prior to this role, Greg spent 7 years with leading Australian industrial group Wesfarmers in mergers and acquisitions and 5 years with Gresham Partners and Gresham Private Equity where he led the development of financial services payments provider Cashcard Australia. Greg also spent 5 years with diversified listed company Avatar Limited, where he was Finance Director and Managing Director of one of its major subsidiaries. Greg is currently a Director of Ironbridge Capital Holdings Pty Ltd, Judo Capital Limited, Navigator Resources Limited and AOS Pty Ltd. Greg is a qualified accountant and holds a Bachelor of Commerce degree from the University of Western Australia and post graduate qualifications from the Financial Services Institute of Australasia and the Australian Society of Accountants. Greg is the Chair of the Remuneration, People and Nomination Committee and a member of the Audit and Risk Committee.

Director	Experience and qualifications
	**Fiona Trafford-Walker** **Independent Non-Executive Director** Fiona has been a Director of Prospa Advance since March 2018. Fiona has more than 25 years' experience advising institutional asset owners and investors on investment and governance-related issues. Since September 2015, Fiona has served as an Independent Non-Executive Director of Link Administration Holdings (ASX:LNK) where she is also Chair of the Risk and Audit Committee. She is currently an Independent Non-Executive Director of the Victorian Funds Management Corporation (VFMC) and a member of the Investment Committee for the Walter and Eliza Hall Institute. Fiona is also an Investment Director at Frontier Advisors, where she is a member of the firm's Investment Committee and Governance Advisory team. She was the inaugural Managing Director at Frontier Advisors and played a critical role in growing the firm. Fiona holds a B.Ec (Hons) from James Cook University and a Master of Finance from RMIT University. She is also a graduate of the Australian Institute of Company Directors. In 2013, Fiona was awarded inaugural Woman of the Year in the Money Management/Super Review of Women in Financial Services Awards, and was ranked one of the top 10 global Asset Consultants from 2013 to 2016. In 2016, Fiona was announced as a winner in The Australian Financial Review and Westpac 100 Women of Influence Awards in the Board/Management category. Fiona is the Chair of the Audit and Risk Committee and a member of the Remuneration, People and Nomination Committee.
	**Avi Eyal** **Non-Executive Director** Avi has been a Director of Prospa Advance since its incorporation in 2012 and has been instrumental to the development of Prospa. Avi has more than 22 years' experience in founding, scaling and running global technology and finance companies. Avi is the co-founder and Managing Partner of Entrée Capital which led Prospa's seed and series A funding and has participated or led in each funding round. Avi brings extensive finance and technology, governance, risk and compliance (GRC) knowledge to Prospa. In 2004 he co-founded Cura Software Solutions which sold GRC software to Global 1000 companies and served as CEO until 2009 when it was sold to a public technology company. Avi is a current Board Director of monday.com, BreezoMeter, Gastrofix, Adhawk, thumbzup and other technology companies in the UK, EU, USA and Israel. Avi has previously served as Board Director for Riskified, HouseParty, FlyPay (JustEat), Scan Inc. (now Snapchat), Cura Software Solutions, CQS Technology Holdings, Real Technology Ventures and Datatec Limited/Insight Technologies. Avi has a BSc in Electronic and Computer Engineering from the University of Natal in South Africa. In 2010 Avi received the Johnnie Walker Entrepreneur of the Year Award and in 2018 was listed by Forbes Inc as one of the Top 25 European venture Capitalists (Midas List). Avi is a member of the Audit and Risk committee and a member of the Remuneration, People and Nomination Committee.

Director	Experience and qualifications
	**Greg Moshal** **Joint CEO and Executive Director** Greg is a Co-Founder of Prospa and has been an Executive Director of Prospa Advance since 2011 and has been instrumental to the establishment of Prospa. Greg has seven years' experience in financial services and eight years' experience in creating and scaling start-ups, with two previous successful exits. Prior to founding Prospa, Greg was involved in the start and scaling of a consumer service chain and an international consumer product franchise, and successfully exited both. Greg is passionate about product, design and technology and developing cash flow products and services that help small businesses to prosper. In 2017 Greg was jointly awarded Fintech Leader of the Year by Fintech Australia and was jointly awarded the NSW Pearcey Tech Entrepreneur of the Year Special Recognition award. Greg has a BCom in Accounting from Monash University.
	**Beau Bertoli** **Joint CEO and Executive Director** Beau is a Co-Founder of Prospa and has been an Executive Director of Prospa Advance since 2013 and has been instrumental to the establishment of Prospa. Beau has 15 years in financial services and has founded a technology start-up and managed a consumer product retailer. Beau is passionate about building and growing high performing teams and creating cash flow products and services that keep small business moving. In 2017 Beau was jointly awarded Fintech Leader of the Year by Fintech Australia and was jointly awarded the NSW Pearcey Tech Entrepreneur of the Year Special Recognition award. Prior to co-founding Prospa, Beau held senior positions including National Sales Manager at listed financial services company FlexiGroup. Beau has a BCom in Economics and Finance from Sydney University.

The composition of the Board Committees is set out in Section 6.4.5 and a summary of the Board's key corporate governance policies is set out in Section 6.5.

Each Director has confirmed to the Company that he or she anticipates being available to perform their duties as a Non-Executive or Executive Director, as the case may be, without constraint from other commitments.

6.2 Management

Profiles of the key members of Prospa's management team are set out below. Further information on the terms of employment of key management personnel is set out in Section 6.3.

Member	Experience and qualifications
	**Greg Moshal** **Joint CEO** See Section 6.1
	**Beau Bertoli** **Joint CEO** See Section 6.1
	**Ed Bigazzi** **Chief Financial Officer** Ed joined Prospa in July 2015. He has responsibility for financial control, risk, treasury, legal and compliance. Ed has four years' experience in financial services and 11 years in investment banking and private equity with experience in financial analysis, M&A, complex financing structures and investment management. Prior to joining Prospa, Ed spent nine years at Ironbridge Capital and has served as Non-Executive Director for two portfolio companies. Ed has a BCom/LLB (Hons) in Finance, Economics and Law from Sydney University.
	**Ben Lamb** **Chief Operating Officer** Ben joined Prospa in April 2016. He has responsibility for operations, procurement and vendor management, and Prospa's New Zealand operations. Ben has 12 years' experience in financial services including product development, customer experience, operations, procurement and establishing offshore operations. Prior to joining Prospa, Ben was Head of Product & Customer Solutions at ASX-listed financial services company Eclipx Group; and Head of Customer Experience and Operations at ASX-listed financial services company FlexiGroup.

Member	Experience and qualifications
	**Damon Pezaro** **Chief Product Officer** Damon joined Prospa in June 2017. He has responsibility for all product development and management including design, data and analytics. Damon has more than 20 years' experience in digital focused businesses working across online and technical environments, having held key product and operational roles in several successful start-ups and large corporates. Prior to joining Prospa, Damon was Chief Product Officer at ASX200-listed Domain Group, Head of Operations at OurDeal.com.au (acquired by GroupOn), and Senior Manager – Product & Technology at News Digital Media (NewsCorp).
	**Richard Miller** **Chief Technology Officer** Richard joined Prospa in August 2015. He has responsibility for delivery of Prospa's technology platform and cyber security. Richard has 30 years' experience in software engineering with over 18 years specifically in cloud solutions. Prior to joining Prospa, Richard was VP of Product Development at US-based HotSchedules (acquired MacromatiX), CTO at Australian start-up MacromatiX and CTO of Dimension Data Australia. Richard has a BSc (Hons) Computer Science from the University of Cape Town and MBA (Exec) from AGSM at UNSW.
	**Emma Robinson** **Chief Marketing Officer** Emma joined Prospa in June 2018. She has responsibility for customer acquisition and retention, marketing and brand. Emma has more than 20 years' experience leading customer acquisition, product development and marketing in insurance and financial services. Prior to joining Prospa, Emma was Head of Marketing for Business and Private Banking for ANZ and Marketing & Product Director for GE Capital in Australia and held senior roles at Aviva (UK), The Direct Line Group (UK) and BT Financial Group. Emma has a BBus from Queensland University and a Masters in Marketing Management from MGSM.
	**Matthew Bauld** **Executive General Manager, Sales and Business Development** Matt joined Prospa in October 2013. He has responsibility for national sales, distribution and channel management. Matt has 17 years' experience in financial services in national sales and marketing management positions and extensive channel management experience in commercial and consumer finance. Prior to joining Prospa, Matt led Sales & Marketing at The Leasing Centre, was Head of National Channel Sales at ASX-listed financial services company FlexiGroup and was Head of Sales & Marketing at Hanover Consumer Finance (acquired by FlexiGroup).

Member	Experience and qualifications
	**Elise Ward** **Executive General Manager, People and Culture** Elise joined Prospa in December 2018. She has responsibility for the design and delivery of our people strategy. Elise has more than ten years' experience in delivering progressive people and culture strategies across start-ups and multinational organisations. Prior to joining Prospa, Elise led the People & Culture team for Canadian-based technology company Elastic Path Software and has held senior HR roles at Samsung and Tabcorp. Elise has a Bachelor of HR Management from Macquarie University and a Graduate Certificate in Change Management from AGSM at UNSW.

6.3 Interests and benefits

This Section 6.3 sets out the nature and extent of the interests and fees of certain persons involved in the Offer. Other than as set out below or elsewhere in this Prospectus, no:

- Director or proposed Director of the Company;
- person named in this Prospectus and who has performed a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Prospectus;
- promoter of the Company; or
- underwriter to the Offer or financial services licensee named in this Prospectus as a financial services licensee involved in the Offer,

holds as at the time of lodgement of this Prospectus with ASIC, or has held in the two years before lodgement of this Prospectus with ASIC, an interest in:

- the formation or promotion of the Company;
- property acquired or proposed to be acquired by the Company in connection with its formation or promotion; or
- the Offer,

and no amount (whether in cash, Shares or otherwise) has been paid or agreed to be paid, nor has any benefit been given or agreed to be given, to any such person for services in connection with the formation or promotion of the Company or the Offer or to any Director or proposed Director to induce them to become, or qualify as, a Director.

6.3.1 Directors' interests and remuneration

6.3.1.1 Joint Chief Executive Officers

Greg Moshal and Beau Bertoli are employed as Joint CEOs. See Section 6.3.2 for further details.

6.3.1.2 Director appointment letters

Prior to the Prospectus Date, each of the Non-Executive Directors has entered into appointment letters with the Company, confirming the terms of their appointments, their roles and responsibilities and Prospa's expectations of them as Directors.

6.3.1.3 Non-Executive Director remuneration

Under the Constitution, the Board may decide the total amount paid by the Company to each Director as remuneration for their services as a Director. However, under the Constitution and the ASX Listing Rules, the total amount of fees paid to all Non-Executive Directors in any financial year must not exceed the aggregate amount of Non-Executive Directors fees approved by Shareholders at the Company's general meeting. This amount has been fixed by the Company at $900,000 per annum.

As at the Prospectus Date, the annual Non-Executive Directors' base fee agreed to be paid by the Company to:

- the Chairman is $175,000; and
- each of the other Non-Executive Directors is $100,000.

Non-Executive Directors will also be paid Committee fees of $10,000 per year for each Board Committee of which they are a Chair. Directors will not receive additional fees for being a member of a Board Committee.

All Non-Executive Directors' fees are inclusive of statutory superannuation contributions. Fees relating to Fiona Trafford-Walker will be paid to Abeille Advisory Pty Ltd, a personal services company of which Fiona Trafford-Walker is the sole director, in return for its arranging for the provision of her services to the Company.

6.3.1.4 Deeds of indemnity, insurance and access

The Company has entered into deeds of indemnity, insurance and access with each Director. Each deed contains a right of access to certain books and records of the Company and its related bodies corporate for a period of seven years after the Director ceases to hold office. This seven year period is extended where certain proceedings or investigations commence during the seven year period but are not resolved until later.

Pursuant to the Constitution, the Company must indemnify Directors and executive officers on a full indemnity basis and to the full extent permitted by law against all losses, liabilities, costs, charges and expenses incurred by those individuals as officers of the Company or a related body corporate. Under the deeds of indemnity, insurance and access, the Company indemnifies each Director on a full indemnity basis and to the full extent permitted by law, against all losses or liabilities (including all reasonable legal costs) incurred by the Director as an officer of the Company or of a related body corporate.

Pursuant to the Constitution, the Company may purchase and maintain insurance for each Director and executive officer of the Company to the full extent permitted by law against any liability incurred by those individuals in their capacity as officers of the Company or a related body corporate. Under the deeds of indemnity, insurance and access, the Company must maintain such insurance for each Director until a period of seven years after a Director ceases to hold office. This seven year period is extended where certain proceedings or investigations commence during the seven year period but are not resolved until later.

6.3.1.5 Other information

Directors are entitled to be paid for travel and other expenses incurred in attending to Prospa's affairs, including attending and returning from general meetings of the Company or meetings of the Board or Committees of the Board. Any Director who performs extra services, makes any special exertions for the benefit of the Company or who otherwise performs services which, in the opinion of the Board, are outside the scope of the ordinary duties of a Non-Executive Director, may be remunerated for the services (as determined by the Board) out of the funds of the Company. These amounts are in addition to the fees set out in Section 6.3.1.3.

Prospa does not pay benefits (other than statutory entitlements) on retirement to Non-Executive Directors.

6.3.1.6 Directors' shareholdings

The Directors (and their associates) are entitled to apply for Shares under the Offer. In addition, Non-Executive Directors will be issued Options in connection with the IPO. Further details about these Options are set out in this section. The Company will also establish a Non-Executive Director Equity Plan which allows Non-Executive Directors to acquire Rights that convert to Restricted Shares, in lieu of some of their cash Board fees. This Plan will be established for FY20. Further details are set out in Section 6.3.3.3.

The Directors' interests in Shares and other securities in the Company immediately prior to and on Completion are set out below.

	Immediately prior to Completion		On Completion	
Directors[1]	Shares[2]	Director Options[3]	Shares[4]	Director Options
Gail Pemberton	99,126	95,556	99,126	120,556
Greg Ruddock	1,975,407	–	1,033,611	25,000
Fiona Trafford-Walker	–	95,556	–	120,556
Avi Eyal	3,212,931	92,592	2,419,280	92,592
Greg Moshal	27,346,743	1,286,640	24,701,240	1,286,640
Beau Bertoli	12,346,743	1,286,640	9,701,240	1,286,640

1 And/or their associated entities.
2 Expressed as ordinary shares and reflecting a notional 3 for 1 share split.
3 Reflecting a notional 3 for 1 share split.
4 Excludes any Shares which the Directors may acquire as part of the Offer at the Offer Price.

The above holdings include Shares issued as described in Section 6.3.1. Further details about the Options that have been granted to Greg Moshal and Beau Bertoli are set out in Section 6.3.4.1.

Options granted to Non-Executive Directors

As noted above, Prospa will issue to Gail Pemberton, Fiona Trafford-Walker and Greg Ruddock each 25,000 Options in connection with the IPO on or around Completion. The Options will be granted for nil consideration and will have an exercise price equal to 115% of the Offer Price and are exercisable on the day following the release of the FY20 full year audited results.

The Equity Incentive Plan Rules described in Section 6.3.3 will be used to deliver these Options. The Options are not subject to any performance or service conditions, and will remain on foot until exercised even where a Director ceases to hold office. Unexercised Options will lapse on the fifth anniversary of Listing.

Until Options are exercised, Directors do not have dividend or voting rights and the Directors must not sell, transfer, encumber, hedge or otherwise deal with their Options.

Shares allocated on exercise will carry the same dividend and voting rights as other Shares and Directors will be free to deal with their Shares, subject to the Securities Dealing Policy.

6.3.2 Executive Remuneration

6.3.2.1 Joint Chief Executive Officers

Details regarding the terms of employment of the Joint Chief Executive Officers, Greg Moshal and Beau Bertoli, are set out below. They are employed under separate employment contracts and, conditional on Completion, the details below will apply to each of them.

Term	Description
Employer	Greg and Beau are both employed by Prospa Advance.
Remuneration and other benefits	Greg and Beau will be entitled to receive annual fixed remuneration of $475,000 each (inclusive of base salary and exclusive of superannuation). Prospa Advance may also provide additional benefits to Greg and Beau in its absolute discretion. Currently, Greg and Beau are each provided with a laptop and are reimbursed for mobile phone and internet use.
Incentives	Greg and Beau are eligible to participate in the executive incentive plan (“EIP”). Greg and Beau are eligible to receive an annual EIP award of up to $550,000 subject to satisfaction of performance conditions determined by the Board. Further details on the EIP are set out in Section 6.3.3, including the key terms and conditions (such as the performance period and vesting conditions) applicable to the FY20 grant.
Termination	Under Greg’s and Beau’s respective employment contracts, either they or Prospa Group can terminate their employment by giving the other party 6 months’ notice (or by Prospa Group making payment in lieu of notice of part or all of the notice period). Prospa Group may summarily terminate Greg’s or Beau’s employment contracts in certain circumstances, including where they engage in serious misconduct, refuse or fail to comply with a lawful and reasonable directive of Prospa Group or engage in any fraudulent or dishonest conduct. All payments on termination will be subject to the termination benefits cap under the Corporations Act. Shareholder approval will be obtained on or around Completion for the provision of benefits on cessation of employment to the CEOs as summarised in this Section 6.3.
Restraints	Greg’s and Beau’s employment contracts contain post-employment restraints, including: – non-competition restraints, which purport to operate across Australia; – restrictions against soliciting certain Prospa Group clients or customers, and from providing certain services to those clients or customers; – restrictions against inducing suppliers of Prospa Group to cease to supply Prospa Advance; and – restrictions against soliciting Prospa Group’s employees, contractors or directors. The restrictions above purport to operate for up to 12 months post-employment. The enforceability of these restraints is subject to all usual legal requirements.

6.3.2.2 Chief Financial Officer

Details regarding the terms of employment for the Chief Financial Officer, Ed Bigazzi, are set out below.

Term	Description
Employer	Ed is employed by Prospa Advance.
Remuneration and other benefits	Under the terms of his employment contract, Ed will be entitled to receive annual fixed remuneration of $390,000 (inclusive of base salary and non-monetary benefits and exclusive superannuation). Prospa Advance may also provide additional benefits to Ed in its absolute discretion.
Incentives	Ed will also be eligible to participate in the EIP. Ed is eligible to receive an annual EIP award of up to $500,000 subject to satisfaction of performance conditions determined by the Board. Further details on the EIP are set out in Section 6.3.3, including the key terms and conditions (such as the performance period and vesting conditions) applicable to the FY20 grant. In addition, the Company intends to award a one-off bonus to Ed of 30,000 Rights around the time of Listing as set out in Section 6.3.3.4.
Termination	Either Ed or Prospa Advance can terminate Ed's employment by giving the other party 6 months' notice (or by Prospa Advance making payment in lieu of notice of part or all of Ed's notice period). Prospa Advance may summarily terminate Ed's employment in certain circumstances, including where Ed engages in behaviour that Prospa Advance deems to be serious misconduct or where Ed refuses to comply with a lawful and reasonable direction of Prospa Advance. All payments on termination will be subject to the termination benefits cap under the Corporations Act. Shareholder approval will be obtained on or around Completion for the provision of benefits on cessation of employment to Ed as summarised in this Section 6.3.
Restraints	Ed's employment contract contains post-employment restraints, including: – non-competition restraints, some of which purport to operate across Australia only; – restrictions against contacting certain Prospa Advance customers; and – restrictions against influencing employees to resign from Prospa Advance. The restrictions above purport to operate for up to 12 months post-employment. The enforceability of these restraints is subject to all usual legal requirements.

6.3.3 Employee and director equity plans

Prospa has a strong employee ownership culture as employees in the business with over 12 months service typically hold Shares or Options. Prospa intends to continue this employee and director ownership culture post Listing and as a result has established the EIP, Employee Equity Plan ("EEP"), and the Non-Executive Director Equity Plan ("NEDEP"). In addition, certain members of management (other than the CEOs) will be awarded a one-off grant of Rights to reward their efforts in the Company achieving Listing.

The Equity Incentive Plan Rules ("Plan Rules") provide flexibility for Prospa to grant Rights, Options and/or Restricted Shares subject to the terms of individual offers. The incentive awards outlined in the paragraph above will all be made under the Plan Rules.

In addition, Prospa will allow Eligible Employees to acquire Shares at Listing. Further detail about this offer is set out in Section 7.

The key features of the Plan Rules are outlined in the table below:

Term	Description
Eligibility	Offers may be made at the Company's discretion to Non-Executive Directors, employees of Prospa or any other person the Company determines to be eligible to receive a grant under the Plan Rules.

Term	Description
Types of securities	Prospa may grant Rights, Options and/or Restricted Shares as incentives, subject to the terms of individual offers. – Rights are an entitlement to receive Shares subject to the satisfaction of applicable conditions. On grant, the Board will determine whether the Rights will vest automatically or become exercisable upon satisfaction of the applicable conditions. – Options are an entitlement to receive Shares upon satisfaction of applicable conditions and payment of an applicable exercise price. – Restricted Shares are Shares that are subject to dealing restrictions, vesting conditions or other restrictions or conditions. Unless otherwise specified in an offer document, the Company has the discretion to settle Rights or Options with a cash equivalent payment.
Offers under the Plan Rules	Under the Plan Rules, the Company may make offers at its discretion, subject to any requirements for Shareholder approval. The Company has the discretion to set the terms and conditions on which it will offer incentives in individual offer documents. An offer must be accepted by the participant and can be made on an opt-in or opt-out basis.
Issue price	Unless the Company determines otherwise, no payment is required for a grant of a Right, Option or Restricted Share allocated under the Plan Rules.
Vesting	Vesting of the incentives is subject to any vesting or performance conditions determined by the Company and specified in the offer document. Subject to the Plan Rules and the terms of the specific offer document, incentives will either lapse or be forfeited if the relevant vesting and performance conditions are not satisfied. Options must be exercised by the participant and the participant is required to pay any exercise price applicable.
Cessation of employment	Under the Plan Rules, the Company has a broad discretion in relation to the treatment of entitlements on cessation of employment. It is intended that individual offer documents will provide more specific information on how the entitlements will be treated if the participant ceases employment (or in the case of a Non-Executive Director, ceases to hold office). The intended treatment for initial EIP and EEP grants are outlined further below.
Clawback and preventing inappropriate benefits	The Plan Rules provide the Company with broad clawback powers if, for example, the participant has acted fraudulently or dishonestly or there is a material financial misstatement.
Change of control	The Company may determine that all or a specified number of a participant's incentives will vest or cease to be subject to restrictions where there is a change of control event in accordance with the Plan Rules.
Reconstructions, corporate action, rights issues, bonus issues etc	The Plan Rules include specific provisions dealing with rights issues, bonus issues, and corporate actions and other capital reconstructions. These provisions are intended to ensure that there is no material advantage or disadvantage to the participant in respect of their incentives as a result of such corporate actions. Participants are not entitled to participate in new issues of securities by the Company prior to the vesting (and exercise if applicable) of their Options or Rights. In the event of a bonus issue, Options or Rights will be adjusted in the manner allowed or required by the ASX Listing Rules.
Restrictions on dealing	Prior to vesting, the Plan Rules provide that participants must not sell, transfer, encumber, hedge or otherwise deal with their incentives. After vesting, participants will be free to deal with their incentives, subject to the Securities Dealing Policy.
Other terms	The Plan Rules contain customary and usual terms for dealing with administration, variation, suspension and termination of any incentive plan.

6.3.3.1 Executive Incentive Plan

Prospa has established the EIP to assist in the motivation, reward and retention of senior management and other Prospa employees from time to time. The EIP is designed to align the interests of senior management and other employees with the interests of Shareholders by providing an opportunity for employees to receive a cash incentive and an equity interest in the Company subject to the satisfaction of certain performance conditions.

The Plan Rules described above will be used to deliver EIP awards. In addition to the Rights specified in the table below, Prospa will allocate a pool of 450,000 Rights to be granted in accordance with the Plan Rules in FY20. The key features of the FY20 award under the EIP are outlined in the table below:

Term	Description
Eligibility	Offers may be made at the Company's discretion to executives, senior managers and other employees. The CEOs and CFO will be eligible to participate in the EIP. Non-Executive Directors are not eligible to participate in the EIP.
Awards under the EIP	Performance conditions set by the Company and tested over the one year performance period (being 1 July 2019 to 30 June 2020) must be satisfied for EIP participants to receive awards. Any award made will be delivered partly in cash and partly in Rights. In future years the EIP award might be granted in the form of Options, Rights or Restricted Shares. The FY20 award of Rights will be granted in early FY20, and will vest or lapse following testing of the performance conditions at the end of the performance period. In future years, Options, Rights or Restricted Shares will be granted annually shortly after the Company's half and full year results have been released to the market. The award for the CEOs will be delivered 27% in cash and 73% in Rights, and the award for the CFO will be delivered 32% in cash and 68% in Rights. For the FY20 award, each of the CEOs will be granted a maximum of 106,217 Rights and the CFO will be granted a maximum of 89,947 Rights. To the extent the performance conditions are achieved, Rights will become exercisable as follows: – 50% on the day following the release of the Company's full year audited results for FY2021; and – 50% on the day following the release of the Company's full year audited results for FY2022, if the participant is an employee and has not provided notice of resignation prior to that date.
Issue price	Rights under the EIP are issued for nil consideration.
Performance conditions	The FY20 EIP awards will be subject to the following performance conditions tested over the performance period: – an earnings before interest, taxes, depreciation and amortisation (EBITDA) target; – a revenue target; and – Individual strategic targets as determined by the Company. Beyond FY20 the Company will annually review and set appropriate performance conditions.
Dividends and voting rights	Rights do not carry dividend or voting rights prior to being exercised. Shares allocated on the exercise of Rights carry the same dividend and voting rights as other Shares.

