

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2021

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF  
1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

PROSPER

333-179941-01  
333-204880  
333-225797-01

PROSPER MARKETPLACE, INC.

73-1733867

a Delaware corporation  
221 Main Street, 3rd Floor  
San Francisco, CA 94105  
Telephone: (415) 593-5400

333-179941  
333-204880-01  
333-225797

PROSPER FUNDING LLC

45-4526070

a Delaware limited liability company  
221 Main Street, 3rd Floor  
San Francisco, CA 94105  
Telephone: (415) 593-5400

Commission File  
Number

Exact Name of Registrant as Specified in its Charter  
State or Other Jurisdiction of Incorporation or Organization  
Address of Principal Executive Offices, Zip Code  
Registrant's Telephone Number (Including Area Code)

I.R.S. Employer  
Identification  
Number

Securities registered pursuant to Section 12(b) of the Act:	Title of Each Class	Trading Symbol	Name of Each Exchange on Which Registered
Prosper Marketplace, Inc.	None	None	None
Prosper Funding LLC	None	None	None
Securities registered pursuant to Section 12(g) of the Act:			
Prosper Marketplace, Inc.	None	None	None
Prosper Funding LLC	None	None	None

Indicate by check mark if each registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Prosper Marketplace, Inc. Yes  No   
Prosper Funding LLC Yes  No

Indicate by check mark if each registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Prosper Marketplace, Inc. Yes  No   
Prosper Funding LLC Yes  No

Indicate by check mark whether each registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Prosper Marketplace, Inc. Yes  No   
Prosper Funding LLC Yes  No

Indicate by check mark whether each registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Prosper Marketplace, Inc. Yes  No   
Prosper Funding LLC Yes  No

Indicate by check mark whether each registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

	Large Accelerated Filer	Accelerated Filer	Non-accelerated Filer	Smaller Reporting Company	Emerging Growth Company
Prosper Marketplace, Inc.	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Prosper Funding LLC	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if each registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Prosper Marketplace, Inc.	<input type="checkbox"/>
Prosper Funding LLC	<input type="checkbox"/>

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C.7262(b)) by the registered public accounting firm that prepared or issued its audit report.

Prosper Marketplace, Inc.	<input type="checkbox"/>
Prosper Funding LLC	<input type="checkbox"/>

Indicate by check mark whether each registrant is a shell company (as defined in Rule 12b-2 of the Act).

Prosper Marketplace, Inc.	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
Prosper Funding LLC	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>

**Prosper Funding LLC** meets the conditions set forth in General Instruction I(1)(a) and (b) of Form 10-K and is therefore filing this Annual Report on Form 10-K with the reduced disclosure format specified in General Instruction I(2) of Form 10-K.

	Aggregate Market Value of Voting and Non-Voting Common Equity Held by Non-Affiliates of the Registrant at June 30, 2021	Number of Shares of Common Stock of the Registrant Outstanding at March 21, 2022
Prosper Marketplace, Inc.	(a)	72,398,859
Prosper Funding LLC	(a)(b)	(\$0.01 par value) None

(a) Not applicable

(b) All voting and non-voting common equity is owned by Prosper Marketplace, Inc.

THIS COMBINED FORM 10-K IS SEPARATELY FILED BY PROSPER MARKETPLACE, INC. AND PROSPER FUNDING LLC. INFORMATION CONTAINED HEREIN RELATING TO ANY INDIVIDUAL REGISTRANT IS FILED BY SUCH REGISTRANT ON ITS OWN BEHALF. EACH REGISTRANT MAKES NO REPRESENTATION AS TO INFORMATION RELATING TO THE OTHER REGISTRANT.

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Except as the context requires otherwise, as used herein, “Registrants” refers to Prosper Marketplace, Inc. (“PMI”), a Delaware corporation, and its wholly owned subsidiary, Prosper Funding LLC (“PFL”), a Delaware limited liability company; “we,” “us,” “our,” “Prosper,” and the “Company” refer to PMI and its wholly owned subsidiaries, PFL, BillGuard, Inc. (“BillGuard”), a Delaware corporation, Prosper Healthcare Lending LLC (“PHL”), a Delaware limited liability company, Prosper Warehouse I Trust (“PWIT”), a Delaware statutory trust, Prosper Warehouse II Trust (“PWIIT”), a Delaware statutory trust, Prosper Marketplace Issuance Trust, Series 2019-1 (“PMIT 2019-1”, deconsolidated on September 27, 2021), a Delaware statutory trust, Prosper Marketplace Issuance Trust, Series 2019-2 (“PMIT 2019-2”, deconsolidated on September 27, 2021), a Delaware statutory trust and Prosper Marketplace Issuance Trust, Series 2019-4 (“PMIT 2019-4”, deconsolidated on September 27, 2021), a Delaware statutory trust, and Prosper Grantor Trust (“PGT”), a Delaware statutory trust, on a consolidated basis; and “Prosper Funding” refers to PFL and its wholly owned subsidiary, Prosper Depositor LLC, a Delaware limited liability company, on a consolidated basis. Prosper Asset Holdings LLC (“PAH”), a Delaware limited liability company was dissolved on November 28, 2018. As a result, references to Prosper Funding do not include PAH for periods subsequent to the year ended December 31, 2018. In addition, the unsecured, personal loans originated through our marketplace are referred to as “Borrower Loans,” and the borrower payment dependent notes issued through our marketplace, whether issued by PMI or PFL, are referred to as “Notes.” Investors currently invest in Borrower Loans through two channels: (i) the “Note Channel,” which allows investors to purchase Notes from PFL, the payments of which are dependent on the payments made on the corresponding Borrower Loan; and (ii) the “Whole Loan Channel,” which allows accredited and institutional investors to purchase Borrower Loans in their entirety directly from PFL. The Notes available to Note Channel investors are distinguishable from notes held by certain third party investors pursuant to Prosper’s securitization transactions, which are referred to herein as “Notes Issued by Securitization Trust.” Finally, although historically the Company has referred to investors as “lender members,” PFL calls them “investors” herein to avoid confusion since WebBank is the lender for Borrower Loans originated through our marketplace.

### **Forward-Looking Statements**

This Annual Report on Form 10-K includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”) and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Forward-looking statements include all statements that do not relate solely to historical or current facts, and can generally be identified by the use of words such as “may,” “believe,” “expect,” “project,” “estimate,” “intend,” “anticipate,” “plan,” “continue” or similar expressions. These statements may appear throughout this Annual Report on Form 10-K, including the sections titled “Business,” “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” Forward-looking statements inherently involve many risks and uncertainties that could cause actual results to differ materially from those projected in these statements. Where, in any forward-looking statement, PMI or PFL expresses an expectation or belief as to future results or events, such expectation or belief is based on the current plans and expectations of our respective managements, is expressed in good faith, and is believed to have a reasonable basis. Nevertheless, management can give no assurances that any of the events anticipated by these forward-looking statements will occur or, if any of them does occur, what impact they will have on Prosper or Prosper Funding’s results of operations and financial condition.

There are a number of important factors that could cause actual results or events to differ materially from those indicated in the forward-looking statements, including, among other things:

- the performance of the Notes, which, in addition to being speculative investments, are special, limited obligations that are not guaranteed or insured;
- PFL’s ability to make payments on the Notes, including in the event that borrowers fail to make payments on the corresponding Borrower Loans;
- our ability to attract potential borrowers and investors to our personal loan marketplace;
- the reliability of the information about borrowers that is supplied by borrowers including actions by some borrowers to defraud investors;
- our ability to service the Borrower Loans, and our ability or the ability of a third party debt collector to pursue collection against any borrower, including in the event of fraud or identity theft;
- credit risks posed by the credit worthiness of borrowers and the effectiveness of our credit rating systems;
- potential efforts by state regulators or litigants to impose liability that could affect PFL’s (or any subsequent assignee’s) ability to continue to charge to borrowers the interest rates that they agreed to pay at origination of their loans;
- the impact of future economic conditions on the performance of the Notes and the loss rates for the Notes;

- the performance of our recently-launched unsecured credit card (“Credit Card”) product and secured digital Home Equity Line of Credit (“HELOC”) product that was launched in 2019;
- our compliance with applicable local, state and federal law, including the Investment Advisers Act of 1940, the Investment Company Act of 1940 and other laws;
- our compliance with applicable regulations and regulatory developments or court decisions affecting our business;
- potential efforts by state regulators or litigants to characterize PFL or PMI, rather than WebBank, as the lender of the loans originated through our marketplace;
- the application of federal and state bankruptcy and insolvency laws to borrowers and to PFL and PMI;
- the impact of borrower delinquencies, defaults and prepayments on the returns on the Notes;
- the impact of the COVID-19 pandemic on our business, results of operations, financial condition and future prospects;
- the lack of a public trading market for the Notes and the current lack of any trading platform on which investors can resell the Notes;
- the federal income tax treatment of an investment in the Notes and the PMI Management Rights;
- our ability to prevent security breaches, disruptions in service, and comparable events that could compromise the personal and confidential information held on our data systems, reduce the attractiveness of the platform or adversely impact our ability to service Borrower Loans; and
- the other risks discussed under the “Risk Factors” section of this Annual Report on Form 10-K.

There may also be other factors that could cause our actual results to differ materially from the forward-looking statements in this Annual Report on Form 10-K. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements. You should carefully read the factors described in the “Risk Factors” section of this Annual Report on Form 10-K for a description of certain risks that could, among other things, cause PMI or PFL’s actual results to differ from these forward-looking statements.

All forward-looking statements included in this report speak only as of the date hereof and are expressly qualified in their entirety by the cautionary statements included in this Annual Report on Form 10-K. PMI and PFL undertake no obligation to update or revise such forward-looking statements to reflect events or circumstances that arise after the date made or to reflect the occurrence of unanticipated events, other than as required by law.

## PART I

### ITEM 1. BUSINESS

#### Overview

Our vision is to transform lives by providing affordable financial solutions through the simplest and most trusted platform. We currently offer access to three lending products, each of which supports our vision: (i) unsecured personal loans through a personal loan marketplace which connects eligible consumer borrowers with individual and institutional investors, (ii) an unsecured Credit Card product available to eligible borrowers, and (iii) a secured HELOC product available to eligible homeowners.

#### *Personal Loan*

We are a pioneer of peer-to-peer lending in the U.S. and first launched our personal loan lending product in 2006. Our personal loan marketplace facilitated \$1.9 billion in Borrower Loan originations during 2021 and \$20.1 billion in Borrower Loan originations since launch.

We believe our business model has key advantages relative to traditional banks, including: (i) an innovative marketplace model that efficiently connects qualified supply and demand of capital, (ii) online operations that substantially reduce the need for physical infrastructure and improve convenience, and (iii) use of advanced technology and artificial intelligence to deliver simple, fast, personalized, and transparent solutions that can improve consumers' financial health as they move across the credit spectrum. We do not operate physical branches or incur expenses related to infrastructure like traditional banks or consumer finance institutions. As part of operating our marketplace, we verify the identity of borrowers and assess borrowers' credit risk profile using a combination of public and proprietary data. Our proprietary technology automates several loan origination and servicing functions, including the borrower application process, data gathering, underwriting, credit scoring, loan funding, investing and servicing, regulatory compliance and fraud detection.

To consumer borrowers, we believe that we offer generally better pricing, on average, than the pricing those loan borrowers would pay on outstanding credit card balances or unsecured installment loans from a traditional lender. To individual and institutional investors, we offer an asset class (personal loans) that we believe has attractive risk adjusted returns, transparency, and lower duration risk.

Our personal loan marketplace offers fixed rate, fully amortizing, unsecured personal loans ranging from \$2,000 to \$40,000 with no prepayment penalty. Loan terms of three and five years are available, depending in large part upon the Prosper Rating assigned to the borrower at issuance and loan amount being sought. All Borrower Loans are originated and funded by WebBank, an FDIC-insured, state chartered industrial bank organized under the laws of Utah. After origination, WebBank sells the Borrower Loans to PFL, which either holds them or sells them to accredited institutional investors.

Investors invest in Borrower Loans through two channels – (i) the “Note Channel,” which allows investors to purchase Notes from PFL, the payments of which are dependent on PFL's receipt of payments made on the corresponding Borrower Loan; and (ii) the “Whole Loan Channel,” which allows accredited institutional investors to purchase a Borrower Loan in its entirety directly from PFL. PFL continues to own the Borrower Loans originated through the Note Channel. We service all of the Borrower Loans made through our marketplace.

#### *Credit Card*

In December 2021, we launched our Credit Card product in partnership with Coastal Community Bank (“Coastal”), through which eligible consumers are extended unsecured credit through Prosper-branded Credit Cards. Both we and Coastal receive ongoing payments based on sales transacted on Credit Cards and net interest income based on the credit performance of receivables allocated to each party under the contract. We also receive annual fees and late fees from some consumers that are issued Credit Cards. Our Credit Card product did not have a material impact on our revenue as of and for the year ended December 31, 2021. Credit Cards are not available on our personal loan marketplace for investment purposes.

#### *HELOC*

In March 2019, we launched the HELOC product. Currently, we partner with Spring EQ, LLC (“Spring EQ”) to provide a variety of services, including accepting online applications, counseling and non-counseling services, and verification, technology and processing services. The HELOC product is available through our website in Alabama, Arizona, Arkansas, California, Colorado, Delaware, Florida, Illinois, Kansas, Kentucky, Maryland, Nebraska, New Hampshire, New Mexico, Oklahoma, Oregon, Pennsylvania, Rhode Island, Texas and Vermont, as we are a licensed mortgage broker in each of the

foregoing states. The HELOC product did not have a material impact on our revenue as of and for the year ended December 31, 2021. The HELOC product is not available on our personal loan marketplace for investment purposes.

## **Company Background and History**

PMI was incorporated in the state of Delaware on March 22, 2005. PFL was formed as a limited liability company in the state of Delaware on February 17, 2012, and is a wholly-owned subsidiary of PMI.

PMI developed our personal loan marketplace and, until February 1, 2013, owned the proprietary technology that makes operation of our personal loan marketplace possible. On February 1, 2013, PMI transferred the personal loan marketplace to PFL. PFL has been organized and is operated in a manner that is intended (i) to minimize the likelihood that it will become subject to a voluntary or involuntary bankruptcy or similar proceeding, and (ii) to minimize the likelihood that, in the event of PMI's bankruptcy, PFL would be substantively consolidated with PMI and thus have its assets subjected to claims of PMI's creditors. We believe we have achieved this by imposing through PFL's organizational documents and covenants in the Amended and Restated Indenture (as defined below in Item 13, "Certain Relationships and Related Transactions, and Director Independence") certain restrictions on PFL's activities and certain formalities designed to reinforce PFL's status as a distinct entity from PMI. In addition, under the Administration Agreement, dated February 1, 2013, between PMI and PFL (as amended to date, the "Administration Agreement"), PMI has agreed, in its dealings with PFL and with third parties, to observe certain "separateness covenants" related to its corporate formalities. PMI has also adopted resolutions limiting its own activities and interactions with PFL in order to further reduce the likelihood that PFL would be substantively consolidated with PMI in the event of PMI's bankruptcy.

PFL has retained PMI, pursuant to the Administration Agreement, to provide certain administrative services relating to our personal loan marketplace. Specifically, the Administration Agreement contains a license granted by PFL to PMI that entitles PMI to use the marketplace for and in relation to: (i) PMI's performance of its duties and obligations under the Administration Agreement relating to corporate administration, loan platform services, loan and Note servicing, and marketing, and (ii) PMI's performance of its duties and obligations to WebBank in relation to loan origination and funding. The license is terminable in whole or in part upon the failure by PMI to pay PFL the licensing fee, or upon PMI's termination as the provider of some or all of the aforementioned services. See Item 13, "Certain Relationships and Related Transactions, and Director Independence—Prosper Marketplace, Inc.—Agreements with PFL" for more information.

## **How our Personal Loan Marketplace Works**

Our personal loan marketplace is an online marketplace that matches individuals who wish to obtain unsecured personal loans with individuals and institutions who are willing to commit funds to those loans. A borrower who wishes to obtain a loan through our marketplace must apply and, if accepted, post a loan listing to our marketplace. Each time we post a group of listings on our personal loan marketplace, we determine the relative proportions of such listings that will be allocated to the Note Channel and the Whole Loan Channel, respectively, based on our estimate of the relative overall demand in each channel. We then use a random allocation methodology to allocate individual listings between the two channels based on those proportions. If a listing receives enough investor commitments, WebBank will originate the Borrower Loan requested and then sell it to PFL.

### ***Borrowers***

Any natural person at least 18 years of age who is a U.S. resident in a state where loans through our marketplace are available with a U.S. bank account and a social security number may apply to become a borrower. All potential borrowers are subject to anti-fraud, anti-terrorism and identity verification processes and a potential borrower cannot obtain a loan without passing those processes.

When a borrower requests a loan, we first evaluate whether the borrower meets the underwriting criteria required by WebBank. The underwriting criteria apply to all loans originated through our marketplace and may not be changed without WebBank's consent. For the Note Channel, all borrowers who request a loan are subject to the following minimum eligibility criteria: (1) have at least a 640 FICO08 score, (2) have fewer than five credit bureau inquiries (after excluding duplicate inquiries) within the last 6 months, (3) have an annual income greater than \$0, (4) have a debt-to-income ratio of no more than 50%, (5) have at least three open trades reported on their credit report, and (6) have not filed for bankruptcy within the last 12 months.

We also allow two borrowers to apply together as joint applicants for a co-borrower loan. Each borrower applicant is held jointly and severally liable for the obligations under the loan. In the case of co-borrower loans, the primary (or "specified") borrower must satisfy the above credit criteria (except the debt-to-income ratio for joint loans is calculated using the combined debt-to-income ratio of the primary and secondary borrowers without duplication of combined debt). The secondary borrower

must also satisfy certain additional credit criteria, including a minimum FICO08 score of at least 600, at least one open trade reported on the secondary borrower's credit report, and no bankruptcy filings within the last 12 months.

In addition, a borrower may have up to two loans through Prosper outstanding at one time, provided that (1) the first loan is current, (2) the aggregate outstanding principal balance of both loans does not exceed the then-current maximum allowable loan amount for loans (currently \$40,000), (3) the borrower's first loan has been outstanding for at least 6 months, and (4) the borrower complies with the prior-borrower constraints below. For co-borrower loans, the foregoing additional requirements will apply if either the primary or secondary borrower has a currently outstanding loan.

If a borrower has previously obtained a Borrower Loan through our personal loan marketplace, then in addition to the foregoing requirements (as applicable), the borrower must also (1) have no prior charge-offs on Borrower Loans originated through our marketplace, and (2) have never been more than 15 days delinquent on any Borrower Loan obtained through our marketplace within 12 months of his or her application.

From time to time, we have, with WebBank's consent, tested new products that include features which are outside the standard eligibility criteria discussed above. These products are available on a limited basis, exclusively through our Whole Loan Channel.

### ***Investors***

Investors are individuals and institutions that have the opportunity to buy Notes or Borrower Loans after registering on our personal loan marketplace. However, investors do not have the ability to invest in the Credit Card and HELOC products on our personal loan marketplace. An individual investor must be a natural person at least 18 years of age and a U.S. resident, must provide his or her social security number, and may be required to provide his or her state driver's license or state identification card number. An institutional investor must provide its taxpayer identification number and entity formation documentation. All potential investors are subject to anti-fraud, anti-terrorism and identity verification processes and a potential investor cannot invest in Notes or Borrower Loans without passing those processes.

At the time an individual investor registers to participate in the Note Channel, such investor must satisfy any minimum financial suitability standards established for the Note Channel by the state in which the investor resides. Investors who participate in the Note Channel must enter into an investor registration agreement, which governs all sales of Notes to such investors.

Only investors who are approved by us are eligible to participate in the Whole Loan Channel. At a minimum, to participate in the Whole Loan Channel, an investor must meet the definition of an "accredited investor" set forth in Regulation D under the Securities Act. Investors who participate in the Whole Loan Channel must enter into loan purchase and loan servicing agreements with us.

Individual investors can also create a Prosper IRA account to invest on our marketplace using tax-deferred funds from an individual retirement account ("IRA"). Prosper IRA accounts are not maintained on our personal loan marketplace. Rather, Prosper IRA accounts are managed by third-party custodians who direct Prosper to make deposits and withdrawals to the individual's Prosper IRA account on behalf of the investor and/or their beneficiaries and who ensure IRA accounts remain compliant with applicable U.S. Internal Revenue Service ("IRS") regulations. Investors have the ability to select their third-party custodian or utilize a Prosper preferred third-party custodian partner for account management purposes.

### ***Relationship with WebBank***

WebBank is an FDIC-insured, Utah-chartered industrial bank that originates all Borrower Loans made through our personal loan marketplace. WebBank and PMI are parties to an agreement under which PMI manages the operations of our marketplace that relate to the submission of loan applications by borrowers and the making of related Borrower Loans by WebBank in exchange for a fee. WebBank makes each Borrower Loan with its own funds. A joint WebBank-Prosper Credit Policy, which can be changed only with WebBank's approval, constitutes the policy we must follow in reviewing, approving and administering Borrower Loans made by WebBank through the marketplace. WebBank, PMI and PFL are parties to a Loan Sale Agreement, under which WebBank sells and assigns the promissory notes evidencing the Borrower Loans to PFL. As consideration for WebBank's agreement to sell and assign the promissory notes, PFL pays WebBank the purchase price of the promissory notes, as well as a monthly fee, which is partially tied to the terms and performance of the loans. PMI receives payments from WebBank as compensation for the activities it undertakes on WebBank's behalf.

### ***Risk Management***

Each loan listing is assigned a letter grade that indicates the expected level of risk associated with the listing, which we refer to as a Prosper Rating. Each Prosper Rating corresponds to an estimated average annualized loss rate range. The Prosper Rating associated with a loan listing reflects the loss expectations for that listing as of the time the rating is given. This means



that otherwise similar borrowers may have different Prosper Ratings at different points in time as the Prosper Rating is updated to incorporate more recent information.

The estimated average annualized loss rate for each loan listing is based primarily on the historical performance of Borrower Loans with similar characteristics and is primarily determined by the following scores: (i) one or more custom Prosper scores ("Prosper Score"), as may be supplemented by additional proprietary scoring models, and (ii) a credit score obtained from a credit reporting agency. A Prosper Score is also updated periodically to include new information that is predictive of borrower risk as such information becomes available or as the evidence supporting a particular variable becomes strong enough to merit its inclusion in a Prosper Score.

To create a Prosper Score, we have developed and refined custom, Artificial Intelligence ("AI")-driven risk models using our historical data as well as a data archive from a consumer credit bureau. We built the Prosper Score models on our borrower population, and included information provided directly by the borrowers as well as information from their credit reports and other data sources, so that the models would incorporate behavior that is unique to that population. In addition to a Prosper Score, another major element used to determine the Prosper Rating for a loan listing is a credit score from a consumer reporting agency. We currently use either or both of TransUnion's FICO08 score and VantageScore. We obtain a borrower's credit score at the time the loan listing is created, unless we already have a credit score on file that is not more than thirty days old.

### ***Sale of Notes and Borrower Loans***

If an investor successfully bids on a loan listing, the principal amount of the loan will be set aside in the investor's account and may not be used for other bids. In the event a listing does not result in a loan being originated, the funds are made available for bidding by the investor.

For loan listings allocated to the Note Channel, a bid on a listing is an investor's commitment to purchase a Note from PFL. PFL generally issues and sells a series of Notes for each Borrower Loan that is originated through the Note Channel. The Notes are sold to the investors who successfully bid on the corresponding loan listing in the principal amounts of their respective bids. Each series of Notes is dependent for payment on PFL's receipt of payments on the corresponding Borrower Loan. PFL uses the proceeds of each series of Notes to purchase the corresponding Borrower Loan from WebBank on the second business day after WebBank has originated the Borrower Loan. Each Note comes attached with an inseparable PMI Management Right issued by PMI. Each PMI Management Right constitutes an "investment contract," a concept under federal securities law that refers to an arrangement where investors invest money in a common enterprise with the expectation of profits, primarily from the efforts of others.

For listings allocated to the Whole Loan Channel, a bid on a listing is an investor's commitment to purchase the Borrower Loan from PFL after origination by WebBank and sale to PFL. On the second business day after WebBank has originated the Borrower Loan, PFL purchases the Borrower Loan from WebBank and re-sells the Borrower Loan that same day to the corresponding investor. PFL records the investor as the owner of the Borrower Loan.

### ***Loan Servicing and Collection***

We are responsible for servicing the Borrower Loans made through our personal loan marketplace. We will pay each Note holder principal and interest on the Note in an amount equal to each such Note's pro-rata portion of the principal and interest payments, if any, which we receive on the corresponding Borrower Loan, net of our servicing fee. We will also pay Note holders their pro-rata portion of any other amounts we receive on the corresponding Borrower Loans, including late fees and prepayments, subject to our servicing fee; provided, that we will not pay Note holders any non-sufficient funds fees we receive for failed borrower payments. In addition, the funds available for payment on the Notes will be reduced by the amount of any attorneys' fees or collection fees we, a third-party servicer or a collection agency imposes in connection with collection efforts related to the corresponding Borrower Loan. We will have no further obligation to make payments on any Note after its final maturity date.

We will pay each investor who has purchased a Borrower Loan through the Whole Loan Channel principal and interest on the Borrower Loan purchased in an amount equal to the principal and interest payments, if any, that we receive, net of our servicing fee. We will also pay these investors any other amounts we receive on the Borrower Loans, including late fees and prepayments, subject to our servicing fee, provided that we will not pay these investors any non-sufficient funds fees we receive for failed borrower payments or any payment processing fees we may collect. In addition, the funds available for payment on the Borrower Loans will be reduced by the amount of any attorneys' fees or collection fees we, a third-party servicer or a collection agency imposes in connection with collection efforts related to the Borrower Loan.

If a Borrower Loan becomes past due, we may collect on it directly or refer it to a third-party collection agency. Our in-house collections department and third-party collection agencies are compensated by keeping a portion of the payments they collect based on a predetermined schedule.

## Customers

A relatively small number of investors provide the funding commitments for a large percentage of all listings that result in Borrower Loans originated through our personal loan marketplace. Of all Borrower Loans originated in the year ended December 31, 2021, the largest party purchased a total of 26.7% of those loans.

## Industry Background and Trends

According to the Board of Governors of the Federal Reserve System, as of December 2021, the balance of outstanding consumer credit (excluding loans secured by real estate) in the United States totaled \$4.4 trillion. This amount included \$1.0 trillion of revolving consumer credit, primarily credit card, and \$3.4 trillion of non-revolving loans. A portion of the revolving balances are also refinanced by consumers at lower interest rates and fixed terms through personal loans.

The market for consumer lending is competitive and rapidly evolving, and there is an opportunity for our business model to transform the traditional lending process. We believe our marketplace offers a superior solution for both borrowers and investors.

For borrowers, we believe our marketplace offers the following principal competitive factors: better terms versus other alternatives; a simple, easy and intuitive customer experience; a fast and efficient process; and trust and transparency.

For investors, we believe our marketplace offers the following principal competitive factors: attractive risk-adjusted returns; low duration risk; diversification from other asset classes; a simple, easy and intuitive customer experience; and trust and transparency.

## Competition

We compete for borrowers and investors against other financial products and companies. For borrowers, our competition includes banking institutions, credit unions, credit card issuers, mortgage lenders, and other online consumer lending companies, such as LendingClub Corporation, Social Finance Inc., and Upstart Holdings, Inc. For investors in our personal loan product, our competition includes other investment vehicles such as consumer lending funds and asset classes such as equities, bonds and commodities. We may also face potential competition from new market entrants, or business expansion from established companies, such as Goldman Sachs. These companies may have significantly greater financial, technical, marketing and other resources and may be able to devote greater resources to the development, promotion, sale and support of their offerings.

## Our Competitive Strengths

We believe the following strengths differentiate us from our competitors and provide us with sustainable competitive advantages:

- *Leading Online Personal Loan Marketplace.* Since inception, our personal loan marketplace has facilitated \$20.1 billion in loan originations, of which \$1.9 billion was for the year-ended December 31, 2021. As our business grows, our brand, reputation and scale strengthens. This allows us to attract top talent, speed up product innovation, launch additional personal finance products, attract marketplace participants and drive down our cost structure, all of which further benefit borrowers and investors.
- *Robust Network Effect.* The attractiveness of our personal loan marketplace increases as the number of participants on our marketplace increases, yielding a classic network effect. Our personal loan marketplace offers consumer borrowers access to affordable credit, and allows individual and institutional investors to invest in an asset class with attractive risk-adjusted returns. The diversity of investors brings scale and breadth of funding to our marketplace and makes credit more affordable. As both sides of the equation grow, the advantages (reduced risk, lower cost) scale accordingly, attracting even more borrowers and investors. The increased participant pool reduces costs and generates more data which we use to improve the effectiveness of our credit decisioning and scoring models. This enhances our aggregate loan performance and builds increased trust in our marketplace, which in turn attracts more borrowers and investors. We believe our strength in the personal loan marketplace will also attract customers to seek out the Credit Card and HELOC products.
- *Technology Platform.* Our technology platform automates key aspects of our operations, including the borrower application process, data gathering, underwriting, credit scoring, loan funding, investing and servicing, regulatory compliance and fraud detection. This provides a significant time and cost advantage over traditional consumer lending business models and, we believe, enables us to provide a superior user experience to our borrowers and investors. Using our accumulated performance data, we continually invest in incremental improvements in our algorithms thus extending our technological advantage.

- *Proprietary Risk Management Capabilities.* We have developed AI-driven proprietary risk models based on personal loan and credit card performance data, which we believe allows us to accurately assess the credit risk profile of borrowers and which we believe also allows investors to earn attractive risk-adjusted returns. We leverage the results from our growing data stream to continually refine these AI-driven risk models and more accurately predict credit performance.
- *Unique Corporate Structure.* Our corporate structure was designed to offer our investors extra protection. The organization and operation of PFL and PMI as separate and distinct entities should serve to protect our Note investors in the event of a bankruptcy filing by or against PMI. This organizational structure, along with the federal and state registration process, is expensive and time consuming to undertake, and is not easily duplicated by competitors.
- *Efficient and Attractive Financial Model.* We have multiple revenue streams and an efficient cost model. For personal loans, we generate revenue from transaction fees from our marketplace’s role in matching borrowers with investors to enable loan originations, servicing fees related to Borrower Loans for which we retain the servicing rights, net interest income from Borrower Loans and Loans Held for Sale, credit referral fees and other ancillary revenue sources. Additionally, our technology platform significantly reduces the need for physical infrastructure and therefore allows our business to grow with a lower cost operating model, providing us with significant operating leverage.

## Sources of Revenues

We have three primary sources of personal loan revenues: transaction fees, servicing fees, and net interest income. We earn transaction fees from WebBank by facilitating the origination of Borrower Loans through the personal loan marketplace, and we earn servicing fees from investors for processing principal and interest payments made by borrowers and passing such payments on to investors and also earn net interest income from Borrower Loans and Loans Held for Sale. The revenue of the Credit Card and HELOC products was not material as of and for the year ended December 31, 2021.

## Sales and Marketing

Our sales and marketing efforts are designed to attract individuals and institutions to our products, encourage their enrollment and participation as users, and facilitate and enhance their understanding and utilization of each product. We employ a wide range of marketing channels to reach potential customers and build our brand and value proposition. These channels include referrals, online marketing, direct mail, partner and affiliate introductions, and email. We are constantly seeking new methods to reach more potential members, while testing and optimizing the end-to-end customer experience.

## Origination and Servicing

We have efficient and scalable systems for credit risk assessment, loan underwriting, and servicing. Our risk models take borrowers’ supplied information and combine that information with public and proprietary data to make real time decisions. Our verification agents use several tools to efficiently verify borrower information. Our personal loan servicing platform calculates a loan’s amortization and processes payments received from borrowers and passes such payments on to investors. In addition, we have a back-up servicing agreement with Vervent, Inc. (“Vervent”) (f/k/a First Associates Loan Servicing, LLC), a loan servicing company that is willing and able to assume servicing responsibilities in the event that we are no longer able to service the Borrower Loans and Notes. Vervent is a financial services company that has entered into numerous successor loan servicing agreements.

## Technology

We have made substantial investment in our customer acquisition capability, customer experience, and credit underwriting, loan servicing and payment systems. Our personal loan marketplace utilizes proprietary software to process electronic cash movements, record book entries and calculate cash balances in users’ funding accounts. Electronic deposits and payments are mostly done via Automated Clearing House (“ACH”) transactions. The technology platform allows us to economically acquire and service Borrower Loans and Notes, and allows WebBank to efficiently originate and fund Borrower Loans.

The system hardware for our personal loan marketplace is located in hosting facilities in Scottsdale, Arizona, Las Vegas, Nevada, The Dalles, Oregon and Council Bluffs, Iowa. We own the hardware deployed in support of our personal loan marketplace. We continuously monitor the performance and availability of our marketplace. The infrastructure is scalable and utilizes standard techniques such as load-balancing and redundancies.

Key aspects of our technology include:

- *Scalability.* Our personal loan marketplace is designed and built as a real-time, highly scalable, multi-tier, redundant system. It incorporates technologies designed to prevent any single point of failure within the data center from taking the entire system offline. This is achieved by utilizing load-balancing technologies at the front end and business layer

tiers and clustering technologies in the back-end tiers to allow scaling both horizontally and vertically depending on marketplace utilization.

- *Data Integrity and Security.* We are committed to protecting our users' information and we take the integrity and security of the data provided by them very seriously. To that end, we have established data protection policies which are implemented and enforced using the latest technologies. All sensitive information is transmitted on secure channels using SSL technology, with SSL certificates issued by Symantec or DigiCert. We employ principles of least privilege and layered security to protect stored sensitive information. Sensitive information at rest is encrypted using the industry level encryption technologies with appropriate controls to access the data. We protect the network perimeter using the latest technologies including but not limited to firewall and anti-virus threat management techniques. We use strong multi-factor authentication to protect and monitor remote access. We back up all data securely and would expect to recover operations in a short period of time in the event of a disaster. Logging and monitoring of the systems and security controls enables us to ensure that the controls are functional and that alerts are triggered on security violations.
- *Fraud Detection.* We employ a combination of proprietary technologies and commercially available licensed technologies and solutions to prevent and detect fraud. These include knowledge-based authentication, behavioral analytics and digital fingerprinting to prevent identity fraud. We use services from third-party vendors for user identification, credit checks and for checking customer names against the list of Specially Designated Nationals and other lists maintained by the Office of Foreign Assets Control (“OFAC”). In addition, we use specialized third-party software to augment the identity fraud detection systems. We also have a dedicated team which conducts additional investigations of cases flagged for high fraud risk. Finally, we enable users to report suspicious activity, which we may then evaluate further.
- *Targeted Risk Assessment.* Our AI-driven credit risk models include flags and characteristics which are unique to our platform. We believe this results in a risk assessment that is more targeted and accurate than the traditional lenders, leading to higher approval rates, lower interest rates and highly automated identity and income verification. We are continuing to improve the AI technology embedded within our models to facilitate and improve access to credit and the application experience for borrowers. We have been building and enhancing AI models since 2015 and currently have AI models for underwriting, early payment default, third party fraud, income verification, collections and our direct mail program.

## **Intellectual Property**

We rely on a combination of copyright, patent, trade secret, trademark, and other rights, as well as confidentiality procedures and contractual provisions, to protect our proprietary technology, processes and other intellectual property. We enter into confidentiality and other written agreements with our employees, consultants and service providers, and through these and other written agreements, attempt to control access to and distribution of the software, documentation and other proprietary technology and information. We also utilize a robust multi-layered monitoring program, including third party domain monitoring services, web search engine alerts and our outside counsel, which we leverage to actively enforce our intellectual property rights. Despite these efforts to protect our proprietary rights, third parties may, in an authorized or unauthorized manner, attempt to use, copy or otherwise obtain and market or distribute our intellectual property rights or technology or otherwise develop a product with the same functionality. Policing all unauthorized use of intellectual property rights is nearly impossible. Therefore, we cannot be certain that the steps we have taken or will take in the future will prevent misappropriations of our technology or intellectual property rights.

We have registered several trademarks in the United States, including “*Prosper*,” “*FAAS*,” “*Make Healthcare Affordable*,” “*Powered by Prosper*” and numerous stylized marks, including the Prosper and Prosper Healthcare Lending logos.

We have invested in a research and development program and, as of December 31, 2021, we had two issued patents and six patent applications filed and pending before the United States Patent and Trademark Office. We may file additional patent applications or pursue additional patent protection in the future to the extent we believe it will be beneficial.

## **Human Capital Resources**

### *Employee Profile*

At Prosper, our mission is to advance financial well-being and our employees are critical to achieving this mission. We are committed to hiring and developing employees who embody our core values: accountability, collaboration, excellence, curiosity, diversity, simplicity, and integrity. As of December 31, 2021, we had 384 full-time employees, all of whom were based in the United States. Our employees are split into the following four functions: 121 in origination and servicing, 20 in sales and marketing, 101 in general and administrative – research and development, and 142 in general and administrative –

other. None of our employees are represented by labor unions. We have not experienced any work stoppages, and we believe that our relations with our employees are good.

### ***Employee Health & Wellness***

During the COVID-19 pandemic, the safety and well-being of our employees and their families has been a top priority as we continue to serve our customers. We transitioned our entire workforce to remote working arrangements and provide a monthly stipend to cover added remote costs. We also keep our employees informed with frequent communications on health and community resources and information along with updates regarding our own response to COVID-19. We continue to monitor and update our practices to remain aligned and ahead of federal, state and local laws, regulations, guidelines and recommendations.

Our employees have access to several programs and benefits related to employee wellness including: traditional life and health (medical, dental, vision) insurance, flexible paid time off, free membership to physical, mental and emotional health resources, and parental leave programs, among others. We have also introduced specific programs and benefits for caregivers during the pandemic including free tutoring for school-aged children. We believe our progressive human resources policies, learning and development, talent acquisition, and community engagement and support activities enable us to attract and retain key personnel.

### ***Employee Recognition and Talent Development***

We understand that to attract and retain great people, we must listen to and engage them regularly. We conduct an anonymous, company-wide employee engagement survey twice a year to gauge our progress and identify the areas where we excel and areas for improvement in the employee experience. Following each survey, we identify areas where we would like to focus to support engagement within the company and create action plans to support those initiatives. We have implemented two award programs to recognize and honor our employees who exemplify our values.

Because we operate in a highly regulated industry, we require ongoing regulatory and compliance training for our employees. Additionally, we provide a series of leadership training for all people managers. We also offer employees free access to on-demand training on an array of subjects from technical to business management to build the skills and advance their careers as well as opportunities for employees to pursue their passion projects and leadership development in alignment with our values.

### ***Diversity, Equity, Inclusion and Belonging***

Diversity and collaboration are among our company's core values and we believe our efforts in diversity, equity, inclusion and belonging ("DEIB") fuel our innovation and drive our success. Our goal is to foster a diverse and inclusive workplace where our employees feel that their identities and experiences are represented, embraced and celebrated. We are also committed to our efforts to increase diversity through our hiring practices by using gender-neutral job postings and recruiting policies that promote diverse candidates. We recruit the best people for the job regardless of differences that include gender, ethnicity and other protected traits and it is our policy to comply fully with all federal, state and local laws relating to discrimination in the workplace. We have several employee resource groups that help us to identify opportunities and actions related to DEIB and to better engage underrepresented populations. Our DEIB principles are also reflected in our employee training, and in particular with respect to our policies against harassment and bullying and the elimination of bias in the workplace. We continue to enhance our DEIB policies, with guidance by our executive leadership team.

## Government Regulation

### Overview

The lending and securities industries are highly regulated. Each of the financial products offered by us are subject to extensive and complex rules and regulations. We also are subject to licensing and examination by various federal, state and local government authorities. These authorities impose obligations and restrictions on our activities, WebBank's activities and the Borrower Loans acquired and Notes issued through our marketplace, Coastal's activities and the Credit Card product, and Spring EQ and the HELOC product. In particular, these rules may limit the fees that may be assessed, require extensive disclosure to, and consents from, borrowers, prohibit discrimination, and impose multiple qualification and licensing obligations on our activities. Failure to comply with these requirements may result in, among other things, revocation of required licenses or registrations, loss of approved status, voiding of loan contracts, indemnification liabilities to contract counterparties, class action lawsuits, administrative enforcement actions and civil and criminal liabilities. While compliance with such requirements is at times complicated by our novel business model, we believe we are in substantial compliance with these rules and regulations. These rules and regulations are subject to continuous change, however, and a material change could have an adverse effect on our compliance efforts and ability to operate.

From time to time, various types of federal and state legislation are proposed and new regulations are introduced that could result in additional regulation of, and restrictions on, the business of consumer lending. We cannot predict whether any such legislation or regulations will be adopted or how this would affect our business or our important relationships with third parties. In addition, the interpretation of existing legislation may change or may prove different than anticipated when applied to our novel business model. Compliance with such requirements could involve additional costs, which could have a material adverse effect on our business. As a consequence of the extensive regulation of consumer lending in the United States, our business is particularly susceptible to being affected by federal and state legislation and regulations that may increase the cost of doing business.

### Personal Loan State and Federal Laws and Regulations

*State Licensing Requirements.* In most states we believe that WebBank, as originator of all Borrower Loans originated through our marketplace, satisfies any relevant licensing requirements with respect to the origination of such Borrower Loans. In addition, as needed, we seek licenses and/or authorizations of various types so that we may conduct activities such as servicing and marketing in all states and the District of Columbia, with the exceptions of Iowa and West Virginia. We are subject to supervision and examination by the state regulatory authorities that administer these state lending laws. The licensing statutes vary from state to state and prescribe or impose different requirements, including: restrictions on loan origination and servicing practices, limits on finance charges and the type, amount and manner of charging fees; disclosure requirements; requirements that licensees submit to periodic examination; surety bond and minimum specified net worth requirements; periodic financial reporting requirements; notification requirements for changes in principal officers, stock ownership or corporate control; restrictions on advertising; and requirements that loan forms be submitted for review.

*State Usury Laws.* Section 521 of the Depository Institution Deregulation and Monetary Control Act of 1980 (12 U.S.C. § 1831d) ("DIDA") and Section 85 of the National Bank Act ("NBA") (12 U.S.C. § 85), federal case law interpreting the NBA such as *Tiffany v. National Bank of Missouri* and *Marquette National Bank of Minneapolis v. First Omaha Service Corporation*, and FDIC advisory opinion 92-47 permit FDIC-insured depository institutions, such as WebBank, to "export" the interest rate permitted under the laws of the state where the bank is located, regardless of the usury limitations imposed by the state law of the borrower's state of residence unless the state has chosen to opt out of the exportation regime. WebBank is located in Utah, and Title 70C of the Utah Code does not limit the amount of fees or interest that may be charged by WebBank on loans of the type offered through our marketplace. Only Iowa and Puerto Rico have opted out of the exportation regime under Section 525 of DIDA and we do not operate in either jurisdiction. However, if a state in which we did operate opted out of rate exportation, we believe that judicial interpretations support the view that such opt outs only apply to loans "made" in those states.

In May 2015, the U.S. Court of Appeals for the Second Circuit issued a decision in *Madden v. Midland Funding, LLC* that interpreted the scope of federal preemption under the NBA and held that a nonbank assignee of a loan originated by a national bank was not entitled to the benefits of federal preemption of claims of usury. On November 10, 2015, the defendant in the *Madden* case filed a petition for a writ of certiorari with the United States Supreme Court for further review of the Second Circuit's decision. On June 27, 2016, the United States Supreme Court denied the petition and refused to review the case, leaving the decision of the Second Circuit intact and binding on federal courts in Connecticut, New York and Vermont. The *Madden* decision has created some uncertainty as to whether non-bank entities purchasing loans originated by a bank may rely on federal preemption of state usury laws, and may create an increased risk of litigation by plaintiffs challenging our ability to collect interest in accordance with the terms of Borrower Loans. While the decision specifically addressed preemption under the NBA, it could support future challenges to federal preemption for other institutions, including an FDIC-insured, state chartered industrial bank like WebBank. However, although there can be no assurances as to the outcome of any potential

litigation, or the possible impact of the litigation on our marketplace, we believe the *Madden* case addressed facts that are not presented by our marketplace lending platform and thus would not apply to Borrower Loans.

In June 2020, the FDIC issued a final regulation entitled “Federal Interest Rate Authority” that, among other things, addressed the uncertainty resulting from the *Madden* decision, including uncertainty affecting marketplace lenders that partner with banks. Under the FDIC’s rule, which applies to FDIC-insured state-chartered industrial banks such as WebBank, interest on a loan originated by WebBank that was permissible under DIDA at origination is not affected by WebBank’s subsequent sale of the loan to PFL. Seven states and the District of Columbia sued the FDIC, however, seeking to have the regulation set aside on Administrative Procedure Act grounds. Three states brought a similar challenge in the same court to a similar regulation issued by the OCC under the NBA. Both suits were decided in February 8, 2022, with the United States District Court for the Northern District of California ruling that the FDIC and OCC had not exceeded their statutory authority when promulgating their respective rules. The court deferred to each federal agency’s interpretation, and thus concluded that each agency’s rule was not unreasonable or arbitrary or capricious. The states have until April 11, 2022 to appeal the rulings to the U.S. Court of Appeals for the Ninth Circuit. If the states appeal, a decision by the Ninth Circuit overturning the District Court’s rulings could subject Borrower Loans and PFL purchases from WebBank to state usury laws.

In January 2017, the Administrator of the Colorado Uniform Consumer Credit Code filed suits against online loan platforms Marlette Funding, LLC and Avant, Inc. The Administrator claimed that loans to Colorado residents facilitated through these platforms were required to comply with Colorado laws regarding interest rates and fees, and that such laws were not preempted by the federal laws that apply to loans originated by Cross River Bank and WebBank, the federally regulated issuing banks that originate loans through the platforms operated by Marlette and Avant, respectively. In response to the Colorado regulator’s lawsuits, Cross River Bank and WebBank each intervened in the state court case filed against Marlette and Avant, respectively. On August 18, 2020, the parties reached a settlement that provides a safe harbor for the Marlette and Avant lending platforms, such that if the lending programs meet certain criteria related to oversight, disclosure, funding, licensing, consumer terms, and structure, the programs will be deemed to be in compliance with Colorado’s usury limits. On November 9, 2020, we amended our agreements with WebBank to address the requirements of the safe harbor for extending credit to borrowers in Colorado.

If a Borrower Loan made through our marketplace was deemed to be subject to the usury laws of a state that has opted-out of the exportation regime or becomes bound by the Second Circuit’s or a similar judicial decision (including a judicial decision setting aside the FDIC’s regulation governing permissible interest on loans sold by banks to non-banks), we could become subject to fines, penalties, and possible forfeiture of amounts charged to borrowers, and we may decide not to originate Borrower Loans through our marketplace in that applicable jurisdiction, which may adversely impact our growth. For more information, see Item 1A, “Risk Factors—If our marketplace were found to violate a state’s usury laws, we may have to alter our business model and our business could be harmed.”

*State Securities Laws.* We are subject to the securities laws of each state in which the registration or qualification to offer and sell the Notes and PMI Management Rights has been approved. Certain of these state laws require us to renew the registration or qualification of Notes and PMI Management Rights on an annual basis.

*The Dodd-Frank Wall Street Reform and Consumer Protection Act.* The Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) created many new restrictions and an expanded framework of regulatory oversight for the financial services industry. Among other things, the Dodd-Frank Act centralized responsibility for consumer financial protections by creating the Consumer Financial Protection Bureau (the “CFPB”), which has broad authority to write regulations under federal consumer financial protection laws, such as the Truth-in Lending Act, the Equal Credit Opportunity Act, the Fair Credit Reporting Act, and the Fair Debt Collection Practices Act, and to enforce those laws against and examine large financial institutions, such as our issuing bank, for compliance. The CFPB is authorized to prevent “unfair, deceptive or abusive acts or practices” through its regulatory, supervisory and enforcement authority. We are subject to the CFPB’s jurisdiction, including its enforcement authority and may become subject to their supervisory authority, as a servicer and acquirer of consumer credit. The CFPB may request reports concerning our organization, business conduct, markets and activities, and also conduct on-site examinations of our business on a periodic basis.

*Truth-in-Lending Act.* The federal Truth-in-Lending Act (“TILA”), and Regulation Z, which implements TILA, require creditors to provide consumers with uniform, understandable information concerning certain terms and conditions of their loan and credit transactions. These rules apply to WebBank as the creditor for Borrower Loans facilitated through our marketplace, but because the transactions are carried out on our hosted website, we facilitate compliance at WebBank’s direction. For closed-end credit transactions of the type provided through our marketplace, these disclosures include providing the annual percentage rate, the finance charge, the amount financed, the number of payments and the amount of the monthly payment. The creditor must provide the disclosures before the Borrower Loan is closed. TILA also regulates the advertising of credit and gives borrowers, among other things, certain rights regarding updated disclosures and the treatment of credit

balances. Our marketplace provides borrowers with a TILA disclosure prior to the time a Borrower Loan is originated. We also seek to comply with TILA's disclosure requirements related to credit advertising.

*Equal Credit Opportunity Act.* The federal Equal Credit Opportunity Act ("ECOA") prohibits creditors from discriminating against credit applicants on the basis of race, color, sex, age, religion, national origin, marital status, or the fact that all or part of the applicant's income derives from any public assistance program or the fact that the applicant has in good faith exercised any right under the federal Consumer Credit Protection Act or any applicable state law. Regulation B, which implements ECOA, restricts creditors from requesting certain types of information from applicants and from making statements that would discourage on a prohibited basis a reasonable person from making or pursuing an application. These requirements apply both to lenders such as WebBank and other parties like us that regularly implement and communicate credit decisions. Investors may also be subject to the ECOA in their capacity as purchasers of Notes, if they are deemed to regularly participate in credit decisions. In the underwriting of Borrower Loans on our marketplace, both WebBank and we seek to comply with ECOA's provisions prohibiting discouragement and discrimination. ECOA also requires creditors to provide consumers with timely notices of adverse action taken on credit applications. WebBank and we provide prospective borrowers who apply for a Borrower Loan through our marketplace but are denied credit with an adverse action notice which is in compliance with applicable requirements (see also below regarding "Fair Credit Reporting Act").

*Fair Credit Reporting Act.* The federal Fair Credit Reporting Act ("FCRA") and its implementing regulations, including Regulation V, promote the accuracy, fairness and privacy of information in the files of consumer reporting agencies. FCRA requires a permissible purpose to obtain a consumer credit report, and requires persons to report loan payment information to credit bureaus accurately. FCRA also imposes disclosure requirements on creditors who take adverse action on credit applications based on information contained in a credit report. WebBank and we have a permissible purpose for obtaining credit reports on potential borrowers and WebBank and we also obtain explicit consent from borrowers to obtain such reports. As the servicer for the Borrower Loan, we have systems in place to report Borrower Loan payment and delinquency information to appropriate reporting agencies. We provide an adverse action notice to a rejected borrower on WebBank's behalf at the time the borrower is rejected that includes all the required disclosures. We have also implemented an identity theft prevention program as required by law.

*Fair Debt Collection Practices Act.* The federal Fair Debt Collection Practices Act ("FDCPA") and its implementing regulation, Regulation F, provide guidelines and limitations on the conduct of third-party debt collectors in connection with the collection of consumer debts. The FDCPA limits certain communications with third parties, imposes notice and debt validation requirements, and prohibits threatening, harassing or abusive conduct in the course of debt collection. We are not a "debt collector" under the FDCPA, which the statute defines as a person who regularly collects or attempts to collect, directly or indirectly, debts owed or due, or asserted to be owed or due, to another. The CFPB retained the statute's "debt collector" definition in its November 2020 final rules implementing the FDCPA. As the servicer for Borrower Loans originated by WebBank and owned by investors, we are not a debt collector based on our facilitation of loans in the origination process and/or its servicing of the Borrower Loans after the time of origination and prior to any default. While the FDCPA applies to third-party debt collectors, debt collection laws of certain states impose similar requirements on creditors who collect their own debts. Our agreement with our investors prohibits investors from attempting to collect directly on the Borrower Loan. We use our internal collection team and professional external debt collection agents to collect delinquent accounts. They are required to comply with all other applicable laws in collecting delinquent accounts of our borrowers.

*Servicemembers Civil Relief Act.* The federal Servicemembers Civil Relief Act ("SCRA") allows military members to suspend or postpone certain civil obligations so that the military member can devote his or her full attention to military duties. The SCRA, as well as certain state laws with similar protections for military members, require us to adjust the interest rate of borrowers who qualify for and request relief. If a borrower with an outstanding Borrower Loan qualifies for protection under the SCRA or similar state laws, we will reduce the interest rate on the Borrower Loan to 6% for the duration of the borrower's active duty. During this period, the investors who have invested in such Borrower Loan will not receive the difference between 6% and the Borrower Loan's original interest rate. For a borrower to obtain an interest rate reduction on a Borrower Loan due to military service, we require the borrower to send us a written request and written documentation of active duty. We do not take military service into account in assigning Prosper Ratings to borrower loan requests and we do not disclose the military status of borrowers to investors.

*Military Lending Act.* The federal Military Lending Act ("MLA") provides specific protections for active duty service members and their dependents (or covered borrowers) in consumer credit transactions. Although originally enacted in 2006, the MLA applies to persons engaged in the business of extending consumer credit subject to the disclosure requirements of the TILA and Regulation Z with respect to loans made on or after October 3, 2016. The MLA prohibits creditors from imposing a Military Annual Percentage Rate ("MAPR") greater than 36% in any consumer credit transaction involving a covered borrower. It also requires certain oral and written disclosures to be provided to covered borrowers. Additionally, the MLA prohibits creditors from requiring covered borrowers to waive rights to legal recourse, submit to arbitration, or pay a prepayment penalty or fee. Both we and WebBank have ensured that the loan program complies with the MLA requirements for covered borrowers,



including but not limited to the restriction on MAPR, the delivery of required disclosures and the prohibition of mandatory arbitration and waiver of legal recourse.

*Other Lending Regulations.* We are subject to and seek to comply with other state and federal laws and regulations applicable to consumer lending, including additional requirements relating to loan disclosure, credit discrimination, credit reporting, debt collection and unfair, deceptive or abusive business practices. These laws and regulations may be enforced by state consumer credit regulatory agencies, state attorneys general, the CFPB and private litigants, among others. Given our novel business model and the subjective nature of some of these laws and regulations, particularly laws regulating unfair, deceptive or abusive business practices, we may become subject to regulatory scrutiny or legal challenge with respect to our compliance with these requirements.

*Electronic Funds Transfer Act.* The federal Electronic Fund Transfer Act (“EFTA”), and Regulation E, which implements it, provide guidelines and restrictions on the electronic transfer of funds from consumers’ bank accounts. In addition, transfers performed by ACH electronic transfers are subject to detailed timing and notification rules and guidelines administered by the National Automated Clearinghouse Association (“NACHA”). Most transfers of funds in connection with the origination and repayment of the Borrower Loans are performed by ACH. We obtain necessary electronic authorization from borrowers and investors for such transfers in compliance with such rules. Transfers of funds through our marketplace are currently executed by Wells Fargo and conform to the EFTA, its regulations and NACHA guidelines.

*Electronic Signatures in Global and National Commerce Act/Uniform Electronic Transactions Act.* The federal Electronic Signatures in Global and National Commerce Act (“ESIGN”) and similar state laws, particularly the Uniform Electronic Transactions Act (“UETA”), authorize the creation of legally binding and enforceable agreements utilizing electronic records and signatures. ESIGN and UETA require businesses that want to use electronic records or signatures in consumer transactions to obtain the consumer’s consent to receive information electronically. When a borrower or individual investor registers with our marketplace, we obtain his or her consent to transact business electronically and maintain electronic records in compliance with ESIGN and UETA requirements.

*Privacy and Data Security Laws.* The federal Gramm-Leach-Bliley Act (“GLBA”) limits the disclosure of nonpublic personal information about a consumer to nonaffiliated third parties and requires financial institutions to disclose certain privacy policies and practices with respect to information sharing with affiliated and nonaffiliated entities as well as to safeguard personal customer information. Additional state and federal privacy and data security laws require safeguards to protect the privacy and security of consumers’ personally identifiable information, require notification to affected customers in the event of a breach, and restrict certain sharing of nonpublic personal information about a consumer with affiliated entities. For example, the California Consumer Privacy Act (“CCPA”), which took effect on January 1, 2020, provides consumers in the state with rights to know about the use, to request deletion, and to opt out of the sale of their personal information by businesses that are a certain size or that generate at least half of their revenue by selling personal information. In turn, the CCPA requires subject businesses to notify consumers of their data collection practices and to implement procedures for timely responding to consumer requests submitted in exercise of their rights under the statute, although the CCPA includes certain exceptions for personal information that is protected under GLBA or other federal and state privacy laws. We maintain a detailed privacy policy that is designed to address GLBA and the CCPA and is accessible from our website. These provisions of the CCPA will be further strengthened by provisions of the California Privacy Rights Act that will become operative January 1, 2023. We maintain security measures designed to protect participants’ personal information, and we do not sell, rent or share such information with nonaffiliated third parties for marketing purposes unless previously agreed to by the participant or otherwise permitted by applicable law. In addition, we take a number of measures to safeguard the personal information of our borrowers and investors and to protect it against unauthorized access.

*Bank Secrecy Act.* In cooperation with WebBank, we have implemented an anti-money laundering policy and various anti-money laundering procedures to comply with applicable federal law. With respect to new borrowers and investors, we apply the customer identification and verification program rules and screen names against the list of Specially Designated Nationals maintained by the U.S. Department of the Treasury Office of Foreign Asset Control’s (“OFAC”) pursuant to the USA PATRIOT Act amendments to the Bank Secrecy Act (“BSA”) and its implementing regulation.

### ***Credit Card State and Federal Laws and Regulations***

The Credit Card product operates under a similar bank partnership model as our personal loan marketplace, whereby through the application of Section 521 of DIDA, Section 85 of the NBA, and federal case law, Coastal may “export” the interest rate permitted under the laws of the State of Washington, where Coastal is located, regardless of the usury limitations imposed by the state law of the cardholder’s state of residence unless the state has chosen to opt out of the exportation regime. State privacy and data security laws, including the CCPA, also apply to the Credit Card product.

The Credit Card product is subject to the same federal laws and regulations applicable to our personal loan marketplace and as summarized above, including the Dodd-Frank Act, TILA, ECOA, FCRA, FDCPA, SCRA, MLA, EFTA, ESIGN, UETA, GLBA, BSA and OFAC. TILA and Regulation Z contain specific disclosure requirements for credit cards and

advertising rules for credit cards. Please refer to the “Government Regulations—Personal Loan State and Federal Laws and Regulations” section above for a summary of these federal laws and regulations. Certain amendments to TILA also govern the Credit Card product, including the Credit Card Accountability Responsibility and Disclosure Act of 2009 (the “CARD Act”), which amended TILA to prescribe, among other things, additional procedures, disclosures, fee limits, and other protections for consumers applying for or holding credit cards, and the Fair Credit Billing Act (“FCBA”), which governs creditor obligations with respect to billing complaints and errors. For the Credit Card product, we take a similar approach to compliance for our personal loan marketplace, with adjustments for application of the rules to open-ended, unsecured credit cards as opposed to closed-end personal loans. We work with Coastal to facilitate compliance.

### ***HELOC State and Federal Laws and Regulations***

The HELOC product is subject to many of the same federal laws and regulations as the personal loan marketplace, including the Dodd-Frank Act, TILA, ECOA, FCRA, ESIGN, GLBA, BSA and OFAC. TILA and Regulation Z contain specific disclosure requirements for HELOCs and mortgage advertising rules. State mortgage broker and mortgage lender licensing and registration requirements also apply to the HELOC product, which must satisfy the minimum standards set forth in the federal Secure and Fair Enforcement for Mortgage Licensing Act of 2008 and Regulation H, as well as state usury laws. State privacy and data security laws, including the CCPA, also apply to the HELOC product.

The HELOC product is also subject to the Real Estate Settlement Procedures Act (“RESPA”) and its implementing regulation, Regulation X, as well as related guidance issued by the CFPB and the Department of Housing and Urban Development (“HUD”). RESPA, among other things, prohibits the payment or acceptance of referral fees or kickbacks, or any splitting of fees except for actual services performed. The TILA-RESPA Integrated Disclosure does not apply to HELOCs. The RESPA and Regulation X mortgage servicing rules do not apply to HELOCs.

Finally, the HELOC product is subject to the data collection and reporting requirements of the Home Mortgage Disclosure Act (the “HMDA”) and its implementing regulation, Regulation C. Prosper is not directly subject to the HMDA data collection and reporting requirements, but collects data to support the reporting requirements applicable to its financial institution partner.

### ***Foreign Laws and Regulations***

We do not permit non-U.S. based individuals to register as borrowers on our marketplace and the marketplace does not operate outside the United States. Therefore, we do not believe that our marketplace is subject to foreign laws or regulations.

## **Summary of Risk Factors**

We are subject to various risks, the most significant of which are summarized below. For more information about these and other risks that may affect us, you should carefully read the factors described in the “Risk Factors” section below.

### ***Risks related to personal loan borrower default***

- The Notes are risky and speculative investments for suitable investors only.
- Payments on the Notes depend entirely on payments PFL receives on corresponding Borrower Loans. If a borrower fails to make any payments on the corresponding Borrower Loan related to a Note, payments on such Note will be correspondingly reduced. If payments on the Borrower Loan corresponding to an investor’s Note become more than 30 days overdue, such investor will be unlikely to receive the full principal and interest payments that were expected on the Note.
- Borrowers may not view or treat their obligations to PFL as having the same significance as loans from traditional lending sources.
- The credit information of an applicant may be inaccurate or may not accurately reflect the applicant’s creditworthiness, which may cause an investor to lose all or part of the price paid for a Note. The fact that we have the exclusive right and ability to investigate claims of identity theft in the origination of Borrower Loans creates a significant conflict of interest between us and our investors.
- The Borrower Loans are not secured by any collateral or guaranteed or insured by any third party, and investors must rely on us or a third-party collection agency to pursue collection against any borrower.
- The Prosper Rating may not accurately set forth the risks of investing in the Notes, no assurances can be provided that actual loss rates for the Notes will come within the estimated average annualized loss rates indicated by the Prosper Rating, and investors have limited rights to cause Prosper to repurchase the Notes.
- We may not set appropriate interest rates for Borrower Loans.
- Investors who use the Recurring Investment or Auto Invest tools may face additional risk of funding Borrower Loans that have been erroneously selected by the tool.

- The Borrower Loans do not restrict borrowers from incurring additional unsecured or secured debt, nor do they impose any financial restrictions on borrowers during the term of the Borrower Loan, which may reduce the likelihood that an investor will receive the full principal and interest payments that such investor expects to receive on a Note.
- In general, the Borrower Loans do not contain any cross-default or similar provisions. If a borrower defaults on any of his or her other debt obligations, our ability to collect on the Borrower Loan on which an investor's Note is dependent for payment may be substantially impaired.

### ***Risks Inherent in investing in the Notes***

- The Notes are special, limited obligations of PFL only and are not directly secured by any collateral or guaranteed or insured by PMI or any third party.
- PFL is not obligated to indemnify Note holders or repurchase Notes except in limited circumstances.
- Our marketplace allows a borrower to prepay a Borrower Loan at any time without penalty. Borrower Loan prepayments will extinguish or limit an investor's ability to receive additional interest payments on a Note.
- We may choose or be required to implement payment and collections relief programs in response to the COVID-19 pandemic and other public health emergencies or crises, which may extend or otherwise alter the repayment schedule of Borrower Loans and reduce the expected return on the corresponding Notes.
- The Notes will not be listed on any securities exchange and can be held only by registered Prosper investors. Further, no trading platform for the transfer of Notes exists. Therefore, investors should be prepared to hold the Notes they purchase until maturity.
- Our participation in the funding of Borrower Loans could be viewed as creating a conflict of interest.

### ***Risks related to PFL and PMI, our marketplace and our ability to service the notes***

- We have experienced errors on our platform that have resulted in incorrect reporting of performance returns to Note investors. If we are unable to prevent the reoccurrence of similar errors, investors could be adversely impacted.
- Arrangements for back-up servicing are limited. If PMI fails to maintain operations or the Administration Agreement is rejected or terminated (in bankruptcy or otherwise), investors may experience a delay and increased cost in respect of their expected principal and interest payments on Notes, and PFL may be unable to collect and process repayments from borrowers.
- PMI, in its capacity as servicer, has the authority to waive or modify the terms of a Borrower Loan without the consent of the Note holders.
- We have incurred operating losses in prior years and may continue to incur net losses in the future.
- PFL relies on a third-party commercial bank to process transactions. If PFL is unable to continue utilizing these services, its business and ability to service the Notes may be adversely affected.
- Any significant disruption in service in our marketplace or in PMI's computer systems could adversely affect PMI's ability to perform its obligations under the Administration Agreement. If the security of PFL's investors' and borrowers' confidential information stored in our systems is breached, users' secure information may be stolen, our reputations may be harmed, and we may be exposed to liability.

### ***Risks related to compliance and regulation***

- Our marketplace represents a novel approach to borrowing and investing that may fail to comply with federal and state securities laws, borrower protection laws and the state counterparts to such consumer protection laws. Borrowers may dispute the enforceability of their obligations under borrower or consumer protection laws after collection actions have commenced, or otherwise seek damages under these laws. Investors may attempt to rescind their Note purchases under securities laws. Regulatory agencies and their state counterparts may investigate our compliance with these regulatory obligations, and may take enforcement action with respect to alleged law violations. There continues to be uncertainty as to how the actions of the Consumer Financial Protection Bureau or any other new agency could impact our business or that of our issuing bank. If our marketplace were found to violate a state's usury laws, we may have to alter our business model and our business could be harmed. If one or both of PMI and PFL is required to register under the Investment Company Act or the Investment Advisers Act, either of our ability to conduct business could be materially adversely affected. Several lawsuits have sought to recharacterize certain loan marketers and other originators as lenders. If litigation or a regulatory enforcement action on similar theories were successful against one or both of PMI and PFL, Borrower Loans originated through our marketplace could be subject to state consumer protection laws and licensing requirements in a greater number of states.
- We rely on agreements with WebBank, pursuant to which WebBank originates loans to qualified borrowers on a uniform basis throughout the United States and sells and assigns those loans to PFL. If our relationship with WebBank were to end, we may need to rely on individual state lending licenses to originate Borrower Loans.

- PMI's administration of Quick Invest under its previous offering and PFL's administration of Quick Invest, Recurring Investment, and Auto Invest under its current offering, could create additional liability for PFL and such liability could be material.