Term	Description

Cessation of employment	Unless the Company determines otherwise:
	– if a participant is terminated for cause, they will not receive an EIP award. All of their Rights will lapse and the cash component of the EIP award will be forfeited;
	– if a participant gives notice of their resignation:
	  – prior to the Company testing the performance conditions following the end of performance period, they will not receive an EIP award. All of their Rights will lapse and the cash component of the EIP award will be forfeited;
	  – after the Company has tested the performance conditions, they may retain the cash component of their EIP award, but all of their unvested Rights will lapse. Any vested but unexercised Rights that are able to be exercised will remain on foot;
	– if a participant ceases employment for any other reason:
	  – prior to the Company testing the performance conditions following the end of performance period, a pro-rated EIP award (based on the portion of the performance period that has elapsed) will remain on foot and be tested in the ordinary course. The pro-rated cash component (if any) will be paid in the ordinary course, and any Rights that vest will become exercisable in the ordinary course; or
	  – after the Company has tested the performance conditions, all of the participant's Rights will remain on foot and will become exercisable in the ordinary course.
	
	Unless the Company determines otherwise, any Rights that do not lapse on cessation must be exercised within 90 days of the Right becoming exercisable, or if the vested Right is already exercisable when the participant ceases employment, within 90 days of cessation.

Change of control	Where a change of control occurs prior to the Company testing the performance conditions following the end of the performance period, unvested EIP awards will vest and be exercised on a pro-rata basis based on the portion of the performance period complete and the Company's estimate of likely performance outcomes, subject to the Company's discretion. Where a change of control occurs after the Company has tested the performance conditions, all unvested Rights will vest and be exercised, subject to the Company's discretion. Any Rights that are exercised on a change of control will be settled in cash.
Expiry	Rights will lapse five years after the start of the performance period if not exercised or lapsed before this date.

6.3.3.2 Employee Equity Plan ("EEP")

Prospa has also established the EEP to assist in the motivation, reward and retention of Prospa employees who do not participate in the EIP. The Plan Rules described above will be used to deliver EEP awards. Prospa will allocate an initial pool of 1,500,000 Rights to be granted in accordance with the Plan Rules in FY20 and subsequent years. The key features of the FY20 award under the EEP are outlined in the table below:

Term	Description
Eligibility	Offers may be made at the Company's discretion to employees who do not participate in the EIP. The Directors (including the CEOs) and CFO will not be eligible to participate in the EEP.
Awards under the EIP	Performance conditions set by the Company and tested over the one year performance period (being, 1 July 2019 to 30 June 2020) must be satisfied for EEP participants to receive awards, delivered as Rights. The FY20 award of Rights will be granted in early FY20, and will remain on foot or will lapse following testing of the performance conditions at the end of the performance period. In future years, Rights may be granted shortly after the Company's audited half and full year results have been released to the market. Any Rights that remain on-foot will vest as follows: – 50% on the day following the release of the Company's full year audited results for FY2021; and – 50% on the day following the release of the Company's full year audited results for FY2022, providing the participant is an employee and has not provided notice of resignation on the relevant vesting date.
Issue and exercise price	Rights under the EEP are issued for nil consideration and have no exercise price.
Performance conditions	The FY20 EEP awards will be subject to the following performance conditions tested over the performance period: – an earnings before interest, taxes, depreciation and amortisation ("EBITDA") target; – a revenue target; and – individual strategic targets as determined by the Company. Beyond FY20 the Company will annually review and set appropriate performance conditions.
Dividends and voting rights	Rights do not carry dividend or voting rights prior to vesting. Shares allocated on vesting carry the same dividend and voting rights as other Shares.

Cessation of employment	Unless the Company determines otherwise:
	– if a participant is terminated for cause or gives notice of their resignation, all of their Rights will lapse; and
	– if a participant ceases employment for any other reason:
	  – prior to the Company testing the performance conditions following the end of performance period, a pro-rata portion of the participant's Rights (based on the portion of the performance period that has elapsed) will remain on foot and will be tested in the ordinary course. Any Rights that remain on foot following testing, will vest and shares allocated in the ordinary course; or
	  – after the Company has tested the performance conditions, all of the participant's Rights will remain on foot and will vest and shares allocated in the ordinary course.

Term	Description
Change of control	Where a change of control occurs prior to the Company testing the performance conditions following the end of the performance period, Rights will vest pro-rata based on the portion of the performance period complete and the Company's estimate of likely performance outcomes, subject to Company discretion. Where a change of control occurs after the Company has tested the performance conditions, all Rights that remain on foot will vest subject to Company discretion. Any Rights that vest on a change of control will be settled in cash.

6.3.3.3 Non-Executive Director Equity Plan

The Non-Executive Director ("NED") Equity Plan allows Non-Executive Directors to acquire Rights, in lieu of some of their cash Board fees. The Plan Rules described above will be used to deliver awards under the NED Equity Plan.

The initial offer to NEDs will be made at the end of FY19 with pre-tax fee contributions to start in FY20. For this FY20 offer, each director will be allocated a number of Rights, based on the portion of fees each Director nominates to sacrifice under the NED Equity Plan divided by the Offer Price. Each Director will be granted the following number of Rights under the initial FY20 offer:
- Gail Pemberton: 23,148
- Greg Ruddock: nil
- Fiona Trafford-Walker: 14,550
- Avi Eyal: 13,228

The Rights will be granted on or around the time of Listing.

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

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

Prior to vesting, NEDs do not have dividend or voting rights with respect to the Rights. Shares allocated on vesting carry the same dividend and voting rights as other Shares, and NEDs will be free to deal with their Shares, subject to the Securities Dealing Policy.

Any Rights which have not vested will automatically lapse if a NED leaves the Board (in which case any NED fee contributed under the NED Equity Plan will be paid to the NED, subject to superannuation and withholding of tax).

6.3.3.4 IPO grants to management

The Company also intends to award a one-off grant of Rights to a number of executives (other than the CEOs) around the time of Listing, to reward their efforts in the Company achieving Listing. A total of 330,000 Rights will be granted to executives for nil consideration.

The Plan Rules described above will be used to deliver these awards. The Rights are not subject to any performance conditions and will vest on Completion. Following Completion, these Shares will be subject to dealing restrictions until 4:15pm on the date the Company's financial results for the year ending 30 June 2020 have been released to the ASX.

6.3.4 Legacy Equity Incentive Plans

The Group previously established two equity incentive plans under which employees received Options or Loan Shares as part of their incentive arrangements ("Legacy LTI Plans"). Equity issued under the Legacy LTI Plans will be dealt with as described below to ensure that participants' entitlements are referrable to Shares in Prospa as part of the Restructure and therefore participants continue to be motivated to achieve sustained growth for shareholders following Listing.

6.3.4.1 Options

Eligible Employees hold Options under a Legacy LTI Plan. Those Options will be swapped for Options over Shares immediately after Allotment ("Replacement Options"). The Replacement Options will vest subject to satisfaction of vesting conditions, including performance and time-based conditions. On exercise of any vested Replacement Options and payment of the exercise price, employees will receive Shares (or an equivalent cash payment). The Replacement Options and any Shares received on vesting will be subject to the Company's Securities Dealing Policy.

The total number of Replacement Options held by employees immediately prior to Completion is 12,404,985 and details relating to each grant are set out in the table below.

Participant	Number of Replacement Options held immediately prior to Completion	Exercise price	Vesting date
Greg Moshal	1,286,640	$3.33 - $3.78	Aug 20 to Sep 22
Beau Bertoli	1,286,640	$3.33 - $3.78	Aug 20 to Sep 22
Other Option holders	9,831,705	$0.49 - $3.64	Sep 18 to Mar 22

Unless the Company determines otherwise, if a participant ceases employment before the applicable vesting date, all unvested Replacement Options will lapse. If a participant ceases employment for cause after the applicable vesting date, all vested Replacement Options will lapse. If a participant ceases employment for any other reason after the applicable vesting date, vested Replacement Options must be exercised within 90 days of cessation.

6.3.4.2 Loan Shares

Certain employees, including Ed Bigazzi, are parties to loan agreements with Prospa Advance pursuant to which Prospa Advance had loaned them monies for the purchase of shares under a Legacy LTI Plan. These shares will be swapped immediately after Allotment with Shares that continue to be subject to loan repayment and vesting conditions, including performance and service conditions ("Loan Shares").

The loan attaching to Loan Shares is limited recourse and must be repaid before executives will be entitled to deal with the Loan Shares. The Loan Shares and any Shares received on vesting and payment of the loan amount will be subject to the Company's Securities Dealing Policy. The total number of Loan Shares granted is 4,541,208 and details about the Loan Shares, including the loan amounts outstanding, are set out in the table below.

Participant	Number of Loan Shares held	Loan amount	Vesting date
Ed Bigazzi	1,073,796	$524,370	Sep 18
Other Loan Share holders	3,467,412	$2,619,498	Sep 18 to Sep 20

Unless the Company determines otherwise:

- if a participant ceases employment before the applicable vesting date, all unvested Loan Shares will be forfeited in full satisfaction of the loan; and
- if a participant ceases employment for cause after the applicable vesting date but before the loan has been repaid, all unvested Loan Shares will be forfeited in full satisfaction of the loan.

If a participant ceases employment for any other reason after the applicable vesting date, the participant will have 90 days to repay the loan, unless the Company determines another period. If the loan is repaid within the prescribed period, the participant will receive the relevant number of Shares. If the loan is not repaid, the Loan Shares will be sold and the proceeds less the outstanding loan balance and costs of sale will be paid to the participant.

6.3.5 Interests of advisers

Prospa has engaged the following professional advisers in relation to the Offer:
- Macquarie Capital (Australia) Limited and UBS AG, Australia Branch have acted as Joint Lead Managers to the Offer. The Company has agreed to pay the Joint Lead Managers the fees described in Section 9.5.1 for these services;
- Macquarie Equities Limited, Crestone Wealth Management Limited and Bell Potter Securities Limited have acted as Co-Managers to the Offer and will receive from the Joint Lead Managers a fee of 1.50% of the amount allocated to them under the Broker Firm Offer;
- Herbert Smith Freehills has acted as Australian legal adviser (other than in relation to taxation and stamp duty matters) to the Company in relation to the Offer. Prospa has paid, or agreed to pay, approximately $700,000 (excluding disbursements and GST) for these services up until the Prospectus Date. Further amounts may be paid to Herbert Smith Freehills for other work in accordance with its normal time-based charges;
- Deloitte Corporate Finance Pty Limited has acted as the Investigating Accountant, and performed work in relation to, the Financial Information included in Section 4 and its Investigating Accountant's Report included in Section 8. Prospa has paid, or agreed to pay, approximately $600,000 (excluding disbursements and GST) for these services up until the Prospectus Date. Further amounts may be paid the Investigating Accountant for other work in accordance with its normal time-based charges; and
- Deloitte Tax Services Pty Ltd has acted as tax adviser to Prospa in relation to the Offer. Prospa has paid, or agreed to pay, fees of approximately $100,000 (excluding disbursements and GST) for these services up until the Prospectus Date. Further amounts may be paid to the tax adviser in accordance with its normal time-based charges.

These amounts, and other expenses of the Offer, will be paid by Prospa out of funds raised under the Offer or available cash. Further information on the use of proceeds and payment of expenses of the Offer is set out in Section 7.1.2.

6.4 Corporate governance

6.4.1 Overview

This Section 6.4 explains how the Board will oversee the management of Prospa's business. In conducting Prospa's business, the Board's role is to:
- represent and serve the interests of Shareholders by overseeing and appraising Prospa's strategies, policies and performance;
- protect and optimise company performance and build sustainable value for Shareholders in accordance with any duties and obligations imposed on the Board by law and the Constitution;
- set, review and monitor compliance with Prospa's values and governance framework; and
- ensure that Shareholders are kept informed of Prospa's performance and major developments affecting its state of affairs.

Accordingly, the Board has created a framework for managing Prospa, including adopting relevant internal controls, risk management processes and corporate governance policies and practices that it believes are appropriate for Prospa's business and that are designed to promote the responsible management and conduct of Prospa.

The main policies and practices adopted by Prospa, which will take effect from Listing, are set out below. Copies of Prospa's key policies and practices and the charters for the Board and each of its committees will be available from Listing at https://www.prospa.com/investor.

6.4.2 ASX Corporate Governance Council's Corporate Governance Principles and Recommendations

The Company is seeking a Listing on ASX. The ASX Corporate Governance Council has developed the Corporate Governance Principles and Recommendations 3rd edition ("ASX Recommendations"), which set out recommended corporate governance practices for entities listed on ASX in order to assist listed entities to achieve good corporate governance outcomes and meet investor expectations.

The ASX Recommendations are not prescriptive, but guidelines against which entities have to report on an "if not, why not" basis. Under the ASX Listing Rules, the Company must prepare a corporate governance statement that discloses the extent to which it has followed the ASX Recommendations during each reporting period. Where the Company does not follow a recommendation in the ASX Recommendations for any part of the reporting period, it must identify that recommendation and the period during which it was not followed and give reasons for not following it. The Company must also explain what (if any) alternative governance practices it adopted in lieu of the recommendation during that period.

The Company intends to comply with all of the ASX Recommendations from the date of Listing, with the exception of ASX Recommendation 2.4 which provides that the Board should be comprised of a majority of independent Directors. The Board is comprised of six Directors, of whom three Directors are considered independent Non-Executive Directors (Greg Ruddock, Gail Pemberton, Fiona Trafford-Walker) and a further Director considered to be a (non-independent) Non-Executive Director (Avi Eyal). The Board considers that its proposed composition is appropriate in light of the Company's operations and size. All the Directors believe that they will be able to, individually and collectively, analyse the issues before them objectively and in the best interests of shareholders and in accordance with their duties as Directors.

6.4.3 Board Composition

The Board of Directors is comprised of six Directors:
- three Independent Non-Executive Director (including the Independent Non-Executive Chairman);
- one Non-Executive Director; and
- two Joint Managing Directors and Chief Executive Officers.

Detailed biographies of the Board members are provided in Section 6.1.

The Board Charter sets out guidelines to assist in considering the independence of Directors and has adopted a definition of independence that is based on that set out in the ASX Recommendations. In general, Directors will be considered to be independent if they meet those guidelines.

The Board will regularly review the independence of each Non-Executive Director in light of information relevant to this assessment as disclosed by each Director to the Board.

The Board considers that each of Greg Ruddock, Gail Pemberton and Fiona Trafford-Walker are free from any interest, position or relationship that might influence, or might reasonably be perceived to influence, in a material respect, each Director's ability to bring independent judgement to bear on issues before the Board and to act in the best interests of the Company and its Shareholders generally.

Greg Moshal, Beau Bertoli and Avi Eyal are not currently considered by the Board to be independent Directors, as:
- Greg Moshal and Beau Bertoli are the joint CEOs of the Company; and
- Avi Eyal represents a substantial shareholder of the Company.

The Board believes that each of Greg Moshal, Beau Bertoli and Avi Eyal will add significant value to the Board given their considerable experience and skills and will bring objective and independent judgement to the Board's deliberations.

6.4.4 Board Charter

The Board Charter provides an overview of the Board's structure, composition and responsibilities, and the relationship and interaction between the Board, Board Committees and Management.

Under the Board Charter, the Board's responsibilities include:
- selecting, appointing and evaluating the performance of, determining the remuneration of, and planning the succession of, the CEOs and the CEOs' direct reports;
- contributing to and approving management development of corporate strategy;
- reviewing, ratifying and monitoring systems of risk management, internal control and legal compliance, and reviewing Prospa's risk management framework;
- monitoring corporate performance and implementation of strategy and policy;
- developing and reviewing Prospa's values and corporate governance policies and monitoring corporate culture;
- approving major capital expenditure, acquisitions and divestitures, and overseeing capital management;
- monitoring and reviewing management processes aimed at ensuring the integrity of financial and other reporting;
- approving financial reports, profit forecasts and other reports required at law or under the ASX Listing Rules to be adopted by the Board;
- evaluating, at least annually, the performance of the Board, its committees and individual Directors; and
- ensuring that Shareholders are kept informed of Prospa's performance and major developments affecting its state of affairs.

The Board collectively, and each Director individually, has the right to seek independent professional advice, subject to the approval of the Chair.

While the Board retains ultimate responsibility for the strategy and performance of Prospa, the day to day operation of Prospa is conducted by, or under the supervision of, the CEOs as directed by the Board. The Board approves corporate objectives for the CEOs to work towards and the management team is then responsible for implementing strategic objectives, plans and budgets approved by the Board.

6.4.5 Board Committees

The Board may from time to time establish committees to assist in performing its responsibilities. The Board has established the following committees:

- Audit and Risk Committee; and
- Remuneration, People and Nomination Committee.

Other committees may be established by the Board as and when required.

6.4.5.1 Audit and Risk Committee

The Audit and Risk Committee's key responsibilities are to oversee Prospa's:

- financial reporting processes;
- relationship with the external auditor and the external audit function generally;
- financial controls and systems;
- processes for monitoring compliance with laws and regulations; and
- processes of identification and management of risk.

Under its charter, the Audit and Risk Committee must consist of only Non-Executive Directors, a majority of independent Directors, an independent Chair (who is not Chair of the Board) and a minimum of three members of the Board. The Audit and Risk Committee will comprise:

- Fiona Trafford-Walker (Chair)
- Gail Pemberton
- Greg Ruddock
- Avi Eyal

Other Board members may attend the Committee meetings at any time. Others, including members of Management and the external auditor, may attend meetings of the committee by invitation of the committee Chair.

6.4.5.2 Remuneration, People and Nomination Committee

The role of the Remuneration, People and Nomination Committee in relation to remuneration includes:

- reviewing and recommending to the Board remuneration arrangements for the CEOs and their direct reports;
- recommending to the Board whether offers are to be made under any or all of Prospa's employee equity incentive plans and whether major changes should be made to the employee equity incentive plans;
- approving major changes and developments in Prospa's policies and procedures related to remuneration;
- approving the appointment of remuneration consultants for the purposes of the Corporations Act;
- reviewing and recommending to the Board the Company's remuneration report; and
- reviewing and facilitating Shareholder and other stakeholder engagement in relation to Prospa's remuneration policies and practices.

The role of the Remuneration, People and Nomination Committee in relation to nomination includes:

- reviewing and recommending to the Board the size and composition of the Board including reviewing Board succession plans and the succession of the Chair and CEOs;
- reviewing and recommending to the Board the criteria for nomination as a Director and the membership of the Board more generally;
- assisting the Board in relation to the performance evaluation of the Board, its committees and individual Directors;
- ensuring that processes are in place to support Director induction and ongoing education; and
- developing, in consultation with management, and recommending to the Board measurable objectives for achieving gender diversity and reviewing and recommending to the Board any necessary changes on at least an annual basis.

Under its charter, the Remuneration, People and Nomination Committee must consist of a minimum of three members, a majority of independent Directors and an independent Director as Chair (and, if the Company is included in the S&P/ASX 300 Index, must also be comprised solely of Non-Executive Directors). The Remuneration, People and Nomination Committee will comprise:

- Greg Ruddock (Chair)
- Gail Pemberton
- Fiona Trafford-Walker
- Avi Eyal

Other Board members may attend the Committee meetings at any time. Others, including members of Management, may attend all or part of a meeting of the committee at the invitation of the committee Chair.

6.5 Corporate governance policies

6.5.1 Disclosure policy

Once listed, the Company will be required to comply with the continuous disclosure requirements of the ASX Listing Rules and the Corporations Act. Subject to the exceptions contained in the ASX Listing Rules, the Company will be required to immediately advise ASX of any information concerning the Company that a reasonable person would expect to have a material effect on the price or value of the Shares.

The Company has adopted a Disclosure Policy to take effect from Listing, which reinforces the Company's commitment to its continuous disclosure obligations, and describes the processes in place that enable the Company to provide Shareholders with timely disclosure in accordance with those obligations. Information will be communicated to Shareholders through the lodgement of all relevant financial and other information with ASX, and copies of the Company's announcements to ASX will be available on the Company's website.

6.5.2 Communications strategy

The Company aims to keep Shareholders informed of major developments affecting the state of affairs of the Company. Prospa recognises that potential investors and other interested stakeholders may wish to obtain information about the Company from time to time. To achieve this, the Company will communicate information regularly to Shareholders and other stakeholders through a range of forums and publications, including the Company's website, at the Company's annual general meeting and through the Company's Annual Report and ASX announcements.

6.5.3 Securities Dealing Policy

The Company has adopted a Securities Dealing Policy that is intended to explain the types of conduct in relation to dealings in securities that are prohibited by law and establish procedures for the buying and selling of securities to ensure that public confidence is maintained in the reputation of the Company, the Directors and employees and in the trading of the Company's securities.

The Policy provides that Directors and employees must not deal in the Company's securities when they are aware of "inside" information. Directors and certain restricted employees must not deal in the Company's securities during any of the following blackout periods:

- the period from the close of trading on the ASX on 30 June each year until the day following the announcement to ASX of the full-year results;
- the period from the close of trading on the ASX on 31 December each year until the day following the announcement to ASX of the half-year results; and
- any other period that the Board specifies from time to time.

Directors and restricted employees must receive prior approval for any proposed dealing in the Company's securities outside of the above blackout periods (including any proposed dealing by one of their connected persons).

6.5.4 Code of Conduct

The Company is committed to a high level of integrity and ethical standards in all business practices. Accordingly, the Board has adopted a formal Code of Conduct that outlines how the Company expects its representatives to behave and conduct business in the workplace and includes legal compliance and guidelines on appropriate ethical standards.

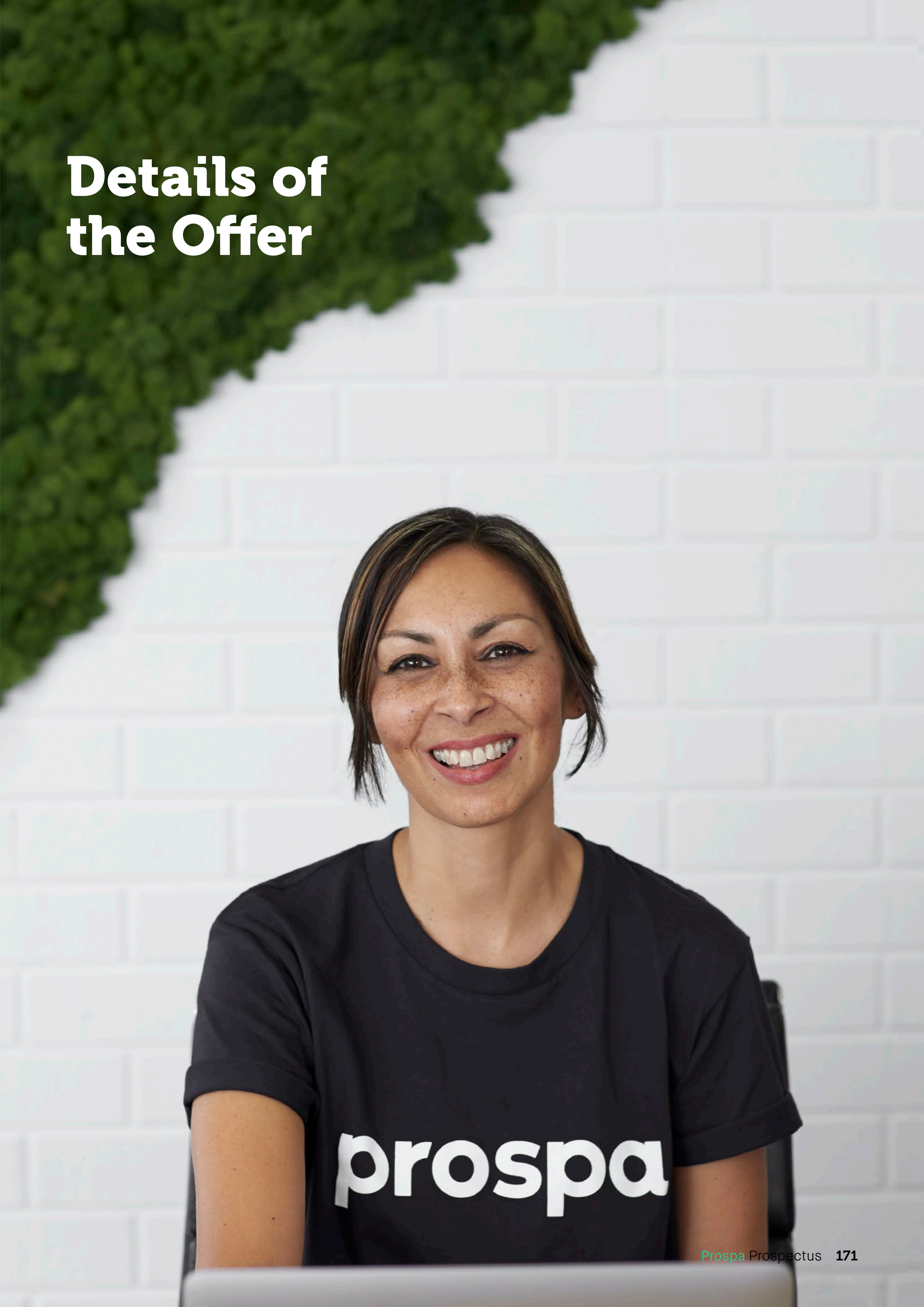
The Code is designed to:

- provide a benchmark for professional behaviour throughout the Group;
- support the Group's business reputation and corporate image within the community; and
- make Directors and employees aware of the consequences if they breach the policy.

6.5.5 Diversity and Inclusion Policy

The Board has approved a Diversity and Inclusion Policy which sets out the Company's commitment to an inclusive and diverse workforce. The Company will include in its corporate governance statement each year details of the measurable objectives set under the Diversity and Inclusion Policy for the year to which the corporate governance statement relates, and a summary of the Company's progress towards achieving those measurable objectives.

Details of the Offer



7.1 The Offer

This Prospectus to an initial public offering of Shares by the Company. The Company will issue approximately 29.0 million Shares, raising proceeds of approximately $109.6 million at the Offer Price of $3.78 per Share (other than under the Employee Offer, which will be issued at a discounted price of 90% of the Offer Price, being $3.40 per Share). 132.3 million Shares will also be issued to Existing Shareholders on Completion in connection with the Restructure (see Section 9.4). The Shares issued to the Existing Shareholders will be issued under this Prospectus at the Offer Price.

On Completion, 114.8 million Shares (representing approximately 71% of the issued Shares) will be subject to certain voluntary escrow arrangements described in Section 9.7.

The total number of Shares on issue at Completion will be 161.4 million and all Shares on issue will rank equally with each other. A summary of the rights attaching to the Shares is set out in Section 7.14.

The Offer is made on the terms, and is subject to the conditions, set out in this Prospectus.

7.1.1 Structure of the Offer

The Offer comprises:
- the Retail Offer, consisting of:
  - the Broker Firm Offer;
  - the Priority Offer; and
  - the Employee Offer; and
- the Institutional Offer.

No general public offer of Shares will be made under the Offer.

The allocation of Shares between the Retail Offer and the Institutional Offer was determined by agreement between the Joint Lead Managers and the Company, having regard to the allocation policies outlined in Sections 7.3.4, 7.4.4, 7.5.5 and 7.8.2.

The Offer is made on the terms, and is subject to the conditions, set out in this Prospectus.

7.1.2 Purpose of the Offer and use of proceeds

At the Offer Price, the Offer will raise approximately $109.6 million.

The Offer is being conducted to:
1. ***Support our growth strategies, including investment in:***
   - Improving and growing our term loan product for small business, including providing cash to fund our investment in the equity portion of the loan book;
   - Developing operating leverage and other operational efficiencies by investing in technology development and talent; and
   - Increasing our addressable market through product development and market expansion.
2. ***Support working capital;***
3. ***Repay our PFG Corporate Debt Facility[1];***
4. ***Provide us with access to listed capital markets for future growth; and***
5. ***Allow certain Existing Shareholders an opportunity to realise all or part of their investment in the Company.***

Sources and uses of Offer proceeds

Sources	$m
Cash proceeds to the Company for issue of Shares under the Offer	109.6
Total sources	**109.6**

Uses	$m
Funds to invest in our core business model and new markets and products	37.1
Repayment of PFG Corporate Debt Facility[2]	15.2
Cash payment to certain Existing Shareholders to fund the cash purchase price of part of Pre-IPO Prospa Group	49.6
Transaction costs (cash)	7.7
Total uses	**109.6**

1 At Completion, Prospa expects its existing PFG Corporate Debt Facility will be repaid in full and cancelled through redemption for cash ($17 million) and conversion into issued capital ($3 million).

2 Net of PFG Warrant exercise ($2.0 million).

7.1.3 Shareholding structure

The details of the ownership of Prospa Advance immediately prior to Completion and ownership of Shares in the Company on Completion are set out below:

	Economic interest held in Prospa Advance[3] immediately prior to Completion		Shares in the Company held on Completion[4]	
	m[5]	%	m	%
Entrée Capital[6]	54.0	37.1%	54.5	33.8%
Greg Moshal[7]	27.3	18.8%	24.7	15.3%
Beau Bertoli[7]	12.3	8.5%	9.7	6.0%
Airtree Ventures	14.6	10.0%	14.6	9.1%
Square Peg Capital	6.0	4.1%	6.0	3.7%
Other Existing Shareholders	31.1	21.4%	29.4	18.2%
New Shareholders	–	–	22.4	13.9%
Total	**145.4**	**100.0%**	**161.4**	**100.0%**

The Company will also have 12,404,985 Replacement Options and 358,704 NED Options on issue on Completion. Refer to section 6 for further details. At Completion, 71% of the Shares will be subject to voluntary escrow arrangements (i.e. in the opinion of the Company, the free float of Shares at the time of Listing on the Official List will be no less than 20% of Shares on issues at that time). See Section 9.7 for further information.

As part of the Restructure, certain Prospa employees were offered the opportunity to exercise their Options and sell the resulting Shares as part of the Offer.

7.1.4 Control implications of the Offer

Following Completion, the Directors do not expect any Shareholder will control (as defined by section 50AA of the Corporations Act) the Company.

7.1.5 Potential effect of the fundraising on the future of the Company

The Directors believe that on Completion, the Company will have sufficient funds available from the proceeds of the Offer and its operations to fulfil the purposes of the Offer and meet its stated business objectives.

3 Economic interest held by Existing Shareholders is based on a value allocation methodology agreed amongst the Existing Shareholders.

4 Certain Existing Shareholders were allocated approximately 6.6 million Shares in the Institutional Bookbuild, including Entrée Capital who were allocated approximately 1.3 million Shares and AustralianSuper who were allocated approximately 5.3 million Shares. The holding information for the Existing Shareholders excludes any other Shares which they may acquire as part of the Offer subsequent to the Institutional Bookbuild at the Offer Price.

5 Expressed as ordinary shares and reflecting a notional 3 for 1 share split.

6 Avi Eyal is the co-founder and Managing Partner of Entrée Capital.

7 And/or his associated entities.

7.2 Terms and conditions of the Offer

Topic	Summary
What is the type of security being offered?	Shares (being fully paid ordinary shares in the Company).
What are the rights and liabilities attached to the securities?	A description of the Shares, including the rights and liabilities attaching to them, is set out in Section 7.14.
What is the consideration payable for each security being offered?	Successful Applicants under the Offer (other than the Employee Offer) will pay the Offer Price of $3.78 per Share. Successful Applicants under the Employee Offer will pay a discounted price of 90% of the Offer Price, being $3.40 per Share. Except as required by law, applicants cannot withdraw or vary their Applications.
What is the Offer Period?	The key dates, including details of the Offer Period are set out on page 3. No Shares will be issued on the basis of this Prospectus later than the expiry date of 13 months after the Prospectus Date. The key dates are indicative only and may change. Unless otherwise indicated, all times are stated in Sydney Time. The Company, in consultation with the Joint Lead Managers, reserves the right to vary any and all of the times and dates without notice (including, subject to the ASX Listing Rules and the Corporations Act, to close the Offer early, to extend the Offer Period relating to any component of the Offer, or to accept late Applications, either generally or in particular cases, or to cancel or withdraw the Offer before Settlement, in each case without notifying any recipient of this Prospectus or any Applicants). If the Offer is cancelled or withdrawn before the allotment of Shares, then all Application Monies will be refunded in full (without interest) as soon as possible in accordance with the requirements of the Corporations Act.
What are the cash proceeds to be raised?	Approximately $109.6 million is expected to be raised under the Offer if the Offer proceeds.
Is the Offer underwritten?	Yes. The Offer is fully underwritten by the Joint Lead Managers. More detail on the underwriting arrangements is set out in Section 9.5.
Who are the Joint Lead Managers of the Offer?	The Joint Lead Managers are Macquarie Capital (Australia) Limited and UBS AG, Australia Branch.
What is the minimum and maximum Application size under the Offer?	**Broker Firm Offer** The minimum Application size under the Broker Firm Offer is 530 Shares, being the nearest whole number of whole Shares to the value of $2,000 (rounded up) at the Offer Price. There is no maximum value of Shares that may be applied for under the Broker Firm Offer. **Priority Offer** The minimum Application size by Applicants, who have received an invitation to apply for Shares under the Priority Offer, is 530 Shares, being the nearest number of whole Shares to the value of $2,000 (rounded up) at the Offer Price. Your personalised invitation will indicate the maximum amount of Shares that you may apply for.

Topic	Summary
What is the minimum and maximum Application size under the Offer? ***continued***	**Employee Offer** The minimum Application size by Eligible Employees under the Employee Offer is 295 Shares, being the nearest number of whole Shares to the value of $1,000 (rounded up) at a discounted price of 90% of the Offer Price ($3.40 per Share under the Employee Offer). The Joint Lead Managers, in consultation with the Company and the Existing Shareholders, reserve the right to reject any Application or to allocate a lesser number of Shares than that applied for. In addition, the Company and the Joint Lead Managers reserve the right to aggregate any Applications that they believe may be multiple Applications from the same person or reject or scale back any Applications (or aggregation of Applications) in the Broker Firm Offer which are for more than $250,000 of Shares.
What is the allocation policy?	The allocation of Shares between the Broker Firm Offer, Priority Offer, Employee Offer and Institutional Offer was determined by agreement between the Joint Lead Managers and the Company having regard to the allocation policies outlined in Sections 7.3.4, 7.4.4, 7.5.5 and 7.8.2. **Broker Firm Offer** With respect to the Broker Firm Offer, it is a matter for the Brokers how they allocate Shares among their retail clients and they (and not the Company or the Joint Lead Managers) will be responsible for ensuring that eligible retail clients who have received an allocation from them receive the relevant Shares. **Priority Offer** Allocations under the Priority Offer will be at the absolute discretion of the Company. The Priority Offer is capped at $6.8 million. **Employee Offer** Allocations under the Employee Offer will be at the absolute discretion of the Company. The Employee Offer is capped at $1.5 million. **Institutional Offer** The allocation of Shares among Applicants in the Institutional Offer was determined by agreement between the Joint Lead Managers and the Company.
When will I receive confirmation that my Application has been successful?	It is expected that initial holding statements will be dispatched to Successful Applicants by standard post on or about Friday, 14 June 2019. Refunds (without interest) to Applicants who make an Application and receive an allocation of Shares, the value of which is smaller than the amount of the Application Monies, will be made as soon as practicable after Completion of the Offer.
Will the Shares be quoted on ASX?	The Company will apply to ASX within seven days of the Prospectus Date, for its admission to the Official List, and quotation of Shares by ASX (under the code "PGL"). It is anticipated that quotation will initially be on a conditional and deferred settlement basis. Completion is conditional on the issue and allotment of Shares to Successful Applicants and on completion of the Restructure. If approval is not given within three months after such application is made (or any longer period permitted by law), the Offer will be withdrawn and all Application Monies received will be refunded (without interest), as soon as practicable in accordance with the requirements of the Corporations Act. The Company will be required to comply with the ASX Listing Rules, subject to any waivers obtained by the Company from time to time. ASX takes no responsibility for this Prospectus or the investment to which it relates. The fact that ASX may admit the Company to the Official List is not to be taken as an indication of the merits of the Company or the Shares offered for subscription.

Topic	Summary
When are the Shares expected to commence trading?	It is expected that trading of the Shares on the ASX on a conditional and deferred settlement basis will commence on or about Tuesday, 11 June 2019. Trades occurring on ASX before the date on which the Shares are issued will be conditional on the completion of the Restructure, Settlement and the issue of Shares occurring ("Conditions"). Conditional and deferred settlement trading will continue until the Company has advised ASX that the Conditions have been satisfied, which is expected to be on or about Thursday, 13 June 2019. If the Conditions have not been satisfied by the end of the conditional and deferred settlement trading period or the Offer is withdrawn, the Offer will not complete and all trades conducted during the conditional and deferred settlement trading period will be invalid and will not settle. All Application Monies received will be refunded to Applicants. No interest will be paid on any Application Monies refunded as a result of the Offer not completing. Following satisfaction of the Conditions, trading on ASX will be on an unconditional but deferred settlement basis until the Company has advised ASX that initial holding statements have been dispatched to Shareholders. Trading on ASX is expected to commence on a normal settlement basis on or about Monday, 17 June 2019. Following the issue of Shares, Successful Applicants will receive a holding statement setting out the number of Shares issued to them under the Offer. It is expected that holding statements will be dispatched by standard post on or about Friday, 14 June 2019. It is the responsibility of each person who trades in Shares to confirm their own holding before trading in Shares. Investors will be able to confirm their holdings by telephoning the Prospa IPO Offer Information Line on 1800 451 641 (within Australia) from 8.30am to 5.30pm (Sydney), Monday to Friday. If you sell Shares before receiving a holding statement, you do so at your own risk. The Company, the Share Registry, the Joint Lead Managers and the Existing Shareholders disclaim all liability, whether in negligence or otherwise, if you sell Shares before receiving your holding statement, even if you obtained details of your holding from the Prospa Offer Information Line or confirmed your firm allocation through a Broker.
Are there any escrow arrangements?	Yes. Details are provided in Section 9.7.
Has any ASIC relief or ASX waiver or confirmation been sought, obtained or been relied on?	Yes. Details are provided in Section 9.12.
Are there any tax considerations?	Yes. Details are provided in Section 9.13.
Is there any brokerage, commission or stamp duty considerations?	No brokerage, commission or stamp duty is payable by Applicants on acquisition of Shares under the Offer. See Section 6.3.5 for details of various fees payable by the Company to the Joint Lead Managers and by the Joint Lead Managers to the Co-Managers.
What should you do with any enquiries?	All enquiries in relation to this Prospectus should be directed to the Prospa IPO Offer Information Line on 1800 451 641 (within Australia) or +61 1800 451 641 (outside Australia) from 8:30am to 5:30pm (Sydney Time), Monday to Friday. All enquiries in relation to the Broker Firm Offer should be directed to your Broker. If you have any questions about whether to invest in the Company, you should seek professional advice from your accountant, financial adviser, stockbroker, lawyer or other professional adviser before deciding whether to invest.

7.3 Broker Firm Offer

7.3.1 Who can apply?

The Broker Firm Offer is open to Australian resident retail clients and New Zealand sophisticated retail clients of participating Brokers who have a registered address in Australia or New Zealand respectively and who received an invitation from a Broker to acquire Shares under this Prospectus and are not in the United States or are not a US Person. You should contact your Broker to determine whether you can receive an allocation of Shares under the Broker Firm Offer.

7.3.2 How to apply

If you have received an invitation to apply for Shares from your Broker and wish to apply for those Shares under the Broker Firm Offer, you should contact your Broker for information about how to submit your Broker Firm Offer Application Form and for payment instructions. Applicants under the Broker Firm Offer must not send their Application Forms or payment to the Share Registry.

Applicants under the Broker Firm Offer should contact their Broker to request a Prospectus and Application Form, or download a copy at https://www.prospa.com/ipo. Your Broker will act as your agent and it is your Broker's responsibility to ensure that your Application Form and Application Monies are received before 5.00pm (Sydney Time) on the Closing Date or any earlier closing date as determined by your Broker.

Broker clients should complete and lodge their Broker Firm Offer Application Form with the Broker from whom they received their invitation to participate in the Broker Firm Offer. Broker Firm Offer Application Forms must be completed in accordance with the instructions given to you by your Broker and the instructions set out on the back of the Application Form.

By making an Application, you declare that you were given access to the Prospectus, together with an Application Form. The Corporations Act prohibits any person from passing an Application Form to another person unless it is attached to, or accompanied by, a hard copy of this Prospectus or the complete and unaltered electronic version of this Prospectus.

The minimum Application size under the Broker Firm Offer is 530 Shares, being $2,000 of Shares in aggregate (rounded up). There is no maximum Application size under the Broker Firm Offer. The Company, in consultation with the Joint Lead Managers, reserves the right not to accept Applications in the Broker Firm Offer that are from persons they believe may be Institutional Investors or reject or scale back any Applications (or aggregation of Applications) in the Broker Firm Offer which are for more than $250,000 of Shares. The Company may determine a person to be eligible to participate in the Broker Firm Offer, and may amend or waive the Broker Firm Offer application procedures or requirements, in its discretion in compliance with applicable laws.

The Company, the Joint Lead Managers and the Share Registry take no responsibility for any acts or omissions committed by your Broker in connection with your Application.

The Broker Firm Offer opens at 9.00am (Sydney Time) on Friday, 24 May 2019 and is expected to close at 5.00pm (Sydney Time) on Friday, 31 May 2019. The Company and the Joint Lead Managers may elect to close the Broker Firm Offer or any part of it early, extend the Broker Firm Offer or any part of it, or accept late Applications either generally or in particular cases. The Broker Firm Offer or any part of it may be closed at any earlier time and date, without further notice. Your Broker may also impose an earlier closing date. Applicants are therefore encouraged to submit their Applications as early as possible. Contact your Broker for instructions.

7.3.3 How to pay

Applicants under the Broker Firm Offer must pay their Application Monies to their Broker in accordance with instructions provided by that Broker.

7.3.4 Broker Firm Offer allocation policy

The allocation of Shares to Brokers will be determined by the Joint Lead Managers and the Company. Shares which are allocated to Brokers for allocation to their retail clients will be issued to the Applicants nominated by those Brokers (subject to the right of the Joint Lead Managers and the Company to reject, aggregate or scale back Applications). It will be a matter for each Broker as to how they allocate Shares among their retail clients, and they (and not the Joint Lead Managers or the Company) will be responsible for ensuring that retail clients who have received an allocation from them receive the relevant Shares.

Applicants in the Broker Firm Offer will be able to call the Prospa IPO Offer Information Line on 1800 451 641 (within Australia) or +61 1800 451 641 (outside Australia) from 8:30am to 5:30pm (Sydney Time), Monday to Friday to confirm their allocation. Applicants under the Broker Firm Offer will also be able to confirm their allocation through the Broker from whom they received their allocation.

However, if you sell Shares before receiving a holding statement, you do so at your own risk, even if you obtained details of your holding from the Prospa IPO Offer Information Line or confirmed your allocation through the Broker from whom you received your allocation.

7.4 Priority Offer

7.4.1 Who can apply?

The Priority Offer is open to investors nominated by the Company who have received a Priority Offer invitation. If you are a Priority Offer applicant, you will receive a personalised invitation to apply for Shares in the Priority Offer from the Company.

7.4.2 How to apply

If you are eligible to apply under the Priority Offer, you should have received a personalised letter along with details of how to apply for Shares.

Your personalised letter will specify the reserved allocation, which is the guaranteed maximum number of Shares that will be allocated to you. Applicants who have received a personalised letter to apply for Shares under the Priority Offer and wish to apply for all or some of those Shares must apply in accordance with the instructions provided in that letter.

Applicants declare by making an Application that they were given access to the Prospectus, together with an Application Form. The Corporations Act prohibits any person from passing an Application Form to another person unless it is attached to, or accompanied by, a hard copy of this Prospectus or the complete and unaltered electronic version of this Prospectus.

Applications under the Priority Offer for an amount less than the amount indicated on your personalised invitation must be for a minimum of 530 Shares, being $2,000 worth of Shares in aggregate (rounded up) and in multiples of $500 worth of Shares thereafter.

7.4.3 How to pay

Payment may be made via BPAY® only. Application monies must be received by the Share Registry by 5:00pm (Sydney Time) on Friday, 31 May 2019. You should be aware that your financial institution may implement earlier cut-off times with regard to electronic payment, and you should therefore take this into consideration when making payment.

7.4.4 Allocation policy

Your personalised invitation will indicate an amount of Shares that you may apply for. This amount is not a guaranteed allocation but will be granted subject to the overall level of Applications received under the Priority Offer. In the event that the aggregate demand for Shares under the Priority Offer exceeds the amount of Shares available under the Priority Offer ($6.8 million), your Application may need to be scaled back.

The Company otherwise has absolute discretion regarding the allocation of Shares to applicants in the Priority Offer and may reject an Application, or allocate fewer Shares than the number or equivalent dollar amount applied for, in its absolute discretion.

Any required refunds will be paid by the Share Registry following the allotment of Shares as set out in Section 7.7.

7.5 Employee Offer

7.5.1 Who may apply

All Eligible Employees are entitled to participate in the Employee Offer. Eligible Employees are all permanent full-time and part-time employees of the Company resident in Australia or New Zealand who are still employed by the Company as at 6.00pm (Sydney Time) on Thursday, 23 May 2019 and who have not, at that time, given or received notice that their employment will cease.

Directors of the Company, casual employees and employees who are residents outside of Australia or New Zealand are not eligible to participate in the Employee Offer.

7.5.2 Eligible Employee discount to Offer Price

The Employee Offer allows Eligible Employees to apply for Shares at a discounted price of 90% of the Offer Price, being $3.40 per Share.

7.5.3 How to apply

Eligible Employees should have received a letter of offer detailing the terms of the Employee Offer, together with this Prospectus.

Eligible Employees may apply for Shares online and must comply with the instructions in the letter of offer and as detailed on the Offer website https://www.prospa.com/ipo.

Applications must be received on or before the Closing Date. Applications under the Employee Offer must be for a minimum of 295 Shares, being $1,000 of Shares in aggregate (rounded up) and in multiples of $500 of Shares thereafter.

7.5.4 Payment methods

Payment may be made via BPAY® only. Application monies must be received by the Share Registry by 5:00pm (Sydney Time) on Friday, 31 May 2019. You should be aware that your financial institution may implement earlier cut-off times with regard to electronic payment, and you should therefore take this into consideration when making payment.

7.5.5 Allocation policy

The allocation of Shares to Eligible Employees will be determined by the Company. Eligible Employees will receive a guaranteed minimum allocation of $1,000 of Shares at a discounted price of 90% of the Offer Price, being $3.40 per Share. In the event that the aggregate demand for Shares under the Employee Offer exceeds the amount of Shares available under the Employee Offer ($1.5 million), your Application may need to be scaled back.

The Company has absolute discretion regarding the allocation of Shares to Applicants in the Employee Offer and may reject an Application, or allocate fewer Shares than the number, or the equivalent dollar amount applied for.

7.6 Acceptance of Applications under the Retail Offer

An Application in the Retail Offer is an offer by you to the Company to apply for Shares in the dollar amount specified in the Application Form at the Offer Price on the terms and conditions set out in this Prospectus (including any supplementary or replacement prospectus) and the Application Form. To the extent permitted by law, an Application by an Applicant may not be varied and is irrevocable.

An Application may be accepted by the Company in respect of the full number of Shares specified in the Application Form (or the dollar value equivalent) without further notice to the Applicant. The Company reserves the right to decline any Application if it believes any provisions or procedures in this Prospectus, the Application Form or laws or regulations may not be complied with in relation to the Application.

The Company and the Joint Lead Managers reserve the right to reject any Application which is not correctly completed or which is submitted by a person whom they believe is ineligible to participate in the Retail Offer, or to waive or correct any errors made by an Applicant in completing their Application.

The Employee Offer is capped at $1.5 million. The Priority Offer is capped at $6.8 million. Successful Applicants in the Broker Firm Offer and Priority Offer will be issued Shares at the Offer Price, while Successful Applicants under the Employee Offer will be issued at a discounted price of 90% of the Offer Price, being $3.40 per Share. Acceptance of an Application will give rise to a binding contract, conditional on settlement and quotation of Shares on ASX.

7.7 Application Monies

The Company reserves the right to decline any Application in whole or in part, without giving any reason. Application Monies received under the Retail Offer will be held in a special purpose account until Shares are issued to Successful Applicants. Applicants under the Retail Offer whose Applications are not accepted, or who are allocated a lesser number of Shares than the amount applied for, will receive a refund of all or part of their Application Monies, as applicable. Interest will not be paid on any monies refunded.

Applicants whose Applications are accepted in full will receive the whole number of Shares calculated by dividing the Application Monies by the Offer Price. Where the Offer Price does not divide evenly into the Application Monies, the number of Shares to be allocated will be rounded down. No refunds pursuant solely to rounding will be provided.

Interest will not be paid on any monies refunded and any interest earned on Application Monies pending the allocation or refund will be retained by the Company.

You should ensure that sufficient funds are held in the relevant account(s) to cover the amount of your BPAY® payment. If the amount of your BPAY® payment for Application Monies (or the amount for which those cheque(s) or bank draft(s) clear in time for allocation) is less than the amount specified on the Application Form, you may be taken to have applied for such lower dollar amount of Shares or your Application may be rejected.

7.8 Institutional Offer

7.8.1 Invitations to bid

Under the Institutional Offer, Institutional Investors in Australia and certain other eligible jurisdictions outside the United States were invited to bid for an allocation of Shares under this Prospectus. The Joint Lead Managers separately advised the Institutional Investors of the Application procedures for the Institutional Offer.

7.8.2 Allocation policy under the Institutional Offer

The allocation of Shares among Applicants in the Institutional Offer was determined by agreement between the Joint Lead Managers and the Company. The Joint Lead Managers and the Company had absolute discretion regarding the basis of allocation of Shares among Institutional Investors.

Participants in the Institutional Offer have been advised of their allocation of Shares, if any, by the Joint Lead Managers. The allocation policy was influenced, but not constrained, by the following factors:
- number of Shares bid for by particular Applicants;
- the timeliness of the bid by particular Applicants;
- the Company's desire for an informed and active trading market following Completion;
- the Company's desire to establish a wide spread of institutional Shareholders;
- overall anticipated level of demand under the Broker Firm Offer, Priority Offer, Employee Offer and Institutional Offer;
- the size and type of funds under management of particular Applicants;
- the likelihood that particular Applicants will be long term Shareholders; and
- any other factors that the Company and the Joint Lead Managers considered appropriate.