## Recent Developments

### **COVID-19**

We continue to track the impact of COVID-19 and its variants on our communities, and are offering assistance to qualified borrowers who are facing financial hardship as a result of the COVID-19 pandemic. These relief options include, among other things, the ability to delay up to 4 monthly loan payments, the ability to reduce minimum monthly payments for up to 12 months and extend the term of the loan by up to 11 months, and waived late and non-sufficient funds fees. Since COVID-19 relief was first offered in March 2020 and through December 31, 2021, approximately 9.1% of our current outstanding loan balances on a cumulative basis have enrolled in at least one of these COVID-19 relief programs. Approximately 1.2% of our outstanding loan balances are actively enrolled in at least one relief program as of December 31, 2021. Overall requests for COVID-19 relief are declining; however, enrollment may continue as long as the pandemic continues to trigger financial hardship for borrowers.

### **Available Information**

The following filings are available for download free of charge at [www.prosper.com](http://www.prosper.com) as soon as reasonably practicable after such filings are electronically filed with, or furnished to, the Securities and Exchange Commission ("SEC"): Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and all amendments to those reports. Our SEC filings are also available to the public on the SEC's website, at [www.sec.gov](http://www.sec.gov). The information contained on our website is not incorporated by reference into this Annual Report on Form 10-K.

## ITEM 1A. RISK FACTORS

*You should carefully consider the risks and uncertainties described below, together with all of the other information in this Annual Report on Form 10-K, when evaluating our business. Any of the following risks, either alone or taken together, could materially and adversely affect our business, financial condition, operating results and prospects. While we believe the risks and uncertainties described below include all material risks currently known by us, it is possible that these may not be the only ones we face.*

### **RISKS RELATED TO PERSONAL LOAN BORROWER DEFAULT**

*The Notes are risky and speculative investments for suitable investors only.*

Investors should be aware that the Notes offered through our marketplace are risky and speculative investments. The Notes are special, limited obligations of PFL and depend entirely for payment on PFL's receipt of payments under the corresponding Borrower Loans. Notes are suitable only for investors of adequate financial means. If an investor cannot afford to lose the entire amount of such investor's investment in the Notes, the investor should not invest in the Notes.

*Payments on the Notes depend entirely on payments PFL receives on corresponding Borrower Loans. If a borrower fails to make any payments on the corresponding Borrower Loan related to a Note, payments on such Note will be correspondingly reduced.*

PFL will only make payments *pro-rata* on a series of Notes after it receives a borrower's payment on the corresponding Borrower Loan, net of servicing fees. PFL also will retain from the funds received from the relevant borrower and otherwise available for payment on the Notes any non-sufficient funds fees and the amounts of any attorneys' fees or collection fees our in-house collections department, a third-party servicer or collection agency imposes in connection with collection efforts. Under the terms of the Notes, if PFL does not receive any or all payments on the corresponding Borrower Loan, payments on the Note will be correspondingly reduced in whole or in part. If the relevant borrower does not make a payment on a specific monthly loan payment date, no payment will be made on the Note on the corresponding succeeding Note payment date.

*The Borrower Loans are not secured by any collateral or guaranteed or insured by any third party, and investors must rely on us or a third-party collection agency to pursue collection against any borrower.*

Borrower Loans are unsecured obligations of borrowers. They are not secured by any collateral, and they are not guaranteed or insured by PFL, PMI or any third party, or backed by any governmental authority in any way. We and our third-party collection agencies will, therefore, be limited in our ability to collect on Borrower Loans. Moreover, Borrower Loans are obligations of borrowers to PFL as successor to WebBank, not obligations to the holders of Notes. Holders of the Notes will

have no recourse to the borrowers and no ability to pursue borrowers to collect payments under Borrower Loans. Holders of the Notes may look only to PFL for payment of the Notes. Furthermore, if a borrower fails to make any payments on the Borrower Loan, the holders of the Notes corresponding to that Borrower Loan will not receive any payments on their Notes. The holders of such Notes will not be able to pursue collection against the borrower and will not be able to obtain the identity of the borrower in order to contact the borrower about the defaulted Borrower Loan.

***The credit information of an applicant may be inaccurate or may not accurately reflect the applicant's creditworthiness, which may cause an investor to lose all or part of the price paid for a Note.***

We obtain applicant credit information from consumer reporting agencies, and assign Prosper Ratings to listings based in part on the applicant's credit score. A credit score that forms a part of the Prosper Rating assigned to a listing may not reflect the applicant's actual creditworthiness because the credit score may be based on outdated, incomplete or inaccurate consumer reporting data. Similarly, the credit data taken from the applicant's credit report and displayed in listings may also be based on outdated, incomplete or inaccurate consumer reporting data. We do not verify the information obtained from the applicant's credit report. Moreover, investors do not, and will not, have access to financial statements of applicants or to other detailed financial information about applicants.

***The Prosper Rating may not accurately set forth the risks of investing in the Notes, no assurances can be provided that actual loss rates for the Notes will come within the estimated average annualized loss rates indicated by the Prosper Rating, and investors have limited rights to cause Prosper to repurchase the Notes.***

The Prosper Rating assigned to a loan listing may not accurately reflect the risks of investing in the Notes, and is not a recommendation by us to buy or hold a Note. For example, the Prosper Rating for a listing could be inaccurate because the applicant's credit report contained incorrect information. Similarly, although some of the information provided by applicants that is relevant to the Prosper Rating is verified by us before calculating the Prosper Rating, we do not verify all such information. For example, we do not verify the income or employment information on all applications. Further, the Prosper Rating does not reflect PFL's credit risk as a debtor (such credit risk exists even though, as the debtor on the Notes, PFL's only obligation is to pay to the Note holders their pro-rata shares of collections received on the related Borrower Loans net of applicable fees). In addition, no assurances can be provided that actual loss rates for the Notes will fall within the expected loss rates indicated by the Prosper Rating. The interest rates on the Notes might not adequately compensate Note investors for these additional risks.

If we include in a listing a Prosper Rating that is different from the Prosper Rating calculated by us or calculate the Prosper Rating for a listing incorrectly, and such error materially and adversely affects a holder's interest in the related Note, PFL will indemnify the holder or repurchase the Note. PFL will not, however, have any indemnity or repurchase obligation under the Amended and Restated Indenture, the Notes, the Investor Registration Agreement or any other agreement associated with the Note Channel as a result of any other inaccuracy with respect to a listing's Prosper Score or Prosper Rating. PFL's contractual repurchase obligations do not affect a Note holder's rights under federal or state securities laws.

***Investors who use the Recurring Investment or Auto Invest tools may face additional risk of funding Borrower Loans that have been erroneously selected by the tool.***

Since it was first implemented in July 2011 through December 31, 2021, the Recurring Investment (formerly known as Auto Quick Invest) tool has experienced programming errors that affected 8,630 Notes and PMI Notes out of the 11,999,556 Notes and PMI Notes purchased. The Auto Invest tool was first implemented on June 2, 2016. Since such time through December 31, 2021, the Auto Invest tool has experienced programming errors that affected 2 Notes out of the 8,583,286 Notes purchased.

In the event of any errors in Recurring Investment or Auto Invest that cause an investor to purchase a Note from PFL that such investor would not otherwise have purchased or that differs materially from the Note such investor would have purchased had there been no error, PFL will either repurchase the Note, indemnify the investor against losses suffered on that Note or cure such error. See "Risk Factors—Risks Related to PFL and PMI, Our Marketplace and Our Ability to Service the Notes" for more information.

***Some borrowers may use our marketplace to defraud investors, which could adversely affect investors' ability to recoup their investment.***

We use identity and fraud checks with external databases to authenticate each borrower's identity. There is a risk, however, that these checks could fail and fraud may occur. In addition, applicants may misrepresent their intentions regarding loan purpose or other information contained in listings, and we do not verify the majority of this information. While PFL will indemnify an investor or repurchase Notes in limited circumstances (including, e.g., a material payment default on the Borrower Loan resulting from verifiable identity theft), it is not obligated to indemnify an investor or repurchase a Note from an investor if the investment is not realized in whole or in part due to fraud (other than verifiable identity theft) in connection with a loan listing, or due to false or inaccurate statements or omissions of fact in a listing, whether in credit data, a borrower's

representations, similar indicators of borrower intent and ability to repay the Borrower Loan. If PFL repurchases a Note, the repurchase price will be equal to the Note's outstanding principal balance and will not include accrued interest. If PFL repurchases any Notes, PMI will concurrently repurchase the related PMI Management Rights for zero consideration.

***The fact that we have the exclusive right and ability to investigate claims of identity theft in the origination of Borrower Loans creates a significant conflict of interest between us and our investors.***

We have the exclusive right to investigate claims of identity theft and determine, in our sole discretion, whether verifiable identity theft has occurred. Such a determination of verifiable identity theft may trigger an obligation by PFL to either repurchase the related Notes or Borrower Loans or indemnify the applicable Note holders. The denial of a claim under PFL's identity theft guarantee would save PFL from its indemnification or repurchase obligation. Because investors rely solely on us to investigate incidents that might require PFL to indemnify the applicable Note holders or repurchase the related Notes or Borrower Loans, a conflict of interest exists between us and such investors.

***If payments on the Borrower Loan corresponding to an investor's Note become more than 30 days overdue, such investor will be unlikely to receive the full principal and interest payments that were expected on the Note, and such investor may not recover the original purchase price on the Note.***

We may refer Borrower Loans that become past due to a third party collection agency for collection or we may collect on such Borrower Loans directly. If a borrower fails to make a required payment on a Borrower Loan within 30 days of the due date, we will pursue reasonable collection efforts in respect of the Borrower Loan. Referral of a delinquent Borrower Loan to a collection agency within five business days after it becomes 30 days past due will be considered reasonable collection efforts. If payment amounts on a delinquent Borrower Loan are received from a borrower after the loan has been referred to our in-house collections department or an outside collection agency, we or that collection agency may retain a percentage of that payment as a fee before any principal or interest becomes payable to an investor. Collection fees may be up to 40% of recovered amounts, in addition to any legal fees and transaction fees associated with accepting payments incurred in the collection effort.

For some non-performing Borrower Loans, we may not be able to recover any of the unpaid loan balance and, as a result, an investor who has purchased a corresponding Note may receive little, if any, of the unpaid principal and interest payable under the Note. In all cases, investors must rely on our collection efforts or the applicable collection agency to which such Borrower Loans are referred, and are not permitted to collect or attempt collection of payments on the Borrower Loans in any manner.

***Loss rates on the Borrower Loans may increase as a result of economic conditions beyond our control and beyond the control of the borrower, such as the COVID-19 pandemic.***

Borrower Loan loss rates may be significantly affected by economic downturns or general economic conditions beyond our control and beyond the control of individual borrowers. In particular, loss rates on Borrower Loans may increase due to factors such as prevailing interest rates, the rate of unemployment, the level of consumer confidence, residential real estate values, the value of the U.S. dollar, energy prices, changes in consumer spending, the number of personal bankruptcies, disruptions in the credit markets, natural disasters, the impact of the COVID-19 pandemic, and other factors.

***The Borrower Loans do not restrict borrowers from incurring additional unsecured or secured debt, nor do they impose any financial restrictions on borrowers during the term of the Borrower Loan, which may reduce the likelihood that an investor will receive the full principal and interest payments that such investor expects to receive on a Note.***

If a borrower incurs additional debt after the date a loan listing is posted, the additional debt may impair the ability of that borrower to make payments on his or her Borrower Loan and, as such, reduce the likelihood that an investor will receive the principal and interest payments that such investor expects to receive on a corresponding Note. Moreover, the additional debt may adversely affect the borrower's creditworthiness generally, and could result in the financial distress, insolvency, or bankruptcy of the borrower. To the extent that the borrower has or incurs other indebtedness and cannot pay all of his or her indebtedness, the borrower may choose to make payments to other creditors, rather than to PFL.

To the extent borrowers incur other indebtedness that is secured, such as a mortgage, a home equity line or an auto loan, the ability of the secured creditors to exercise remedies against the assets of the borrower may impair the borrower's ability to repay the Borrower Loan on which an investor's Note is dependent for payment. Borrowers may also choose to repay obligations under secured indebtedness or other unsecured indebtedness before repaying Borrower Loans because there is no collateral securing the Borrower Loans. An investor will not be notified if a borrower incurs additional debt after the date a loan listing is posted.

***Borrowers may be more likely to incur additional unsecured or secured debt in an effort to mitigate economic disruption, which may further reduce their likelihood of repaying Borrower Loans.***

The economic disruption caused by inflation, issues in the supply chain of goods, and changes in the labor market due to the global spread of COVID-19 have affected both consumers and small businesses, self-employed individuals and independent contractors whose livelihoods depend on providing in-person goods and services.

In response to the global spread of COVID-19, in March 2020 Congress enacted and the president signed into law the Coronavirus Preparedness and Response Supplemental Appropriations Act and the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”). The relief measures provided by these laws include expanding eligibility criteria for Small Business Administration loan programs. To the extent the COVID-19 pandemic and legislation passed in response to the pandemic result in borrowers incurring additional debt above and beyond ordinary levels, borrowers’ overall ability to repay Borrower Loans may be further impaired.

***Borrowers may not view or treat their obligations to PFL as having the same significance as loans from traditional lending sources.***

The investment return on the Notes depends on borrowers fulfilling their payment obligations in a timely and complete manner under the corresponding Borrower Loan. Borrowers may not view marketplace lending obligations originated through our marketplace as having the same significance as other credit obligations arising under more traditional circumstances. If a borrower neglects his or her payment obligations on a Borrower Loan upon which payment of an investor’s Note is dependent or chooses not to repay his or her Borrower Loan entirely, such investor may not be able to recover any portion of the investment in a Note.

***Our marketplace may fail to comply with applicable law, which could limit our ability to collect on Borrower Loans.***

The Borrower Loans are subject to federal and state consumer protection laws. Our marketplace may not always be, and may not always have been, in compliance with these laws. Failure to comply with the laws and regulatory requirements applicable to our marketplace may, among other things, limit our or a collection agency’s ability to collect all or part of the principal of or interest on Borrower Loans.

We regularly review the requirements of these laws and take measures aimed at ensuring that the Borrower Loans originated through our marketplace meet the requirements of all applicable laws. However, determining compliance with all applicable laws is a complex matter and it is possible that our determination may be inaccurate or incorrect. Also, changes in law, either due to court decisions, regulatory interpretations or rulings, or new legislation, may adversely affect the collectability of a Borrower Loan.

***In general, the Borrower Loans do not contain any cross-default or similar provisions. If a borrower defaults on any of his or her other debt obligations, our ability to collect on the Borrower Loan on which an investor’s Note is dependent for payment may be substantially impaired.***

The Borrower Loans do not contain cross-default provisions. A cross-default provision makes a default under certain debt of a borrower an automatic default on other debt of that borrower. Because the Borrower Loans do not contain cross-default provisions, a Borrower Loan will not be placed automatically in default upon that borrower’s default on any of the borrower’s other debt obligations. If a borrower defaults on debt obligations owed to a third party and continues to satisfy the payment obligations under the Borrower Loan, the third party may seize the borrower’s assets or pursue other legal action against the borrower before the borrower defaults on the Borrower Loan, which may affect our ability to collect from the borrower when or if the Borrower Loan becomes delinquent.

***Borrowers may seek the protection of debtor relief under federal bankruptcy or state insolvency laws, which may result in the nonpayment of an investor’s Notes.***

Borrowers may seek protection under federal bankruptcy law or similar laws. If a borrower files for bankruptcy (or becomes the subject of an involuntary petition), a stay will go into effect that will automatically put any pending collection actions on the Borrower Loan on hold and prevent further collection action absent bankruptcy court approval. If we receive notice that a borrower has filed for protection under the federal bankruptcy laws, or has become the subject of an involuntary bankruptcy petition, we will put the borrower’s account into “bankruptcy status.” When this occurs, we terminate automatic monthly ACH debits on the Borrower Loan and we will not undertake collection activity without bankruptcy court approval. Whether any payment will ultimately be made or received on a Borrower Loan after a bankruptcy status is declared depends on the borrower’s particular financial situation. In most cases, however, unsecured creditors such as PFL receive nothing, or only a fraction of their outstanding debt and, as a result, an investor who has purchased a corresponding Note may receive none or very little of the unpaid principal and interest payable on the Note.

***Federal law entitles borrowers who enter active military service to an interest rate cap and certain other rights that may inhibit the ability to collect on Borrower Loans and reduce the amount of interest paid on the corresponding Notes.***

Federal law provides borrowers on active military service with rights that may delay or impair our ability to collect on a Borrower Loan corresponding to an investor's Note. The Servicemembers Civil Relief Act ("SCRA") and other similar state laws require that the interest rate on preexisting debts, such as Borrower Loans, be set at no more than 6% while the qualified service member or reservist is on active duty. A holder of a Note that is dependent on such a Borrower Loan for payment will not receive the difference between 6% and the original stated interest rate for the Borrower Loan during any such period. The SCRA also permits courts to stay proceedings and the execution of judgments against service members and reservists on active duty, which may delay recovery on any Borrower Loans in default, and, accordingly, payments on the corresponding Notes.

Beginning October 3, 2016, the Military Lending Act ("MLA") prohibits requiring covered borrowers, which include active military servicemembers and their dependents, to waive the right to legal recourse or to submit to arbitration. This may delay recovery on any relevant Borrower Loans in default, and, accordingly, payments on the corresponding Notes.

If there are any amounts under such a Borrower Loan still due and owing to PFL after the final maturity of the corresponding Notes, PFL will have no further obligation to make payments on such Notes, even if it receives payments on the Borrower Loan after the final maturity of such Notes. We do not take military service into account in assigning a Prosper Rating to loan listings. In addition, as part of the borrower registration process, we do not request borrowers to confirm if they are qualified service members or reservists within the meaning of the SCRA or the MLA. See Item 1, "Business—Government Regulation" for more information.

As of December 31, 2021, 76 Borrower Loans, with a total outstanding balance of \$0.6 million are subject to the SCRA.

***The Federal Trade Commission's Holder in Due Course Rule may substantially impair an investor's ability to recoup the full purchase price of a Note or to receive the interest payments that such investor expects to receive on the Note.***

The Federal Trade Commission's Holder in Due Course Rule, which in certain circumstances permits borrowers to assert any claims and defenses that they would have had against a seller of goods or services obtained with the proceeds of a loan against an originator or subsequent purchaser of the loan, could allow certain borrowers to raise such defenses against PFL to the extent of the outstanding loan balance. If such defenses are successfully raised, PFL will be unable to collect on the loan and it is unlikely that any further payment will be made on the corresponding Notes.

***The death of a borrower may substantially impair an investor's ability to recoup the full purchase price of a Note or to receive the interest payments that such investor expects to receive on the Note.***

If a borrower dies with an outstanding Borrower Loan, PFL is required, upon receiving notice of the death, to stop accepting automatic loan payments and to refund any payments that were automatically debited after the borrower's date of death. Though we may seek to work with the executor of the borrower's estate to obtain repayment of the loan, the borrower's estate may not contain sufficient assets to repay the loan, or its executor may prioritize repayment of other creditors. In addition, if a borrower dies near the end of the term of his or her Borrower Loan, the time required for the probate of the borrower's estate will likely extend beyond the Notes' final maturity date, after which date PFL will cease to have any obligation to make payments on the Notes.

## **RISKS INHERENT IN INVESTING IN THE NOTES**

***The Notes are special, limited obligations of PFL only and are not directly secured by any collateral or guaranteed or insured by PMI or any third party.***

The Notes will not represent an obligation of borrowers, PMI or any other party except PFL, and are special, limited obligations of PFL. The Notes are not guaranteed or insured by PMI, any governmental agency or instrumentality, or any third party. Although PFL has granted the indenture trustee, for the benefit of the Note holders, a security interest in the Borrower Loans corresponding to the Notes, the payments and proceeds that PFL receives on such Borrower Loans, the bank account in which such Borrower Loan payments are deposited, and the accounts in which investors' funding amounts are deposited, the Note holders do not themselves have a direct security interest in the Borrower Loans or the right to payment thereunder. If an event of default under the Amended and Restated Indenture were to occur, the Note holders would be dependent on the indenture trustee's ability to realize on the collateral and make payments on the Notes in the manner contemplated by the Amended and Restated Indenture. In addition, although PFL will take all actions that it believes are required under applicable law to perfect the security interest of the indenture trustee in the collateral, if its analysis of the required actions is incorrect or if it fails to take any required action in a timely manner, the indenture trustee's security interest may not be effective and holders of the Notes could be required to share the collateral (and any proceeds thereof) with PFL's other creditors, or, if a bankruptcy court were to order the substantive consolidation of PMI and PFL (as described below), PMI's creditors.

***PFL is not obligated to indemnify Note holders or repurchase Notes except in limited circumstances.***



PFL is only obligated to repurchase Notes or indemnify holders of Notes in limited circumstances. These circumstances include if (i) a material payment default under the corresponding Borrower Loan occurs as a result of verifiable identity theft; (ii) we include a Prosper Rating in a listing that is different from the Prosper Rating we calculated, or we calculate the Prosper Rating incorrectly; or (iii) any errors in Quick Invest, Recurring Investment, or Auto Invest cause an investor to purchase a Note from PFL that such investor would not otherwise have purchased or that differs materially from the Note, in which cases PFL also has the option to cure such error. PFL is not required to repurchase Notes or indemnify holders of Notes, however, if the Note holder's investment is not realized in whole or in part due to fraud other than verified identity theft, or due to other false or inaccurate statements or omissions of fact in a listing, whether in credit data, borrower representations or similar indicia of borrower intent and ability to repay the loan. Further, PFL is under no obligation to repurchase a Note or indemnify any holder of Notes if a correctly determined Prosper Rating fails to accurately predict the actual losses on a Borrower Loan.

***PFL might incur indemnification and repurchase obligations that exceed its projections, in which case it may not have sufficient liquidity to meet its indemnification and repurchase obligations.***

PFL believes its liquidity will be sufficient to meet its reasonably anticipated indemnification and repurchase obligations. In determining its expected liquidity needs with respect to indemnification and repurchase obligations, PFL considers the history of such obligations incurred by it and PMI. Nonetheless, there can be no assurance that if PFL is obligated to repurchase a Note or indemnify a Note holder, that it will be able to meet its repurchase or indemnification obligations. If PFL is unable to meet its indemnification and repurchase obligations with respect to a Note, the investor in such Note may lose all of such investor's investment in the Note.

***Our marketplace allows a borrower to prepay a Borrower Loan at any time without penalty. Borrower Loan prepayments will extinguish or limit an investor's ability to receive additional interest payments on a Note.***

Borrower Loan prepayment occurs when a borrower decides to pay some or all of the principal amount on a Borrower Loan earlier than originally scheduled. Borrowers may decide to prepay all or a portion of the remaining principal amount due under a Borrower Loan at any time without penalty. In the event of a prepayment of the entire remaining unpaid principal amount of a Borrower Loan, each of the holders of the Notes corresponding to the Borrower Loan will receive his or her share of such prepayment but further interest will not accrue on such Borrower Loan or on such Note after the date on which the payment is made. If the borrower prepays a portion of the remaining unpaid principal balance, the term of the Borrower Loan will not change, but interest will cease to accrue on the prepaid portion. If a borrower prepays a Borrower Loan in whole or in part, an investor will not receive all of the interest payments that such investor originally expected to receive on the Note corresponding to such Borrower Loan. In addition, such investor may not be able to find a similar rate of return on another investment at the time at which the Borrower Loan is prepaid. Prepayments are subject to PFL's servicing fee, even if the prepayment occurs immediately after issuance of a Note.

***Prevailing interest rates may change during the term of the Notes. If this occurs, investors may receive less value from the purchase of Notes in comparison to other ways they may invest their money. Additionally, borrowers may prepay their Borrower Loans due to changes in interest rates, and investors may not be able to redeploy the amounts received from prepayments in a way that offers the return expected from the Notes.***

The Borrower Loans on which the Notes are dependent for payment bear fixed, not floating, rates of interest. If prevailing interest rates increase, the interest rates on Notes investors purchase might be less than the rate of return they could earn if they had invested the purchase price in a different investment.

***We may not set appropriate interest rates for Borrower Loans.***

We set interest rates for all Borrower Loans based on Prosper Ratings, as well as additional factors such as Borrower Loan terms, the economic environment and competitive conditions. If we set interest rates for Borrower Loans too low, investors may not be compensated appropriately for the level of risk that they are assuming in purchasing Notes, while setting the interest rate too high may increase the risk of non-payment. In either case, a failure by us to set rates appropriately may adversely impact the ability of investors to receive returns on their Notes that are commensurate with the risks they have assumed in acquiring such Notes.

***The Notes will not be listed on any securities exchange and can be held only by registered Prosper investors. Further, no trading platform for the transfer of Notes exists and there can be no assurance a trading platform for the transfer of Notes will develop in the future. Therefore, investors should be prepared to hold the Notes they purchase until maturity.***

The Notes and PMI Management Rights will not be listed on any securities exchange and all Notes and PMI Management Rights must be held by registered Prosper investors. Further, in connection with the termination of our relationship with FOLIO Investments, Inc. in October 2016, a trading platform for the transfer of Notes and PMI Management Rights no longer exists. While we may, in our sole discretion, permit the establishment of another platform on which a secondary market may be made with respect to the Notes, there can be no assurance a trading platform for the Notes and PMI

Management Rights will develop in the future. Therefore, Note purchasers must be prepared to hold their Notes and PMI Management Rights to maturity.

***The U.S. federal income tax consequences of an investment in the Notes are uncertain.***

There are no statutory provisions, regulations, published rulings or judicial decisions that directly address the characterization of the Notes or instruments similar to the Notes for U.S. federal income tax purposes. However, although the matter is not free from doubt because payments on the Notes are dependent on payments on the corresponding Borrower Loan, PFL treats the Notes as debt instruments that have original issue discount (“OID”) for U.S. federal income tax purposes. Where required, PFL intends to file informational returns with the IRS in accordance with such treatment unless there is a change or clarification in the law, by regulation or otherwise, that would require a different characterization of the Notes. Investors should be aware, however, that the IRS is not bound by PFL’s characterization of the Notes and the IRS or a court may take a different position with respect to the Notes’ proper characterization. For example, the IRS could determine that, in substance, each investor owns a proportionate interest in the corresponding Borrower Loan for U.S. federal income tax purposes or, for example, the IRS could instead treat the Notes as a different financial instrument (including an equity interest or a derivative financial instrument). Any different characterization could significantly affect the amount, timing, and character of income, gain or loss recognized in respect of a Note. For example, if the Notes are treated as PFL’s equity, (i) PFL would be subject to U.S. federal income tax on income, including interest, accrued on the corresponding Borrower Loans but would not be entitled to deduct interest or OID on the Notes, and (ii) payments on the Notes would be treated by the Note holder for U.S. federal income tax purposes as dividends (that may be ineligible for reduced rates of U.S. federal income taxation or the dividends-received deduction) to the extent of PFL’s earnings and profits as computed for U.S. federal income tax purposes. A different characterization may significantly reduce the amount available to pay interest on the Notes. Investors are strongly advised to consult their own tax advisor regarding the U.S. federal, state, local and non-U.S. tax consequences of the purchase, ownership, and disposition of the Notes (including any possible differing treatments of the Notes).

***PFL’s ability to pay principal and interest on a Note may be affected by its ability to match the timing of its income and deductions for U.S. federal income tax purposes.***

Investors should be aware that PFL’s ability to pay principal and interest on a Note may be affected by its ability, for U.S. federal income tax purposes, to match the timing of income it receives from a corresponding Borrower Loan that it holds and the timing of deductions that it may be entitled to in respect of payments made on the Notes that it issues. For example, if the Notes are treated as contingent payment debt instruments for U.S. federal income tax purposes but the corresponding Borrower Loans are not, there could be a potential mismatch in the timing of PFL’s income and deductions for U.S. federal income tax purposes, and PFL’s resulting tax liabilities could affect its ability to make payments on the Notes.

***Our participation in the funding of Borrower Loans could be viewed as creating a conflict of interest.***

As is the practice with other marketplace lending companies, from time to time, we may fund portions of qualified loan requests in our marketplace and hold any Notes purchased as a result of such funding for our own individual accounts. Even though we will participate in funding Borrower Loans listed in our marketplace under the same terms and conditions and through the use of the same information that is made available to other potential investors in our marketplace, such participation may be perceived as involving a conflict of interest. For example, our funding of a Borrower Loan may cause the loan to fund, and in some cases, fund faster, than it would fund in the absence of our participation, which could benefit us to the extent that it ensures that we generate the revenue associated with the loan.

During the year ended December 31, 2021, we purchased \$0.1 million in Notes for investment.

***We may choose or be required to implement payment and collections relief programs in response to the COVID-19 pandemic and other public health emergencies or crises, which may extend or otherwise alter the repayment schedule of Borrower Loans and reduce the expected return on the corresponding Notes.***

The global spread of COVID-19 has caused significant market volatility and workforce disruptions. We recognize the serious economic hardship triggered by COVID-19, and are offering assistance to qualified borrowers who are facing financial hardship as a result of the COVID-19 pandemic. These relief options include, among other things, the ability to delay up to 4 monthly loan payments, the ability to reduce minimum monthly payments for up to 12 months total and extend the term of the loan by up to 11 months, and waived late and non-sufficient funds fees. We are also complying with new state mandates that may temporarily impact collections activity with respect to delinquent loans.

Our COVID-19 payment relief programs may impact the repayment schedule and terms of Borrower Loans and the returns received on corresponding Notes. Since COVID-19 relief was first offered in March 2020 and through December 31, 2021, approximately 9.1% of our current outstanding loan balances on a cumulative basis have enrolled in at least one of these COVID-19 relief programs. Approximately 1.2% of our outstanding loan balances are actively enrolled in at least one relief program as of December 31, 2021. Overall requests for COVID-19 relief are declining; however, enrollment and subsequent loan performance may fluctuate as long as the pandemic continues to trigger increased work stoppages and unemployment.

Likewise, to the extent we are required to comply with state mandates to pause collections activity on delinquent loans, investors will not receive recoveries on any Notes corresponding to Borrower Loans that cannot be collected upon while such mandates are in effect. We continue to actively monitor the impact of COVID-19 on economic conditions.

## **RISKS RELATED TO PFL AND PMI, OUR MARKETPLACE AND OUR ABILITY TO SERVICE THE NOTES**

***We have experienced errors on our platform that have resulted in incorrect reporting of performance returns to Note investors. If we are unable to prevent the reoccurrence of similar errors, investors could be adversely impacted.***

In April 2017, we became aware of an error in the annualized net return and seasoned annualized net return numbers displayed to Note investors, which resulted from errors in the code forming part of our calculation framework. On average, the error resulted in Note investors being shown annualized net return information that was approximately 260 basis points higher than the actual performance of Notes in their accounts. The error did not affect any other part of Note investors' accounts, nor did it affect any other aspects of the platform, including the receipt and distribution of loan payments, deposits, monthly statements or tax documentation, or the Note and loan level information provided to investors. Following an SEC investigation, we entered into a settlement with the SEC to resolve the matter on April 19, 2019. Under the settlement, the SEC alleged a negligence-based violation of Section 17(a)(2) of the Securities Act and ordered PFL to cease and desist from any future violations of that provision. PFL neither admitted nor denied any wrongdoing, and agreed to pay a civil monetary penalty of \$3.0 million. PFL paid the penalty in full on April 24, 2019.

The error reveals a risk associated with the complex programs, algorithms and inputs that support our platform. We depend on these programs, algorithms and inputs to store, retrieve, process and manage data, as well as to provide marketplace features such as our credit assessments and underwriting, the Prosper Rating, historical returns, and individual Note, Note portfolio and platform-wide performance data. Errors or other design defects within these programs, algorithms and inputs may result in a negative experience for borrowers and investors, delay introductions of new features or enhancements, or impact the information displayed on our website. They could also result in negative publicity and unfavorable media coverage, harm to our reputation, litigation, regulatory inquiries or proceedings, loss of or damage to our relationships with borrowers or investors, or loss of revenue or liability for damages, any of which could adversely affect our business and financial results.

***Arrangements for back-up servicing are limited. If PMI fails to maintain operations or the Administration Agreement is rejected or terminated (in bankruptcy or otherwise), investors may experience a delay and increased cost in respect of their expected principal and interest payments on Notes, and PFL may be unable to collect and process repayments from borrowers.***

If the Administration Agreement (or the loan servicing provisions thereof) are terminated for any reason (whether as a result of PMI's bankruptcy, non-performance or otherwise), PFL would attempt to transfer the loan servicing obligations on the Borrower Loans and Notes to a third party pursuant to its contractual agreements with investors.

PFL has entered into a back-up servicing agreement with a loan servicing company that is willing and able to transition servicing responsibilities from PMI. There can be no assurance, however, that this back-up servicer will be able to adequately perform the servicing of the outstanding Borrower Loans and Notes. If this back-up servicer assumes the servicing of the Borrower Loans and Notes, the back-up servicer may impose additional servicing fees (up to the maximums we have negotiated), reducing the amounts available for payments on the Notes. Additionally, transferring these servicing obligations to the back-up servicer may result in delays in the processing of collections on Borrower Loans and information with respect to amounts owed on Borrower Loans. If the back-up servicer is not able to service the Borrower Loans and Notes effectively, investors' ability to receive principal and interest payments on their Notes may be substantially impaired, even if their portfolio of Notes is well diversified and the corresponding Borrower Loans are paying on schedule.

In addition, it is unlikely that the back-up servicer would be able to perform functions other than servicing the outstanding Borrower Loans and Notes, such as facilitating the creation of new Borrower Loans through our marketplace, or managing PFL's marketing efforts. PFL believes that it could find one or more other parties who could perform these and any other functions necessary to fully operate our marketplace in the absence of PMI. However, this process, and any related onboarding of such party or parties, will take time. Any such delay or impairment that does not affect existing Note holders, because PFL or its back-up servicer proves able to continue servicing outstanding Borrower Loans and Notes, could nonetheless delay PFL's ability to facilitate the origination of new Borrower Loans and issue new Notes through our marketplace, which could adversely affect PFL's finances and customer relationships.

***A decline in economic conditions may adversely affect our customers, which may negatively impact our business and results of operations.***

As a lending marketplace, we believe our customers are highly susceptible to uncertainties and negative trends, real or perceived, in the markets driven by, among other factors, general economic conditions in the United States and abroad. These external economic conditions and resulting trends or uncertainties could adversely impact our customers' ability or desire to

participate in our marketplace as borrowers or investors, and consequently could negatively affect our business and results of operations. For more information about risks related to the COVID-19 pandemic, see “—Public health emergencies and other events beyond our control may damage our ability to continue operations without disruptions, including our ability to attract new borrowers and investors, retain existing investors, as well as the ability of existing borrowers to repay their loans. If such events continued for an extended period of time and PFL is unable to attract sufficient investor purchase commitments from new and existing investors, our business and results of operations may be materially adversely affected.”

***A relatively small number of investors provide the funding for a large percentage of all Borrower Loans originated through our marketplace.***

A relatively small number of investors provide the funding for a large percentage of all Borrower Loans originated through our marketplace. If these investors cease or significantly decrease their investment in Borrower Loans through our personal loan marketplace and PFL is unable to attract sufficient investor purchase commitments from new and existing investors, then our business and results of operations may be adversely affected.

***Our business could be adversely affected by a weakening market for securities backed by consumer assets.***

PFL is involved in the securitization market through: (i) its business of selling loans to investors who, in turn, sell asset backed securities based on accumulated loan portfolios and (ii) securitization of loans retained by affiliates of PFL. If the market for asset backed securities based on consumer assets weakens, investors may cease or significantly decrease their funding of Borrower Loans through our marketplace and if PFL has been unable to attract sufficient investor purchase commitments from new and existing investors, then our business and results of operations may be adversely affected.

***Although PFL has been organized in a manner that is intended to minimize the likelihood that it will become subject to a bankruptcy proceeding, if this were to occur, the rights of holders of the Notes could be uncertain, and payments on the Notes may be limited, suspended or stopped. The recovery, if any, of a holder on a Note may therefore be substantially delayed and substantially less than the principal and interest due and to become due on the Note.***

Although PFL has been organized and is operated in a manner that is intended to minimize the likelihood that it will become subject to a bankruptcy or similar proceeding, if this were to occur, the recovery, if any, of a holder of a Note may be substantially delayed in time (for example, due to the imposition of a stay on payments by the bankruptcy court) and may be substantially less in amount than the principal and interest due and to become due on the Note even if a Note holder’s portfolio of Notes is well diversified and the Borrower Loans are paying on schedule. Further, although PFL has granted the indenture trustee, for the benefit of the Note holders, a security interest in all of the Borrower Loans, in all payments and proceeds it receives on the corresponding Borrower Loans and in the bank account in which the Borrower Loan payments are deposited, the holders of the Notes would still be subject to risks associated with PFL’s insolvency, bankruptcy or a similar proceeding.

***If PFL becomes subject to a bankruptcy or similar proceeding, borrowers may delay payments or cease making payments at all.***

Borrowers may delay or suspend making payments to PFL because of the uncertainties associated with PFL becoming subject to a bankruptcy or similar proceeding, even if the borrowers have no legal right to do so, and such delay would reduce, at least for a time, the funds that might otherwise be available to pay the Notes corresponding to those Borrower Loans. In addition, the commencement of the bankruptcy or similar proceeding may, as a matter of law, prevent PFL from making regular payments on the Notes, even if the funds to make such payments are available. Because the Indenture trustee would be required to enforce its security interest in the Borrower Loans in a bankruptcy or similar proceeding, the Indenture trustee's ability to make payments under the Notes would be delayed, which may effectively reduce the value of any recovery that a holder of a Note may receive (and no such recovery can be assured) by the time any recovery is available.

***If PFL becomes subject to a bankruptcy or similar proceeding, interest accruing on the Notes upon and following such bankruptcy or similar proceeding may not be paid.***

In a bankruptcy or similar proceeding of PFL, interest accruing on the Notes during the proceeding may not be part of the allowed claim of a holder of a Note. If the Note holder receives a recovery on the Note (and no such recovery can be assured), any such recovery may be based on, and limited to, the Note holder’s claim for principal and for interest accrued up to the date of the bankruptcy or similar proceeding, but not thereafter. Because a bankruptcy or similar proceeding may take months or years to complete, a claim based on principal and on interest only up to the start of the bankruptcy or similar

proceeding may be substantially less than a claim based on principal and on interest through the end of the bankruptcy or similar proceeding.

***If PFL becomes subject to a bankruptcy or similar proceeding, a Note holder may not have any priority right to payment from the corresponding Borrower Loan, may not have any right to payment from funds in the applicable servicing account, and may not have any ability to access funds in the applicable funding accounts (the "FBO Funding accounts").***

In a bankruptcy or similar proceeding, if PFL has failed to perfect the security interest in Borrower Loans, investors may be required to share the proceeds of the Borrower Loans upon which their Notes are dependent for payment with PFL's other creditors, including holders of other Notes or Borrower Loans. To the extent that proceeds of the Borrower Loans would be shared with PFL's other creditors, any secured or priority rights of such other creditors may cause the proceeds to be distributed to such other creditors before any distribution is made to investors on the corresponding Notes.

If a payment is made on a Borrower Loan corresponding to a Note before PFL's bankruptcy or similar proceeding is commenced, and those funds are held in the servicing account PFL maintains with Wells Fargo to collect borrower payments and have not been used by PFL to make payments on the Note as of the date the bankruptcy or similar proceeding is commenced, there can be no assurance that PFL will or will be able to use such funds to make payments on such Note. Other creditors of PFL (including holders of other Notes or Borrower Loans) may be deemed to have rights to such funds or interests in the applicable servicing account and monies credited thereto that are equal to or greater than the rights of the holder of such Note.

Although PFL believes that amounts funded by both Whole Loan Channel and Note Channel investors into the applicable FBO Funding accounts should not be subject to claims of its creditors other than the investors for whose benefit the funds are held, the legal title to the FBO Funding accounts, and the attendant right to administer the FBO Funding accounts, would be property of PFL's bankruptcy estate. As a result, if PFL were to file for bankruptcy protection, the legal right to administer the funds in the FBO Funding accounts would vest with the bankruptcy trustee or debtor in possession. In that case, while neither PFL nor its creditors should be able to reach those funds, the indenture trustee or the investors may have to seek a bankruptcy court order lifting the automatic stay and permitting them to withdraw their funds. Investors may suffer delays in accessing their funds in the FBO Funding accounts as a result. Moreover, United States bankruptcy courts have broad powers at law and in equity and, if PFL has failed to properly segregate or handle investors' funds, a bankruptcy court could determine that some or all of such funds were beneficially owned by PFL and should therefore be made available to PFL's creditors generally.

***In a bankruptcy or similar proceeding of PFL, a holder of a Note may be delayed or prevented from enforcing PFL's repurchase obligations with respect to such Note.***

In a bankruptcy or similar proceeding of PFL, any right of a Note holder to require PFL to repurchase the Note or indemnify such Note holder under the circumstances set forth in the Investor Registration Agreement or the Note might not be enforceable, and such holder's claim for such repurchase may be treated less favorably than a general unsecured obligation of PFL.

***Although PFL has been organized in a manner that is intended to prevent it from being substantively consolidated with PMI in the event of PMI's bankruptcy, if PFL were substantively consolidated in this manner, the rights of the holders of the Notes could be uncertain, and payments on the Notes may be limited, suspended or stopped. The recovery, if any, of a holder on a Note may therefore be substantially delayed and substantially less than the principal and interest due and to become due on the Note.***

Although PFL has been organized and is operated in a manner that is intended to prevent it from being substantively consolidated with PMI in the event of PMI's bankruptcy, if PMI became subject to a bankruptcy or similar proceeding and PFL were substantively consolidated with PMI, the risks described in the immediately preceding risk factors regarding (i) payment delays, (ii) uncollectability of interest accrued during the bankruptcy proceeding, (iii) being subordinated to the interests of PFL's other creditors, and (iv) the indenture trustee's inability to access funds in the deposit account or the FBO Funding accounts, would all be present and, in addition, the same considerations would apply in relation to the claims of creditors of PMI, including that such creditors of PMI may be determined to have perfected security interests or unsecured claims that take precedence over or are at least equal in priority to those of creditors of PFL (including holders of Notes).

In addition, in the event of a bankruptcy or similar proceeding of PMI, (i) the implementation of back-up servicing arrangements may be delayed or prevented, and (ii) PMI's ability to transfer its servicing obligations to a back-up servicer or its other corporate and marketplace administration services and marketing services to third parties may be limited and subject to the approval of the bankruptcy court or other presiding authority. The bankruptcy process may delay or prevent the implementation of back-up servicing, which may impair the collection on Borrower Loans to the detriment of Note holders.

PMI owns and did not transfer to PFL ownership of the computer hardware that it uses to host and maintain the website or agreements with third parties relating to the hosting and maintenance of the website. Although PMI's retention of

such hardware and agreements should not bear on a bankruptcy court's analysis of the legal separateness of PMI and PFL (or their respective assets and liabilities), the cessation of or substantial reduction of the day-to-day operations of PMI (because of or during its bankruptcy or otherwise) would materially impair and delay the ability of PFL or a back-up service provider to retrieve data and information in the possession of PMI and to operate our marketplace or elements thereof relevant to Borrower Loan and Note servicing.

***PMI, in its capacity as servicer, has the authority to waive or modify the terms of a Borrower Loan without the consent of the Note holders.***

Pursuant to the Administration Agreement, PMI is obligated to use commercially reasonable efforts to service and collect on the Borrower Loans in accordance with industry standards. Subject to that obligation, the Administration Agreement grants PMI the authority to waive or modify any non-material term of a Borrower Loan, consent to the postponement of strict compliance with any such term, or in any manner grant a non-material indulgence to any borrower. In addition, if a Borrower Loan is in default, or PMI determines a default is reasonably foreseeable or that such action is consistent with its servicing obligation, the Administration Agreement grants PMI the authority to waive or modify a material term of a Borrower Loan, to accept payment of an amount less than the principal balance in final satisfaction of a Borrower Loan and to grant any indulgence to a borrower, *provided* that PMI has reasonably and prudently determined that such action will not be materially adverse to the interests of the relevant Note holders. If PMI approves a modification to the terms of any Borrower Loan it must promptly notify the corresponding Note holders in each Note holder's account.

There can be no assurance that PMI, in its capacity as servicer, will be able to collect the principal amount or interest rate agreed to and/or sell charged off Borrower Loans in the future as a result of business, regulatory or other considerations.

***We have incurred operating losses in prior years and may continue to incur net losses in the future.***

We have incurred operating losses in prior years and may continue to incur net losses in the future. For the years ended December 31, 2021 and 2020, we incurred a loss of \$138.3 million and generated income of \$18.6 million, respectively. Additionally, from our inception through December 31, 2021, we have had an accumulated deficit of \$554.3 million.

We have financed our operations to date primarily with proceeds from the sale of equity securities. At December 31, 2021, we had approximately \$67.7 million unrestricted cash and cash equivalents. PMI is dependent upon raising additional capital or debt financing to fund its current operating plan if it cannot generate sufficient positive cash flow from operations. PMI's failure to achieve positive cash flow from operations or obtain sufficient debt and equity financing, could adversely affect its ability to perform its obligations under the Administration Agreement and, in such event, PFL's ability to continue to make payments on the Notes could be materially impaired.

***Although our business has grown, we may be unable to manage our growth effectively and meet the demands that such growth places on our facilities, employees and infrastructure.***

As the number of borrowers, investors and Borrower Loans originated through our marketplace increases, PMI will need to increase its facilities, personnel and infrastructure in order to continue performing effectively its obligations under the Administration Agreement and to accommodate the effects that such growth will have on our servicing and marketplace needs. PMI must constantly add new hardware and update its software and our personal loan marketplace, expand customer support services, and add new employees to maintain the operations of our personal loan marketplace as well as to satisfy its servicing obligations on the Borrower Loans and the Notes and its other obligations under the Administration Agreement. If PMI is unable to increase the capacity of our marketplace and maintain the necessary infrastructure to perform its duties under the Administration Agreement, PFL, or one or more other third-party service providers engaged by PFL, will have to perform the duties otherwise performed by PMI, and investors may experience delays in receipt of payments on their Notes and periodic downtime of our marketplace.

***The Credit Card and HELOC products are new products which are complex and require us to allocate significant resources to the development, launch and growth of these new products. If these new products are unable to attract borrowers and generate revenue, our business and results of operations could suffer.***

The HELOC product was launched in March 2019 and our Credit Card product was launched in December 2021. The launch of these new and complex products requires us to allocate significant resources in hiring new employees to support each product, ensuring each product complies with new laws and regulations, and integrating the products into our online platform. See Item 1, "Business—Government Regulation" for more information about the laws and regulations which affect the Credit Card and HELOC products. There is no guarantee that we will attract the borrowers necessary to generate sufficient revenue to recoup the investment of resources into the development, launch, and growth of these new products. The products may also divert management's time and effort from other initiatives.

Our Credit Card product is also subject to the risk of fraud or borrower identity theft and we may experience losses on, or inability to recoup losses resulting from, fraudulent Credit Card applications or fraudulent transactions made on Credit

Cards. Our Credit Card product is currently focused on higher risk borrowers, who may have higher exposure to economic downturns and general economic conditions beyond our control and beyond the control of these borrowers. As a result, we may experience significant delinquency rates and fraud and credit losses. Our borrower profile and recent entry into the credit card market could increase these risks and potential losses.

The Credit Card and HELOC products are not available on our personal loan marketplace for investment purposes. The Credit Card and HELOC products did not have a material impact on our revenue as of and for the year ended December 31, 2021.

***PFL's reliance on PMI or other third-party service providers, lack of employees, limited operating history, and capitalization levels could make it difficult to operate at a sustainable level.***

PFL was formed in 2012 as a limited purpose vehicle. Under the Administration Agreement, PFL receives a license fee from PMI for granting PMI a non-exclusive, worldwide license to access and use our marketplace. In addition, PFL earns servicing fees in relation to the servicing of the Borrower Loans and Notes that it retains from collections on the Borrower Loans. PFL believes this fee income is sufficient to cover its reasonably anticipated obligations. While PFL believes that it is adequately capitalized to meet its foreseeable obligations, and that its fee income is sufficient to meet its ongoing operating costs, its financial resources are limited and could prove to be insufficient. In addition, PFL has no employees and relies on PMI, as servicer, or other third-party service providers, to perform most of its day-to-day operations. The lack of PFL's own employees, its limited operating history, and capitalization that is less than that of PMI could make it difficult for PFL to operate at a level that will be sustainable. Absent the services to be provided to PFL by PMI pursuant to the Administration Agreement, PFL's risk management process, ability to predict loss rates and the general operation of our marketplace would have a smaller margin for error than does PMI.

***The market in which we participate is competitive and, if we do not compete effectively, our operating results could be harmed.***

The consumer lending market is competitive and rapidly changing. With the introduction of new technologies and the influx of new entrants, we expect competition to persist and intensify in the future, which could harm our ability to increase volume in our marketplace.

Our principal competitors include banking institutions, credit unions, credit card issuers, mortgage lenders, consumer finance companies, and online lending platforms. Competition could result in reduced volumes, reduced fees or the failure of our marketplace to achieve or maintain more widespread market acceptance, any of which could harm our business. In addition, in the future we may experience new competition including companies possessing large, existing customer bases, substantial financial resources and established distribution channels. If any of these companies or any major financial institution decides to enter our online lending sector, acquire one of our existing competitors or form a strategic alliance with one of our competitors, our ability to compete effectively could be significantly compromised and our operating results could be harmed.

Most of our current or potential competitors have significantly more financial, technical, marketing and other resources than we do and may be able to devote greater resources to the development, promotion, sale and support of their marketplaces and distribution channels. Our potential competitors may also have longer operating histories, more extensive customer bases, greater brand recognition and broader customer relationships than we have. These competitors may be better able to develop new products, to respond quickly to new technologies and to undertake more extensive marketing campaigns. Our industry is driven by constant innovation. If we are unable to compete with such companies and meet the need for innovation, the use of our marketplace could stagnate or substantially decline.

***If we fail to promote and maintain our brand in a cost-effective manner, we may lose market share and our revenue may decrease.***

To succeed, we must increase transaction volumes in our marketplace by attracting a large number of borrowers and investors in a cost-effective manner. If we are not able to attract qualified borrowers and sufficient investor purchase commitments, we will not be able to increase our transaction volumes. PFL believes that developing and maintaining awareness of its brand in a cost-effective manner is critical to achieving widespread acceptance of our marketplace and attracting new borrower and investors. Furthermore, we believe that the importance of brand recognition will increase as competition in our industry increases. Successful promotion of our brand will depend largely on the effectiveness of marketing efforts and the user experience on our marketplace. These brand promotion activities may not yield increased revenues. If we fail to successfully promote and maintain our brand, we may lose our existing users to competitors or be unable to attract new users, which would cause our revenue to decrease and may impair our ability to maintain our marketplace.

***The proprietary technology that makes operation of our marketplace possible is not fully protected by patents. It may be difficult and costly for PFL to protect its intellectual property rights in relation thereto, or to continue to develop or obtain new technologies, which could adversely affect its ability to operate competitively.***

On February 1, 2013, PMI transferred ownership of the marketplace, including the proprietary technology and all of the rights related to the operation of the marketplace, to PFL. PFL's ability to maintain our marketplace depends, in part, upon this proprietary technology. We have taken steps to protect our proprietary interests in such technology, including through patent filings, and intend to continue to vigorously protect these interests. Despite our best efforts, however, we may not protect the proprietary technology effectively, which would allow competitors to duplicate our products and adversely affect our ability to compete. A third party may attempt to reverse engineer or otherwise obtain and use the proprietary technology without PFL's consent. In addition, our marketplace may infringe upon claims of third-party patents and PFL or PMI may face intellectual property challenges from such other parties. PFL or PMI may not be successful in defending against any such challenges or in obtaining licenses to avoid or resolve any intellectual property disputes. Furthermore, the technology may become obsolete, and there is no guarantee that PFL will be able to successfully develop, obtain or use new technologies to adapt our marketplace to compete with other companies. If PFL cannot protect the proprietary technology embodied in and used by our marketplace from intellectual property challenges, or if our marketplace becomes obsolete, PFL's ability to maintain our marketplace and perform its servicing obligations could be adversely affected and, in such event, its ability to continue to make payments on the Notes could be materially impaired.

***PFL relies on a third-party commercial bank to process transactions. If PFL is unable to continue utilizing these services, its business and ability to service the Notes may be adversely affected.***

Because PFL is not a bank, it cannot belong to or directly access the Automated Clearing House (ACH) payment network. As a result, it currently relies on an FDIC-insured depository institution to process its transactions. If PFL cannot continue to obtain such services from this institution or elsewhere, or if it cannot transition to another processor quickly, its ability to process payments will suffer and investors' ability to receive principal and interest payments on the Notes will be delayed or impaired.

***If the security of PFL's investors' and borrowers' confidential information stored in our systems is breached or otherwise subjected to unauthorized access, users' secure information may be stolen, our reputations may be harmed, and we may be exposed to liability.***

As with any entity with a significant Internet presence, we and the third parties that we use for website hosting and mobile technologies occasionally have experienced cyber-attacks, breaches of our and their systems and other similar incidents, which to-date have not had a material effect on our business, operations or reputation. Future attacks are likely to occur. Our marketplace stores PFL's investors' and borrowers' bank information and other personally identifiable sensitive data. Any accidental or willful security breaches or other unauthorized access could cause users' secure information to be stolen and used for criminal purposes. Security breaches or unauthorized access to secure information could also expose us to liability related to the loss of the information, time-consuming and expensive litigation and negative publicity. If security measures are breached because of third-party action, employee or contractor error, malfeasance, faulty password management or otherwise, or if design flaws in the relevant software are exposed and exploited, and, as a result, a third party or disaffected employee obtains unauthorized access to any investors' or borrowers' data, PFL's relationships with its users could be severely damaged, and PFL (or PMI) could incur significant liability. Because techniques used to obtain unauthorized access or to sabotage systems change frequently and generally are not recognized until they are launched against a target, we and PMI's third-party hosting facilities may be unable to anticipate these techniques or to implement adequate preventative measures. In addition, many states have enacted laws requiring companies to notify individuals of data security breaches involving their personal data. These mandatory disclosures regarding a security breach are costly to implement and often lead to widespread negative publicity, which may cause our users to lose confidence in the effectiveness of PFL's and PMI's data security measures. Further, California has recently enacted the California Consumer Privacy Act, a comprehensive bill that affords individuals in the state affected by data breaches a private right of action against companies that have allegedly been the target of such breaches due to a failure to implement and maintain appropriate cybersecurity policies and procedures. Any security breach, whether actual or perceived, would harm our reputations, and we could lose users.

In addition, we face an increased risk of cyber-attacks during the COVID-19 pandemic, which has forced us and many other companies to institute remote work protocols in order to protect the health and safety of employees. We use industry standard technologies to maintain secure remote work protocols and protect sensitive data within our control, and we require employees to complete security awareness training at regular intervals. However, we are necessarily limited in our ability to control or ensure the security of networks that employees use to work remotely. Further, cybersecurity experts and officials are reporting increased phishing, spoofing and other cyber-attack efforts during COVID-19, as hackers seek to take advantage of the uptick in remote work.

***Any significant disruption in service in our marketplace or in PMI's computer systems could adversely affect PMI's ability to perform its obligations under the Administration Agreement.***

PMI's ability to perform its obligations under the Administration Agreement could be materially and adversely affected by events outside of its control. The satisfactory performance, reliability and availability of PMI's technology and its



underlying network infrastructure are important to our respective operations, level of customer service, reputation and ability to attract new users and retain existing users. PMI's system hardware is hosted in several hosting facilities located in Las Vegas, Nevada; Scottsdale, Arizona; The Dalles, Oregon; and Council Bluffs, Iowa. Our hosting facilities service providers do not guarantee that access to our marketplace or to PMI's own systems will be uninterrupted, error-free or secure. The operation of our marketplace and PMI's operation of its own systems depends on our service providers' ability to protect the relevant systems in their facilities against damage or interruption from natural disasters, power or telecommunications failures, air quality, temperature, humidity or other environmental concerns, computer viruses or other attempts to harm them, criminal acts and similar events. As noted above, there is an increased risk of cyber-attacks during the COVID-19 pandemic, which has forced many companies to implement remote work protocols and resulted in greater attempts by malicious actors to carry out cyber-attacks. If PMI's arrangement with any hosting facilities service provider is terminated, or there is a lapse of service or damage to such provider's facilities, PMI could experience interruptions in providing its services under the Administration Agreement, PFL could experience interruptions in the operations of our marketplace, and both could experience delays and additional expense in arranging new facilities. Any interruptions or delays in PMI's performance of its services or in the functioning of and accessibility of our marketplace, whether as a result of a hosting facility service provider or other third-party error, PMI's error, natural disasters or security breaches, whether accidental or willful, could harm PFL's relationships with users and its reputation. Additionally, in the event of damage or interruption, PMI's insurance policies may not be sufficient for PMI to adequately compensate PFL for any losses that it may incur. PMI's disaster recovery plan has not been tested under actual disaster conditions, and PMI may not have sufficient capacity to recover all data and services in the event of an outage at one or more hosting facilities. These factors could prevent PMI from processing or posting payments on the Borrower Loans or the Notes, damage PFL's brand and reputation, divert the attention of PMI's employees, reduce PFL's revenue, subject PMI or PFL to liability and cause users to abandon our marketplace, any of which could adversely affect our respective businesses, financial condition and results of operations.

***Our marketplace may be vulnerable to computer viruses, physical or electronic break-ins and similar disruptions.***

Our marketplace may be vulnerable to computer viruses, physical or electronic break-ins and similar disruptions. If a hacker were able to infiltrate our marketplace, users would be subject to the increased risk of fraud or borrower identity theft and may experience losses on, or delays in the recoupment of amounts owed on, a fraudulently induced purchase of a Note. Additionally, if a hacker were able to access our secure files, they might be able to gain access to users' personal information. While we have taken steps to prevent such activity from affecting our marketplace, if we are unable to prevent such activity, the value of investors' investment in the Notes could be adversely affected.

***Competition for our employees is intense, and we may not be able to attract and retain the highly skilled employees we need to perform under the Administration Agreement.***

Competition for highly skilled technical and financial personnel is extremely intense. We may not be able to hire and retain these personnel at compensation levels consistent with our existing compensation and salary structure. Many of the companies with which we compete for experienced employees have greater resources than we do and may be able to offer more attractive terms of employment.

In addition, we invest significant time and expense in training our employees, which increases their value to competitors who may seek to recruit them. If we fail to retain our employees, we could incur significant expenses in hiring and training their replacements and the quality of our services and our ability to serve borrower and investors could diminish, resulting in a material adverse effect on PMI's ability to perform its obligations under the Administration Agreement and, in such event, PFL's ability to continue to make payments on the Notes could be materially impaired. See Item 1, "Business—Human Capital Resources" for more information about Prosper's employees.

***Purchasers of Notes will have no control over us and will not be able to influence our corporate matters.***

PFL is not offering and will not offer equity interests in its company. Investors who purchase Notes offered through our marketplace will have no equity interest in either of us and no ability to vote on or influence our decisions. As a result, PMI, which owns all of PFL's outstanding equity interests, will continue to have sole control over PFL's governance matters, subject to the presence of PFL's independent directors, whose consent will be required before PFL can take certain extraordinary actions, and subject to the limitations specified in PFL's organizational documents and the Amended and Indenture.

***PMI completed its first two acquisitions in 2015, and in the future PMI may continue to enter into acquisitions that may be difficult to integrate, fail to achieve their strategic objectives, disrupt our business or divert management attention.***

PMI completed its first two acquisitions in 2015, and in the future PMI may continue to enter into acquisitions of businesses, technologies and products that it intends to complement its existing business, solutions, services and technologies. PMI cannot provide assurance that the acquisitions it has made or will make in the future will provide it with the benefits or achieve the results anticipated in entering into the transaction. Acquisitions are typically accompanied by a number of risks, including: difficulties assimilating and retaining the management and other personnel, culture and operations of the acquired

businesses; potential disruption of ongoing business and distraction of management; difficulties in maintaining acceptable standards, controls, procedures and policies, including integrating financial reporting and operating systems, particularly with respect to foreign and/or public subsidiaries; potential loss of existing or acquired strategic operating partners, users and customers following an acquisition; difficulties in integrating acquired technologies and products into our solutions and services; and unexpected costs and expenses resulting from the acquisition, and potential unknown liabilities associated with acquired businesses.

In addition, acquisitions may result in the incurrence of debt, acquisition-related costs and expenses, restructuring charges and write-offs. Acquisitions may also result in goodwill and other intangible assets that are subject to impairment tests, which could result in future impairment charges.

PMI may enter into negotiations for acquisitions that are not ultimately consummated. Those negotiations could result in diversion of management time and significant out-of-pocket costs. If PMI fails to evaluate and execute acquisitions successfully, PMI may not be able to achieve its anticipated level of growth and its business and operating results could be adversely affected.

***Events beyond our control may damage our ability to maintain adequate records, maintain our marketplace or perform the servicing obligations. If such events result in a system failure, investors' ability to receive principal and interest payments on the Notes would be substantially harmed.***

If a catastrophic event resulted in a marketplace outage and physical data loss and/or affected our electronic data storage and back-up storage systems, PFL's ability (and PMI's ability as servicer under the Administration Agreement) to perform its servicing obligations would be materially and adversely affected. Such events include, but are not limited to, fires, earthquakes, terrorist attacks, natural disasters, computer viruses and telecommunications failures. In the event of any marketplace outage or physical data loss described in this paragraph, PFL cannot guarantee that investors would be able to recoup their investment in the Notes.

***Events beyond our control, such as public health emergencies, international conflicts, natural disasters, or other catastrophic events, may damage our ability to continue operations without disruptions, including our ability to attract new borrowers and investors, retain existing investors, as well as the ability of existing borrowers to repay their loans. If such events continued for an extended period of time and PFL is unable to attract sufficient investor purchase commitments from new and existing investors, our business and results of operations may be materially adversely affected.***

Our business is subject to the risk that external events, such as public health emergencies, natural disasters, or other catastrophic events, could disrupt our day-to-day operations and impair the activities of borrowers and investors on our marketplace. Unforeseen events, or the prospect of such events, including acts of war (including the recent invasion of Ukraine by Russia), terrorism and other international conflicts, public health issues including health epidemics or pandemics, such as COVID-19, and natural disasters such as fires, hurricanes, earthquakes, tornados or other adverse weather and climate conditions, whether occurring in the United States or elsewhere, could disrupt our operations, disrupt the operations of our vendors or result in political or economic instability. These events could reduce demand for our products or make it difficult or impossible to receive services from our vendors. Any such disruption could also damage our reputation, which would further lower investor or borrower demand for our products. We could also be subject to claims or litigation with respect to losses caused by such disruptions. Our property and business interruption insurance may not cover a particular event at all or be sufficient to fully cover our losses.

For example, the COVID-19 pandemic forced many companies, including us, to adopt wide-scale remote work protocols in an attempt to protect workforce health and slow community spread of the disease. While we have business continuity procedures in place to guide our response to a crisis, our attention may be diverted away from normal operations and our resources may be constrained. Likewise, borrowers and investors living in areas impacted by COVID-19 or other crises may also experience work slowdowns or stoppages, diminishing their capacity to apply for loans or invest through our marketplace. For existing borrowers, work slowdowns or stoppages may directly result in the inability to make loan payments, and may impair investors' ability to receive principal and interest payments on the corresponding Notes. Additionally, a potential recession or volatility in capital markets as a result of public health emergencies may cause existing investors to cease or significantly decrease their investment in Borrower Loans through our marketplace. If such events continued for an extended period of time and PFL is unable to attract sufficient investor purchase commitments from new and existing investors, our business and results of operations may be materially adversely affected.

## RISKS RELATED TO COMPLIANCE AND REGULATION

Our marketplace must comply with regulatory regimes applicable to consumer credit transactions as well as with regulatory regimes applicable to securities transactions. Certain state laws generally regulate interest rates and other charges and require certain disclosures, and also require licensing for certain activities. In addition, other state laws, public policy and general principles of equity relating to the protection of consumers, unfair and deceptive practices and debt collection practices may apply to the origination, servicing and collection of Borrower Loans in our marketplace. We are also subject to other laws, such as:

- the federal Truth-in-Lending Act and Regulation Z promulgated thereunder, which require certain disclosures to borrowers regarding the terms of their loans;
- the Credit Card Accountability Responsibility and Disclosure Act of 2009, which amended the federal Truth-in-Lending Act and requires additional procedures, disclosures, fee limits and other protections for consumers applying for or holding open end credit cards;
- the Fair Credit Billing Act, which amended the federal Truth-in-Lending Act and creates creditor obligations with respect to billing complaints and errors for credit card customers;
- the federal Equal Credit Opportunity Act and Regulation B promulgated thereunder, which prohibit discrimination in the extension of credit on the basis of age, race, color, sex, religion, marital status, national origin, receipt of public assistance or the exercise of any right under the Consumer Credit Protection Act;
- the federal Fair Credit Reporting Act and Regulation V, which regulates the use, reporting and disclosure of information related to each applicant's credit history;
- the federal Fair Debt Collection Practices Act and Regulation F, which regulates debt collection practices by "debt collectors" and prohibits debt collectors from engaging in certain practices in collecting, and attempting to collect, outstanding personal loans;
- state counterparts to the above consumer protection laws;
- state and federal securities laws, which require that any non-exempt offers and sales of the Notes be registered;
- Section 5 of the Federal Trade Commission Act, which prohibits unfair and deceptive acts or practices in or affecting commerce, and Section 1031 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, which prohibits unfair, deceptive or abusive acts or practices in connection with any consumer financial product or service;
- the federal Gramm-Leach-Bliley Act, which includes limitations on financial institutions' disclosure of nonpublic personal information about a consumer to nonaffiliated third parties, in certain circumstances requires financial institutions to limit the use and further disclosure of nonpublic personal information by nonaffiliated third parties to whom they disclose such information and requires financial institutions to disclose certain privacy policies and practices with respect to information sharing with affiliated and nonaffiliated entities as well as to safeguard personal customer information, and other privacy laws and regulations;
- the California Consumer Privacy Act, which provides consumers in the state with extensive rights to know about the use, to request deletion, and to opt out of the sale of their personal information by certain businesses, and which obligates such businesses to notify consumers of their data collection practices and to implement procedures for addressing consumer requests regarding their personal data;
- the Bankruptcy Code, which limits the extent to which creditors may seek to enforce debts against parties who have filed for bankruptcy protection;
- the federal Servicemembers Civil Relief Act, which allows military members to suspend or postpone certain civil obligations so that the military member can devote their full attention to military duties;
- the federal Military Lending Act, which provides specific protections for active duty service members and their dependents (or covered borrowers) in consumer credit transactions;
- the federal Electronic Fund Transfer Act and Regulation E promulgated thereunder, which provide disclosure requirements, guidelines and restrictions on the electronic transfer of funds from consumers' bank accounts;
- the federal Electronic Signatures in Global and National Commerce Act and similar state laws, particularly the Uniform Electronic Transactions Act, which authorize the creation of legally binding and enforceable agreements utilizing electronic records and signatures;
- the federal Bank Secrecy Act, which relates to compliance with anti-money laundering, customer due diligence and record-keeping policies and procedures;

- the federal Real Estate Settlement Procedures Act and Regulation X, which applies to the HELOC product;
- the federal Home Mortgage Disclosure Act and Regulation C, which applies to the HELOC product; and
- state mortgage broker and licensing and registration requirements that meet the minimum standards set forth in the federal Secure and Fair Enforcement for Mortgage Licensing Act of 2008 and Regulation H.