7.9 Escrow arrangements

Escrowed Shares held at Completion of the Offer by the Escrowed Shareholders will be subject to voluntary escrow arrangements.

Further details of these arrangements are provided in Section 9.7.

7.10 Acknowledgements

Each Applicant under the Offer will be deemed to have:
- agreed to become a member of the Company and to be bound by the terms of the Constitution and the terms and conditions of the Offer;
- acknowledged having personally received a printed or electronic copy of the Prospectus (and any supplementary or replacement prospectus) including or accompanied by the Application Form and having read them all in full;
- declared that all details and statements in their Application Form are complete and accurate;
- declared that the Applicant(s), if a natural person, is/are over 18 years of age;
- acknowledged that, once the Company or a Broker receives an Application Form, it may not be withdrawn;

- applied for the number of Shares at the Australian dollar amount shown on the front of the Application Form;
- agreed to being allocated and issued the number of Shares applied for (or a lower number allocated in a way described in this Prospectus), or no Shares at all;
- authorised the Company, the Joint Lead Managers, the Co-Managers and their respective officers or agents, to do anything on behalf of the Applicant(s) necessary for Shares to be allocated to the Applicant(s), including to act on instructions received by the Share Registry upon using the contact details in the Application Form;
- acknowledged that, in some circumstances, the Company may not pay dividends, or that any dividends paid may not be franked;
- acknowledged that the information contained in this Prospectus (or any supplementary or replacement prospectus) is not financial product advice or a recommendation that Shares are suitable for the Applicant(s), given the investment objectives, financial situation and particular needs (including financial and taxation issues) of the Applicant(s);
- declared that the Applicant(s) is/are a resident of Australia (except as applicable to the Institutional Offer, Priority Offer, Employee Offer and Broker Firm Offer);
- acknowledged and agreed that the Offer may be withdrawn by the Company or may otherwise not proceed in the circumstances described in this Prospectus; and
- acknowledged and agreed that if Listing does not occur for any reason, the Offer will not proceed.

Each Applicant in the Broker Firm Offer, and each person to whom the Institutional Offer has been made under this Prospectus, will be taken to have represented, warranted and agreed as follows:

- it understands that the Shares have not been, and will not be, registered under the US Securities Act or the securities laws of any state of the United States and may not be offered, sold or resold, pledged, transferred in the United States, except in accordance with US Securities Act regulation requirements or in a transaction exempt from, or not subject to, registration under the US Securities Act and any other applicable state securities laws;
- it is not in the United States or a US Person;
- it has not sent and will not send the Prospectus or any other material relating to the Offer to any person in the United States;
- it is purchasing the Shares in an offshore transaction meeting the requirements of Regulation S; and
- it will not offer or sell the Shares in the United States or in any other jurisdiction outside Australia except in transactions exempt from, or not subject to, registration requirements of the US Securities Act and in compliance with all applicable laws in the jurisdiction in which Shares are offered and sold.

7.11 Underwriting arrangements

The Offer is fully underwritten. The Joint Lead Managers and the Company have entered into an Underwriting Agreement under which the Joint Lead Managers have been appointed as managers and underwriters of the Offer. The Joint Lead Managers have agreed, subject to certain conditions and termination events, to underwrite applications for all Shares under the Offer. The Underwriting Agreement is subject to a number of conditions precedent and sets out a number of circumstances under which the Joint Lead Managers may terminate the Underwriting Agreement and its underwriting obligations.

A summary of certain terms of the Underwriting Agreement and underwriting arrangements, including the termination provisions, is provided in Section 9.5.

7.12 ASX listing, registries and holding statements, conditional and deferred settlement trading

7.12.1 Application to ASX for listing of the Company and quotation of Shares

The Company will apply to ASX within seven days of the Prospectus Date, for its admission to the Official List and quotation of Shares (under the code "PGL").

ASX takes no responsibility for this Prospectus or the investment to which it relates. The fact that the ASX may admit the Company to the Official List is not to be taken as an indication of the merits of the Company or the Shares offered for subscription.

If permission is not granted for the official quotation of the Shares on the ASX within three months after the Prospectus Date (or any later date permitted by law), all Application Monies received by the Company will be refunded (without interest) as soon as practicable in accordance with the requirements of the Corporations Act.

The Company will be required to comply with the ASX Listing Rules, subject to any waivers obtained by the Company from time to time.

7.12.2 CHESS and issuer sponsored holdings

The Company has applied to participate in the ASX's Clearing House Electronic Subregister System ("CHESS") and will comply with the ASX Listing Rules and the ASX Settlement Operating Rules. CHESS is an electronic transfer and settlement system for transactions in securities quoted on the ASX under which transfers are effected in an electronic form.

When the Shares become approved financial products (as defined in the ASX Settlement Operating Rules), holdings will be registered in one of two subregisters, an electronic CHESS subregister or an issuer sponsored subregister. For all Successful Applicants, the Shares of a Shareholder who is a participant in CHESS or a Shareholder sponsored by a participant in CHESS will be registered on the CHESS subregister. All other Shares will be registered on the issuer sponsored subregister.

Following Completion, Shareholders will be sent a holding statement that sets out the number of Shares that have been allocated to them. This statement will also provide details of a Shareholder's Holder Identification Number ("HIN") for CHESS holders or, where applicable, the Shareholder Reference Number (SRN) of issuer sponsored holders.

Shareholders will subsequently receive statements showing any changes to their shareholding. Share certificates will not be issued.

Shareholders will receive subsequent statements during the first week of the following month if there has been a change to their holding on the register and as otherwise required under the ASX Listing Rules and the Corporations Act. Additional statements may be requested at any other time either directly through the Shareholder's sponsoring broker in the case of a holding on the CHESS subregister or through the Share Registry in the case of a holding on the issuer sponsored subregister. The Company and the Share Registry may charge a fee for these additional issuer sponsored statements.

7.12.3 Conditional and deferred settlement trading and selling Shares on market

It is expected that trading of the Shares on the ASX on a conditional and deferred settlement basis will commence on or about Tuesday, 11 June 2019.

Trades occurring on ASX before the date on which the Shares are issued will be conditional on the completion of the Restructure, Settlement and the issue of Shares occurring ("Conditions").

Conditional and deferred settlement trading will continue until the Company has advised ASX that the Conditions have been satisfied, which is expected to be on or about Thursday, 13 June 2019.

If the Conditions have not been satisfied by the end of the conditional and deferred settlement trading period or the Offer is withdrawn, the Offer will not complete and all trades conducted during the conditional and deferred settlement trading period will be invalid and will not settle. All Application Monies received will be refunded to Applicants. No interest will be paid on any Application Monies refunded as a result of the Offer not completing.

Following satisfaction of the Conditions, trading on ASX will be on an unconditional but deferred settlement basis until the Company has advised ASX that initial holding statements have been dispatched to Shareholders. Trading on ASX is expected to commence on a normal settlement basis on or about Monday, 17 June 2019. Following the issue of Shares, Successful Applicants will receive a holding statement setting out the number of Shares issued to them under the Offer. It is expected that holding statements will be dispatched by standard post on or about Friday, 14 June 2019.

It is the responsibility of each person who trades in Shares to confirm their own holding before trading in Shares. Investors will be able to confirm their holdings by telephoning the Prospa IPO Offer Information Line on 1800 451 641 (within Australia) from 8.30am to 5.30pm (Sydney), Monday to Friday. If you sell Shares before receiving a holding statement, you do so at your own risk. The Company, the Share Registry, the Joint Lead Managers and the Existing Shareholders disclaim all liability, whether in negligence or otherwise, if you sell Shares before receiving your holding statement, even if you obtained details of your holding from the Prospa Offer Information Line or confirmed your firm allocation through a Broker.

7.12.4 Restrictions on distribution

No action has been taken to register or qualify this Prospectus, the Shares or the Offer or otherwise to permit a public offering of the Shares in any jurisdiction outside Australia.

This Prospectus does not constitute an offer or invitation to apply for Shares in any jurisdiction in which, or to any person to whom, it would not be lawful to make such an offer or invitation or issue under this Prospectus.

This Prospectus may not be released or distributed in the United States, and may only be distributed to persons outside the United States to whom the Offer may lawfully be made in accordance with the laws of any applicable jurisdiction.

In particular, the Shares have not been, and will not be, registered under the US Securities Act or the securities laws of any state or other jurisdiction of the United States and may not be offered or sold, directly or indirectly, in the United States, except in transactions exempt from, or not subject to, the registration requirements of the US Securities Act and applicable US state securities laws.

Each Applicant under the Institutional Offer has been required to make certain representations, warranties and covenants set out in the confirmation of allocation letter distributed to it.

7.13 Discretion regarding the Offer

The Company may withdraw the Offer at any time before the issue and allotment of Shares to Successful Applicants under the Offer. If the Offer, or any part of it, does not proceed, all relevant Application Monies will be refunded (without interest). The Joint Lead Managers and the Company also reserve the right to close the Offer or any part of it early, extend the Offer or any part of it, accept late Applications either generally or in particular cases, reject any Application, or allocate to any Applicant fewer Shares than those applied for.

7.14 Summary of rights and liabilities attaching to Shares and other material provisions of the Constitution

7.14.1 Introduction

The rights and liabilities attaching to ownership of Shares arise from a combination of the Constitution, statute, the ASX Listing Rules and general law. A summary of the significant rights, liabilities and obligations attaching to the Shares and a description of other material provisions of the Constitution are set out below. This summary is not exhaustive nor does it constitute a definitive statement of the rights and liabilities of Shareholders. The summary assumes that the Company is admitted to the Official List.

7.14.2 Voting at a general meeting

At a general meeting of the Company, every Shareholder present in person or by proxy, representative or attorney has one vote on a show of hands and, on a poll, one vote for each Share held (with adjusted voting rights for partly paid shares). If the votes are equal on a proposed resolution, the chairperson of the meeting has a casting vote, in addition to any deliberative vote.

7.14.3 Meetings of members

Each Shareholder is entitled to receive notice of, attend and vote at general meetings of the Company and to receive all notices, accounts and other documents required to be sent to Shareholders under the Constitution, Corporations Act and the ASX Listing Rules. The Company must give at least 28 days' written notice of a general meeting.

7.14.4 Dividends

The Board may pay any interim and final dividends that, in its judgement, the financial position of the Company justifies. The Board may also pay any dividend required to be paid under the terms of issue of a Share, and fix a record date for a dividend and the timing and method of payment.

7.14.5 Transfer of Shares

Subject to the Constitution and to any restrictions attached to a Shareholder's Share, Shares may be transferred in accordance with the ASX Settlement Operating Rules, the Corporations Act (and Regulations) and ASX Listing Rules or by a written transfer in any usual form or in any other form approved by the Board and permitted by the relevant laws and ASX requirements. The Board may decline to register a transfer of Shares or apply a holding lock to prevent a transfer in accordance with the Corporations Act or the ASX Listing Rules.

7.14.6 Issue of further Shares

The Board may, subject to the Constitution, Corporations Act and the ASX Listing Rules, issue, allot or grant Options for, or otherwise dispose of, Shares in the Company on such terms as the Board decides.

7.14.7 Winding up

If the Company is wound up, then subject to the Constitution, the Corporations Act and any rights or restrictions attached to any Shares or classes of shares, Shareholders will be entitled to a share in any surplus property of the Company in proportion to the number of Shares held by them. If the Company is wound up, the liquidator may, with the sanction of a special resolution, divide among the Shareholders the whole or part of the Company's property and decide how the division is to be carried out as between Shareholders or different classes of shareholders.

7.14.8 Non-marketable parcels

In accordance with the ASX Listing Rules, the Board may sell Shares that constitute less than a marketable parcel by following the procedures set out in the Constitution.

7.14.9 Proportional takeover provisions

The Constitution contains provisions requiring Shareholder approval in relation to any proportional takeover bid. These provisions will cease to apply unless renewed by Shareholders passing a special resolution by the third anniversary of either the date those rules were adopted or the date those rules were last renewed.

7.14.10 Variation of class rights

The procedure set out in the Constitution must be followed for any variation of rights attached to the Shares. Under that rule, and subject to the Corporations Act and the terms of issue of a class of shares, the rights attached to any class of Shares may be varied:

- with the consent in writing of the holders of 75% of the issued Shares included in that class; or
- by a special resolution passed at a separate meeting of the holders of those Shares.

7.14.11 Directors – appointment and removal

Under the Constitution, the Board is comprised of a minimum of three Directors and a maximum of eight Directors, unless the Shareholders pass a resolution varying that number at a general meeting. Directors are elected or re-elected at annual general meetings of the Company.

No Director (excluding a managing director) may hold office without re-election beyond the third annual general meeting following the meeting at which the Director was last elected or re-elected. The Board may also appoint any eligible person to be a Director either to fill a casual vacancy on the Board or as an addition to the existing Directors, who will then hold office until the conclusion of the next annual general meeting of the Company following their appointment.

7.14.12 Directors – voting

Questions arising at a meeting of the Board must be decided by a majority of votes of the Directors present at the meeting and entitled to vote on the matter. In the case of an equality of votes on a resolution, the chairperson of the meeting has a casting vote in addition to his or her deliberative vote, unless there are only two Directors present or entitled to vote in which case the chairperson of the meeting does not have a second or casting vote and the proposed resolution is taken as lost.

7.14.13 Directors – remuneration

Under the Constitution, the Board may decide the remuneration from the Company to which each Director is entitled for his or her services as a Director. However, the total aggregate amount provided to all Non-Executive Directors for their services as Directors must not exceed in any financial year the amount fixed by the Company in general meeting.

The remuneration of a Director (who is not a managing director or an executive Director) must not include a commission on, or a percentage of, profits or operating revenue. The current maximum aggregate sum of Non-Executive Director remuneration is set out in Section 6.3.1.3. Any change to that maximum aggregate amount needs to be approved by Shareholders.

Directors may be paid for all travelling and other expenses the Directors incur in attending to the Company's affairs, including attending and returning from general meetings of the Company or meetings of the Board or of committees of the Board. Any Director who performs extra services or makes any special exertions for the benefit of the Company, which, in the opinion of the Board, are outside the scope of ordinary duties of a Director, may be remunerated for the services (as determined by the Board) out of the funds of the Company. These amounts will not form part of the maximum aggregate sum of Non-Executive Director remuneration.

Directors' remuneration is discussed in Section 6.3.1.

7.14.14 Powers and duties of Directors

The business and affairs of the Company are to be managed by or under the direction of the Board, which (in addition to the powers and authorities conferred on it by the Constitution) may exercise all powers and do all things that are within the Company's power and the powers that are not required by law or by the Constitution to be exercised by the Company in general meeting.

7.14.15 Preference shares

The Company may issue preference shares including preference shares which are, or at the option of the Company or holder are, liable to be redeemed or convertible to ordinary shares. The rights attaching to preference shares are those set out in the Constitution unless other rights have been approved by special resolution of the Company.

7.14.16 Indemnities

The Company, to the extent permitted by law, indemnifies each Director and executive officer of the Company on a full indemnity basis against all losses, liability, costs, charges and expenses incurred by that person as an officer of the Company or of a related body corporate.

Investigating Accountant's Report

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The Directors
Prospa Group Limited
Level 1, 4-16 Yurong Street
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16 May 2019

Dear Directors

INVESTIGATING ACCOUNTANT'S REPORT ON THE HISTORICAL AND FORECAST FINANCIAL INFORMATION OF PROSPA GROUP LIMITED AND THE FINANCIAL SERVICES GUIDE

Introduction

This report has been prepared at the request of the directors of Prospa Group Limited (ACN 625 648 722) (the Company) (the Directors) for inclusion in the prospectus to be issued by the Company (the Prospectus) in respect of the initial public offering of fully paid ordinary shares in the Company (the Offer) and listing of the Company on the Australian Securities Exchange.

Deloitte Corporate Finance Pty Limited is wholly owned by Deloitte Touche Tohmatsu and holds the appropriate Australian Financial Services licence under the Corporations Act 2001 (Cth) for the issue of this report.

References to the Company mean prior to the allotment of fully paid ordinary shares under the Offer, Prospa Advance Pty Ltd (ACN 154 775 667) and its controlled entities, and after allotment of such shares under the Offer, Prospa Group Limited and its controlled entities, or where the context requires, the business described in the Prospectus.

Capitalised terms used in this report have the same meaning as defined in the glossary of the Prospectus.

Scope

Statutory Historical Financial Information

Deloitte Corporate Finance Pty Limited has been engaged by the Directors to review the statutory historical financial information, being:

- the statutory historical consolidated statements of profit or loss for the financial years ended 30 June 2017 and 30 June 2018, and the half-year ended 31 December 2018;
- the statutory historical consolidated statement of financial position as at 31 December 2018; and
- the statutory historical consolidated statements of cash flows before corporate financing activities and tax for the financial years ended 30 June 2017 and 30 June 2018, and the half-year ended 31 December 2018,

as set out in Tables 21 and 20, Table 29, and Tables 28 and 27 respectively of the Prospectus (the Statutory Historical Financial Information).

The Statutory Historical Financial Information has been prepared in accordance with the stated basis of preparation, being the recognition and measurement principles contained in Australian Accounting Standards and the Company's adopted accounting policies.

The Statutory Historical Financial Information has been extracted from the general purpose financial statements of the Company for the financial year ended 30 June 2018 which included restated comparative financial information for the financial year ended 30 June 2017, and the general purpose financial statements for the interim half-year reporting period ended 31 December 2018. The annual general purpose financial statements were audited and the interim half-year financial statements were reviewed, by Deloitte Touche

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Tohmatsu in accordance with the Australian Auditing Standards. Deloitte Touche Tohmatsu issued an unmodified audit opinion and review conclusion in respect of these financial statements and the comparative periods within.

The Statutory Historical Financial Information is presented in the Prospectus in an abbreviated form, insofar as it does not include all of the presentation and disclosures required by Australian Accounting Standards and other mandatory professional reporting requirements applicable to general purpose financial reports prepared in accordance with the Corporations Act 2001 (Cth).

Pro forma Historical Financial Information

Deloitte Corporate Finance Pty Limited has been engaged by the Directors to review the pro forma historical financial information, being:

- the pro forma historical consolidated statements of profit or loss for the financial years ended 30 June 2017 and 30 June 2018, the half-year ended 31 December 2018, and for the calendar year ended 31 December 2018;
- the pro forma historical consolidated statement of financial position as at 31 December 2018; and
- the pro forma historical consolidated statements of cash flows before corporate financing activities and tax for the financial years ended 30 June 2017 and 30 June 2018, the half-year ended 31 December 2018, and for the calendar year ended 31 December 2018,

as set out in Tables 19 and 20, Table 29, and Tables 26 and 27 respectively of the Prospectus (the Pro forma Historical Financial Information).

The Pro forma Historical Financial Information has been derived from the Statutory Historical Financial Information, after adjusting for the effects of pro forma adjustments described in Section 4.3.3, Section 4.4.1 and Section 4.5.1 of the Prospectus (the Pro forma Adjustments).

The stated basis of preparation is the recognition and measurement principles contained in Australian Accounting Standards applied to the Statutory Historical Financial Information and the events or transactions to which the Pro forma Adjustments relate, as if those events or transactions had occurred as at the date of the Statutory Historical Financial Information. Due to its nature, the Pro forma Historical Financial Information does not represent the Company's actual or prospective financial performance, financial position and/or cash flows.

Forecast Financial Information

Deloitte Corporate Finance Pty Limited has been engaged by the Directors to review the forecast financial information, being:

- the statutory forecast consolidated statement of profit or loss and the statutory forecast consolidated net cash flow of the Company for the financial year ending 30 June 2019 and the half-year ending 31 December 2019, as set out in Tables 19 and 20, and Tables 26 and 27 respectively of the Prospectus (the Statutory Forecast Financial Information). The Directors' best estimate assumptions underlying the Statutory Forecast Financial Information are described in Section 4.9 of the Prospectus. The stated basis of preparation used in the preparation of the Statutory Forecast Financial Information is the recognition and measurement principles contained in Australian Accounting Standards and the Company's adopted accounting policies; and
- the pro forma forecast consolidated statement of profit or loss and the pro forma forecast net cash flow of the Company for the financial year ending 30 June 2019, the half-year ending 31 December 2019 and the calendar year ending 31 December 2019, as set out in Tables 19 and 20, and Tables 26 and 27 respectively of the Prospectus (the Pro forma Forecast Financial Information). The Pro forma Forecast Financial Information has been derived from the Statutory Forecast Financial Information, after adjusting for the effects of the Pro forma Adjustments described in Tables 25 and 28 respectively of the Prospectus.

  An audit/review has not been conducted on the source from which the unadjusted financial information was prepared. The stated basis of preparation used in the preparation of the Pro forma Forecast Financial Information is the recognition and measurement principles contained in Australian Accounting Standards applied to the Statutory Forecast Financial Information and the events or transactions to which the Pro forma Adjustments relate, as if those events or transactions had occurred prior to 1 July

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2018. Due to its nature, the Pro forma Forecast Financial Information does not represent the Company's actual prospective financial performance and/or cash flows for the financial year ending 30 June 2019, the half-year ending 31 December 2019 and the calendar year ending 31 December 2019,

(together, the Forecast Financial Information).

The Forecast Financial Information has been prepared by management and adopted by the Directors in order to provide prospective investors with a guide to the potential financial performance and cash flows of the Company for the financial year ending 30 June 2019, the half-year ending 31 December 2019 and the calendar year ending 31 December 2019. There is a considerable degree of subjective judgement involved in preparing forecasts since they relate to events and transactions that have not yet occurred and may not occur. Actual results are likely to be different from the Forecast Financial Information since anticipated events or transactions frequently do not occur as expected and the variations may be material.

The Directors' best estimate assumptions on which the Forecast Financial Information is based relate to future events and/or transactions that management expect to occur and actions that management expect to take, and are also subject to uncertainties and contingencies, which are often outside the control of the Company. Evidence may be available to support the assumptions on which the Forecast Financial Information is based, however such evidence is generally future orientated and therefore speculative in nature. We are therefore not in a position to express a reasonable assurance conclusion on those best estimate assumptions, and accordingly, provide a lesser level of assurance on the reasonableness of the Directors' best estimate assumptions. We do not express any opinion on the achievability of the results. The limited assurance conclusion expressed in this report has been formed on the above basis.

Prospective investors should be aware of the material risks and uncertainties relating to an investment in the Company, which are detailed in the Prospectus, and the inherent uncertainty relating to the prospective financial information. Accordingly, prospective investors should have regard to the investment risks and sensitivities set out in Section 5 and Section 4.9.9 of the Prospectus.

The sensitivity analysis set out in Section 4.9.9 of the Prospectus demonstrates the impacts on the Forecast Financial Information of changes in key assumptions. The Forecast Financial Information is therefore only indicative of the financial performance which may be achievable. We express no opinion as to whether the Forecast Financial Information will be achieved.

We have assumed, and relied on representations from certain members of management of the Company, that all material information concerning the prospects and proposed operations of the Company has been disclosed to us and that the information provided to us for the purpose of our work is true, complete and accurate in all respects. We have no reason to believe that those representations are false.

Directors' Responsibility

The Directors are responsible for:

- the preparation and presentation of the Statutory Historical Financial Information and the Pro forma Historical Financial Information, including the selection and determination of the Pro forma Adjustments made to the Statutory Historical Financial Information and included in the Pro forma Historical Financial Information;
- the preparation of the Forecast Financial Information, including the best estimate assumptions underlying the Forecast Financial Information and the selection and determination of the Pro forma Adjustments made to the Statutory Forecast Financial Information and included in the Pro forma Forecast Financial Information; and
- the information contained within the Prospectus.

This responsibility includes for the operation of such internal controls as the Directors determine are necessary to enable the preparation of the Statutory Historical Financial Information, the Pro forma Historical Financial Information and the Forecast Financial Information that are free from material misstatement, whether due to fraud or error.

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Our Responsibility

Our responsibility is to express a limited assurance conclusion on the Statutory Historical Financial Information, the Pro forma Historical Information, the Statutory Forecast Financial Information and the Pro forma Forecast Financial Information based on the procedures performed and the evidence we have obtained. We have conducted our engagement in accordance with the Australian Standard on Assurance Engagements (ASAE) 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information.*

A review 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 reasonable assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly, we will not express an audit opinion.

Our engagement did not involve updating or re-issuing any previously issued audit or review report on any financial information used as a source of the financial information, however we note that the audited general purpose financial statements for the financial year ended 30 June 2018 included certain restatements to the comparative financial information for the financial year ended 30 June 2017. Accordingly, the Statutory Historical Financial Information as it relates to the financial year ended 30 June 2017 has been extracted from this restated source.

We have performed the following procedures as we, in our professional judgement, considered reasonable in the circumstances:

Statutory Historical Financial Information

- consideration of work papers, accounting records and other documents of the Company, including those dealing with the extraction and compilation of Statutory Historical Financial Information from the audited financial statements and management accounts of the Company for the financial years ended 30 June 2017 and 30 June 2018, and from the reviewed financial statements for the interim half-year ended 31 December 2018;
- analytical procedures on the Statutory Historical Financial Information;
- a consistency check of the application of the stated basis of preparation, as described in the Prospectus, to the Statutory Historical Financial Information;
- a review of the work papers, accounting records and other documents of the Company and its auditors;
- a review of the application of Australian Accounting Standards; and
- enquiry of the Directors, management and other relevant persons in relation to the Statutory Historical Financial Information.