We may not always be in compliance with these laws. Borrowers may make counterclaims regarding the enforceability of their obligations under borrower or consumer protection laws after collection actions have commenced, or otherwise seek damages under these laws. Investors may attempt to rescind their Note purchases under securities laws, and PFL or PMI's failure to comply with such laws could also result in civil or criminal liability. Compliance with these requirements is also costly, time-consuming and limits operational flexibility. See Item 1, "Business—Government Regulation" for more information.

***There continues to be uncertainty as to how the actions of the Consumer Financial Protection Bureau or any other new agency could impact our business or that of our issuing bank.***

The Consumer Financial Protection Bureau ("CFPB"), which commenced operations in July 2011, has broad authority over the businesses in which we engage. This includes authority to write regulations under federal consumer financial protection laws, such as the Truth in Lending Act and the Equal Credit Opportunity Act, and to enforce those laws against and examine large financial institutions for compliance. The CFPB is authorized to prevent unfair, deceptive or abusive acts or practices through its regulatory, supervisory, and enforcement authority. To assist in its enforcement, the CFPB maintains an online complaint system that allows consumers to log complaints with respect to various consumer finance products, including the loan products we facilitate. This system could inform future CFPB decisions with respect to its regulatory, enforcement or examination focus.

We are subject to the CFPB's jurisdiction, including its enforcement authority. The CFPB may therefore request reports concerning our organization, business conduct, markets and activities. In addition, the CFPB may conduct on-site examinations of our business on a periodic basis if the CFPB were to determine, based on, for example, consumer complaints, judicial opinions, or administrative decisions, that we are engaging in activities that pose risks to consumers. In addition, the CFPB has announced that it plans to make a rule for the direct supervision of nonbank installment lenders, which may permit the CFPB to conduct periodic examinations of our business.

There continues to be uncertainty as to how the CFPB's strategies and priorities, including in both its examination and enforcement processes, will impact our businesses and our results of operations going forward. Actions by the CFPB could result in requirements to alter or cease offering affected loan products and services, making them less attractive and restricting our ability to offer them.

Although we have committed resources to enhancing our compliance programs, actions by the CFPB or other regulators against us, our issuing banks or our competitors that discourage the use of the marketplace model or suggest to consumers the desirability of other loan products or services could result in reputational harm and a loss of borrowers or investors. Our compliance costs and litigation exposure could increase materially if the CFPB or other regulators enact new regulations, change regulations that were previously adopted, modify, through supervision or enforcement, past regulatory guidance, or interpret existing regulations in a manner different or stricter than have been previously interpreted.

***Noncompliance with laws and regulations may impair our ability to facilitate the origination of or service Borrower Loans.***

Generally, failure to comply with applicable laws and regulatory requirements may, among other things, limit our or a third party collection agency's ability to collect all or part of the principal amount of or interest on the Borrower Loans on which the Notes are dependent for payment. In addition, non-compliance could subject us to damages, revocation of required licenses, class action lawsuits, administrative enforcement actions, and civil and criminal liability, which may harm PFL's business and ability to maintain our marketplace and may result in borrowers rescinding their Borrower Loans.

Where applicable, we seek to comply with state lending, servicing and similar statutes, and we continually evaluate our licensing needs. In U.S. jurisdictions with licensing or other requirements that we believe may be applicable to our marketplace, we have obtained necessary licenses or comply with the relevant requirements. Nevertheless, if we are found to not comply with applicable laws, we could lose one or more of our licenses or face other sanctions, which may have an adverse effect on our ability to continue to facilitate the origination of Borrower Loans through our marketplace, and on our ability to perform servicing obligations or make our marketplace available to borrowers in particular states, which may impair investors' ability to receive the payments of principal and interest on the Notes that they expect to receive.

***If our marketplace were found to violate a state's usury laws, we may have to alter our business model and our business could be harmed.***

If our marketplace were found to violate a state's usury laws, we may have to alter our business model and our business could be harmed. The interest rates that are charged to borrowers and that form the basis of payments to investors through our marketplace are based upon the ability under federal law of the issuing bank that originates the loan to export the interest rates of the state where it is located and on our ability to assist the bank in arranging such loans. WebBank, the bank that issues personal loans through our marketplace, exports the interest rates of Utah, which allows parties to generally agree by contract to any interest rate. The interest rates offered by WebBank through our marketplace for Borrower Loans as of December 31, 2021 range from 5.31% to 31.82%, which equate to interest rates for Note investors that range from 4.31% to 30.82%. Some states where borrowers are located, including Utah, have no statutory interest rate limitations on personal loans, while other jurisdictions have a maximum rate less than the current maximum rate offered by WebBank through our marketplace. If a borrower were to successfully bring claims against us for state usury or other state law violations, we could be subject to fines and penalties. Further, if the current structure under which WebBank makes personal loans through our marketplace were successfully challenged, we may have to substantially modify our business operations and may be required to maintain state-specific licenses and only provide a limited range of interest rates for Borrower Loans, all of which may substantially reduce our operating efficiency and attractiveness to investors and possibly result in a decline in our operating results. Recent litigation has successfully challenged lending arrangements in which banks or other exempt entities make loans and sell those loans to a third party charged with servicing the loans.

In addition, it is possible that state usury laws may impose liability that could affect an assignee's (i.e., PFL's and/or an investor who purchases Borrower Loans from PFL) ability to continue to charge to borrowers the interest rates that they agreed to pay at origination of their Borrower Loans.

As discussed in Part I, Item 1, "Business—Government Regulation—State Usury Laws" above, in *Madden v. Midland Funding, LLC*, in May 2015, the U.S. Court of Appeals for the Second Circuit issued a decision in *Madden v. Midland Funding, LLC* that interpreted the scope of federal preemption under the National Bank Act and held that a nonbank assignee of a loan originated by a national bank was not entitled to the benefits of federal preemption of claims of usury. On November 10, 2015, the defendant in the *Madden* case filed a petition for a writ of certiorari with the United States Supreme Court for further review of the Second Circuit's decision. On June 27, 2016, the United States Supreme Court denied the petition and refused to review the case, leaving the decision of the Second Circuit intact and binding on federal courts in Connecticut, New York and Vermont. The *Madden* decision has created some uncertainty as to whether non-bank entities purchasing loans originated by a bank may rely on federal preemption of state usury laws, and may create an increased risk of litigation by plaintiffs challenging our ability to collect interest in accordance with the terms of Borrower Loans. While the decision specifically addressed preemption under the National Bank Act, it could support future challenges to federal preemption for other institutions, including an FDIC-insured, state chartered industrial bank like WebBank. However, although there can be no assurances as to the outcome of any potential litigation, or the possible impact of the litigation on our marketplace, we believe the *Madden* case addressed facts that are not presented by our marketplace lending platform and thus would not apply to Borrower Loans.

In June 2020, the FDIC issued a final regulation entitled "Federal Interest Rate Authority" that, among other things, addressed the uncertainty resulting from the *Madden* decision, including uncertainty affecting marketplace lenders that partner with banks. Under the FDIC's rule, which applies to FDIC-insured state-chartered industrial banks such as WebBank, interest on a loan originated by WebBank that was permissible under DIDA at origination is not affected by WebBank's subsequent sale of the loan to PFL. Seven states and the District of Columbia sued the FDIC, however, seeking to have the regulation set aside on Administrative Procedure Act grounds. Three states brought a similar challenge in the same court to a similar regulation issued by the OCC under the NBA. Both suits were decided in February 8, 2022, with the United States District Court for the Northern District of California ruling that the FDIC and OCC had not exceeded their statutory authority when promulgating their respective rules. The court deferred to each federal agency's interpretation, and thus concluded that each agency's rule was not unreasonable or arbitrary or capricious. The states have until April 11, 2022 to appeal the rulings to the U.S. Court of Appeals for the Ninth Circuit. If the states appeal, a decision by the Ninth Circuit overturning the District Court's rulings could subject Borrower Loans and PFL purchases from WebBank to state usury laws.

In January 2017, the Administrator of the Colorado Uniform Consumer Credit Code filed suits against online loan platforms Marlette Funding, LLC and Avant, Inc. The Administrator claimed that loans to Colorado residents facilitated through these platforms were required to comply with Colorado laws regarding interest rates and fees, and that such laws were not preempted by the federal laws that apply to loans originated by Cross River Bank and WebBank, the federally regulated issuing banks that originate loans through the platforms operated by Marlette and Avant, respectively. In response to the Colorado regulator's lawsuits, Cross River Bank and WebBank each intervened in the state court case filed against Marlette and Avant, respectively. On August 18, 2020, the parties reached a settlement that provides a safe harbor for the Marlette and Avant lending platforms, such that if the lending programs meet certain criteria related to oversight, disclosure, funding, licensing, consumer terms, and structure, the programs will be deemed to be in compliance with Colorado's usury limits. On November 9, 2020, we amended our agreements with WebBank to address the requirements of the safe harbor for extending credit to borrowers in Colorado.

We had separately been in discussions with the Colorado Department of Law during the Marlette and Avant litigation regarding certain terms of Borrower Loans offered to Colorado residents. Effective as of July 30, 2019, we and the Administrator entered into a stipulation for the continued operation of the loan program in Colorado, subject to certain financing charge and late fee restrictions during the period that the stipulation is in effect. The stipulation remains in place but may be terminated with 21 days' notice by either party. No further assurance can be provided as to the timing or outcome of the stipulation.

We and our counsel are monitoring these matters closely and, as developments warrant, we will consider any necessary changes to our marketplace required to avoid the impact of these cases on our business model. Because of investor demand, the maximum annual percentage rates offered through our marketplace may be lower in some states than others.

***We rely on agreements with WebBank, pursuant to which WebBank originates personal loans on a uniform basis to qualified borrowers throughout the United States and sells and assigns those loans to PFL. If our relationships with WebBank were to end, we may need to rely on individual state lending licenses or partner with a different bank to offer Borrower Loans.***

Borrower Loan requests take the form of an application to WebBank submitted through our marketplace. WebBank currently makes all personal loans to borrowers through our marketplace, which allows our marketplace to be available to borrowers on a uniform basis throughout the United States. If our relationships with WebBank were to end or if WebBank were to cease operations, one or both of PMI and PFL may need to rely on individual state lending licenses or we would need to partner with a different bank to originate Borrower Loans. Because neither of us currently possesses all required licenses to lend in every state, we might be forced to limit the rates of interest charged on Borrower Loans in some states and we might not be able to originate personal loans in some states altogether. If we partner with a new bank, service on our marketplace could be disrupted and delayed as we transition to a different bank partner. We also may face increased costs and compliance burdens if the agreements with WebBank are terminated.

***Several lawsuits have sought to recharacterize certain loan marketers and other originators as lenders. If litigation or a regulatory enforcement action on similar theories were successful against one or both of PMI and PFL, Borrower Loans originated through our marketplace could be subject to state consumer protection laws and licensing requirements in a greater number of states.***

Several lawsuits in the lending industry primarily involving high-interest "payday loan" marketers have brought under scrutiny the association between those firms and out-of-state banks. These lawsuits assert the loan marketers use out-of-state lenders in order to evade the consumer protection laws imposed by the states where they do business. Such litigation has sought to re-characterize the loan marketer as the lender for purposes of state consumer protection law and usury restrictions. Similar civil actions have been brought in the context of gift cards and retail purchase finance. Although we believe that our activities are generally distinguishable from the activities involved in these cases, a court or regulatory authority could disagree.

Additional state consumer protection laws would be applicable to the Borrower Loans facilitated through our marketplace if one or both of us were re-characterized as a lender, and the Borrower Loans could be voidable or unenforceable. In addition, we could be subject to claims by borrowers, as well as enforcement actions by regulators. Even if we were not required to cease doing business with residents of certain states or to change our business practices to comply with applicable laws and regulations, we could be required to register or obtain licenses or regulatory approvals that could impose a substantial cost on us.

***As online commerce develops, federal and state governments may draft and propose new laws to regulate commerce over the Internet, which may negatively affect our businesses.***

As online commerce continues to evolve, increasing regulation by federal and state governments becomes more likely. Our businesses could be negatively affected by the application of existing laws and regulations or the enactment of new laws applicable to marketplace lending. The cost to comply with such laws or regulations could be significant and would increase our operating expenses, and we may be unable to pass along those costs to our users in the form of increased fees. In addition, federal and state governmental or regulatory agencies may decide to impose taxes on services provided online. These taxes could discourage the use of the Internet as a means of consumer lending, which would adversely affect the viability of our marketplace.

***If one or both of PMI and PFL is required to register under the Investment Company Act, either of our ability to conduct business could be materially adversely affected.***

The Investment Company Act of 1940 (the "Investment Company Act") contains substantive legal requirements that regulate the manner in which "investment companies" are permitted to conduct their business activities. PFL and PMI believe each has conducted its business in a manner that does not result in being characterized as an investment company. If, however, PFL is deemed to be an investment company under the Investment Company Act, it may be required to institute burdensome compliance requirements and its activities may be restricted, which would materially adversely affect its business, financial

condition and results of operations. Any determination that PMI is an investment company under the Investment Company Act similarly could impair its ability to perform its obligations under the Administration Agreement and thereby impair PFL's ability to make payments on the Notes. If PFL or PMI were deemed to be an investment company, PFL or PMI may also attempt to seek exemptive relief from the SEC, which could impose significant costs and delays on their businesses.

***If one or both of PMI and PFL is required to register under the Investment Advisers Act, either of our ability to conduct business could be materially adversely affected.***

The Investment Advisers Act of 1940, or the "Investment Advisers Act," contains substantive legal requirements that regulate the manner in which "investment advisers" are permitted to conduct their business activities. PFL believes that its business consists of providing a platform for marketplace lending for which investment adviser registration and regulation do not apply under applicable federal or state law, and does not believe that it is required to register as an investment adviser with either the SEC or any of the various states. The SEC or a state securities regulator could reach a different conclusion, however. Registration as an investment adviser could adversely affect PFL's method of operation and revenues. For example, the Investment Advisers Act requires that an investment adviser act in a fiduciary capacity for its clients. Among other things, this fiduciary obligation requires that an investment adviser manage a client's portfolio in the best interests of the client, have a reasonable basis for its recommendations, fully disclose to its client any material conflicts of interest that may affect its conduct and seek best execution for transactions undertaken on behalf of its client. It could be difficult for PFL to comply with this obligation without meaningful changes to its business operations, and there is no guarantee that it could do so successfully. If PFL were ever deemed to be in non-compliance with applicable investment adviser regulations, it could be subject to various penalties, including administrative or judicial proceedings that might result in censure, fine, civil penalties (including treble damages in the case of insider trading violations), the issuance of cease-and-desist orders or other adverse consequences. Similarly, any determination by regulators that PMI must register as an investment adviser could materially adversely affect PMI and impair its ability to continue to administer our marketplace on PFL's behalf.

***PMI's administration of Quick Invest under its previous offering and PFL's administration of Quick Invest, Recurring Investment, and Auto Invest under its current offering, could create additional liability for PFL and such liability could be material.***

Quick Invest was a loan search tool that allowed investors to identify Notes that met their investment criteria. An investor using Quick Invest was asked to indicate (i) the Prosper Rating or Ratings they wished to use as search criteria, (ii) the total amount they wished to invest, and (iii) the amount they wished to invest per Note. Quick Invest then compiled a basket of Notes for their consideration that met their search criteria.

Recurring Investment (formerly known as Auto Quick Invest) is an automated loan search tool that allows investors to easily invest in Notes that meet their specific investment criteria by automatically bidding any available funds in their account on Notes that match their selected parameters, in accordance with their specified instructions. An investor using Recurring Investment is asked to indicate (i) the Prosper Rating or Ratings and term of the Notes they wish to use as search criteria, and (ii) the amount they wish to invest per Note. If they wish, the investor can further customize their investment criteria by applying one or more of several dozen additional search criteria, such as loan amount, debt-to-income ratio and credit score. The investor can also set aside a specific amount of their funds as a cash reserve that will not be invested by the Recurring Investment tool. After the investor has entered and saved the parameters of their search, Recurring Investment automatically (i) runs searches on the designated criteria as new listings are posted on the marketplace, and (ii) places bids on any Notes identified by each such search. Currently, the Recurring Investment tool is available only through our website, and is not available through our mobile app, Prosper Invest.

Auto Invest is an automated loan search tool that makes it easier for investors to build their desired portfolio of Notes by automatically investing any available funds in an investor's account in Notes that match the investor's specified investment criteria and allocation targets. An investor using Auto Invest is asked to select (i) a loan allocation target, or a target mix of loans based on Prosper Ratings, and (ii) the amount they wish to invest per Note. The investor has the option of selecting a target from Prosper's series of preset loan allocations based on the recent historical loan inventory on the marketplace, any of which may be customized by changing the individual allocation targets for each Prosper Rating, or they can create a custom loan allocation target across Prosper Ratings based on their specific risk tolerance. If they wish, the investor can further customize their investment criteria by applying additional filters, such as loan term and employment status. The investor can also set aside a percentage of their portfolio as a cash reserve that will not be invested by Auto Invest. Investors may update their target allocations, cash reserve and other investment criteria, and pause and restart Auto Invest, at any time. Once the investor turns on Auto Invest, the tool may immediately begin placing orders for Notes in accordance with the investor's current and target allocations and other criteria. The mix of Notes in any particular order may not match the investor's individual loan allocation targets, but over time Auto Invest will place orders so that the aggregate holdings in the investor's portfolio will approximate, to the extent possible, the allocation specified in their investment criteria.

Since the Notes purchased through Recurring Investment, Auto Invest and Quick Invest are the same as Notes purchased manually, they present the same risks of non-payment as all Notes that may be purchased through our marketplace. For example, there is a risk that a Borrower Loan identified through Recurring Investment, Auto Invest or Quick Invest may become delinquent or default, and that the estimated return or historical return (as applicable) for that loan individually, or the estimated return or historical return (as applicable) for the allocation target or the basket of Notes selected by Recurring Investment, Auto Invest or Quick Invest as a whole, may not accurately reflect the actual return on such loan or Notes. If this were to occur, an investor who purchased a Note from PFL through Recurring Investment, Auto Invest or Quick Invest could pursue a claim against PFL in connection with its representations regarding the performance of the Borrower Loans bid upon through Recurring Investment, Auto Invest or Quick Invest, respectively. An investor could pursue such a claim under various anti-fraud theories under federal and state securities law.

***We may face liability under state and federal securities law for statements in our prospectus and in other communications that could be deemed to be an offer to the extent that such statements are deemed to be false or misleading.***

Loan listings and other borrower information available on PFL's website as well as in sales and listing reports are statements made in connection with the purchase and sale of securities that are subject to the antifraud provisions of the Exchange Act and the Securities Act. In general, these liability provisions provide a purchaser of the Notes with a right to bring a claim against one or both of us for damages arising from any untrue statement of material fact or failure to state a material fact necessary to make any statements made not misleading. Even though PFL and PMI have advised investors of what they believe to be the material risks associated with an investment in the Notes and PMI management rights, the SEC or a court could determine that they have not advised investors of all of the material facts regarding an investment in the Notes and PMI Management Rights, which could give investors the right to rescind their investment and obtain damages, and could subject PFL and PMI to civil fines or criminal penalties in addition to any such rescission rights or damages.

***PMI and PFL's activities in connection with the offer and sale of securities through our marketplace could result in potential violations of federal securities law and result in material liability to PFL and/or PMI.***

PFL and PMI's respective businesses are subject to federal and state securities laws that may limit the kinds of activities in which PFL and PMI may engage and the manner in which they engage in such activities. For example, changes to the manner in which PFL offers and sells Notes or other securities through our marketplace could be viewed by the SEC or a state securities regulator as involving the creation or sale of new, unregistered securities. In such circumstances, the failure to register such securities could subject PFL to liability and the amount of such liability could be meaningful. In addition, in 2008, PMI entered into a settlement with the SEC pursuant to which PMI agreed to cease and desist from committing or causing any violations or any future violations of Sections 5(a) and (c) of the Securities Act. Failure to comply with that order could result in material civil or criminal liability, which could materially adversely affect PMI's business and PFL's offering of Notes.

## **ITEM 1B. UNRESOLVED STAFF COMMENTS**

Not applicable.

## **ITEM 2. PROPERTIES**

Our corporate headquarters, including our principal administrative, marketing, technical support and engineering functions, is located in San Francisco, California, where we lease approximately 50,000 square feet of office space under leases that will expire February 28, 2023. We have also entered into leases for approximately 44,500 square feet of office space located in Arizona and Utah. We believe that our facilities are adequate to meet our current needs and that suitable additional alternative spaces will be available in the future on commercially reasonable terms.

## **ITEM 3. LEGAL PROCEEDINGS**

Our disclosure set forth under Note 17, Commitments and Contingencies—West Virginia Matter, of the Notes to Consolidated Financial Statements under Part II, Item 8 of this Form 10-K is incorporated herein by reference.

Prosper Funding's disclosure set forth under Note 8, Commitments and Contingencies—West Virginia Matter, of the Notes to Consolidated Financial Statements under Part II, Item 8 of this Form 10-K is incorporated herein by reference.

In March 2021, PMI and PFL accepted service of a complaint via email. PMI, PFL and Velocity Investments, LLC, an accounts receivable management company (“Velocity”), were each named in a purported class action lawsuit brought by two individual plaintiffs in the Circuit Court for Montgomery County, Maryland, filed on February 3, 2021 (the “Jones Litigation”). The complaint asserts, on behalf of the plaintiffs and the class members, claims for violation of certain Maryland state laws and seeks damages. The plaintiffs also seek a declaration of requirement for Maryland licensure and that PMI, PFL, and Velocity did not have the right to collect money from the plaintiffs and the class members on the loan accounts. The Jones Litigation was accompanied by a related petition to stay arbitration and demand declaratory judgement in the Circuit Court for Montgomery County, Maryland (the “Jones Petition”). On April 8, 2021, the Jones Litigation was removed to the United States District



Court for the District of Maryland (the “Federal District Court”). In March 2021, a similar class action lawsuit, *Khan v. Crown Asset Management LLC*, was filed in the Circuit Court for Montgomery County, Maryland (the “Khan Litigation”) accompanied by a related petition to stay arbitration (the “Khan Petition”). Prosper was not a named defendant in the Khan Litigation or the Khan Petition. In May 2021, the Khan Litigation was removed to the Federal District Court. On July 15, 2021, plaintiff dismissed the Jones Petition but joined PMI, PFL, and Velocity to the Khan Petition (the “Combined Petition”). The Combined Petition was removed on July 29, 2021 to the Federal District Court. On March 21, 2022, the Federal District Court issued a ruling to compel arbitration in the Jones Litigation and the Khan Litigation, stay the Combined Petition, and combine all cases. At this time, we cannot predict the outcome of this matter or estimate the amount of damages, if any, that may be awarded.

#### **ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

### **PART II**

#### **ITEM 5. MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED SHAREHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES**

##### **Market Information; Holders of Record**

There is no established public trading market for PMI's or PFL's common equity. As of December 31, 2021, there were approximately 358 holders of record of PMI's common stock. As of December 31, 2021, PMI owns 100% of PFL's membership interests.

##### **Dividend Policy**

PMI has not paid cash dividends since inception, and does not anticipate paying cash dividends in the foreseeable future.

##### **Securities Authorized for Issuance Under Equity Compensation Plans**

See Item 12 in Part III of this Annual Report for information about securities authorized for issuance under our equity compensation plans.

##### **Recent Sales of Unregistered Securities**

For the year ended December 31, 2019, PMI issued 173,356 shares of common stock upon the exercise of stock options at a weighted-average exercise price per share of \$0.15. For the year ended December 31, 2020, PMI issued 687,471 shares of common stock upon the exercise of stock options at a weighted-average exercise price per share of \$0.02. For the year ended December 31, 2021, PMI issued 3,014,622 shares of common stock upon the exercise of stock options at a weighted-average exercise price per share of \$0.02. These securities were sold in reliance on the exemption from the registration requirements of the Securities Act set forth in Section 4(a)(2) of the Securities Act and Regulation D promulgated thereunder relative to sales by an issuer not involving a public offering.

##### **Issuer Purchases of Equity Securities**

During the year ended December 31, 2021, we did not repurchase any common and preferred stock.

#### **ITEM 6. [Reserved]**

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*This management's discussion and analysis of financial condition and results of operations, or MD&A, contains forward-looking statements that involve risks and uncertainties. Please see "Forward-Looking Statements" in this Annual Report on Form 10-K for a discussion of the uncertainties, risks and assumptions associated with these statements. This discussion should be read in conjunction with historical financial statements and related notes thereto and the other disclosures contained elsewhere in this Annual Report on Form 10-K. The results of operations for the periods reflected herein are not necessarily indicative of results that may be expected for future periods, and actual results may differ materially from those discussed in the forward-looking statements as a result of various factors, including but not limited to those included in the "Risk Factors" section and elsewhere in this Annual Report on Form 10-K. This section of this Form 10-K generally discusses 2021 and 2020 items and year-to-year comparisons between 2021 and 2020. For discussions related to 2019 items and year-to-year comparisons between 2020 and 2019, see "Part II – Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Annual Report on Form 10-K for the year ended December 31, 2020.*

### PROSPER MARKETPLACE, INC.

#### Overview

Our vision is to transform lives by providing affordable financial solutions through the simplest and most trusted platform. We currently offer access to three lending products, each of which supports our vision: (i) unsecured personal loans through a personal loan marketplace which connects eligible consumer borrowers with individual and institutional investors, (ii) a Credit Card product available to eligible borrowers, and (iii) a HELOC product available to eligible homeowners.

We believe our business model has key advantages relative to traditional banks, including (i) an innovative marketplace model that efficiently connects qualified supply and demand of capital, (ii) online operations that substantially reduce the need for physical infrastructure and improve convenience, and (iii) use of advanced technology and artificial intelligence to deliver simple, fast, personalized, and transparent solutions that can improve consumers' financial health as they move across the credit spectrum. We do not operate physical branches or incur expenses related to infrastructure like traditional banks or consumer finance institutions. As part of operating our marketplace, we verify the identity of borrowers and assess borrowers' credit risk profile using a combination of public and proprietary data. Our proprietary technology automates several loan origination and servicing functions, including the borrower application process, data gathering, underwriting, credit scoring, loan funding, investing and servicing, regulatory compliance and fraud detection.

During the year ended December 31, 2021, our personal loan marketplace facilitated \$1.9 billion in Borrower Loan originations, of which \$1.7 billion were originated through our Whole Loan Channel, representing 88% of the total Borrower Loans originated through our marketplace during this period. During the quarter ended December 31, 2021, our marketplace facilitated \$524 million in Borrower Loan originations, of which \$464 million were originated through our Whole Loan Channel, representing 89% of the total Borrower Loans originated through our marketplace during this period. From inception through December 31, 2021 our marketplace has facilitated \$20.1 billion in Borrower Loan originations, of which \$18.0 billion were originated through our Whole Loan Channel, representing 89% of the total Borrower Loans originated through our marketplace during this period.

As a credit marketplace, we believe our customers are highly susceptible to uncertainties and negative trends, real or perceived, in the markets driven by, among other factors, general economic conditions in the United States and abroad. These external economic conditions and resulting trends or uncertainties could adversely impact our customers' ability or desire to participate on our marketplace as borrowers or investors and, consequently, could negatively affect our business and results of operations.

#### Recent Developments

We continue to track the impact of COVID-19 and its variants on our communities, and are offering assistance to qualified borrowers who are facing financial hardship as a result of the COVID-19 pandemic. These relief options include, among other things, the ability to delay up to 4 monthly loan payments, the ability to reduce minimum monthly payments for up to 12 months and extend the term of the loan by up to 11 months, and waived late and non-sufficient funds fees. Since COVID-19 relief was first offered in March 2020 and through December 31, 2021, approximately 9.1% of our current outstanding loan balances on a cumulative basis have enrolled in at least one of these COVID-19 relief programs. Approximately 1.2% of our outstanding loan balances are actively enrolled in at least one relief program as of December 31, 2021. Overall requests for COVID-19 relief are declining; however, enrollment may continue as long as the pandemic continues to trigger financial hardship for borrowers.

## Key Operating and Financial Metrics (in thousands)

The following table displays our key operating and financial metrics for the years ended December 31, 2021, 2020 and 2019:

	Years Ended December 31,		
	2021	2020	2019
Loan Originations	\$ 1,946,974	\$ 1,486,238	\$ 2,666,085
Transaction Fees, Net	\$ 89,364	\$ 67,335	\$ 119,282
Whole Loans Outstanding <sup>(1)</sup>	\$ 2,529,814	\$ 2,816,586	\$ 3,659,601
Servicing Fees, Net	\$ 15,024	\$ 18,517	\$ 23,406
Total Net Revenues	\$ 144,626	\$ 103,236	\$ 153,570
Net (Loss) Income	\$ (138,341)	\$ 18,551	\$ (13,711)
Core Revenue <sup>(2)</sup>	\$ 144,626	\$ 103,236	\$ 171,123
Adjusted EBITDA <sup>(2)</sup>	\$ 12,814	\$ (8,587)	\$ 3,920

<sup>(1)</sup> Balance as of December 31

<sup>(2)</sup> Core Revenue and Adjusted EBITDA are non-GAAP Financial measures. For more information regarding these measures and reconciliations of these measures to the most comparable GAAP measures, see “Non-GAAP Financial Measures”.

### Loan Originations

Total loan originations on the platform increased 31% for the year ended December 31, 2021 when compared to the year ended December 31, 2020, which resulted in an increase in Transaction Fees of 33%, or \$22.0 million. The loan originations increase for the year ended December 31, 2021 versus the year ended December 31, 2020 was due primarily to increased investor demand, lower rates offered to borrowers and less restrictive underwriting requirements, which is also reflective of the general economic recovery since the start of the COVID-19 pandemic.

From inception of the Company through December 31, 2021, a total of 1,594,197 Borrower Loans, totaling \$20.1 billion, were originated through our marketplace. For the year ended December 31, 2021, 183,041 Borrower Loans totaling \$1.9 billion were originated through our marketplace, as compared to 119,711 Borrower Loans totaling \$1.5 billion originated in 2020, which represented a unit increase of 53% and a dollar increase of 31%. For the year ended December 31, 2020, 119,711 Borrower Loans totaling \$1.5 billion were originated through our marketplace, as compared to 195,656 Borrower Loans totaling \$2.7 billion originated in 2019, which represented a unit decrease of 39% and a dollar decrease of 44%.

Loan origination volume by Prosper Rating was as follows for the periods presented (in millions, except percentage):

	Year Ended December 31,					
	2021		2020		2019	
	Amount	%	Amount	%	Amount	%
AA	\$ 246	13 %	\$ 270	18 %	\$ 348	13 %
A	374	19 %	437	29 %	639	24 %
B	319	16 %	311	21 %	669	25 %
C	246	13 %	211	15 %	606	22 %
D	104	5 %	60	4 %	227	9 %
E	36	2 %	16	1 %	63	2 %
HR	1	— %	2	— %	17	1 %
Other <sup>(1)</sup>	621	32 %	179	12 %	97	4 %
<b>Total</b>	<b>\$ 1,947</b>	<b>100 %</b>	<b>\$ 1,486</b>	<b>100 %</b>	<b>\$ 2,666</b>	<b>100 %</b>

<sup>(1)</sup> Represents loans funded through the Prosper platform via the Whole Loan Channel but not assigned Prosper Ratings. These loans are sold only to institutional investors and based on specific underwriting criteria and custom risk models developed by these investors.

For the year ended December 31, 2021, the mix of originations on the Prosper platform was generally reflective of less restrictive underwriting standards as compared to the corresponding period in 2020, as the economy continued to recover from the COVID-19 pandemic. There has also been a significant increase in the number and dollar amount of loans not assigned Prosper ratings as the Company continues to sell higher risk loans through the Whole Loan Channel to institutional investors that rely on their own custom risk models to underwrite the loans.

## Whole Loans Outstanding

We sell Borrower Loans through our Whole Loan Channel, and the outstanding balance of these loans serves as a primary driver of our Servicing Assets. Whole loans outstanding decreased \$286.8 million or 10% from December 31, 2020 to December 31, 2021, and \$843.0 million or 23% from December 31, 2019 to December 31, 2020. These decreases are due primarily to the drop in originations from 2019 to 2020 as a result of the economic impact of the COVID-19 pandemic, partially offset by the increase in originations from 2020 to 2021 discussed above. We have also continued to purchase and hold loans in consolidated warehouse trusts, reducing the balance of outstanding whole loans.

## Net (Loss) Income

See the section titled “Results of Operations” below, for the discussion on significant changes in Net (Loss) Income year-over-year.

## Results of Operations

### Overview

The following table summarizes our net (loss) income for the years ended December 31, 2021, 2020 and 2019 (in thousands, except percentage):

	Years Ended December 31,							
	2021	2020	Change	% Change	2020	2019	Change	% Change
Total Net Revenues	\$ 144,626	\$ 103,236	\$ 41,390	40 %	\$ 103,236	\$ 153,570	\$ (50,334)	(33)%
Total Expenses	282,896	84,669	198,227	n/m	84,669	167,181	(82,512)	(49)%
Net (Loss) Income Before Income Taxes	(138,270)	18,567	(156,837)	n/m	18,567	(13,611)	32,178	n/m
Income Tax Expense	(71)	(16)	(55)	n/m	(16)	(100)	84	(84)%
Net (Loss) Income	<u>\$ (138,341)</u>	<u>\$ 18,551</u>	<u>\$ (156,892)</u>	n/m	<u>\$ 18,551</u>	<u>\$ (13,711)</u>	<u>\$ 32,262</u>	n/m

n/m: not meaningful

Total Net Revenues for the year ended December 31, 2021 increased \$41.4 million, or 40%, as compared to the year ended December 31, 2020. The increase was primarily attributable to the Change in Fair Value of Financial Instruments, Net, which was a \$3.2 million loss for the year ended December 31, 2021, as compared to a \$34.2 million loss for the year ended December 31, 2020, a \$31.0 million change. The loss in the prior year was largely due to the economic impact of the COVID-19 pandemic, which negatively impacted the fair value of our Borrower Loans and Loans Held for Sale. Additionally, there was a \$22.0 million increase in Transaction Fees, Net, and a \$2.4 million increase in Gain on Sale of Borrower Loans, both of which were due to the increase in originations during this time. Other Revenues also increased \$1.3 million, related primarily to additional credit referral and incentive fee revenue due to increased application volume. These increases were partially offset by a \$11.7 million decrease in Total Interest Income (Expense), Net, due primarily to lower outstanding principal balances on securitized Borrower Loans (prior to their deconsolidation from the balance sheet on September 27, 2021), and a \$3.5 million decrease in Servicing Fees, Net, as the servicing book of whole loans declined.

Total expenses for the year ended December 31, 2021 increased \$198.2 million as compared to the year ended December 31, 2020, which is primarily due to a \$138.6 million loss from the Change in Fair Value of Convertible Preferred Stock Warrants, which compared to a \$37.7 million gain for the year ended December 31, 2020. The loss in 2021 is driven by an increase in the fair value of the underlying Convertible Preferred Stock. Origination and Servicing, Sales and Marketing and General and Administrative expenses increased a combined \$20.7 million from the prior year, as costs increased to support the higher origination volume in 2021. Additionally, various cost reductions were achieved in 2020 in response to the COVID-19 pandemic, including lower compensation and professional services costs. For the year ended December 31, 2021, we also recognized a \$1.5 million loss related to the deconsolidation of our securitization variable interest entities (“VIEs”), which is more fully discussed in Note 6 of the accompanying consolidated financial statements. Accordingly, the net loss for the year ended December 31, 2021 increased \$156.9 million when compared to the net income generated for the year ended December 31, 2020.

## Revenues

The following table summarizes our revenues for the years ended December 31, 2021, 2020 and 2019 (in thousands, except percentage):

	Years Ended December 31,							
	2021	2020	Change	% Change	2020	2019	Change	% Change
<b>Operating Revenues:</b>								
Transaction Fees, Net	\$ 89,364	\$ 67,335	\$ 22,029	33 %	\$ 67,335	\$ 119,282	\$ (51,947)	(44)%
Servicing Fees, Net	15,024	18,517	(3,493)	(19)%	18,517	23,406	(4,889)	(21)%
Gain on Sale of Borrower Loans	7,196	4,816	2,380	49 %	4,816	10,946	(6,130)	(56)%
Fair Value of Warrants Vested on Sale of Borrower Loans	—	—	—	n/a	—	(17,553)	17,553	100 %
Other Revenues	3,992	2,711	1,281	47 %	2,711	5,953	(3,242)	(54)%
<b>Total Operating Revenues</b>	<b>115,576</b>	<b>93,379</b>	<b>22,197</b>	<b>24 %</b>	<b>93,379</b>	<b>142,034</b>	<b>(48,655)</b>	<b>(34)%</b>
<b>Interest Income (Expense):</b>								
Interest Income on Borrower Loans and Loans Held for Sale	83,107	104,150	(21,043)	(20)%	104,150	100,786	3,364	3 %
Interest Expense on Financial Instruments	(50,816)	(60,127)	9,311	(15)%	(60,127)	(63,736)	3,609	(6)%
<b>Total Interest Income (Expense), Net</b>	<b>32,291</b>	<b>44,023</b>	<b>(11,732)</b>	<b>(27)%</b>	<b>44,023</b>	<b>37,050</b>	<b>6,973</b>	<b>19 %</b>
Change in Fair Value of Financial Instruments, Net	(3,241)	(34,166)	30,925	91 %	(34,166)	(25,514)	(8,652)	(34)%
<b>Total Net Revenues</b>	<b>\$ 144,626</b>	<b>\$ 103,236</b>	<b>\$ 41,390</b>	<b>40 %</b>	<b>\$ 103,236</b>	<b>\$ 153,570</b>	<b>\$ (50,334)</b>	<b>(33)%</b>

### Transaction Fees, Net

We earn a transaction fee upon the successful origination of all Borrower Loans facilitated through our marketplace. We receive payments from WebBank as compensation for the activities we perform on behalf of WebBank. Our fee is determined by the term and credit grade of the Borrower Loans that we facilitate on our marketplace and WebBank originates. We record the transaction fee revenue net of any fees paid by us to WebBank.

Transaction Fees increased by \$22.0 million, or 33%, for the year ended December 31, 2021, as compared to 2020. This increase was consistent with the higher origination volume discussed above.

### Servicing Fees, Net

Investors who purchase Borrower Loans through the Whole Loan Channel typically pay us a servicing fee which is generally set at 1.075% per annum of the outstanding principal balance of the Borrower Loan prior to applying the current payment. The servicing fee compensates us for the costs incurred in servicing the Borrower Loan, including managing payments from borrowers, payments to investors and maintaining investors' account portfolios. We record Servicing Fees from investors as a component of operating revenues when received. The decrease of \$3.5 million, or 19%, in Servicing Fees for the year ended December 31, 2021 as compared to 2020 was primarily due to a lower average principal balance of whole loans serviced, which was in turn due primarily to (a) the reduced originations in the prior year as a result of the COVID-19 pandemic, and (b) an increase in the average principal balance of loans held in consolidated warehouse trusts.

We also increased our base market servicing rate from 0.625% to 0.648% in the third quarter of 2021, which further decreased our Servicing Fees, Net balance for the year ended December 31, 2021. This change was developed with the assistance of a valuation specialist, and was primarily due to observations of increased market servicing compensation rates.

### Gain on Sale of Borrower Loans

Gain on Sale of Borrower Loans consists of net gains on Borrower Loans sold through the Whole Loan Channel. The \$2.4 million or 49%, increase in the gain for the year ended December 31, 2021 compared to 2020 was primarily due to increases in the volume of whole loans sold due to higher originations, as discussed above.

### *Fair Value of Warrants Vested on Sale of Borrower Loans*

Fair Value of Warrants Vested on Sale of Borrower Loans relates to warrants to purchase Series F Convertible Preferred Stock issued to the Consortium that vested when the Consortium purchased whole loans under the Consortium Purchase Agreement, which ended in May 2019. Since that date, no further warrants have been issued.

### *Other Revenues*

Other Revenues consist primarily of credit referral and incentive fees. Credit referral fees are earned from partner companies for the referral of customers on our platform, while incentive fees are earned from partner companies through our incentive programs. The \$1.3 million or 47% increase in Other Revenues for the year ended December 31, 2021 as compared to 2020 was due primarily to increased application volume referred to our credit referral partners, and additional incentive fees earned for this period.

### *Interest Income on Borrower Loans and Loans Held for Sale and Interest Expense on Financial Instruments*

We recognize Interest Income on Borrower Loans and Loans Held for Sale using the accrual method based on the stated interest rate to the extent we believe it to be collectible. We record interest expense on the corresponding Notes, Notes Issued by Securitization Trust, Certificates Issued by Securitization Trust, and Warehouse Lines based on the contractual interest rates. The interest rate on Notes is generally 1% lower than the interest rate on the corresponding Borrower Loans to compensate us for servicing the underlying Borrower Loans.

The decrease of \$11.7 million or 27% in Total Interest Income (Expense) for the year ended December 31, 2021 as compared to 2020 was primarily due to lower outstanding principal balances on Borrower Loans, Notes Issued by Securitization Trust and Certificates Issued by Securitization Trust associated with our consolidated securitization VIEs prior to their deconsolidation from our balance sheet on September 27, 2021. After that date, no interest was accrued on those financial instruments. There have been no new securitizations since 2019. Net interest income from the securitizations decreased approximately \$17.3 million as compared to the prior year. This was partially offset by a \$4.2 million increase in Net Interest Income from Loans Held for Sale, as we increased the usage of our Warehouse Lines, and the average outstanding principal balance on these loans increased from the prior year. Additionally, there was a \$1.4 million increase in Net Interest Income due to a decrease in the amortization of securitization set up costs, due to the timing of when these costs were incurred in 2019.

### *Change in Fair Value of Financial Instruments, Net*

We record Borrower Loans, Loans Held for Sale, Notes, and Certificates Issued by Securitization Trust at fair value. Changes in the fair value of Borrower Loans funded through the Note Channel are largely offset by the changes in fair value of the Notes due to their borrower payment-dependent structure. Our obligation to pay principal and interest on Notes is equal to the loan payments, if any, that are received on the corresponding Borrower Loan, net of the servicing fee, which is generally 1.0% of the outstanding balance.

We use Warehouse Lines to finance the purchase of Loans Held for Sale for the purpose of earning Net Interest Income and contributing to securitization transactions. Loans Held for Sale consist primarily of loans held in warehouse trusts. Changes in the fair value of Loans Held for Sale are not offset by changes in fair value of Warehouse Lines because Warehouse Lines are carried at amortized cost. See Note 10 of the accompanying notes to PMI's consolidated financial statements for more details on Warehouse Lines.

In 2019, we co-sponsored and consolidated three securitization transactions. On September 27, 2021, we sold our interest in residual certificates issued by these three consolidated securitizations and ceased to be the primary beneficiary. As a result, we deconsolidated these entities from our financial statements on that date, including the Borrower Loans and Certificates Issued by Securitization Trust that were carried at fair value. All necessary fair value adjustments were recorded up to the date of deconsolidation. Refer to Note 6 of the accompanying notes to PMI's consolidated financial statements for additional information on the deconsolidation of these entities. Changes in the fair value of Borrower Loans held in consolidated securitization trusts are historically negative due to actual charge-offs but could be negative or positive due to changes in fair value adjustments that are attributable to changes in expected credit performance, prepayment rates and implied market discount rates. We earn interest income on loans held in warehouse and securitization trusts during the period we own or consolidate the loans, which partially offsets changes in the fair value of those loans. The following table illustrates the composition of the loans held in warehouse trusts by Prosper Rating, which is an indicator of the credit quality:

	Years Ended December 31,	
	2021	2020
<b>Loans Held for Sale<sup>(1)</sup>:</b>		
AA	22 %	16 %
A	33 %	35 %
B	28 %	34 %
C	14 %	11 %
D	3 %	4 %
E	— %	— %
HR	— %	— %
Grand Total	100 %	100 %

<sup>(1)</sup>The percentages are calculated as the weighted average of month-end principal balances of Loans Held for Sale by Prosper Rating.

Fair values of Borrower Loans, Loans Held for Sale, Notes and Certificates Issued by Securitization Trust are estimated using discounted cash flow methodologies based upon a set of valuation assumptions. The key assumptions used include default and prepayment rates derived primarily from historical performance, and discount rates based on estimates of the rates of return that investors would require when investing in other financial instruments with similar characteristics. For the years ended December 31, 2021 and 2020, the Change in Fair Value of Financial Instruments, Net was a loss of \$3.2 million and a loss of \$34.2 million, respectively.

The decrease in the loss for the year ended December 31, 2021 as compared to the prior year was largely due to improvements in the economic landscape since the start of the COVID-19 pandemic in 2020, which negatively impacted the fair value of the financial instruments due to changes in valuation assumptions, including increased discount and default rates. There has also been an overall decrease in net charge-offs due to government stimulus, COVID-19 payment relief programs and tighter underwriting standards that we implemented in response to the COVID-19 pandemic.

For Loans Held for Sale, the gain from changes in fair value was \$0.4 million for the year ended December 31, 2021, due to a \$7.6 million gain on fair value, partially offset by \$7.2 million in net charge-offs. This compares to 2020, when the fair value losses were \$3.3 million and net charge-offs totaled \$8.6 million. The improvement from the prior year is due in part to the \$1.4 million decrease in net charge-offs, primarily reflective of decreases in projected future default rates.

For Borrower Loans, the gain from changes in fair value was \$0.6 million for the year ended December 31, 2021, as compared to a \$48.6 million loss for the year ended December 31, 2020. This change consisted primarily of a \$18.7 million increase in fair value adjustments, driven by more favorable fair value assumptions and the receipt of borrower payments on previously discounted loans, as well as decreased net charge-offs of \$30.6 million. Charge-offs increased in 2020 due to the economic impact of the COVID-19 pandemic. Additionally, as the portfolio of securitized Borrower Loans continued to season (prior to their deconsolidation from our balance sheet), the outstanding balance of these loans was reduced and the level of charge-offs decreased.

The fair value adjustment gains related to securitized Borrower Loans also contributed to a \$6.1 million loss from change in fair value associated with Certificates Issued by Securitization Trust for the year ended December 31, 2021. Specifically, the value of these certificates increased as of September 27, 2021 to reflect the price at which we sold our residual certificate holdings to an unrelated third party. Finally, the gain on changes in fair value from Notes of \$1.9 million for the year ended December 31, 2021 was generally consistent with charge-offs exceeding positive fair value adjustments for loans funded through the Note Channel. For the year ended December 31, 2020, the gain on changes in fair value from Notes was \$19.7 million. As charge-offs have decreased from the prior year, the fair value gain on Notes has decreased as well.

The following table details the change in fair value of our financial instruments for the years ended December 31, 2021, 2020 and 2019, respectively (in thousands):

	Years Ended December 31,		
	2021	2020	2019
<b>Assets:</b>			
Borrower Loans	\$ 595	\$ (48,620)	\$ (50,845)
Loans Held for Sale	422	(11,883)	(6,894)
<b>Liabilities:</b>			
Notes	1,910	19,664	22,812
Certificates Issued by Securitization Trust	(6,110)	6,679	7,621
<b>Total</b>	<b>\$ (3,183)</b>	<b>\$ (34,160)</b>	<b>\$ (27,306)</b>

### Expenses

The following table summarizes our expenses for the years ended December 31, 2021, 2020 and 2019 (dollar amounts in thousands):

	Years Ended December 31,							
	2021	2020	\$ Change	% Change	2020	2019	\$ Change	% Change
<b>Expenses:</b>								
Origination and Servicing	\$ 35,056	\$ 29,897	\$ 5,159	17 %	\$ 29,897	\$ 34,915	\$ (5,018)	(14)%
Sales and Marketing	35,065	29,259	5,806	20 %	29,259	73,824	(44,565)	(60)%
General and Administrative - Research and Development	17,172	14,925	2,247	15 %	14,925	17,246	(2,321)	(13)%
General and Administrative - Other	55,950	48,459	7,491	15 %	48,459	54,342	(5,883)	(11)%
Change in Fair Value of Convertible Preferred Stock Warrants	138,622	(37,677)	176,299	468 %	(37,677)	(11,235)	(26,442)	235 %
Impairment Expenses	—	445	(445)	(100)%	445	—	445	100 %
Restructuring Charges, Net	—	—	—	n/a	—	34	(34)	(100)%
Loss on Deconsolidation of VIEs	1,494	—	1,494	100 %	—	—	—	n/a
Other Income, Net	(463)	(639)	176	(28)%	(639)	(1,945)	1,306	(67)%
<b>Total Expenses</b>	<b>\$ 282,896</b>	<b>\$ 84,669</b>	<b>\$ 198,227</b>	<b>234 %</b>	<b>\$ 84,669</b>	<b>\$ 167,181</b>	<b>\$ (82,512)</b>	<b>(49)%</b>

The following table reflects full-time employees as of December 31, 2021, 2020 and 2019 by functional area:

	December 31,		
	2021	2020	2019
Origination and Servicing	121	119	145
Sales and Marketing	20	15	17
General and Administrative - Research and Development	101	93	101
General and Administrative - Other	142	126	141
<b>Total Headcount</b>	<b>384</b>	<b>353</b>	<b>404</b>

### Origination and Servicing

Origination and Servicing costs consist primarily of salaries, benefits and stock-based compensation expense related to our capital markets, collections, customer support and payment processing employees and vendor costs associated with facilitating and servicing loans. The increase for the year ended December 31, 2021 of \$5.2 million, or 17%, as compared to 2020 was primarily due to a \$2.8 million combined increase in loan servicing and origination costs, consistent with the increase



in originations discussed above. Additionally, compensation expense increased \$1.2 million, due primarily to elimination of salary reductions we instituted in 2020 in response to the COVID-19 pandemic and amounts accrued under our long-term incentive plan. Internal-use software amortization also increased \$1.3 million during this period due to the deployment of various marketplace features over the past year.

#### *Sales and Marketing*

Sales and Marketing costs consist primarily of affiliate marketing, search engine marketing, online and offline campaigns, email marketing, public relations and direct mail marketing, as well as compensation expenses such as wages, benefits and stock-based compensation for the employees who support these activities. For the year ended December 31, 2021, the increase of \$5.8 million, or 20%, from the prior year was due primarily to a \$6.2 million increase in marketing partnership costs, partially offset by a \$1.0 million decrease in direct mail marketing costs. Additionally, compensation expense increased \$0.7 million, due primarily to elimination of salary reductions we instituted in 2020 in response to the COVID-19 pandemic and amounts accrued under our long-term incentive plan.

#### *General and Administrative – Research and Development*

General and Administrative – Research and Development costs consist primarily of salaries, benefits and stock-based compensation expense related to our engineering and product development employees and related vendor costs. The increase in General and Administrative – Research and Development for the year ended December 31, 2021 of \$2.2 million, or 15%, as compared to 2020 was due largely to a \$1.4 million increase in compensation expense and a \$0.1 million increase in outsourced services, primarily related to the development and launch of our Credit Card product and elimination of salary reductions we instituted in 2020 in response to the COVID-19 pandemic. There was also a \$0.3 million increase in software licenses and subscription costs, as we continue to invest in our marketplace technology. Additionally, we incurred \$0.2 million in executive search costs. We capitalized internal-use software and web development costs in the amounts of \$9.8 million and \$8.3 million for the years ended December 31, 2021 and 2020, respectively.

#### *General and Administrative – Other*

General and Administrative – Other expenses consist primarily of salaries, benefits and stock-based compensation expense related to our accounting and finance, risk, legal, compliance, human resources and facilities employees, professional fees related to legal and accounting and facilities expenses. The increase in General and Administrative - Other for the year ended December 31, 2021 of \$7.5 million, or 15%, as compared to 2020 was due primarily to a \$5.4 million increase in compensation expense, driven by increased headcount, elimination of salary reductions we instituted in 2020 in response to the COVID-19 pandemic as well as amounts accrued under our long-term incentive plan. There was also a \$1.7 million increase in professional services, primarily related to contracts and litigation matters. Of the total increases attributable to compensation expense and professional services, approximately \$1.4 million related to the launch of our new Credit Card product. Additionally, depreciation and executive search costs each increased \$0.2 million from the prior year.

#### *Change in Fair Value of Convertible Preferred Stock Warrants*

Change in Fair Value of Convertible Preferred Stock Warrants was a loss of \$138.6 million for the year ended December 31, 2021 due to an increase in the fair value of the underlying Convertible Preferred Stock in 2021.

Change in Fair Value of Convertible Preferred Stock Warrants was a gain of \$37.7 million for the year ended December 31, 2020 due to a decrease in the fair value of the underlying Convertible Preferred Stock in 2020.

#### *Impairment Expense*

We recorded no impairment charge for the year ended December 31, 2021.

We recorded a \$0.4 million impairment charge for the year ended December 31, 2020 related to our operating lease right-of-use assets. This impairment was triggered by the non-renewal of certain sublease agreements for a portion of our office space.

#### *Loss on Deconsolidation of VIEs*

As discussed in Note 6 of the accompanying consolidated financial statements, we sold our holdings of residual certificates issued by three consolidated securitization trust VIEs to an unrelated third party on September 27, 2021. As a result of that sale, we determined that we were no longer the primary beneficiary of those VIEs and they were deconsolidated on that date. We recognized a loss on deconsolidation totaling \$1.5 million, which consists of the \$4.1 million in cash consideration received for the sale of the residual certificates, less net assets deconsolidated of \$5.6 million.

### *Other Income, Net*

Other Income, Net was \$0.5 million for the year ended December 31, 2021 and primarily consists of interest income on Cash, Cash Equivalents, as well as sublease income. The decrease of \$0.2 million in Other Income, Net for the year ended December 31, 2021, as compared to 2020 was primarily due to a decrease in interest income of \$0.2 million, as interest rates declined throughout 2020 and into the beginning of 2021, and a decrease in sublease income of \$0.1 million. These decreases were partially offset by a \$0.1 million gain recognized as part of the dissolution of our BillGuard Ltd. entity in January 2021.

### ***Non-GAAP Financial Measures***

#### *Core Revenue*

Core Revenue is a non-GAAP financial measure that we define as our Total Net Revenue adjusted to exclude the Fair Value of Warrants Vested on Sale of Borrower Loans. We believe it is useful to exclude the Fair Value of Warrants Vested on Sale of Borrower Loans from Total Net Revenue to derive a better measurement of our business performance. We believe that this adjustment also affords greater comparability to other companies.

The underlying Fair Value of Warrants Vested on the Sale of Borrower Loans relates to the Consortium Purchase Agreement. This agreement expired in May 2019 and we currently do not expect to sign a similar agreement to replace it. As a result, we believe that providing the Core Revenue metric that excludes the impact of Fair Value of Warrants Vested on Sale of Borrower Loans is useful to investors.

Core Revenue has limitations as a financial measure, should be considered as supplemental in nature, and is not meant as a substitute for Total Net Revenue which has been prepared in accordance with U.S. GAAP. These limitations include the following:

- Core Revenue excludes Fair Value of Warrants Vested on Sale of Borrower Loans, which is our largest contra revenue item (no amount has been recorded since May 2019, when the Consortium Purchase Agreement ended); and
- Other companies, including companies in our industry, may calculate Core Revenue differently or not at all, which reduces its usefulness as a comparative measure.

Because of these limitations, you should consider Core Revenue alongside other financial performance measures, including Total Net Revenue and our financial results presented in accordance with U.S. GAAP. The following table presents a reconciliation of Total Net Revenue to Core Revenue for each of the periods indicated (in thousands):

	Year Ended December 31,		
	2021	2020	2019
Total Net Revenues	\$ 144,626	\$ 103,236	\$ 153,570
Fair Value of Warrants Vested on Sale of Borrower Loans	—	—	(17,553)
<b>Core Revenue</b>	<b>\$ 144,626</b>	<b>\$ 103,236</b>	<b>\$ 171,123</b>

#### *Adjusted EBITDA*

Adjusted EBITDA is a non-GAAP financial measure that we define as Net Income (Loss) adjusted for interest income on Available for Sale Investments and Cash and Cash Equivalents, SEC Settlement Costs, Income Tax Expense, depreciation and amortization, impairment of long-lived assets and goodwill, stock based compensation expense, Fair Value of Warrants Vested on the Sale of Borrower Loans, Restructuring Charges, and Change in Fair Value of Convertible Preferred Stock Warrants and certain infrequent or unusual transactions. The presentation of non-GAAP financial measures should not be considered in isolation or as a substitute for our financial results prepared in accordance with GAAP.

We consider Adjusted EBITDA to be a helpful indicator of the operational strength and performance of our business and a good measure of our historical operating trends. Management uses Adjusted EBITDA to, among other things, understand and compare operating results across accounting periods, evaluate our operations and financial performance and for internal planning and forecasting purposes. Inclusion of Adjusted EBITDA is intended to provide investors insight into the manner in which management views the performance of the Company, enhance investors' evaluation of our operating results, and to facilitate meaningful comparisons of our results between periods. These non-GAAP financial measures should not be considered an alternative to, or more meaningful than, the GAAP financial information provided herein.

Our use of Adjusted EBITDA has limitations as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of our results as reported under U.S. GAAP. Some of these limitations are:

- Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future, and Adjusted EBITDA does not reflect cash capital expenditure requirements for such replacements or for new capital expenditure requirements;
- Adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs;
- Adjusted EBITDA does not consider the potentially dilutive impact of equity-based charges;
- Adjusted EBITDA does not reflect tax payments that may represent a reduction in cash available to us; and
- Other companies, including companies in our industry, may calculate Adjusted EBITDA differently, which reduces its usefulness as a comparative measure.

The major non-GAAP adjustments, and our basis for excluding them, are outlined below:

- *Fair value of warrants vested on the sale of Borrower Loans and changes in the fair value of Convertible Preferred Stock warrants liability* - We exclude these charges primarily because they are non-cash charges and the fair value varies based on the fair value of the underlying preferred stock, varying valuation methodologies and subjective assumptions. Their inclusion makes the comparison of our current financial results to previous and future periods difficult to evaluate.
- *Impairment of Operating Lease Right-of-Use Assets* - We have recognized impairment on our operating lease right-of-use assets related to vacant sublease space and the expected timing of finding new subtenants. We exclude these charges because they are non-cash and because management does not believe they are reflective of our ongoing operating results.
- *Stock-Based Compensation Expense* - This consists of expenses for equity awards under our equity incentive plans. Although stock-based compensation is an important aspect of the compensation paid to our employees, the grant date fair value varies based on the stock price at the time of grant, varying valuation methodologies, subjective assumptions and the variety of award types. This makes the comparison of our current financial results to previous and future periods difficult to evaluate; therefore, we believe it is useful to exclude stock-based compensation. We also excluded these expenses because they are non-cash.
- *Amortization or impairment of acquired Intangible Assets and impairment of Goodwill* - We incur amortization or impairment of Intangible Assets and impairment of Goodwill in connection with acquisitions and therefore exclude these amounts from our non-GAAP measures. We exclude these items because management does not believe they are reflective of our ongoing operating results.
- *Restructuring Charges* - We have incurred Restructuring Charges that are included in our GAAP financial statements, related to workforce reductions and estimated costs of existing facility lease commitments due to our May 2016 restructuring. We exclude these items from our non-GAAP financial measures when evaluating our continuing business performance as these costs do not reflect expected future operating expenses. In addition, these costs do not necessarily provide meaningful insight into the fundamentals of current or historical operations of our business.
- *Loss on deconsolidation of VIEs*: We incurred a non-cash loss on the deconsolidation of three securitization trust VIEs in September 2021, consisting of the net consideration received and net assets deconsolidated. We exclude the impact of this loss because of the infrequent nature of the transaction. Management does not believe that it is reflective of our ongoing operating results.

The following table presents a reconciliation of Net (Loss) Income to Adjusted EBITDA for each of the periods indicated (in thousands):

	Years Ended December 31,		
	2021	2020	2019
Net (Loss) Income	\$ (138,341)	\$ 18,551	\$ (13,711)
Fair Value of Warrants Vested on Sale of Borrower Loans	—	—	17,553
Depreciation expense:			
Servicing and Origination	7,167	5,830	5,111
General and Administrative - Other	2,501	2,300	2,286
Amortization of Intangibles	172	219	279
Impairment Expenses	—	445	—
Stock-Based Compensation	1,136	1,913	4,528
Restructuring Charges, Net	—	—	34
Change in Fair Value of Convertible Preferred Stock Warrants	138,622	(37,677)	(11,235)
Interest Income on Available for Sale Securities, Cash and Cash Equivalents	(8)	(184)	(1,025)
Loss on Deconsolidation of VIEs	1,494	—	—
Income Tax Expense	71	16	100
<b>Adjusted EBITDA</b>	<b>\$ 12,814</b>	<b>\$ (8,587)</b>	<b>\$ 3,920</b>

Expenses on the Consolidated Statement of Operations include the following amounts of stock-based compensation expense for the periods presented (in thousands):

	Years Ended December 31,		
	2021	2020	2019
Servicing and Origination	\$ 123	\$ 35	\$ 417
Sales and Marketing	62	69	243
General and Administrative	951	1,809	3,868
<b>Total Stock-Based Compensation Expense</b>	<b>\$ 1,136</b>	<b>\$ 1,913</b>	<b>\$ 4,528</b>

## LIQUIDITY AND CAPITAL RESOURCES

We anticipate our liquidity needs for the next twelve months, and for the foreseeable future beyond that period, can be met through transaction fees, servicing fees, net interest income, proceeds from sales of loans, draws on Warehouse Lines, proceeds from our \$8.4 million loan provided by the Paycheck Protection Program (the “PPP loan”), and Cash and Cash Equivalents. For further details related to our warehouse lines and PPP loan, see Note 10 of the accompanying consolidated financial statements. The table in the section titled “Contractual Obligations” below summarizes our current and long-term material cash requirements as of December 31, 2021. Management monitors our financial results and operations. If the financial results anticipated are not achieved, our sources of liquidity may not be sufficient to meet our operating and liquidity requirements without obtaining additional liquidity which may not be available on favorable terms or at all.

The following table summarizes our cash flow activities for the periods presented (in thousands):

	Year Ended December 31,		
	2021	2020	2019
Net (Loss) Income	\$ (138,341)	\$ 18,551	\$ (13,711)
Net cash provided by (used in) operating activities	\$ 113,563	\$ (32,334)	\$ (68,078)
Net cash (used in) provided by investing activities	(7,178)	137,655	96,480
Net cash used in financing activities	(84,628)	(111,861)	(15,053)
Net increase (decrease) in Cash, Cash Equivalents and Restricted Cash	21,757	(6,540)	13,349
Cash, Cash Equivalents and Restricted Cash at the beginning of the period	213,868	220,408	207,059
Cash, Cash Equivalents and Restricted Cash at the end of the period	\$ 235,625	\$ 213,868	\$ 220,408

Cash, Cash Equivalents and Restricted Cash increased by \$21.8 million for the year ended December 31, 2021, based on the following components:

*Operating Activities:* \$113.6 million in cash was provided by operating activities, driven by (a) \$58.1 million in net proceeds from Loans Held for Sale, (b) \$33.2 million in cash provided by working capital and (c) \$22.3 million in net loss, net of non-cash items. These non-cash items include the \$1.5 million Loss on Deconsolidation of VIEs, which is more fully described in Note 6 of the accompanying consolidated financial statements.

*Investing Activities:* \$7.2 million in cash was used in investing activities due to (a) \$232.0 million in purchases of Borrower Loans and (b) \$12.0 million purchases of property and equipment, primarily consisting of internal-use software, offset by (c) \$236.9 million in principal payments on Borrower Loans.

*Financing Activities:* \$84.6 million in cash was used in financing activities, due primarily to (a) \$102.6 million in payments on Notes and Certificates Issued by Securitization Trusts, (b) \$33.1 million in net payments on Warehouse Lines and (c) \$6.8 million in net cash and restricted cash outflows from the deconsolidation of the securitization VIEs. The \$6.8 million consists of \$4.1 million in cash proceeds from the sale of residual certificates, offset by \$10.9 million in restricted cash retained by the deconsolidated VIEs. These are offset by \$59.7 million in proceeds, net of payments, from Notes, at Fair Value. We also incurred \$1.7 million in debt issuance costs related to the extension of the PWIT Warehouse Line in March 2021 and the PWIT Warehouse Line in May 2021 (Note 10).

Cash, Cash Equivalents and Restricted Cash decreased by \$6.5 million for the year ended December 31, 2020, based on the following components:

*Operating Activities:* \$32.3 million in cash was used in operating activities, driven by (a) \$83.6 million in purchases, net of proceeds from sales and principal payments, of Loans Held for Sale offset by (b) \$17.0 million in cash provided by working capital, primarily due to the timing of payments to investors and third-party vendors, and (c) \$34.3 million in net income, net of non-cash items.

*Investing Activities:* \$137.7 million in cash was provided by investing activities primarily due to (a) \$279.7 million from sales and principal payments of Borrower Loans, offset by (b) \$133.6 million in purchases of Borrower Loans and (c) \$8.4 million in purchases of property and equipment, primarily consisting of internal-use software.

*Financing Activities:* \$111.9 million in cash was used in financing activities primarily due to (a) \$16.2 million in payments, net of proceeds from issuance, on Notes, at Fair Value and (b) \$214.9 million in payments on Notes and Certificates Issued by Securitization Trusts, offset by (c) \$110.8 million in net proceeds from Warehouse Lines and (d) \$8.4 million in proceeds from the PPP loan.

## Income Taxes

We use the liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized by applying the statutory tax rates in effect in the years in which the differences between the financial reporting and tax filing bases of existing assets and liabilities are expected to reverse. We have considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for a valuation allowance against our deferred tax

assets. Based on the weight of available evidence, which includes our historical operating performance and the reported cumulative net losses in prior years, we have provided a full valuation allowance against our net deferred tax assets.