Pro forma Historical Financial Information

- consideration of work papers, accounting records and other documents of the Company, including those dealing with the extraction and compilation of Statutory Historical Financial Information from the audited financial statements and management accounts of the Company for the financial years ended 30 June 2017 and 30 June 2018, and from the reviewed financial statements for the interim half-year ended 31 December 2018;
- consideration of the appropriateness of the Pro forma Adjustments described in Section 4.3.3, Section 4.4.1 and Section 4.5.1 of the Prospectus;
- enquiry of the Directors, management, personnel and advisors of the Company;
- the performance of analytical procedures applied to the Pro forma Historical Financial Information;
- a review of work papers, accounting records and other documents of the Company and its auditors; and
- a review of the accounting policies adopted and used by the Company over the relevant periods for consistency of application.

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Forecast Financial Information

- enquiries, including discussions with management and Directors of the factors considered in determining the assumptions;
- analytical and other review procedures we considered necessary including examination, on a test basis, of evidence supporting the assumptions, amounts and other disclosures in the Forecast Financial Information;
- review of the accounting policies adopted and used by the Company in the preparation of the Forecast Financial Information; and
- consideration of the Pro forma Adjustments applied to the Statutory Forecast Financial Information in preparing the Pro forma Forecast Financial Information.

Conclusions

Statutory Historical Financial Information

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the Statutory Historical Financial Information is not presented fairly, in all material respects, in accordance with the stated basis of preparation, as described in Section 4.2 of the Prospectus.

Pro forma Historical Financial Information

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the Pro forma Historical Financial Information is not presented fairly in all material respects, in accordance with the stated basis of preparation as described in Section 4.2 of the Prospectus.

Statutory Forecast Financial Information

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that:

(i) the Directors' best estimate assumptions used in the preparation of the Statutory Forecast Financial Information do not provide reasonable grounds for the Statutory Forecast Financial Information;

(ii) in all material respects, the Statutory Forecast Financial Information:

   a. is not prepared on the basis of the Directors' best estimate assumptions as described in Section 4.9 of the Prospectus;

   b. is not presented fairly in accordance with the stated basis of preparation, being the accounting policies adopted and used by the Company and the recognition and measurement principles contained in Australian Accounting Standards; and

(iii) the Statutory Forecast Financial Information itself is unreasonable.

Pro forma Forecast Financial Information

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that:

(i) the Directors' best estimate assumptions used in the preparation of the Pro forma Forecast Financial Information do not provide reasonable grounds for the Pro forma Forecast Financial Information;

(ii) in all material respects, the Pro forma Forecast Financial Information:

   a. is not prepared on the basis of the Directors' best estimate assumptions as described in Section 4.9 of the Prospectus;

   b. is not presented fairly in accordance with the stated basis of preparation, being the accounting policies adopted and used by the Company and the recognition and measurement principles contained in Australian Accounting Standards, applied to the Statutory Forecast Financial Information and the Pro forma Adjustments as if those adjustments had occurred as at 1 July 2018; and

(iii) the Pro forma Forecast Financial Information itself is unreasonable.

Deloitte.

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16 May 2019

Restrictions on Use

Without modifying our conclusions, we draw attention to Section 4.2 and the 'Important Notices' pages of the Prospectus, which describe the purpose of the Financial Information, being for inclusion in the Prospectus. As a result, the Investigating Accountant's Report may not be suitable for use for another purpose.

Consent

Deloitte Corporate Finance Pty Limited has consented to the inclusion of this limited assurance report in the Prospectus in the form and context in which it is included.

Disclosure of Interest

Deloitte Corporate Finance Pty Limited does not have any interest in the outcome of this Offer other than the preparation of this report and participation in the due diligence procedures for which normal professional fees will be received.

Deloitte Touche Tohmatsu is the auditor of the Company.

Yours sincerely

DELOITTE CORPORATE FINANCE PTY LIMITED

Ian Turner
Authorised Representative of
Deloitte Corporate Finance Pty Limited
(AFSL Number 241457)
AR number 461016

Tapan Verma
Authorised Representative of
Deloitte Corporate Finance Pty Limited
(AFSL Number 241457)
AR Number 1009181

Deloitte.

August 2017

Financial Services Guide (FSG)

What is an FSG?

An FSG is designed to provide information about the supply of financial services to you.

Deloitte Corporate Finance Pty Limited (DCF) (AFSL 241457) provides this FSG to you, so you know how we are remunerated and who to contact if you have a complaint.

Who supplies the financial services?

We provide this FSG to you where you engage us to act on your behalf when providing financial services.

Alternatively, we may provide this FSG to you because our client has provided financial services to you that we delivered to them.

The person who provides the financial service to you is our Authorised Representative (AR) and DCF authorises the AR to distribute this FSG.

What financial services are we licensed to provide?

We are authorised to provide financial product advice and to arrange for another person to deal in financial products in relation to securities, interests in managed investment schemes, government debentures, stocks or bonds, to retail and wholesale clients. We are also authorised to provide personal and general financial product advice and deal by arranging in derivatives and regulated emissions units to wholesale clients, and general financial product advice relating to derivatives to retail clients.

General financial product advice

We provide general advice when we have not taken into account your personal objectives, financial situation or needs, and you would not expect us to have done so. In this situation, you should consider whether our general advice is appropriate for you, having regard to your own personal objectives, financial situation or needs.

If we provide advice to you in connection with the acquisition of a financial product, you should read the relevant offer document carefully before making any decision about whether to acquire that product.

Personal financial product advice

When we give you advice that takes into account your objectives, financial situation and needs, we will give you a Statement of Advice to help you understand our advice, so you can decide whether to rely on it.

How are we remunerated?

Our fees are usually determined on a fixed fee or time cost basis plus reimbursement of any expenses incurred in providing the services. Our fees are agreed with, and paid by, those who engage us.

Clients may request particulars of our remuneration within a reasonable time after being given this FSG.

Apart from these fees, DCF, our directors and officers, and any related bodies corporate, affiliates or associates, and their directors and officers, do not receive any commissions or other benefits.

All employees receive a salary, and, while eligible for annual salary increases and bonuses based on overall performance, they do not receive any commissions or other benefits as a result of the services provided to you.

The remuneration paid to our directors reflects their individual contribution to the organisation and covers all aspects of performance.

We do not pay commissions or provide other benefits to anyone who refers prospective clients to us.

Associations and relationships

The Deloitte member firm in Australia (Deloitte Touche Tohmatsu) controls DCF. Please see www.deloitte.com/au/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu.

We, and other entities related to Deloitte Touche Tohmatsu, do not have any formal associations or relationships with any entities that are issuers of financial products. However, we may provide professional services to issuers of financial products in the ordinary course of business.

What should you do if you have a complaint?

Please contact us about a concern:

The Complaints Officer
PO Box N250
Grosvenor Place
Sydney NSW 1220
complaints@deloitte.com.au
Phone: +61 2 9322 7000

If an issue is not resolved to your satisfaction, you can lodge a dispute with the Financial Ombudsman Service (FOS).
FOS provides fair and independent financial services dispute resolution free to consumers.

www.fos.org.au
1800 367 287 (free call)
Financial Ombudsman Service

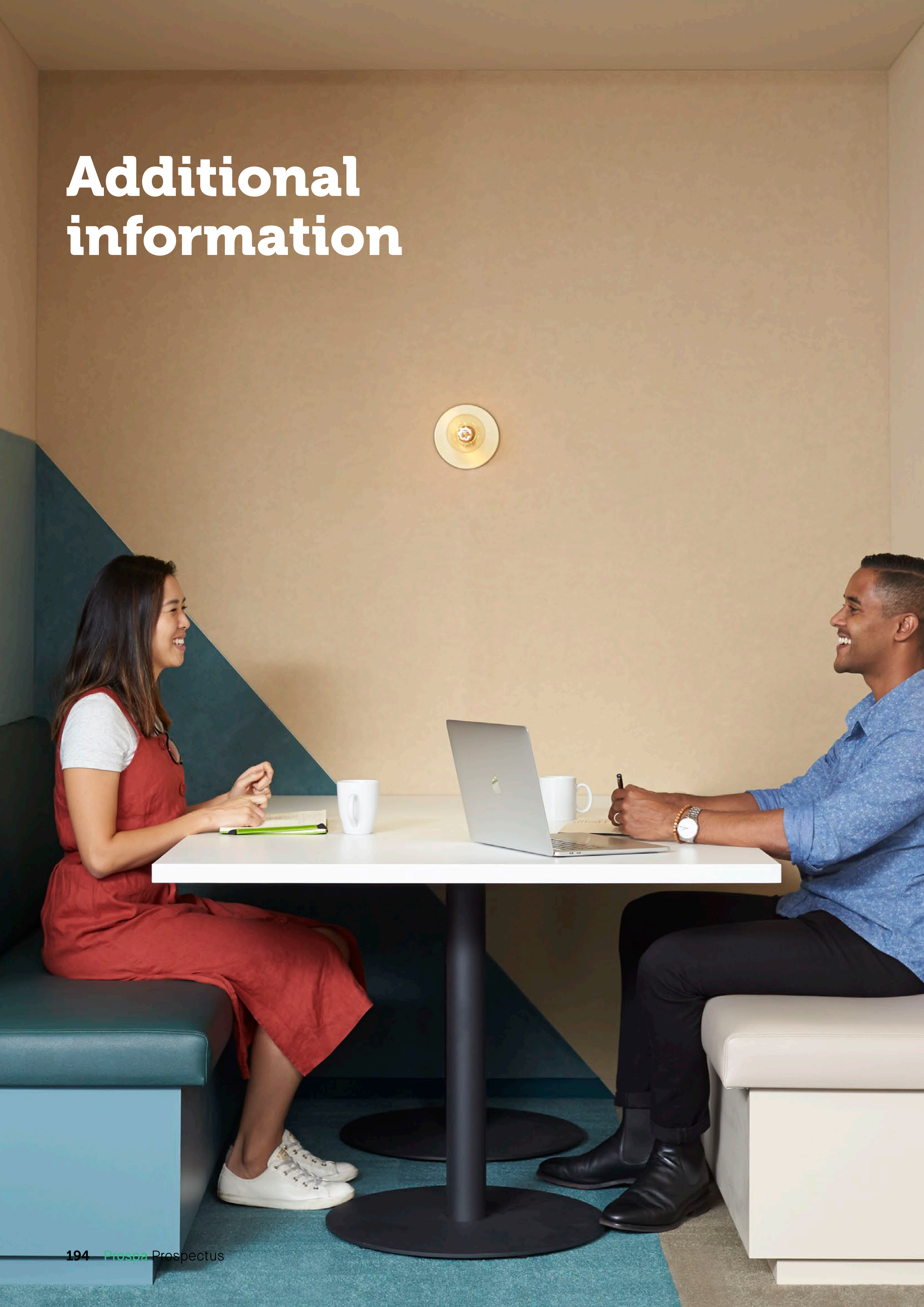
GPO Box 3 Melbourne VIC 3001

What compensation arrangements do we have?

Deloitte Australia holds professional indemnity insurance that covers the financial services we provide. This insurance satisfies the compensation requirements of the Corporations Act 2001 (Cth).

Deloitte Corporate Finance Pty Limited, ABN 19 003 833 127, AFSL number 241457 of Level 1 Grosvenor Place, 225 George Street, Sydney NSW 2000
Member of Deloitte Touche Tohmatsu Limited
Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity.

Additional information



9.1 Registration

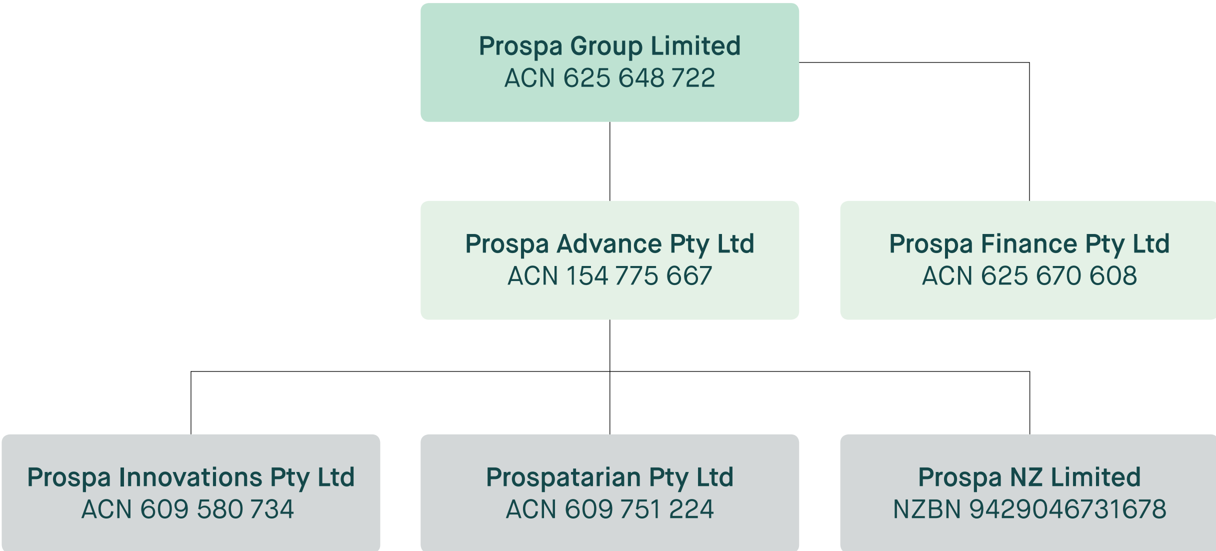
The Company was registered in New South Wales, Australia on 18 April 2018.

9.2 Company tax status and financial year

The Company is and will be subject to tax at the Australian corporate tax rate on its taxable income. The Company's financial year ends on 30 June annually.

9.3 Corporate structure

Figure 52: Prospa's corporate structure post Completion



Prospa entities listed above undertake the business of Prospa as set out in this Prospectus. The above entities are wholly owned subsidiaries of Prospa Group Limited. All of the above Prospa entities were incorporated in Australia and located in Sydney, except for Prospa NZ Limited which was incorporated in New Zealand and located in Auckland.

9.4 Restructure

The steps for the Restructure are as follows:

- prior to the Prospectus Date, the Company, a non-operating holding company, was incorporated;
- on or around the Prospectus Date, the Company, Prospa Advance and Prospa Innovations entered into an Implementation Deed. The Existing Shareholders entered into a deed pursuant to which they agreed to be bound by the terms of the Implementation Deed, and accept the Company's offer to acquire Existing Shares. A summary of the Implementation Deed is set out in Section 9.6; and
- following Settlement and prior to Completion the:
  - PFG Convertible Notes and the 2018 Convertible Notes will convert into Existing Shares;
  - the PFG Warrants will be exercised and Existing Shares will be issued; and
  - the Company will acquire the Existing Shares in Prospa Advance in accordance with the Implementation Deed.

9.5 Underwriting arrangements

The Offer is underwritten and managed by the Joint Lead Managers pursuant to an underwriting agreement dated Thursday, 16 May 2019 between the Company, Prospa Advance and the Joint Lead Managers ("Underwriting Agreement").

Pursuant to the Underwriting Agreement, the Company has appointed Macquarie Capital (Australia) Limited and UBS AG, Australia Branch to act on an exclusive basis as bookrunners and Joint Lead Managers to the Offer, to arrange and manage the Offer and to act as underwriters for the Offer.

For the purpose of this Section 9.5:

Group means the Company, Prospa Advance and their related bodies corporate; and

Offer Documents means the following documents issued or published by or on behalf of the Company in respect of, or relating to, the Offer (and in a form approved by the Joint Lead Managers):

- the pathfinder prospectus and any document that supplements or replaces the pathfinder prospectus (including any addendum to the pathfinder prospectus);
- this Prospectus, any Application Form and any other supplementary prospectus;
- any cover email sent by or on behalf of the Company, including an appropriate cautionary legend, sent to eligible Institutional Investors in Australia and New Zealand and other agreed foreign jurisdictions with a link to or attaching the pathfinder prospectus in connection with the Institutional Offer or Institutional Bookbuild; and
- any investor presentation or marketing presentation and/or ASX announcement used in connection with the Institutional Offer or the Broker Firm Offer (including any addendum to those presentations and any draft of such documents used for roadshow purposes prior to the Prospectus Date), including any documents lodged with any governmental agency and any investor presentations provided to certain institutional investors prior to the date of the Underwriting Agreement.

9.5.1 Commission, fees and expenses

The Company has agreed to pay the Joint Lead Managers a fee equal to 2.50% of the Offer Proceeds (excluding in respect of any Shares issued to an Existing Shareholder, any person for whom an Existing Shareholder holds Shares or any of their affiliates (as affiliate is defined in the Underwriting Agreement)) comprising an underwriting fee of 2.00% and a management fee of 0.50%. The underwriting and management fees will become payable by the Company on the date of Settlement of the Offer and will be paid to the Joint Lead Managers in equal proportions. In addition, an incentive fee of up to 0.50% of the Offer Proceeds may also be payable to the Joint Lead Managers at the absolute discretion of the Company in equal portions.

Any fees payable to Co-Managers and Brokers appointed in relation to the Offer are payable by the Joint Lead Managers on behalf of the Company out of the underwriting and management fees payable to them under the Underwriting Agreement. In addition to the fees described above, the Company has agreed to reimburse the Joint Lead Managers for certain other agreed costs and expenses, including legal costs, incurred by the Joint Lead Managers in relation to the Offer.

9.5.2 Termination events

A Joint Lead Manager may, by notice given to the Company and the other Joint Lead Manager, and without cost or liability, terminate the Underwriting Agreement if any of the following events occur at any time from the date of the Underwriting Agreement until 5.00pm (Sydney Time) on the date of Settlement (or such other time as specified):

- in the Joint Lead Manager's reasonable opinion, a statement in the Prospectus or the information released to the public is or becomes misleading or deceptive or is likely to mislead or deceive (including by omission), or a matter required to be included is omitted from the Prospectus;
- the Company issues or, in the reasonable opinion of the Joint Lead Manager, is required to issue a supplementary prospectus to comply with section 719 of the Corporations Act, or lodges a supplementary prospectus with ASIC in a form and substance that has not been approved by the Joint Lead Managers;
- at any time the S&P/ASX 200 Index falls to a level that is 90% or less of the level as at the close of trading on the day immediately prior to the date of the Underwriting Agreement and is at or below that level at the close of trading:
  - for two consecutive business days during any time after the date of the Underwriting Agreement; or
  - on the business day immediately prior to the date of Settlement or the allotment date;
- the Implementation Deed and the deed poll entered into by shareholders to give effect to the Restructure are amended, altered or varied in any material respect, terminated or rescinded or a material term is breached or failed to be complied with in a material respect;
- there are not, or there ceases to be, reasonable grounds in the reasonable opinion of the Joint Lead Manager for any statement or estimate in the Prospectus which relate to a future matter or any statement or estimate in the Prospectus which relate to a future matter is, in the reasonable opinion of the Joint Lead Manager, unlikely to be met in the projected timeframe (including in each case financial forecasts);
- the Company or Prospa Advance or any of their respective directors or officers (as those terms are defined in the Corporations Act) engage, or have engaged since the date of the pathfinder prospectus, in any fraudulent conduct or activity, whether or not in connection with the Offer;

- approval is refused or not granted, or approval is granted subject to conditions other than customary conditions, to:
  - the Company's admission to the Official List on or before the listing approval date; or
  - the quotation of all of the Company's ordinary shares on ASX or to be traded through CHESS on or before the date on which the Shares are to be first quoted on ASX,

  or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld;
- any of the following notifications are made in respect of the Offer:
  - ASIC issues an order (including an interim order) under section 739(1A) of the Corporations Act and any such order becomes public and/or is not withdrawn within 2 Business Days of when it is made, or if it is made within 2 Business Days of the Settlement Date, it has not been withdrawn by the Settlement Date or if applicable the allotment date;
  - ASIC holds a hearing under section 739(2) of the Corporations Act;
  - an application is made by ASIC for an order under Part 9.5 of the Corporations Act in relation to the Offer or an Offer Document or ASIC commences any investigation or hearing under Part 3 of the Australian Securities and Investments Commission Act 2001 (Cth) in relation to the Offer or an Offer Document and any such application, investigation or hearing becomes public and/or is not withdrawn within 2 Business Days of when it is made, or if it is made within 2 Business Days of the Settlement Date, it has not been withdrawn by the Settlement Date or if applicable the allotment date;
  - any person (other than the Joint Lead Manager) who has previously consented to the inclusion of its name in any Offer Document withdraws that consent; or
  - any person (other than the Joint Lead Manager) gives a notice under section 730 of the Corporations Act in relation to an Offer Document;
- the Company or Prospa Advance do not provide a closing certificate as and when required by the Underwriting Agreement;
- other than with respect to the voluntary escrow deeds, the Implementation Deed or the deed poll entered into by shareholders to give effect to the Restructure, if any of the obligations of the relevant parties under any of the contracts that are material to the business of the Group or any of the material contracts summarised in Section 9 are not capable of being performed in accordance with their terms (in the reasonable opinion of the terminating Joint Lead Manager) or all or any part of any such contracts:
  - is terminated or rescinded;
  - ceases to have effect, otherwise than in accordance with its terms; or
  - is or becomes void, voidable, illegal, invalid or unenforceable (other than by reason only of a party waiving any of its rights) or capable of being terminated, rescinded or avoided or of limited force and effect, or its performance is or becomes illegal;
- the Company withdraws an Offer Document or the Offer or indicates that it does not intend to proceed with the Offer or any part of the Offer;
- any member of the Group becomes insolvent, or there is an act or omission which is likely to result in a member of the Group becoming insolvent;
- an event specified in the timetable up to and including the date of Settlement is delayed by more than 2 business days (other than a delay agreed to between the Company and the Joint Lead Managers);
- the Company is prevented from allotting and issuing the Shares within the time required by the timetable for the Offer, the Offer Documents, the ASX Listing Rules or any other applicable laws;
- the Company or Prospa Advance:
  - alters the issued capital of the Company or another member of the Group (other than pursuant to an employee share or option plan described in this Prospectus); or
  - disposes or attempts to dispose of a substantial part of the business or property of the Company or another member of the Group,

  without the prior written consent of the Joint Lead Managers;
- a regulatory body withdraws, revokes or amends any regulatory approvals required (including the ASX waivers and ASIC modifications obtained in connection with the Offer) for the Company or Prospa Advance to perform their obligations under the Underwriting Agreement or to carry out the transactions contemplated by the Offer Documents;
- there is an event or occurrence, including any statute, order, rule, regulation, directive or request (including one compliance with which is in accordance with the general practice of persons to whom the directive or request is addressed) of any governmental agency which makes it illegal for the Joint Lead Managers to satisfy an obligation under the Underwriting Agreement, or to market, promote or sell the Offer;
- a change in the board of directors of the Company occurs, or any of Greg Moshal, Beau Bertoli and Ed Bigazzi resign or change their position within the Group;
- a contravention by the Company or any member of the Group of the Corporations Act or any of the Listing Rules;

- any of the following occurs:
  - a Director or proposed director named in the Offer Documents of the Company is charged with an indictable offence;
  - any governmental agency commences any public action or certain types of enquiry against the Company or certain members of its corporate group or any of their respective directors in their capacity as a director of the Company or certain members of its corporate group, or announces that it intends to take action; or
  - any Director or proposed director named in the Offer Documents of the Company is disqualified from managing a corporation under Part 2D.6 of the Corporations Act.

9.5.2.1 Termination events subject to materiality

A Joint Lead Manager may, by notice given to the Company and the other Joint Lead Manager, and without cost or liability, terminate the Underwriting Agreement, if any of the following events occur at any time from the date of the Underwriting Agreement until 5.00pm (Sydney Time) on the date of Settlement (or such other time as specified) only if, the Joint Lead Manager has reasonable grounds to believe that the event:

- has or is likely to have a material adverse effect on:
  - the success, settlement or marketing of the Offer or on the ability of the Joint Lead Manager to market, promote or settle the Offer or on the likely price at which the Shares will trade on ASX; or
  - the willingness of investors to subscribe for the Shares; or
- will, or is likely to, give rise to a liability of the Joint Lead Manager under, or give rise to, or result in, a contravention by the Joint Lead Manager or its affiliates or the Joint Lead Manager or its affiliates being involved in a contravention of, any applicable law.