We recorded a reserve for unrecognized tax benefits resulting from uncertain tax positions taken or expected to be taken in a tax return. The application of income tax law is inherently complex. Laws and regulations in this area are voluminous and are often ambiguous. We are required to make subjective assumptions and judgments regarding our income tax exposures. Interpretations and guidance surrounding income tax laws and regulations change over time. As such, changes in our subjective assumptions and judgments can materially affect amounts recognized in the consolidated balance sheets and statements of operations.

### Off-Balance Sheet Arrangements

As a result of retaining servicing rights on the sale of Borrower Loans, we are an interest holder in certain special purpose entities that purchase these Borrower Loans. None of these special purpose entities are consolidated as we are not the primary beneficiary. Other than these special purpose entities, as of December 31, 2021, we did not have any relationships with unconsolidated entities or financial partnerships, such as structured finance or special purpose entities that were established for the purpose of facilitating off-balance sheet arrangements or other purposes.

### Contractual Obligations

As of December 31, 2021, the following table summarizes our contractual obligations and the effect such obligations are expected to have on our liquidity and cash flow in future periods (in thousands):

	Payments Due by Period				
	Total	Less Than 1 Year	1 - 3 Years	3 - 5 Years	More Than 5 Years
Operating lease obligations	\$ 11,930	\$ 5,833	\$ 3,484	\$ 2,613	\$ —
Financing lease obligations	78	78	—	—	—
WebBank purchase obligations	13,767	13,767	—	—	—
WebBank minimum origination fees	3,744	1,244	2,500	—	—
<b>Total contractual obligations</b>	<b>\$ 29,519</b>	<b>\$ 20,922</b>	<b>\$ 5,984</b>	<b>\$ 2,613</b>	<b>\$ —</b>

### WebBank Purchase Obligations

Under our loan account program with WebBank, a Utah-chartered industrial bank that serves as our primary issuing bank, WebBank retains ownership of loans facilitated through our marketplace for two business days after origination. As part of this arrangement, we have committed to purchase the loans at the conclusion of the two business days.

### WebBank Minimum Origination Fees

We are required to pay WebBank a minimum fee to the extent monthly loan originations due to not meet certain contractual thresholds. This obligation is more fully discussed in Note 17 of the accompanying consolidated financial statements.

## CRITICAL ACCOUNTING POLICIES

The accounting policies discussed below reflect our most significant judgments, assumptions and estimates which we believe are critical in understanding and evaluating our reported financial results including: (i) fair value measurement of Borrower Loans, Loans Held for Sale, Notes, and Certificates Issued by Securitization Trust (prior to their deconsolidation in September 2021); (ii) Loan Servicing Assets and (iii) fair value measurement of Convertible Preferred Stock Warrants. These judgments, estimates and assumptions are inherently subjective in nature and actual results may differ from these estimates and assumptions, and the differences could be material. For a full description of all accounting policies adopted by us, please see Note 2 to our consolidated financial statements.

### Valuation of Borrower Loans, Loans Held for Sale, Notes and Certificates Issued by Securitization Trust

We have elected the fair value option for Borrower Loans, Loans Held for Sale, Notes, and Certificates Issued by Securitization Trust. We primarily use a discounted cash flow model to estimate the fair value of Borrower Loans, Loans Held for Sale, Notes, and Certificates Issued by Securitization Trust. The key assumptions used in the valuation include default rates and prepayment rates derived from historical performance and discount rates that reflect estimates of the rates of return that investors would require when investing in financial instruments with similar characteristics. All these assumptions require

significant management judgment. For further information on fair value measurement of Borrower Loans, Loans Held for Sale, Notes, and Certificates Issued by Securitization Trust, refer to Note 7 - Fair Value of Assets and Liabilities of the accompanying notes to PMI's consolidated financial statements.

### **Valuation of Loan Servicing Asset**

We have elected to adopt the fair value method to measure the Servicing Assets for all classes of Servicing Assets subsequent to initial recognition. We use a discounted cash flow model to estimate the fair value of the loan Servicing Assets which incorporates significant unobservable inputs of the contractual projected servicing fee revenue that we earn on the Borrower Loans, the estimated market Servicing Fees to service such loans, the prepayment rates, the default rates, discount rate and the current principal balances of the loans. For further information on fair value measurement of the Servicing Assets, refer to Note 5 - Servicing Assets and Note 7 - Fair Value of Assets and Liabilities of the accompanying notes to PMI's consolidated financial statements.

### **Valuation of Convertible Preferred Stock Warrants**

Convertible Preferred Stock Warrants primarily consist of warrants to purchase Series E and Series F Convertible Preferred Stock issued to the Consortium that vested when the Consortium purchased whole loans under the Consortium Purchase Agreement, which ended in May 2019.

We estimate the fair value of the Series E and Series F Warrants using valuation methods appropriate at each balance sheet date. Generally, this includes determining the business enterprise value of the Company using methods that may include discounted cash flow model, comparable public company analysis, and comparable acquisition analysis, which require significant management judgment. Additionally, we review and consider any recent transactions involving the Company's equity in determining whether such transactions should be considered in the valuation. Once the business enterprise value has been estimated, an option pricing model is used to allocate the value to the various classes of our equity. The concluded per share value for the Series E and Series F Convertible Preferred Stock Warrant is then determined using a Black-Scholes option pricing model that requires us to make key assumptions such as volatility and expected warrant term. For further information on fair value measurement of the Convertible Preferred Stock Warrants, refer to Note 7 - Fair Value of Assets and Liabilities and Note 12 - Convertible Preferred Stock, Convertible Preferred Stock Warrant Liability and Common Stock of the accompanying notes to PMI's consolidated financial statements.

## **PROSPER FUNDING LLC**

### **Overview**

Prosper Funding was formed in the state of Delaware in February 2012 as a limited liability company with PMI as its sole equity member. Prosper Funding was formed by PMI to hold Borrower Loans originated through the Note Channel and issue related Notes. Although Prosper Funding is consolidated with PMI for accounting and tax purposes, Prosper Funding has been organized and is operated in a manner that is intended to minimize the likelihood that it would be substantively consolidated with PMI in a bankruptcy proceeding. Prosper Funding's intention is to minimize the likelihood that its assets would be subject to claims by PMI's creditors if PMI were to file for bankruptcy, as well as to minimize the likelihood that Prosper Funding will become subject to bankruptcy proceedings directly. Prosper Funding seeks to achieve this by placing certain restrictions on its activities and by implementing certain formal procedures designed to expressly reinforce its status as a distinct corporate entity from PMI.

As a credit marketplace, we believe our customers are more highly susceptible to uncertainties and negative trends, real or perceived, in the markets driven by, among other factors, general economic conditions in the United States and abroad. These external economic conditions and resulting trends or uncertainties could adversely impact our customers' ability or desire to participate in our marketplace as borrowers or investors, and consequently could negatively affect our business and results of operations.

### **Recent Developments**

We continue to track the impact of COVID-19 and its variants on our communities, and are offering assistance to qualified borrowers who are facing financial hardship as a result of the COVID-19 pandemic. These relief options include, among other things, the ability to delay up to four monthly loan payments, the ability to reduce minimum monthly payments for up to 12 months and extend the term of the loan by up to 11 months, and waived late and non-sufficient funds fees. Since COVID-19 relief was first offered in March 2020 and through December 31, 2021, approximately 9.1% of our current outstanding loan balances on a cumulative basis have enrolled in at least one of these COVID-19 relief programs. Approximately 1.2% of our outstanding loan balances are actively enrolled in at least one relief program as of December 31,

2021. Overall requests for COVID-19 relief are declining; however, enrollment may continue as long as the pandemic continues to trigger financial hardship for borrowers.

## Results of Operations

### Overview

The following table summarizes Prosper Funding's net income for the years ended December 31, 2021, December 31, 2020 and December 31, 2019 (in thousands):

	Year Ended December 31,							
	2021	2020	Change	% Change	2020	2019	Change	% Change
Total Net Revenues	\$ 62,757	\$ 52,153	\$ 10,604	20 %	\$ 52,153	\$ 73,562	\$ (21,409)	(29)%
Total Expenses	59,547	50,752	8,795	17 %	50,752	67,620	(16,868)	(25)%
Net Income	<u>\$ 3,210</u>	<u>\$ 1,401</u>	<u>\$ 1,809</u>	129 %	<u>\$ 1,401</u>	<u>\$ 5,942</u>	<u>\$ (4,541)</u>	(76)%

Total revenues for the year ended December 31, 2021 increased \$10.6 million, or 20%, from the year ended December 31, 2020, primarily due to increased administration fee revenue driven by an increase in the number of loan listings on the marketplace during the period. Additionally, increased originations have led to additional servicing assets and thus a larger Gain on Sale of Borrower Loans. These increases were partially offset by decreased Servicing Fees, Net, due to a lower outstanding Borrower Loan balance in the servicing portfolio. Total expenses for the year ended December 31, 2021 increased \$8.8 million, or 17%, from the year ended December 31, 2020 primarily due to an increase in the number of loans funded during the period, which resulted in increased administration fee expense. The increases in loan listings and originations are due to increased investor demand, lower rates offered to borrowers and less restrictive underwriting requirements, reflecting the general economic recovery since the start of the COVID-19 pandemic.

### Revenues

The following table summarizes Prosper Funding's revenue for the years ended December 31, 2021, 2020 and 2019 (dollars in thousands):

	Year Ended December 31,							
	2021	2020	Change	% Change	2020	2019	Change	% Change
<b>REVENUES:</b>								
<b>Operating Revenues:</b>								
Administration Fee Revenue – Related Party	\$ 34,017	\$ 21,618	\$ 12,399	57 %	\$ 21,618	\$ 49,818	\$ (28,200)	(57)%
Servicing Fees, Net	15,770	20,791	(5,021)	(24)%	20,791	26,368	(5,577)	(21)%
Gain (Loss) on Sale of Borrower Loans	8,450	6,430	2,020	31 %	6,430	(5,058)	11,488	227 %
Other Revenue	1,312	552	760	138 %	552	155	397	256 %
<b>Total Operating Revenues</b>	<u>59,549</u>	<u>49,391</u>	<u>10,158</u>	21 %	<u>49,391</u>	<u>71,283</u>	<u>(21,892)</u>	(31)%
Interest Income on Borrower Loans	36,952	36,765	187	1 %	36,765	41,146	(4,381)	(11)%
Interest Expense on Notes	(34,514)	(34,457)	(57)	—	(34,457)	(38,492)	4,035	(10)%
<b>Total Interest Income (Expense), Net</b>	<u>2,438</u>	<u>2,308</u>	<u>130</u>	6 %	<u>2,308</u>	<u>2,654</u>	<u>(346)</u>	(13)%
Change in Fair Value of Financial Instruments, Net	770	454	316	70 %	454	(375)	829	221 %
<b>Total Net Revenues</b>	<u>\$ 62,757</u>	<u>\$ 52,153</u>	<u>\$ 10,604</u>	20 %	<u>\$ 52,153</u>	<u>\$ 73,562</u>	<u>\$ (21,409)</u>	(29)%

### Administration Fee Revenue - Related Party

Prosper Funding primarily generates revenue through license fees it earns under its Administration Agreement with PMI. The Administration Agreement contains a license granted by PFL to PMI that entitles PMI to use the marketplace for, and



in relation to: (i) PMI's performance of its duties and obligations under the Administration Agreement, and (ii) PMI's performance of its duties and obligations to WebBank under the Loan Account Program Agreement. The Administration Agreement requires PMI to pay PFL a monthly license fee that is partially based on the number of loan listings posted on the marketplace in that month, as well as a rebate fee based on rebates given to investors as an incentive to purchase Borrower Loans from PFL. The increase in Administrative Fee Revenue of \$12.4 million for the year ended December 31, 2021 as compared to in 2020 was primarily due to an increase in loan listings generated on the marketplace during the respective periods.

#### *Servicing Fees, Net*

Investors who purchase Borrower Loans from Prosper Funding through the Whole Loan Channel typically pay Prosper Funding a servicing fee which is currently set at 1.075% per annum of the outstanding principal balance of the Borrower Loan prior to applying the current payment. The servicing fee compensates Prosper Funding for the costs incurred in servicing the Borrower Loan, including managing payments from borrowers, managing payments to investors and maintaining investors' account portfolios. Prosper Funding records Servicing Fees from investors as a component of operating revenues when received. The decrease in Servicing Fees of \$5.0 million in the year ended December 31, 2021 as compared to 2020 was primarily due to a lower outstanding Borrower Loan balance in the servicing portfolio.

#### *Gain (Loss) on Sale of Borrower Loans*

Gain (Loss) on Sale of Borrower Loans consists of net gains (losses) on Borrower Loans sold through the Whole Loan Channel. For the year ended December 31, 2021, PFL recognized a gain of \$8.5 million, an increase of \$2.0 million over 2020. This increase was due to increased whole loan originations during that period.

#### *Other Revenues*

Other Revenues consists primarily of credit referral and incentive fees. Credit referral fees are earned from partner companies for the referral of customers on our platform, while incentive fees are earned from partner companies through our incentive programs. The \$0.8 million increase in Other Revenues for the year ended December 31, 2021, as compared to 2020 is primarily due to increased incentive fees generated from a whole loan purchaser.

#### *Interest Income on Borrower Loans and Interest Expense on Notes*

Prosper Funding recognizes Interest Income on Borrower Loans using the accrual method based on the stated interest rate to the extent Prosper Funding believes it to be collectible. Prosper Funding records interest expense on the corresponding Notes based on the contractual interest rates. The interest rate on Notes is generally 1% lower than the interest rate on the corresponding Borrower Loans to compensate Prosper Funding for servicing the underlying Borrower Loans.

Overall, the increase in net interest income for the year ended December 31, 2021, as compared to 2020, was not significant.

#### *Change in Fair Value of Financial Instruments, Net*

Change in Fair Value of Financial Instruments, Net captures gains (losses) in fair value estimates using discounted cash flow methodologies that are based upon a set of valuation assumptions. The key assumptions used in these valuations include default and prepayment rates derived from historical performance and discount rates that reflect estimates of the rates of return that investors would require when investing in other financial instruments with similar characteristics. Changes in fair value of Borrower Loans funded through the Note Channel are largely offset by the changes in fair value of the corresponding Notes due to the borrower payment-dependent structure, though differences will arise due to the actual and projected impact of cash flows related to charge-offs, debt sales and miscellaneous fees.

The following table summarizes the fair value adjustments for the years ended December 31, 2021, 2020 and 2019 respectively (in thousands):

	<b>Year Ended December 31,</b>		
	<b>2021</b>	<b>2020</b>	<b>2019</b>
Borrower Loans	\$ (1,141)	\$ (19,210)	\$ (23,185)
Notes	1,911	19,664	22,810
<b>Total</b>	<b>\$ 770</b>	<b>\$ 454</b>	<b>\$ (375)</b>

## Expenses

The following table summarizes Prosper Funding's expenses for the years ended December 31, 2021, 2020 and 2019 (in thousands):

	Year Ended December 31,							
	2021	2020	Change	% Change	2020	2019	Change	% Change
<b>Expenses:</b>								
Administration Fee – Related Party	\$ 52,641	\$ 45,472	\$ 7,169	16 %	\$ 45,472	\$ 62,575	\$ (17,103)	(27)%
Servicing	6,409	4,900	1,509	31 %	4,900	5,012	(112)	(2)%
General and Administrative	497	380	117	31 %	380	33	347	n/a
<b>Total Expenses</b>	<b>\$ 59,547</b>	<b>\$ 50,752</b>	<b>\$ 8,795</b>	<b>17 %</b>	<b>\$ 50,752</b>	<b>\$ 67,620</b>	<b>\$ (16,868)</b>	<b>(25)%</b>

### Administration Fee Expense - Related Party

Pursuant to the Administration Agreement between Prosper Funding and PMI, PMI manages the marketplace on behalf of Prosper Funding. Accordingly, each month Prosper Funding is required to pay PMI (a) a corporate administration fee of \$500,000 per month, (b) a fee for each Borrower Loan originated through the marketplace, (c) 62.5% of all Servicing Fees collected by or on behalf of Prosper Funding, and (d) all nonsufficient funds fees collected by or on behalf of Prosper Funding. The increase of Administration Fee expense of \$7.2 million for the year ended December 31, 2021 as compared to 2020 was due to the increased origination volume of Borrower Loans in 2021. In general, the Administrative Fee Expense will not fluctuate directly in line with the Administrative Fee Revenue due to the flat corporate administrative fee as well as the fact that Prosper Funding pays fees for three different services, but receives a fee based only the number of loans listed on the platform.

### Servicing

Servicing costs consist primarily of vendor and borrower costs, as well as depreciation of internal-use software associated with servicing Borrower Loans. The increase in Servicing costs for the year ended December 31, 2021, as compared to 2020, was primarily driven by the increase in originations and the depreciation of internal-use software during this time.

### General and Administrative

General and Administrative costs consist primarily of bank service charges and professional fees. The change in General and Administrative costs for the year ended December 31, 2021, as compared to 2020 was not significant.

## LIQUIDITY AND CAPITAL RESOURCES

The following table summarizes Prosper Funding's cash flow activities for the years ended December 31, 2021, 2020 and 2019 (in thousands):

	Years Ended December 31,		
	2021	2020	2019
Net Income	\$ 3,210	\$ 1,401	\$ 5,942
Net cash provided by (used in) operating activities	\$ 32,685	\$ 30,750	\$ (12,819)
Net cash (used in) provided by investing activities	(65,416)	12,994	(11,219)
Net cash provided by (used in) financing activities	59,683	(20,681)	(5,282)
Net increase (decrease) in Cash, Cash Equivalents and Restricted Cash	26,952	23,063	(29,320)
Cash, Cash Equivalents and Restricted Cash at the beginning of the period	140,924	117,861	147,181
Cash, Cash Equivalents and Restricted Cash at the end of the period	<u>\$ 167,876</u>	<u>\$ 140,924</u>	<u>\$ 117,861</u>

Cash, Cash Equivalents and Restricted Cash increased by \$27.0 million for the year ended December 31, 2021, based on the following components:

*Operating Activities:* \$32.7 million in cash was provided by operating activities, driven by cash from working capital of \$24.1 million, primarily due to the timing of payments to PMI and investors, and \$8.6 million from net income, net of non-cash adjustments.

*Investing Activities:* \$65.4 million net cash used in investing activities, due to \$232.0 million in purchases of Borrower Loans and \$6.1 million in purchases of property and equipment, partially offset by \$172.7 million of principal payments under Borrower Loans.

*Financing Activities:* \$59.7 million net cash was provided by financing activities, due to \$231.9 million in proceeds from the issuance of Notes, at Fair Value, partially offset by \$172.3 million in payments for Notes, at Fair Value.

Cash, Cash Equivalents and Restricted Cash increased by \$23.1 million for the year ended December 31, 2020, based on the following components:

*Operating Activities:* \$30.8 million in cash was provided by operating activities, primarily driven by cash from working capital of \$21.8 million, primarily due to the timing of payments to PMI and investors, and \$9.0 million from net income, net of non-cash adjustments.

*Investing Activities:* \$13.0 million net cash provided by investing activities was primarily due to \$149.9 million in principal payments under Borrower Loans, partially offset by purchases of Borrower Loans of \$133.6 million and property and equipment of \$3.3 million.

*Financing Activities:* \$20.7 million net cash was used in financing activities, primarily due to \$149.4 million in payments for Notes, at Fair Value and \$4.5 million in distributions to PMI, partially offset by \$133.2 million from proceeds from the issuance of Notes, at Fair Value.

## **Income Taxes**

Prosper Funding incurred no income tax provision for the years ended December 31, 2021 and 2020. Prosper Funding is a U.S. disregarded entity and the income and loss is included in the return of parent PMI. Given PMI's history of taxable losses, it is difficult to accurately forecast how Prosper's and Prosper Funding's results will be affected by the realization and use of net operating loss carry forwards.

## **Off-Balance Sheet Arrangements**

As a result of retaining servicing rights on the sale of Borrower Loans, Prosper Funding is an interest holder in certain special purpose entities that purchase these Borrower Loans. None of these special purpose entities are consolidated as Prosper Funding is not the primary beneficiary.

## **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

### **PROSPER MARKETPLACE, INC.**

#### **Market Risk**

Market risk is the risk of loss to future earnings, values, or future cash flows that may result from changes in financial market prices and interest rates.

Through the Warehouse Lines we invest in Loans Held for Sale. Investments in interest-earning instruments carry a degree of interest rate risk. Changes in U.S. interest rates affect the market value of these Loans Held for Sale held on our balance sheet. Our future investment income may fall short of expectations, or we may suffer a loss in principal if we are forced to sell Loans Held for Sale that have declined in market value due to changes in interest rates, loss assumptions or overall market conditions. Changes in the market value of Loans Held for Sale are recorded on the Consolidated Statement of Operations. The fair value of Loans Held for Sale was \$243.2 million and \$274.6 million as of December 31, 2021 and 2020, respectively.

The fair values of Borrower Loans, Loans Held for Sale, Notes and Certificates Issued by the Securitization Trust are determined using discounted cash flow methodologies based upon a set of valuation assumptions such as default rate, prepayment rate and discount rate. Default rate, prepayment rate and discount rate may change due to expected loan performance or changes in the expected returns of similar financial instruments available in the market. We are exposed to the risk of decrease in the fair value of loans held in the warehouse and securitization trusts (prior to deconsolidation in September 2021). For Borrower Loans and Notes presented on our Balance Sheet on behalf of our Note Channel investors, the fair value adjustments for Borrower Loans are largely offset by the fair value adjustments of the Notes due to the borrower payment

dependent design of the Notes and due to the total principal balances of the Borrower Loans being very close to the total principal balances of the Notes.

We are also exposed to variable interest rate risk under the debt from the Warehouse Lines, which had an outstanding balance of \$209.3 million and \$242.5 million as of December 31, 2021 and 2020, respectively. To reduce the impact of large fluctuations in interest rates, we hedged a portion of our interest rate risk by entering into a derivative agreement with a financial institution, which is currently out of the money. The derivative agreement that we use to manage the risk associated with fluctuations in interest rates may not be able to eliminate the exposure to these changes. Interest rates are sensitive to numerous factors outside of our control, such as government and central bank monetary policy in the United States. Depending on the size of the exposures and the relative movements of interest rates, if we choose not to hedge or fail to effectively hedge our exposure, we could experience a material adverse effect on our results of operations and financial condition.

PMI had cash and cash equivalents of \$67.7 million and \$50.1 million as of December 31, 2021 and 2020, respectively. These amounts were held in various unrestricted deposits with highly rated financial institutions and short-term, highly liquid marketable securities which may include money market funds, U.S. Treasury securities, and U.S. agency securities. Cash and Cash Equivalents are held for working capital purposes. Due to their short-term nature, we believe that we do not have any material exposure to changes in the fair value of these liquid investments as a result of changes in interest rates. Decreases in short-term interest rates will moderately reduce interest income on these Cash and Cash Equivalents. Increases in short-term interest rates will moderately increase the interest income earned on the Cash and Cash Equivalents.

### **Interest Rate Sensitivity**

As more fully described in Note 7 - Fair Value of Assets and Liabilities of our financial statements attached to this Annual Report on Form 10-K, the combined fair value of Borrower Loans and Loans Held for Sale is \$510.8 million as of December 31, 2021, determined using a weighted-average discount rate of 5.64%. The combined fair value of Borrower Loans (including securitized Borrower Loans, which were deconsolidated from our balance sheet on September 27, 2021) and Loans Held for Sale was \$652.9 million as of December 31, 2020, determined using a weighted-average discount rate of 8.26%. A hypothetical 100 basis point increase in interest rates would result in a decrease of approximately \$5.1 million and \$5.8 million in the fair value of PMI's investment in Borrower Loans and Loans Held for Sale as of December 31, 2021 and 2020, respectively. A hypothetical 100 basis point decrease in interest rates would result in an increase of approximately \$5.3 million and \$5.9 million in the fair value of our investment in Borrower Loans and Loans Held for Sale as of December 31, 2021 and 2020, respectively. Any realized or unrealized gains or losses resulting from such interest rate change would be recorded in our statement of operations so long as we hold these Borrower Loans and Loans Held for Sale on our balance sheet.

A portion of the interest rate charged on our Warehouse Lines is currently based on LIBOR. LIBOR has been the subject of reform and was expected to phase out by the end of fiscal 2021; however, on November 30, 2020, the ICE Benchmark Administration Limited ("ICE") announced plans to delay the phase out of LIBOR to June 30, 2023. The consequences of the discontinuation of LIBOR cannot be entirely predicted but could impact the interest expense incurred on these debt instruments. We have negotiated alternatives to LIBOR on the PWIT and PWIIT Warehouse Lines, which we may renegotiate before LIBOR ceases to be a widely available reference rate.

## **PROSPER FUNDING LLC**

### **Market Risk**

Market risk is the risk of loss to future earnings, values, or future cash flows that may result from changes in financial market prices and interest rates.

Because balances, interest rates, and maturities of Borrower Loans are matched and offset by an equal balance of Notes with the exact same interest rates (net of our servicing fee) and initial maturities, we believe that we do not have any material exposure to changes in the net fair value of the combined Borrower Loan and Note portfolios as a result of changes in interest rates.

The fair values of Borrower Loans, Loans Held for Sale and the related Notes are determined using discounted cash flow methodologies based upon a set of valuation assumptions. The fair value adjustments for Borrower Loans are largely offset by the fair value adjustments of the Notes due to the borrower payment dependent design of the Notes and due to the total principal balances of the Borrower Loans being very close to the total principal balances of the Notes.

Prosper Funding had Cash and Cash Equivalents of \$10.8 million and \$8.6 million as of December 31, 2021 and 2020, respectively. These amounts were held in various unrestricted deposits with highly rated financial institutions and short term, highly liquid marketable securities which may include money market funds, U.S. treasury securities and U.S. agency securities. Cash and cash equivalents are held for working capital purposes. Due to their short-term nature, Prosper Funding believes that it does not have any material exposure to changes in the fair value of these liquid investments as a result of changes in interest

rates. Decreases in short-term interest rates will moderately reduce interest income on these Cash and Cash Equivalents, while increases in short-term interest rates will moderately increase the interest income earned on these Cash and Cash Equivalent balances.

## **ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

### **Prosper Marketplace, Inc.**

[Consolidated Balance Sheets](#)

[Consolidated Statements of Operations](#)

[Consolidated Statements of Comprehensive Income](#)

[Consolidated Statements of Convertible Preferred Stock and Stockholders' Deficit](#)

[Consolidated Statements of Cash Flows](#)

[Notes to Consolidated Financial Statements](#)

### **Prosper Funding LLC**

[Consolidated Balance Sheets](#)

[Consolidated Statements of Operations](#)

[Consolidated Statements of Members' Equity](#)

[Consolidated Statements of Cash Flows](#)

[Notes to Consolidated Financial Statements](#)

The supplementary financial information required by this Item 8 is included in Item 7 under the caption “Quarterly Results of Operations.”

## **ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

## **ITEM 9A. CONTROLS AND PROCEDURES**

### **Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures**

In connection with the preparation of this Annual Report on Form 10-K, each Registrant’s management, under the supervision and with the participation of such Registrant’s Principal Executive Officer (PEO) and Principal Financial Officer (PFO), evaluated the effectiveness of the design and operation of such Registrant’s disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as of December 31, 2021. Based upon this evaluation, the PEO and the PFO of each Registrant have concluded that these disclosure controls and procedures are effective to provide reasonable assurance that material information relating to each Registrant and its subsidiaries that is required to be disclosed in reports filed with, or submitted to, the SEC under the Exchange Act (i) is recorded, processed, summarized and reported within the time periods specified by the SEC rules and forms, and (ii) is accumulated and communicated to management, including its PEO and PFO, as appropriate to allow timely decisions regarding required disclosure.

### **Management’s Report on Internal Control over Financial Reporting**

Under Section 404 of the Sarbanes-Oxley Act of 2002 (the “Sarbanes-Oxley Act”), each Registrant’s management is required to assess the effectiveness of such Registrant’s internal control over financial reporting as of the end of each fiscal year and report, based on that assessment, whether such Registrant’s internal control over financial reporting is effective.

Management of each Registrant is responsible for establishing and maintaining adequate internal control over financial reporting. Each Registrant’s internal control over financial reporting is designed to provide reasonable assurance as to the reliability of such Registrant’s financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Internal control over financial reporting, no matter how well designed, has inherent limitations. Therefore, internal control over financial reporting determined to be effective can provide only reasonable assurance with respect to financial statement preparation and may not prevent or detect all misstatements. Moreover, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Registrants' management has assessed the effectiveness of the Registrants' internal control over financial reporting as of December 31, 2021. In making this assessment the Registrants used the criteria established by the Committee of Sponsoring Organizations of the Treadway Commission in "Internal Control-Integrated Framework (2013)." These criteria are in the areas of control environment, risk assessment, control activities, information and communication, and monitoring. Each Registrant's assessment included documenting and evaluating the effectiveness of its internal control over financial reporting. Based on this evaluation, the person serving as each Registrant's PEO and PFO has concluded that such Registrant's internal controls were effective as of December 31, 2021.

#### **Changes in Internal Control over Financial Reporting**

During the fourth quarter of 2021, there were no changes in the internal control over financial reporting that materially affected, or are reasonably likely to materially affect, the Registrant's internal control over financial reporting.

#### **Attestation Report of Registered Public Accounting Firm**

The Dodd-Frank Wall Street Reform and Consumer Protection Act exempts any company that is not a "large accelerated filer" or an "accelerated filer" (as defined by SEC rules) from the requirement that such company obtain an external audit of the effectiveness of its internal control over financial reporting pursuant to Section 404(b) of the Sarbanes-Oxley Act. As a result, the Registrants are exempt from the requirement that they include in their Annual Report on Form 10-K an attestation report on internal control over financial reporting by an independent registered public accounting firm; however, management's annual report on internal control over financial reporting, pursuant to Section 404(a) of the Sarbanes-Oxley Act, is still required with respect to the Registrants.

#### **ITEM 9B. OTHER INFORMATION**

In April 2020, we obtained an \$8.4 million loan from the Paycheck Protection Program ("PPP"), which was established by the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") and sponsored by the U.S. Small Business Administration ("SBA") in order to provide small businesses with assistance in covering qualified payroll costs, mortgage obligations, leases, and utilities during the economic downturn triggered by the COVID-19 pandemic. On March 21, 2022, we received notice from the SBA that our PPP loan was forgiven in full through a forgiveness payment made on March 15, 2022 by the SBA to Broadway National Bank, the lender of our PPP loan.

## PART III

### ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

#### Prosper Marketplace, Inc.

##### *Executive Officers, Directors and Key Employees*

The following table sets forth information about PMI's current and imminent executive officers and directors as of the date of this Annual Report on Form 10-K:

Name	Age	Position(s)
David Kimball	51	Chief Executive Officer and Chairman of the Board
Usama Ashraf	45	President and Chief Financial Officer
Edward R. Buell III	42	General Counsel, Secretary and Chief Compliance Officer
Pete Woodhouse	56	Chief Technology Officer
Ashish Agarwal	47	Chief Marketing Officer (as of January 2022)
Claire A. Huang	59	Director
Thomas R. Kearney	63	Director
Peter J. deSilva	60	Director

*David Kimball* has served as Chief Executive Officer and a director of PMI since December 2016. From March 2016 to February 2017, Mr. Kimball served as PMI's Chief Financial Officer. In May 2019, Mr. Kimball was appointed Chairman of the Board. He also currently serves as Chief Executive Officer and a director of PFL. Prior to joining PMI, Mr. Kimball was Senior Financial Officer of United Services Automobile Association's (USAA) Chief Operating Office, with financial responsibility for the real estate unit, the bank, the P&C and life insurance companies, the investment management company, and the call centers/distribution functions. Before his position as Senior Financial Officer of USAA's Chief Operating Office, Mr. Kimball spent eight years in various finance roles at USAA, including Senior Vice President of Corporate Finance; Corporate Treasurer; Chief Financial Officer of USAA Federal Savings Bank; and Assistant Vice President of Capital Markets. Prior to his time at USAA, Mr. Kimball spent ten years at Ford Motor Company and Ford Motor Credit Company in both the U.S. and U.K., working on their securitization programs, debt issuance, and a variety of financial planning and analysis positions. Mr. Kimball holds an M.B.A. and a B.A. in English from Brigham Young University. PMI believes that Mr. Kimball's financial and business expertise give him the qualifications and skills to serve as a director.

*Usama Ashraf* has served as PMI's President since March 2021 and as its Chief Financial Officer since February 2017. He is currently responsible for Prosper's finance, capital markets, risk and business intelligence functions. He also currently serves as President, Chief Financial Officer, Treasurer and a director of PFL. Prior to joining PMI, from February 2016 to February 2017, Mr. Ashraf served as Deputy Chief Financial Officer and Treasurer at Annaly Capital Management, Inc. ("Annaly"). Prior to his time at Annaly, Mr. Ashraf worked at United Services Automobile Association ("USAA"), where he served as Corporate Treasurer from November 2014 to February 2016 and Assistant Corporate Treasurer from January 2014 to October 2014. Before joining USAA, Mr. Ashraf spent 13 years at CIT Group, where he held various positions in the Treasury and Corporate M&A departments, most recently serving as Deputy Treasurer with responsibility for the firm's Treasury activities in the United States. He started his career in the investment banking division of Citigroup focused on M&A. Mr. Ashraf received a B.S. in Economics, with concentrations in Finance and Accounting, from The Wharton School of the University of Pennsylvania.

*Edward "Ted" R. Buell III* has served as PMI's General Counsel and Secretary since March 2021, and its Chief Compliance Officer since June 2018. Mr. Buell also currently serves as PFL's Secretary, a position he has held since March 2021. Prior to that, Mr. Buell served as PMI's Deputy General Counsel from June 2018 to March 2021, its Assistant General Counsel and Deputy Chief Compliance Officer from January 2017 to June 2018 and its Senior Corporate Counsel from September 2015 to January 2017. Before joining PMI in September 2015, Mr. Buell served as an attorney at Severson & Werson P.C., advising and representing financial services clients in regulatory matters and litigation, from April 2010 to September 2015. Prior to that, Mr. Buell served as Assistant General Counsel at GreenPoint Mortgage Funding, Inc., a national mortgage bank that originated, sold and serviced mortgage loans, from September 2005 to April 2010. Mr. Buell holds a J.D. from the University of Miami School of Law and a B.A. degree in Criminology, Law and Society from the University of California, Irvine.

*Pete Woodhouse* has served as PMI's Chief Technology Officer since July 2021. Before joining PMI, Mr. Woodhouse was the Chief Technology Officer and Head of Product at Sibly, an employee mental health coaching text-based platform. Prior to his time at Sibly, Mr. Woodhouse spent 7 years in a variety of technology roles at PayPal, including as the Chief Technology Officer at PayPal Credit and as the Senior Director at PayPal Global Solutions Engineering. In Mr. Woodhouse's role as Chief Technology Officer at PayPal Credit, he was responsible for building and integrating multiple credit products into the PayPal platform structure. Prior to his time at PayPal, Mr. Woodhouse held various product development and technology roles at PRTM, a management consulting subsidiary of PwC, Agilent Technologies, an analytical instrumentation development and manufacturing company, and spent 10 years at Hewlett-Packard Company. Mr. Woodhouse also currently serves as an Engineering Leadership Mentor at Plato, a mentorship program that aims to build soft skills in engineering and product managers. Mr. Woodhouse holds an MBA from Santa Clara University and a Bachelor of Science in Electrical Engineering from the University of Plymouth (England).

*Ashish Agarwal* has served as PMI's Chief Marketing Officer since January 2022. Mr. Agarwal has experience leading growth for multiple lending and payment fintech companies. Prior to joining PMI, Mr. Agarwal served as Chief Marketing Officer at Plastiq, a business-to-business payment platform. Prior to Plastiq, Mr. Agarwal spent 3 years at Humana, a Fortune 50 health insurance and healthcare company, as the line-of-business Chief Marketing Officer for Humana's Pharmacy division. Prior to Humana, Mr. Agarwal served as Chief Growth Officer for 4 years at Remitly, a digital remittance company. During his time as Chief Growth Officer, Mr. Agarwal built and led Remitly's global marketing strategy from its early stages through several financing rounds. Prior to his time at Remitly, Mr. Agarwal held various marketing, strategy and analytics roles for 7 years at Capital One Financial Corporation, including as Vice President of Marketing and Analytics and as Director of Partnerships Deal Valuations. Mr. Agarwal also currently serves as a Venture Partner with NextGen Venture Partners, which invests in early-stage technology companies. Mr. Agarwal holds an MBA from Vanderbilt University and a Bachelor of Technology in Mechanical Engineering from the Indian Institute of Technology, Madras (India).

*Claire A. Huang* has served as a director of PMI since December 2017. Ms. Huang is currently a member of the board of directors of SigFig, a robo-investing and customer engagement software provider, Zions Bancorporation N.A., a regional bank, Filinvest Development Corporation, a Philippines-based real estate development company, and PODS, a leading storage and moving company. She is a member of the audit committee and compensation committee of Zions Bancorporation N.A. She is also a member of the corporate governance committee, the related-party transaction committee, and chairwoman of the digital committee of Filinvest Development Corporation. She previously served as a director of Mirador Financial, Inc., a small business lending platform, from 2017 to 2018, and Scottrade, a leading online brokerage firm, from 2015 to 2017. Ms. Huang has extensive experience in marketing and brand management. She served as the first global Chief Marketing Officer of JP Morgan Chase from 2012 to 2014, where she worked with the marketing teams across all Chase retail and JP Morgan wholesale businesses to build brands and businesses with a customer focus. Before joining JP Morgan Chase, from 2008 to 2012, Ms. Huang held global head of marketing positions at Bank of America Merrill Lynch, where she was responsible for a number of high profile marketing initiatives, including the integration of Merrill Lynch and Bank of America and the launch of Merrill Edge, the company's brokerage platform. Prior to her time at Bank of America Merrill Lynch, Ms. Huang held marketing leadership positions at Fidelity Investments, American Express Company, Wise Foods, and The Häagen-Dazs Company. Ms. Huang received a B.A. in Economics from De La Salle University in Manila, Philippines. PMI believes that Ms. Huang's marketing and brand management expertise, as well as her experience at several leading financial institutions, give her the qualifications and skills to serve as a director.

*Thomas R. Kearney* was appointed as a director of PMI in May 2020. Mr. Kearney is currently a member of the Board of Directors and Finance Committee of the Plattsburgh College Foundation, a non-profit organization affiliated with the State University of New York at Plattsburgh. Mr. Kearney is also a member of the Board of Directors of the YMCA of San Francisco, a non-profit organization ("YSF"). Additionally, he is YSF Finance Committee Chair and a member of the YSF Board Executive Committee. Mr. Kearney is a CPA with extensive technical accounting and auditing experience. He previously worked at PricewaterhouseCoopers LLP for nearly 35 years and served as Assurance Partner for 20 years. In this role, Mr. Kearney helped financial services clients navigate a wide range of complex financial instruments, credit arrangements and operational processes and controls. Prior to PwC, Mr. Kearney conducted periodic reserve reporting for the Federal Reserve Bank of San Francisco and assisted with the implementation of Regulation D and Contemporaneous Reserve Reporting. Mr. Kearney holds a B.S. in Accounting from State University of New York at Plattsburgh. PMI believes that Mr. Kearney's financial, business, and regulatory expertise give him the qualification and skills to serve as a director. Mr. Kearney qualifies as an "audit committee financial expert" under SEC guidelines.



*Peter J. deSilva* was appointed as a director of PMI in April 2021. Mr. deSilva is currently a Harvard University Senior Fellow in the Advanced Leadership Initiative through May 2022. His fellowship includes participating in an advanced leadership curriculum with more than 50 other fellows from around the world, participating in various courses, mentoring other graduate and undergraduate students and developing a program with significant social impact potential. Mr. deSilva also currently serves as a director on the Board of Directors at Infosel Financiero SA de CV, a financial technological platform and business news agency that operates in Mexico and Latin America, and currently serves as a director on the Board of Directors at Fidelity Security Life Insurance Company, an insurance services provider. Mr. deSilva also serves as a director of Fidelity Security Assurance Company, a subsidiary of Fidelity Security Life Insurance Company. Mr. deSilva previously served as the President of TD Ameritrade's retail business and as President of TD Ameritrade, Inc. the firm's broker dealer from September 2017 to December 2020. In his role, Mr. deSilva directed all facets of the division's business strategy and operations, and integration with Scottrade Financial Services, another leading online brokerage firm. Prior to joining TD Ameritrade, from February 2015 to August 2017, Mr. deSilva served as the President of the Retail and Institutional divisions of Scottrade Financial Services, where he was responsible for the corporate strategy and distribution, sales, digital transformation, investment management, and institutional custody functions. Mr. deSilva also served on Scottrade, Inc.'s Board of Directors from February 2015 - to August 2017. Before joining Scottrade Financial Services, from 2004 to 2015, Mr. deSilva served as the President and Chief Operating Officer of UMB Financial Corporation, a financial services provider. Mr. deSilva also served on UMB Financial Corporation's Board of Directors from February 2004 to December 2015. Prior to his time at UMB Financial Corporation, Mr. deSilva worked at Fidelity Investments, a leading online brokerage firm, where he held several leadership positions, including Senior Vice President and General Manager of Fidelity Investments' Retail division and Senior Vice President of Fidelity Brokerage Company. Mr. deSilva holds a B.S. in Business Administration and Management from the University of Massachusetts, Dartmouth. Mr. deSilva also holds Series 7, 24, 63 and 66 licenses from the Financial Industry Regulatory Authority. PMI believes that Mr. deSilva's financial, business and regulatory expertise give him the qualifications and skills to serve as a director.

### ***Election of Directors***

PMI's board of directors currently consists of eight seats, with one vacancy to be filled by a designee of the Series A Holders, one vacancy to be filled by a designee of the Series A-1 Holders, one vacancy to be filled by a designee of Francisco Partners III, L.P., and one vacancy to be filled by a designee of the Series F Holders. All of the current members of PMI's board of directors were elected as directors pursuant to the terms of a voting rights agreement entered into among certain of PMI's stockholders. In selecting the composition of its board of directors, PMI seeks to ensure that its board of directors collectively has a balance of expertise in the following areas: internet-based business, consumer financial products and experience directing public and start-up companies. Based on these criteria, PMI believes that its board of directors has been effective in identifying diverse directors. The board of directors' composition provisions of PMI's voting rights agreement are still in effect. For more information regarding the terms of the voting rights agreement, see Item 13, "Certain Relationships and Related Transactions, and Director Independence." Holders of the Notes offered through our marketplace, and the accompanying PMI Management Rights, will have no ability to elect or influence PMI's directors or approve significant corporate transactions, such as a merger or other sale of PMI or its assets.

### ***Board Leadership***

Because PMI's common stock is not listed on a national exchange, PMI is not required to maintain a board of directors consisting of a majority of independent directors, or to maintain an audit, nominating or compensation committee. PMI does not have a lead independent director.

### ***Code of Ethics***

Our Board of Directors is committed to a high standard of corporate governance practices and, through its oversight role, believes that it has encouraged and promoted a requisite culture of ethical business conduct among PMI's officers and employees. To memorialize its commitment to these standards, the Board of Directors of PMI adopted a "Code of Ethics and Business Conduct" that applies to all of PMI's employees, directors and officers, including the Chief Executive Officer, Chief Financial Officer and other executive officers. A copy of the Code of Ethics and Business Conduct is available on our website at [www.prosper.com/plp/legal](http://www.prosper.com/plp/legal). We intend to satisfy the disclosure requirement under Item 5.05 of Form 8-K regarding amendment to, or waiver from, certain provisions of the Code of Ethics and Business Conduct by posting such information on our website or in public filings.

### ***Director Independence***

Because PMI's common stock is not listed on a national securities exchange or listed in an automated inter-dealer quotation system of a national securities association or to issuers of such securities, PMI is not required to maintain a board of directors consisting of a majority of independent directors or to maintain an audit committee, nominating committee or compensation committee consisting solely of independent directors. Nevertheless, PMI's board of directors has determined the

independence of each director based on the independence criteria set forth in the listing standards of the New York Stock Exchange (“NYSE”). In making its determinations, the Board considered the current and prior relationships that each non-employee director has with us and all other facts and circumstances the board of directors deemed relevant in determining their independence, including any transactions between each director or any member of his or her family, and us, our senior management or our independent registered public accounting firm. Based upon information requested from and provided by each director concerning his or her background, employment and affiliations, including family relationships, the board of directors determined that Ms. Huang and each of Messrs. Kearney and deSilva do not have a relationship that would interfere with the exercise of independent judgment in carrying out the responsibilities of a director and that each of these directors is “independent” as that term is defined under the listing requirements and rules of the NYSE. PMI’s board of directors has also determined that our former director, Rajeev V. Date, was independent under those standards during the period in 2021 that he served on the board. Mr. Date resigned from PMI’s board of directors effective March 26, 2021.

## ***Board Committees***

### *Nominating Committee*

PMI is not a “listed issuer” as defined under Section 10A-3 of the Exchange Act. Therefore, PMI is not required to have a nominating committee comprised of independent directors. PMI currently does not have a standing nominating committee and accordingly, there are no charters for such committee. PMI believes that a nominating committee is not necessary for a company of its size with its type of business. PMI also believes that its directors collectively have the requisite background, experience, and knowledge to fulfill the limited duties and obligations that a nominating committee may have.

### *Compensation Committee*

PMI’s board of directors approved the formation of a Compensation Committee in August 2011. The current members of the Compensation Committee are Claire A. Huang (Chairwoman) and Thomas R. Kearney. The Compensation Committee oversees PMI’s executive officer compensation arrangements, plans, policies and programs maintained by PMI and administers PMI’s equity-based compensation plan for employees generally (including issuance of stock options, RSUs and other equity-based awards granted other than pursuant to a plan). The Compensation Committee meets at such times as determined appropriate by the Chair of the Compensation Committee.

The Compensation Committee is exempt from independence listing standards because PMI’s common stock is not listed on a national securities exchange or listed in an automated inter-dealer quotation system of a national securities association or to issuers of such securities. Nevertheless, the board of directors of PMI has determined that each of the current members of PMI’s Compensation Committee is independent under the applicable rules and regulations of the SEC and NYSE.

### *Audit Committee*

PMI’s board of directors approved the formation of an Audit Committee in January 2010. The current members of the Audit Committee are Thomas R. Kearney (Chairman) and Peter J. deSilva. The Audit Committee oversees financial risk exposures, including monitoring the integrity of PMI’s consolidated financial statements, internal controls over financial reporting and the independence of PMI’s Independent Registered Public Accounting Firm. The Audit Committee receives internal control related assessments and reviews and discusses PMI’s annual and quarterly consolidated financial statements with management. In fulfilling its oversight responsibilities with respect to compliance matters, the Audit Committee meets at least quarterly with management, PMI’s Independent Registered Public Accounting firm and PMI’s internal legal counsel to discuss risks related to PMI’s financial reporting function.

The Audit Committee is exempt from independence listing standards because PMI’s common stock is not listed on a national securities exchange or listed in an automated inter-dealer quotation system of a national securities association or to issuers of such securities. Nevertheless, the board of directors of PMI has determined that each of the current members of PMI’s Audit Committee is independent under the listing requirements and rules of the NYSE, and also satisfies the independence requirements of Section 10(m)(3) of the Exchange Act. Additionally, PMI’s board of directors has determined that each of the current members of the Audit Committee is an audit committee financial expert as defined under SEC regulations and the listing requirements and rules of the NYSE. The board of directors has also determined that Rajeev V. Date, who served as a member of the Audit Committee until March 2021, was independent under those standards during the period in 2021 that he served on the Audit Committee. Mr. Date resigned from PMI’s board of directors and Audit Committee effective March 26, 2021.

### ***Limitations on Officers' and Directors' Liability and Indemnification Agreements***

As permitted by Delaware law, PMI's amended and restated certificate of incorporation and bylaws contain provisions that limit or eliminate the personal liability of its directors for breaches of duty to the corporation. PMI's amended and restated certificate of incorporation and bylaws limit the liability of directors to the fullest extent permitted under Delaware law. Delaware law provides that directors of a corporation will not be personally liable for monetary damages for breaches of their fiduciary duties as directors, except liability for:

- any breach of the director's duty of loyalty to PMI or PMI's stockholders;
- any act or omission not in good faith, believed to be contrary to the interests of PMI or its shareholders, involving reckless disregard for the director's duty, for acts that involve an unexcused pattern of inattention that amounts to an abdication of duty, or that involves intentional misconduct or knowing or culpable violation of law;
- any unlawful payments related to dividends, unlawful stock repurchases, redemptions, loans, guarantees or other distributions; or
- any transaction from which the director derived an improper personal benefit.

These limitations do not affect the availability of equitable remedies, including injunctive relief or rescission. As permitted by Delaware law, PMI's amended and restated certificate of incorporation and bylaws also provide that:

- PMI will indemnify its directors and officers to the fullest extent permitted by law;
- PMI may indemnify its other employees and other agents to the same extent that PMI indemnifies its officers and directors; and
- PMI will advance expenses to its directors and officers in connection with a legal proceeding, and may advance expenses to any employee or agent; provided, however, that such advancement of expenses shall be made only upon receipt of an undertaking by the person to repay all amounts advanced if it should be ultimately determined that the person was not entitled to be indemnified.

The indemnification provisions contained in PMI's amended and restated certificate of incorporation and bylaws are not exclusive.

In addition to the indemnification provided for in PMI's amended and restated certificate of incorporation and bylaws, PMI has entered into indemnification agreements with each of its directors and officers. The indemnification agreements require PMI, among other things, to indemnify such persons for all expenses, including attorneys' fees, judgments, fines and amounts paid in settlement (if such settlement is approved in advance by PMI) (collectively, "Expenses"), actually and reasonably incurred by such person in connection with the investigation, defense or appeal of any proceeding to which such person may be made a party, a potential party, a non-party witness, or otherwise by reason of: (i) such person's service as a director or officer of PMI; (ii) any action or inaction taken by such person or on such person's part while acting as director, officer, employee or agent of PMI; or (iii) such person's actions while serving at the request of PMI as a director, officer, employee, trustee, general partner, managing member, agent or fiduciary of PMI or any other entity, in each case, whether or not serving in any such capacity at the time any liability or expense is or was incurred. In addition, PMI is required to indemnify against any Expenses actually and reasonably incurred in connection with any action establishing or enforcing a right to indemnification or advancement of expenses under the indemnification agreement or under any directors' and officers' liability insurance policies maintained by PMI to the extent that such person is successful in such action. The indemnification agreements also provide that PMI agrees to indemnify such persons to the fullest extent permitted by law, even if such indemnification is not specifically authorized by the other provisions of the agreement or PMI's amended and restated certificate of incorporation or bylaws. Moreover, the indemnification agreements provide that any future changes under Delaware law that expand the ability of a Delaware corporation to indemnify its officers and directors are automatically incorporated into the agreements.

Under the indemnification agreements, PMI is not obligated to provide indemnification on account of any proceeding unless such person acted in good faith and in a manner reasonably believed to be in the best interests of PMI, and with respect to criminal proceedings, such person had no reasonable cause to believe his conduct was unlawful. The termination of a proceeding by judgment, settlement, or conviction or upon a plea of *nolo contendere* or its equivalent does not, by itself, create the presumption that such person did not satisfy the above standards. In addition, under the indemnification agreements, PMI is not obligated to provide indemnification for: (i) any proceedings or claims initiated or brought voluntarily by such person and not by way of defense, unless such indemnification is authorized by PMI, other than a proceeding to establish such person's right to indemnification; (ii) any expenses incurred by such person with respect to any proceeding instituted by such person to enforce and interpret the terms of his indemnification agreement, unless such person is successful in such action; (iii) which payment has actually been made to or on behalf of such person under any statute, insurance policy, indemnity provision, vote or otherwise, except with respect to any excess beyond the amount paid; (iv) an accounting or disgorgement of profits pursuant to

Section 16(b) of the Exchange Act, as amended, or similar provisions of federal, state or local statutory law or common law, if such person is held liable therefor (including pursuant to any settlement arrangements); and (v) any reimbursement of PMI by such person of any bonus or other incentive-based or equity-based compensation or of any profits realized by such person from the sale of securities of PMI, as required in each case under the Exchange Act, as amended (including any such reimbursements that arise from an accounting restatement of PMI pursuant to Section 304 of the Sarbanes-Oxley Act, or the payment to PMI of profits arising from the purchase and sale by such person of securities in violation of Section 306 of the Sarbanes-Oxley Act), if such person is held liable therefor (including pursuant to any settlement arrangements).

PMI also maintains an insurance policy that covers certain liabilities of its directors and officers arising out of claims based on acts or omissions in their capacities as directors or officers.

PMI believes that these provisions and agreements are necessary to attract and retain qualified persons as directors and officers. To the extent these provisions permit PMI to indemnify its officers and directors for liabilities arising under the Securities Act, however, PMI has been informed by the SEC that such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

## **ITEM 11. EXECUTIVE COMPENSATION**

### **Prosper Marketplace, Inc. - Compensation Discussion and Analysis**

#### ***Overview***

This section describes PMI's executive compensation objectives, compensation-setting process, executive compensation components and significant 2021 compensation decisions for PMI's named executive officers ("NEOs"). The compensation provided to PMI's NEOs for 2021 is set forth in detail in the Summary Compensation Table and other tables and the accompanying footnotes and narrative that follow this section.

PMI's named executive officers for 2021 are as follows:

- David Kimball, our Chief Executive Officer;
- Usama Ashraf, our President and Chief Financial Officer;
- Pete Woodhouse, our Chief Technology Officer as of July 1, 2021;
- Edward R. Buell III, our General Counsel, Secretary and Chief Compliance Officer; and
- Nasos Topakas, our Chief Technology Officer through March 15, 2021.

#### ***Executive Compensation Objectives***

The objectives of PMI's executive compensation are to:

- attract, retain and motivate senior leaders who are capable of advancing PMI's mission and strategy and ultimately, creating and maintaining its long-term equity value;
- align the interests of PMI's executive officers with its stockholders' long-term interests; and
- reward executive officers for their contributions to PMI's overall performance as well as for their individual performance.

#### ***Compensation-Setting Process***

*Role of Our Compensation Committee.* The Compensation Committee has primary responsibility for overseeing all aspects of our executive compensation program, including evaluating and approving executive salaries, annual bonus awards and the size and structure of equity awards for PMI's executive officers, including the NEOs.

*Role of Management.* In setting 2021 compensation, PMI's Chief Executive Officer worked closely with the Compensation Committee in making recommendations and attending Committee meetings. Because of his daily involvement with PMI's executive team, the Chief Executive Officer was involved in the determination of compensation for all of PMI's executive officers other than himself. The Compensation Committee also delegated to the Chief Executive Officer the authority to make compensation decisions for senior management and executive officers (other than the Chief Executive Officer, Chief Financial Officer, President and Chief Operating Officer), subject to certain compensation limits set by the Compensation Committee.

## ***Executive Compensation Components***

PMI's executive compensation package includes: (1) base salary; (2) cash bonuses; and (3) long term incentives, generally in the form of cash and equity-based compensation, such as stock options and restricted stock units. PMI believes that this compensation mix supports its objective of attracting, motivating and retaining a talented and entrepreneurial executive team who will provide leadership for PMI's success in dynamic and competitive markets. PMI's compensation program is balanced among all three components in order to attract top talent and maximize retention, while ensuring that an appropriate portion of the executives' compensation is tied to the Company's and its stockholders' long-term interests.

### ***Base Salary***

Base salary is a fixed amount, and is not tied to any metric relating to the performance of PMI's business as a whole. The base salary of each executive officer is initially established in the executive officer's offer letter, and reviewed annually by the Compensation Committee. In determining base salaries for 2021, PMI's Compensation Committee together with the Chief Executive Officer considered the individual executive officer's scope of responsibilities, contributions, prior salary level and position (in case of a promotion), and financial and market conditions.

The following table summarizes information regarding the base salaries for PMI's named executive officers for 2021:

	<b>2021 Base Salaries</b>
David Kimball <sup>1</sup>	\$ 550,000
Usama Ashraf <sup>2</sup>	\$ 447,000
Pete Woodhouse <sup>3</sup>	\$ 375,000
Edward R. Buell III <sup>4</sup>	\$ 335,000
Nasos Topakas <sup>5</sup>	\$ 385,000

1. In March 2021, PMI's Compensation Committee reviewed executive base salaries and decided to keep Mr. Kimball's annual base salary at \$550,000, the same level as last year.
2. In March 2021, PMI's Compensation Committee reviewed executive base salaries and decided to keep Mr. Ashraf's annual base salary at \$447,000, the same level as last year.
3. In July 2021, PMI hired Mr. Woodhouse as its Chief Technology Officer, with an annual base salary of \$375,000.
4. In March 2021, Mr. Buell's annual base salary was increased from \$275,625 to \$335,000 in connection with his promotion to General Counsel and Secretary of PMI.
5. In March 2021, PMI's Compensation Committee reviewed executive base salaries and decided to keep Mr. Topakas' annual base salary at \$385,000, the same level as last year. Mr. Topakas departed from his role as Chief Technology Officer of PMI effective March 15, 2021.

### ***Cash Bonuses***

PMI uses cash bonuses primarily to motivate and retain senior management leaders that are critical to advancing the Company's short-term and long-term strategic goals. In 2021, we based annual NEO bonuses on both the achievement of certain Board-approved financial, operational and strategic performance objectives as well as other factors, including the NEO's contribution towards the successful development and launch of the Credit Card product.

In January 2022, the Compensation Committee reviewed the Company's performance and progress towards the established 2021 objectives, and approved a bonus award of up to 100% of the annual target bonus amount for each NEO.

The amounts and terms of the bonuses awarded to each of our NEOs for 2021 are disclosed below, in the sections titled "Summary Compensation Table" and "Narrative Discussion of the Summary Compensation Table and Grants of Plan-Based Awards Table."

### ***Long-Term Incentives***

***Equity Compensation.*** PMI has used stock options and restricted stock units ("RSUs") as the principal components of its executive long-term incentive equity compensation. Consistent with its compensation objectives, PMI believes this approach aligns the interests of its grantees with the long-term interests of PMI's stockholders. PMI believes that stock options and RSUs also serve as effective retention tools due to vesting requirements that are based on continued service with the company. In granting equity awards, PMI has customarily considered, among other things, the executive officers' cash compensation, the need to retain and motivate executive officers and to create a meaningful opportunity for reward predicated on the creation of

long-term stockholder value, PMI's financial results, and each executive officer's individual contributions and responsibilities. The amounts and terms of the awards granted to each such NEO in 2021 are disclosed in the 2021 Grants of Plan-Based Awards table and accompanying footnotes to the table of Outstanding Equity Awards at 2021 Fiscal Year End.

*Long-Term Cash Incentive Compensation.* PMI's Long-Term Cash Incentive Plan ("LTCIP") is designed to reward our executives, including our named executive officers, for the achievement of strategic and operational objectives and the creation of long-term value. Under the LTCIP, eligible executive officers and vice presidents will receive long-term cash incentive awards based on their performance during pre-established two-year periods, the first of which ran from January 1, 2020 to December 31, 2021 (the "2020-2021 Performance Period"). Payments will be made by March 15, following the end of a performance period, unless otherwise determined by the Compensation Committee. The incentive targets range from 75% to 150% of the participant's base salary, unless otherwise determined by the Compensation Committee. PMI's executive officers and vice presidents are eligible to participate in the LTCIP if, as of the date the award is paid, they have been employed with PMI for at least three years, are currently full or part time employees of PMI, and are in good standing. PMI believes that the LTCIP will complement its annual equity awards by focusing its senior executives on specific long-term financial performance goals, while providing an opportunity for more immediate liquidity. In January 2022, the Compensation Committee considered the Company's performance and progress towards its established objectives during the 2020-2021 Performance Period, and approved a payout of up to 90% of the LTCIP incentive target amount for each NEO. The amounts of the LTCIP awards paid to eligible NEOs in connection with the 2020-2021 Performance Period are set forth in the "Summary Compensation Table" below.

### ***Employment Agreements***

PMI has entered into employment arrangements with each of its NEOs, which are comprised of an offer letter and an At-Will Employment, Confidential Information, Invention Assignment and Arbitration Agreement. Each of these arrangements was approved or authorized on PMI's behalf by the Compensation Committee or, in certain instances, its Board of Directors.

Each of the offer letters provides for "at-will" employment and sets forth the initial compensation arrangements for the NEO, generally including an initial base salary, an annual cash bonus opportunity, and an equity award. Certain of the offer letters provide for payments or an acceleration of the executive's equity award grant upon termination of their employment in specified situations, including following a change in control. These arrangements (including potential payments and terms) are discussed in more detail in the "Narrative Discussion of the Summary Compensation Table and Grants of Plan-Based Awards Table" and the "Potential Payments Upon Termination or a Change In Control of PMI" sections and related tables below.

### ***Other Compensation Information***

#### ***Benefits Programs***

PMI's employee benefit programs, including its 401(k) plan, health and welfare programs, and incentive programs, including the Amended and Restated 2005 Stock Option Plan, the 2015 Equity Incentive Plan and the Long-Term Cash Incentive Plan, are designed to provide a competitive level of benefits to PMI's employees generally, including its named executive officers and their families.

PMI's 401(k) plan covers all employees meeting certain eligibility requirements. The 401(k) plan is designed to provide tax-deferred retirement benefits in accordance with the provisions of Section 401(k) of the Internal Revenue Code. Eligible employees are allowed to contribute a percentage of their eligible compensation to the 401(k) plan, up to the annual maximum as determined by the Internal Revenue Service, and PMI may make discretionary matching contributions of a portion of the employees' eligible wage deferrals, subject to certain limitations and conditions. PMI temporarily suspended its discretionary matching contributions from July 1, 2020 through December 31, 2020 in an effort to reduce costs and mitigate the operating and financial impact of the COVID-19 pandemic on the Company. The 401(k) discretionary matching contributions were partially reinstated effective January 1, 2021 and fully reinstated effective April 1, 2021. During the year ended December 31, 2021, PMI contributed \$2.0 million to the 401(k) plan. The amount of PMI's matching contributions for each of our NEOs is set forth in footnotes to the "Summary Compensation Table" below.

All full-time employees, including PMI's named executive officers, may participate in its health and welfare benefit programs, including medical, dental and vision care coverage, disability insurance and life insurance.

### *Perquisites and Other Personal Benefits*

Currently, PMI does not view perquisites or other personal benefits as a significant component of its compensation. Accordingly, PMI does not generally provide perquisites, such as company cars and paid parking spaces, to its executive officers. PMI does reimburse its executive officers for certain relocation expenses, subject to the terms and conditions prescribed by the Compensation Committee.

In the future, PMI may provide additional perquisites or other personal benefits in limited circumstances, such as where PMI believes it is appropriate to assist an individual executive in the performance of his or her duties and for recruitment, motivation or retention purposes.

### *Post-Employment Compensation*

The Compensation Committee recognizes that a possible, threatened, or pending change of control transaction could result in the departure or distraction of PMI's senior executives. To establish a meaningful financial incentive for PMI's senior executive officers to work diligently through and beyond a proposed transaction that may involve a change in control of the company, certain of the stock options and restricted stock units granted to PMI's NEOs will fully vest upon a change in control of PMI, while others will fully vest in the event that, within 12 months after a change in control of PMI, such officer is subject to a termination of employment without cause or resigns for good reason (each as defined in the applicable option agreement).

In addition, PMI entered into severance and change in control agreements (the "severance agreements") with each of Messrs. Kimball, and Ashraf in November 2020 and with Mr. Woodhouse in February 2022, the terms and conditions of which restate and replace any severance arrangements set forth in their respective offer letters. Under the severance agreements, each of Messrs. Kimball, Ashraf, and Woodhouse, would be entitled to the following in the event that such officer's employment is terminated by PMI without "cause" or by the applicable officer for "good reason" (each as defined in the severance agreement) and the officer meets certain tenure requirements as of the date of such termination: (i) a lump sum severance payment equal to one year base salary; (ii) any unpaid annual bonus and long-term cash incentive award for the year(s) preceding the year of termination; (iii) continued coverage for the participants and eligible dependents pursuant to the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended ("COBRA"), for 12 months, unless such coverage is earlier terminated in accordance with the terms of the severance agreement; (iv) a pro-rated annual bonus payment for the year of termination; and (v) with respect to any long-term performance period under the LTCIP that commenced more than one year prior to the executive's termination date, a pro-rated long-term cash incentive payment for the performance period in which the termination occurs. Until certain tenure requirements are met, Mr. Woodhouse would only be entitled to a lump sum severance payment equal to 6 months base salary in the event that his employment is terminated by PMI without "cause" or by him for "good reason" prior to the one year anniversary of his employment start date and a lump sum severance payment equal to 12 months base salary in the event that his employment is terminated by PMI without "cause" or by him for "good reason" after the one year anniversary of his employment start date. In the event that Messrs. Kimball, Ashraf, or Woodhouse, is terminated by PMI or its successor without cause or by the applicable officer for good reason and such termination occurs within 24 months following a change in control of PMI, then, subject to certain tenure requirements, such officer would be entitled to receive the severance set forth in items (i) through (iii) above, as well as such officer's (x) target annual bonus for the year of termination; and (y) their target long-term cash incentive payment for the year of termination. Receipt of these severance benefits is conditioned on the officer's signing a release of claims in favor of PMI.

PMI also entered into a severance agreement with Mr. Topakas in November 2020 which replaced any severance arrangements in Mr. Topakas's offer letter and contained the same terms and conditions as the severance agreements signed by Messrs. Kimball and Ashraf which are described above. Mr. Topakas departed from his role as Chief Technology Officer of PMI effective March 15, 2021 and as a result, the terms of his severance agreement are no longer applicable.

For additional information regarding these severance and change in control arrangements, see "Potential Payments Upon Termination or a Change in Control of PMI."

### *Compensation Risk Assessment*

PMI's management evaluates and mitigates any risk that may exist relating to its compensation plans, practices and policies for all employees, including PMI's NEOs. PMI's management has concluded that PMI's compensation policies and practices do not create or promote inappropriate or excessive risk taking.