A Joint Lead Manager can terminate as above, if any of the following events occur:

- in the Joint Lead Manager's reasonable opinion, a statement in any of the Offer Documents (other than the Prospectus) or public information is or becomes false, misleading or deceptive or is likely to mislead or deceive (including by omission), or a matter required to be included is omitted from an Offer Document (other than the Prospectus);
- there occurs a new circumstance that arises after lodgement of this Prospectus that would have been required to be included in this Prospectus if it had arisen before lodgement;
- the due diligence report or verification materials provided and any other information supplied by or on behalf of the Company, Prospa Advance or any other member of the Group to the Joint Lead Managers in relation to the Group or the Offer is (or is likely to), or becomes (or becomes likely to be), false, misleading or deceptive, including by way of omission;
- an adverse change occurs in the assets, liabilities, financial position or performance, profits, losses or prospects of the Company and the Group (insofar as the position in relation to an entity in the Group affects the overall position of the Company), including any adverse change in the assets, liabilities, financial position or performance, profits, losses or prospects of the Company or the Group from those respectively disclosed in any Offer Document or certain other public information;
- there is introduced or there is a public announcement of a proposal to introduce, into the Parliament of Australia, Hong Kong, Singapore, the People's Republic of China or the United States or any State or Territory of Australia a new law, or the Reserve Bank of Australia, or any Commonwealth or State authority, including ASIC, adopts or announces a proposal to adopt a new policy (other than a law or policy which has been announced before the date of the Underwriting Agreement);
- a contravention by the Company or any member of the Group of the Competition and Consumer Act 2010 (Cth), ASIC Act or its Constitution;
- any aspect of the Offer does not comply with the Corporations Act or the Listing Rules, or certain public information issued by the Company does not comply with the Corporations Act or the Listing Rules (as applicable);
- a representation, warranty, undertaking or obligation contained in the Underwriting Agreement on the part of the Company or Prospa Advance (whether severally or jointly) is breached, becomes not true or correct or is not performed;
- the Company or Prospa Advance defaults on one or more of their obligations under the Underwriting Agreement;
- the Company varies any term of its constitution without the prior written consent of the Joint Lead Managers or the Company does not comply with its constitution;
- other than with respect to the voluntary escrow deeds, the Implementation Deed or the deed poll entered into by shareholders to give effect to the Restructure, if any of the obligations of the relevant parties under any of the contracts that are material to the business of the Group or any of the material contracts summarised in Section 9 are not capable of being performed in accordance with their terms (in the reasonable opinion of the terminating Joint Lead Manager) or all or any part of any such contracts:
  - is amended or varied without the consent of the Joint Lead Managers (acting reasonably and without delay); or
  - is breached;

- the commencement of legal proceedings against the Company, or any other member of the Group or against any director of the Company or any other member of the Group in that capacity;
- hostilities not presently existing commence (whether war has been declared or not) or an escalation in existing hostilities occurs (whether war has been declared or not) involving any one or more of Australia, New Zealand, the United States, Canada, the United Kingdom, the People's Republic of China, Singapore, Russia, Democratic People's Republic of Korea or any member state of the European Union or a major terrorist act is perpetrated on any of those countries or any diplomatic, military, commercial or political establishment of any of those countries;
- a statement in a closing certificate provided under the Underwriting Agreement is false, misleading, inaccurate or untrue or incorrect; or
- any of the following occurs:
  - a general moratorium on commercial banking activities in Australia, Singapore, the United Kingdom or the United States is declared by the relevant central banking authority in those countries, or there is a disruption in commercial banking or security settlement or clearance services in any of those countries;
  - any adverse effect on the financial markets in Australia, Singapore, Hong Kong, the United Kingdom or the United States, or in foreign exchange rates or any development involving a prospective change or break up in political, financial or economic conditions in any of those countries; or
  - trading in securities quoted or listed on ASX, New York Stock Exchange, London Stock Exchange, Hong Kong Stock Exchange or the Singapore Stock Exchange is suspended or limited in a material respect for one day (or a substantial part of one day) on which that exchange is open for trading.

9.5.3 Conditions, representations, warranties and undertakings

The Underwriting Agreement contains certain standard representations, warranties and undertakings by the Company and Prospa Advance to the Joint Lead Managers (as well as common conditions precedent, including conducting due diligence, lodgement of this Prospectus, the entry into voluntary escrow deeds by the Escrowed Shareholders, and ASIC and ASX granting the waivers and modifications necessary to enable the Offer to proceed in accordance with the timetable).

The representations and warranties given by the Company and Prospa Advance include, but are not limited to, matters such as power and authorisation, validity of obligations and status.

The representations and warranties given solely by the Company include, but are not limited to, matters such as compliance of the Offer and the Offer Documents with the Corporations Act, the Listing Rules, legislative instruments and other applicable rules, financial information, and accuracy of accounts, representations in relation to the Shares, dividends and distributions, agreements, authorisations and licences, litigation, ownership of assets, capitalisation of the Company, internal controls, internal accounting controls, intellectual property, data privacy, IT systems and platforms, anti-money laundering and taxation, as well as customary US representations and warranties.

The undertakings given by the Company relate to matters including, but not limited to, provision of and consultation with the Joint Lead Managers in respect of ASIC or ASX correspondence, notification of breach to the Joint Lead Managers, variation of its constitution and undertakings that during the period following the date of the Underwriting Agreement:

- until 120 days after the date of Completion, carry on its business and procure that each member of the Group carries on its business in the ordinary course and not dispose of (or permit certain members of its corporate group to dispose of) any material part of its business or property except in the ordinary course or as disclosed in this Prospectus; and
- until 180 days after the date of Completion, it will not issue, transfer or allot, or agree to issue, transfer or allot, or indicate in any way that it may or will issue, transfer or allot or agree to issue, transfer or allot, any shares or other securities convertible into shares of the Company or any other member of the Group (subject to certain exceptions),

without the prior written consent of the Joint Lead Managers.

Further, until 120 days after the date of Completion, the Company undertakes not to alter the capital structure of the Company or amend the Constitution (or agree or announce an intention to do the preceding) except with the prior written consent of the Joint Lead Managers (acting reasonably and without delay), or as otherwise disclosed in the Prospectus.

9.5.4 Indemnity

Subject to certain exclusions relating to, among other things, the gross negligence, recklessness, fraud or wilful misconduct of a Joint Lead Manager or certain representatives, the Company agrees to keep the Joint Lead Managers and certain representatives of the Joint Lead Managers indemnified from losses suffered in connection with the Offer.

9.6 Implementation Deed

On Thursday, 16 May 2019, the Company, Prospa Advance and Prospa Innovations entered into an Implementation Deed in connection with the transfer of Existing Shares in the Company and certain other matters described below. The Existing Shareholders have signed corresponding deed polls pursuant to which they irrevocably undertake to comply with the terms of the Implementation Deed.

In summary, the Implementation Deed provides for:

- the termination of the Existing Shareholder and subscriptions agreements relating to the Company on Completion;
- certain restructure steps to give rise to the capital structure presented in this Prospectus;
- certain shareholder resolutions to be passed by the Existing Shareholders to facilitate the above transactions and the Offer;
- certain warranties and acknowledgements by the Company, and each Existing Shareholder to facilitate the above transactions; and
- a requirement to seek to unwind certain of the above steps in the event the Offer does not take place and any of the above steps are completed.

Completion under the Implementation Deed is subject to settlement occurring under the Underwriting Agreement and also to Foreign Investment Review Board approval in relation to an Existing Shareholder's participation in the Restructure.

9.7 Escrow arrangements

Escrowed Shares held at Completion of the Offer by the Escrowed Shareholders will be subject to voluntary escrow arrangements and the exceptions and release dates outlined below.

Each Escrowed Shareholder has entered into a voluntary escrow deed in respect of their Escrowed Shares, which prevents them from dealing in their Escrowed Shares for the applicable escrow period. The restriction on "dealing" is broadly defined and includes, among other things, to dispose of, or agree or offer to dispose of, the Escrowed Shares or any legal, beneficial or economic interest in the Escrowed Shares or to create or agree or offer to create any security interest in the Shares.

Following Completion, Escrowed Shares held by:

- Entrée Capital and the Founder Shareholders will be subject to escrow from Completion until 4:15pm on the date the Company's financial results for the year ended on 30 June 2020 have been released to the ASX.
- all other Escrowed Shareholders, including Square Peg Capital and Airtree Ventures, will be subject to escrow from Completion until 4:15pm on the date the reviewed financial accounts of the Company for the half year ended on 31 December 2019 have been released to the ASX.

An Escrowed Shareholder may be released early from these escrow obligations to enable:

- the Escrowed Shareholder to accept an offer under a bona fide takeover bid in respect of all or a proportion of the Shares, provided that the holders of at least half of the Shares that are not subject to any voluntary escrow deed, and to which the offers under the takeover bid relate, have accepted an offer under the takeover bid;
- the Escrowed Shares held by the Escrowed Shareholders to be transferred or cancelled as part of a merger by scheme of arrangement relating to the Company under Part 5.1 of the Corporations Act;
- the Escrowed Shareholder to participate in an equal access share buyback, equal access capital return or equal access capital reduction (in each case made in accordance with the *Corporations Act 2001* (Cth); or
- the Escrowed Shares to be dealt with in the event of death or incapacity provided that all of the Escrowed Shares held by the Escrowed Shareholder will remain subject to, and will be released in accordance with, the original escrow conditions.

During the escrow period, the Escrowed Shareholders may deal in any of their Escrowed Shares to the extent the dealing is required by applicable law (including an order of a court of competent jurisdiction) provided that: in the case of an off-market bid, if the offer is conditional, the Escrowed Shareholder agrees in writing that the holding lock will be applied for each Escrowed Share that is not bought by the bidder under the off-market takeover bid; or in the case of a merger by scheme of arrangement under the Corporations Act, the Escrowed Shareholder agrees in writing that the holding lock will be applied if the merger does not take effect.

In addition to the exceptions to escrow described above, Escrowed Shareholders (excluding the Founder Shareholders and certain other members of Prospa's management team) may encumber any or all of the Escrowed Shares to a lender as security for a loan or other financial accommodation, provided that the encumbrance does not in any way constitute a direct or indirect disposal of the economic interest, or decrease an economic interest, that the Escrowed Shareholder has in any of its Escrowed Shares and no Escrowed Shares may be transferred to the lender in connection with the encumbrance (with the documentation for such encumbrance making it clear that the Escrowed Shares remain in escrow and subject to the voluntary escrow arrangements for the term of those arrangements).

Beyond the escrow period the Co-Founders have confirmed to the Company that as part of their long-term strategies for individual asset diversification it is their current intention to see the orderly sale of up to 11% per annum of their post-escrow holdings in each of the FY21, FY22 and FY23 periods.

9.8 Securitisation arrangements

At Completion, Prospa has established the Warehouse Facilities and Term Facilities.

Details of these funding arrangements are provided below:

Name	2015-1 Trust	2018-1 Trust	2018-2 Trust	Pioneer Trust
Instrument	Revolving Warehouse Facility	Asset Backed Securities Issuance	Term facility	Revolving Warehouse Facility
Facility limit[1]	$155 million	$79 million	$25 million	$60 million
Drawn amount[1]	$135 million	$79 million	$25 million	$24 million
Creation date	August 2015	April 2018	December 2018	December 2018
Revolving/ substitution period	ending December 2021	ending April 2020	ending July 2020	ending December 2020
Current maturity	March 2021 (staged maturity according to underlying loan assets)	Staged maturity according to underlying loan assets	Staged maturity according to underlying loan assets	Staged maturity according to underlying loan assets
Note structure	Class A senior notes Class B junior notes Seller Notes	Class A senior notes Class B junior notes Class C junior notes Seller Notes	Class A senior notes Seller Notes	Class A senior notes Class B junior notes Class C junior notes Seller Notes
Rating	Unrated	Rated	Unrated	Unrated
Hedging	Unhedged	Interest rate exposure hedged	Unhedged	Unhedged

1 As at 31 March 2019.

9.8.1 Framework documentation

Prospa's securitisation arrangements are governed by a number of material contracts including:

- Master trust deed. This document provides for the creation of separate trusts (being the special purpose 'Funding Vehicles' established for the purposes of the Warehouse Facilities and Term Facilities).

  The Funding Vehicles for both the Warehouse Facility and the ABS Issuance were established under this document. Prospa Advance is the sole beneficiary of these Funding Vehicles and this document provides the terms of the beneficiary's entitlements and, in particular, its entitlement to residual income. Prospa Advance's right, as beneficiary, to residual income provides a significant contribution to the net interest margin it derives from the loan assets funded through these arrangements.
- Management deed. This document governs the terms and conditions under which Perpetual Nominees Limited is appointed to manage and direct the respective Funding Vehicles in carrying on their day-to-day business. The manager receives fees in exchange for the provision of those services.
- Master sale deed: this document governs the terms and conditions under which Prospa Advance transfers loan assets into a Funding Vehicle.
- Master servicing deed: this document governs the terms and conditions under which Prospa Advance is appointed to service the assets of the respective Funding Vehicles by interfacing with customers (as applicable) and collecting payments under asset receivables. The servicer receives fees in exchange for the provision of those services.
- Documents setting out the terms of each specific Warehouse Facility and Term Facility including:
  - loan note subscription and supplement documents entered into, or to be entered into, with funders. These are the documents under the funders of the applicable Funding Vehicle agree to make funds available to the relevant Funding Vehicle, and also set out the terms and conditions on which those funds are provided;
  - security trust deeds and security documents relating to the security over the asset pool of the Funding Vehicle available for the benefit of the Funding Vehicle's creditors; and
  - if applicable, hedging agreements.

9.8.2 Prospa's Warehouse Facilities and Term facilities

The loan note subscription agreement and issue supplement for a Funding Vehicle outlines, amongst other things, the terms and conditions of the level of committed funding provided by the funders pursuant to the terms of that agreement.

9.8.2.1 Conditions precedent to further funding

A Funding Vehicle's ability to draw on the facilities available to it in order to purchase new loan assets originated by Prospa (or refinance loan assets funded in another Funding Vehicle established by Prospa in the future), is subject to a number of conditions precedent. The material conditions precedent include the following:

- the minimum required percentage of notes being in place (including Seller Notes) to provide support to the notes issued to the senior and junior investors (by bearing losses first);
- no actual or potential Amortisation Event (as to which see further below) or Event of Default; and
- compliance by each of the trustee, the manager, the servicer and Prospa Advance as seller of all of their obligations under the transaction documents.

9.8.2.2 Amortisation Events

The revolving period during which further funding may be requested by a Funding Vehicle may terminate early upon the occurrence of certain Amortisation Events. The Amortisation Events include:

- the servicer or manager being removed and not replaced as required;
- Prospa Advance becoming insolvent (and in the case of the Pioneer Trust and the 2018-2 Trust, the deterioration of the financial condition of Prospa Advance with reference to certain agreed metrics);
- credit support (provided by lower ranked notes and where applicable, first loss and liquidity reserves) for the senior and junior notes being below minimum acceptable credit support levels;
- the results of operational due diligence conducted by the funders not being satisfactory;
- the failure of the assets in the asset pool to satisfy certain portfolio parameters when tested from time to time (examples of which include limits in the portfolio around geographic concentration, yield and principal outstanding in respect of the loan assets);
- losses on the notes occur which are not able to be reimbursed from reserves, excess cash in the Funding Vehicle or by Prospa Advance subscribing for additional Seller Notes and using the proceeds to acquire additional receivables;

- loss rate thresholds have been exceeded; and
- there is a change of control of Prospa Advance, or Prospa ceases to be listed on the Official List or there is a trading suspension of shares in Prospa for more than 10 consecutive business days. A change in control for this purpose would be triggered by a person gaining the beneficial ownership of more than 50% of the shares or convertible instruments in Prospa Advance, or having the power to direct certain matters relating to the management of Prospa Advance.

9.8.3 Management Deed

The terms of the Management Deed set out the circumstances in which Perpetual Nominees Limited will cease to be the manager of the Funding Vehicles. These include:
- if it becomes insolvent; and
- it make an incorrect representation or does not comply with a material obligation that, if capable of remedy, is not remedied within a certain time period.

If the manager is forced to retire in these circumstances a replacement manager will be appointed to the Funding Vehicle and be entitled to the relevant fees.

9.8.3.1 Master Servicing Deed

Similarly, the terms of the Master Servicing Deed set out the circumstances in which Prospa Advance will cease to be the servicer for the loans funded through the Funding Vehicle. These include:
- if it becomes insolvent;
- it make an incorrect representation or does not comply with a material obligation that, if capable of remedy, is not remedied within a certain time period;
- it ceases to carry on business; and
- it becomes unlawful for it to perform its material obligations.

A third-party service provider has entered into an arrangement with the Funding Vehicle to act as the Standby Servicer and step into the role in the event of the removal of Prospa Advance as servicer. The Standby Servicer or any replacement servicer appointed will be entitled to the relevant fees.

9.9 Description of the syndicate

Macquarie Capital (Australia) Limited and UBS AG, Australia Branch are Joint Lead Managers to the Offer.

9.10 Selling restrictions

9.10.1 International offer restrictions

This document does not constitute an offer of new ordinary shares ("New Shares") of the Company in any jurisdiction in which it would be unlawful. In particular, this document may not be distributed to any person, and the New Shares may not be offered or sold, in any country outside Australia except to the extent permitted below.

9.10.1.1 British Virgin Islands

The New Shares may not be offered in the British Virgin Islands unless the Company or the person offering the New Shares on its behalf is licensed to carry on business in the British Virgin Islands. The Company is not licensed to carry on business in the British Virgin Islands. The New Shares may be offered to British Virgin Islands business companies from outside the British Virgin Islands without restriction.

9.10.1.2 Guernsey

The New Shares may only be offered or sold in or from within the Bailiwick of Guernsey either (i) by persons licensed to do so under the Protection of Investors (Bailiwick of Guernsey) Law, 1987 (as amended) (the "POI Law"); or (ii) to persons licensed under the POI Law, the Insurance Business (Bailiwick of Guernsey) Law, 2002, the Banking Supervision (Bailiwick of Guernsey) Law, 1994, or the Regulation of Fiduciaries, Administration Businesses and Company Directors, etc., (Bailiwick of Guernsey) Law, 2000.

9.10.1.3 Hong Kong

WARNING: This document has not been, and will not be, registered as a prospectus under the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong, nor has it been authorised by the Securities and Futures Commission in Hong Kong pursuant to the Securities and Futures Ordinance (Cap. 571) of the Laws of Hong Kong (the "SFO"). No action has been taken in Hong Kong to authorise or register this document or to permit the distribution of this document or any documents issued in connection with it. Accordingly, the New Shares have not been and will not be offered or sold in Hong Kong other than to "professional investors" (as defined in the SFO and any rules made under that ordinance).

No advertisement, invitation or document relating to the New Shares has been or will be issued, or has been or will be in the possession of any person for the purpose of issue, in Hong Kong or elsewhere that is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to New Shares that are or are intended to be disposed of only to persons outside Hong Kong or only to professional investors. No person allotted New Shares may sell, or offer to sell, such securities in circumstances that amount to an offer to the public in Hong Kong within six months following the date of issue of such securities.

The contents of this document have not been reviewed by any Hong Kong regulatory authority. You are advised to exercise caution in relation to the offer. If you are in doubt about any contents of this document, you should obtain independent professional advice.

9.10.1.4 Israel

The New Shares have not been registered, and no prospectus will be issued, under the Israeli Securities Law - 1968 (the "Securities Law"). Accordingly, the New Shares will only be offered and sold in Israel pursuant to applicable private placement exemptions namely (i) the offer will be made to no more than 35 offerees or (ii) to "Sophisticated Investors" described in the First Addendum of the Securities Law, subject to certain conditions. Sophisticated Investors will have to submit written evidence that they meet the definitions set out in the First Addendum to the Securities Law.

Neither this document nor any activities shall be deemed to be the provision of investment advice or invest marketing services. If any recipient in Israel of this document is not the intended recipient, such recipient should promptly return this document to the Company. This document has not been reviewed or approved by the Israeli Securities Authority in any way.

9.10.1.5 Jersey

No offer or invitation to subscribe for shares may be made to the public in Jersey.

9.10.1.6 Malaysia

No approval from, or recognition by, the Securities Commission of Malaysia has been or will be obtained in relation to any offer of New Shares. The New Shares may not be offered or sold in Malaysia except pursuant to, and to persons prescribed under, Part I of Schedule 6 of the Malaysian Capital Markets and Services Act.

9.10.1.7 Netherlands

This document has been prepared on the basis that all offers of New Shares will be made pursuant to an exemption under the Directive 2003/71/EC ("Prospectus Directive"), as amended and implemented in the Netherlands, from the requirement to publish a prospectus for offers of securities.

An offer to the public of New Shares has not been made, and may not be made, in the Netherlands except pursuant to one of the following exemptions under the Prospectus Directive as implemented in the Netherlands:

- to any legal entity that is authorized or regulated to operate in the financial markets or whose main business is to invest in financial instruments unless such entity has requested to be treated as a non-professional client in accordance with the EU Markets in Financial Instruments Directive (Directive 2014/65/EC, "MiFID II") and the MiFID II Delegated Regulation (EU) 2017/565;
- to any legal entity that satisfies two of the following three criteria: (i) balance sheet total of at least €20,000,000; (ii) annual net turnover of at least €40,000,000 and (iii) own funds of at least €2,000,000 (as shown on its last annual unconsolidated or consolidated financial statements) unless such entity has requested to be treated as a non-professional client in accordance with MiFID II and the MiFID II Delegated Regulation (EU) 2017/565;
- to any person or entity who has requested to be treated as a professional client in accordance with MiFID II; or
- to any person or entity who is recognised as an eligible counterparty in accordance with Article 30 of the MiFID II unless such entity has requested to be treated as a non-professional client in accordance with the MiFID II Delegated Regulation (EU) 2017/565.

9.10.1.8 New Zealand

This document has not been registered, filed with or approved by any New Zealand regulatory authority under the Financial Markets Conduct Act 2013 (the "FMC Act"). The New Shares are not being offered or sold in New Zealand (or allotted with a view to being offered for sale in New Zealand) other than to a person who:

- is an investment business within the meaning of clause 37 of Schedule 1 of the FMC Act;
- meets the investment activity criteria specified in clause 38 of Schedule 1 of the FMC Act;
- is large within the meaning of clause 39 of Schedule 1 of the FMC Act;
- is a government agency within the meaning of clause 40 of Schedule 1 of the FMC Act; or
- is an eligible investor within the meaning of clause 41 of Schedule 1 of the FMC Act.

9.10.1.9 Norway

This document has not been approved by, or registered with, any Norwegian securities regulator under the Norwegian Securities Trading Act of 29 June 2007. Accordingly, this document shall not be deemed to constitute an offer to the public in Norway within the meaning of the Norwegian Securities Trading Act of 2007.

The New Shares may not be offered or sold, directly or indirectly, in Norway except to "professional clients" (as defined in Norwegian Securities Regulation of 29 June 2007 no. 876 and including non-professional clients having met the criteria for being deemed to be professional and for which an investment firm has waived the protection as non-professional in accordance with the procedures in this regulation).

9.10.1.10 Singapore

This document and any other materials relating to the New Shares have not been, and will not be, lodged or registered as a prospectus in Singapore with the Monetary Authority of Singapore. Accordingly, this document and any other document or materials in connection with the offer or sale, or invitation for subscription or purchase, of New Shares, may not be issued, circulated or distributed, nor may the New Shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore except pursuant to and in accordance with exemptions in Subdivision (4) Division 1, Part XIII of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA"), or as otherwise pursuant to, and in accordance with the conditions of any other applicable provisions of the SFA.

This document has been given to you on the basis that you are (i) an existing holder of the Company's shares, (ii) an "institutional investor" (as defined in the SFA) or (iii) an "accredited investor" (as defined in the SFA). In the event that you are not an investor falling within any of the categories set out above, please return this document immediately. You may not forward or circulate this document to any other person in Singapore.

Any offer is not made to you with a view to the New Shares being subsequently offered for sale to any other party. There are on-sale restrictions in Singapore that may be applicable to investors who acquire New Shares. As such, investors are advised to acquaint themselves with the SFA provisions relating to resale restrictions in Singapore and comply accordingly.

9.10.1.11 Switzerland

The New Shares may not be publicly offered in Switzerland and will not be listed on the SIX Swiss Exchange or any other stock exchange or regulated trading facility in Switzerland. Neither this document nor any other offering material relating to the New Shares (i) constitutes a prospectus or a similar notice as such terms are understood under art. 652a, art. 752 or art. 1156 of the Swiss Code of Obligations or a listing prospectus within the meaning of art. 27 et seqq. of the SIX Listing Rules or (ii) has been or will be filed with or approved by any Swiss regulatory authority. In particular, this document will not be filed with, and the offer of New Shares will not be supervised by, the Swiss Financial Market Supervisory Authority (FINMA).

Neither this document nor any other offering material relating to the New Shares may be publicly distributed or otherwise made publicly available in Switzerland. The New Shares will only be offered to regulated financial intermediaries such as banks, securities dealers, insurance institutions and fund management companies as well as institutional investors with professional treasury operations. This document is personal to the recipient and not for general circulation in Switzerland.

9.10.1.12 United Kingdom

Neither this document nor any other document relating to the offer has been delivered for approval to the Financial Conduct Authority in the United Kingdom and no prospectus (within the meaning of section 85 of the Financial Services and Markets Act 2000, as amended ("FSMA")) has been published or is intended to be published in respect of the New Shares.

This document is issued on a confidential basis to "qualified investors" (within the meaning of section 86(7) of the FSMA) in the United Kingdom, and the New Shares may not be offered or sold in the United Kingdom by means of this document, any accompanying letter or any other document, except in circumstances which do not require the publication of a prospectus pursuant to section 86(1) of the FSMA. This document should not be distributed, published or reproduced, in whole or in part, nor may its contents be disclosed by recipients to any other person in the United Kingdom.

Any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received in connection with the issue or sale of the New Shares has only been communicated or caused to be communicated and will only be communicated or caused to be communicated in the United Kingdom in circumstances in which section 21(1) of the FSMA does not apply to the Company.

In the United Kingdom, this document is being distributed only to, and is directed at, persons (i) who have professional experience in matters relating to investments falling within Article 19(5) (investment professionals) of the Financial Services and Markets Act 2000 (Financial Promotions) Order 2005 ("FPO"), (ii) who fall within the categories of persons referred to in Article 49(2)(a) to (d) (high net worth companies, unincorporated associations, etc.) of the FPO or (iii) to whom it may otherwise be lawfully communicated (together "relevant persons"). The investments to which this document relates are available only to, and any offer or agreement to purchase will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this document or any of its contents.