### Summary Compensation Table

The following table provides information regarding the compensation earned during the years ended December 31, 2021, 2020 and 2019 by each of PMI's named executive officers (in thousands):

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Option Awards (\$) <sup>1</sup>	Non-Equity Incentive Plan Compensation (\$)	All Other Compensation (\$) <sup>2</sup>	Totals (\$)
<b>David Kimball</b>	2021	\$ 550	550	—	731 <sup>6</sup>	13	1,844
Chief Executive Officer	2020	498 <sup>3</sup>	427 <sup>4</sup>	220 <sup>5</sup>	—	12	1,157
	2019	500	450	—	—	14	964
<b>Usama Ashraf</b>	2021	447	373	69	600 <sup>6</sup>	13	1,502
President and	2020	409 <sup>3</sup>	268 <sup>4</sup>	42 <sup>5</sup>	—	14	733
Chief Financial Officer	2019	428	289	40	—	14	771
<b>Pete Woodhouse</b> <sup>7</sup>	2021	188	141	786	—	9	1,124
Chief Technology Officer							
<b>Edward R. Buell III</b> <sup>8</sup>	2021	323	191	26	185 <sup>6</sup>	13	738
General Counsel, Secretary and	2020	252 <sup>3</sup>	66 <sup>4</sup>	8 <sup>5</sup>	—	10	336
Chief Compliance Officer	2019	260	78	31	—	10	379
<b>Nasos Topakas</b> <sup>9</sup>	2021	80	—	—	—	9	89
Chief Technology Officer	2020	352 <sup>3</sup>	228 <sup>4</sup>	32 <sup>5</sup>	—	14	626
	2019	368	249	—	—	14	631

1. The amounts reported represent the grant date fair value of the restricted stock units and stock options granted to the named executive officers as calculated in accordance with the Financial Accounting Board's Topic ASC 718, Compensation—Stock Compensation ("ASC 718") using a Black-Scholes model to purchase shares of PMI's common stock. The key assumptions used in PMI's ASC 718 calculation are discussed in Note 2 of PMI's consolidated financial statements, which are incorporated by reference into this Annual Report.
2. "All Other Compensation" consists of compensation received from employer matching contributions to PMI's 401(k) plan.
3. Reflects the temporary reductions in base salaries implemented in response to the COVID-19 pandemic.
4. Bonus payouts for 2020 were calculated based on our NEOs' non-reduced base salaries and do not reflect the temporary reduction in base salaries implemented in response to the COVID-19 pandemic.
5. Represents the incremental fair value of options that were granted in prior periods and repriced in connection with the stock option reprice implemented in 2020.
6. The amount reported reflects non-equity incentive compensation earned over 2020 and 2021 under the Long Term Cash Incentive Plan.
7. Mr. Woodhouse joined PMI in July 2021 as its Chief Technology Officer.
8. Mr. Buell was promoted to General Counsel and Secretary of PMI in March 2021.
9. Mr. Topakas departed from his role as Chief Technology Officer of PMI effective March 15, 2021.



## 2021 Grants of Plan-Based Awards <sup>1,2</sup>

The following table sets forth certain information regarding grants of plan-based awards to the listed PMI named executive officers during 2021 (dollar amounts in thousands, except per share information):

	Grant Date	All Other Option Awards: Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards (\$/Sh)	Grant Date Fair Value of Stock and Option Awards (\$) <sup>3</sup>
Usama Ashraf	3/10/2021	2,000,000	\$ 0.06	\$ 69
Pete Woodhouse	8/10/2021	5,584,793	\$ 0.24	\$ 786
Edward R. Buell III	3/10/2021	756,638	\$ 0.06	\$ 26

1. The following columns are intentionally omitted from this table: Estimated Future Payouts under Non-Equity Incentive Plan Awards, and Estimated Future Payouts under Equity Incentive Plan Awards.
2. The equity awards granted to NEOs in 2021 were granted under, and governed by the terms of, PMI's 2015 Equity Incentive Plan and the applicable award agreements. See the footnotes to the Outstanding Equity Awards at 2021 Fiscal Year-End table below for a description of the vesting schedule of the equity awards granted in 2021 and reported in the table above.
3. The amounts reported represent the grant date fair value of the stock options granted to the named executive officers as calculated in accordance with the Financial Accounting Board's Topic ASC 718, Compensation—Stock Compensation ("ASC 718") using a Black-Scholes model to purchase shares of PMI's common stock. The key assumptions used in PMI's ASC 718 calculation are discussed in Note 2 of PMI's consolidated financial statements, which are incorporated by reference into this Annual Report.

### CEO Pay Ratio

In accordance with Item 402(u) of Regulation S-K, PMI is providing the following information for the year ended December 31, 2021:

- The median of total compensation of all employees, excluding our CEO: \$141,761;
- The annual total compensation of our CEO: \$1,844,300; and
- The ratio of CEO total compensation to median employee total compensation: 13.01 to 1.

Our CEO pay ratio information is a reasonable good faith estimate calculated in a manner consistent with the SEC pay ratio rules and methods for disclosure. In order to determine the median employee from a compensation perspective, PMI examined cash compensation (salary, wages and cash bonuses) paid for the 2021 calendar year for all employees, excluding our CEO, employed as of December 31, 2021 (the "Determination Date"). On the Determination Date, Prosper's employee population consisted of 384 individuals, all of whom were located in the United States. This population consisted of our full-time, part-time, and temporary employees. We did not include any contractors or workers employed through a third-party provider in our employee population.

To identify the "median employee," we utilized the amount of base salary, wages and cash bonus our employees received, as reflected in our payroll records through the Determination Date and annualized such amounts for any individual hired during 2021. Once we identified our median employee, we combined all of the elements of such employee's compensation for 2021 to determine the median employee total compensation in accordance with the requirements of Item 402(c)(2)(x) of Regulation S-K and compared such total compensation to the total compensation of PMI's CEO, as reported in the Summary Compensation Table.

## ***Narrative Discussion of the Summary Compensation Table and Grants of Plan-Based Awards Table***

### ***Offer Letters and Arrangements***

*David Kimball.* In November 2016, PMI entered into an offer letter with Mr. Kimball in connection with his appointment as its Chief Executive Officer. In addition to his initial base salary, Mr. Kimball's offer letter provided for (i) eligibility to receive an annual performance bonus in a target amount of 100% of his base salary, payable on a quarterly basis; (ii) reimbursement of certain relocation expenses; and (iii) eligibility to participate in the benefit programs generally available to employees of PMI. PMI also committed to grant Mr. Kimball an equity award of options exercisable into shares of PMI common stock representing up to 5% of PMI's capitalization on a fully diluted basis, subject to the terms and conditions of the offer letter.

Mr. Kimball's November 2016 offer letter replaced the offer letter PMI entered into with Mr. Kimball in March 2016 in connection with his appointment as its Chief Financial Officer. In addition to the severance, reimbursement and benefits arrangements included in the November 2016 offer letter, Mr. Kimball's March 2016 offer letter included his initial base salary and equity grant as CFO and provided for a one-time sign-on bonus of \$125,000, subject to certain repayment requirements in the event of Mr. Kimball's termination from PMI within 12 months of his employment.

In November 2020, PMI and Mr. Kimball executed a severance and change in control agreement that replaced any prior agreements regarding severance set forth in Mr. Kimball's offer letter. The terms of Mr. Kimball's severance and change in control agreement are described under "Post-Employment Compensation" above.

*Usama Ashraf.* In February 2017, PMI entered into an offer letter with Mr. Ashraf in connection with his appointment as its Chief Financial Officer. In addition to his initial base salary and equity grant, Mr. Ashraf's offer letter provided for (i) a one-time sign-on bonus of \$20,000, subject to certain repayment requirements in the event of Mr. Ashraf's termination from PMI within 12 months of his employment; (ii) eligibility to receive an annual performance bonus in a target amount of 50% of his base salary; (iii) reimbursement of certain relocation expenses; (iv) reimbursement of certain short-term housing expenses and (v) eligibility to participate in the benefit programs generally available to employees of PMI.

In addition to the terms of Mr. Ashraf's offer letter, in January 2018, the Compensation Committee approved a one-time retention bonus payment in an amount equal to 25% of his base salary. In August 2018, in connection with Mr. Ashraf's expanded scope of responsibilities in the role of Chief Financial Officer, the Compensation Committee increased his annual performance bonus target from 50% to 60% of his base salary. In March 2019, the Compensation Committee increased Mr. Ashraf's annual performance bonus target to 75% of his annual base salary. In March 2020, the Compensation Committee confirmed Mr. Ashraf's annual performance bonus target for 2020 would remain at 75% of his annual base salary. On February 24, 2021, Mr. Ashraf was appointed as President of PMI effective March 1, 2021. In connection with his appointment, Mr. Ashraf: (i) will be eligible to receive an annual performance bonus in a target amount of 85% of his base salary; and (ii) was granted an option to purchase 2,000,000 shares of PMI's common stock at an exercise price equal to the fair market value of the common stock on the grant date. The option will vest over a four year period, subject to and in accordance with the terms of the stock option agreement.

In November 2020, PMI and Mr. Ashraf executed a severance and change in control agreement that replaced any prior agreements regarding severance set forth in Mr. Ashraf's offer letter. The terms of Mr. Ashraf's severance and change in control agreement are described under "Post-Employment Compensation" above.

*Pete Woodhouse.* In May 2021, PMI entered into an offer letter with Mr. Woodhouse in connection with his appointment as its Chief Technology Officer. In addition to his initial base salary and equity grant, Mr. Woodhouse's offer letter provided for (i) eligibility to receive an annual performance bonus in a target amount of 75% of his base salary; (ii) eligibility to participate in PMI's Long Term Cash Incentive Plan, subject to the tenure and other requirements set forth therein; and (iii) eligibility to participate in the benefit programs generally available to employees of PMI. In February 2022, PMI and Mr. Woodhouse executed a severance and change in control agreement that replaces any prior agreements regarding severance set forth in Mr. Woodhouse's offer letter. The terms of Mr. Woodhouse's severance and change in control agreement are described under "Post-Employment Compensation" above.

*Edward R. Buell III.* In September 2015, PMI entered into an offer letter with Mr. Buell in connection with his appointment as Compliance Counsel. In addition to his initial base salary and equity grant, Mr. Buell's offer letter provided for (i) eligibility to receive an annual performance bonus in a target amount of 20% of his base salary; and (ii) eligibility to participate in the benefit programs generally available to employees of PMI. In June 2018, Mr. Buell was promoted to Chief Compliance Officer and Deputy General Counsel. In connection with this promotion, Mr. Buell's annual performance bonus target was increased to 30% of his annual base salary and Mr. Buell was granted an option to purchase 149,700 shares of PMI's common stock at an exercise price equal to the fair market value of the common stock on the grant date. In March 2021, Mr. Buell was appointed as General Counsel and Secretary of PMI. In connection with this appointment, Mr. Buell: (i) will be eligible to receive an annual performance bonus in a target amount of 65% of his base salary; and (ii) was granted options to

purchase 756,638 shares of PMI's common stock at an exercise price equal to the fair market value of the common stock on the grant date.

*Nasos Topakas.* In April 2017, PMI entered into an offer letter with Mr. Topakas in connection with his appointment as its Chief Technology Officer. In addition to his initial base salary and equity grant, Mr. Topakas's offer letter provided for (i) eligibility to receive an annual performance bonus in a target amount of 75% of his base salary in his first year of employment and 50% of his base salary in subsequent years; and (ii) eligibility to participate in the benefit programs generally available to employees of PMI. In addition to the terms of Mr. Topakas' offer letter, in January 2018, the Compensation Committee approved a one-time retention bonus payment in an amount equal to 25% of his base salary. In March 2019, the Compensation Committee increased Mr. Topakas's annual performance bonus target to 75% of his annual base salary. In March 2020, the Compensation Committee confirmed Mr. Topakas's annual performance bonus target for 2020 would remain at 75% of his annual base salary.

In November 2020, PMI and Mr. Topakas executed a severance and change in control agreement that replaced any prior agreements regarding severance set forth in Mr. Topakas's offer letter. The terms of Mr. Topakas's severance and change in control agreement are described under "Post-Employment Compensation" above. Mr. Topakas departed from his role as Chief Technology Officer of PMI, effective March 15, 2021.

#### *Equity Incentive Plans*

PMI grants equity awards primarily through its 2015 Equity Incentive Plan, which was approved by PMI's Board of Directors on April 7, 2015 and subsequently amended by an Amendment No. 1, Amendment No. 2, and Amendment No. 3, which were approved by PMI's Board of Directors on February 15, 2016, May 19, 2016, and January 23, 2018, respectively (as amended, the "2015 Plan"). PMI also previously granted equity awards through its Amended and Restated 2005 Stock Option Plan (the "2005 Plan"), which was approved as amended and restated by its stockholders on December 1, 2010, and expired in March 2015. The 2005 Plan and 2015 Plan are collectively referred to in this Annual Report as the "Equity Plans."

Any awards granted under the 2005 Plan prior to its expiration remain in effect pursuant to their terms. Unless sooner terminated by PMI's Board of Directors, the 2015 Plan will expire ten years from the date of its adoption. All stock options granted to NEOs are incentive stock options, to the extent permissible under the Internal Revenue Code, as amended. All equity awards to PMI's employees and directors were granted at no less than the fair market value of its common stock on the date of each award. In the absence of a public trading market for PMI common stock, PMI's Board of Directors, acting on its own or through the Compensation Committee, has determined the fair market value of its common stock in good faith based upon consideration of a number of relevant factors including the status of its development efforts, financial status and market conditions. See Item 15, "Notes to Consolidated Financial Statements."

The 2005 Plan provided for grants in the form of non-qualified stock options and stock purchase rights, which were available for grant to PMI's directors, consultants or employees, including officers, and incentive stock options, which were available for grant solely to its employees, including officers. The 2015 Plan provides for grants in the form of incentive stock options, non-qualified stock options, stock appreciation rights, restricted stock, restricted stock units, and unrestricted stock. Under the 2015 Plan, incentive stock options may be granted solely to PMI's employees, including officers. Awards other than incentive stock options may be granted to its directors, consultants or employees, including officers. The Equity Plans are administered by PMI's Board of Directors, which in turn has delegated authority to administer the plans to the Compensation Committee.

Shares of PMI's common stock subject to options that have expired or otherwise terminate under the 2015 Plan or the 2005 Plan without having been exercised in full will become available for grant under the 2015 Plan. Shares of PMI's common stock issued under the 2015 Plan may include previously unissued shares or reacquired shares bought on the market or otherwise.

As of December 31, 2021, an aggregate of 96,855,913 options to purchase our common stock were outstanding or authorized for issuance under the Equity Plans. Of these outstanding and authorized options, a total of 72,186,151 options and 2,636,343 restricted stock units were outstanding under the Equity Plans and 22,033,419 equity awards were available for grant under the 2015 Plan. No equity awards are available for grant under the 2005 Plan. As of December 31, 2021, an aggregate of 86,235,520 options granted under the 2015 Plan were forfeited. As of December 31, 2021, 48,561,623 options under the Equity Plans were vested and outstanding and 49,887,709 were exercised.

The NEOs identified herein have been granted equity awards upon employment with PMI, for merit increases, and for retention purposes.

### Outstanding Equity Awards at 2021 Fiscal Year End

The following table sets forth certain information regarding outstanding equity awards granted to PMI's named executive officers ("NEOs") that remained outstanding as of December 31, 2021:

	Grant Date		Vesting Commencement Date	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#) <sup>1</sup>
David Kimball	5/3/2016	2	3/18/2016	1,410,925	—	0.02	5/3/2026	
	5/3/2016	3	3/18/2016					705,465
	6/17/2016	4	4/28/2016	2,115,703	—	0.02	6/17/2026	
	3/17/2017	5	12/1/2016	21,156,579	—	0.02	3/17/2027	
	3/20/2018	2	3/1/2018	2,376,836	158,456	0.02	3/20/2028	
Usama Ashraf	3/17/2017	9	2/27/2017	3,397,242	—	0.02	3/17/2027	
	11/7/2017	9	2/27/2017	402,758	—	0.02	11/7/2027	
	3/20/2018	6	3/1/2018					1,784,793
	8/8/2018	9	7/1/2018	715,551	122,168	0.02	8/8/2028	
	11/5/2019	9	11/5/2019	260,416	239,584	0.02	11/5/2029	
	3/10/2021	9	3/1/2021	—	2,000,000	0.06	3/10/2031	
Pete Woodhouse	8/10/2021	9	7/1/2021	—	5,584,793	0.24	8/10/2031	
Edward R. Buell	11/4/2015	7	9/28/2015	75,000	—	0.02	11/4/2025	
	6/17/2016	8	4/28/2016	30,325	—	0.02	6/17/2026	
	3/17/2017	7	1/1/2017	37,800	—	0.02	3/17/2027	
	3/17/2017	8	1/1/2017	30,250	—	0.02	3/17/2027	
	3/20/2018	7	3/1/2018	107,695	7,180	0.02	3/20/2028	
	3/20/2018	7	3/1/2018	117,187	7,813	0.02	3/20/2028	
	8/8/2018	7	6/1/2018	130,987	18,713	0.02	8/8/2028	
	5/7/2019	7	3/1/2019	38,396	17,454	0.02	5/7/2029	
	11/5/2019	7	11/5/2019	156,250	143,750	0.02	11/5/2029	
3/10/2021	9	3/15/2021	—	756,638	0.06	3/10/2031		
Nasos Topakas								

1. Represents restricted stock units ("RSUs"), in each case that remained unvested as of December 31, 2021.
2. This option vests over four years, with 1/4 vesting on the first anniversary of the applicable vesting commencement date set forth in the table above (the "Vesting Commencement Date") and 1/48 vesting each month thereafter for the following three years, provided that, any unvested options will vest in full immediately prior to the effective time of a change in control of PMI, a sale of all or substantially all of PMI's assets, or a liquidation, dissolution or winding up of PMI (each, a "Corporate Transaction").
3. These RSUs initially vest, if at all, when PMI files for an initial public offering and the lock-up period expires or there is a Corporate Transaction (which, as defined in the RSU grant notice, does not include a liquidation, dissolution or winding up of PMI), whichever occurs first (each, a "Triggering Event"). The RSUs will immediately and fully vest in connection with the occurrence of such Triggering Event.
4. This option vests over three years, with 1/36 vesting on the one month anniversary of the applicable Vesting Commencement Date and 1/36 vesting each month thereafter for the following two years, provided that, any unvested options will vest in full immediately prior to the effective time of a Corporate Transaction.
5. This option vests over three years, with 1/2 vesting on the first anniversary of the applicable Vesting Commencement Date and 1/48 vesting each month thereafter for the following two years, provided that, any unvested options will vest in full immediately prior to the effective time of the Corporate Transaction.

6. These RSUs initially vest, if at all, upon the occurrence of a Triggering Event. The number of RSUs that vest upon a Triggering Event will be equal to the number of RSUs that would have vested had the RSUs been subject to the four-year Time-Based Vesting Schedule (1/4 vesting on first-year anniversary of applicable Vesting Commencement Date and 1/48 vesting monthly thereafter). If the NEO provides continuous service through the Triggering Event, the remaining RSUs will vest pursuant to the Time-Based Vesting Schedule until the RSUs are fully vested.
7. This option vests over four years, with 1/4 vesting on the first anniversary of the applicable Vesting Commencement Date and 1/48 vesting each month thereafter for the following three years.
8. This option vests over three years, with 1/36 vesting on the one month anniversary of the applicable Vesting Commencement Date and 1/36 vesting each month thereafter for the following two years.
9. This option vests over four years, with 1/4 vesting on the first anniversary of the applicable Vesting Commencement Date and 1/48 vesting each month thereafter for the following three years, except that, in the event the NEO is terminated without cause, or if Optionee resigns for Good Reason, in each case within 12 months of a Corporate Transaction, any unvested options will vest in full immediately.

The following table sets forth information regarding equity awards held by PMI's named executive officers that were exercised, vested or settled during 2021 (dollar amounts in thousands):

	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting/Settlement (\$)
David Kimball	—	—	—	—
Usama Ashraf	—	—	—	—
Pete Woodhouse	—	—	—	—
Edward R. Buell III	—	—	—	—
Nasos Topakas	—	—	—	—

***Potential Payments Upon Termination or a Change In Control of PMI***

The following table provides the estimated value of the payments that PMI would provide to its named executive officers in connection with a change in control of PMI and/or a termination of employment, including any options, RSUs and Stock Awards accelerated as a result of the change in control and/or termination. In determining amounts payable, we have assumed in all cases that the change in control or termination of employment, as applicable, occurred on December 31, 2021.

With respect to a termination of employment, we have assumed in all cases that the termination was without cause.

Name	Cash Severance (\$)	Number of Unvested Options (#)	Estimated Value of Unvested Options at December 31, 2021 (\$)	Number of Unvested RSUs and Stock Awards (#)	Estimated Value of Unvested RSUs and Stock Awards at December 31, 2021 (\$)	Total Estimated Value (\$)
(dollar amounts in thousands)						
<b>David Kimball</b>						
<i>Involuntary Termination or Resignation for Good Reason</i>	\$ 1,831	—	—	—	—	\$ 1,831
<i>Change in Control</i>	—	158,456	109	705,465	501	610
<i>Involuntary Termination or Resignation for Good Reason following Change in Control</i>	1,831	—	—	—	—	1,831
<b>Usama Ashraf</b>						
<i>Involuntary Termination or Resignation for Good Reason</i>	1,427	—	—	—	—	1,427
<i>Change in Control</i>	—	—	—	1,710,427	1,214	1,214
<i>Involuntary Termination or Resignation for Good Reason following Change in Control</i>	1,427	2,361,752	1,550	—	—	2,977
<b>Pete Woodhouse</b>						
<i>Involuntary Termination or Resignation for Good Reason</i>	188	—	—	—	—	188
<i>Change in Control</i>	—	—	—	—	—	—
<i>Involuntary Termination or Resignation for Good Reason following Change in Control</i>	375	5,584,793	2,625	—	—	3,000
<b>Edward R. Buell III</b>						
<i>Involuntary Termination or Resignation for Good Reason</i>	—	—	—	—	—	—
<i>Change in Control</i>	—	—	—	—	—	—
<i>Involuntary Termination or Resignation for Good Reason following Change in Control</i>	185	756,638	492	—	—	677
<b>Nasos Topakas</b>						
<i>Involuntary Termination or Resignation for Good Reason</i>	—	—	—	—	—	—
<i>Change in Control</i>	—	—	—	—	—	—
<i>Involuntary Termination or Resignation for Good Reason following Change in Control</i>	—	—	—	—	—	—

### **Compensation Committee Interlocks and Insider Participation**

During the fiscal year ended December 31, 2021, Claire A. Huang and Thomas R. Kearney served as members of the Compensation Committee. None of these directors is or has been an officer or employee of PMI at any time or had any relationship with PMI requiring disclosure by PMI under Item 404 of Regulation S-K. During the fiscal year ended December 31, 2021, none of PMI's executive officers served as a member of the Board of Directors or Compensation Committee (or other board committee serving an equivalent function) of any unrelated entity that had one or more of its executive officers serving on PMI's Board of Directors or Compensation Committee (or other board committee serving an equivalent function).

## Director Compensation

The following table shows compensation for the year ended December 31, 2021 to PMI's directors who were not also named executive officers at the time they received compensation as directors (in thousands):

	Fees earned or paid in cash (\$)	Equity awards (\$)	Total
Claire A. Huang	\$ 75	\$	75
Thomas R. Kearney (1)	\$ 75	\$	75
Peter J. deSilva (2)	\$ 56	220	\$ 276
Rajeev V. Date (3)	\$ 18.8	\$	18.8

1. Mr. Kearney held 604,167 unvested stock options at December 31, 2021.
2. Mr. deSilva was appointed as a director of PMI effective April 1, 2021. Mr. deSilva held 1,000,000 unvested stock options at December 31, 2021.
3. Mr. Date resigned as a director of PMI effective March 26, 2021.

From time to time, PMI reimburses certain of its non-employee directors for travel and other expenses incurred in connection with attending board of directors meetings.

## Compensation Committee Report

The Compensation Committee of PMI has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K with management and based on such review and discussions, the Compensation Committee recommended to PMI's Board of Directors that the Compensation Discussion and Analysis be included in this Annual Report on Form 10-K.

COMPENSATION COMMITTEE

Claire A. Huang, Chairwoman

Thomas R. Kearney

## ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

### Prosper Marketplace, Inc.

The following table sets forth information regarding the beneficial ownership of PMI's Common Stock as of March 1, 2022, by:

- each of PMI's directors;
- each of PMI's named executive officers;
- each person, or group of affiliated persons, who is known by PMI to beneficially own more than 5% of PMI's Common Stock; and
- all of PMI's directors and executive officers as a group.

Beneficial ownership is determined in accordance with the rules of the SEC. These rules generally attribute beneficial ownership of securities to persons who possess sole or shared voting power or investment power with respect to those securities. Except as otherwise indicated in the footnotes to the table below, all of the shares reflected in the table are shares of Common Stock and all persons listed below have sole voting and investment power with respect to the shares beneficially owned by them, subject to applicable community property laws. The information is not necessarily indicative of beneficial ownership for any other purpose.

Percentage ownership calculations are based on 273,024,515 shares of Common Stock outstanding as of March 1, 2022, assuming the conversion of all of PMI's convertible preferred stock, but excluding any outstanding stock options or warrants. Each share of PMI preferred stock is convertible at any time at the discretion of the holder. Shares of PMI's Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock and Series F Preferred Stock convert into shares of PMI Common Stock at a ratio of 1 to 1. Shares of PMI's Series A-1 Preferred

Stock convert into shares of PMI Common Stock at a ratio of 1,000,000 to 1. Shares of PMI's Series G Preferred Stock convert into shares of PMI common stock at a ratio of 1 to 1.36.

In computing the number of shares of Common Stock beneficially owned by a person or entity and the percentage ownership of that person or entity, PMI deemed outstanding all shares of Common Stock subject to options and warrants held by that person or entity that are currently exercisable or vesting within 60 days of March 1, 2022. PMI did not deem these shares outstanding for the purpose of computing the percentage ownership of any other person. Beneficial ownership representing less than 1.0% is denoted with an asterisk (\*). Except as otherwise indicated in the footnotes to the table below, addresses of named beneficial owners and officers are in care of Prosper Marketplace, Inc., 221 Main Street, 3rd Floor, San Francisco, CA 94105.

	Number of Shares Owned <sup>1</sup>	Number of Shares Underlying Options, and Warrants Exercisable Currently or Within 60 Days <sup>2</sup>	Total Number of Shares Beneficially Owned <sup>3</sup>	Beneficial Ownership Percentage
<b>Directors and Executive Officers</b>				
Thomas R. Kearney	—	479,166	479,166	*
Claire A. Huang	—	1,000,000	1,000,000	*
Peter J. deSilva	—	270,833	270,833	*
David Kimball	—	27,218,499	27,218,499	9.07 %
Usama Ashraf	—	5,488,230	5,488,230	1.97 %
Pete Woodhouse	—	—	—	—
Edward R. Buell III	—	990,217	990,217	*
Ashish Agarwal	—	—	—	—
Nasos Topakas	—	—	—	—
All directors and executive officers as a group <sup>4</sup>	—	35,446,945	35,446,945	11.49 %
<b>5% Shareholders</b>				
Francisco Partners <sup>5</sup>	17,413,325	35,544,141	52,957,466	17.16 %
Newport Trust Company <sup>6</sup>	51,247,915	—	51,247,915	18.77 %
LPG Capital GP Limited <sup>7</sup>	50,776,886	—	50,776,886	18.60 %
Soros Fund Management LLC <sup>8</sup>	723,902	51,614,124	52,338,026	16.12 %
Accel Partners <sup>9</sup>	24,320,667	—	24,320,667	8.91 %
IDG Capital Partners <sup>10</sup>	24,320,667	—	24,320,667	8.91 %
JPF LLC <sup>11</sup>	—	41,833,904	41,833,904	13.29 %
New Residential Investment Corp. <sup>12</sup>	1	41,833,904	41,833,905	13.29 %
Third Point Ventures LLC <sup>13</sup>	—	41,833,904	41,833,904	13.29 %
* Less than 1%				

1. Includes shares of Common Stock (including Common Stock issuable upon the conversion of preferred stock) owned directly or indirectly, but does not include shares subject to options and warrants.
2. Includes shares subject to options or warrants owned directly or indirectly that are currently exercisable or will become exercisable within 60 days of March 1, 2022.
3. The amounts and percentages of Common Stock beneficially owned are reported on the basis of regulations of the Securities and Exchange Commission governing the determination of beneficial ownership of securities. Under the rules of the Commission, a person is deemed to be a “beneficial owner” of a security if that person has or shares “voting power,” which includes the power to vote or to direct the voting of such security, or “investment power,” which includes the power to dispose of or to direct the disposition of such security. A person is also deemed to be a beneficial owner of any securities for which that person has a right to acquire beneficial ownership within 60 days.
4. Consists of 35,446,945 shares of Common Stock issuable upon the exercise of stock options.
5. Represents 17,413,325 shares of Common Stock issuable upon the conversion of preferred stock held by Francisco Partners through certain of its affiliates and 35,544,141 shares of Common Stock issuable upon the exercise and conversion of the preferred stock warrant held by Francisco Partners through certain of its affiliates. Francisco Partners



is deemed to have voting and investment power over these shares. The address for Francisco Partners is One Letterman Drive, Building C – Suite 410, San Francisco, CA 94129

6. Represents 51,247,915 shares of Common Stock issuable upon the conversion of preferred stock held by Prosper Grantor Trust. Prosper Grantor Trust is a wholly-owned subsidiary of Prosper Marketplace, Inc. and as such, Prosper Marketplace Inc. holds sole voting power over such shares. Newport Trust Company, as trustee for Prosper Grantor Trust, is deemed to be an indirect beneficial owner of such shares. The address for Newport Trust Company is 45 South 7th Street, Suite 2208, Minneapolis, MN 55402.
7. Represents 50,776,886 shares of Common Stock issuable upon the conversion of preferred stock held by LPG Capital through certain of its affiliates. LPG Capital I is deemed to have voting and investment power over the shares. The address for LPG Capital is 199-203 Hennessy Road, Flat 1002, Hong Kong, China.
8. Consists of (i) 2 shares of Common Stock issuable upon the conversion of preferred stock and 51,370,586 shares of Common Stock issuable upon the exercise and conversion of the preferred stock warrants, in each case, held by QPL Holdings (PF) LP, a Delaware limited partnership (the “QPL Shares”); (ii) 243,538 shares of Common Stock issuable upon the exercise and conversion of the preferred stock warrants held by QPB Holdings Ltd., a Cayman Islands exempted company (the “QPB Shares”); and (iii) 723,900 shares of Common Stock issuable upon the conversion of preferred stock held by Quantum Strategic Partners Ltd., a Cayman Islands exempted company (the “Quantum Strategic Shares”).

Soros Fund Management LLC (“SFM LLC”) serves as principal investment manager for QPL Holdings (PF) LP, QPB Holdings Ltd., and Quantum Strategic Partners Ltd. As such, SFM LLC has been granted investment discretion over the QPL Shares, the QPB Shares and the Quantum Strategic Shares. George Soros serves as Chairman of SFM LLC and has sole discretion to replace FPR Manager LLC, the Manager of SFM LLC. The business address of SFM LLC is 250 West 55th Street, 29th Floor, New York, NY 10019.

9. Represents 5,703,470 shares of Common Stock and 7,245,859 shares of Common Stock issuable upon the conversion of preferred stock held by Accel Partners through certain of its affiliates (collectively, the “Accel Shares”); 3,498,765 shares of Common Stock and 4,722,733 shares of Common Stock issuable upon the conversion of preferred stock held by IDG Capital Partners through certain of its affiliates (the “IDG Shares”); and 877,185 shares of Common Stock and 2,272,655 shares of Common Stock issuable upon the conversion of preferred stock held by Breyer Capital, LLC and James W. Breyer 2005 Trust dated 2/25/2005 (collectively, the “Breyer Shares”). Accel Partners is deemed to have voting and investment power over the Accel Shares. Accel Partners is an affiliate of IDG Capital Partners and may also therefore be deemed to share voting and investment power over the IDG Shares. Mr. Breyer is a partner of Accel Partners and therefore Accel Partners may also be deemed to share voting and investment power over the Breyer Shares. Accel Partners disclaims beneficial ownership of the IDG Shares and Breyer Shares except to the extent of its pecuniary interest therein. The address of Accel Partners is 428 University Avenue, Palo Alto, California 94301.
10. Represents 3,498,765 shares of Common Stock and 4,722,733 shares of Common Stock issuable upon the conversion of preferred stock held by IDG Capital Partners through certain of its affiliates (“IDG Shares”); 5,703,470 shares of common stock and 7,245,859 shares of common stock issuable upon the conversion of preferred held by Accel Partners through certain of its affiliates (collectively, the “Accel Shares”); and 877,185 shares of Common Stock and 2,272,655 shares of Common Stock issuable upon the conversion of preferred stock held by Breyer Capital, LLC and James W. Breyer 2005 Trust dated 2/25/2005 (collectively, the “Breyer Shares”). IDG Capital Partners is deemed to have voting and investment power over the IDG Shares. IDG Capital Partners is an affiliate of Accel Partners and may also therefore be deemed to share voting and investment power over the Accel Shares. Mr. Breyer is a partner of Accel Partners, which is an affiliate of IDG Capital Partners, and therefore IDG Capital Partners may also be deemed to share voting and investment power over the Breyer Shares. IDG Capital Partners disclaims beneficial ownership of the Accel Shares and Breyer Shares except to the extent of its pecuniary interest therein. The address for IDG Capital Partners is 99 Queen’s Road Central, Unit 1509, The Center, Hong Kong, China.
11. Represents 41,833,904 shares of common stock issuable upon the exercise and conversion of the preferred stock warrant held by JPF LLC. JPF LLC has shared voting power and shared investment power with its parent, Jefferies Funding LLC, Jefferies Funding LLC’s parent, Jefferies Group LLC, and Jefferies Group LLC’s parent, Jefferies Financial Group Inc. The address for JPF LLC is 520 Madison Avenue, New York, NY 10022.
12. Consists of (i) 1 share of Common Stock issuable upon the conversion of preferred stock, held directly by New Residential Investment Corp.; and (ii) 41,833,904 shares of common stock issuable upon the exercise and conversion of the preferred stock warrant held by NRZ PRO Warrant LLC (the “NRZ Shares”). NRZ Pro Warrant LLC is an indirect, wholly-owned subsidiary of New Residential Investment Corp. New Residential Investment Corp. is deemed to have voting and investment power over the NRZ Shares. The address for New Residential Investment Corp. is 1345 Avenue of the Americas, 45th Floor, New York, NY 10105.

13. Represents 41,833,904 shares of common stock issuable upon the exercise and conversion of the preferred stock warrant held by Third Point Ventures LLC. Third Point LLC, as investment manager of Third Point Ventures LLC, has voting power over such shares. The address for Third Point Ventures LLC is 55 Hudson Yards, New York, NY 10001.

### **Securities Authorized for Issuance under Equity Compensation Plans**

The following table sets forth information, as of December 31, 2021, with respect to shares of PMI Common Stock that may be issued under PMI's existing equity compensation plans.

	Number of shares of common stock to be issued upon exercise of outstanding options, warrants, RSUs and rights <sup>1</sup>		Weighted average exercise price of outstanding options, warrants and rights	Number of shares of common stock remaining available for future issuance under equity compensation plans
<b>Equity compensation plans approved by stockholders:</b>				
Prosper Marketplace, Inc. 2005 Stock Plan, as amended and restated	1,337,790	\$	0.02	—
Prosper Marketplace, Inc. 2015 Equity Incentive Plan, as amended	73,484,704		0.07	22,033,419
<b>Equity compensation plans not approved by stockholders:</b>				
Outstanding common stock warrants	1,080,349		0.22	—
<b>Total potential shares</b>	<b>75,902,843</b>	<b>\$</b>	<b>0.07</b>	<b>22,033,419</b>

1. Includes option and RSU issuances to employees, directors and certain consultants, advisors or vendors; however, it does not include warrants granted to outside individuals, consultants, advisors and vendors.

### **Prosper Funding LLC**

PMI is the sole member of, and holds a 100% equity interest in, PFL. PFL does not have any equity compensation plans.

## **ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

### **Prosper Marketplace, Inc.**

#### **Agreements with PFL**

On January 22, 2013, PMI entered into an Administration Agreement with PFL (as amended to date, the "PMI Administration Agreement"), pursuant to which PMI agreed to provide certain administrative services relating to the marketplace. Under the PMI Administration Agreement, PFL is required to pay PMI (a) an amount equal to one-twelfth (1/12) of the specified annual Corporate Administration Fees equal to 50% of finance and legal personnel costs, (b) a fee for each Borrower Loan originated through the marketplace, (c) 90% of all Servicing Fees collected by or on behalf of Prosper Funding, and (d) all nonsufficient funds fees collected by or on behalf of PFL. As of the most recent amendment of the PMI Administration Agreement, PFL is required to pay PMI (a) an Corporate Administration Fees of \$500 thousand per month, (b) a fee for each Borrower Loan originated through the marketplace, (c) 62.5% of all Servicing Fees collected by or on behalf of Prosper Funding, and (d) all nonsufficient funds fees collected by or on behalf of Prosper Funding.

Also on January 22, 2013, PFL and PMI entered into an Asset Transfer Agreement (the "Asset Transfer Agreement") pursuant to which PMI, effective February 1, 2013 (i) transferred the marketplace and substantially all of PMI's assets and rights related to the operation of the marketplace to PFL, and (ii) made a capital contribution to PFL in excess of \$3 million. Under the Asset Transfer Agreement, PMI also transferred substantially all of its remaining assets to PFL, including (i) all outstanding Notes issued by PMI under the Indenture dated June 15, 2009 between PMI and Wells Fargo Bank, as trustee (the

“Indenture”), (ii) all Borrower Loans corresponding to such Notes, (iii) all registration agreements related to such Notes and Borrower Loans, and (iv) all documents and information related to the foregoing. Certain hardware and agreements relevant to the development, maintenance and use of the marketplace, including in relation to the origination, funding and servicing of Borrower Loans, and the issuance, funding and payment of the Notes, were not transferred or assigned to PFL by PMI. In addition, PMI did not transfer to PFL (i) agreements with PMI’s directors, officers or employees and PMI’s financial, legal or other advisors or consultants, (ii) certain agreements with vendors to provide PMI with goods or services in the ordinary course of business (including software licensed pursuant to any “shrink wrap” or “click wrap” license), and (iii) certain cash and short-term investments.

In the Asset Transfer Agreement, PMI agreed, among other things, to:

- i. fund any repurchase obligation with respect to the transferred Notes, and indemnify PFL for any other losses that arise out of any registration agreement related to the transferred Notes or Borrower Loans, including as a result of a breach by PMI of any of its representations or warranties made therein;
- ii. fund any arbitration filing or administrative fees or arbitrator fees payable under any registration agreement related to the transferred Notes or Borrower Loans; and
- iii. fund any indemnification obligations that arise under any registration agreement entered into by PMI prior to the date of the asset transfer.

On August 17, 2021, PMI and PFL entered into an Asset Transfer and License Agreement (the “IP Asset Transfer and License Agreement”). The IP Asset Transfer and License Agreement, among other things, (i) transfers, assigns, and conveys certain intellectual property assets related to PMI’s white label service and PMI’s Credit Card product from PMI to PFL, and (ii) grants certain licenses and sublicenses related to the transferred intellectual property assets from PFL to PMI. PMI also agreed to make certain intellectual property filings to provide third parties with notice of the conveyance and to assist PFL with any additional intellectual property filings as may be required. PMI received a one-time fee of \$10 from PFL in connection with the foregoing.

The foregoing description of the IP Asset Transfer and License Agreement does not purport to be complete and is qualified in its entirety by reference to the full text of the IP Asset Transfer and License Agreement, which is filed as an exhibit hereto and is incorporated herein by reference.

Holders of the transferred Notes are third party beneficiaries under the Asset Transfer Agreement and the Administration Agreement.

Under Section 4.1 of the Indenture, PMI could transfer substantially all of its assets to any person without the consent of the holders of the existing Notes, provided that the transferee expressly assumed all of PMI’s obligations under the Indenture and the existing Notes. In that case, the transferee would succeed to and be substituted for PMI, and PMI would be discharged from all of its obligations and covenants, under the Indenture and the existing Notes. Accordingly, on January 22, 2013, PMI, PFL and Wells Fargo Bank, as trustee entered an Amended and Restated Indenture (the “Amended and Restated Indenture”), effective February 1, 2013, which (i) effected such assumption, substitution and discharge (the “Note Assumption”), and (ii) amended and restated the Indenture to reflect the Note Assumption and to make certain other amendments to the Indenture as permitted therein. Following the Note Assumption, PFL became the obligor with respect to the transferred Notes and the Amended and Restated Indenture, and PMI no longer has any obligations with respect thereto.

### ***Agreements with Significant Shareholders***

On February 27, 2017, PFL entered into a Loan Purchase Agreement (the “Purchase Agreement”) with PF LoanCo Funding LLC, a Cayman limited liability company (the “Beneficiary”), and Wilmington Savings Fund Society, FSB, not in its individual capacity but solely in its capacity as trustee of PF LoanCo Trust, a New York common law trust (the “Trust”). The Purchase Agreement sets forth the terms and conditions pursuant to which PFL will sell eligible personal loans in an aggregate amount of up to \$5.0 billion to the Purchaser for the benefit of the Beneficiary. As of December 31, 2019, an aggregate of \$3.3 billion of loans were purchased under the Purchase Agreement, which does not include \$0.3 billion of Whole Loan purchases by members of the Consortium prior to the signing of the Purchase Agreement. The Consortium Purchase Agreement ended in May 2019.

In connection with the Purchase Agreement, on February 27, 2017, PMI entered into a Warrant Agreement with PF WarrantCo Holdings, LP (“PF WarrantCo”), a Delaware limited partnership and an entity related to the Beneficiary, and, for certain limited purposes, New Residential Investment Corp. (the “Series F Warrant Agreement”). Pursuant to the Series F Warrant Agreement, PMI issued to PF WarrantCo three warrant certificates to purchase up to in aggregate 177,720,706 shares of PMI’s Series F Preferred Stock at an exercise price of \$0.01 per share (the “Warrant Shares”).

During the term of the Consortium Purchase Agreement, PF WarrantCo was a beneficial owner of more than 5% of PMI's Common Stock as a result of the Warrant Shares vesting. The Beneficiary is an affiliate under common control with PF WarrantCo.

For more information regarding these transactions, please see Note 15, Consortium Purchase Agreement, of Prosper's Notes to Consolidated Financial Statements.

### ***Certain Relationships Among Directors and Officers***

None.

### ***Participation in the Marketplace***

PMI's executive officers, directors and certain affiliates, have opened investor accounts on the marketplace and have made deposits to and withdrawals from their accounts, and invested in portions of borrowers' loan requests from time to time in the past via purchases of Notes, and may do so in the future. The Notes and Borrower Loans were obtained on terms and conditions that were not more favorable than those obtained by other investors.

### ***Financing Arrangements with Significant Shareholders, Directors and Officers***

For further information regarding stock ownership for executive officers, directors and security holders owning greater than 5% ownership of all PMI classes of voting securities please see Item 12, "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters—Prosper Marketplace, Inc."

Under the terms of the amended and restated voting agreement, dated April 7, 2015, certain investors in PMI's Convertible Preferred Stock, have each agreed, subject to maintaining certain ownership levels, to exercise their voting rights so as to elect one designee of Francisco Partners III, L.P., one designee of SC Prosper Holdings LLC, one designee of QPL Holdings (PF) LP, one designee of the Series A-1 Convertible Preferred Stock holders, PMI's Chief Executive Officer ("CEO"), one common director designated by the CEO, and two independent directors.

Under the terms of the amended and restated investor rights agreement, dated February 27, 2017, the holders of a majority of the registrable securities of PMI have the right to demand that PMI file a registration statement under the Securities Act, so long as the anticipated aggregate offering price, net of underwriting discounts and commissions, would exceed \$20 million. These registration rights are subject to specified conditions and limitations. In addition, PMI is promptly required to give written notice to all holders of registrable securities prior to the filing of any registration statement under the Securities Act for purposes of a public offering of securities of PMI. The amended and restated investor rights agreement also provides that if PMI registers any of its shares for public sale, stockholders with registration rights will have the right to include their shares in the registration statement, subject to specified conditions and limitations. Further, in the amended and restated investor rights agreement, if PMI receives from any holders of registrable securities a written request that PMI effect a registration on Form S-3 (or any successor to Form S-3) or any similar short-form registration statement, PMI is required to use reasonable best efforts to file a Form S-3 registration statement and to effect such registration as would permit or facilitate the sale and distribution of all or such portion of such holder's registrable securities as are specified in the request, so long as the anticipated aggregate offering price, net of underwriting discounts and commissions, would exceed \$2.5 million.

### ***Indemnification Agreements***

PMI's amended and restated certificate of incorporation provides that it will indemnify its directors and officers to the fullest extent permitted by Delaware law. In addition, PMI has entered into separate indemnification agreements with each of its directors and executive officers. For more information regarding these agreements, see Item 10, "Directors, Executive Officers and Corporate Governance—Prosper Marketplace, Inc.—Limitations on Officers' and Directors' Liability and Indemnification Agreements" for more information.

### ***Policies and Processes for Transactions Involving Related Parties***

PMI's board of directors has not adopted a formal policy or procedure that must be followed prior to any transaction, arrangement or relationship with a related person, as defined by SEC regulations.

PMI has adopted a corporate Code of Ethics and Corporate Governance (the "Code") that is enforced throughout all levels of management and deals with conflicts of interest, among other things. The Code requires PMI's directors, officers and employees to avoid any conduct or activities that conflict, or appear to conflict, with our interests, or that may make it difficult for the individual to perform his or her duties objectively. The Code also requires directors and executive officers to disclose any actual or potential conflict of interest to PMI's Chief Compliance Officer, who will report such conflicts to PMI's Audit Committee for review.

PMI's directors and executive officers are required each year to respond to a questionnaire regarding their independence. The questionnaire also requires each director and executive officer to identify if they or an immediate family member have been indebted to, or have been a participant in any material transactions with, PMI or any of its subsidiaries. Additionally, PMI's directors and executive officers are required to disclose on a quarterly basis whether they or an immediate family member had made any direct or indirect investments on our personal loan platform.

The standards applied pursuant to the above-described procedures are to provide comfort that potential conflicts of interest or related party transactions are identified and receive appropriate oversight and review.

### ***Director Independence***

For information regarding director independence, see Item 10, "Directors, Executive Officers, and Corporate Governance—Prosper Marketplace, Inc.—Director Independence."

## **ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

### **Prosper Marketplace, Inc. and Prosper Funding LLC**

Deloitte & Touche LLP ("Deloitte") served as PMI and PFL's independent registered public accounting firm for the fiscal year ended December 31, 2021 and is serving in such capacity for the current fiscal year. Deloitte was engaged in October 2014.

The aggregate fees billed by Deloitte for professional services to PMI and PFL were \$1,836 thousand and \$2,132 thousand in December 31, 2021 and 2020, respectively.

#### **Audit Fees**

The aggregate fees billed by Deloitte for professional services rendered for PMI and PFL for the audit of annual financial statements, the review of the quarterly financial statements, and services that are normally provided in connection with statutory and regulatory filings or engagements were \$1,584 thousand and \$1,785 thousand in 2021 and 2020, respectively.

#### **Audit Related Fees**

The aggregate fees billed by Deloitte for professional assurance and related services reasonably related to the performance of the audit of the PMI and PFL's financial statements, but not included under Audit Fees were \$250 thousand and \$275 thousand in 2021 and 2020, respectively. These fees are for service organization control assessment.

#### **Tax Fees**

The aggregate fees billed by Deloitte for 2021 and 2020 for professional services for tax compliance, tax advice and tax planning were zero in 2021 and 2020.

#### **All Other Fees**

Deloitte billed \$2 thousand and \$72 thousand, in 2021 and 2020, respectively, related to fees not included in "Audit", "Audit Related Fees" or "Tax Fees."

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) Reports of Independent Registered Public Accounting Firms (PCAOB ID No. 34)

(a1) [Report of Independent Registered Public Accounting Firm for PMI](#)

(a2) [Report of Independent Registered Public Accounting Firm for Prosper Funding LLC](#)

(b) Documents List

Financial Statements

**Prosper Marketplace, Inc.**

<a href="#">Consolidated Balance Sheets as of December 31, 2021 and 2020</a>	<a href="#">4</a>
<a href="#">Consolidated Statements of Operations for the years ended December 31, 2021, 2020 and 2019</a>	<a href="#">6</a>
<a href="#">Consolidated Statement of Other Comprehensive Loss for the years ended December 31, 2021, 2020 and 2019</a>	<a href="#">7</a>
<a href="#">Consolidated Statements of Convertible Preferred Stock and Stockholders' Deficit for the years ended December 31, 2021, 2020 and 2019</a>	<a href="#">8</a>
<a href="#">Consolidated Statements of Cash Flows for the years ended December 31, 2021, 2020 and 2019</a>	<a href="#">9</a>
<a href="#">Notes to Consolidated Financial Statements</a>	<a href="#">11</a>

**Prosper Funding LLC**

<a href="#">Consolidated Balance Sheets as of December 31, 2021 and 2020</a>	<a href="#">51</a>
<a href="#">Consolidated Statements of Operations for the years ended December 31, 2021, 2020 and 2019</a>	<a href="#">52</a>
<a href="#">Consolidated Statements of Member's Equity for the years ended December 31, 2021, 2020 and 2019</a>	<a href="#">53</a>
<a href="#">Consolidated Statements of Cash Flows for the years ended December 31, 2021, 2020 and 2019</a>	<a href="#">54</a>
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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors of Prosper Marketplace Inc.

### Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Prosper Marketplace Inc. and subsidiaries (the "Company") as of December 31, 2021 and 2020, the related consolidated statements of operations, other comprehensive loss, convertible preferred stock and stockholders' deficit, and cash flows, for each of the three years in the period ended December 31, 2021, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2021, in conformity with accounting principles generally accepted in the United States of America.

### Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

### Critical Audit Matters

The critical audit matters communicated below are matters arising from the current-period audit of the financial statements that were communicated or required to be communicated to the audit committee and that (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

#### **Valuation of Borrower Loans and Loans Held for Sale, at Fair Value — Refer to Notes 2, 4 and 7 to the financial statements**

##### *Critical Audit Matter Description*

The Company measures Borrower Loans and Loans Held for Sale at fair value which are classified as Level 3 instruments. As of December 31, 2021, Borrower Loans were \$267.6 million and Loans Held for Sale were \$243.2 million. The Company estimates the fair value using discounted cash flow valuation methodologies incorporating significant unobservable inputs and valuation assumptions that are reflective of management's own estimates of assumptions that market participants would use in pricing the instruments and requires significant management judgment or estimate. The main assumptions used to value the Borrower Loans and Loans Held for Sale include default rates and prepayment rates derived from historical performance and discount rates applied to each credit grade of the loans.

Auditing the methodology and unobservable inputs, specifically, the unobservable inputs related to the discount rate, default rate and prepayment rate, used by management to estimate the fair value of Borrower Loans and Loans Held for Sale required a high degree of auditor judgment and subjectivity and an increased extent of effort, including the need to involve our fair value specialists.

##### *How the Critical Audit Matter Was Addressed in the Audit*

Our audit procedures related to the valuation of Borrower Loans and Loans Held for Sale at fair value including unobservable inputs used by management to estimate the fair value included the following key procedures:

- We performed inquiries with management and the Company's third-party valuation expert to understand the process for developing, and assumptions used in, the valuation models.
- With the assistance of our fair value specialists, we developed independent estimates of fair value and compared our estimates to the Company's estimates.
- We tested the source information derived from the Company's data used in the valuation models.

### **Valuation of Servicing Assets — Refer to Notes 2, 5 and 7 to the financial statements**

#### *Critical Audit Matter Description*

The Company measures Servicing Assets at fair value which are classified as Level 3 instruments. As of December 31, 2021, Servicing Assets were \$8.8 million. The Company estimates the fair value using a discounted cash flow valuation methodology incorporating significant unobservable inputs and valuation assumptions that are reflective of management's own estimates of assumptions that market participants would use in pricing the instruments and requires significant management judgment or estimation. Significant unobservable inputs used in the valuation methodology include the market servicing rate, discount rate, default rate and prepayment rate.

Auditing the significant unobservable inputs used by management to estimate the fair value of Servicing Assets required a high degree of auditor judgment and subjectivity and an increased extend of effort, including the need to involve our fair value specialist.

#### *How the Critical Audit Matter Was Addressed in the Audit*

Our audit procedures related to the valuation of Servicing Assets at fair value including unobservable inputs used by management to estimate the fair value included the following key procedures:

- We performed inquiries with management and the Company's third-party valuation expert to understand the process for developing, and assumptions used in, the valuation model.
- With the assistance of our fair value specialists, we developed an independent estimate of fair value and compared our estimate to the Company's estimate.
- We evaluated the reasonableness of the market rate of servicing assumption used in developing the fair value estimate of the Servicing Assets.
- We tested the source information derived from the Company's data used in the valuation model.

### **Valuation of Convertible Preferred Stock Warrant Liability – Refer to Notes 2 and 12 to the financial statements**

#### *Critical Audit Matter Description*

Convertible Preferred Stock Warrants are recorded at fair value and subject to remeasurement to fair value at each balance sheet date. As of December 31, 2021, Convertible Preferred Stock Warrant Liability was \$250.9 million. To estimate the fair value of the Convertible Preferred Stock Warrants, the Company determines the business enterprise value of the Company using a variety of valuation methods, including recent transactions in the Company's stock, discounted cash flow models and market based methods, as deemed appropriate under the circumstances applicable at the valuation date. Once the business enterprise value has been estimated, an option pricing model is used to allocate the value to the various classes of equity, including preferred stock. The concluded per share value for the Convertible Preferred Stock Warrants is then determined using a Black-Scholes option pricing model.

Auditing the valuation methods used by management to estimate the fair value of the Convertible Preferred Stock Warrant Liability required a high degree of auditor judgment and subjectivity and an increased extent of effort, including the need to involve our fair value specialists.

#### *How the Critical Audit Matter Was Addressed in the Audit*

Our audit procedures related to the valuation of the Convertible Preferred Stock Warrant Liability included the following key procedures:

- We performed inquiries with management and the Company's third-party valuation expert to understand the process for developing, and assumptions used in, the valuation model.
- With the assistance of our fair value specialists we evaluated the Convertible Preferred Stock Warrant valuation methodology, assumptions, and fair value results.



- We evaluated whether management’s assumptions were reasonable including comparing management’s historical forecasts of future cash flows to actual results.

*/s/ DELOITTE & TOUCHE LLP*

San Francisco, CA  
March 25, 2022

We have served as the Company’s auditor since 2014.

**Prosper Marketplace, Inc.**  
**Consolidated Balance Sheets**  
(in thousands, except share and per share amounts)

	December 31,	
	2021	2020
<b>Assets:</b>		
Cash and Cash Equivalents	\$ 67,700	\$ 50,145
Restricted Cash (1)	167,925	163,723
Accounts Receivable (1)	1,054	605
Loans Held for Sale, at Fair Value (1)	243,170	274,621
Borrower Loans, at Fair Value (1)	267,626	378,263
Property and Equipment, Net	29,714	28,446
Prepaid and Other Assets (1)	6,238	5,196
Servicing Assets	8,761	9,242
Goodwill	36,368	36,368
Intangible Assets, Net	328	500
<b>Total Assets</b>	<b>\$ 828,884</b>	<b>\$ 947,109</b>
<b>Liabilities, Convertible Preferred Stock and Stockholders' Deficit:</b>		
Accounts Payable and Accrued Liabilities	\$ 25,790	\$ 17,876
Payable to Investors	152,794	124,094
Notes, at Fair Value	265,985	208,379
Notes Issued by Securitization Trust (1)	—	156,782
Certificates Issued by Securitization Trust, at Fair Value (1)	—	22,917
Warehouse Lines (1)	209,275	242,479
Other Liabilities	23,900	25,057
Convertible Preferred Stock Warrant Liability	250,941	112,319
<b>Total Liabilities</b>	<b>\$ 928,685</b>	<b>\$ 909,903</b>
Commitments and Contingencies (see Note 17)		
Convertible Preferred Stock – \$0.01 par value; 444,760,848 shares authorized as of December 31, 2021 and December 31, 2020; 209,613,570 shares issued and outstanding as of December 31, 2021 and December 31, 2020. Aggregate liquidation preference of \$370,456 as of December 31, 2021 and 2020.	\$ 322,748	\$ 322,748
Less: Convertible Preferred Stock Held by Consolidated VIE (Note 12), 51,247,915 shares issued and outstanding as of December 31, 2021 and December 31, 2020.	(2,381)	(2,381)
<b>Stockholders' Deficit:</b>		
Common Stock – \$0.01 par value; 625,000,000 shares authorized; 73,089,929 shares issued and 72,153,994 shares outstanding as of December 31, 2021; 70,075,307 shares issued and 69,139,372 shares outstanding as of December 31, 2020	245	215
Additional Paid-In Capital	157,256	155,952
Less: Treasury Stock	(23,417)	(23,417)
Accumulated Deficit	(554,252)	(415,911)
<b>Total Stockholders' Deficit</b>	<b>\$ (420,168)</b>	<b>\$ (283,161)</b>
<b>Total Liabilities, Convertible Preferred Stock and Stockholders' Deficit</b>	<b>\$ 828,884</b>	<b>\$ 947,109</b>

(1) Includes amounts in consolidated variable interest entities (VIEs) presented separately in the table below.

*The accompanying notes are an integral part of these consolidated financial statements.*

The following table presents the assets and liabilities of consolidated variable interest entities (VIEs), which are included in the Consolidated Balance Sheets above. The assets in the table below may only be used to settle obligations of consolidated VIEs and are in excess of those obligations. Additionally, the assets and liabilities in the table below include third-party assets and liabilities of consolidated VIEs only and exclude intercompany balances that eliminate in consolidation. On September 27, 2021, assets and liabilities held by the securitization trusts consolidated by PMI as VIEs were removed from the balance sheet as part of the deconsolidation of those entities. See Note 6 - Securitizations and Note 10 - Debt in the Notes to Consolidated Financial Statements for additional information.

	<b>December 31,</b>	
	<b>2021</b>	<b>2020</b>
<b>Assets of consolidated VIEs, included in total assets above:</b>		
Restricted Cash	\$ 5,128	\$ 25,203
Loans Held for Sale, at Fair Value	243,170	274,621
Borrower Loans, Held at Fair Value	—	168,593
Prepaid and Other Assets	2,846	2,043
<b>Total assets of consolidated variable interest entities</b>	<b>\$ 251,144</b>	<b>\$ 470,460</b>
<b>Liabilities of consolidated VIEs, included in total liabilities above:</b>		
Notes Issued by Securitization Trust	\$ —	\$ 156,782
Certificates Issued by Securitization Trust, at Fair Value	—	22,917
Warehouse Lines	209,275	242,479
<b>Total liabilities of consolidated variable interest entities</b>	<b>\$ 209,275</b>	<b>\$ 422,178</b>

*The accompanying notes are an integral part of these consolidated financial statements.*

**Prosper Marketplace, Inc.**  
**Consolidated Statements of Operations**  
(in thousands, except share and per share amounts)

	Years Ended December 31,		
	2021	2020	2019
<b>Revenues:</b>			
<b>Operating Revenues:</b>			
Transaction Fees, Net	\$ 89,364	\$ 67,335	\$ 119,282
Servicing Fees, Net	15,024	18,517	23,406
Gain on Sale of Borrower Loans	7,196	4,816	10,946
Fair Value of Warrants Vested on Sale of Borrower Loans	—	—	(17,553)
Other Revenues	3,992	2,711	5,953
<b>Total Operating Revenues</b>	<b>115,576</b>	<b>93,379</b>	<b>142,034</b>
<b>Interest Income (Expense):</b>			
Interest Income on Borrower Loans and Loans Held for Sale	83,107	104,150	100,786
Interest Expense on Financial Instruments	(50,816)	(60,127)	(63,736)
<b>Total Interest Income, Net</b>	<b>32,291</b>	<b>44,023</b>	<b>37,050</b>
Change in Fair Value of Financial Instruments, Net	(3,241)	(34,166)	(25,514)
<b>Total Net Revenue</b>	<b>144,626</b>	<b>103,236</b>	<b>153,570</b>
<b>Expenses:</b>			
Origination and Servicing	35,056	29,897	34,915
Sales and Marketing	35,065	29,259	73,824
General and Administrative	73,122	63,384	71,588
Impairment Expenses	—	445	—
Restructuring Charges, Net	—	—	34
Change in Fair Value of Convertible Preferred Stock Warrants	138,622	(37,677)	(11,235)
Loss on Deconsolidation of VIEs	1,494	—	—
Other Income, Net	(463)	(639)	(1,945)
<b>Total Expenses</b>	<b>282,896</b>	<b>84,669</b>	<b>167,181</b>
<b>Net (Loss) Income Before Income Taxes</b>	<b>(138,270)</b>	<b>18,567</b>	<b>(13,611)</b>
Income Tax Expense	(71)	(16)	(100)
<b>Net (Loss) Income</b>	<b>\$ (138,341)</b>	<b>\$ 18,551</b>	<b>\$ (13,711)</b>
<b>Plus: Return on Share Purchase</b>	<b>—</b>	<b>2,381</b>	<b>1,066</b>
<b>Less: Net Income Allocated to Participating Securities</b>	<b>—</b>	<b>(15,172)</b>	<b>—</b>
<b>Net (Loss) Income Attributable to Common Stockholders</b>	<b>\$ (138,341)</b>	<b>\$ 5,760</b>	<b>\$ (12,645)</b>
<b>Net (Loss) Income Per Share – Basic</b>	<b>\$ (1.95)</b>	<b>\$ 0.08</b>	<b>\$ (0.18)</b>
<b>Net (Loss) Income Per Share – Diluted</b>	<b>\$ (1.95)</b>	<b>\$ 0.02</b>	<b>\$ (0.18)</b>
<b>Weighted-Average Shares – Basic</b>	<b>70,767,275</b>	<b>68,592,557</b>	<b>70,511,605</b>
<b>Weighted-Average Shares – Diluted</b>	<b>70,767,275</b>	<b>306,673,586</b>	<b>70,511,605</b>

*The accompanying notes are an integral part of these consolidated financial statements.*

**Prosper Marketplace, Inc.**  
**Consolidated Statements of Other Comprehensive (Loss) Income**  
(in thousands)

	Years Ended December 31,		
	2021	2020	2019
<b>Net (Loss) Income</b>	\$ (138,341)	\$ 18,551	\$ (13,711)
<b>Other Comprehensive Income, Before Tax:</b>			
Change in Net Unrealized (Loss) Gain on Available for Sale Investments, at Fair Value	—	—	13
<b>Other Comprehensive Income, Before Tax</b>	—	—	13
Income Tax Effect	—	—	—
<b>Other Comprehensive Income (Loss), Net of Tax</b>	—	—	13
<b>Comprehensive (Loss) Income, Net of Tax</b>	\$ (138,341)	\$ 18,551	\$ (13,698)

*The accompanying notes are an integral part of these consolidated financial statements.*

**Prosper Marketplace, Inc.**  
**Consolidated Statements of Convertible Preferred Stock and Stockholders' Deficit**  
(in thousands, except share amounts)

	Convertible Preferred Stock		Convertible Preferred Stock Held by Consolidated VIE		Common Stock		Treasury Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount				
<b>Balance at January 1, 2019</b>	<b>214,637,925</b>	<b>\$ 323,793</b>	<b>—</b>	<b>\$ —</b>	<b>75,652,445</b>	<b>\$ 229</b>	<b>(5,177,235)</b>	<b>\$ (23,417)</b>	<b>\$ 145,486</b>	<b>\$ (13)</b>	<b>\$ (420,751)</b>	<b>\$ (298,466)</b>
Repurchase of Common Stock	—	—	—	—	(2,196,665)	(22)	—	—	22	—	—	—
Repurchase of Convertible Preferred Stock	(5,024,355)	(1,045)	—	—	—	—	—	—	1,045	—	—	1,045
Exercise of vested stock options	—	—	—	—	173,356	1	—	—	24	—	—	25
Stock-based compensation expense	—	—	—	—	—	—	—	—	4,839	—	—	4,839
Change in net unrealized loss on Available for Sale Investments, at Fair Value	—	—	—	—	—	—	—	—	—	13	—	13
Net Loss	—	—	—	—	—	—	—	—	—	—	(13,711)	(13,711)
<b>Balance at December 31, 2019</b>	<b>209,613,570</b>	<b>322,748</b>	<b>—</b>	<b>—</b>	<b>73,629,136</b>	<b>208</b>	<b>(5,177,235)</b>	<b>(23,417)</b>	<b>151,416</b>	<b>—</b>	<b>(434,462)</b>	<b>(306,255)</b>
Exercise of vested stock options	—	—	—	—	687,471	7	—	—	8	—	—	15
Stock-based compensation expense	—	—	—	—	—	—	—	—	2,147	—	—	2,147
Purchase of Convertible Preferred Stock by consolidated VIE Prosper Grantor Trust (Note 12)	—	—	(51,247,915)	(2,381)	—	—	—	—	2,381	—	—	2,381
Net Income	—	—	—	—	—	—	—	—	—	—	18,551	18,551
<b>Balance at December 31, 2020</b>	<b>209,613,570</b>	<b>\$ 322,748</b>	<b>(51,247,915)</b>	<b>\$ (2,381)</b>	<b>74,316,607</b>	<b>\$ 215</b>	<b>(5,177,235)</b>	<b>\$ (23,417)</b>	<b>\$ 155,952</b>	<b>\$ —</b>	<b>\$ (415,911)</b>	<b>\$ (283,161)</b>
Exercise of vested stock options	—	—	—	—	3,014,622	30	—	—	31	—	—	61
Stock-based compensation expense	—	—	—	—	—	—	—	—	1,273	—	—	1,273
Net Loss	—	—	—	—	—	—	—	—	—	—	(138,341)	(138,341)
<b>Balance at December 31, 2021</b>	<b>209,613,570</b>	<b>\$ 322,748</b>	<b>(51,247,915)</b>	<b>\$ (2,381)</b>	<b>77,331,229</b>	<b>\$ 245</b>	<b>(5,177,235)</b>	<b>\$ (23,417)</b>	<b>\$ 157,256</b>	<b>\$ —</b>	<b>\$ (554,252)</b>	<b>\$ (420,168)</b>

*The accompanying notes are an integral part of these consolidated financial statements.*

**Prosper Marketplace, Inc.**  
**Consolidated Statements of Cash Flows**  
(in thousands)

	Years Ended December 31,		
	2021	2020	2019
<b>Cash Flows from Operating Activities:</b>			
Net (Loss) Income	\$ (138,341)	\$ 18,551	\$ (13,711)
Adjustments to Reconcile Net (Loss) Income to Net Cash Provided by (Used in) Operating Activities:			
Change in Fair Value of Financial Instruments, Net	3,241	34,160	27,306
Depreciation and Amortization	9,839	8,349	7,676
Amortization of Operating Lease Right-of-Use Asset	3,774	3,487	3,494
Impairment of Operating Lease Right-of-Use Asset	—	445	—
Gain on Sale of Borrower Loans	(7,973)	(5,830)	(11,924)
Change in Fair Value of Servicing Rights	8,454	9,189	12,476
Stock-based Compensation Expense	1,136	1,913	4,529
Fair Value of Warrants Vested on Sale of Borrower Loans	—	—	17,552
Loss on Deconsolidation of VIEs (Note 6)	1,494	—	—
Change in Fair Value of Convertible Preferred Stock Warrants	138,622	(37,677)	(11,235)
Other, Net	2,027	1,675	1,118
Changes in Operating Assets and Liabilities:			
Purchase of Loans Held for Sale at Fair Value	(1,712,705)	(1,338,082)	(2,320,560)
Proceeds from Sales and Principal Payments of Loans Held for Sale at Fair Value	1,770,822	1,254,474	2,241,569
Accounts Receivable	(449)	1,090	3,424
Prepaid and Other Assets	639	498	1,350
Accounts Payable and Accrued Liabilities	7,776	(2,187)	(106)
Payable to Investors	28,700	23,002	(26,446)
Other Liabilities	(3,493)	(5,391)	(4,590)
Net Cash Provided by (Used in) Operating Activities	<u>113,563</u>	<u>(32,334)</u>	<u>(68,078)</u>
<b>Cash Flows from Investing Activities:</b>			
Purchase of Borrower Loans Held at Fair Value	(231,998)	(133,644)	(170,328)
Proceeds from Sales and Principal Payments of Borrower Loans Held at Fair Value	236,861	279,658	254,845
Purchases of Property and Equipment	(12,041)	(8,359)	(10,312)
Purchases of Available for Sale Investments, at Fair Value	—	—	(1,488)
Maturities of Available for Sale Securities	—	—	23,763
Net Cash (Used in) Provided by Investing Activities	<u>(7,178)</u>	<u>137,655</u>	<u>96,480</u>
<b>Cash Flows from Financing Activities:</b>			
Proceeds from Issuance of Notes Held at Fair Value	231,933	133,228	171,138
Payments of Notes Held at Fair Value	(172,250)	(149,409)	(167,419)
Principal Payments on Notes Issued by Securitization Trust	(87,700)	(192,771)	(134,250)
Principal Payments on Certificates Issued by Securitization Trust	(14,935)	(22,136)	(13,770)

	Years Ended December 31,		
	2021	2020	2019
Proceeds from Securitization Issuance	—	—	8,962
Net cash and restricted cash outflows from Deconsolidation of VIEs (Note 6)	(6,821)	—	—
Proceeds from Warehouse Lines	68,800	126,149	186,010
Principal payments on Warehouse Lines	(101,900)	(15,300)	(57,899)
Principal payments on financing lease	(76)	(84)	—
Proceeds from Paycheck Protection Program Loan	—	8,447	—
Payment for Debt Issuance Costs	(1,740)	—	(7,850)
Proceeds from Exercise of Stock Options	61	15	25
Net Cash Used in Financing Activities	(84,628)	(111,861)	(15,053)
Net Increase (Decrease) in Cash, Cash Equivalents and Restricted Cash	21,757	(6,540)	13,349
Cash, Cash Equivalents and Restricted Cash at Beginning of the Year	213,868	220,408	207,059
Cash, Cash Equivalents and Restricted Cash at End of the Year	<u>\$ 235,625</u>	<u>\$ 213,868</u>	<u>\$ 220,408</u>

**Supplemental Disclosure of Cash Flow Information:**

Cash Paid for Interest	\$ 49,923	\$ 57,697	\$ 60,642
Non-Cash Investing Activity - Accrual for Property and Equipment, Net	\$ 971	\$ 833	\$ 707
Non-Cash Investing Activity - Deconsolidation of Borrower Loans, at Fair Value	\$ 78,361	\$ —	\$ —
Non-Cash Financing Activity - Deconsolidation of Notes Issued by Securitization Trust	\$ 69,709	\$ —	\$ —
Non-Cash Financing Activity - Deconsolidation of Certificates Issued by Securitization Trust, at Fair Value	\$ 13,979	\$ —	\$ —
Right-of-use assets obtained in exchange for new financing lease obligation	\$ —	\$ 239	\$ —
Non-Cash Investing Activity - Consolidation of Borrower Loans, at Fair Value	\$ —	\$ —	\$ (391,383)
Non-Cash Financing Activity- Issuance of Securitization Notes and Certificates	\$ —	\$ —	\$ 554,892
Non-Cash Financing Activity- Derecognition of Warehouse Line Debt	\$ —	\$ —	\$ (158,857)

**Reconciliation to Amounts on Consolidated Balance Sheets**

Cash and Cash Equivalents	\$ 67,700	\$ 50,145	\$ 64,635
Restricted Cash	167,925	163,723	155,773
Total Cash, Cash Equivalents and Restricted Cash	<u>\$ 235,625</u>	<u>\$ 213,868</u>	<u>\$ 220,408</u>

*The accompanying notes are an integral part of these consolidated financial statements.*



**PROSPER MARKETPLACE, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1. ORGANIZATION AND BUSINESS**

Prosper Marketplace, Inc. was incorporated in the state of Delaware on March 22, 2005. Except as the context requires otherwise, as used in these notes to consolidated financial statements of Prosper Marketplace, Inc., “Prosper”, “PMI”, and the “Company” refer to Prosper Marketplace, Inc. and its wholly-owned subsidiaries on a consolidated basis.