9.11 Legal proceedings

The Company and its subsidiaries are from time to time, party to various disputes and legal proceedings incidental to the conduct of its business. As at the Prospectus Date, there are no current, pending or threatened civil litigation, arbitration proceedings or administrative appeals, or criminal or governmental prosecutions of a material nature in which the Company or its subsidiaries are directly or indirectly concerned which is likely to have a material adverse impact on the business or financial position of the Company.

9.12 ASIC relief and ASX waivers and confirmations

9.12.1 ASIC relief

The Company has applied for, and ASIC has granted:

- an exemption from the requirements of section 734(2) of the Corporations Act to enable Prospa Advance to communicate limited information about the Offer to its employees prior to lodgement of the Prospectus; and
- an exemption from compliance with section 1020B(2) of the Corporations Act relating to short selling to permit sales of Shares during the period of conditional trading on ASX.

The Company has applied for relief from the Corporations Act so that the takeover provisions of the Corporations Act will not apply to certain relevant interests that the Company would otherwise acquire in the Escrowed Shareholders' Escrowed Shares by reason of the voluntary escrow arrangements in relation to those Shares described in Section 9.7.

9.12.2 ASX waivers and confirmations

ASX has given in-principle advice to the Company that it would be likely to do the following:

- grant the Company a waiver from Listing Rule 10.14 to the extent necessary to permit the Company to issue securities to Directors under the terms of the Equity Incentive Plan Rules without shareholder approval, on the following conditions:
  - the prospectus to be issued in connection with the Company's initial public offering contains the information required by Listing Rule 10.15; and
  - the date by which the Company will issue securities to directors under the Equity Incentive Plan Rule must not be later than 12 months from the date of the Company's admission to the Official List; and
- confirm that the restrictions in clauses 1, 2, 3, 4, 7, 8 and 9 of Appendix 9B of the Listing Rules do not apply to the Company as it has a track record of revenue acceptable to ASX.

The Company has applied to the ASX for an ASX Listing Rule confirmation that the Company may undertake conditional and deferred settlement trading of the Shares, subject to certain conditions to be approved by ASX.

9.13 Taxation considerations

The following comments provide a general summary of the Australian income tax, CGT, GST and stamp duty issues for Shareholders who acquire Shares under this Prospectus.

The categories of Shareholders considered in this summary are limited to individuals, complying superannuation entities and certain companies, trusts or partnerships, each of whom holds their shares on capital account.

This summary does not consider the consequences for Shareholders who are insurance companies, banks, Shareholders that hold their shares on revenue account for or carry on a business of trading in shares or Shareholders who are exempt from Australian tax. This summary does not cover the consequences for Shareholders who are subject to Division 230 of the Income Tax Assessment Act 1997 (the Taxation of Financial Arrangements or TOFA regime).

This summary is based on the tax laws in Australia in force as at the Prospectus Date (together with established interpretations of those laws), which may change. This summary does not take into account the tax law of countries other than Australia. This summary is general in nature and is not intended to be an authoritative or complete statement of the applicable law.

Given that the precise implications of ownership or disposal of Shares will depend upon each Shareholders' specific circumstances, Shareholders should obtain independent advice on the taxation implications of holding or disposing of Shares, taking into account their specific circumstances (including whether they are an Australian tax resident).

9.13.1 Dividends paid on Shares – Australian tax residents

9.13.1.1 Individuals and complying superannuation entities

Where dividends on a Share are distributed, those dividends should constitute assessable income of an Australian tax resident Shareholder. Australian tax resident Shareholders who are individuals or complying superannuation entities should include the dividend in their assessable income in the year they derive the dividend. If the Shareholder satisfies the "qualified person" rules (refer to further comments below), the Shareholder should also include any franking credit attached to the dividend in their assessable income. However, such a Shareholder should be entitled to a tax offset equal to the franking credit. The tax offset can be applied to reduce the income tax payable on the Shareholder's taxable income. Where the tax offset exceeds the income tax payable on the Shareholder's taxable income in an income year, the Shareholder should be entitled to a tax refund equal to the amount of the excess.

Where a dividend is unfranked, the Shareholder should generally be taxed at their prevailing tax rate on the dividend received with no tax offset.

9.13.1.2 Corporate Shareholders

Corporate Shareholders are also required to include both the dividend and associated franking credit in their assessable income, subject to satisfaction of the qualified person rules. A tax offset should then be allowed up to the amount of the franking credit on the dividend.

An Australian tax resident corporate Shareholder should be entitled to a credit in its own franking account to the extent of the franking credit attached to the distribution received. This allows the corporate shareholder to pass on the benefit of the franking credits to its own Shareholder(s) on the payment of dividends.

Where franking credits received by a corporate Shareholder exceeds the income tax payable by that Shareholder, the excess cannot give rise to a refund, but may be able to be converted into carry forward tax losses.

9.13.1.3 Trusts and partnerships

Shareholders who are trustees (other than trustees of complying superannuation entities) or partnerships should include dividend in their assessable income in determining the net income of the trust or partnership. Subject to satisfaction of the qualified person rules, such Shareholders should also include any franking credit attached to the dividend in their net income. As a result, a relevant beneficiary or partner may be entitled to a tax offset equal to the beneficiary's or partner's share of the franking credit received by the Shareholder.

Notably, as the qualified person rules can be complex in the context of distributions received indirectly via a trust or partnership, it is recommended that Shareholders seek independent advice on the tax consequences arising in these circumstances.

9.13.1.4 Qualified person rules

The benefit of franking credits can be denied where a Shareholder does not satisfy the qualified person rules, in which case the Shareholder should not be required to include an amount for the franking credits in their assessable income and should also not be entitled to a tax offset.

Broadly, to satisfy the qualified person rules, a Shareholder must satisfy the holding period rule or, if necessary, the related payment rule.

The holding period rule requires a Shareholder to hold the Shares continuously 'at risk' for not less than 45 days in the period beginning the day after the day on which the Shareholder acquires the Shares, and ending on the 45th day after the Shares become ex-dividend. In the ordinary case, this means that the holding period rule should be satisfied provided that the Share have been held "at risk" for a continuous period of 45 days (not including the date of acquisition or disposal) at some time during the period of ownership of the Shares. Very broadly, Shares should be held "at risk" to the extent that no material "positions" are adopted in relation to the Shares which may have the effect of diminishing the economic exposure associated with holding the Shares (for example, certain option and derivative arrangements, or agreements to sell the Shares).

Under the related payment rule, a different testing period applies where the Shareholder or an associate of the Shareholder has made, or is under an obligation to make, a related payment in relation to the dividend. A related payment is one where a Shareholder or their associate effectively passes on the benefit of the dividend to another person.

The related payment rule requires the Shareholder to have held the Shares at risk for the continuous period of 45 days not including the date of acquisition or disposal during a window which commences on the 45th day before, and ends on the 45th day after the day the Shares become ex-dividend. Practically, the related payment rule should not impact Shareholders who do not pass the benefit of the dividend to another person. Shareholders should obtain their own tax advice to determine if the related payment rule applies in the context of their particular circumstances.

In the event that no related payments are made with respect to a particular dividend, an individual Shareholder may satisfy the qualified person rules on an alternative basis, provided that the Shareholder satisfies the small holding exemption. This exemption should generally be satisfied where the Shareholder is entitled to total franking credits (from all sources) of no more than $5,000 in the relevant year of income.

As indicated above, the qualified person rules can be particularly complex for distributions received by a Shareholder directly or indirectly (for example, via an interposed trust). It is recommended that Shareholders in such situations seek independent taxation advice.

9.13.1.5 Dividend washing rules

Dividend washing rules can apply in certain cases, such that no tax offset is available (nor is an amount required to be included in assessable income in relation to an attached franking credit) for a dividend received on Shares. Broadly, the rules can apply where Shareholders seek to obtain additional franking benefits by disposing of Shares ex-dividend and re-purchasing a substantially equivalent parcel of Shares cum-dividend on a special market.

Shareholders should seek independent tax advice regarding the dividend washing rules, and consider the impact of these rules, having regard to their own personal circumstances.

9.13.2 Dividends paid on Shares – non-Australian tax residents

Shareholders who are not tax resident in Australia should generally be subject to Australian dividend withholding tax with respect to any unfranked dividends received. Australian dividend withholding tax should be imposed at a flat rate of 30% on the amount of the dividend that is unfranked unless the Shareholder is tax resident in a country that has concluded a double tax treaty with Australia. If that is the case, and the Shareholder is otherwise able to rely on the double tax treaty, the rate of Australian dividend withholding tax may be reduced (typically to 15%), depending on the terms of the double tax treaty.

Dividends received which are fully franked should not be subject to Australian dividend withholding tax.

9.13.3 Disposal of Shares – Australian tax residents

The disposal of a Share by a Shareholder should constitute a CGT event. A capital gain should arise to the extent that the capital proceeds on disposal exceed the cost base of the Share (broadly, the amount paid to acquire the Share plus certain non-deductible transaction costs). In the case of an arm's length on-market sale, the capital proceeds should generally equal the cash proceeds from the sale. Where the Shareholder is a partnership, the partners of that partnership (and not the partnership itself) should ordinarily be treated as realising any capital gain arising from the disposal (in their proportionate shares).

A CGT discount may be applied against any capital gain (after reduction of the capital gain by applicable capital losses) where the entity which realises the capital gain is an individual, complying superannuation entity or trustee. The CGT discount may be applied in these circumstances, provided that the Shares have been held for at least 12 months (not including the date of acquisition or disposal for CGT purposes) and certain other requirements have been met. Where the CGT discount applies, any capital gain arising to individuals and entities acting as trustees (other than trustees of a complying superannuation entity) may be reduced by 50%, after offsetting current year or prior year capital losses. For a complying superannuation entity, any capital gain may be reduced by one third, after offsetting current year or prior year capital losses.

If the Shareholder who realises the capital gain and is entitled to the CGT discount is the trustee of a trust (other than the trustee of a complying superannuation entity), the CGT discount may flow through to the beneficiaries of the trust, provided those beneficiaries are not companies. Shareholders that are trustees should seek specific advice regarding the tax consequences of distributions to beneficiaries who may qualify for discounted capital gains.

A capital loss should be realised to the extent that the reduced cost base of a Share (which should generally be calculated in a similar manner to the cost base) exceeds the capital proceeds from its disposal. Capital losses may only be offset against capital gains realised in the same income year or future income years, subject to certain loss recoupment tests being satisfied. Capital losses cannot be offset against other assessable income. As with capital gains, where the Shareholder realising the capital loss is a partnership, the partners of that partnership (and not the partnership itself) should ordinarily be treated as realising the capital loss (in their proportionate shares).

9.13.4 Disposal of Shares – Non-Australian tax residents

The disposal of a Share by a Shareholder who is not tax resident in Australia should constitute a CGT event. A capital gain may initially arise to the extent that the capital proceeds on disposal exceed the cost base of the Share.

However, any capital gain initially arising as a result of the CGT event should be disregarded unless the Share constitutes "taxable Australian property". Broadly, a Share should constitute taxable Australian property if both of the following requirements are satisfied:

- the Shareholder (together with any associates of the Shareholder) holds an interest of at least 10% in the Company at the time of the disposal, or has held such an interest throughout a 12 month period in the 24 months preceding the disposal; and
- the Company is land rich for Australian income tax purposes (broadly, because more than 50% of the value of the Company's assets, including those of certain downstream subsidiaries, is comprised by Australian real property interests and/or certain interests in respect of Australian minerals).

A Share should also constitute taxable Australian property if it is used by a Shareholder in carrying on a business in Australia through a permanent establishment (for example, a fixed place of business, such as an office, which is located in Australia).

In the event that a Shareholder who is not tax resident in Australia realises a capital gain in connection with the disposal of a Share that constitutes taxable Australian property, the Shareholder should ordinarily be required to lodge an Australian income tax return including the capital gain. In such circumstances, the Shareholder should generally not be entitled to claim the benefit of the CGT discount to reduce the amount of the capital gain included, but may be able to offset the capital gain with any available capital losses, subject to certain loss recoupment tests being satisfied. The amount of the capital gain, after application of any available capital losses, should be subject to Australian income tax at the Shareholder's marginal tax rate.

A capital loss should initially be realised by a Shareholder who is not tax resident in Australia to the extent that the reduced cost base of a Share exceeds the capital proceeds from its disposal. However, as with capital gains, a capital loss should be disregarded by the Shareholder unless the Share being disposed of constitutes taxable Australian property. Capital losses which are not disregarded may only be offset against capital gains from the disposal of taxable Australian property in the same income year or future income years, subject to certain loss recoupment tests being satisfied.

9.13.4.1 Non-resident CGT withholding

New rules have recently been introduced which can apply to the purchaser of certain taxable Australian property, indirect real property interests or options or rights to acquire such property or interest where such property or interest is acquired from a non-Australian resident vendor under contracts entered into on or after 1 July 2017. Pursuant to the new rules, a non-final withholding tax of 12.5% of the purchase price may be applied to such transactions at settlement.

However, the new rules should not apply to the disposal of a Share on ASX (in accordance with a specific exemption).

9.13.5 GST

Shareholders should not be liable for GST from acquiring or disposing of any Shares. Shareholders may not be entitled to claim full input tax credits in respect of any GST paid on costs incurred in connection with their acquisition or disposal of Shares. Separate GST advice should be sought by Shareholders in this respect.

9.13.6 Stamp duty

No stamp duty should be payable by Shareholders on the acquisition of Shares. Under current stamp duty legislation, no stamp duty should ordinarily be payable by Shareholders on any subsequent transfer of Shares whilst the Company remains listed.

Shareholders should seek their own advice as to the impact of stamp duty in their own particular circumstances.

9.13.7 Tax File Number ("TFN")

Australian tax resident Shareholders may, if they choose, notify the Company of their TFN, ABN or a relevant exemption from withholding tax with respect to dividends. In the event that the Company is not so notified, pursuant to the TFN withholding rules, tax should be automatically deducted at the highest marginal rate, including where relevant, the Medicare levy, from unfranked dividends and/or other applicable distributions. However, Australian tax resident Shareholders may be able to claim a tax credit/rebate (as applicable) in respect of the tax deducted in their income tax returns.

Shareholders who are not tax resident in Australia should generally be entitled to an exemption from the TFN withholding rules. This means that mandatory withholding may not be required by the Company with respect to unfranked dividends or other relevant distributions paid to such Shareholders, irrespective of whether those Shareholders have notified the Company of their TFN or ABN.

9.14 Consent to be named and statement of disclaimers of responsibility

Each of the parties listed below in this Section 9.14 (each a consenting party), to the maximum extent permitted by law, expressly disclaims all liabilities in respect of, makes no representations regarding and takes no responsibility for any statements in or omissions from this Prospectus, other than the reference to its name in the form and context in which it is named and a statement or report included in this Prospectus with its consent as specified below.

Each of the consenting parties listed below has given and has not, at the time of lodgement of this Prospectus with ASIC, withdrawn its written consent to the inclusion of statements in this Prospectus that are specified below in the form and context in which the statements appear:

- Macquarie Capital (Australia) Limited has given, and has not withdrawn prior to the Prospectus Date, its written consent to be named in this Prospectus as a Joint Lead Manager to the Offer;
- UBS AG, Australia Branch has given, and has not withdrawn prior to the Prospectus Date, its written consent to be named in this Prospectus as a Joint Lead Manager to the Offer;
- Macquarie Equities Limited, Crestone Wealth Management Limited and Bell Potter Securities Limited have given, and have not withdrawn prior to the Prospectus Date, their respective written consent to be named in this Prospectus as a Co-Manager to the Offer;
- Herbert Smith Freehills has given, and has not withdrawn prior to the Prospectus Date, its written consent to be named in this Prospectus as Australian legal adviser (other than in relation to taxation and stamp duty matters) to the Company in relation to the Offer in the form and context in which it is named;
- Deloitte Corporate Finance Pty Limited has given, and has not withdrawn prior to the Prospectus Date, its written consent to be named in this Prospectus as Investigating Accountant to the Company in relation to the Financial Information in the form and context in which it is named and to the inclusion in this Prospectus of its Investigating Accountant's Report in Section 8 in the form and context in which it is included;
- Deloitte Tax Services Pty Ltd has given, and has not withdrawn prior to the Prospectus Date, its written consent to be named in this Prospectus in relation to the Offer in the form and context in which it is named;

- Deloitte Touche Tohmatsu has given, and has not withdrawn prior to the Prospectus Date, its written consent to be named in this Prospectus as the auditor of the Company in the form and context in which it is named;
- Retail Finance Intelligence Pty Limited has given, and has not withdrawn prior to the Prospectus Date, its written consent to be named in this Prospectus, in the form and context in which it is named;
- The Centre for International Economics has given, and has not withdrawn prior to the Prospectus Date, its written consent to be named in this Prospectus, in the form and context in which it is named; and
- Link Market Services Limited has given, and has not withdrawn prior to the Prospectus Date, its written consent to be named in this Prospectus as the Share Registry to the Company in the form and context in which it is named.

No consenting party referred to in this Section 9.14 has made any statement that is included in this Prospectus or any statement on which a statement made in this Prospectus is based, except as stated above. Each consenting party referred to in this Section 9.14 has not authorised or caused the issue of this Prospectus, does not make any offer of Shares and expressly disclaims and takes no responsibility for any statements in or omissions from this Prospectus, except as stated above in this Section 9.14.

9.15 Governing law

This Prospectus and the contracts that arise from the acceptance of the Applications under this Prospectus are governed by the laws applicable in New South Wales, Australia and each Applicant under this Prospectus submits to the exclusive jurisdiction of the courts of New South Wales, Australia.

9.16 Statement of Directors

This Prospectus has been authorised by each Director of the Company who has consented to its lodgement with ASIC and its issue and has not withdrawn that consent.

A.1 Significant Accounting Policies

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The principal accounting policies adopted in the preparation of the Financial Information included in Section 4 of this Prospectus are set out below. These accounting policies are consistent with the general purpose financial statements of Prospa for the year ended 30 June 2018 which were audited in line with Australian Auditing Standards, and the general purpose financial statements for the half-year ended 31 December 2018 which were reviewed in line with Australian Auditing Standards. The Financial Information also complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Basis of measurement

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

Basis of consolidation

The consolidated financial statements which form the basis of the Historical Financial Information for FY17, FY18 and H1FY19 incorporated the assets and liabilities of Prospa Advance Pty Ltd, the Prospa Trust Series 2015-1 and the results of the consolidated group for the financial period then ended. The consolidated financial statements which form the basis of the Historical Financial Information for FY18 and H1FY19 also incorporated the assets and liabilities of the Prospa Trust Series 2018-1, and the consolidated financial statements which form the basis of the Historical Financial Information for H1FY19 also incorporated the assets and liabilities of the Pioneer Trust and the Prospa Trust Series 2018-2.

The Trusts are entities over which the consolidated entity has the power to govern the financial and operating policies and activities.

The Trusts are fully consolidated from the date on which control was transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the consolidated entity are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of an asset transferred. Accounting policies of the Trusts have been changed where necessary to ensure consistency with the policies adopted by the consolidated entity.

Functional and presentation currency

The Financial Information is presented in Australian dollars, which is our functional currency and the functional currency of the Group.

Critical accounting estimates

The preparation of the financial statements which form the basis of the Financial Information requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying our accounting policies. There are areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements.

Financial instruments

Current and non-current classification

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is current when: it is expected to be realised or intended to be sold or consumed in the normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within twelve months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period. All other assets are classified as non-current.

A liability is current when: it is expected to be settled in the normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within twelve months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Loans and other receivables

Loan receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. The initial fair value of loan receivables includes capitalised origination fees net of directly attributable transaction costs.

Collectability of loan receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly. The group also carries a provision for impairment of loan receivables equal to 6.1% (as at 31 December 2018) of the total loan receivables. This percentage is based on historical and expected performance of the loan book.

Other receivables are recognised at amortised cost, less any provision for impairment.

Impairment of financial assets pursuant to AASB 9 Financial Instruments

We adopted AASB 9 from 1 July 2018. AASB 9 sets out the requirements to recognise and measure financial assets and financial liabilities. This standard replaces AASB 139 'Financial Instruments: Recognition and Measurement'.

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

Stage 1:

Financial assets that have not had a significant increase in credit risk since initial recognition. For these assets, 12 months expected credit losses are recognised. There is a rebuttable presumption that Stage 1 assets comprise loans less than 30 days past due.

Stage 2:

Financial assets that have experienced a significant increase in credit risk since initial recognition but do not have objective evidence of impairment. For these assets, lifetime expected credit losses are recognised.

Stage 3:

Financial assets that have objective evidence of impairment. For these assets, lifetime expected credit losses are recognised.

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

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

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

Property, plant and equipment

Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment (excluding land) over their expected useful lives as follows:

- Plant and equipment 3 – 5 years

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to us. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss.

Leases

The determination of whether an arrangement is or contains a lease requires an assessment of whether the contract conveys the right to control the use of an asset for a period of time in exchange for consideration.

Recognition of leases pursuant to AASB 16 Leases

The adoption of the new accounting standard AASB 16 Leases is required for financial years commencing on or after 1 January 2019 and therefore we will apply this standard in the accounting period commencing 1 July 2019.

AASB 16 removes the accounting distinction between operating and finance leases for lessees and requires recognition of most lease liabilities on the balance sheet, together with a related right-of-use asset. At commencement the lease liability is measured as the present value of the future lease payments that are not paid at the date. The right-of-use asset is measured at cost, comprising of the amount of the lease liability increased for any initial direct costs and an estimate of costs to be incurred on termination of the lease. Lease payments are allocated between the principal component of the lease liability and the finance costs, so as to achieve a constant rate of interest on the remaining balance of the liability.

As a result, the rent expense on the income statement will be replaced by depreciation relating to the right-of-use asset and interest relating to the lease liability. Consequently, the adoption of AASB 16 will decrease operating expenses and depreciation and interest expense will increase. The pattern of expense recognition will also change with higher costs in the earlier stages due to the interest expense being determined on a lease liability which will then amortise over the lease term, as opposed to the previous straight-line rental expense.

This Prospectus presents the Pro Forma Historical Financial Information and Pro Forma Forecast Financial Information on a consistent basis to illustrate the impact of AASB 16 had the standard been applied from 1 July 2016.

Impairment of non-financial assets

Non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

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

Trade and other payables

These amounts represent liabilities for goods and services provided to us prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

Issued capital

Ordinary shares, and historically, any preference shares, are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Intangible assets

Website costs

Costs associated with website development are capitalised and amortised on a straight line basis over the period of their expected benefit.

Software

Expenditure on acquiring and developing software has been capitalised and amortised on a straight line basis over the period of their expected benefit.

Employee benefits

Short-term employee benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled within 12 months of the reporting date are recognised in current liabilities in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

Other long-term employee benefits

Liabilities for long service leave and annual leave not expected to be settled wholly within 12 months after the end of the reporting period. They are recognised as part of the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees to the end of the reporting period using the projected unit credit method. Consideration is given for expected future salaries and wages levels, experience of employee departures and periods of service.

Expected future payments are discounted using market yields at the end of the reporting period on high quality corporate bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.

Regardless of when settlement is expected to occur, liabilities for long service leave and annual leave are presented as current liabilities in the statement of financial position if the entity does not have an unconditional right to defer settlement for at least 12 months after the end of the reporting period.

Defined contribution superannuation expense

Contributions to defined contribution superannuation plans are expensed in the period in which they are incurred.

Share-based payments

Equity-settled share-based compensation benefits are provided to certain employees. Equity-settled transactions are awards of shares, or options over shares that are provided to employees in exchange for the rendering of services.

The cost of equity-settled transactions is measured at fair value on grant date. Fair value is independently determined using either the Binomial or Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether we receive the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

The cost of equity-settled transactions is recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

Market conditions are taken into consideration in determining fair value. Therefore, any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied. We do not have any cash-settled share-based payments.

Revenue

Revenue is recognised when the performance obligation has been satisfied. Determining the timing of revenue recognition, at a point in time or over time, requires judgement. Revenue is recognised at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Interest income

Interest income includes interest and loan origination fees. Interest income is recognised using the effective interest method.

Fee income

Other income includes fees not directly attributable to the origination of loans including late fees and servicing fees, as well as interest on cash deposits. Fee income is recognised when the right to receive payment is established and receipt of the payment is likely and can be reasonably estimated.

Transaction costs

Transaction costs and broker commissions directly attributable to the origination of loans are recognised using the effective interest method.

Effective interest method

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

Income tax

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Goods and Services Tax ("GST") and other similar taxes

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

A.2 Glossary

Term	Meaning
2015-1 Trust or **Prospa Trust Series 2015-1**	The funding vehicle established for the purposes of the 2015-1 Warehouse Facility
2015-1 Warehouse Facility	The funding facility described in Table 10 of Section 3.3.2.1
2018-1 Trust or **Prospa Trust Series 2018-1**	The funding vehicle established for the purposes of the 2018-1 Term Facility
2018-2 Term Facility	The funding facility described in Table 12 of Section 3.3.2.1
2018-2 Trust or **Prospa Trust Series 2018-2**	The funding vehicle established for the purposes of the 2018-2 Term Facility
2018 Convertible Notes	The convertible notes subscribed for by investors in CY18 across two tranches for a total of $58.7 million
90+ Days Past Due or **90+ DPD**	90+ Days Past Due is the aggregate principal balance remaining for loans that are 90 or more calendar days past due as a percentage of the principal balance remaining on the portfolio
AASB	Australian Accounting Standards Board
ABN	Australian Business Number
ABS	Australian Bureau of Statistics
ACIP	Applicable Customer Identification Procedure as defined by the AML/CTF Laws
ACL	Australian Credit Licence
ACT	Australian Capital Territory
ADI	Authorised Deposit-taking Institution authorised under the *Banking Act 1959* (Cth)
AFCA	Australian Financial Complaints Authority
AFCA Act	Treasury Laws Amendment *(Putting Consumers First – Establishment of the Australian Financial Complaints Authority)* Act 2018 (Cth)
AFIA	Australian Finance Industry Association
AFSL	Australian Financial Services Licence
AML	Anti-Money Laundering
AML/CTF Act	*Anti-Money Laundering and Counter Terrorism Financing Act 2006* (Cth)
AML/CTF Laws	The AML/CTF Act and any regulations or rules made pursuant to that Act (including the Anti-Money Laundering and Counter-Terrorism Financing Rules Instrument 2007 (No. 1) (Cth)), as amended from time to time
AML/CTF Program	The AML/CTF Program as adopted by Prospa Advance on 8 March 2018
AML/CTF Risk Assessment	The AML/CTF Risk Assessment as adopted by Prospa Advance on 8 March 2018
Amortisation Event or **Amortisation Events**	Certain events under the Warehouse Facilities and Term Facilities, at the election of the relevant funders, trigger an immediate end to the period during which funding under that facility may be drawn as discussed in Section 9.8.2.2.
Annualised Simple Interest Rate	Simple Interest Rate adjusted for term, to be presented on a per annum basis

Term	Meaning
AOFM	The Australian Office of Financial Management
API	Application Program Interface, which in the context of this Prospectus is defined as a set of subroutine definitions, protocols, and tools for integrating with the Prospa technology platform
Applicant	A person who submits an Application
Application	An application to subscribe for Shares offered under this Prospectus
Application Form	The application form attached to or accompanying this Prospectus (including the electronic form provided by an online application facility)
Application Monies	The amount accompanying an Application Form submitted by an Applicant
APR	The APR (or Annual Percentage Rate) is the interest rate, expressed as an annual rate, applied to the reducing balance of the loan, which solves for the outstanding principal amount of the loan by calculating the net present value of the contracted repayments (excluding origination fees). The formula used to calculate the APR for a given loan is: $\text{Loan principal} = \sum_{K=1}^{K=n} \frac{\text{Repayment}_K}{(1+i)^{t_{K'}}}$ *Where:* *n = number of repayments* *i = the APR* *t = repayment time period, measured in years*
APRA	Australian Prudential Regulation Authority
ASBFEO	The Australian Small Business and Family Enterprise Ombudsman
Asset Backed Securities Issuance or **ABS Issuance**	The funding facility, described in Table 11 of Section 3.3.2.1
ASIC	Australian Securities and Investments Commission
ASIC Act	*Australian Securities Investments Commission Act 2001* (Cth)
ASX	ASX Limited (ACN 008 624 691) or the Australian Securities Exchange that it operates, as the context requires
ASX Listing Rules	The listing rules of the ASX
ASX Recommendations	The ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (3rd Edition)
ASX Settlement Operating Rules	The operating rules of ASX Settlement Pty Limited (ACN 008 504 532) and, to the extent that they are applicable, the operating rules of each of ASX and ASX Clear Pty Limited (ACN 001 314 503)
ATO	Australian Taxation Office
AUSTRAC	Australian Transaction Reports and Analysis Centre
Australian Business Securitisation Fund or **ABSF**	Proposed commitment by the Australian government to establish a $2 billion fund to invest in warehousing and the securitisation market, providing additional funding to smaller banks and non-bank lenders to on lend to small businesses

Term	Meaning
Australian Consumer Law	Schedule 2 to the *Competition and Consumer Act 2010* (Cth)
Australian Accounting Standards or **AAS**	Australian Accounting Standards and other authoritative pronouncements issued by the AASB
Australian Privacy Principles	Principles contained in schedule 1 of the Privacy Act 1988 (Privacy Act)
B2B	Business-to-Business refers to a type of commerce transaction that exists between businesses, such as those involving a manufacturer and wholesaler, or a wholesaler and a retailer
BBSW	Bank Bill Swap Rate
BBSY	Bank Bill Swap Bid Rate
BCP	Business Continuity Process is a document that sets out what actions to take in the event of a significant business disruption or disaster
Benchmark Rate	BBSW or BBSY
Board or **Board of Directors**	The Board of Directors of the Company
Board Charter	The Board Charter provides an overview of the Board's structure, composition and responsibilities, and the relationship and interaction between the Board, Board Committees and management
Board Committees	The committees of the Board as set out in Section 6.4.5
Broker	Any ASX participating organisation selected by the Joint Lead Managers or financial advisers to act as a broker to the Offer
Broker Firm Offer	The offer of Shares under this Prospectus to Australian resident retail clients and sophisticated New Zealand resident retail clients of Brokers who have received a firm allocation from their Broker provided that such clients are not in the United States as described in Section 7.3
CAGR	Compounded Annual Growth Rate
Capital Reorganisation	As defined in Section 4.2.3
Carlyle	Funds managed by the Carlyle Group L.P. Carlyle has over US$200 billion in assets under management and is listed on the NASDAQ
CCR	Comprehensive Credit Reporting
CDR	Consumer Data Right refers to the right, proposed by the Open Banking review, for consumers to access data relating to their phone, internet, banking and energy transactions
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CGT	Capitals Gains Tax
Chair or Chairman	Chair of Prospa
CHESS	Clearing House Electronic Sub-register System operated in accordance with the ASX Listing Rules and the ASX Settlement Operating Rules
CIE or **The CIE**	The Centre for International Economics

Term	Meaning
CIO	Credit & Investment Ombudsman
Civil Penalty Order	An order under section 175 of the AML/CTF Act
Closing Date	The date on which the Offer is expected to close, being Friday, 31 May 2019 in respect of the Broker Firm Offer and the Employee Offer. This date may be varied without prior notice.
Co-Founders	Greg Moshal and Beau Bertoli
Co-Managers	Macquarie Equities Limited, Crestone Wealth Management Limited and Bell Potter Securities Limited
Coincidental	Delinquency categorized into segments at a point in time, irrespective of when those loans were originated
Completion or **Completion of the Offer**	The Completion of the Offer, being the date on which Shares are issued or transferred to Successful Applicants in accordance with the terms of the Offer
Constitution	The Constitution of Prospa Group Limited
Corporate Debt or **Corporate Debt Facility** or **Corporate Debt Facilities**	The financing provided to Prospa Advance by external financiers to fund a range of general corporate purposes. See Section 3.3.2 for more details.
Corporations Act	*Corporations Act 2001* (Cth)
CPD	Continuing Professional Development is the means by which MFAA members maintain, improve and broaden their knowledge, expertise and competence in the finance broking industry. CPD points are a requirement of the industry regulator ASIC and mandatory for MFAA membership
CPL	Cost per lead is an online advertising pricing model, where the advertiser pays for an explicit sign-up from a consumer interested in the advertiser's offer
Credit Appraisal Memo or **CAM**	Summarised representation of key application data required for the Credit Operations Team to make a credit decision
Credit Decision Engine or **CDE**	Credit Decision Engine purpose-built to quickly assess small business credit applications using proprietary technology and analytics to deliver informed credit decisions
Credit Operations Team	Team within Prospa governed by the Operational Credit Committee that applies agreed upon credit and lending procedures to credit applications on a day to day basis
Credit Risk DataMart	Prospa's proprietary customer credit application data sets obtained from over 64,000 loans applications
Credit Steering Committee	Committee responsible for setting and updating Prospa's credit policy, in accordance with portfolio analysis and trends, operational feedback and macroeconomic trends. This Committee is comprised of the Joint CEOs, the CFO and the Head of Risk
CY18	Calendar year ended 31 December 2018
CY19F	Calendar year ending 31 December 2019
Data Science Team	Team within Prospa responsible for interpreting data and developing insights based on that data. The team is governed by the Chief Product Officer.

Term	Meaning
Delegated Level of Authority or **DLA**	Assignment of responsibility to authorise a manager or subordinate in the Credit Operations Team to authorise the approval of a loan up to a pre-determined dollar amount
Director	A member of the Board
Distribution Partner	Third party organisation that refers loans to Prospa including intermediary and affiliate partners (trusted advisers such as Finance Brokers and accountants) and enterprise partners (large corporates with wide ranging small business reach)
e-commerce	Commercial transactions conducted electronically over the internet
EBIT	EBITDA minus depreciation and amortisation
EBITDA	Net profit/(loss) before interest on Corporate Debt, income tax expense, depreciation and amortisation
EEP	Employee equity plan
Effective Interest Rate or **EIR**	The rate that discounts estimated future cash receipts through the expected life of the financial asset (loan) to the net carrying amount of the financial asset. The effective interest rate method is used for the recognition of interest on loans and loan origination fees reported together within interest income, and transaction costs and broker commissions directly attributable to the origination of a loan reported within transaction costs. Interest income and transaction costs together comprise the complete effective interest yield of the loan book. The amortised cost of the loan and recognition of interest income over the relevant period is calculated using the effective interest rate
EIP	Employee incentive plan
Eligible Employees	All permanent full-time and part-time employees of the Company resident in Australia or New Zealand who are still employed by the Company as at 6.00pm (Sydney Time) on Thursday, 23 May 2019 and who have not, at that time, given or received notice that their employment will cease. Excludes Directors, casual employees and employees who are residents outside of Australia or New Zealand
Embedded Interest	Reflects total outstanding interest owed to Prospa by customers
Employee Final Price	The price per Share that Successful Applicants under the Employee Offer will pay for Shares, representing a 10% discount to the Final Price, denominated in Australian dollars
Employee Offer	The offer of Shares to Eligible Employees as described in Section 7.5
Entrée Capital	Global venture capital fund with Avi Eyal as the co-founder and Managing Partner. References to interests held and amounts invested by Entrée Capital include interests held and amounts invested by persons and entities associated with Entrée Capital (including Avi Eyal and Ecap Two Limited) and entities introduced by Entrée Capital (including Curfore)
Escrowed Shares	Shares held by Escrowed Shareholders at Completion (other than any Shares acquired under the Offer at the Offer Price)
Escrowed Shareholders	The Existing Shareholders, including Entrée Capital, the Co-Founders, Greg Ruddock, Airtree Ventures, Square Peg Capital, Gail Pemberton and the certain other management Shareholders, but excluding certain other small Existing Shareholders

Term	Meaning
Event of Default	Specified contractual events under the terms of the Warehouse Facilities and Term Facilities which, if they occur, result in events including the creditors of that facility becoming entitled to direct the enforcement of security over the funding vehicle and accelerated repayment of the Senior Notes and Junior Notes from the collections of the relevant funding vehicle
Executive Team	Key members of Prospa's management team, with members included in Section 6.2 of the Prospectus
Existing Shareholders	Being the shareholders holding Existing Shares of Prospa Advance immediately prior to Completion
Existing Shares	Ordinary shares, Preference A Shares and Preference B Shares in Prospa Advance held by all Existing Shareholders immediately prior to Completion
Exposure Period	The period specified in section 727(3) of the Corporations Act, being a minimum period of seven days after the Prospectus Date, during which an Application must not be accepted. ASIC may extend this period to no more than 14 days after the Prospectus Date
FBT	Fringe Benefit Tax
Federal Budget	Australian Government budget
Federal Court	The Federal Court of Australia
Finance Broker	An intermediary agent who arranges and refers financial products for their customers in exchange for a referral fee paid by Prospa
Financial Information	The Historical Financial Information and the Forecast Financial Information described in Section 4.1.1
Financial System Inquiry	Inquiry established by the Australian Government in 2014 to examine how the financial system could be positioned to meet Australia's evolving needs and support Australia's economic growth
Fintech	Financial technology
Forecast Financial Information	The forecast financial information described as Forecast Financial Information in Section 4.1.1
FOS	Financial Ombudsman Service
Founder Shareholders	Existing Shareholders that are controlled by, or otherwise hold Shares for the benefit of, the Co-Founders
FSCODA	*Financial Sector Collection of Data Act 2001* (Cth)
FTE	Full time equivalent employee
Fully Seasoned	Refers to the time period (approximately 18 months) after which the loss rates for a cohort of customers becomes known with a high degree of confidence
Funding Debt	Represents the outstanding debt that we use for our lending activities and does not include our corporate operating debt
Funding Vehicle	A special purpose vehicle established to fund and hold financial assets as part of a Warehouse Facility or Term Facility
FY16	Financial year ended 30 June 2016
FY17	Financial year ended 30 June 2017
FY18	Financial year ended 30 June 2018

Term	Meaning
FY19F	Financial year ending 30 June 2019
GDP	Gross Domestic Product
Government	Commonwealth Government of Australia
GST	Goods and Services Tax
H1FY19	Six months ended 31 December 2018
H1FY20F	Six months ending 31 December 2019
HIN	Holder Identification Number
Historical Financial Information	The historical financial information described as Historical Financial Information in Section 4.1.1
IASB	International Accounting Standards Board
iframe	Inline Frame is an HTML document that can be embedded onto partner websites to refer customer leads and interests directly to Prospa
IFRS	International Financial Reporting Standards
Implementation Deed	The implementation deed between the Company, Prospa Advance and Prospa Innovations as summarised under Section 9.6.
Institutional Bookbuild	The bookbuild process undertaken prior to the date of the Underwriting Agreement that determined the Institutional Investor and Broker demand for the Shares and the Offer Price
Institutional Investors	An investor who is: – a person in Australia who is a "sophisticated investor" or "professional investor" under sections 708(8) and 708(11) of the Corporations Act; or – an institutional investor in certain other jurisdictions, as agreed between the Company and the Joint Lead Managers, to whom offers of Shares may lawfully be made without the need for a lodged or registered prospectus or other form of disclosure document or filing, registration or qualification with, or approval by, any governmental agency (except one with which the Company is willing, in its absolute discretion, to comply), in either case, provided that if such person is in the United States, it is only an Institutional Investor if it is an "Eligible US Fund Manager"
Institutional Offer	The invitation to Institutional Investors under this Prospectus to acquire Shares as described in Section 7.8
Investigating Accountant	Deloitte Corporate Finance Pty Limited
Investigating Accountant's Report	The report provided by the Investigating Accountant set out in Section 8
IPO	Initial Public Offering
ISO 27001	An information security standard, part of the ISO/IEC 27000 family of standards, of which the latest version was published in September 2013 by the International Organization for Standardisation (ISO)
Joint CEOs	Greg Moshal and Beau Bertoli
Joint Lead Managers	Macquarie Capital (Australia) Limited and UBS AG, Australia Branch

Term	Meaning
Junior Notes	Notes that rank below the Senior Notes but above the Seller Notes in the Warehouse Facilities and Term Facilities. These notes have a higher risk profile than the Senior Notes, and hence carry a higher cost of funds
KYC	Know Your Customer refers to the practice of identifying customers before providing a designated service to the customer
Legacy LTI Plans	Equity incentive plans established by Prospa Advance under which employees received options or Loan Shares as part of their incentive arrangements
Listing	Admission of the Company to the official list of ASX
Loan Shares	Shares granted in connection with the Legacy LTI Plans to employees which are held subject to dealing restrictions and subject to the repayment of a loan amount.
Machine Learning	A field of computer science that gives computer systems the ability to automatically learn and improve from experience without being explicitly programmed
MFAA	The Mortgage & Finance Association of Australia
National Sales Team	Prospa's team that manages intermediary relationships across Australia
NED	Non-Executive Director
NEDEP	Non-Executive Director Equity Plan
New Payments Platform or **NPP**	Industry wide payments platform for Australia, including national infrastructure designed to facilitate fast, flexible, data rich payments
New Shareholders	Being the Shareholders expected to hold Shares in the Company issued under the Offer, who are not Existing Shareholders
NCCP Act	National Credit Consumer Protection Act 2009
nm	Not meaningful
NPAT	Net profit after tax
NPS	Net Promoter Score is a management tool that can be used to gauge the loyalty of a firm's customer relationships; it serves as an alternative to traditional customer satisfaction research. It is an index ranging from 1 to 100 that measures the willingness of customers to recommend a company's products or services to others
NSW	New South Wales
NT	Northern Territory
Offer	The Offer of Shares under this Prospectus
Offer Period	The period from Friday, 24 May 2019 to Friday, 31 May 2019
Offer Price	$3.78 per Share
Offer Proceeds	The total number of Shares under the Offer multiplied by the Offer Price
Official List	The Official List of entities that ASX has admitted and not removed from listing
Ongoing Customer Due Diligence or **OCDD**	Obligation imposed on reporting entities by the AML/CTF Act to monitor customers and their transactions

Term	Meaning
Open Banking	A data sharing regime, announced by the Government in the 2017 – 2018 Budget, that will be progressively applied across the economy, sector by sector, starting with banking. The regime recommends a CDR which will initially give consumers access to their banking transaction information as well as their electricity, phone and internet transactions
Operational Credit Committee	Committee which governs the Credit Operations Team and is responsible for setting appropriated credit and lending procedures. This Committee is comprised of the CFO and the Head of Risk
Options	Option means an option to acquire a Share on the terms and conditions set out in Section 6
Other Existing Shareholders	Existing Shareholders other than the Founder Shareholders, Other Management Shareholders, Entrée Capital, Airtree Ventures, Square Peg Capital and the Non-Executive Director Shareholders
P2P	Peer-to-peer or marketplace online business lending platforms
PBT	Profit/(loss) before income tax credit/(expense)
Personal Property Securities Register or **PPSR**	The Personal Property Securities Register allows lenders and businesses to register their security interests over personal property
PFG	A fund managed by Partners for Growth L.P.
PFG Convertible Notes	As defined in Section 4.5.2.1
PFG Corporate Debt Facility	As defined in Section 4.5.2.1
PFG Interest Bearing Notes	As defined in Section 4.5.2.1
PFG Warrants	As defined in Section 4.5.2.1
Pioneer Warehouse Facility or **Pioneer Trust**	The funding facility described in Table 13 of Section 3.3.2.1
Pioneer 2018-1 Trust or **Prospa Trust Series 2018-1**	The funding vehicle established for the purposes of the Pioneer Warehouse Facility
Plan Rules	The Equity Incentive Plan Rules adopted by the Board prior to Listing
Pre-IPO Prospa Group	means the entities within the "Prospa Group" prior to the IPO, being – Prospa Advance Pty Ltd (ACN 154 775 667); – Prospa Innovations Pty Ltd (ACN 609 580 734) ; and – Prospatarian Pty Ltd (ACN 609 580 734)
Priority Offer	The offer of Shares to investors in Australia nominated by the Company as described in Section 7.4
Privacy Act	*Privacy Act 1998* (Cth)
Productivity Commission Report on Financial Services	Public inquiry into competition in Australia's financial system, with the final report released in August 2018

Term	Meaning
Prospa	means: – prior to Completion, Pre-IPO Prospa Group; and – post Completion, Prospa Group and its subsidiaries, and where the context requires, the business conducted by those entities
Prospa Advance	Prospa Advance Pty Ltd (ABN 47 154 775 667)
Prospa Group or **the Company**	Prospa Group Limited (ACN 625 648 722), the ultimate holding company of Prospa following Completion and completion of the Restructure
Prospa Innovations	Prospa Innovations Pty Ltd (ACN 609 580 734)
Prospa NZ or **Prospa New Zealand**	Prospa NZ Ltd (NZBN 9429046731678)
Prospa Score	Prospa's proprietary small business credit scoring system
Prospectus	This document (including the electronic form of this Prospectus) and any supplementary or replacement prospectus in relation to this document
Prospectus Date	The date on which a copy of this Prospectus was lodged with ASIC, being Thursday, 16 May 2019
Prospectus Directive	Directive 2003/71/EC
Pro Forma Forecast Cash Flows	Pro forma forecast consolidated cash flows for FY19F and CY19F
Pro Forma Forecast Financial Information	The pro forma forecast financial information described as Pro Forma Forecast Financial Information in Section 4.1.1
Pro Forma Forecast Results	Pro forma forecast consolidated statements of profit or loss for FY19F and CY19F
Pro Forma Historical Cash Flows	Pro forma historical consolidated cash flows for FY17, FY18, CY18 and H1FY19
Pro Forma Historical Financial Information	The pro forma historical financial information described as Pro Forma Historical Financial Information in Section 4.1.1
Pro Forma Historical Results	Pro forma historical consolidated statements of profit or loss for FY17, FY18, CY18 and H1FY19
Pro Forma Historical Statement of Financial Position	Pro forma historical consolidated statement of financial position as at 31 December 2018
QLD	Queensland
Rated Notes	Class A, Class B and Class C notes associated with the ABS Issuance as described in Section 3.3.2
Registered Entity	A financial services entity registered under the FSCODA
Regulation S	Regulation S promulgated under the Securities Act
Replacement Options	Options granted in connection with the Legacy LTI Plans to employees
Reserve Bank	Reserve Bank of Australia, Australia's central bank
Restructure	As disclosed in Section 9.4
Retail Offer	The Broker Firm Offer, Priority Offer and Employee Offer

Term	Meaning
Risk Team	Governed by the Credit Steering Committee and responsible for developing and enhancing Prospa's credit policy, monitoring the portfolio and providing recommendations to the Credit Steering Committee
ROI	Return on Investment
SA	South Australia
SCT	Superannuation Complaints Tribunal
Securities Act	*The Securities Act, as amended, of the United States of America 1933*
Seller Notes	The notes in the Warehouse Facilities and Term Facilities held by Prospa Advance providing the 'first loss capital" in the facilities
Senior Notes	The highest ranking notes in the Facilities and Term Facilities with the most subordination support and hence lower risk compared to the Junior Notes and Seller Notes
SEO	Search Engine Optimisation
Settlement	The settlement in respect of the Shares the subject of the Offer occurring under the Underwriting Agreement
Settlements Operations Team	Team within Prospa responsible for the settlements process
Share	A fully paid ordinary share in the capital of the Company.
Share Registry	Link Market Services Limited (ACN 083 214 537)
Shareholder	A holder of a Share
Simple Interest Rate	Total interest (excluding origination fees and transaction costs) as a percentage of the original loan amount
SME	Small to medium sized enterprise
SPV	Special Purpose Vehicle
Static Loss Rate	The loan receivable balance charged off over the cohorts life time divided by the cohort's original loan volume. Historically loans have been charged off in accordance with the Company's charge off policy
Statutory Forecast Cash Flows	Statutory forecast consolidated cash flows for FY19F and H1FY20F
Statutory Forecast Financial Information	The statutory forecast financial information described as Statutory Forecast Financial Information in Section 4.1.1
Statutory Forecast Results	Statutory forecast consolidated statements of profit or loss for FY19F and H1FY20F
Statutory Historical Cash Flows	Statutory historical consolidated cash flows for FY17, FY18 and H1FY19
Statutory Historical Financial Information	The statutory historical financial information described as Statutory Historical Financial Information in Section 4.1.1
Statutory Historical Results	Statutory historical consolidated statements of profit or loss for FY17, FY18 and H1FY19

Term	Meaning
Statutory Historical Statement of Financial Position	Statutory historical consolidated statement of financial position as at 31 December 2018
STP	Straight through processing
Successful Applicant	A person who submits an Application to subscribe for Shares offered under this Prospectus, which is successful
Suspicious Matter Reports or **SMRs**	Reporting obligation under the AML/CTF Act where an entity is required to report to AUSTRAC on unusual matters or where suspicious activity has been identified
Sydney Time	The official time in Sydney, Australia
TAS	Tasmania
Term Facility	Each of the ABS Issuance and the 2018-2 Term Facility
TFN	Tax File Number
Trustpilot Rating	Trustpilot Rating, also known as a TrustScore, is a measure of customer satisfaction calculated by Trustpilot.com. The formula takes into account online reviews, age of online reviews and the star rating of each online review
Underwriting Agreement	The underwriting agreement dated Thursday, 16 May 2019 between the Company, Prospa Advance and the Joint Lead Managers
US Person	Has the meaning given in Rule 902(k) of Regulation S
VIC	Victoria
WA	Western Australia
Warehouse Facility	Each of the 2015-1 Warehouse Facility and the Pioneer Warehouse Facility
YTD	Year to date

A.3 Application Form

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Corporate directory

Prospa registered office
Level 1, 4-16 Yurong Street
Sydney NSW 2000

Australian legal adviser
Herbert Smith Freehills
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161 Castlereagh Street
Sydney NSW 2000

Joint Lead Manager
Macquarie Capital (Australia) Limited
50 Martin Place
Sydney NSW 2000

Joint Lead Manager
UBS AG, Australia Branch
Level 16, Chifley Tower
2 Chifley Square
Sydney NSW 2000

Co-Manager
Bell Potter Securities Limited
Level 38, Aurora Place
88 Phillip Street
Sydney NSW 2000

Co-Manager
Crestone Wealth Management Limited
Level 32, Chifley Tower
2 Chifley Square
Sydney NSW 2000

Co-Manager
Macquarie Equities Limited
1 Shelley Street
Sydney NSW 2000

Prospa IPO Offer Information Line
1800 451 641 (within Australia)
+61 1800 451 641 (outside Australia)
from 8.30am to 5.30pm (Sydney Time)
Monday to Friday

Investigating Accountant
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Sydney NSW 2000

Tax adviser
Deloitte Tax Services Pty Ltd
225 George Street
Sydney NSW 2000

Auditor
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Grosvenor Place, 225 George Street
Sydney NSW 2000

Share Registry
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Level 12, 680 George Street
Sydney NSW 2000


PROSPA