PMI developed a peer-to-peer online credit marketplace (the “marketplace”), and in February 2013, transferred ownership of the marketplace to Prosper Funding LLC (“PFL”), its wholly-owned subsidiary. All of the borrower payment dependent notes (“Notes”) issued and sold through the marketplace today are issued and sold by PFL. PFL also operates the marketplace and facilitates the origination of unsecured, personal loans by WebBank (“Borrower Loans”), an FDIC-insured, Utah-chartered industrial bank, through the marketplace. Pursuant to a Loan Account Program Agreement between PMI and WebBank, PMI manages the operation of the marketplace as agent of WebBank in connection with the submission of loan applications by potential borrowers. PMI also manages the origination of related loans by WebBank and the funding of such Borrower Loans by WebBank. On February 1, 2013, PFL entered into an Administration Agreement with PMI in its capacity as licensee, corporate administrator, loan marketplace administrator and loan and Note servicer, pursuant to which PMI provides certain back office support, loan platform administration and loan servicing to PFL.

A borrower who wishes to obtain a Borrower Loan through the marketplace must post a loan listing on the marketplace. Listings are allocated to one of two investor funding channels: (i) the “Note Channel,” which allows investors to commit to purchase Notes from PFL, the payments of which are dependent on PFL’s receipt of payments made on the corresponding Borrower Loan; and (ii) the “Whole Loan Channel,” which allows investors to commit to purchase 100% of a Borrower Loan directly from Prosper.

As of December 31, 2021, the marketplace is open to investors in 30 states and the District of Columbia. Additionally, as of December 31, 2021, the marketplace is open to borrowers in 48 states and the District of Columbia. Currently our marketplace does not operate internationally.

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNT POLICIES**

**Basis of Presentation**

The accompanying consolidated financial statements include the accounts of PMI and its wholly owned subsidiaries including PFL, Prosper Healthcare Lending LLC (“PHL”), BillGuard, Inc. (“BillGuard”), and its consolidated VIEs including Prosper Warehouse I Trust (“PWIT”), Prosper Warehouse II Trust (“PWIT”), Prosper Marketplace Issuance Trust, Series 2019-1 (“PMIT 2019-1,” deconsolidated on September 27, 2021), Prosper Marketplace Issuance Trust, Series 2019-2 (“PMIT 2019-2,” deconsolidated on September 27, 2021), Prosper Marketplace Issuance Trust, Series 2019-4 (“PMIT 2019-4,” deconsolidated on September 27, 2021) and Prosper Grantor Trust (“PGT”). All intercompany balances and transactions between PMI and its subsidiaries have been eliminated in consolidation. PMI and PFL’s financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”).

**Use of Estimates**

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities and the related disclosures, including contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. These estimates, judgments and assumptions include but are not limited to the following: valuation of Loans Held for Sale, Borrower Loans and associated Notes, Certificates Issued by Securitization Trust (Note 6), valuation of servicing rights and loan trailing fee liability, valuation allowance on deferred tax assets, stock-based compensation expense, Intangible Assets, Goodwill, Convertible Preferred Stock Warrant Liability, Repurchase Obligations and contingent liabilities. These judgments, estimates and assumptions are inherently subjective in nature and actual results may differ from these estimates and assumptions.

**Consolidation of Variable Interest Entities**

A variable interest entity (VIE) is a legal entity that has either a total equity investment that is insufficient to finance its activities without additional subordinated financial support or whose equity investors lack the characteristics of a controlling financial interest. Prosper’s variable interest arises from contractual, ownership or other monetary interests in the entity, which change with fluctuations in the fair value of the entity’s net assets. A VIE is consolidated by its primary beneficiary, which is

the party that has both the power to direct the activities that most significantly impact the VIE's economic performance, and the obligation to absorb losses or the right to receive benefits of the VIE that could potentially be significant to the VIE. Prosper consolidates a VIE when it is deemed to be the primary beneficiary. Prosper assesses whether or not it is the primary beneficiary of a VIE on an ongoing basis.

### **Transfers of Financial Assets**

Prosper accounts for transfers of financial assets as sales when it has surrendered control over the transferred assets. Control is generally considered to have been surrendered when the transferred assets have been legally isolated from Prosper, the transferee has the right to pledge or exchange the assets without any significant constraints, and Prosper has not entered into a repurchase agreement, does not hold unconditional call options and has not written put options on the transferred assets. In assessing whether control has been surrendered, Prosper considers whether the transferee would be a consolidated affiliate and the impact of all arrangements or agreements made contemporaneously with, or in contemplation of the transfer, even if they were not entered into at the time of transfer. Prosper measures gain or loss on sale of financial assets as the net proceeds received on the sale less the carrying amount of the loans sold. The net proceeds of the sale include the fair value of any assets obtained or liabilities incurred as part of the transaction, including, but not limited to Servicing Assets, retained securities, and recourse obligations.

### **Fair Value Measurement**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Financial instruments measured at fair value consist principally of Borrower Loans, Loans Held for Sale, Servicing Assets, Loan Trailing Fee Liabilities (Note 9), Notes, Certificates Issued by Securitization Trust (Note 6) and Convertible Preferred Stock Warrant Liability. The estimated fair values of other financial instruments, including Cash and Cash Equivalents, Restricted Cash, Accounts Receivable, Accounts Payable, Accrued Liabilities and Payable to Investors approximate their carrying values because of their short-term nature. The estimated fair values of the Paycheck Protection Program loan (Note 9 and 10), Notes Issued by Securitization Trust (Note 6) and Warehouse Lines do not approximate their carrying values due primarily to differences in the stated and market rates associated with these instruments.

The fair value hierarchy includes a three-level classification, which is based on whether the inputs to the valuation methodology used for measurement are observable:

Level 1 — Quoted market prices in active markets for identical assets or liabilities.

Level 2 — Inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly or indirectly.

Level 3 — Unobservable inputs.

When developing fair value measurements, Prosper maximizes the use of observable inputs and minimizes the use of unobservable inputs. However, for certain instruments Prosper must utilize unobservable inputs in determining fair value due to the lack of observable inputs in the market, which requires greater judgment in measuring fair value. In instances where there is limited or no observable market data, fair value measurements for assets and liabilities are determined using assumptions that management believes a market participant would use in pricing the asset or liability.

As observable market prices are not available for the Borrower Loans, Loans Held for Sale, Notes, Certificates Issued by Securitization Trust and Servicing Assets, or for similar assets and liabilities, Prosper believes the Borrower Loans, Loans Held for Sale, Notes, Certificates Issued by Securitization Trust and Servicing Assets are considered level 3 financial instruments. Prosper primarily uses a discounted cash flow model to estimate their fair value, and key assumptions used in valuation include default rates and prepayment rates derived from historical performance and discount rates based on estimates of the rates of return that investors would require when investing in financial instruments with similar characteristics.

The obligation to pay principal and interest on any series of Notes is equal to the loan payments, if any, that are received on the corresponding Borrower Loan, net of our servicing fee which is 1.0% of the outstanding balance. The fair value election for Notes and Borrower Loans allows both the assets and the related liabilities to receive similar accounting treatment for expected losses which is consistent with the subsequent cash flows to investors that are dependent upon borrower payments. As such, the fair value of a series of Notes is approximately equal to the fair value of the corresponding Borrower Loan, adjusted for the 1.0% servicing fee and the timing of loan purchase, Note issuance and borrower payments. As a result, the valuation of the Notes uses the same methodology and assumptions as the Borrower Loans, except that the Notes incorporate

the 1.0% servicing fee and any differences in timing in payments. The effective interest rate associated with a group of Notes is less than the interest rate earned on the corresponding Borrower Loan due to the 1.0% servicing fee.

Refer to Note 7 for additional fair value disclosures.

### **Cash and Cash Equivalents**

Cash includes various unrestricted deposits with investment-grade rated financial institutions. Cash equivalents consist of highly liquid marketable securities with original maturities of three months or less at the time of purchase and consist primarily of money market funds, commercial paper, US treasury securities and US agency securities. Cash equivalents are recorded at cost, which approximates fair value.

At times, our cash balances may exceed federally insured amounts and potentially subject the Company to a concentration of credit risk. The Company believes that no significant concentration of credit risk exists with respect to these balances based on its assessment of the creditworthiness of these financial institutions.

### **Restricted Cash**

Restricted cash consists primarily of cash deposits, money market funds and short term certificate of deposit accounts held as collateral as required for long term leases, loan funding and servicing activities, and cash that investors or Prosper have on the marketplace that has not yet been invested in Borrower Loans or disbursed to the investor.

### **Borrower Loans, Loans Held for Sale, Notes and Certificates Issued by Securitization Trust**

Borrower Loans are funded either through the Note Channel or through the Whole Loan Channel. Through the Note Channel, Prosper purchases Borrower Loans from WebBank then issues Notes to investors and holds the Borrower Loans until maturity. The obligation to repay a series of Notes issued through the Note Channel is dependent upon the repayment of the associated Borrower Loans. Borrower Loans funded and Notes issued through the Note Channel are carried on Prosper's Consolidated Balance Sheets as assets and liabilities, respectively.

In 2019, Prosper began refinancing the purchase of Borrower Loans through the Whole Loan Channel through securitization transactions, which issued senior notes, risk retention interests, and residual certificates. Associated securitization trusts were deemed consolidated VIEs until September 2021, when the Company sold its share of the residual certificates issued by these securitization trusts and deconsolidated the VIEs. Prior to their deconsolidation, the Borrower Loans held in the securitization trusts were included in "Borrower Loans, at Fair Value", senior notes sold to third party investors were included in "Notes Issued by Securitization Trust", and the risk retention interest and residual certificates held by third party investors were included in "Certificates Issued by Securitization Trust, at Fair Value" on the Consolidated Balance Sheets. Refer to Note 6 - Securitization for additional disclosures and details on the deconsolidation of these securitization trust VIEs.

Prosper uses Warehouse Lines to purchase Loans Held for Sale that may be subsequently contributed to securitization transactions or sold to investors. Loans Held for Sale are included in "Loans Held for Sale, at Fair Value" in the Consolidated Balance Sheets. See Note 10 - Debt for more details on Warehouse Lines.

Borrower Loans and Loans Held for Sale are purchased from WebBank. Prosper places Borrower Loans and Loans Held for Sale on non-accrual status when they are 120 days past due. When a loan is placed on non-accrual status, Prosper stops accruing interest and reverses all accrued but unpaid interest as of such date. Additionally, Prosper charges-off Borrower Loans and Loans Held for Sale when they are 120 days past due. The fair value of loans 120 or more days past due generally consists of the expected recovery from debt sales in subsequent periods.

Prosper has elected the fair value option for Borrower Loans, Loans Held for Sale, Notes, and Certificates Issued by Securitization Trust. Changes in fair value of Borrower Loans funded through the Note Channel are largely offset by the changes in fair value of Notes due to the borrower payment-dependent design of the Notes. Changes in the fair value of Borrower Loans held in consolidated securitization trusts were partially offset by changes in fair value of the Certificates Issued by Securitization Trust, prior to the deconsolidation of these securitization trusts in September 2021. Changes in fair value of Loans Held for Sale are recorded through Prosper's earnings and Prosper collects interest on Loans Held for Sale. Changes in fair value of Borrower Loans, Loans Held for Sale, Notes, and Certificates Issued by Securitization Trust are included in "Change in Fair Value of Financial Instruments, Net" on the Consolidated Statements of Operations.

Prosper primarily uses a discounted cash flow model to estimate the fair value of Borrower Loans, Loans Held for Sale, Notes, and Certificates Issued by Securitization Trust. The key assumptions used in valuation include default rates and prepayment rates derived from historical performance and discount rates based on estimates of the rates of return that investors would require when investing in financial instruments with similar characteristics.

## Servicing Assets

Prosper records Servicing Assets at their estimated fair values for servicing rights retained when Prosper sells Borrower Loans to unrelated third-party buyers. The change in fair value of Servicing Assets is recognized in Servicing Fees, Net. The gain or loss on a loan sale is recorded in Gain on Sale of Borrower Loans while the fair value of the servicing rights, which is based on the degree to which the contractual loan servicing fee is above or below an estimated market servicing rate is recorded in Servicing Assets on the Consolidated Balance Sheets.

Prosper uses a discounted cash flow model to estimate the fair value of the loan Servicing Assets which considers the contractual projected servicing fee revenue that Prosper earns on the Borrower Loans, the estimated market servicing rates to service such loans, the prepayment rates, the default rates and the current principal balances of the Borrower Loans.

## Property and Equipment

Property and Equipment consists of computer equipment, office furniture and equipment, leasehold improvements, software purchased or developed for internal use and web site development costs. Property and Equipment is stated at cost, less accumulated depreciation and amortization, and is computed using the straight-line method based upon estimated useful lives of the assets. Estimated useful lives of the assets are as follows:

Furniture and fixtures	7 years
Office equipment	5 years
Computers and equipment	3 years
Leasehold improvements	5 - 8 years
Software and website development costs	1 - 5 years

The costs to develop software for the website and other internal uses are capitalized when management has authorized and committed project funding, when preliminary development efforts are successfully completed, and when it is probable that the project will be completed and the software will be used as intended. Capitalized software and website development costs primarily include software licenses acquired, fees paid to outside consultants and salaries and payroll-related costs for employees directly involved in the development efforts.

Costs incurred prior to meeting these criteria, together with costs incurred for training and maintenance, are expensed. Costs incurred for upgrades and enhancements that are considered to be probable to result in additional functionality are capitalized. Capitalized costs are included in Property and Equipment and amortized to expense using the straight-line method over their expected lives. Software and website development assets are evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Recoverability of software and website development assets to be held and used is measured by a comparison of the carrying amount of the asset group to the future net undiscounted cash flows expected to be generated by the asset group. If such software and website development assets are considered to be impaired, the impairment to be recognized is the excess of the carrying amount over the fair value of the software and website development asset group.

## Leases

Management determines if an arrangement is a lease at inception. Operating lease right-of-use (“ROU”) assets and operating lease liabilities are included on the Consolidated Balance Sheets in Property and Equipment, Net and in Other Liabilities, respectively. For certain leases with original terms of twelve months or less, PMI recognizes the lease expense as incurred and does not recognize ROU assets and lease liabilities.

If a contract contains a lease, management evaluates whether it should be classified as an operating or finance lease. Operating lease ROU assets and operating lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at the commencement date. As most of PMI's leases do not provide an implicit rate, management uses an incremental borrowing rate based on the information available at commencement date in determining the present value of future payments. The operating lease ROU asset also includes any lease payments made and excludes lease incentives and initial direct costs incurred. Lease expense for minimum lease payments is recognized on a straight-line basis over the lease term. The operating lease ROU assets are evaluated for impairment utilizing the same impairment model used for Property and Equipment.

## **Goodwill and Intangibles**

Goodwill associated with business combinations is computed by recognizing the portion of the purchase price that is not tied to individually identifiable and separately recognizable assets. Goodwill is not amortized but is tested for impairment annually or whenever indications of impairment exist. Annual impairment testing occurs on October 1. Impairment exists whenever the carrying value of Goodwill exceeds its implied fair value. Adverse changes in impairment indicators such as loss of key personnel, increased regulatory oversight or unplanned changes in operations could result in impairment. PMI did not recognize any Goodwill impairments during the years ended December 31, 2021, 2020 and 2019.

Costs of internally developing any intangibles is expensed as incurred. Intangible Assets identified through the acquisitions of American Healthcare Lending and BillGuard include customer relationships, technology and a brand name. The user base and customer relationship Intangible Assets are being amortized on an accelerated basis over a three to ten year period. The technology and brand name Intangible Assets were amortized on a straight-line basis over three to five years and one year, respectively.

## **Payable to Investors**

Payable to Investors primarily represents the obligation to investors related to cash held in an account for the benefit of investors and payments-in-process received from borrowers.

## **Warehouse Lines and Notes Issued by Securitization Trust**

Warehouse Lines and Notes Issued by Securitization Trust (prior to deconsolidation in September 2021) are carried at amortized cost. Prosper defers specific incremental costs directly related to entering into the Warehouse Lines and issuing Notes Issued by Securitization Trust and subsequently amortizes them into interest expense over the life of the arrangements.

## **Convertible Preferred Stock Warrant Liability**

Prosper has entered into varying arrangements with investors to issue preferred stock warrants in exchange for their participation as a purchaser of Borrower Loans. In all cases, these warrants are free standing financial instruments due to their status as legally detached and separately exercisable warrants without conditions requiring Prosper to repurchase those warrants or the underlying preferred shares. These freestanding warrants are accounted for in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 480, *Distinguishing Liabilities from Equity* (“ASC 480”). Under ASC 480, vested freestanding warrants to purchase the Company’s convertible redeemable preferred stock are classified as a liability on the Consolidated Balance Sheets and carried at fair value because the warrants may conditionally obligate the Company to transfer assets at some point in the future. The Company records the warrants at fair value on issuance. The warrants are subject to remeasurement to fair value at each balance sheet date, and any change in their fair value is recognized as “Change in Fair Value of Convertible Preferred Stock Warrants” in the Consolidated Statements of Operations. The Company will continue to adjust the liability for changes in fair value until the earlier of the exercise or expiration of the warrants, the completion of a deemed liquidation event or the conversion of convertible redeemable preferred stock into Common Stock.

## **Loan Trailing Fee Liability**

On July 1, 2016, Prosper signed a series of agreements with WebBank which, among other things, includes an additional program fee (the “Loan Trailing Fee”) paid to WebBank in connection with the performance of each loan sold to Prosper. These agreements became effective as of August 1, 2016. The Loan Trailing Fee is dependent on the amount and timing of principal and interest payments made by borrowers of the underlying loans, irrespective of whether the loans are sold by Prosper, and gives WebBank an ongoing financial interest in the performance of the loans it originates. This fee is paid by Prosper to WebBank over the term of the respective loans and is a function of the principal and interest payments made by borrowers of such loans. In the event that principal and interest payments are not made with respect to any loan, Prosper is not required to make the related Loan Trailing Fee payment. The obligation to pay the Loan Trailing Fee for any loan sold to Prosper is recorded at fair value at the time of the origination of such loan within Other Liabilities and recorded as a reduction of “Transaction Fees, net”. Any changes in the fair value of this liability are recorded in “Servicing Fees, Net” on the consolidated statements of operations. The fair value of the Loan Trailing Fee represents the present value of the expected monthly Loan Trailing Fee payments, which takes into consideration certain assumptions related to expected prepayment rates and defaults rates.

## **Revenue Recognition**

Revenue primarily results from transaction and Servicing Fees and net interest income earned. Fees include Transaction Fees for our services performed on behalf of WebBank to originate a loan. PMI also has other smaller sources of revenue reported as Other Revenues, including referral fees, and securitization fees.

### ***Transaction Fees***

Prosper has a customer contract with WebBank to facilitate the origination of all Borrower Loans through Prosper's marketplace. In exchange for these services, Prosper earns a transaction fee from WebBank that is recognized when performance is complete and upon the successful origination of a Borrower Loan. The transaction fee Prosper earns is determined by the term and credit grade of the Borrower Loan that is facilitated on Prosper's marketplace, and ranges from 1.0% to 5.0% of the original principal amount of each Borrower Loan that WebBank originates. Prosper records the transaction fee net of any fees paid to WebBank because Prosper does not receive an identifiable benefit from WebBank other than the borrower loan that has been recognized at fair value.

### ***Servicing Fees***

Investors who purchase Borrower Loans from Prosper typically pay Prosper a servicing fee which is generally set at 1.075% per annum of the outstanding principal balance of the borrower loan prior to applying the current payment. The servicing fee compensates Prosper for the costs incurred in servicing the borrower loan, including managing payments from borrowers, managing payments to investors and maintaining investors' account portfolios. Prosper records Servicing Fees from investors as a component of operating revenue when received.

### ***Gain on Sale of Borrower Loans***

Prosper recognizes gains or losses on the sale of Borrower Loans when it sells Borrower Loans to third parties. Prosper measures gain or loss on sale of Borrower Loans as the net proceeds received on a sale less the fair value of the Borrower Loans sold. The net proceeds of the sale represent the fair value of any assets obtained or liabilities incurred as part of the transaction, including, but not limited to Servicing Assets, retained securities, and repurchase obligations.

### ***Interest Income on Borrower Loans and Loans Held for Sale and Interest Expense on Financial Instruments***

Prosper recognizes interest income on Borrower Loans and Loans Held for Sale using the accrual method based on the stated interest rate to the extent we believe it to be collectible. We record interest expense on the corresponding Notes, at Fair Value, Notes Issued by Securitization Trust, Certificates Issued by Securitization Trust, and Warehouse Lines based on the contractual interest rates.

### ***Other Revenues***

Other Revenues consist primarily of securitization fees and credit referral fees. Credit referral fees are where partner companies pay us an agreed upon amount for successful referrals of customers from our marketplace. The transaction price is a fixed amount per referral and is recognized by the Company upon a successful referral. Securitization fees represent fees Prosper earns to facilitate securitizations for purchasers of Borrower Loans and is recognized as "Other Revenues" when the securitization is completed.

As of December 31, 2021, Prosper had no contract assets, contract liabilities or deferred contract costs. As of December 31, 2021, Prosper had no unsatisfied performance obligations related to Transaction Fees or Other Revenues.

### ***Advertising Costs***

Advertising costs are expensed when incurred and are included in "Sales and Marketing" expense in the accompanying Consolidated Statements of Operations. Prosper incurred advertising costs of \$6.1 million, \$6.8 million and \$32.8 million for the years ended December 31, 2021, 2020 and 2019, respectively.

### ***Stock-Based Compensation***

Management determines the fair value of the Company's stock options issued to employees on the date of grant using the Black-Scholes option pricing model, which is impacted by the fair value of Common Stock as well as by changes in assumptions that include, but are not limited to, the expected Common Stock price volatility over the term of the option awards, the expected term of the awards, risk-free interest rates and the expected dividend yield.

PMI recognizes compensation expense for stock-based awards on a straight-line basis over the period during which an employee is required to provide services in exchange for the award (the vesting period of the award). Stock-based compensation expense is recognized only for those awards expected to vest. PMI estimates future forfeitures at the date of grant and revises the estimates, if necessary, in subsequent periods if actual forfeitures differ from estimates.

Stock-based awards issued to non-employees are marked-to-market up until the point that the awards measurement period has been achieved. Compensation expense for stock options issued to non-employees is calculated using the Black-Scholes option pricing model and is recorded over the vesting period of the award.

## **Income Taxes**

The asset and liability method is used to account for income taxes. Under this method, deferred income tax assets and liabilities are based on the differences between the financial statement carrying values and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

Prosper's policy is to include interest and penalties related to gross unrecognized tax benefits within its provision for income taxes. U.S. Federal, California and other state income tax returns are filed. Prosper is not currently undergoing any income tax examinations. Due to the cumulative net operating loss, generally all tax years remain open.

Prosper recognizes benefits from uncertain tax positions only if management believes that it is more likely than not that the tax position will be sustained on examination by the taxing authorities based on the technical merits of the position. The tax benefits in the financial statements from such positions are then measured based on the largest benefit that has a greater than 50% likelihood of being realized upon settlement.

## **Other Income, Net**

Other Income, Net includes interest income from Available for Sale Investments, sublease income, SEC settlement costs and contract termination costs that are expected to be non-recurring and not part of restructuring activities.

## **Restructuring Charges**

Restructuring Charges consist of severance costs and contract termination-related costs and impairment charges associated with the severance actions. A liability for severance costs is typically recognized when the plan of termination has been communicated to the affected employees and is measured at its fair value at the communication date. Contract termination costs consist primarily of costs that will continue to be incurred under operating leases for their remaining terms without economic benefit to the Company. A liability for contract termination costs is recognized at the date the Company ceases using the rights conveyed by the lease contract and is recorded at fair value, which is determined based on the remaining contractual lease rentals reduced by estimated sublease rentals.

## **Comprehensive Income**

Marketable debt securities are generally considered available-for-sale and are carried at fair value, based on quoted market prices or other readily available market information. Gains and losses are recognized when realized using the specific identification method and included in "Other Income, Net" in the Consolidated Statements of Operations. Unrealized gains and losses, net of taxes, are included in Accumulated Other Comprehensive Income, which is reflected as a separate component of Stockholders' Deficit in Prosper's Consolidated Balance Sheets. If management has determined that an other-than-temporary decline in fair value has occurred, the amount of the decline that is related to an identified loss is recognized in earnings. Prosper monitors its investment portfolio for potential impairment on a quarterly basis.

## **Recent Accounting Pronouncements**

### *Accounting Standards Adopted In The Current Year*

In December 2019, the FASB issued ASU No. 2019-12, "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes." This ASU simplifies the accounting for income taxes by removing certain exceptions related to the incremental approach for intraperiod tax allocation, the requirement to recognize or derecognize deferred tax liabilities related to equity method investments that are also foreign subsidiaries and the methodology for calculating income taxes in an interim period. The guidance also clarifies and simplifies other aspects of the accounting for income taxes, including a modification in the guidance for franchise taxes that are partially based on income and recognizing deferred taxes for a subsequent step-up in the tax basis of goodwill. The ASU was effective for the Company beginning in the first quarter of 2021. The Company has adopted ASU 2019-12 and concluded that the impact on its consolidated financial statements was immaterial.

### *Accounting Standards Issued, to be Adopted by the Company in Future Periods*

In March 2020, the FASB issued ASU No. 2020-04, "Reference Rate Reform (Topic 848)," which provides optional expedients and exceptions for applying GAAP on contract modifications and hedge accounting, in order to ease the financial reporting burdens of the expected market transition from the London Interbank Offered Rate ("LIBOR") and other interbank offered rates to alternative referenced rates, such as the Secured Overnight Financing Rate. This ASU can be adopted after its issuance date through December 31, 2022. The Company is currently evaluating the impact reference rate reform will have on its contracts that reference LIBOR in order to determine whether to adopt this guidance. See Note 10 - Debt for more details.

**NOTE 3. PROPERTY AND EQUIPMENT, NET**

Property and Equipment, Net consists of the following at the dates presented (in thousands):

	December 31,	
	2021	2020
Operating lease right-of-use assets	\$ 17,485	\$ 15,767
Computer equipment	15,090	13,841
Internal-use software and website development costs	41,816	33,176
Office equipment and furniture	2,961	2,872
Leasehold improvements	7,167	7,167
Assets not yet placed in service	5,224	5,035
Property and equipment	89,743	77,858
Less: Accumulated depreciation and amortization	(60,029)	(49,412)
Total Property and Equipment, Net	<u>\$ 29,714</u>	<u>\$ 28,446</u>

Depreciation and amortization expense for Property and Equipment for the years ended December 31, 2021, 2020 and 2019 was \$9.7 million, \$8.1 million and \$7.4 million, respectively. These expenses are included in "General and Administrative" expenses on the Consolidated Statements of Operations. Prosper capitalized internal-use software and website development costs in the amount of \$9.8 million, \$8.3 million and \$9.3 million for the years ended December 31, 2021, 2020 and 2019, respectively. We recognized impairment of \$0.4 million on our operating lease right-of-use assets related to vacant sublease space and the expected timing of finding new subtenants for the year ended December 31, 2020. Impairment was not material for years ended December 31, 2021 and 2019. Additionally, disclosures around the operating lease right-of-use assets are included in Note 16.

**NOTE 4. BORROWER LOANS, LOANS HELD FOR SALE AND NOTES, AT FAIR VALUE**

The fair value of the Borrower Loans originated and Notes issued through the Note Channel is estimated using discounted cash flow methodologies based upon a set of valuation assumptions. The primary assumptions used to value such Borrower Loans and Notes include default rates, prepayment rates and recoveries derived from historical performance, market conditions and discount rates applied to each credit grade based on the perceived credit risk of each credit grade. The obligation to pay principal and interest on any series of notes is equal to the payments, if any, received on the corresponding borrower loan, net of the servicing fee. As such, the fair value of the Notes is approximately equal to the fair value of the Borrower Loans originated through the Note Channel, adjusted for the servicing fee and the timing of borrower payments subsequently



disbursed to the note holders. The effective interest rate associated with any series of notes will be less than the interest rate earned on the corresponding borrower loan due to the servicing fee.

In 2019, Prosper began refinancing the purchase of Borrower Loans through the Whole Loan Channel through securitization transactions. Associated securitization trusts were deemed consolidated VIEs until September 2021, when the Company sold its share of the residual certificates issued by these securitization trusts and deconsolidated the VIEs. Prior to their deconsolidation, the Borrower Loans held in the securitization trusts were included in “Borrower Loans, at Fair Value” in the Consolidated Balance Sheets. See Note 6 - Securitization for additional disclosure and details on the deconsolidation of these securitization trust VIEs.

The fair value of Borrower Loans is estimated using discounted cash flow methodologies based upon a set of valuation assumptions. The primary assumptions used to value such borrower loans include default and prepayment rates derived from historical performance and discount rates based on the rates of return that investors would require when investing in financial instruments with similar characteristics.

Prosper Warehouse I Trust (“PWIT”) and Prosper Warehouse II Trust (“PWIT”), consolidated VIEs, purchase Loans Held for Sale (collectively “Warehouse Loans”) from the Company through warehouse arrangements with national banking associations and an asset manager. See Note 10 - Debt for more details. Prosper utilizes Warehouse Lines to finance Loans Held for Sale that may be subsequently contributed to securitization transactions or sold to investors. The fair value of the Loans Held for Sale is estimated using the same methodology as the one utilized for Borrower Loans valuation.

As of December 31, 2021 and 2020, Borrower Loans, Loans Held for Sale and Notes were as follows (in thousands):

	<b>Borrower Loans</b>		<b>Loans Held for Sale</b>		<b>Notes</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
Aggregate principal balance outstanding	\$ 265,232	\$ 393,642	\$ 242,278	\$ 279,113	\$ 267,415	\$ 217,110
Fair value adjustments	2,394	(15,379)	892	(4,492)	(1,430)	(8,731)
<b>Fair value</b>	<b>\$ 267,626</b>	<b>\$ 378,263</b>	<b>\$ 243,170</b>	<b>\$ 274,621</b>	<b>\$ 265,985</b>	<b>\$ 208,379</b>

PMI has offered assistance to qualified borrowers who are facing financial hardship as a result of the COVID-19 pandemic. These relief options include, among other things, the ability to delay up to four monthly loan payments, the ability to reduce minimum monthly payments for up to 12 months and extend the term of the loan by up to 11 months, and waived late and non-sufficient funds fees. Since COVID-19 relief was first offered in March 2020, and through December 31, 2021, approximately 9.1% of our current outstanding loan balances on a cumulative basis have enrolled in at least one of these COVID-19 relief programs. Approximately 1.2% of our outstanding loan balances are actively enrolled in at least one relief program as of December 31, 2021.

### **Borrower Loans**

On September 27, 2021, Borrower Loans held by the securitization trusts consolidated by PMI as VIEs were removed from the balance sheet as part of the deconsolidation of those entities. Refer to Note 6 for additional details on this deconsolidation.

As of December 31, 2021, outstanding Borrower Loans had original maturities of either 36 months or 60 months, had monthly payments with fixed interest rates ranging from 5.31% to 31.82% and had various original maturity dates through December 2026. At December 31, 2020, outstanding Borrower Loans had original terms between 36 months and 60 months, had monthly payments with fixed interest rates ranging from 5.31% to 31.82% and had various original maturity dates through December 2025.

As of December 31, 2021, the Borrower Loans that were 90 days or more delinquent had an aggregate principal amount of \$0.9 million and a fair value of \$0.1 million. As of December 31, 2020, the Borrower Loans that were 90 days or more delinquent had an aggregate principal amount of \$2.8 million and a fair value of \$0.3 million. We place loans on non-accrual status when they are over 120 days past due. As of December 31, 2021 and 2020, Borrower Loans in non-accrual status had a fair value of \$0.1 million and \$0.4 million, respectively.

### **Loans Held for Sale**

As of December 31, 2021, outstanding Loans Held for Sale had original maturities between 36 months and 60 months, had monthly payments with fixed interest rates ranging from 5.31% to 31.82% and had various original maturity dates through December 2026. At December 31, 2020, outstanding Loans Held for Sale had original maturities between 36 months and 60 months had monthly payments with fixed interest rates ranging from 5.31% to 31.82% and had various original maturity dates

through December 2025. Interest income earned on Loans Held for Sale by the Company was \$32.6 million and \$27.6 million during 2021 and 2020, respectively.

As of December 31, 2021, Loans Held for Sale that were 90 days or more delinquent, had an aggregate principal amount of \$0.8 million and a fair value of \$0.1 million. As of December 31, 2020, Loans Held for Sale that were 90 days or more delinquent, had an aggregate principal amount of \$0.8 million and a fair value of \$0.1 million. PMI places loans on non-accrual status when they are over 120 days past due. As of December 31, 2021 and December 31, 2020, Loans Held for Sale in non-accrual status had a fair value of \$0.1 million (for both periods).

## **NOTE 5. SERVICING ASSETS**

Prosper accounts for Servicing Assets at their estimated fair values with changes in fair values recorded in Servicing Fees. The initial asset or liability is recognized when Prosper sells Borrower Loans to unrelated third-party buyers through the Whole Loan Channel and the servicing rights are retained. The Servicing Assets are measured at fair value throughout the servicing period. The total gains and losses recognized on the sale of such Borrower Loans for the year ended December 31, 2021 was a gain of \$7.2 million recognized in Gain on Sale of Borrower Loans on the Consolidated Statement of Operations. The total gains and losses recognized on the sale of such Borrower Loans for the year ended December 31, 2020 was a gain of \$4.8 million recognized in Gain on Sale of Borrower Loans on the Consolidated Statement of Operations. The total gains and losses recognized on the sale of such Borrower Loans for the year ended December 31, 2019 were a gain of \$10.9 million recognized in Gain on Sale of Borrower Loans and a loss of \$17.6 million recognized in Fair Value of Warrants Vested on Sale of Borrower Loans on the Consolidated Statement of Operations.

As of December 31, 2021, Borrower Loans that were sold, but for which Prosper retained servicing rights, had a total outstanding principal balance of \$2.3 billion, original terms of either 36 months or 60 months, monthly payments with fixed interest rates ranging from 5.31% to 31.82%, and various original maturity dates through December 2026. As of December 31, 2020, Borrower Loans that were sold, but for which Prosper retained servicing rights, had a total outstanding principal balance of \$2.4 billion, original terms of either 36 months or 60 months, monthly payments with fixed interest rates ranging from 5.31% to 31.82%, and various original maturity dates through December 2025.

Contractually-specified servicing fees and ancillary fees totaling \$24.8 million, \$28.9 million and \$38.4 million are included on the Consolidated Statements of Operations in Servicing Fees, Net for the years ended December 31, 2021, 2020 and 2019, respectively.

### **Fair Value Valuation Method**

Prosper uses a discounted cash flow valuation methodology generally consisting of developing an estimate of future cash flows that are expected to occur over the life of a financial instrument and then discounts those cash flows at a rate of return that results in the fair value amount.

Significant unobservable inputs presented in the table within Note 7 below are those that Prosper considers significant to the estimated fair values of the Level 3 Servicing Assets. The following is a description of the significant unobservable inputs provided in the table.

### ***Market Servicing Rate***

Management estimates adequate market servicing rates that would fairly compensate a substitute servicer should one be required, which includes the profit that would be demanded in the marketplace. This rate is stated as a fixed percentage of outstanding principal balance on a per annum basis. With the assistance of a valuation specialist, management estimates market servicing rates based on observable market rates for other loan types in the industry and on observing bids from sub-servicing providers, adjusted for the unique loan attributes that are present in the specific loans that Prosper sells and services, and from information from backup service providers.

### ***Discount Rate***

The discount rate is a rate of return used to discount future expected cash flows to arrive at a present value, which represents the fair value of the loan servicing rights. Management uses a range of discount rates for the Servicing Assets based on comparable observed valuations of similar assets and publicly available disclosures related to servicing valuations, with comparability adjustments made to account for differences with Prosper's Servicing Assets.

### ***Default Rate***

The default rate presented in Note 7 is an annualized, average estimate considering all Borrower Loan categories (i.e. risk ratings and duration), and represents an aggregate of conditional default rate curves for each credit grade or Borrower Loan

category. Each point on a particular Borrower Loan category’s curve represents the percentage of principal expected to default per period based on the term and age of the underlying Borrower Loans. The assumption regarding defaults directly reduces servicing revenues because the amount of servicing revenues received is based on the amount collected each period.

### **Prepayment Rate**

The prepayment rate presented in Note 7 is an annualized, average estimate considering all Borrower Loan categories (i.e. risk ratings and duration), and represents an aggregate of conditional prepayment rate curves for each credit grade or Borrower Loan category. Each point on a particular Borrower Loan category’s curve represents the percentage of principal expected to prepay per period based on the term and age of the underlying Borrower Loans. Prepayments reduce servicing revenues as they shorten the period over which Prosper expects to collect fees on the Borrower Loans, which is used to project future servicing revenues.

## **NOTE 6. SECURITIZATIONS**

Prosper did not co-sponsor any securitizations in 2020 or 2021. During 2019, Prosper co-sponsored securitizations of unsecured personal whole loans facilitated through our marketplace with outstanding principal balance of \$573.0 million through three securitization trusts (PMIT 2019-1, PMIT 2019-2, and PMIT 2019-4) and retained a portion of the residual certificates in each securitization. Each securitization trust issued senior notes, a risk retention interest and residual certificates to finance the purchase of Borrower Loans. The risk retention interest represents the right to receive 5.0% of all amounts collected on the Borrower Loans held by the securitization trusts. The resulting senior notes were sold to third party investors. Prosper retained 65.5%, 16.4%, and 19.6% of the residual certificates issued by PMIT 2019-1, PMIT 2019-2, and PMIT 2019-4, respectively. The remaining residual certificates and all the risk retention interests were held by third-party investors. In addition to the retained residual certificates, Prosper’s continued involvement includes loan servicing responsibilities over the life of the underlying loans.

PMIT 2019-1, 2019-2 and 2019-4 were deemed VIEs. Prosper consolidated the VIEs as the primary beneficiary because Prosper, through its role as the servicer, had both the power to direct the activities that most significantly affect the VIEs’ economic performance and a variable interest that could potentially be significant to the VIEs through holding the retained residual certificates. In evaluating whether Prosper was the primary beneficiary, management considered both qualitative and quantitative factors regarding the nature, size and form of the Company’s involvement with the VIEs. For these VIEs, the creditors have no recourse to the general credit of Prosper and the liabilities of the VIEs can only be settled by the respective VIEs’ assets. Additionally, the assets of the VIEs can be used only to settle obligations of the VIEs. Because Prosper consolidated the securitization trusts, the loans held in the securitization trusts were included in “Borrower Loans, at Fair Value”, the notes sold to third party investors recorded in “Notes Issued by Securitization Trust”, and the risk retention interests and residual certificates held by third party investors in Certificates Issued by Securitization Trust, at Fair Value in the Consolidated Balance Sheets.

Management assesses whether Prosper is the primary beneficiary of its VIEs on an ongoing basis. On September 27, 2021, PMI sold its retained residual certificates issued by PMIT 2019-1, 2019-2 and 2019-4 to an unrelated third party for \$4.1 million in cash. As a result of this sale, management determined that the Company was no longer the primary beneficiary of these entities as it no longer held a variable interest that could potentially be significant to the VIEs. Accordingly, the net assets of PMIT 2019-1, 2019-2 and 2019-4 were deconsolidated from Prosper’s balance sheet on September 27, 2021, resulting in a loss on deconsolidation of \$1.5 million, consisting of the following (in thousands):

	PMIT 2019-1	PMIT 2019-2	PMIT 2019-4	Total
<b>Consideration received for residual certificates:</b>				
Cash	\$ 2,259	\$ 836	\$ 981	\$ 4,076
<b>Net assets deconsolidated:</b>				
Restricted Cash	\$ 2,485	\$ 4,324	\$ 4,088	\$ 10,897
Borrower Loans <sup>(1)</sup>	15,133	29,989	33,239	78,361
Notes Issued by Securitization Trust	(13,022)	(26,712)	(29,975)	(69,709)
Certificates Issued by Securitization Trust, at Fair Value <sup>(1)</sup>	(2,057)	(5,990)	(5,932)	(13,979)
<b>Total net assets deconsolidated</b>	<b>\$ 2,539</b>	<b>\$ 1,611</b>	<b>\$ 1,420</b>	<b>\$ 5,570</b>
<b>Total loss on deconsolidation</b>	<b>\$ (280)</b>	<b>\$ (775)</b>	<b>\$ (439)</b>	<b>\$ (1,494)</b>

<sup>(1)</sup> Because Borrower Loans and Certificates Issued by Securitization Trust were measured at fair value on the Company's consolidated balance sheets, the balances above reflect the fair values of these financial instruments as of September 27, 2021, the deconsolidation date.

This loss on deconsolidation is presented on the accompanying consolidated statement of operations as "Loss on Deconsolidation of VIEs." Prosper will continue to service the underlying borrower loans, but otherwise will have no continuing involvement with PMIT 2019-1, 2019-2 and 2019-4. In conjunction with the deconsolidation of the VIEs, the Company recognized Servicing Assets totaling \$0.2 million, the impact of which is included in Servicing Fees, Net on the accompanying consolidated statement of operations. Consideration received from the sale of the residual certificates, net of Restricted Cash of \$10.9 million retained by PMIT 2019-1, 2019-2 and 2019-4, is presented as a financing activity on the Company's consolidated statement of cash flows, while the loss on deconsolidation is presented as an operating activity.

## **NOTE 7. FAIR VALUE OF ASSETS AND LIABILITIES**

For a description of the fair value hierarchy and Prosper's fair value methodologies, see Note 2 - Summary of Significant Accounting Policies. Prosper did not transfer any assets or liabilities in or out of Level 3 during the year ended December 31, 2021 or 2020.

### **Financial Instruments Recorded at Fair Value**

The fair value of the Borrower Loans, Loans Held for Sale, Notes, Certificates Issued by Securitization Trust, servicing rights and loan trailing fee liability are estimated using discounted cash flow methodologies based upon a set of valuation assumptions. The primary assumptions used in the discounted cash flow model include default and prepayment rates derived from historical performance and discount rates applied to each credit grade based on the perceived credit risk of each credit grade.

When utilizing market data and bid-ask spreads, Prosper uses the price within the bid-ask spread that best represents fair value. When quoted prices do not exist, Prosper uses prices obtained from independent third-party pricing services to measure the fair value of investment assets. Prosper's primary independent pricing service provides prices based on observable trades and discounted cash flows that incorporate observable information, such as yields for similar types of securities (a benchmark interest rate plus observable spreads) and weighted-average maturity for the same or similar securities. The Company compares the prices obtained from its primary independent pricing service to the prices obtained from the additional independent pricing services to determine if the price obtained from the primary independent pricing service is reasonable. The Company does not adjust the prices received from independent third-party pricing services unless such prices are inconsistent with the definition of fair value and result in a material difference in the recorded amounts.

The Convertible Preferred Stock Warrant Liability is valued using a Black-Scholes option pricing model. Refer to Note 12 for additional information.

The following tables present the fair value hierarchy for assets and liabilities measured at fair value (in thousands):

<b>Balance at December 31, 2021</b>	<b>Level 1 Inputs</b>	<b>Level 2 Inputs</b>	<b>Level 3 Inputs</b>	<b>Total</b>
<b>Assets:</b>				
Borrower Loans, at Fair Value	\$ —	\$ —	\$ 267,626	\$ 267,626
Loans Held for Sale, at Fair Value	—	—	243,170	243,170
Servicing Assets	—	—	8,761	8,761
<b>Total Assets</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 519,557</b>	<b>\$ 519,557</b>
<b>Liabilities:</b>				
Notes, at Fair Value	\$ —	\$ —	\$ 265,985	\$ 265,985
Convertible Preferred Stock Warrant Liability	—	—	250,941	250,941
Loan Trailing Fee Liability (Note 9)	—	—	2,161	2,161
<b>Total Liabilities</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 519,087</b>	<b>\$ 519,087</b>
<b>Balance at December 31, 2020</b>				
<b>Assets:</b>				
Borrower Loans, at Fair Value	\$ —	\$ —	\$ 378,263	\$ 378,263
Loans Held for Sale, at Fair Value	—	—	274,621	274,621
Servicing Assets	—	—	9,242	9,242
<b>Total Assets</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 662,126</b>	<b>\$ 662,126</b>
<b>Liabilities:</b>				
Notes, at Fair Value	\$ —	\$ —	\$ 208,379	\$ 208,379
Certificates Issued by Securitization Trust, at Fair Value	—	—	22,917	22,917
Convertible Preferred Stock Warrant Liability	—	—	112,319	112,319
Loan Trailing Fee Liability (Note 9)	—	—	2,233	2,233
<b>Total Liabilities</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 345,848</b>	<b>\$ 345,848</b>

As PMI's Borrower Loans, Loans Held for Sale, Notes, Certificates Issued by Securitization Trust, Convertible Preferred Stock Warrant Liability, servicing assets and loan servicing rights do not trade in an active market with readily observable prices, the Company uses significant unobservable inputs to measure the fair value of these assets and liabilities. Financial instruments are categorized in the Level 3 valuation hierarchy based on the significance of unobservable factors in the overall fair value measurement. These fair value estimates may also include observable, actively quoted components derived from external sources. As a result, gains and losses for assets and liabilities within the Level 3 category may include changes in fair value that were attributable to both observable and unobservable inputs. Prosper did not transfer any assets or liabilities in or out of Level 3 for the year ended December 31, 2021 and 2020.

### Significant Unobservable Inputs

The following tables present quantitative information about the ranges of significant unobservable inputs used for the Company's Level 3 fair value measurements at December 31, 2021 and 2020:

	<b>December 31,</b>	
	<b>2021</b>	<b>2020</b>
<b>Borrower Loans, Loans Held for Sale, and Notes:</b>		
Discount rate	4.2 % — 14.3 %	4.5 % — 17.7 %
Default rate	2.0 % — 14.1 %	2.3 % — 17.9 %
<b>Certificates Issued by Securitization Trust:</b>		
Discount rate	3.3 % — 16.0 %	
Default rate	3.2 % — 15.3 %	
Prepayment rate	7.6 % — 35.4 %	

Borrower Loans held in consolidated securitization trusts and the associated Certificates Issued by Securitization Trust

were deconsolidated from the Company's balance sheet as of September 27, 2021 (Note 6), and as a result the tables above exclude these financial instruments. Refer to the section below for information about the inputs used to measure the fair value of these Borrower Loans and Certificates Issued by Securitization Trust.

	December 31,			
	2021		2020	
<b>Servicing Assets:</b>				
Discount rate	15.0 % —	25.0 %	15.0 % —	25.0 %
Default rate	1.5 % —	14.1 %	1.9 % —	17.7 %
Prepayment rate	10.2 % —	32.3 %	12.4 % —	28.9 %
Market servicing rate <sup>(1) (2)</sup>	0.648 % —	0.842 %	0.625 % —	0.818 %

<sup>(1)</sup> Servicing assets associated with loans enrolled in a relief program offered by the Company in response to the COVID-19 pandemic as of December 31, 2021 were measured using a market servicing rate assumption of 84.2 basis points. This rate was estimated using a multiplier consistent with observable market rates for other loan types, applied to the base market servicing rate assumption of 64.8 basis points.

<sup>(2)</sup> Excludes collection fees that would be passed on to a hypothetical third-party servicer. As of December 31, 2021 and 2020, the market rate for collection fees and non-sufficient fund fees was assumed to be 6 basis points and 7 basis points, respectively, for a weighted-average total market servicing rate of 70.8 basis points to 90.2 basis points and 69.5 basis points to 88.8 basis points, respectively.

	December 31,			
	2021		2020	
<b>Loan Trailing Fee Liability:</b>				
Discount rate	15.0 % —	25.0 %	15.0 % —	25.0 %
Default rate	1.5 % —	14.1 %	1.9 % —	17.7 %
Prepayment rate	10.2 % —	32.3 %	12.4 % —	28.9 %

At December 31, 2021 and 2020, the discounted cash flow methodology used to estimate the Note fair values used the same projected cash flows as the related Borrower Loans.

### Deconsolidated Assets and Liabilities

As discussed in Note 6, the Company deconsolidated its Borrower Loans held in securitization trusts and Certificates Issued by Securitization Trust on September 27, 2021. The amounts deconsolidated for these financial instruments represent their estimated fair value on that date. Borrower Loan fair value measurements were determined using significant unobservable inputs, as described in the previous section. Key assumptions for the valuation of Borrower Loans are presented in the following table (in thousands, except percentages):

<b>Borrower Loans</b>	<b>September 27, 2021</b>	
Fair value, using the following assumptions:	\$	78,361
Weighted-average discount rate		9.26 %
Weighted-average default rate		8.13 %

Because the residual certificates held by the Company were sold in a market transaction to an unrelated third party, it was determined that the sales price was a fair representation of their fair value. Market assumptions were derived from the sale

and utilized to estimate the fair value of the risk retention interests as well. Key assumptions for the valuation of Certificates Issued by Securitization Trust are presented in the following table (in thousands, except percentages):

<b>Certificates Issued by Securitization Trust</b>	<b>September 27, 2021</b>
Fair value, using the following assumptions:	\$ 13,979
Weighted-average discount rate	7.99 %
Weighted-average default rate	7.68 %
Weighted-average prepayment rate	17.94 %

### Changes in Level 3 Fair Value Assets and Liabilities on a Recurring Basis

The following table presents additional information about Level 3 Loans Held for Sale, Borrower Loans, Notes and Certificates Issued by Securitization Trust measured at fair value on a recurring basis for the year ended December 31, 2021 and 2020 (in thousands):

	<u>Assets</u>		<u>Liabilities</u>		
	<u>Borrower Loans</u>	<u>Loans Held for Sale</u>	<u>Notes</u>	<u>Certificates Issued by Securitization Trust</u>	<u>Total</u>
<b>Fair Value at January 1, 2020</b>	\$ 634,019	\$ 142,026	\$ (244,171)	\$ (52,168)	\$ 479,706
Purchase of Borrower Loans/Issuance of Notes	133,644	1,338,082	(133,228)	—	1,338,498
Principal repayments	(332,629)	(104,798)	149,409	22,136	(265,882)
Borrower Loans sold to third parties	(6,731)	(1,089,974)	—	—	(1,096,705)
Other changes	(1,420)	1,168	(53)	436	131
Change in fair value	(48,620)	(11,883)	19,664	6,679	(34,160)
<b>Fair Value at December 31, 2020</b>	378,263	274,621	(208,379)	(22,917)	421,588
Purchase of Borrower Loans/Issuance of Notes	232,000	1,712,705	(231,933)	—	1,712,772
Principal repayments	(260,689)	(164,165)	172,250	14,934	(237,670)
Borrower Loans sold to third parties	(2,664)	(1,580,164)	—	—	(1,582,828)
Other changes	(1,518)	(249)	167	113	(1,487)
Change in fair value	595	422	1,910	(6,110)	(3,183)
Deconsolidation of VIEs (Note 6)	(78,361)	—	—	13,980	(64,381)
<b>Fair Value at December 31, 2021</b>	<u>\$ 267,626</u>	<u>\$ 243,170</u>	<u>\$ (265,985)</u>	<u>\$ —</u>	<u>\$ 244,811</u>

The following table presents additional information about Level 3 Servicing Assets measured at fair value on a recurring basis for the year ended December 31, 2021 and 2020 (in thousands):

	<u>Servicing Assets</u>
<b>Fair Value at January 1, 2020</b>	\$ 12,602
Additions	5,829
Less: Changes in fair value	(9,189)
<b>Fair Value at December 31, 2020</b>	\$ 9,242
Additions	7,973
Recognition of Servicing Assets upon deconsolidation of VIEs (Note 6)	215
Less: Change in fair value	(8,669)
<b>Fair Value at December 31, 2021</b>	<u>\$ 8,761</u>

The following tables present additional information about Level 3 Convertible Preferred Stock Warrant Liability measured at fair value on a recurring basis for the year ended December 31, 2021 and 2020 (in thousands):

	<b>Convertible Preferred Stock Warrant Liability</b>
<b>Fair Value at January 1, 2020</b>	\$ 149,996
Change in fair value	(37,677)
<b>Fair Value at December 31, 2020</b>	\$ 112,319
Change in fair value	138,622
<b>Fair Value at December 31, 2021</b>	<u>\$ 250,941</u>

### ***Loan Trailing Fee***

The fair value of the Loan Trailing Fee represents the present value of the expected monthly Loan Trailing Fee payments, which takes into consideration certain assumptions related to expected prepayment rates and default rates using a discounted cash flow model. The assumptions used are the same as those used for the valuation of Servicing Assets, as described below.

The following table presents additional information about Level 3 Loan Trailing Fee Liability measured at fair value on a recurring basis for the year ended December 31, 2021 and 2020 (in thousands):

	<b>Loan Trailing Fee Liability</b>
<b>Balance at January 1, 2020</b>	\$ 2,997
Issuances	1,349
Cash payment of Loan Trailing Fee	(2,421)
Change in fair value	308
<b>Balance at December 31, 2020</b>	\$ 2,233
Issuances	1,775
Cash payment of Loan Trailing Fee	(2,100)
Change in fair value	253
<b>Balance at December 31, 2021</b>	<u>\$ 2,161</u>



### Significant Recurring Level 3 Fair Value Input Sensitivity

Key economic assumptions and the sensitivity of the fair value to immediate changes in those assumptions at December 31, 2021 and 2020 for Borrower Loans and Loans Held for Sale are presented in the following table (in thousands, except percentages).

<b>Borrower Loans and Loans Held for Sale:</b>	<b>December 31, 2021</b>	<b>December 31, 2020</b>
Fair value, using the following assumptions:	\$ 510,796	\$ 652,884
Weighted-average discount rate	5.64 %	8.26 %
Weighted-average default rate	10.08 %	11.58 %
Fair value resulting from:		
100 basis point increase in discount rate	\$ 505,732	\$ 647,093
200 basis point increase in discount rate	\$ 500,763	\$ 641,437
Fair value resulting from:		
100 basis point decrease in discount rate	\$ 516,064	\$ 658,817
200 basis point decrease in discount rate	\$ 521,437	\$ 664,895
Fair value resulting from:		
100 basis point increase in default rate	\$ 506,362	\$ 646,421
200 basis point increase in default rate	\$ 501,921	\$ 639,987
Fair value resulting from:		
100 basis point decrease in default rate	\$ 515,326	\$ 659,377
200 basis point decrease in default rate	\$ 519,851	\$ 665,904

Key economic assumptions and the sensitivity of the fair value to immediate changes in those assumptions at December 31, 2021 and 2020 for Notes are presented in the following table (in thousands, except percentages).

<b>Notes:</b>	<b>December 31, 2021</b>	<b>December 31, 2020</b>
Fair value, using the following assumptions:	\$ 265,985	\$ 208,379
Weighted-average discount rate	5.76 %	8.93 %
Weighted-average default rate	10.70 %	12.26 %
Fair value resulting from:		
100 basis point increase in discount rate	\$ 263,326	\$ 206,528
200 basis point increase in discount rate	\$ 260,735	\$ 204,720
Fair value resulting from:		
100 basis point decrease in discount rate	\$ 268,714	\$ 210,274
200 basis point decrease in discount rate	\$ 271,516	\$ 212,217
Fair value resulting from:		
100 basis point increase in default rate	\$ 263,644	\$ 206,304
200 basis point increase in default rate	\$ 261,318	\$ 204,238
Fair value resulting from:		
100 basis point decrease in default rate	\$ 268,340	\$ 210,463
200 basis point decrease in default rate	\$ 270,711	\$ 212,558

Key economic assumptions and the sensitivity of the fair value to immediate changes in those assumptions at December 31, 2021 and 2020 for Servicing Assets is presented in the following table (in thousands, except percentages).

<b>Servicing Assets:</b>	<b>December 31, 2021</b>	<b>December 31, 2020</b>
Fair value, using the following assumptions:	\$ 8,761	\$ 9,242
Weighted-average market servicing rate	0.650 %	0.631 %
Weighted-average prepayment rate	20.82 %	19.84 %
Weighted-average default rate	12.54 %	12.78 %
Fair value resulting from:		
Market servicing rate increase of 0.025%	\$ 8,203	\$ 8,689
Market servicing rate decrease of 0.025%	\$ 9,320	\$ 9,796
Fair value resulting from:		
Applying a 1.1 multiplier to prepayment rate	\$ 8,568	\$ 9,064
Applying a 0.9 multiplier to prepayment rate	\$ 8,957	\$ 9,423
Fair value resulting from:		
Applying a 1.1 multiplier to default rate	\$ 8,646	\$ 9,116
Applying a 0.9 multiplier to default rate	\$ 8,878	\$ 9,369

These sensitivities are hypothetical and should be evaluated with care. The effect on fair value of a variation in assumptions generally cannot be determined because the relationship of the change in assumptions to the fair value may not be linear. Additionally, the impact of a variation in a particular assumption on the fair value is calculated while holding other

assumptions constant. In reality, changes in one factor may lead to changes in other factors, which could impact the above hypothetical effects.

### Assets and Liabilities Not Recorded at Fair Value

The following tables present the fair value hierarchy for assets and liabilities not recorded at fair value (in thousands):

Balance at December 31, 2021	Carrying Amount	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Fair Value
<b>Assets:</b>					
Cash and Cash Equivalents	\$ 67,700	\$ 67,700	\$ —	\$ —	\$ 67,700
Restricted Cash - Cash and Cash Equivalents	163,047	163,047	—	—	163,047
Restricted Cash - Certificates of Deposit	4,878	—	4,878	—	4,878
Accounts Receivable	1,054	—	1,054	—	1,054
<b>Total Assets</b>	<b>\$ 236,679</b>	<b>\$ 230,747</b>	<b>\$ 5,932</b>	<b>\$ —</b>	<b>\$ 236,679</b>
<b>Liabilities:</b>					
Accounts Payable and Accrued Liabilities	\$ 25,790	\$ —	\$ 25,790	\$ —	\$ 25,790
Payable to Investors	152,794	—	152,794	—	152,794
Warehouse Lines	209,275	—	211,177	—	211,177
Paycheck Protection Program loan (Note 9)	8,590	—	8,556	—	8,556
<b>Total Liabilities</b>	<b>\$ 396,449</b>	<b>\$ —</b>	<b>\$ 398,317</b>	<b>\$ —</b>	<b>\$ 398,317</b>

Balance at December 31, 2020	Carrying Amount	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Fair Value
<b>Assets:</b>					
Cash and Cash Equivalents	\$ 50,145	\$ 50,145	\$ —	\$ —	\$ 50,145
Restricted Cash - Cash and Cash Equivalents	158,846	158,846	—	—	158,846
Restricted Cash - Certificates of Deposit	4,877	—	4,877	—	4,877
Accounts Receivable	605	—	605	—	605
<b>Total Assets</b>	<b>\$ 214,473</b>	<b>\$ 208,991</b>	<b>\$ 5,482</b>	<b>\$ —</b>	<b>\$ 214,473</b>
<b>Liabilities:</b>					
Accounts Payable and Accrued Liabilities	\$ 17,876	\$ —	\$ 17,876	\$ —	\$ 17,876
Payable to Investors	124,094	—	124,094	—	124,094
Notes Issued by Securitization Trust	156,782	—	158,951	—	158,951
Warehouse Lines	242,479	—	242,261	—	242,261
Paycheck Protection Program loan (Note 9)	8,505	—	8,540	—	8,540
<b>Total Liabilities</b>	<b>\$ 549,736</b>	<b>\$ —</b>	<b>\$ 551,722</b>	<b>\$ —</b>	<b>\$ 551,722</b>

The estimated fair values of Cash and Cash Equivalents, Restricted Cash, Accounts Receivable, Accounts Payable and Accrued Liabilities and Payable to Investors approximate their carrying values because of their short-term nature.

## NOTE 8. GOODWILL AND OTHER INTANGIBLE ASSETS, NET

### Goodwill

Prosper's Goodwill balance of \$36.4 million at December 31, 2021 did not change during the year ended December 31, 2021. The Company recorded no Goodwill impairment for the years ended December 31, 2021, 2020 and 2019.

### Other Intangible Assets, Net

The following table presents the detail of other Intangible Assets subject to amortization as of the following dates (dollars in thousands):

	December 31, 2021			Remaining Useful Life (In Years)
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	
Developed technology	\$ 3,060	\$ (3,060)	\$ —	—
User base and customer relationships	5,050	(4,722)	328	3.3
Brand name	60	(60)	—	—
<b>Total Intangible Assets subject to amortization</b>	<b>\$ 8,170</b>	<b>\$ (7,842)</b>	<b>\$ 328</b>	

  

	December 31, 2020			Remaining Useful Life (In Years)
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	
Developed technology	\$ 3,060	\$ (3,060)	\$ —	—
User base and customer relationships	5,050	(4,550)	500	4.3
Brand name	60	(60)	—	—
<b>Total Intangible Assets subject to amortization</b>	<b>\$ 8,170</b>	<b>\$ (7,670)</b>	<b>\$ 500</b>	

The Company recorded no additional intangibles for the year ended December 31, 2021 or 2020. For the years ended December 31, 2021, 2020 and 2019, the Company recorded no intangible asset impairment.

Amortization expense for the years ended December 31, 2021, 2020 and 2019 was \$0.2 million, \$0.2 million and \$0.3 million, respectively. Estimated amortization of purchased Intangible Assets for future periods is as follows (in thousands):

	Amounts
Years Ending December 31,	
2022	\$ 136
2023	107
2024	85
Thereafter	—
<b>Total Amortization Expenses</b>	<b>\$ 328</b>

## NOTE 9. OTHER LIABILITIES

Other Liabilities consists of the following (in thousands):

	December 31,	
	2021	2020
Operating lease liabilities	\$ 11,026	\$ 13,342
Paycheck Protection Program loan (Note 10)	8,590	8,505
Loan trailing fee liability	2,161	2,233
Deferred revenue	1,196	63
Deferred income tax liability	560	489
Financing lease liabilities	78	—
Other	289	425
<b>Total Other Liabilities</b>	<b>\$ 23,900</b>	<b>\$ 25,057</b>

Additionally, disclosures around the operating lease liabilities are included in Note 16.

## NOTE 10. DEBT

### Prosper Warehouse Trust Agreements

Prosper's consolidated VIEs, PWIT and PWIIT (together, "Warehouse VIEs"), each entered into an agreement (together, "Warehouse Agreements") with certain lenders for committed revolving lines of credit ("Warehouse Lines") during 2018 and 2019, respectively. In connection with the Warehouse Agreements, the Warehouse VIEs each entered into a security agreement with a bank as administrative agent and a national banking association as collateral trustee and paying agent. Proceeds under the Warehouse Lines may only be used to purchase certain unsecured personal loans and related rights and documents from Prosper and to pay fees and expenses related to the Warehouse Lines. Both Warehouse VIEs are consolidated because Prosper is the primary beneficiary of the VIEs. The assets of the VIEs can be used only to settle obligations of the VIEs. Additionally, the creditors of the Warehouse Lines have no recourse to the general credit of Prosper. The loans held in the Warehouse VIEs are included in "Loans Held for Sale, at Fair Value" and Warehouse Lines are in "Warehouse Lines" in the consolidated balance sheets.

Both Warehouse Agreements contain the same certain covenants including restrictions on each Warehouse VIE's ability to incur indebtedness, pledge assets, merge or consolidate and enter into certain affiliate transactions. Each Warehouse Agreement also requires Prosper to maintain a minimum tangible net worth of \$25 million, minimum net liquidity of \$15 million and a maximum leverage ratio of 5:1. Tangible net worth is defined as the sum of (i) (A) Convertible Preferred Stock, (B) total Stockholders' Deficit and (C) Convertible Preferred Stock Warrant Liability, less the sum of (ii) (A) goodwill and (B) intangible assets. Net liquidity is defined as the sum of cash, cash equivalents and Available for Sale Investments. The leverage ratio is defined as the ratio of total consolidated indebtedness other than non-recourse securitization indebtedness, non-recourse or limited recourse warehouse indebtedness and borrower dependent notes, to tangible net worth. As of December 31, 2021, Prosper was in compliance with the covenants under each Warehouse Agreement.

### PWIT Warehouse Line

On January 19, 2018, through PWIT, Prosper entered into a Warehouse Agreement for a Warehouse Line. Effective June 12, 2018, the Warehouse Agreement was amended. The amendments included increasing the committed line of credit from \$100 million to \$200 million, extending the term of the PWIT Warehouse Line (including the final maturity date), amending the monthly unused commitment fee and reducing the rate at which the PWIT Warehouse Line bears interest.

Subsequently the Warehouse Agreement was amended on June 20, 2019 to extend the facility, to reduce the interest rate and unused commitment fee and to expand the eligibility criteria for unsecured personal loans that can be financed through the PWIT Warehouse Line. The Warehouse Agreement was amended again on May 19, 2021 to extend the facility, to reduce the interest and advance rates and to include provisions for an alternative benchmark rate in light of the ongoing phaseout of LIBOR.

Under the amended agreement, proceeds of loans made under the PWIT Warehouse Line may be borrowed, repaid and reborrowed until the earlier of June 20, 2023 or the occurrence of any accelerated amortization event or event of default. Repayment of any outstanding proceeds will be made over the 24 month period ending June 20, 2025, excluding the occurrence of any accelerated amortization event or event of default.

Under the amended agreement, the PWIT Warehouse Line bears interest at a rate of an established benchmark rate (currently LIBOR) plus 2.75% and has an advance rate of 87%. Additionally, the PWIT Warehouse Line bears a monthly unused commitment fee of 0.50% per annum on the undrawn portion available under the PWIT Warehouse Line.

As of December 31, 2021, Prosper had \$96.6 million in debt and accrued interest outstanding under the PWIT Warehouse Line. This debt is secured by an aggregate outstanding principal balance of \$113.6 million included in Loans Held for Sale, at Fair Value on the Consolidated Balance Sheets. As of December 31, 2021 the undrawn portion available under the Warehouse Line was \$103.4 million. Prosper incurred \$0.3 million of deferred debt issuance costs for the amendment signed on May 19, 2021, which are included in Prepaids and Other Assets on the Consolidated Balance Sheets and will be amortized to interest expense over the term of the revolving arrangement.

Prosper purchased a swaption to limit the Company's exposure to increases in LIBOR. The swaptions are recorded on the consolidated balance sheet at fair value in Prepaids and Other Assets. Any changes in the fair value are recorded in the Change in Fair Value of Financial Instruments, Net on the Consolidated Statement of Operations. The fair value of the swaption was not material as of December 31, 2021.

### ***PWIT Warehouse Line***

On March 28, 2019, through PWIIT, Prosper entered into a second Warehouse Agreement for a \$300 million Warehouse Line with a national banking association different than that of PWIT.

On March 4, 2021, PMI extended its \$300 million PWIIT Warehouse Line (“PWIIT Extension”). The PWIIT Extension consists of a \$230 million Class A loan with the existing PWIIT Warehouse Line national banking association and a \$70 million Class B loan with an asset manager. The advance rate on the PWIIT Extension is 90%. Under the PWIIT Extension, proceeds of loans made under the PWIIT Warehouse Line may be borrowed, repaid and reborrowed until the earlier of March 3, 2023 or the occurrence of any accelerated amortization event or event of default. Repayment of any outstanding proceeds will be made over a 24-month period ending March 4, 2025, excluding the occurrence of any accelerated amortization event or event of default.

Under the PWIIT Extension, the Class A loan bears interest at a rate of the national banking association's asset-backed commercial paper rate, plus a spread of 2.05%. The spread increases by 0.375% during the first 12 months immediately following the termination of the revolving period with an additional increase of 0.75% thereafter. Additionally, the Class A loan bears a monthly unused commitment fee of 0.50% per annum on the undrawn portion available under the Class A loan.

The Class B loan bears interest at a rate of one-month LIBOR, plus a spread of 8.75%. The spread increases by 0.375% during the first twelve months immediately following the termination of the revolving period with an additional increase of 0.75% thereafter. Additionally, the Class B loan bears a monthly unused commitment fee of 0.50% or 1.00% per annum on the undrawn portion available under the Class B loan, depending on the Class B loan utilization percentage.

As of December 31, 2021, Prosper had \$112.7 million in debt and accrued interest outstanding under the PWIIT Warehouse Line. This debt is secured by an aggregate outstanding principal balance of \$126.8 million included in Loans Held for Sale, at Fair Value on the Consolidated Balance Sheets. At December 31, 2021 the undrawn portion available under the PWIIT Warehouse Line was \$187.3 million. Prosper incurred \$1.3 million of deferred debt issuance costs for the extension in March 2021, which are included in “Prepaids and Other Assets” and will be amortized to interest expense over the term of the revolving arrangement.

### ***Phaseout of LIBOR***

A portion of the interest rate charged on our Warehouse Lines is currently based on LIBOR. LIBOR has been the subject of reform and was expected to phase out by the end of fiscal 2021; however, on November 30, 2020, the ICE Benchmark Administration Limited (“ICE”) announced plans to delay the phase out of LIBOR to June 30, 2023. The consequences of the discontinuation of LIBOR cannot be entirely predicted but could impact the interest expense incurred on these debt instruments. We have negotiated alternatives to LIBOR on the PWIT and PWIIT Warehouse Lines, which we may renegotiate before LIBOR ceases to be a widely available reference rate.

### ***Paycheck Protection Program Loan***

The Paycheck Protection Program (“PPP”), established by the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”) and sponsored by the U.S. Small Business Administration (“SBA”), provides small businesses – sole proprietors, independent contractors, and, with certain industry exceptions, businesses with fewer than 500 employees – the opportunity to apply for a loan of up to \$10 million to cover up to 24 weeks (the “covered period”) of payroll costs, including benefits. Funds may also be used to cover interest on mortgage obligations, leases, and utilities incurred or in place before February 15, 2020. PPP loan payments are deferred, and based on SBA guidance, will be forgiven as long as (i) loan proceeds

are used for covered expenses, (ii) full-time employee headcount is maintained during the eight-week period covered by the PPP loan and (iii) compensation for employees who earned less than \$100,000 on an annualized basis in 2019 is not reduced by more than 25% during the covered period. For purposes of calculating maximum loan eligibility, payroll costs per employee are capped at \$100,000 on an annualized basis.

In April 2020, the Company obtained an \$8.4 million loan under the PPP. The loan accrued interest at one percent per annum and had a two-year term through April 2022, with payments deferred until such time as an approval or denial of forgiveness is received from the SBA. The Company used the PPP Loan proceeds to cover payroll costs, rent and utilities in accordance with the relevant terms and conditions of the CARES Act. As of December 31, 2021, principal and interest outstanding under the PPP loan totaled \$8.6 million and is included in Other Liabilities on the accompanying consolidated balance sheet. PMI formally applied for forgiveness with the lender and the SBA. On March 21, 2022, the Company was notified by the SBA that all principal and interest under the loan, totaling \$8.6 million, was forgiven in full through a forgiveness payment made on March 15, 2022 by the SBA to the lender of the PPP loan.

#### **NOTE 11. NET INCOME (LOSS) PER SHARE**

PMI computes its net income (loss) per share in accordance with ASC Topic 260, *Earnings Per Share* (“ASC Topic 260”). Under ASC Topic 260, basic net income (loss) per share is computed by dividing net income (loss) available to common stockholders by the weighted average number of common shares outstanding for the period and excludes the effects of any potentially dilutive securities.

PMI’s net income (loss) per share is calculated using the two-class method in accordance with ASC Topic 260. The two-class method allocates earnings that otherwise would have been available to common shareholders to holders of participating securities. Management considers all series of our Convertible Preferred Stock to be participating securities due to their rights to participate in dividends with Common Stock. As such, earnings allocated to these participating securities, which include participation rights in undistributed earnings, are subtracted from net income to determine total undistributed earnings to be allocated to common stockholders.

All participating securities are excluded from basic weighted-average common shares outstanding. Prior to any conversion to common shares, each series of Prosper’s Convertible Preferred Stock is entitled to participate on an if-converted basis in distributions of earnings, when and if declared by the board of directors, that are made to common stockholders and consequently, these shares were considered participating securities. During the year ended December 31, 2021, 2020 and 2019, certain shares issued as a result of the early exercise of stock options which are subject to a repurchase right by PMI were entitled to receive non-forfeitable dividends during the vesting period and consequently, are considered participating securities.

The weighted average shares used in calculating basic and diluted net income (loss) per share excludes certain shares that are disclosed as outstanding shares in the Consolidated Balance Sheets because such shares are restricted as they were associated with options that were early exercised and continue to remain unvested.

Basic and diluted net income (loss) per share were calculated as follows for the periods presented (in thousands, except share and per share amounts):

	December 31,		
	2021	2020	2019
<b>Numerator:</b>			
Net (Loss) Income	\$ (138,341)	\$ 18,551	\$ (13,711)
Plus: Return on Share Purchase	—	2,381	1,066
Less: Net Income Allocated to Participating Securities	—	(15,172)	—
Net (Loss) Income Attributable to Common Stockholders	<u>\$ (138,341)</u>	<u>\$ 5,760</u>	<u>\$ (12,645)</u>
<b>Denominator:</b>			
Weighted average shares used in computing basic and diluted Net Income (Loss) Per Share	70,767,275	68,592,557	70,511,605
Effect of dilutive securities:			
Stock options	—	24,816,184	—
Convertible preferred stock warrants	—	213,264,845	—
Weighted average shares used in computing diluted net income (loss) per share - diluted	<u>70,767,275</u>	<u>306,673,586</u>	<u>70,511,605</u>
Net (Loss) Income Per Share – Basic	<u>\$ (1.95)</u>	<u>\$ 0.08</u>	<u>\$ (0.18)</u>
Net (Loss) Income Per Share – Diluted	<u>\$ (1.95)</u>	<u>\$ 0.02</u>	<u>\$ (0.18)</u>

The following common stock equivalents were excluded from the computation of diluted net income (loss) per share for the periods presented because including them would have been anti-dilutive (number of shares):

	December 31,		
	2021	2020	2019
<b>Excluded Securities:</b>			
Convertible Preferred Stock issued and outstanding	158,365,655	158,365,655	209,613,570
Stock options issued and outstanding	72,756,708	48,265,056	73,851,862
Warrants issued and outstanding	1,080,349	1,080,349	1,080,349
Series E-1 Convertible Preferred Stock warrants	35,544,141	—	35,544,141
Series F Convertible Preferred Stock warrants	177,720,704	—	177,720,704
<b>Total Excluded Securities</b>	<u>445,467,557</u>	<u>207,711,060</u>	<u>497,810,626</u>



## **NOTE 12. CONVERTIBLE PREFERRED STOCK, CONVERTIBLE PREFERRED STOCK WARRANT LIABILITY AND COMMON STOCK**

### **Convertible Preferred Stock**

Under PMI's amended and restated certificate of incorporation, preferred stock is issuable in series and the Board of Directors is authorized to determine the rights, preferences, and terms of each series.

In January 2013, PMI issued and sold 69,340,760 shares of Series A Convertible Preferred Stock in a private placement at a purchase price of \$0.29 per share for \$19.8 million, net of issuance costs. In connection with that sale, PMI issued 25,585,910 shares at par value \$0.01 per share of Series A-1 Convertible Preferred Stock to the holders of shares of PMI's Convertible Preferred Stock that was outstanding immediately prior to the sale ("Old Preferred Shares") in consideration for such stockholders participating in the sale. In connection with the Series A sale, Old Preferred Shares were converted into shares of Common Stock at a ratio of 1:1 if the holder of the Old Preferred Shares participated in the Series A sale or at a 10:1 ratio if the holder of the Old Preferred Shares did not so participate. In addition, each such participating holder received a share of Series A-1 Convertible Preferred Stock for every dollar of liquidation preference associated with an Old Preferred Share held by such holder. Each share of Series A-1 preferred stock has a liquidation preference of \$2.00 and converts into Common Stock at a ratio of 1,000,000:1. The Series A and Series A-1 Convertible Preferred Stock were sold in reliance on the exemption from the registration requirements of the Securities Act set forth in Section 4(2) of the Securities Act and Regulation D promulgated thereunder regarding sales by an issuer not involving a public offering.

In September 2013, PMI issued and sold 41,443,670 shares of Series B Convertible Preferred Stock in a private placement at a purchase price of \$0.60 per share for approximately \$24.9 million, net of issuance costs. The Series B Convertible Preferred Stock was sold in reliance on the exemption from the registration requirements of the Securities Act set forth in Section 4(2) of the Securities Act and Regulation D promulgated thereunder regarding sales by an issuer not involving a public offering.

In May 2014, PMI issued and sold 24,404,770 shares of Series C Convertible Preferred Stock in a private placement at a purchase price of \$2.87 per share for approximately \$69.9 million, net of issuance costs. The Series C Convertible Preferred Stock was sold in reliance on the exemption from the registration requirements of the Securities Act set forth in Section 4(2) of the Securities Act and Regulation D promulgated thereunder regarding sales by an issuer not involving a public offering. The purpose of the Series C private placement was to raise funds for general corporate needs and for the tender offer discussed below.

On June 18, 2014, PMI issued a Tender Offer Statement to purchase up to 6,963,785 shares, in the aggregate, of its Series A Convertible Preferred Stock and Series B Convertible Preferred Stock at a price equal to \$2.87 per share. Upon closure of the tender offer on July 16, 2014, 782,540 shares of Series A Convertible Preferred Stock and 5,667,790 shares of Series B Convertible Preferred Stock were purchased for an aggregate price of \$18.5 million.

In April 2015, PMI issued and sold 23,888,640 shares of Series D Convertible Preferred Stock in a private placement at a purchase price of \$6.91 per share for proceeds of approximately \$164.8 million, net of issuance costs. The Series D Convertible Preferred Stock was sold in reliance on the exemption from the registration requirements of the Securities Act set forth in Section 4(2) of the Securities Act and Regulation D promulgated thereunder regarding sales by an issuer not involving a public offering. The purpose of the Series D private placement was to raise funds for general corporate needs and for the share repurchase discussed below.

In December 2016, PMI authorized 40,000,000 shares of Series E Convertible Preferred Stock. These shares are reserved for the Convertible Preferred Stock warrants that were also issued in December 2016.

On December 16, 2016, PMI issued a warrant to purchase 20,267,135 shares of Series E-1 Convertible Preferred Stock of PMI at an exercise price of \$0.01 per share (the "First Series E-1 Warrant") to Pinecone Investments LLC ("Pinecone"), an affiliate of Colchis Capital Management, L.P. ("Colchis").

On February 27, 2017, PMI issued to Pinecone Investments LLC a second warrant (the "Second Series E-1 Warrant," and together with the First Series E-1 Warrant, the "Series E-1 Warrants") to purchase 15,277,006 shares of Series E-1 Convertible Preferred Stock at an exercise price of \$0.01 per share. The Series E-1 Warrants are immediately exercisable, in whole or in part, by paying in cash the full purchase price payable in respect of the number of shares purchased. The Series E-1 Warrants were issued pursuant to the Warrant Agreement dated December 16, 2016 between PMI and Colchis, as previously described in PMI's Current Report on Form 8-K as filed with the SEC on December 22, 2016.

In connection with the Consortium Purchase Agreement (as defined in Note 15) entered into with affiliates of the Consortium (as defined in Note 15, such affiliates, "Warrant Holders") a warrant agreement was signed (the "Series F Warrant Agreement"). Pursuant to the Series F Warrant Agreement, PMI issued to the Consortium three warrants (together, the "Series

F Warrant”) to purchase up to an aggregate 177,720,706 shares of PMI’s Series F Convertible Preferred Stock at an exercise price of \$0.01 per share (the “Series F Warrant Shares”).

The Warrant Holders' right to exercise the Series F Warrant was subject to monthly vesting during the term of the Consortium Purchase Agreement based upon the volume of loans the Consortium elected to purchase (if any) in each month, subject to certain cure rights such as offering additional loans for sale in subsequent periods. Under the terms of the Series F Warrant Agreement, the Series F Warrant Shares may also vest in full upon a change of control of PMI, insolvency of PMI or PFL, certain breaches of contract by PMI or PFL that are not cured within a defined cure period and upon the occurrence of certain events set forth in the Warrant Agreement.

The Series F Warrant will be exercisable with respect to vested Series F Warrant Shares, in whole or in part, at any time prior to the tenth anniversary of its date of issuance. The number of shares underlying the Series F Warrant may be adjusted following certain events such as stock splits, dividends, reclassifications and certain other issuances by PMI.

On September 20, 2017, Prosper issued and sold 37,249,497 shares of Series G Convertible Preferred Stock in a private placement at a purchase price of \$1.34 per share for proceeds of approximately \$47.9 million, net of issuance costs. The Series G Convertible Preferred Stock was sold in reliance on the exemption from the registration requirements of the Securities Act set forth in Section 4(a)(2) of the Securities Act regarding sales by an issuer not involving a public offering. The purpose of the Series G private placement was to raise funds for general corporate purposes.

On December 23, 2019, Prosper entered into a Stock Repurchase Agreement with an investor to repurchase 7,221,020 shares, in the aggregate, of Series A, Series A-1, and Series B Convertible Preferred Stock and Common Stock for nominal consideration. Upon execution of the Agreement, 2,130,035 shares of Series A Convertible Preferred Stock, 2,245,600 shares of Series A-1 Convertible Preferred Stock, 648,720 shares of Series B Convertible Preferred Stock and 2,196,665 shares of Common Stock were repurchased. Upon repurchase of Convertible Preferred Stock, the difference between repurchase price and the carrying amount of the Convertible Preferred Stock was recognized in Additional Paid-In Capital. Additionally, the difference between the repurchase price and par value of the Common Stock was recorded through Additional Paid-In Capital.

On July 13, 2020, the Company established Prosper Grantor Trust (“PGT”), a revocable grantor trust administered by an independent trustee, with the intention of contributing assets to PGT for the benefit of PMI employees in the event of a change in control through an Eligible Employee Retention Plan. PGT was determined to be a VIE and PMI was determined to be its primary beneficiary due to the fact that the Company, through its role as the grantor, has both (a) the power to direct the activities that most significantly affect the VIE’s economic performance, including its funding decisions and investment strategy, and (b) the obligation to absorb losses that could be potentially significant to the economic performance of the VIE by virtue of the Company’s requirement to fund PGT in the event that it is unable to meet its obligations to PMI’s employees. PMI also maintains a contingent call liability on PGT’s assets in the event of a bankruptcy. As a result, PGT is fully consolidated into PMI’s consolidated financial statements.

On July 21, 2020, PGT entered into a Stock Transfer Agreement with a PMI investor to purchase 34,670,420 shares of Series A Convertible Preferred Stock and 16,577,495 shares of Series B Convertible Preferred Stock for nominal consideration. Upon execution of the Stock Transfer Agreement, these shares were purchased by a consolidated VIE of the Company, and thus the difference between the fair value of the repurchased stock and the purchase price is included in Convertible Preferred Stock Held by Consolidated VIE on PMI’s accompanying consolidated balance sheet as of December 31, 2021. These shares remain outstanding for legal purposes and retain their voting rights, but are excluded from the earnings per share calculation.

The number of authorized, issued and outstanding shares, their par value and liquidation preference for each series of Convertible Preferred Stock as of December 31, 2021 are disclosed in the table below (amounts in thousands, except share and per value amounts):

	Par Value	Authorized Shares	Outstanding and Issued Shares	Liquidation Preference, Outstanding Shares
Series A	\$ 0.01	68,558,220	66,428,185 *	\$ 19,160
Series A-1	\$ 0.01	24,760,915	22,515,315	45,031
Series B	\$ 0.01	35,775,880	35,127,160 *	21,190
Series C	\$ 0.01	24,404,770	24,404,770	70,075
Series D	\$ 0.01	23,888,640	23,888,640	165,000
Series E-1	\$ 0.01	35,544,141	—	—
Series E-2	\$ 0.01	16,858,078	—	—
Series F	\$ 0.01	177,720,707	3	—
Series G	\$ 0.01	37,249,497	37,249,497	50,000
<b>Total</b>		<b>444,760,848</b>	<b>209,613,570</b>	<b>\$ 370,456</b>

\* Series A and Series B Convertible Preferred Stock totals are inclusive of 34,670,420 and 16,577,495 shares, respectively, held by PGT, a consolidated VIE.

### Dividends

Dividends on shares of the Series A, Series B, Series C, Series D, Series E-1, Series E-2, Series F, and Series G Convertible Preferred Stock are payable only when, as, and if declared by the Board of Directors. No dividends will be paid with respect to the Common Stock until any declared dividends on the Convertible Preferred Stock have been paid or set aside for payment to the preferred stockholders. After payment of any such dividends, any additional dividends or distributions will be distributed among all holders of Common Stock and preferred stock in proportion to the number of shares of Common Stock that would be held by each such holder if all shares of preferred stock were converted to Common Stock at the then effective conversion rate. The Series A-1 convertible preferred shares have no dividend rights. To date, no dividends have been declared on any of the PMI's preferred stock or Common Stock.

### Conversion

Under the terms of PMI's amended and restated certificate of incorporation, the holders of preferred stock have the right to convert such preferred stock into Common Stock at any time. In addition, all preferred stock automatically converts into Common Stock (x) immediately prior to the closing of an Initial Public Offering ("IPO") that values Prosper at least at \$2 billion and that results in aggregate proceeds to Prosper of at least \$100 million or (y) upon a written request from the holders of at least 60% of the voting power of the outstanding preferred stock (on an as-converted basis, provided that: (i) the Series A-1 Convertible Preferred Stock shall not be converted without at least 14% of the voting power of the outstanding Series A-1 Convertible Preferred Stock; (ii) the Series D shall not be converted without at least 60% of the voting power of the outstanding Series D; (iii) the Series E-1 and Series E-2 shall not be converted without at least 60% of the voting power of the outstanding Series E-1 and Series E-2, voting together as a single class; (iv) the Series F shall not be converted without at least 60% of the voting power of the outstanding Series F, and (v) the shares of Series G Preferred Stock will not be automatically converted unless the holders of at least 60% of the outstanding shares of Series G Preferred Stock approve such conversion). In addition, if a holder of the Series A Convertible Preferred Stock has converted any of the Series A Convertible Preferred Stock, then all of such holder's shares of Series A-1 Convertible Preferred Stock also will be converted upon a liquidation event. In lieu of any fractional shares of Common Stock to which a holder would otherwise be entitled, PMI shall pay such holder cash in an amount equal to the fair market value of such fractional shares, as determined by its Board of Directors. At present, each of the Series A, Series B, Series C, Series D, Series E-1, Series E-2, and Series F Convertible Preferred Stock converts into PMI Common Stock at a 1:1 ratio. Meanwhile, the Series A-1 Convertible Preferred Stock converts into Common Stock at a 1,000,000:1 ratio and the Series G Convertible Preferred Stock converts into Common Stock at a 1:1.36 ratio. The Series G Convertible Preferred Stock conversion ratio reflects the Series G true-up that occurred at end of the vesting period for the Series E-2 and Series F Preferred Stock warrants.

For the Series G true-up, the conversion price of the Series G Convertible Preferred Stock was reduced to a number equal to the Series G Preferred Stock original issuance price, divided by the quotient obtained by dividing the Series G true-up amount by the total number of Series G Preferred Stock issued as of the Series G closing date. The Series G true-up amount means the aggregate number of shares of Series G Preferred Stock that would have been issued to the purchasers of the Series G Preferred Stock on the Series G closing date, if warrants to purchase shares of Series E-2 Preferred Stock or Series F Preferred

Stock that were exercisable or exercised as of the true-up time (end of vesting period) had been exercisable or exercised as of such Series G closing date.

### ***Liquidation Rights***

PMI's Convertible Preferred Stock has been classified as temporary equity on the consolidated balance sheet. The preferred stock is not redeemable at the option of holders of the Convertible Preferred Stock; however, in the event of a voluntary or involuntary liquidation, dissolution, change in control or winding up of PMI, holders may have the right to receive its liquidation preference under the terms of PMI's certificate of incorporation.

Each holder of Series E-1, Series E-2 and Series F Convertible Preferred Stock is entitled to receive prior and in preference to any distribution of proceeds from a liquidation event to the holders of Series A, Series B, Series C, Series D, Series G and Series A-1 Convertible Preferred Stock or Common Stock, an amount per share for (i) each share of Series E-1 Convertible Preferred Stock equal to the sum of the liquidation preference specified for such share and all declared but unpaid dividends, if any, on such share, (ii) each share of Series E-2 Convertible Preferred Stock equal to the sum of two-thirds the liquidation preference specified for such share and all declared but unpaid dividends, if any, on such share, and (iii) each share of Series F Convertible Preferred Stock equal to the sum of two-thirds of the liquidation preference specified for such share and all declared but unpaid dividends, if any, on such share.

After the payment or setting aside for payment to the holders of Series E-1, Series E-2, and Series F Convertible Preferred Stock each holder of Series A, Series B, Series C and Series D, Series E-2, Series F and Series G Convertible Preferred Stock is entitled to receive, on a pari passu basis, prior to and in preference to any distribution of proceeds from a liquidation event to the holders of Series A-1 Convertible Preferred Stock or Common Stock, (i) an amount per share for each share of Series E-2 and Series F Convertible Preferred Stock equal to the sum of one-third of the liquidation preference specified for such share and all declared but unpaid dividends, if any, on such share, and (ii) an amount per share for each share of Series A, Series B, Series C, Series D and Series G Convertible Preferred Stock equal to the sum of the liquidation preference specified for such share and all declared but unpaid dividends, if any, on such share.

After the payment or setting aside for payment to the holders of Series A, Series B, Series C, Series D, Series E-1, Series E-2, Series F and Series G Convertible Preferred Stock, the holders of Series A-1 Convertible Preferred Stock are entitled to receive, prior and in preference to any distribution of proceeds to the holders of Common Stock, an amount per share for each such share of Series A-1 Convertible Preferred Stock equal to the sum of the liquidation preference specified for such share and all declared but unpaid dividends, if any, on such share.

After the payment or setting aside for payment to the holders of Series A, Series B, Series C, Series D, Series E-1, Series E-2, Series F, Series G and Series A-1 Convertible Preferred Stock, the entire remaining proceeds legally available for distribution will be distributed pro-rata to the holders of Series A Convertible Preferred Stock and Common Stock in proportion to the number of shares of Common Stock held by them assuming the Series A Convertible Preferred Stock has been converted into shares of Common Stock at the then effective conversion rate, provided that the maximum aggregate amount per share of Series A Convertible Preferred Stock which the holders of Series A Convertible Preferred Stock shall be entitled to receive is three times the original issue price for the Series A Convertible Preferred Stock.

At present, the liquidation preferences are equal to \$0.29 per share for the Series A Convertible Preferred Stock, \$2.00 per share for the Series A-1 Convertible Preferred Stock, \$0.60 per share for the Series B Convertible Preferred Stock, \$2.87 per share for the Series C Convertible Preferred Stock, \$6.91 per share for the Series D Convertible Preferred Stock, \$0.84 per share for the Series E-1 Convertible Preferred Stock, \$0.84 per share for the Series E-2 Convertible Preferred Stock, \$0.84 per share for the Series F Convertible Preferred Stock and \$1.34 per share for the Series G Convertible Preferred Stock.

### ***Voting***

Each holder of shares of Convertible Preferred Stock is entitled to the number of votes equal to the number of shares of Common Stock into which such shares of Convertible Preferred Stock could be converted and each has voting rights and powers equal to the voting rights and powers of the Common Stock. The holders of Convertible Preferred Stock and the holders of Common Stock vote together as a single class (except with respect to certain matters that require separate votes or as required by law), and are entitled to notice of any stockholders' meeting in accordance with the bylaws of PMI.

### **Convertible Preferred Stock Warrant Liability**

#### ***Series E-1 Warrants***

In connection with the Settlement and Release Agreement dated November 17, 2016 among PMI, its wholly owned subsidiary Prosper Funding LLC ("PFL") and Colchis, on December 16, 2016, PMI issued the First Series E-1 Warrant. A

Second Series E-1 Warrant for an additional 15,277,006 shares of Series E-1 Convertible Preferred Stock was granted on the signing of the Consortium Purchase Agreement (as defined in Note 15) on February 27, 2017. The warrants expire ten years from the date of issuance. Prosper recognized \$21.3 million of expense and \$5.7 million of income from the change in the fair value of the warrants for the years ended December 31, 2021 and 2020, respectively. The income or expense resulted from changes in the fair value of the warrant is recorded in Change in Fair Value of Convertible Preferred Stock Warrants on the Consolidated Statements of Operations.

To determine the fair value of the Series E-1 Warrants, the Company first determined the value of a share of a Series E-1 Convertible Preferred Stock. To determine the fair value of the Convertible Preferred Stock, the Company first derived the business enterprise value (“BEV”) of the Company using a variety of valuation methods, including recent transactions in the Company’s stock, discounted cash flow models and market based methods, as deemed appropriate under the circumstances applicable at the valuation date. Once the Company determined an estimated BEV, the option pricing method (“OPM”) was used to allocate the BEV to the various classes of our equity, including our preferred stock. The concluded per share value for the Series E-1 Convertible Preferred Stock was utilized as an input to the Black-Scholes option pricing model.

The Company determined the fair value of the outstanding convertible Series E-1 preferred stock warrants utilizing the following assumptions as of December 31, 2021 and 2020:

	December 31,	
	2021	2020
Volatility	63.0 %	60.0 %
Risk-free interest rate	0.90 %	0.20 %
Expected term (in years)	2.75	2.75
Dividend yield	— %	— %

*Volatility:* The volatility is derived from historical volatilities of several unrelated publicly listed peer companies over a period approximately equal to the term of the warrant as the Company has limited information on the volatility of its preferred stock since there is currently no trading history. When making the selections of industry peer companies to be used in the volatility calculation, the Company considered the size, operational, and economic similarities to the Company’s principal business operations.

*Risk-Free Interest Rate:* The risk-free interest rate is based on the U.S. Treasury yield in effect as of December 31, 2021, and for zero coupon U.S. Treasury notes with maturities approximately equal to the term of the warrant.

*Expected Term:* The expected term is the period of time for which the warrants are expected to be outstanding.

*Dividend Yield:* The expected dividend assumption is based on the Company’s current expectations about the Company’s anticipated dividend policy.

### **Series F Warrants**

In connection with the Consortium Purchase Agreement (as described in Note 15) on February 27, 2017, PMI issued warrants to purchase 177,720,706 of PMI’s Series F Convertible Preferred Stock at \$0.01 per share. The warrants expire ten years from the date of issuance. Prosper recognized \$117.3 million of expense and \$32.0 million of income from the re-measurement of the fair value of the warrants for the years ended December 31, 2021 and 2020, respectively. The income or expense resulting from changes in the fair value of the warrant is recorded in Change in Fair Value of Convertible Preferred Stock Warrants on the Consolidated Statements of Operations.

To determine the fair value of the Series F Warrants, the Company first determined the value of a share of a Series F Convertible Preferred Stock. To determine the fair value of the Convertible Preferred Stock, the Company first derived the BEV using valuation methods, including a combination of methods, as deemed appropriate under the circumstances applicable at the valuation date. Once the Company determined an estimated BEV, the OPM was used to allocate the BEV to the various classes of Prosper’s equity, including our preferred stock. The concluded per share value for the Series F Convertible Preferred Stock warrants utilized the Black-Scholes option pricing model.

The Company determined the fair value of the outstanding Series F Warrants utilizing the following assumptions as of December 31, 2021 and 2020:

	December 31,	
	2021	2020
Volatility	63.00 %	60.0 %
Risk-free interest rate	0.90 %	0.20 %
Expected term (in years)	2.75	2.75
Dividend yield	— %	— %

The above assumptions were determined using the same criteria described above for the Series E-1 Warrants.

The combined activity of the Convertible Preferred Stock Warrant Liability for the years ended December 31, 2021 and 2020 is as follows (in thousands):

<b>Balance at January 1, 2020</b>	149,996
Change in fair value	(37,677)
<b>Balance at December 31, 2020</b>	<u>\$ 112,319</u>
Change in fair value	138,622
<b>Balance at December 31, 2021</b>	<u><u>\$ 250,941</u></u>

### ***Common Stock***

PMI, through its Amended and Restated Certificate of Incorporation, is the sole issuer of Common Stock and related options, RSUs and warrants. On February 16, 2016, PMI amended and restated its Certificate of Incorporation to, among other things, effect a 5-for-1 forward stock split. On September 20, 2017, PMI further amended its Amended and Restated Certificate of Incorporation to increase the number of shares of Common Stock authorized for issuance. The total number of shares of stock which PMI has the authority to issue is 1,069,760,848, consisting of 625,000,000 shares of Common Stock, \$0.01 par value per share, and 444,760,848 shares of preferred stock, \$0.01 par value per share. As described above, the Company repurchased 2,196,665 shares of Common Stock on December 23, 2019. As of December 31, 2021, 73,089,929 shares of Common Stock were issued and 72,153,994 shares of Common Stock were outstanding. As of December 31, 2020, 70,075,307 shares of Common Stock were issued and 69,139,372 shares of Common Stock were outstanding. Each holder of common stock is entitled to one vote for each share of common stock held.

### ***Common Stock Issued upon Exercise of Stock Options***

During the year ended December 31, 2021 and 2020, PMI issued 3,014,622 and 687,471 shares of Common Stock, respectively, upon the exercise of vested options for cash proceeds of \$61 thousand and \$15 thousand, respectively.

### ***Common Stock Issued upon Exercise of Warrants***

For the year ended December 31, 2021 and 2020, PMI issued zero shares of Common Stock upon the exercise of warrants.

## **NOTE 13. STOCK-BASED COMPENSATION**

PMI grants equity awards primarily through its Amended and Restated 2005 Stock Option Plan (the “2005 Plan”), which was approved as amended and restated by its stockholders on December 1, 2010; and its 2015 Equity Incentive Plan, which was approved by its stockholders on April 7, 2015 and subsequently amended by an Amendment No. 1, Amendment No. 2 and Amendment No. 3, which were approved by PMI’s stockholders effective as of February 15, 2016, May 31, 2016, and September 5, 2018 respectively (as amended, the “2015 Plan”). In March 2015, the 2005 Plan expired, except that any awards granted under the 2005 Plan prior to its expiration remain in effect pursuant to their terms. As of December 31, 2021, under the 2015 Plan, options to purchase up to 96,855,913 shares of PMI’s Common Stock are reserved and may be granted to employees, directors, and consultants by PMI’s Board of Directors and stockholders to promote the success of Prosper’s business. Options generally vest 25% one year from the vesting commencement date and 1/48th per month thereafter or vest 50% two years from

the vesting commencement date and 1/48 per month thereafter or vest 1/36th per month from the vesting commencement date. In no event are options exercisable more than ten years after the date of grant.

### **Stock Option Reprice**

On May 3, 2016 and March 17, 2017, the Compensation Committee of the Board of Directors of PMI approved two separate stock option repricing programs authorizing PMI's officers to reprice certain outstanding stock options held by employees and directors that had exercise prices above the current fair market value of PMI's Common Stock on those respective dates.

On August 11, 2020, the Compensation Committee of the Board of Directors of PMI approved a stock option repricing program (the "2020 Repricing" and together with the 2016 Repricing and the 2017 Repricing, the "Repricings") authorizing PMI's officers to reprice certain outstanding stock options held by employees and directors that have exercise prices above the current fair market value of PMI's common stock. The repricing was effected on August 11, 2020 for eligible directors and employees.

PMI believes that the Repricings encourage the continued service of valued employees and directors and motivate them to perform at high levels, both of which are critical to the Company's continued success. PMI has incurred and expects to incur additional share based compensation charges as a result of the Repricings.

The financial statement impact of the above Repricings was not material for the year ended December 31, 2021, and \$0.4 million and \$0.3 million for the years ended December 31, 2020 and 2019, respectively. As of December 31, 2021, the unamortized Repricings expense (net of forfeitures) will be immaterial and recognized over the remaining weighted average vesting period of 1.6 years.

### **Stock Option Activity**

Stock option activity under the Stock Plans is summarized for the year ended December 31, 2021 as follows:

	Options Issued and Outstanding	Weighted- Average Exercise Price	Weighted- Average Contractual Term (in years)	Aggregate intrinsic value <sup>1</sup> (in thousands)
<b>Balance as of January 1, 2021</b>	72,915,449	\$ 0.02	7.02	\$ 2,915
Options granted	17,554,859	\$ 0.22		
Options exercised	(3,014,622)	\$ 0.02		
Options forfeited	(15,239,345)	\$ 0.03		
Option expirations	(30,190)	\$ 0.02		
<b>Balance as of December 31, 2021</b>	<u>72,186,151</u>	\$ 0.07	6.72	\$ 46,458
Options vested and expected to vest as of December 31, 2021	65,003,920	\$ 0.07	6.72	\$ 42,518
Options vested and exercisable at December 31, 2021	48,561,623	\$ 0.02	5.62	\$ 33,499

<sup>1</sup> Aggregate intrinsic value represents the excess of the fair value of our Common Stock as of December 31, 2021 over the exercise price of the outstanding in-the-money options.

Additional information pertaining to PMI's Common Stock option activities is as follows:

	Year ended December 31,		
	2021	2020	2019
Weighted-average grant date fair value of options granted (per share)	\$ 0.13	\$ 0.04	\$ 0.11

### **Other Information Regarding Stock Options**

The fair value of options granted to employees is estimated on the grant date using the Black-Scholes option valuation model. This valuation model for share based compensation expense requires PMI to make assumptions and judgments about the variables used in the calculation, including the fair value of PMI's Common Stock, the expected term (the period of time that the options granted are expected to be outstanding), the volatility of PMI's Common Stock, a risk-free interest rate, and expected dividends. Given the absence of a publicly traded market, the Company considered numerous objective and subjective factors to determine the fair value of PMI's Common Stock at each grant date. These factors included, but were not limited to:

(i) contemporaneous valuations of Common Stock performed by unrelated third-party specialists, (ii) the prices for PMI's preferred stock sold to outside investors, (iii) the rights, preferences and privileges of PMI's preferred stock relative to PMI's Common Stock; (iv) the lack of marketability of PMI's Common Stock, (v) developments in the business, (vi) secondary transactions of PMI's common and preferred shares, and (vii) the likelihood of achieving a liquidity event, such as an initial public offering or a merger or acquisition of Prosper, given prevailing market conditions. As PMI's stock is not publicly traded volatility for stock options is based on an average of the historical volatilities of the Common Stock of several entities with characteristics similar to those of PMI. The expected term assumptions were determined based on the vesting terms, exercise terms and contractual lives of the options using the simplified method. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant for periods corresponding with the expected life of the option. PMI uses an expected dividend yield of zero as it does not anticipate paying any dividends in the foreseeable future.

PMI also estimates forfeitures of unvested stock options. Expected forfeitures are based on the Company's historical experience. To the extent actual forfeitures differ from estimates, the difference will be recorded as a cumulative adjustment in the period estimates are revised. No compensation cost is recorded for options that do not vest.

The fair value of PMI's stock option awards granted during the years ended December 31, 2021, 2020 and 2019 was estimated at the date of grant using the Black-Scholes model with the following weighted average assumptions:

	December 31,		
	2021	2020	2019
Volatility of common stock	64.22 %	52.62 %	46.70 %
Risk-free interest rate	1.02 %	0.51 %	1.95 %
Expected life	6.0 years	6.0 years	6.0 years
Dividend yield	— %	— %	— %

PMI did not grant any performance-based options in 2021, 2020, or 2019.

#### ***Restricted Stock Units***

For the years ended December 31, 2021, 2020 and 2019, PMI did not grant any restricted stock units ("RSUs").

The following table summarizes the number of PMI's RSU activity for the year ended December 31, 2021:

	Number of Shares	Weighted- Average Grant Date Fair Value
<b>Unvested at January 1, 2021</b>	4,661,141	\$ 0.91
Forfeited	(1,786,793)	\$ 0.54
<b>Unvested at December 31, 2021</b>	<u>2,874,348</u>	<u>\$ 1.14</u>

#### ***Stock Based Compensation***

The following table presents the amount of stock-based compensation related to awards granted to employees recognized in the Company's Consolidated Statements of Operations for the periods presented (in thousands):

	Years Ended December 31,		
	2021	2020	2019
Origination and Servicing	\$ 123	\$ 35	\$ 417
Sales and Marketing	62	69	243
General and Administrative	951	1,809	3,868
<b>Total Stock-Based Compensation</b>	<u>\$ 1,136</u>	<u>\$ 1,913</u>	<u>\$ 4,528</u>

For the years ended December 31, 2021, 2020 and 2019, Prosper capitalized \$137 thousand, \$234 thousand and \$310 thousand, respectively, of stock-based compensation as internal use software and website development costs. As of December 31, 2021, the unamortized share-based compensation expense adjusted for forfeiture estimates related to Prosper's employees' unvested share-based awards was approximately \$1.6 million, which will be recognized over a remaining weighted-average vesting period of approximately 2.8 years.



## NOTE 14. INCOME TAXES

The components of the Company's Income Tax Expense are as follows for the periods presented (in thousands):

	Years Ended December 31,		
	2021	2020	2019
Current:			
Federal	\$ —	\$ —	\$ —
State	—	—	—
Foreign	—	—	—
Total Current Income Tax Expense (Benefit)	—	—	—
Deferred:			
Federal	47	47	47
State	24	38	52
Foreign	—	(69)	1
Total Deferred Income Tax Expense	71	16	100
Total Income Tax Expense	<u>\$ 71</u>	<u>\$ 16</u>	<u>\$ 100</u>

Income Tax Expense differed from the amount computed by applying the U.S. federal income tax rate of 21% to pretax loss as a result of the following for the periods presented:

	Years Ended December 31,		
	2021	2020	2019
Federal tax at statutory rate	21 %	21 %	21 %
State tax at statutory rate (net of federal benefit)	8 %	8 %	9 %
Incentive Stock Options	(5)%	2 %	(4)%
Preferred Stock Warrants	(29)%	(64)%	8 %
Change in valuation allowance	6 %	37 %	(33)%
Other	(1)%	(4)%	(1)%
Income Tax Expense	<u>— %</u>	<u>— %</u>	<u>— %</u>

Temporary items that give rise to significant portions of deferred tax assets and liabilities are as follows for the periods presented (in thousands):

	December 31,	
	2021	2020
Net operating loss carry forwards	\$ 91,793	\$ 92,814
Research and other credits	307	532
Stock compensation	4,272	10,510
Accrued liabilities	4,357	2,986
Lease liabilities	3,266	3,934
Total deferred tax assets	103,995	110,776
Net servicing rights	(1,898)	(2,067)
Property and equipment	(1,873)	(287)
Intangible assets	(1,770)	(1,415)
Right-of-use assets	(2,264)	(2,676)
Total deferred tax liabilities	(7,805)	(6,445)
Total net deferred tax asset	96,190	104,331
Less: Valuation allowance	(96,750)	(104,820)
Net deferred tax liability	<u>\$ (560)</u>	<u>\$ (489)</u>

Under ASC 740, *Accounting for Income Taxes*, a valuation allowance must be established when it is more likely than not that all or a portion of a deferred tax asset will not be realized. The amount of valuation allowance is based upon management’s best estimate of Prosper’s ability to realize the net deferred tax assets. A valuation allowance can subsequently be reduced when management believes that the assets are realizable on a more-likely-than-not basis. As of December 31, 2021, the Company continues to record a valuation allowance against its net deferred tax asset. The valuation allowance as of December 31, 2021, decreased by \$8.1 million to \$96.8 million from the prior year.

The Internal Revenue Code imposes substantial restrictions on the utilization of net operating losses and tax credits in the event of an “ownership change” of a corporation. Accordingly, Prosper’s ability to utilize net operating losses and credit carryforwards may be limited in the future as the result of such an “ownership change.”

Prosper files federal and various state income tax returns, and has net operating loss carryforwards available to reduce future taxable income, if any, for both federal and state income tax purposes of approximately \$345.3 million and \$366.2 million, respectively, as of December 31, 2021. The state net operating loss carryforwards are primarily related to California. The federal and state net operating loss carryforwards will begin to expire in 2025 and 2022, respectively. All net operating loss carryforwards are subject to a full valuation allowance. Prosper has federal and California research and development tax credits of approximately \$428 thousand and \$501 thousand, respectively. The federal research credits will begin to expire in 2034 and the California research credits have no expiration date. Prosper also has California enterprise zone credits of approximately \$0.2 million that will begin to expire in 2022.

The following table summarizes Prosper’s activity related to its unrecognized tax benefits (in thousands):

<b>Balance at January 1, 2020</b>	\$	112
Change related to 2020 tax year position		—
<b>Balance at December 31, 2020</b>	\$	112
Change related to 2021 tax year position		—
<b>Balance at December 31, 2021</b>	<u>\$</u>	<u>112</u>

None of the unrecognized tax benefits would affect Prosper’s effective tax rate if these amounts are recognized due to the full valuation allowance.

Prosper’s policy is to recognize interest and penalties accrued on any unrecognized tax benefits as a component of Income Tax Expense. As of December 31, 2021, Prosper has not incurred any significant interest or penalties.

All tax returns will remain open for examination by federal and most state taxing authorities for three and four years, respectively, from the date of utilization of any net operating loss carryforwards or research and development credits.

#### **NOTE 15. CONSORTIUM PURCHASE AGREEMENT**

On February 27, 2017, Prosper entered into a series of agreements (the “Consortium Purchase Agreement”) with a consortium of investors (the “Consortium”), pursuant to which the Consortium agreed to purchase Borrower Loans in an aggregate principal amount of up to \$5.0 billion (including certain loans purchased by one of the investors prior to the date of the Consortium Purchase Agreement). PFL was obligated to offer for purchase minimum monthly volumes of eligible loans to the Consortium, for the Consortium to elect to purchase. The Consortium Purchase Agreement ended in May 2019.

In connection with the Consortium Purchase Agreement, PMI issued to the Consortium three warrant certificates to purchase an aggregate 177,720,706 shares of PMI’s Series F Preferred Stock at an exercise price of \$0.01 per share (the “Warrant Shares”).

The Consortium’s right to exercise the Series F Warrant was subject to monthly vesting during the term of the Consortium Purchase Agreement based upon the volume of loans the Consortium elected to purchase (if any) in each month, subject to certain cure rights such as offering additional loans for sale in subsequent periods. Pursuant to these cure rights, if the Consortium failed to respond to offers for allocation, purchase or funding, the Consortium could take advantage of a designated period of time to cure such failure. There were no such failures by the Consortium during the term of the Consortium Purchase Agreement. Under the terms of the Series F Warrant Agreement, the Warrant Shares may also vest in full upon a change of control of PMI, insolvency of PMI or PFL, certain breaches of contract by PMI or PFL that are not cured within a defined cure period and upon the occurrence of certain other events set forth in the Series F Warrant Agreement.

On vesting of the Series F Warrants, Prosper recorded a liability as Convertible Preferred Stock Warrant Liability on the Consolidated Balance Sheets at fair value and a corresponding amount as Fair Value of Warrants Vested on Sale of Borrower Loans on the Consolidated Statements of Operations. Subsequent changes in the fair value of the vested warrants are recorded in Change in Fair Value of Convertible Preferred Stock Warrants on the Consolidated Statements of Operations. Additionally, in connection with the execution of the Consortium Purchase Agreement, certain previously issued rebates were

settled by an issuance of vested Series F Convertible Preferred Stock Warrants. The difference in fair value of these warrants over the cash settlement price was recorded in Change in Fair Value of Convertible Preferred Stock Warrants on the Consolidated Statements of Operations.

Through its expiration in May 2019, \$3.3 billion in loans were acquired and 177.7 million warrants vested under the Consortium Purchase Agreement. In addition to the \$3.3 billion of loans acquired above, warrants vested on signing of the Consortium Purchase Agreement were issued to settle certain rebates on \$0.3 billion of whole loan purchases by members of the Consortium prior to the signing of the Consortium Purchase Agreement. This \$0.3 billion also reduced the up to \$5.0 billion aggregate amount under the Consortium Purchase Agreement.

#### NOTE 16. LEASES

Prosper has operating leases for corporate offices and datacenters. These leases have remaining lease terms of 1 year to 6 years. Some of the lease agreements include options to extend the lease term for up to an additional 5 years. Rental expense under operating lease arrangements was \$4.5 million, \$4.5 million and \$4.5 million for the year ended December 31, 2021, 2020 and 2019, respectively. Additionally, Prosper subleases certain leased office space to third parties when it determines there is excess leased capacity. Sublease revenue from operating lease arrangements was \$0.3 million, \$0.4 million and \$0.8 million for the year ended December 31, 2021, 2020 and 2019, respectively.

#### Operating Lease Right-of-Use (“ROU”) Assets

The following table summarizes the operating lease right-of-use (“ROU”) assets as of December 31, 2021, which are included in Property and Equipment, Net on the Consolidated Balance Sheets.

	December 31, 2021		
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
ROU assets - office buildings	\$ 16,709	\$ 9,444	\$ 7,265
ROU assets - other	776	344	432
<b>Total operating lease ROU assets</b>	<b>\$ 17,485</b>	<b>\$ 9,788</b>	<b>\$ 7,697</b>

The Company identified certain impairment triggers related to its ROU assets in 2020, primarily due to the non-renewal of certain sublease agreements and the time expected to find new subtenants. As a result of impairment testing performed on these ROU assets, the Company recorded an impairment charge of \$0.4 million for the year ended December 31, 2020. No impairment charge was identified for the years ended December 31, 2021 or December 31, 2019.

#### Lease Liabilities

Prosper has entered into various non-cancelable operating leases for certain offices with contractual lease periods expiring between 2021 and 2026.

Future maturities of operating lease liabilities as of December 31, 2021 were as follows (in thousands). The present value of the future minimum lease payments represents our operating lease liabilities as of December 31, 2021 and are included in "Other Liabilities" on the consolidated balance sheets.

	December 31, 2021
2022	\$ 5,833
2023	2,124
2024	1,360
2025	1,395
2026	1,218
Thereafter	—
<b>Total future minimum lease payments</b>	<b>11,930</b>
Less: Imputed interest	(904)
<b>Present value of future minimum lease payments</b>	<b>\$ 11,026</b>

Because the rate implicit in each lease is not readily determinable, we use our incremental borrowing rate to determine the present value of the lease payments. Values used to determine present value of leases is as follows (dollars in thousands):

	<b>December 31, 2021</b>	
Cash paid for operating leases year-to-date	\$	5,381
ROU assets obtained in exchange for new operating lease obligations year-to-date	\$	1,773
Weighted average remaining lease term (in years)		3.12 years
Weighted average discount rate		5.19 %

## **NOTE 17. COMMITMENTS AND CONTINGENCIES**

In the normal course of its operations, Prosper becomes involved in various legal actions. Prosper maintains provisions it considers to be adequate for such actions. Prosper does not believe it is probable that the ultimate liability, if any, arising out of any such matters will have a material effect on Prosper's financial condition, results of operations or cash flows.

### **Operating Commitments**

Prosper has entered into an agreement with WebBank, under which all Borrower Loans originated through the marketplace are made by WebBank under its bank charter. On June 25, 2021, PMI, along with its wholly-owned subsidiary Prosper Funding LLC, and WebBank entered into: (i) a Fifth Amendment (the "Sale Agreement Amendment") to the Asset Sale Agreement, dated July 1, 2016, between Prosper Funding LLC and WebBank (the "Sale Agreement"); (ii) a Sixth Amendment (the "Marketing Agreement Amendment") to the Marketing Agreement, dated July 1, 2016, between PMI and WebBank (the "Marketing Agreement"); and (iii) a Third Amendment (the "Purchase Agreement Amendment") to the Stand By Purchase Agreement, dated July 1, 2016, between PMI and WebBank (the "Purchase Agreement" and, collectively with the Sale Agreement and the Marketing Agreement, the "Origination and Sale Agreements").

The Sale Agreement Amendment, among other things, extends the term of the Sale Agreement to February 1, 2025 and amends certain collateral requirements under the Sale Agreement. The Marketing Agreement Amendment, among other things, extends the term of the Marketing Agreement to February 1, 2025 and sets forth the amended terms and conditions of certain fees owed by the Registrants to WebBank under the Marketing Agreement. The Purchase Agreement Amendment amends certain collateral requirements of PMI under the Purchase Agreement.

Pursuant to the Marketing Agreement Amendment, the marketing fee that Prosper receives in connection with the origination of each loan is partially reduced by an amount (the "Designated Amount") calculated as a percentage of the principal amount of such loan based on the aggregate principal amount of loans originated for the applicable month. To the extent the aggregate Designated Amount for all loans originated during any month is less than \$143,500 through February 1, 2022, and \$100,000 thereafter through February 1, 2025, Prosper is required to pay WebBank an amount equal to such deficiency. Accordingly, the minimum fee is \$1.2 million for each year from 2022 through 2024, and \$0.1 million in 2025.

Additionally, under the agreement with WebBank, Prosper is required to maintain minimum net liquidity of \$15 million at all times during the term of the agreement. Net liquidity is defined as the sum of Cash and Cash Equivalents and Available for Sale Investments. Violation of this covenant can result in termination of the contract with WebBank. At December 31, 2021, Prosper was in compliance with the covenant.

### **Loan Purchase Commitments**

Prosper entered into an agreement with WebBank to purchase \$13.8 million of Borrower Loans that WebBank originated during the last two business days of the year ended December 31, 2021. Prosper will purchase these Borrower Loans within the first two business days of the year ending December 31, 2022.

### **Repurchase Obligation**

Under the terms of the loan purchase agreements between Prosper and investors that participate in the Whole Loan Channel, Prosper may, in certain circumstances, become obligated to repurchase a Borrower Loan from an investor. Generally, these circumstances include the occurrence of verifiable identity theft, the failure to properly follow loan listing or bidding protocols or a violation of the applicable federal, state or local lending laws. Prosper recognizes a liability at fair value for the repurchase obligation when the Borrower Loans are sold. The fair value of the repurchase obligation is estimated based on historical experience. Repurchased Borrower Loans associated with violations of federal, state or local lending laws or verifiable identity theft are written off at the time of repurchase. The maximum potential amount of future payments associated under the repurchase obligation is the outstanding balances of the Borrower Loans sold through the Whole Loan channels,

which at December 31, 2021 is \$2.5 billion. Prosper has accrued \$0.3 million and \$0.2 million as of December 31, 2021 and 2020, respectively, related to this obligation.

### **Regulatory Contingencies**

Prosper accrues for contingencies when a loss from such contingencies is probable and the amount of loss can be reasonably estimated. In determining whether a loss is probable and if it is possible to quantify the amount of the estimated loss, Prosper reviews and evaluates its litigation and regulatory matters on at least a quarterly basis in light of potentially relevant factual and legal developments. If Prosper determines that an unfavorable outcome is not probable or that the amount of a loss cannot be reasonably estimated, Prosper does not accrue for a potential litigation loss. If an unfavorable outcome is probable and Prosper can estimate a range of outcomes, an amount is recorded which management considers to be the best estimate within the range of potential losses that are both probable and estimable; however, if management cannot quantify the amount of the estimated loss, then the low end of the range of the potential losses is recorded.

### ***SEC Inquiry***

In April 2017, we became aware of an error in the annualized net return and seasoned annualized net return numbers displayed to Note investors. Prosper was advised by the SEC that it was investigating whether violations of federal securities laws had occurred in connection with the error. On April 19, 2019, the SEC accepted an offer of settlement from PFL to resolve the matter. Under the settlement, the SEC alleged a violation of Section 17(a)(2) of the Securities Act and ordered PFL to cease and desist from any future violations of that provision. PFL neither admitted nor denied any wrongdoing, and agreed to pay a civil monetary penalty of \$3.0 million. The penalty of \$3.0 million was paid in full in April 2019.

### ***West Virginia Matter***

In January 2018, the Attorney General of the State of West Virginia (the “Attorney General”) initiated discussions regarding certain acts and practices of PMI and PFL that the Attorney General asserts may have violated the West Virginia Consumer Credit and Protection Act (the “Consumer Act”), to which Prosper responded with such information as was requested by the Attorney General. Following a period of more than a year with limited to no communication, in February 2020, Prosper received a proposed Assurance of Discontinuance (an “AOD”) from the Attorney General requesting that, without in any way admitting that any of its prior practices were in violation of the Consumer Act, Prosper agree to certain terms and conditions regarding its past and potential future conduct of its business with respect to customers in West Virginia, including a release by the Attorney General of any claims it may have related to the matters identified in the AOD. Prosper is evaluating and intends to discuss the proposed terms in the AOD with the Attorney General.

We cannot predict the outcome of the matter and any potential fines or penalties, if any, that may arise from the matter. Further, we are unable to estimate a range of outcomes and as a result no accrual has been made.

No loans have been originated through the Prosper platform to West Virginians since June 2016.

### **NOTE 18. RELATED PARTIES**

Since Prosper’s inception, it has engaged in various transactions with its directors, executive officers and holders of more than 10% of its voting securities, and with immediate family members and other affiliates of its directors, executive officers and 10% stockholders. Prosper believes that all of the transactions described below were made on terms no less favorable to Prosper than could have been obtained from unaffiliated third parties.

Prosper’s executive officers, directors who are not executive officers, and certain affiliates participate in its marketplace by placing bids and purchasing Notes. The aggregate amount of the Notes purchased and the income earned by

parties deemed to be affiliates and related parties of Prosper for the year ended December 31, 2021 and 2020, as well as the Notes outstanding as of December 31, 2021 and 2020 are summarized below (in thousands):

	Aggregate Amount of Notes Purchased for the Year Ended December 31,		Interest Earned on Notes for the Year Ended December 31,	
	2021	2020	2021	2020
Executive officers and management	\$ 35	\$ 28	\$ 7	\$ 6
Directors (excluding executive officers and management)	24	272	1	43
<b>Total</b>	<b>\$ 59</b>	<b>\$ 300</b>	<b>\$ 8</b>	<b>\$ 49</b>

	Notes Balance as of	
	December 31, 2021	December 31, 2020
Executive officers and management	\$ 41	\$ 41
Directors (excluding executive officers and management)	15	—
<b>Total</b>	<b>\$ 56</b>	<b>\$ 41</b>

#### NOTE 19. POSTRETIREMENT BENEFIT PLANS

Prosper has a 401(k) plan that covers all employees meeting certain eligibility requirements. The 401(k) plan is designed to provide tax-deferred retirement benefits in accordance with the provisions of Section 401(k) of the Internal Revenue Code. Eligible employees may defer up to 90% of eligible compensation up to the annual maximum as determined by the Internal Revenue Service. Prosper's contributions to the plan are discretionary. During the years ended December 31, 2021, 2020 and 2019, Prosper contributed \$2.0 million, \$1.2 million and \$2.3 million, respectively, to the 401(k) plan.

#### NOTE 20. SIGNIFICANT CONCENTRATIONS

Prosper is dependent on third party funding sources such as banks, asset managers, and investment funds to provide the funds to allow WebBank to originate Borrower Loans that the third party funding sources will later purchase. Of all Borrower Loans originated in the year ended December 31, 2021, one individual party purchased 26.7% of such loans, and the Company's Warehouse VIEs purchased 12.6% of such loans. For the year ended December 31, 2020, two individual parties purchased 21.4% and 14.3% of such loans, respectively, and the Company's Warehouse VIEs purchased 18.2% of such loans. These purchases reflect that a significant portion of Prosper's business is dependent on funding through the Whole Loan Channel, through which 88% and 91% of Borrower Loans were originated in the years ended December 31, 2021 and 2020, respectively.

Prosper receives all of its transaction fee revenue related to personal loans from WebBank. Prosper earns a transaction fee from WebBank for our services in facilitating originations of Borrower Loans issued by WebBank. The rate of the transaction fee for each individual Borrower Loan is based on the term and credit grade of the Borrower Loan. No individual borrower or investor accounted for 10% or more of consolidated net revenue for any of the periods presented.

#### NOTE 22. SEGMENTS

Our chief operating decision maker reviews financial information presented on a consolidated basis for purposes of allocating resources and evaluating financial performance. As such, the Company has a single reporting and operating segment.

#### NOTE 23. SUBSEQUENT EVENTS

Management has evaluated subsequent events or transactions occurring through the date the consolidated financial statements were issued and determined that no events or transactions, other than any items disclosed within the consolidated financial statements and related notes, are required to be disclosed herein.

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of Prosper Funding LLC

### Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Prosper Funding LLC and subsidiaries (the "Company") as of December 31, 2021 and 2020, the related consolidated statements of operations, member's equity, and cash flows, for each of the three years ended December 31, 2021, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2021, in conformity with accounting principles generally accepted in the United States of America.

### Emphasis of a Matter

As discussed in Note 1 to the consolidated financial statements, the Company earns significant amounts of revenues and incurs significant expenses with a related party, its direct parent company, Prosper Marketplace, Inc.

### Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

### Critical Audit Matters

The critical audit matters communicated below are matters arising from the current-period audit of the financial statements that were communicated or required to be communicated to the audit committee and that (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

#### ***Valuation of Borrower Loans — Refer to Notes 2, 4 and 7 to the financial statements***

##### *Critical Audit Matter Description*

The Company measures Borrower Loans at fair value which are classified as Level 3 instruments. As of December 31, 2021, Borrower Loans were \$267.6 million. The Company estimates the fair value using discounted cash flow valuation methodologies incorporating significant unobservable inputs and valuation assumptions that are reflective of management's own estimates of assumptions that market participants would use in pricing the instruments and requires significant management judgment or estimate. The main assumptions used to value the Borrower Loans include default rates and prepayment rates derived from historical performance and discount rates applied to each credit grade of the loans.

Auditing the methodology and unobservable inputs, specifically, the unobservable inputs related to the discount rate, default rate and prepayment rate, used by management to estimate the fair value of Borrower Loans required a high degree of auditor judgment and subjectivity and an increased extent of effort, including the need to involve our fair value specialists.

##### *How the Critical Audit Matter Was Addressed in the Audit*

Our audit procedures related to the valuation of Borrower Loans, at fair value including unobservable inputs used by management to estimate the fair value included the following key procedures:

- We performed inquiries with management and the Company's third-party valuation expert to understand the process for developing, and assumptions used in, the valuation model.
- With the assistance of our fair value specialists, we developed independent estimates of fair value and compared our estimates to the Company's estimates.
- We tested the source information derived from the Company's data used in the valuation models.

***Valuation of Servicing Assets — Refer to Notes 2, 5 and 7 to the financial statements***

*Critical Audit Matter Description*

The Company measures Servicing Assets at fair value which are classified as Level 3 instruments. As of December 31, 2021, Servicing Assets were \$9.8 million. The Company estimates the fair value using a discounted cash flow valuation methodology incorporating significant unobservable inputs and valuation assumptions that are reflective of management's own estimates of assumptions that market participants would use in pricing the instruments and requires significant management judgment or estimation. Significant unobservable inputs used in the valuation methodology include the market servicing rate, discount rate, default rate and prepayment rate.

Auditing the significant unobservable inputs used by management to estimate the fair value of Servicing Assets required a high degree of auditor judgment and subjectivity and an increased extend of effort, including the need to involve our fair value specialists.

*How the Critical Audit Matter Was Addressed in the Audit*

Our audit procedures related to the valuation of Servicing Assets at fair value including unobservable inputs used by management to estimate the fair value included the following key procedures:

- We performed inquiries with management and the Company's third-party valuation expert to understand the process for developing, and assumptions used in, the valuation model.
- With the assistance of our fair value specialists, we developed an independent estimate of fair value and compared our estimate to the Company's estimate.
- We evaluated the reasonableness of the market rate of servicing assumption used in developing the fair value estimate of the Servicing Assets.
- We tested the source information derived from the Company's data used in the valuation model.

*/s/ DELOITTE & TOUCHE LLP*

San Francisco, CA  
March 25, 2022

We have served as the Company's auditor since 2014.



**Prosper Funding LLC**  
**Consolidated Balance Sheets**  
**(amounts in thousands)**

	December 31,	
	2021	2020
<b>Assets:</b>		
Cash and Cash Equivalents	\$ 10,765	\$ 8,592
Restricted Cash	157,111	132,332
Borrower Loans, at Fair Value	267,626	209,670
Property and Equipment, Net	7,907	6,928
Servicing Assets	9,796	11,088
Other Assets	317	217
<b>Total Assets</b>	<b>\$ 453,522</b>	<b>\$ 368,827</b>
<b>Liabilities and Member's Equity:</b>		
Accounts Payable and Accrued Liabilities	\$ 1,818	\$ 2,361
Payable to Related Party	1,306	4,120
Payable to Investors	153,681	126,266
Notes, at Fair Value	265,985	208,379
Other Liabilities	2,434	2,613
<b>Total Liabilities</b>	<b>425,224</b>	<b>343,739</b>
<b>Member's Equity:</b>		
Member's Equity	11,404	11,404
Retained Earnings	16,894	13,684
<b>Total Member's Equity</b>	<b>28,298</b>	<b>25,088</b>
<b>Total Liabilities and Member's Equity</b>	<b>\$ 453,522</b>	<b>\$ 368,827</b>

*The accompanying notes are an integral part of these consolidated financial statements.*

**Prosper Funding LLC**  
**Consolidated Statements of Operations**  
(amounts in thousands)

	Years Ended December 31,		
	2021	2020	2019
<b>Revenues:</b>			
<b>Operating Revenues:</b>			
Administration Fee Revenue – Related Party	\$ 34,017	\$ 21,618	\$ 49,818
Servicing Fees, Net	15,770	20,791	26,368
Gain (Loss) on Sale of Borrower Loans	8,450	6,430	(5,058)
Other Revenue	1,312	552	155
<b>Total Operating Revenues</b>	<b>59,549</b>	<b>49,391</b>	<b>71,283</b>
<b>Interest Income (Expense):</b>			
Interest Income on Borrower Loans	36,952	36,765	41,146
Interest Expense on Notes	(34,514)	(34,457)	(38,492)
<b>Total Interest Income, Net</b>	<b>2,438</b>	<b>2,308</b>	<b>2,654</b>
Change in Fair Value of Financial Instruments, Net	770	454	(375)
<b>Total Net Revenues</b>	<b>62,757</b>	<b>52,153</b>	<b>73,562</b>
<b>Expenses:</b>			
Administration Fee – Related Party	52,641	45,472	62,575
Servicing	6,409	4,900	5,012
General and Administrative	497	380	33
<b>Total Expenses</b>	<b>59,547</b>	<b>50,752</b>	<b>67,620</b>
<b>Net Income</b>	<b>\$ 3,210</b>	<b>\$ 1,401</b>	<b>\$ 5,942</b>

*The accompanying notes are an integral part of these consolidated financial statements.*

**Prosper Funding LLC**  
**Consolidated Statements of Member's Equity**  
**(amounts in thousands)**

	<b>Member's Equity</b>	<b>Retained Earnings</b>	<b>Total</b>
<b>Balance at January 1, 2019</b>	\$ 24,904	\$ 6,341	\$ 31,245
Distributions to Parent	(9,000)	—	(9,000)
Net Income	—	5,942	5,942
<b>Balance at December 31, 2019</b>	15,904	12,283	28,187
Distributions to Parent	(4,500)	—	(4,500)
Net Income	—	1,401	1,401
<b>Balance at December 31, 2020</b>	11,404	13,684	25,088
Distributions to Parent	—	—	—
Net Income	—	3,210	3,210
<b>Balance at December 31, 2021</b>	<u>\$ 11,404</u>	<u>\$ 16,894</u>	<u>\$ 28,298</u>

*The accompanying notes are an integral part of these consolidated financial statements.*

**Prosper Funding LLC**  
**Consolidated Statements of Cash Flows**  
(amounts in thousands)

	<b>Years Ended December 31,</b>		
	<b>2021</b>	<b>2020</b>	<b>2019</b>
<b>Cash Flows from Operating Activities:</b>			
Net Income	\$ 3,210	\$ 1,401	\$ 5,942
Adjustments to Reconcile Net Income to Net Cash Provided by (Used in) Operating Activities:			
Change in Fair Value of Financial Instruments, Net	(770)	(454)	374
Other Non-Cash Changes in Borrower Loans, Loans Held for Sale and Notes	26	46	(694)
Gain on Sale of Borrower Loans	(9,020)	(7,203)	(13,033)
Change in Fair Value of Servicing Rights	10,312	11,003	13,682
Depreciation and Amortization	4,878	4,149	4,397
<b>Changes in Operating Assets and Liabilities:</b>			
Purchase of Loans Held for Sale, at Fair Value	(1,712,705)	(1,338,082)	(2,320,560)
Proceeds from Sales and Principal Payments of Loans Held for Sale, at Fair Value	1,712,705	1,338,082	2,320,560
Other Assets	(100)	532	(426)
Accounts Payable and Accrued Liabilities	(543)	228	(2,557)
Payable to Investors	27,415	20,979	(21,966)
Net Related Party Receivable/Payable	(2,544)	1,183	2,251
Other Liabilities	(179)	(1,114)	(789)
<b>Net Cash Provided by (Used in) Operating Activities</b>	<b>32,685</b>	<b>30,750</b>	<b>(12,819)</b>
<b>Cash Flows From Investing Activities:</b>			
Purchase of Borrower Loans, at Fair Value	(231,998)	(133,644)	(170,326)
Proceeds from Sales and Principal Payments of Borrower Loans, at Fair Value	172,709	149,908	165,481
Purchases of Property and Equipment	(6,127)	(3,270)	(6,374)
<b>Net Cash (Used in) Provided by Investing Activities</b>	<b>(65,416)</b>	<b>12,994</b>	<b>(11,219)</b>
<b>Cash Flows from Financing Activities:</b>			
Proceeds from Issuance of Notes, at Fair Value	231,933	133,228	171,138
Payments of Notes, at Fair Value	(172,250)	(149,409)	(167,420)
Cash Distributions to Parent	—	(4,500)	(9,000)
<b>Net Cash Provided by (Used in) Financing Activities</b>	<b>59,683</b>	<b>(20,681)</b>	<b>(5,282)</b>
<b>Net Increase (Decrease) in Cash, Cash Equivalents and Restricted Cash</b>	<b>26,952</b>	<b>23,063</b>	<b>(29,320)</b>
Cash, Cash Equivalents and Restricted Cash at Beginning of the Period	140,924	117,861	147,181
Cash, Cash Equivalents and Restricted Cash at End of the Period	<u>\$ 167,876</u>	<u>\$ 140,924</u>	<u>\$ 117,861</u>
<b>Supplemental Disclosure of Cash Flow Information:</b>			
Cash Paid for Interest	<u>\$ 34,682</u>	<u>\$ 34,410</u>	<u>\$ 39,229</u>
Non-Cash Investing Activity- Accrual for Property and Equipment, Net	<u>\$ 234</u>	<u>\$ 504</u>	<u>\$ 246</u>
<b>Reconciliation to Amounts on Consolidated Balance Sheets:</b>			
Cash and Cash Equivalents	\$ 10,765	\$ 8,592	\$ 7,462
Restricted Cash	157,111	132,332	110,399
<b>Total Cash, Cash Equivalents and Restricted Cash</b>	<u><u>\$ 167,876</u></u>	<u><u>\$ 140,924</u></u>	<u><u>\$ 117,861</u></u>

*The accompanying notes are an integral part of these consolidated financial statements.*

**PROSPER FUNDING LLC**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1. ORGANIZATION AND BUSINESS**

Prosper Funding LLC was formed in the state of Delaware in February 2012 as a limited liability company with Prosper Marketplace, Inc. (“PMI”) as its sole equity member. Except as the context otherwise requires, as used in these Notes to consolidated financial statements of Prosper Funding LLC, “PFL” and the “Company” refer to Prosper Funding LLC and its wholly owned subsidiary, Prosper Depositor LLC, a Delaware limited liability company, on a consolidated basis.

PFL did not have any items of other comprehensive income (loss) during any of the periods presented in the consolidated financial statements as of and for the years ended December 31, 2021, 2020 and 2019.

PFL was formed by PMI to hold Borrower Loans and issue Notes through the marketplace. Although PFL is consolidated with PMI for accounting and tax purposes, PFL has been organized and is operated in a manner that is intended to minimize the likelihood that it would be substantively consolidated with PMI in a bankruptcy proceeding. PFL’s intention is to minimize the likelihood that its assets would be subject to claims by PMI’s creditors if PMI were to file for bankruptcy, as well as to minimize the likelihood that PFL will become subject to bankruptcy proceedings directly. PFL seeks to achieve this by placing certain restrictions on its activities and implementing certain formal procedures designed to expressly reinforce its status as a distinct entity from PMI.

Since February 1, 2013, all Notes issued and sold through the marketplace are issued, sold and serviced by PFL. Pursuant to a Loan Account Program Agreement between PMI and WebBank, PMI manages the operation of the marketplace, as agent of WebBank, in connection with the submission of Borrower Loan applications by potential borrowers, the origination of related Borrower Loans by WebBank and the funding of such Borrower Loans by WebBank. Pursuant to an Administration Agreement between PFL and PMI, PMI manages all other aspects of the marketplace on behalf of PFL. As a result PFL earns significant revenues and incurs significant expenses with a related party, its direct parent company, PMI.

A borrower who wishes to obtain a loan through the marketplace must post a loan listing on the marketplace. PFL allocates listings to one of two investor funding channels: (i) the “Note Channel,” which allows investors to commit to purchase Notes from PFL, the payments of which are dependent on PFL’s receipt of payments made on the corresponding Borrower Loan; and (ii) the “Whole Loan Channel,” which allows investors to commit to purchase 100% of a Borrower Loan directly from PFL.

All loans requested and obtained through the marketplace are unsecured obligations of individual borrowers with a fixed interest rate and loan terms set at three or five years as of December 31, 2021. All loans made through the marketplace are funded by WebBank, an FDIC-insured, Utah chartered industrial bank. After funding a loan, WebBank sells the loan to PFL, without recourse to WebBank, in exchange for the principal amount of the loan. WebBank does not have any obligation to purchasers of the Notes.

As of December 31, 2021, PFL’s marketplace was open to investors in 30 states and the District of Columbia. Additionally, as of December 31, 2021, PFL’s marketplace was open to borrowers in 48 states and the District of Columbia. Currently, the marketplace does not operate internationally.

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNT POLICIES**

**Basis of Presentation**

PFL’s consolidated financial statements include the accounts of PFL and its wholly-owned subsidiary, Prosper Depositor LLC. All intercompany balances and transactions between PFL and Prosper Depositor LLC have been eliminated in consolidation. PFL’s financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”).

## **Use of Estimates**

The preparation of PFL's consolidated financial statements in conformity with U.S. GAAP requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities and the related disclosures at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. These estimates, judgments and assumptions include, but are not limited to, the following: valuation of Loans Held for Sale, Borrower Loans and associated Notes, valuation of servicing rights, valuation of loan trailing fee liability, repurchase obligations, and contingent liabilities. PFL bases its estimates on historical experience from all Borrower Loans and on various other assumptions that it believes to be reasonable under the circumstances. Actual results could differ materially from estimates.

## **Consolidation of Variable Interest Entities**

A variable interest entity (VIE) is a legal entity that has either a total equity investment that is insufficient to finance its activities without additional subordinated financial support or whose equity investors lack the characteristics of a controlling financial interest. PFL's variable interest arises from contractual, ownership or other monetary interests in the entity, which change with fluctuations in the fair value of the entity's net assets. A VIE is consolidated by its primary beneficiary, which is the party that has both the power to direct the activities that most significantly impact the VIE's economic performance, and the obligation to absorb losses or the right to receive benefits of the VIE that could potentially be significant to the VIE. PFL consolidates a VIE when it is deemed to be the primary beneficiary. PFL assesses whether or not it is the primary beneficiary of a VIE on an ongoing basis.

## **Transfers of Financial Assets**

PFL accounts for transfers of financial assets as sales when it has surrendered control over the transferred assets. Control is generally considered to have been surrendered when the transferred assets have been legally isolated from PFL, the transferee has the right to pledge or exchange the assets without any significant constraints, and PFL has not entered into a repurchase agreement, does not hold unconditional call options and has not written put options on the transferred assets. In assessing whether control has been surrendered, PFL considers whether the transferee would be a consolidated affiliate and the impact of all arrangements or agreements made contemporaneously with, or in contemplation of the transfer, even if they were not entered into at the time of transfer. PFL measures gain or loss on sale of financial assets as the net proceeds received on the sale less the carrying amount of the loans sold. The net proceeds of the sale represent the fair value of any assets obtained or liabilities incurred as part of the transaction, including, but not limited to Servicing Assets, retained securities, and recourse obligations.

## **Fair Value Measurement**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Financial instruments consist principally of Cash and Cash Equivalents, Restricted Cash, Borrower Loans, Loans Held for Sale, Servicing Assets, Loan Trailing Fee Liability, Accounts Receivable, Accounts Payable and Accrued Liabilities, Payable to Investors and Notes. The estimated fair values of Cash and Cash Equivalents, Restricted Cash, Accounts Receivable, Accounts Payable and Accrued Liabilities, and Payable to Investors approximate their carrying values because of their short term nature.

The fair value hierarchy includes a three-level classification, which is based on whether the inputs to the valuation methodology used for measurement are observable:

Level 1 — Quoted market prices in active markets for identical assets or liabilities.

Level 2 — Inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly or indirectly.

Level 3 — Unobservable inputs.

When developing fair value measurements, PFL maximizes the use of observable inputs and minimizes the use of unobservable inputs. However, for certain instruments PFL must utilize unobservable inputs in determining fair value due to the lack of observable inputs in the market, which requires greater judgment in measuring fair value. In instances where there is limited or no observable market data, fair value measurements for assets and liabilities are determined using assumptions that management believes a market participant would use in pricing the asset or liability.

As observable market prices are not available for the Borrower Loans, Loans Held for Sale, Notes, and Servicing Assets, or for similar assets and liabilities, PFL believes the Borrower Loans, Loans Held for Sale, Notes, and Servicing Assets should be considered level 3 financial instruments. PFL primarily uses a discounted cash flow model to estimate their fair value and key assumptions used in valuation include default rates and prepayment rates derived from historical performance and

discount rates based on estimates of the rates of return that investors would require when investing in financial instruments with similar characteristics.

The obligation to pay principal and interest on any series of Notes is equal to the loan payments, if any, that are received on the corresponding Borrower Loan, net of our servicing fee which is generally 1.0% of the outstanding balance. The fair value election for Notes and Borrower Loans allows both the assets and the related liabilities to receive similar accounting treatment for expected losses which is consistent with the subsequent cash flows to investors that are dependent upon borrower payments. As such, the fair value of a series of Notes is approximately equal to the fair value of the corresponding Borrower Loan, adjusted for the 1.0% servicing fee and the timing of loan purchase, Note issuance and borrower payments. As a result, the valuation of the Notes uses the same methodology and assumptions as the Borrower Loans, except that the Notes incorporate the 1.0% servicing fee and any differences in timing in payments. Any unrealized gains or losses on the Borrower Loans and Notes for which the fair value option has been elected is recorded as a separate line item in the statement of operations. The effective interest rate associated with a group of Notes is less than the interest rate earned on the corresponding Borrower Loan due to the 1.0% servicing fee.

Refer to Note 7 for additional fair value disclosures.

### **Cash and Cash Equivalents**

Cash includes various unrestricted deposits with highly rated financial institutions. Cash equivalents consist of highly liquid marketable securities with original maturities of three months or less at the time of purchase and consist primarily of money market funds, commercial paper, U.S. treasury securities and U.S. agency securities. Cash equivalents are recorded at cost, which approximates fair value.

### **Restricted Cash**

Restricted Cash consists primarily of cash deposits and short term certificates of deposit accounts for loan funding and servicing activities, and cash that investors or PFL have on the marketplace that has not yet been invested in Borrower Loans or disbursed to the investor.

### **Borrower Loans, Loans Held for Sale and Notes**

With respect to the Note Channel, PFL purchases Borrower Loans from WebBank then issues notes, and holds the Borrower Loans as a receivable until maturity. The obligation to repay a series of notes issued through the Note Channel is dependent upon the repayment of the associated Borrower Loans. Borrower loans funded and notes issued through the Note Channel are carried on PFL's Consolidated Balance Sheets as assets and liabilities, respectively.

PFL places Borrower Loans and Loans Held for Sale on non-accrual status when they are 120 days past due. When a loan is placed on non-accrual status, PFL stops accruing interest and reverses all accrued but unpaid interest as of such date. Additionally, PFL charges-off Borrower Loans and Loans Held for Sale when they are 120 days past due. The fair value of loans 120 days past due generally consists of the expected recovery from debt sales in subsequent periods.

Management has elected the fair value option for Borrower Loans, Loans Held for Sale, and Notes. Changes in fair value of Borrower Loans are largely offset by the changes in fair value of Notes due to the borrower payment-dependent design of the Notes. Changes in fair value of Borrower Loans, Loans Held for Sale and Notes are included in "Change in Fair Value of Financial Instruments, Net" on the Consolidated Statements of Operations.

PFL primarily uses a discounted cash flow model to estimate the fair value of Borrower Loans, Loans Held for Sale and Notes. The key assumptions used in valuation include default and prepayment rates derived from historical performance and discount rates that reflect estimates of the rates of return that investors would require when investing in financial instruments with similar characteristics.

### **Servicing Assets**

PFL records Servicing Assets at their estimated fair values for servicing rights retained when PFL sells Borrower Loans to unrelated third-party buyers. The change in fair value of Servicing Assets is recognized in revenue as Servicing Fees, Net. The gain or loss on a loan sale is recorded in Gain (Loss) on Sale of Borrower Loans while the fair value of the servicing rights, which is based on the degree to which the contractual loan servicing fee is above or below an estimated market loan servicing rate, is recorded in Servicing Assets on the Consolidated Balance Sheets.

PFL uses a discounted cash flow model to estimate the fair value of Servicing Assets which considers the contractual projected servicing fee revenue that PFL earns on the Borrower Loans, estimated market servicing fees to service such loans, prepayment rates, default rates and the current principal balances of the Borrower Loans.

## **Software and Website Development**

Software and website development represents the software and website development costs that PMI transferred to PFL. PFL does not develop any of its own software or its website. Software and website development are included in Property and Equipment, Net and amortized to expense using the straight-line method over their expected lives which is generally one to five years. PFL evaluates its software assets for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Recoverability of software and website development assets to be held and used is measured by a comparison of the carrying amount of the asset to the future net undiscounted cash flows expected to be generated by the asset. If such software and website development assets are considered to be impaired, the impairment to be recognized is the excess of the carrying amount over the fair value of the software and website development assets.

## **Payable to Investors**

Payable to Investors primarily represents the Company's obligation to investors related to cash held in an account for the benefit of investors and payments-in-process received from borrowers.

## **Loan Trailing Fee Liability**

On July 1, 2016, PMI signed a series of agreements with WebBank which, among other things, includes an additional program fee (the "Loan Trailing Fee") paid to WebBank in connection with the performance of each loan sold to PMI. These agreements were effective as of August 1, 2016. The Loan Trailing Fee is dependent on the amount and timing of principal and interest payments made by borrowers of the underlying loans, irrespective of whether the loans are sold by PMI, and gives WebBank an ongoing financial interest in the performance of the loans it originates. This fee is paid by PMI to WebBank over the term of the respective loans and is a function of the principal and interest payments made by borrowers of such loans. In the event that principal and interest payments are not made with respect to any loan, PMI is not required to make the related Loan Trailing Fee payment. The obligation to pay the Loan Trailing Fee for any loan sold to PMI is recorded at fair value at the time of the origination of such loan within Other Liabilities and recorded as a reduction of "Transaction Fees, net". Any changes in the fair value of this liability are recorded in "Servicing Fees, Net" on the consolidated statements of operations. The fair value of the Loan Trailing Fee represents the present value of the expected monthly Loan Trailing Fee payments, which takes into consideration certain assumptions related to expected prepayment rates and defaults rates.

## **Revenue Recognition**

Revenue primarily results from fees, net interest earned and gains on the sale of Borrower Loans. Fees consist of related party administrative fees and Servicing Fees paid by investors. The Company also has other smaller sources of revenue reported as Other Revenues including fees charged in relation to securitizations by outside investors.

## ***Administration Agreement License Fees***

PFL primarily generates revenues through license fees it earns through an Administration Agreement with PMI. The Administration Agreement contains a license granted by PFL to PMI that entitles PMI to use the platform for and in relation to: (i) PMI's performance of its duties and obligations under the Administration Agreement relating to corporate administration, loan platform services, loan and Note servicing and marketing, and (ii) PMI's performance of its duties and obligations to WebBank in relation to loan origination and funding. The license fees are based on the number of listings that are posted to the platform.

## ***Service Fees***

Investors who purchase Borrower Loans from PFL through the Whole Loan Channel typically pay PFL a servicing fee which is currently set at 1.075% per annum of the outstanding principal balance of the Borrower Loan prior to applying the current payment. The servicing fee compensates PFL for the costs incurred in servicing the Borrower Loan, including managing payments from borrowers, managing payments to investors and maintaining investors' account portfolios. PFL records Servicing Fees from investors as a component of operating revenue when received.

## ***Gain (Loss) on Sale of Borrower Loans***

PFL recognizes gains or losses on the sale of Borrower Loans when it sells Borrower Loans to third parties. PFL measures gain or loss on sale of Borrower Loans as the net proceeds received on the sale less the fair value of the Borrower Loans sold. The net proceeds of the sale represent the fair value of any assets obtained or liabilities incurred as part of the transaction, including, but not limited to Servicing Assets, retained securities, and repurchase obligations.



### ***Interest Income on Borrower Loans and Interest Expense on Notes***

PFL recognizes interest income on Borrower Loans originated through the Note Channel and interest expense on the corresponding Notes using the accrual method based on the stated interest rate to the extent PFL believes it to be collectable.

### **Administration Fee Expense - Related Party**

Pursuant to the Administration Agreement between PFL and PMI, PMI manages the marketplace on behalf of PFL. Accordingly each month, PFL is required to pay PMI an administration fee that is based on PMI's (a) finance and legal personnel costs, (b) number of Borrower Loans originated through the Marketplace, (c) Servicing Fees collected by or on behalf of PFL, and (d) nonsufficient funds fees collected by or on behalf of PFL.

### **Recent Accounting Pronouncements**

#### ***Accounting Standards Adopted in the Current Period***

No accounting standards were adopted in the current period for PFL.

#### ***Accounting Standards Issued, to be Adopted in Future Periods***

No issued and pending accounting standards were identified that are expected to have an impact on PFL.

### **NOTE 3. PROPERTY AND EQUIPMENT, NET**

Property and Equipment consist of the following as of the dates presented (in thousands):

	<b>December 31,</b>	
	<b>2021</b>	<b>2020</b>
Internal-use software and web site development costs	\$ 31,979	\$ 26,953
Less: Accumulated depreciation and amortization	(24,072)	(20,025)
<b>Total Property and Equipment, Net</b>	<b>\$ 7,907</b>	<b>\$ 6,928</b>

Depreciation and amortization expense for the years ended December 31, 2021, 2020, and 2019 was \$4.9 million, \$4.1 million and \$4.4 million, respectively. Internal-use software and web site development additions of \$5.9 million, \$3.5 million and \$5.5 million were purchased from PMI in the years ended December 31, 2021, 2020, and 2019, respectively.

### **NOTE 4. BORROWER LOANS AND NOTES, AT FAIR VALUE**

The fair value of Borrower Loans and Notes issued through the Note Channel is estimated using discounted cash flow methodologies based upon a set of valuation assumptions. The primary assumptions used to value such Borrower Loans and Notes include default and prepayment rates derived from historical performance and discount rates that reflect estimates of the rates of return that investors would require when investing in financial instruments with similar characteristics. The obligation to pay principal and interest on any series of Notes is equal to the payments, if any, received on the corresponding borrower loan, net of the servicing fee. As such, the fair value of Notes is approximately equal to the fair value of Borrower Loans originated through the Note Channel, adjusted for the servicing fee and the timing of borrower payments subsequently disbursed to the note holders. The effective interest rate associated with a series of notes will be less than the interest rate earned on the corresponding borrower loan due to the servicing fee.

The aggregate principal balances outstanding and fair values of Borrower Loans and Notes as of December 31, 2021 and 2020, are presented in the following table (in thousands):

	<b>Borrower Loans</b>		<b>Notes</b>	
	<b>December 31, 2021</b>	<b>December 31, 2020</b>	<b>December 31, 2021</b>	<b>December 31, 2020</b>
Aggregate principal balance outstanding	\$ 265,232	\$ 215,373	\$ 267,415	\$ 217,110
Fair value adjustments	2,394	(5,703)	(1,430)	(8,731)
<b>Fair value</b>	<b>\$ 267,626</b>	<b>\$ 209,670</b>	<b>\$ 265,985</b>	<b>\$ 208,379</b>

At December 31, 2021, Borrower Loans had original maturities of either 36 or 60 months, had monthly payments with fixed interest rates ranging from 5.31% to 31.82% and had various original maturity dates through December 2026. At December 31, 2020, Borrower Loans had original maturities of either 36 or 60 months, had monthly payments with fixed interest rates ranging from 5.31% to 31.82% and had various original maturity dates through December 2025. Since COVID-19 relief was first offered in March 2020 and through December 31, 2021, approximately 9.1% of our current outstanding loan balances on a cumulative basis have enrolled in at least one of these COVID-19 relief programs. Approximately 1.2% of our outstanding loan balances are actively enrolled in at least one relief program as of December 31, 2021.

As of December 31, 2021, Borrower Loans that were 90 days or more delinquent had an aggregate principal amount of \$0.9 million and a fair value of \$0.1 million. As of December 31, 2020, Borrower Loans that were 90 days or more delinquent had an aggregate principal amount of \$1.4 million and a fair value of \$0.1 million. PFL places loans on non-accrual status when they are over 120 days past due. As of December 31, 2021 and 2020, Borrower Loans in non-accrual status had a fair value of \$0.1 million and \$0.2 million, respectively.

## **NOTE 5. SERVICING ASSETS**

PFL accounts for Servicing Assets at their estimated fair values with changes in fair values recorded in Servicing Fees, Net on the Consolidated Statements of Operations. The initial asset is recognized when PFL sells Borrower Loans to unrelated third-party buyers through the Whole Loan Channel and the servicing rights are retained. The total recognized gains and losses on the sale of such Borrower Loans were a \$8.5 million gain, a \$6.4 million gain and a \$5.1 million loss for the years ended December 31, 2021, 2020, and 2019, respectively.

At December 31, 2021, Borrower Loans that were sold, but for which PFL retained servicing rights, had a total outstanding principal balance of \$2.5 billion, original terms of either 36 or 60 months, monthly payments with fixed interest rates ranging from 5.31% to 31.82% and various original maturity dates through December 2026. At December 31, 2020, Borrower Loans that were sold, but for which PFL retained servicing rights, had a total outstanding principal balance of \$2.4 billion, original terms of either 36 or 60 months, monthly payments with fixed interest rates ranging from 5.31% to 31.82% and various original maturity dates through December 2025.

Contractually-specified servicing fees and ancillary fees totaled \$29.2 million, \$34.8 million and \$43.4 million for the years ended December 31, 2021, 2020, and 2019, respectively, and are included in Servicing Fees, Net on the Statement of Operations.

### **Fair Value Valuation Method**

PFL uses a discounted cash flow valuation methodology generally consisting of developing an estimate of future cash flows that are expected to occur over the life of a financial instrument and then discounting those cash flows at a rate of return that results in the fair value amount.

Significant unobservable inputs presented in the table within Note 7 are those that PFL considers significant to the estimated fair values of the Level 3 Servicing Assets. The following is a description of the significant unobservable inputs provided in the table.

### ***Market Servicing Rate***

PFL estimates adequate market servicing rates that would fairly compensate a substitute servicer should one be required, which includes the profit that would be demanded in the marketplace. This rate is stated as a fixed percentage of outstanding principal balance on a per annum basis. With the assistance of a valuation specialist, PFL estimates these market servicing rates based on observable market rates for other loan types in the industry and bids from sub-servicing providers, adjusted for the unique loan attributes that are present in the specific loans that PFL sells and services and information from backup service providers.

### ***Discount Rate***

The discount rate is a rate of return used to discount future expected cash flows to arrive at a present value, which represents the fair value of the loan servicing rights. Management used a range of discount rates for the Servicing Assets based on comparable observed valuations of similar assets and publicly available disclosures related to servicing valuations, with comparability adjustments made to account for differences with PFL's Servicing Assets.

### ***Default Rate***

The default rate presented in Note 7 is an annualized, average estimate considering all Borrower Loan categories (i.e., risk ratings and duration), and represents an aggregate of conditional default rate curves for each credit grade or borrower loan

category. Each point on a particular borrower loan category's curve represents the percentage of principal expected to default per period based on the term and age of the underlying Borrower Loans. The assumption regarding defaults directly reduces servicing revenues because the amount of servicing revenues received is based on the amount collected each period.

### ***Prepayment Rate***

The prepayment rate presented in Note 7 is an annualized, average estimate considering all borrower loan categories (i.e., risk ratings and duration), and represents an aggregate of conditional prepayment rate curves for each credit grade or borrower loan category. Each point on a particular borrower loan category's curve represents the percentage of principal expected to prepay per period based on the term and age of the underlying Borrower Loans. Prepayments reduce servicing revenues as they shorten the period over which PFL expects to collect fees on the Borrower Loans, which is used to project future servicing revenues.

## **NOTE 6. INCOME TAXES**

PFL incurred no income tax provision for the year ended December 31, 2021 and 2020. PFL is a U.S. disregarded entity and its income and loss are included in the income tax reporting of its parent, PMI. Since PMI is in a taxable loss position, is not currently subject to income taxes, and has fully reserved against its deferred tax asset, the net effective tax rate for PFL is 0%.

## **NOTE 7. FAIR VALUE OF ASSETS AND LIABILITIES**

PFL has elected to record certain financial instruments at fair value on the balance sheet. PFL classifies Borrower Loans, Loans Held for Sale and Notes as financial instruments and assesses their fair value on a quarterly basis for financial statement presentation purposes. Gains and losses on these financial instruments are shown separately on the Consolidated Statements of Operations.

As of December 31, 2021 and 2020, the discounted cash flow methodology used to estimate the Note fair values used the same projected cash flows as the related Borrower Loans. As demonstrated in the following table, the fair value adjustments for Borrower Loans were largely offset by the fair value adjustments of the Notes due to the borrower payment dependent design of the Notes and because the principal balances of the Borrower Loans approximated the principal balances of the Notes.

For a description of the fair value hierarchy and PFL's fair value methodologies, see Note 2 - Summary of Significant Accounting Policies. PFL did not transfer any assets or liabilities in or out of Level 3 during the year ended December 31, 2021 and 2020.

### **Financial Instruments Recorded at Fair Value**

The fair value of the Borrower Loans and Notes are estimated using discounted cash flow methodologies based upon a set of valuation assumptions. The primary cash flow assumptions used to value such Borrower Loans and Notes include default and prepayment rates derived from historical performance and discount rates that reflect estimates of the rates of return that investors would require when investing in financial instruments with similar characteristics.

The following tables present the fair value hierarchy for assets and liabilities measured at fair value (in thousands):

<b>December 31, 2021</b>	<b>Level 1 Inputs</b>	<b>Level 2 Inputs</b>	<b>Level 3 Inputs</b>	<b>Total</b>
<b>Assets:</b>				
Borrower Loans, at Fair Value	\$ —	\$ —	\$ 267,626	\$ 267,626
Servicing Assets	—	—	9,796	9,796
<b>Total Assets</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 277,422</b>	<b>\$ 277,422</b>
<b>Liabilities:</b>				
Notes, at Fair Value	\$ —	\$ —	\$ 265,985	\$ 265,985
Loan Trailing Fee Liability*	—	—	2,161	2,161
<b>Total Liabilities</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 268,146</b>	<b>\$ 268,146</b>
<b>December 31, 2020</b>	<b>Level 1 Inputs</b>	<b>Level 2 Inputs</b>	<b>Level 3 Inputs</b>	<b>Total</b>
<b>Assets:</b>				
Borrower Loans, at Fair Value	\$ —	\$ —	\$ 209,670	\$ 209,670
Servicing Assets	—	—	11,088	11,088
<b>Total Assets</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 220,758</b>	<b>\$ 220,758</b>
<b>Liabilities:</b>				
Notes, at Fair Value	\$ —	\$ —	\$ 208,379	\$ 208,379
Loan Trailing Fee Liability*	—	—	2,233	2,233
<b>Total Liabilities</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 210,612</b>	<b>\$ 210,612</b>

\*Included in Other Liabilities on the Consolidated Balance Sheets.

As PFL's Borrower Loans, Notes, Servicing Assets and loan trailing fee liability do not trade in an active market with readily observable prices, PFL uses significant unobservable inputs to measure the fair value of these assets and liabilities. Financial instruments are categorized in the Level 3 valuation hierarchy based on the significance of unobservable factors in the overall fair value measurement. These fair value estimates may also include observable, actively quoted components derived from external sources. As a result, the realized and unrealized gains and losses for assets and liabilities within the Level 3 category may include changes in fair value that were attributable to both observable and unobservable inputs.

## Significant Unobservable Inputs

The following tables present quantitative information about the significant unobservable inputs used for PFL's Level 3 fair value measurements at the dates presented:

Borrower Loans and Notes:	Range			
	December 31, 2021		December 31, 2020	
Discount rate	4.3 %	— 13.9 %	5.3 %	— 16.1 %
Default rate	2.0 %	— 13.5 %	2.6 %	— 16.2 %

Servicing Assets:	Range			
	December 31, 2021		December 31, 2020	
Discount rate	15.0 %	— 25.0 %	15.0 %	— 25.0 %
Default rate	1.5 %	— 14.1 %	1.9 %	— 17.7 %
Prepayment rate	10.2 %	— 32.3 %	12.4 %	— 28.9 %
Market servicing rate <sup>(1) (2)</sup>	0.648 %	— 0.842 %	0.625 %	— 0.818 %

<sup>(1)</sup> Servicing assets associated with loans enrolled in a relief program offered by the Company in response to the COVID-19 pandemic as of December 31, 2021 were measured using a market servicing rate assumption of 84.2 basis points. This rate was estimated using a multiplier consistent with observable market rates for other loan types, applied to the base market servicing rate assumption of 64.8 basis points.

<sup>(2)</sup> Excludes collection fees that would be passed on to a hypothetical third-party servicer. As of December 31, 2021 and 2020, the market rate for collection fees and non-sufficient fund fees was assumed to be 6 basis points and 7 basis points, respectively, for a weighted-average total market servicing rate of 70.8 basis points to 90.2 basis points and 69.5 basis points to 88.8 basis points, respectively.

Loan Trailing Fee Liability:	Range			
	December 31, 2021		December 31, 2020	
Discount rate	15.0 %	— 25.0 %	15.0 %	— 25.0 %
Default rate	1.5 %	— 14.1 %	1.9 %	— 17.7 %
Prepayment rate	10.2 %	— 32.3 %	12.4 %	— 28.9 %

## Changes in Level 3 Fair Value Assets and Liabilities on a Recurring Basis

The following table presents additional information about Level 3 Loans Held for Sale, Borrower Loans, and Notes measured at fair value on a recurring basis for the year ended December 31, 2021 and 2020 (in thousands):

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)			
	Assets		Liabilities	
	Borrower Loans	Loans Held for Sale	Notes	Total
<b>Fair value at January 1, 2020</b>	\$ 245,137	\$ —	\$ (244,171)	\$ 966
Originations	133,644	1,338,082	(133,228)	1,338,498
Principal repayments	(147,361)	—	149,409	2,048
Borrower Loans sold to third parties	(2,547)	(1,338,082)	—	(1,340,629)
Other changes	7	—	(53)	(46)
Change in fair value	(19,210)	—	19,664	454
<b>Fair value at December 31, 2020</b>	\$ 209,670	\$ —	\$ (208,379)	\$ 1,291
Originations	232,000	1,712,705	(231,933)	1,712,772
Principal repayments	(171,286)	—	172,250	964
Borrower Loans sold to third parties	(1,422)	(1,712,705)	—	(1,714,127)
Other changes	(195)	—	166	(29)
Change in fair value	(1,141)	—	1,911	770
<b>Fair value at December 31, 2021</b>	\$ 267,626	\$ —	\$ (265,985)	\$ 1,641

The following table presents additional information about Level 3 Servicing Assets recorded at fair value (in thousands):

	<b>Servicing Assets</b>
<b>Fair value at January 1, 2020</b>	\$ 14,888
Additions	7,203
Change in fair value	(11,003)
<b>Fair value at December 31, 2020</b>	\$ 11,088
Additions	9,020
Change in fair value	(10,312)
<b>Fair value at December 31, 2021</b>	<u>\$ 9,796</u>

### ***Loan Trailing Fee Liability***

The fair value of the Loan Trailing Fee Liability represents the present value of the expected monthly Loan Trailing Fee payments, which takes into consideration certain assumptions related to expected prepayment rates and default rates using a discounted cash flow model. The assumptions used are the same as those used for the valuation of Servicing Assets, as described below.

The following tables present additional information about Level 3 Loan Trailing Fee Liability measured at fair value on a recurring basis (in thousands):

	<b>Loan Trailing Fee Liability</b>
<b>Fair Value at January 1, 2020</b>	\$ 2,997
Issuances	1,349
Cash payment of Loan Trailing Fee	(2,421)
Change in fair value	308
<b>Fair Value at December 31, 2020</b>	\$ 2,233
Issuances	1,775
Cash payment of Loan Trailing Fee	(2,100)
Change in fair value	253
<b>Fair Value at December 31, 2021</b>	<u>\$ 2,161</u>

### Significant Recurring Level 3 Fair Value Asset and Liability Input Sensitivity

Key economic assumptions are used to compute the fair value of Borrower Loans and Notes. The sensitivity of the current fair value to immediate changes in assumptions at December 31, 2021 and 2020 for Borrower Loans are presented in the following table (in thousands, except percentages):

	December 31, 2021	December 31, 2020
<b>Borrower Loans:</b>		
Fair value, using the following assumptions:	\$ 267,626	\$ 209,670
Weighted-average discount rate	5.76 %	8.93 %
Weighted-average default rate	10.70 %	12.26 %
Fair value resulting from:		
100 basis point increase in discount rate	\$ 265,104	\$ 207,810
200 basis point increase in discount rate	\$ 262,499	\$ 205,994
Fair value resulting from:		
100 basis point decrease in discount rate	\$ 270,520	\$ 211,575
200 basis point decrease in discount rate	\$ 273,337	\$ 213,527
Fair value resulting from:		
100 basis point increase in default rate	\$ 265,435	\$ 207,594
200 basis point increase in default rate	\$ 263,107	\$ 205,528
Fair value resulting from:		
100 basis point decrease in default rate	\$ 270,133	\$ 211,755
200 basis point decrease in default rate	\$ 272,505	\$ 213,851

Key economic assumptions are used to compute the fair value of Notes. The sensitivity of the fair value to immediate changes in assumptions at December 31, 2021 and 2020 for Notes funded through the Note Channel are presented in the following table (in thousands, except percentages):

	December 31, 2021	December 31, 2020
<b>Notes:</b>		
Fair value, using the following assumptions:	\$ 265,985	\$ 208,379
Weighted-average discount rate	5.76 %	8.93 %
Weighted-average default rate	10.70 %	12.26 %
Fair value resulting from:		
100 basis point increase in discount rate	\$ 263,326	\$ 206,528
200 basis point increase in discount rate	\$ 260,735	\$ 204,720
Fair value resulting from:		
100 basis point decrease in discount rate	\$ 268,714	\$ 210,274
200 basis point decrease in discount rate	\$ 271,516	\$ 212,217
Fair value resulting from:		
100 basis point increase in default rate	\$ 263,644	\$ 206,304
200 basis point increase in default rate	\$ 261,318	\$ 204,238
Fair value resulting from:		
100 basis point decrease in default rate	\$ 268,340	\$ 210,463
200 basis point decrease in default rate	\$ 270,711	\$ 212,558

Key economic assumptions are used to compute the fair value of Servicing Assets. The sensitivity of the current fair value to immediate changes in assumptions at December 31, 2021 and 2020 for Servicing Assets are presented in the following table (in thousands, except percentages):

	December 31, 2021	December 31, 2020
<b>Servicing Assets:</b>		
Fair value, using the following assumptions:	\$ 9,796	\$ 11,088
Weighted-average market servicing rate	0.650 %	0.631 %
Weighted-average prepayment rate	20.82 %	19.84 %
Weighted-average default rate	12.24 %	12.78 %
Fair value resulting from:		
Market servicing rate increase of 0.025%	\$ 9,171	\$ 10,424
Market servicing rate decrease of 0.025%	\$ 10,421	\$ 11,752
Fair value resulting from:		
Applying a 1.1 multiplier to prepayment rate	\$ 9,580	\$ 10,874
Applying a 0.9 multiplier to prepayment rate	\$ 10,015	\$ 11,304
Fair value resulting from:		
Applying a 1.1 multiplier to default rate	\$ 9,667	\$ 10,936
Applying a 0.9 multiplier to default rate	\$ 9,926	\$ 11,239

These sensitivities are hypothetical and should be evaluated with care. The effect on fair value of a 10% variation in assumptions generally cannot be determined because the relationship of the change in assumptions to the fair value may not be linear. Additionally, the impact of a variation in a particular assumption on the fair value is calculated while holding other assumptions constant. In reality, changes in one factor may lead to changes in other factors, which could impact the above hypothetical effects.

## NOTE 8. COMMITMENTS AND CONTINGENCIES

In the normal course of its operations, PFL becomes involved in various legal actions. PFL maintains provisions it considers to be adequate for such actions. The Company does not believe it is probable that the ultimate liability, if any, arising out of any such matters will have a material effect on financial condition, results of operations or cash flows.

### Operating Commitments

PFL has entered into an agreement with WebBank, under which all Borrower Loans originated through the marketplace are made under WebBank's bank charter. On June 25, 2021, PMI, along with PFL, and WebBank entered into: (i) a Fifth Amendment (the "Sale Agreement Amendment") to the Asset Sale Agreement, dated July 1, 2016, between PFL and WebBank (the "Sale Agreement"); (ii) a Sixth Amendment (the "Marketing Agreement Amendment") to the Marketing Agreement, dated July 1, 2016, between PMI and WebBank (the "Marketing Agreement"); and (iii) a Third Amendment (the "Purchase Agreement Amendment") to the Stand By Purchase Agreement, dated July 1, 2016, between PMI and WebBank (the "Purchase Agreement" and, collectively with the Sale Agreement and the Marketing Agreement, the "Origination and Sale Agreements").

The Sale Agreement Amendment, among other things, extends the term of the Sale Agreement to February 1, 2025 and amends certain collateral requirements under the Sale Agreement. The Marketing Agreement Amendment, among other things, extends the term of the Marketing Agreement to February 1, 2025 and sets forth the amended terms and conditions of certain fees owed by the Registrants to WebBank under the Marketing Agreement. The Purchase Agreement Amendment amends certain collateral requirements of Prosper under the Purchase Agreement.

Pursuant to the Marketing Agreement Amendment, the marketing fee that PFL receives in connection with the origination of each loan is partially reduced by an amount (the "Designated Amount") calculated as a percentage of the principal amount of such loan based on the aggregate principal amount of loans originated for the applicable month. To the extent the aggregate Designated Amount for all loans originated during any month is less than \$143.5 thousand through February 1, 2022, and \$100,000 thereafter through February 1, 2025, PFL is required to pay WebBank an amount equal to such deficiency. Accordingly, the minimum fee is \$1.2 million for each year from 2022 through 2024, and \$0.1 million in 2025.



Additionally, under the agreement with WebBank, PFL is required to maintain minimum net liquidity of \$15 million at all times during the term of the agreement. Net liquidity is defined as the sum of Cash, Cash Equivalents and Available for Sale Investments. Violation of this covenant can result in termination of the contract with WebBank. As of December 31, 2021 the Company was in compliance with the covenant.

### **Loan Purchase Commitments**

Under the terms of PFL's agreement with WebBank, PFL is committed to purchase \$13.8 million of Borrower Loans that WebBank originated during the last two business days of the year ended December 31, 2021. PFL will purchase these Borrower Loans within the first two business days of the year ending December 31, 2022.

### **Repurchase Obligation**

Under the terms of the loan purchase agreements between PFL and investors that participate in the Whole Loan Channel, PFL may, in certain circumstances, become obligated to repurchase a Borrower Loan from an investor. Generally, these circumstances include the occurrence of verifiable identity theft, the failure to properly follow loan listing or bidding protocols or a violation of the applicable federal, state or local lending laws. PFL recognizes a liability at fair value for the repurchase obligation when the Borrower Loans are sold. The fair value of the repurchase obligation is estimated based on historical experience. Repurchased Borrower Loans associated with violations of federal, state or local lending laws or verifiable identity theft are written off at the time of repurchase. The maximum potential amount of future payments associated under the repurchase obligation is the outstanding balances of the Borrower Loans sold through the Whole Loan channel, which at December 31, 2021 was \$2.5 billion. PFL had accrued \$0.3 million and \$0.2 million as of December 31, 2021 and 2020 respectively in regard to this obligation.

### **Regulatory Contingencies**

PFL accrues for contingencies when a loss from such contingencies is probable and the amount of loss can be reasonably estimated. In determining whether a loss is probable and if it is possible to quantify the amount of the estimated loss, PFL reviews and evaluates its litigation and regulatory matters on at least a quarterly basis in light of potentially relevant factual and legal developments. If PFL determines that an unfavorable outcome is not probable or that the amount of a loss cannot be reasonably estimated, PFL does not accrue for a potential litigation loss. If an unfavorable outcome is probable and PFL can estimate a range of outcomes, PFL records the amount management considers to be the best estimate within the range of potential losses that are both probable and estimable; however, if management cannot quantify the amount of the estimated loss, then PFL records the low end of the range of those potential losses.

### ***SEC Inquiry***

In April 2017, we became aware of an error in the annualized net return and seasoned annualized net return numbers displayed to Note investors. PMI was advised by the SEC that it was investigating whether violations of federal securities laws had occurred in connection with the error. On April 19, 2019, the SEC accepted an offer of settlement from PFL to resolve the matter. Under the settlement, the SEC alleged a violation of Section 17(a)(2) of the Securities Act and ordered PFL to cease and desist from any future violations of that provision. PFL neither admitted nor denied any wrongdoing, and agreed to pay a civil monetary penalty of \$3.0 million. The penalty of \$3.0 million was paid in full in April 2019.

### ***West Virginia Matter***

In January 2018, the Attorney General of the State of West Virginia (the "Attorney General") initiated discussions regarding certain acts and practices of PMI and PFL that the Attorney General asserts may have violated the West Virginia Consumer Credit and Protection Act (the "Consumer Act"), to which PMI responded with such information as was requested by the Attorney General. Following a period of more than a year with limited to no communication, in February 2020, PMI received a proposed Assurance of Discontinuance (an "AOD") from the Attorney General requesting that, without in any way admitting that any of its prior practices were in violation of the Consumer Act, PMI agree to certain terms and conditions regarding its past and potential future conduct of its business with respect to customers in West Virginia, including a release by the Attorney General of any claims it may have related to the matters identified in the AOD. PMI is evaluating and intends to discuss the proposed terms in the AOD with the Attorney General.

We cannot predict the outcome of the matter and any potential fines or penalties, if any, that may arise from the matter. Further, we are unable to estimate a range of outcomes and as a result no accrual has been made.

No loans have been originated through the PFL platform to West Virginians since June 2016.

## NOTE 9. RELATED PARTIES

Since inception, PFL has engaged in various transactions with its directors, executive officers, PMI, and immediate family members and other affiliates of its directors, executive officers and PMI. PFL believes that all of the transactions described below were made on terms no less favorable to PFL than could have been obtained from unaffiliated third parties.

PFL's executive officers and directors who are not executive officers participate in its marketplace by placing bids and purchasing Notes. The aggregate amount of the Notes purchased and the income earned by parties deemed to be related parties of PFL for the years ended December 31, 2021 and 2020 are summarized below (in thousands):

	Aggregate Amount of Notes Purchased for the Year Ended December 31,		Interest Earned on Notes for the Year Ended December 31,	
	2021	2020	2021	2020
Executive officers and management	\$ 35	\$ 28	\$ 7	\$ 6
Directors (excluding executive officers and management)	—	—	—	—
<b>Total</b>	<u>\$ 35</u>	<u>\$ 28</u>	<u>\$ 7</u>	<u>\$ 6</u>

The balance of Notes held by officers and directors who are not executive officers are as follows (in thousands):

	Notes Balance as of	
	December 31, 2021	December 31, 2020
Executive officers and management	\$ 41	\$ 41
Directors (excluding executive officers and management)	—	—
<b>Total</b>	<u>\$ 41</u>	<u>\$ 41</u>

## NOTE 10. SIGNIFICANT CONCENTRATIONS

PFL is dependent on third party funding sources such as banks, asset managers, and investment funds to provide the funds to allow WebBank to originate Borrower Loans that the third party funding sources will later purchase. Of all Borrower Loans originated in the year ended December 31, 2021, one individual party purchased 26.7% of such loans, and PMI's Warehouse VIEs purchased 12.6% of such loans. For the year ended December 31, 2020, two individual parties purchased 21.4% and 14.3% of such loans, respectively, and PMI's Warehouse VIEs purchased 18.2% of such loans. These purchases reflect that a significant portion of PFL's business is dependent on funding through the Whole Loan Channel, through which 88% and 91% of Borrower Loans were originated in the years ended December 31, 2021 and 2020, respectively.

## EXHIBIT INDEX

### Exhibit Number

### Description

- 
- | Exhibit<br>Number    | Description  |
|----------------------|--|
| <a href="#">2.1</a>  | Asset Transfer Agreement, dated January 22, 2013, between Prosper Marketplace, Inc. and Prosper Funding LLC (incorporated by reference to Exhibit 2.1 of PMI and PFL's Current Report on Form 8-K, filed on January 28, 2013)  |
| <a href="#">2.2</a>  | Agreement and Plan of Merger dated as of January 23, 2015 by and among Prosper Marketplace, Inc., American HealthCare Lending, LLC ("AHL"), Prosper Healthcare Lending, LLC and Shaun Sorensen, solely in his capacity as agent for AHL's members and option holders (incorporated by reference to Exhibit 2.1 of PMI's Current Report on Form 8-K, filed on January 27, 2015) |
| <a href="#">2.3</a>  | Agreement and Plan of Merger, dated as of September 23, 2015, by and among Prosper Marketplace, Inc., BillGuard, Inc., Beach Merger Sub, Inc. and Shareholder Representative Services LLC, solely in its capacity as the Stockholders' Representative (incorporated by reference to Exhibit 2.1 of PMI's Current Report on Form 8-K, filed on October 15, 2015)                |
| <a href="#">2.4</a>  | Asset Transfer Agreement, dated August 17, 2021, between Prosper Marketplace, Inc. and Prosper Funding LLC (1)(2)  |
| <a href="#">3.1</a>  | Fifth Amended and Restated Limited Liability Company Agreement of Prosper Funding LLC, dated October 21, 2013 (incorporated by reference to Exhibit 3.1 of Post-Effective Amendment No. 3 to the Registration Statement on Form S-1 (File No. 333-179941), filed on October 23, 2013 by PFL and PMI)   |
| <a href="#">3.2</a>  | Amended and Restated Certificate of Incorporation of PMI, as further amended on October 15, 2018 (incorporated by reference to Exhibit 3.2 of PMI and PFL's Quarterly Report on Form 10-Q, filed on November 14, 2018)   |
| <a href="#">3.3</a>  | Certificate of Formation of Prosper Funding LLC (incorporated by reference to Exhibit 3.2 of the Registration Statement on Form S-1/A, filed April 23, 2012 by PFL)  |
| <a href="#">3.4</a>  | Bylaws of Prosper Marketplace, Inc., dated March 22, 2005, as amended by Amendment No. 1 dated February 15, 2016 and Amendment No. 2 dated May 19, 2020 (incorporated by reference to Exhibit 3.4 of PMI's and PFL's Quarterly Report on Form 10-Q (File No. 333-225797), filed August 14, 2020)   |
| <a href="#">4.1</a>  | Form of PFL Borrower Payment Dependent Note (included as Exhibit A in Exhibit 4.5)   |
| <a href="#">4.2</a>  | Form of PMI Borrower Payment Dependent Note (included as Exhibit A in Exhibit 4.4)   |
| <a href="#">4.3</a>  | Supplemental Indenture, dated January 22, 2013, between Prosper Marketplace, Inc., Prosper Funding LLC and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.1 of PMI and PFL's Current Report on Form 8-K, filed on January 28, 2013)  |
| <a href="#">4.4</a>  | Indenture, dated June 15, 2009, between Prosper Marketplace, Inc. and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.2 of Pre-Effective Amendment No. 5 to PMI's Registration Statement on Form S-1 (File No. 333-147019), filed on June 26, 2009)   |
| <a href="#">4.5</a>  | Amended and Restated Indenture, dated January 22, 2013, between Prosper Funding LLC and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.2 of PMI and PFL's Current Report on Form 8-K, filed on January 28, 2013)   |
| <a href="#">4.6</a>  | First Supplemental Indenture, dated May 10, 2013, between Prosper Funding LLC and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 4.1 of PMI and PFL's Quarterly Report on Form 10-Q, filed on August 14, 2013)   |
| <a href="#">10.1</a> | Form of PFL Borrower Registration Agreement (2)  |
| <a href="#">10.2</a> | Form of PFL Investor Registration Agreement (incorporated by reference to Exhibit 10.2 of PMI and PFL's Annual Report on Form 10-K filed on March 20, 2020)  |
| <a href="#">10.3</a> | Asset Sale Agreement, dated July 1, 2016, between PFL and WebBank (incorporated by reference to Exhibit 10.1 of PMI and PFL's Current Report on Form 8-K/A, filed on March 7, 2017) (1)  |
| <a href="#">10.4</a> | First Amendment to Asset Sale Agreement, dated October 7, 2016, between PFL and WebBank (incorporated by reference to Exhibit 10.1 of PMI and PFL's Current Report on Form 8-K/A, filed on April 22, 2019) (1)   |
| <a href="#">10.5</a> | Second Amendment to Asset Sale Agreement, dated March 27, 2017, between PFL and WebBank (incorporated by reference to Exhibit 10.2 of PMI and PFL's Current Report on Form 8-K/A, filed on April 22, 2019) (1)   |

Exhibit Number	Description
<a href="#">10.6</a>	Third Amendment to Asset Sale Agreement, dated February 1, 2019, between PFL and WebBank (incorporated by reference to Exhibit 10.1 of PMI and PFL's Current Report on Form 8-K/A, filed on April 24, 2019)
<a href="#">10.7</a>	Fourth Amendment to Asset Sale Agreement, dated November 9, 2020, between PFL and WebBank (incorporated by reference to Exhibit 10.7 of PMI and PFL's Quarterly Report on Form 10-Q, filed on November 12, 2020)
<a href="#">10.8</a>	Fifth Amendment to Asset Sale Agreement, dated June 25, 2021, between PFL and WebBank (incorporated by reference to Exhibit 10.1 of PMI and PFL's Current Report on Form 8-K/A, filed on July 1, 2021) (1)
<a href="#">10.09</a>	Marketing Agreement, dated July 1, 2016, between PMI and WebBank (incorporated by reference to Exhibit 10.2 of PMI and PFL's Current Report on Form 8-K/A, filed on March 7, 2017) (1)
<a href="#">10.10</a>	First Amendment to Marketing Agreement, dated October 7, 2016, between PMI and WebBank (incorporated by reference to Exhibit 10.3 of PMI and PFL's Current Report on Form 8-K/A, filed on April 22, 2019) (1)
<a href="#">10.11</a>	Second Amendment to Marketing Agreement, dated November 17, 2017, between PMI and WebBank (incorporated by reference to Exhibit 10.4 of PMI and PFL's Current Report on Form 8-K/A, filed on April 22, 2019) (1)
<a href="#">10.12</a>	Third Amendment to Marketing Agreement, dated February 1, 2019, between PMI and WebBank (incorporated by reference to Exhibit 10.2 of PMI and PFL's Current Report on Form 8-K/A, filed on April 24, 2019) (1)
<a href="#">10.13</a>	Fourth Amendment to Marketing Agreement, dated September 21, 2020, between PMI and WebBank (incorporated by reference to Exhibit 10.5 of PMI and PFL's Quarterly Report on Form 10-Q, filed on November 12, 2020) (1)
<a href="#">10.14</a>	Fifth Amendment to Marketing Agreement, dated November 9, 2020, between PMI and WebBank (incorporated by reference to Exhibit 10.6 of PMI and PFL's Quarterly Report on Form 10-Q, filed on November 12, 2020) (1)
<a href="#">10.15</a>	Sixth Amendment to Marketing Agreement, dated June 25, 2021, between PMI and WebBank (incorporated by reference to Exhibit 10.2 of PMI and PFL's Current Report on Form 8-K/A, filed on July 1, 2021) (1)
<a href="#">10.16</a>	Administration Agreement, effective as of February 1, 2013, between Prosper Funding LLC and Prosper Marketplace, Inc. (incorporated by reference to Exhibit 10.1 of PMI and PFL's Current Report on Form 8-K, filed on January 28, 2013)
<a href="#">10.17</a>	Amendment No. 1 to Administration Agreement, dated as of January 1, 2014, between Prosper Funding LLC and Prosper Marketplace, Inc. (incorporated by reference to Exhibit 10.1 of PMI and PFL's Current Report on Form 10-Q filed on May 14, 2014)
<a href="#">10.18</a>	Amendment No. 2 to Administration Agreement, dated as of January 1, 2015, between Prosper Funding LLC and Prosper Marketplace, Inc. (incorporated by reference to Exhibit 10.7 of PMI and PFL's Annual Report on Form 10-K filed on April 6, 2015)
<a href="#">10.19</a>	Amendment No. 3 to Administration Agreement, dated as of November 8, 2016 and made effective as of July 1, 2016, between Prosper Funding LLC and Prosper Marketplace, Inc. (incorporated by reference to Exhibit 10.8 of PMI and PFL's Annual Report on Form 10-K, filed on March 20, 2017)
<a href="#">10.20</a>	Amendment No. 4 to Administration Agreement, dated as of January 25, 2018, between Prosper Funding LLC and Prosper Marketplace, Inc. (incorporated by reference to Exhibit 10.32 of PMI and PFL's Annual Report on Form 10-K, filed on March 26, 2018)
<a href="#">10.21</a>	Amendment No. 5 to Administration Agreement, dated as of November 12, 2018 and made effective as of October 1, 2018, between Prosper Funding LLC and Prosper Marketplace, Inc. (incorporated by reference to Exhibit 10.16 of PMI and PFL's Annual Report on Form 10-K, filed on March 29, 2019)
<a href="#">10.22</a>	Amendment No. 6 to Administration Agreement, dated as of May 12, 2021, between Prosper Funding LLC and Prosper Marketplace, Inc. (incorporated by reference to Exhibit 10.3 of PMI and PFL's Quarterly Report on Form 10-Q, filed on May 13, 2021)

Exhibit Number	Description
<a href="#">10.23</a>	Services and Indemnity Agreement, dated March 1, 2012, among Global Securitization Services, LLC, Kevin Burns, Bernard Angelo, Prosper Marketplace, Inc. and Prosper Funding LLC (incorporated by reference to Exhibit 10.8 of Pre-Effective Amendment No. 3 to PFL and PMI's Registration Statement on Form S-1 (File Nos. 333-179941 and 333-179941-01), filed on November 21, 2012) (3)
<a href="#">10.24</a>	Second Amended and Restated Loan Sale Agreement, dated January 25, 2013, among WebBank, Prosper Marketplace, Inc. and Prosper Funding LLC (incorporated by reference to Exhibit 10.5 of PMI and PFL's Current Report on Form 8-K, filed on January 28, 2013) (1)
<a href="#">10.25</a>	Second Amendment to Second Amended and Restated Loan Sale Agreement, dated October 27, 2015, between PMI, PFL and WebBank (incorporated by reference to Exhibit 10.2 of PMI and PFL's Quarterly Report on Form 10-Q, filed on November 9, 2015)
<a href="#">10.26</a>	Second Amended and Restated Loan Account Program Agreement, dated January 25, 2013, between WebBank and Prosper Marketplace, Inc. (incorporated by reference to Exhibit 10.6 of PMI and PFL's Current Report on Form 8-K, filed on January 28, 2013) (1)
<a href="#">10.27</a>	Stand By Loan Purchase Agreement, dated January 25, 2013, between WebBank and Prosper Marketplace, Inc. (incorporated by reference to Exhibit 10.7 of PMI and PFL's Current Report on Form 8-K, filed on January 28, 2013) (1)
<a href="#">10.28</a>	Stand By Purchase Agreement, dated July 1, 2016, between WebBank and Prosper Marketplace, Inc. (incorporated by reference to Exhibit 10.3 of PMI and PFL's Current Report on Form 8-K, filed on July 8, 2016) (1)
<a href="#">10.29</a>	First Amendment to Stand By Purchase Agreement, dated February 1, 2019, between WebBank and Prosper Marketplace, Inc. (incorporated by reference to Exhibit 10.3 of PMI and PFL's Current Report on Form 8-K/A, filed on April 24, 2019) (1)
<a href="#">10.30</a>	Second Amendment to Stand By Purchase Agreement, dated November 9, 2020, between WebBank and Prosper Marketplace, Inc. (incorporated by reference to Exhibit 10.8 of PMI and PFL's Quarterly Report on Form 10-Q, filed on November 12, 2020) (1)
<a href="#">10.31</a>	Third Amendment to Stand By Purchase Agreement, dated June 25, 2021, between WebBank and Prosper Marketplace, Inc. (incorporated by reference to Exhibit 10.3 of PMI and PFL's Current Report on Form 8-K/A, filed on July 1, 2021) (1)
<a href="#">10.32</a>	Director Indemnification Agreement, dated January 15, 2013, between Prosper Marketplace, Inc. and Patrick (Pat) Grady (incorporated by reference to Exhibit 10.20 of PMI and PFL's Annual Report on Form 10-K, filed on March 31, 2014) (3)
<a href="#">10.33</a>	Form of Indemnification Agreement for PMI's directors (other than Patrick Grady), officers and key employees (incorporated by reference to Exhibit 10.21 of PMI and PFL's Annual Report on Form 10-K, filed on March 18, 2016) (3)
<a href="#">10.34</a>	Back-Up Servicing Agreement (Note Channel), dated as of February 24, 2017, among Prosper Funding LLC, Prosper Marketplace, Inc., and Vervent, Inc. (f/k/a First Associates Loan Servicing, LLC) (incorporated by reference to Exhibit 10.10 of PMI and PFL's Quarterly Report on Form 10-Q, filed on May 15, 2017) (1)
<a href="#">10.35</a>	Amended and Restated Services and Indemnity Agreement, dated May 30, 2013, between Prosper Funding LLC, Prosper Marketplace, Inc., Global Securitization Services, LLC, Bernard J. Angelo and David V. DeAngelis (incorporated by reference to Exhibit 10.1 of PMI and PFL's Current Report on Form 8-K, filed on June 5, 2013) (3)
<a href="#">10.36</a>	Amended and Restated Prosper Marketplace, Inc. 2005 Stock Plan (incorporated by reference to Exhibit 4.2 of PMI's Registration Statement on Form S-8 filed on May 29, 2014) (3)
<a href="#">10.37</a>	Prosper Marketplace, Inc. 2015 Equity Incentive Plan (incorporated by reference to Exhibit 4.1 of PMI's Registration Statement on Form S-8 filed on May 12, 2015) (3)
<a href="#">10.38</a>	Amendment No. 1 to Prosper Marketplace, Inc. 2015 Equity Incentive Plan (incorporated by reference to Exhibit 4.1 of PMI's Registration Statement on Form S-8 filed on April 13, 2016) (3)
<a href="#">10.39</a>	Amendment No. 2 to Prosper Marketplace, Inc. 2015 Equity Incentive Plan (incorporated by reference to Exhibit 4.1 of PMI's Registration Statement on Form S-8 filed on August 15, 2016) (3)
<a href="#">10.40</a>	Amendment No. 3 to Prosper Marketplace, Inc. 2015 Equity Incentive Plan (incorporated by reference to Exhibit 4.1 of PMI's Registration Statement on Form S-8 filed on March 26, 2018) (3)

Exhibit Number	Description
<a href="#">10.41</a>	Form of Stock Option Agreement under the Prosper Marketplace, Inc. 2015 Equity Incentive Plan (incorporated by reference to Exhibit 10.29 of PMI and PFL's Annual Report on Form 10-K, filed on March 18, 2016) (3)
<a href="#">10.42</a>	Form of Restricted Stock Unit Grant Notice and Restricted Stock Unit Award Agreement under the Prosper Marketplace, Inc. 2015 Equity Incentive Plan (incorporated by reference to Exhibit 10.30 of PMI and PFL's Annual Report on Form 10-K, filed on March 18, 2016) (3)
<a href="#">10.43</a>	Prosper Marketplace, Inc. Eligible Employee Retention Plan, adopted as of November 6, 2020 (incorporated by reference to Exhibit 10.2 of PMI and PFL's Quarterly Report on Form 10-Q, filed on November 12, 2020) (3)
<a href="#">10.44</a>	Prosper Marketplace, Inc. Long-Term Cash Incentive Plan, effective November 5, 2020 (incorporated by reference to Exhibit 10.3 of PMI and PFL's Quarterly Report on Form 10-Q, filed on November 12, 2020) (3)
<a href="#">10.45</a>	First Amendment to Prosper Marketplace, Inc. Long-Term Cash Incentive Plan, effective May 11, 2021 (incorporated by reference to Exhibit 10.2 of PMI and PFL's Quarterly Report on Form 10-Q, filed on May 13, 2021) (3)
<a href="#">10.46</a>	Form of Prosper Marketplace, Inc. Severance and Change in Control Agreement (incorporated by reference to Exhibit 10.4 of PMI and PFL's Quarterly Report on Form 10-Q, filed on November 12, 2020) (3)
<a href="#">10.47</a>	Warrant Agreement, dated as of February 27, 2017, among PMI, PF WarrantCo Holdings, LP, and, for certain limited purposes, New Residential Investment Corp (incorporated by reference to Exhibit 10.9 of PMI and PFL's Quarterly Report on Form 10-Q, filed on May 15, 2017) (1)
<a href="#">21.1</a>	Subsidiaries of Prosper Marketplace, Inc. (2)
<a href="#">21.2</a>	Subsidiaries of Prosper Funding LLC (2)
<a href="#">23.1</a>	Consent of Independent Registered Accounting Firm (2)
<a href="#">31.1</a>	Certification of Principal Executive Officer of PMI pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (2)
<a href="#">31.2</a>	Certification of Principal Financial Officer of PMI pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (2)
<a href="#">31.3</a>	Certification of Principal Executive Officer of PFL pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (2)
<a href="#">31.4</a>	Certification of Principal Financial Officer of PFL pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (2)
<a href="#">32.1</a>	Certification of Principal Executive Officer and Principal Financial Officer of PMI pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, with respect to PMI's Annual Report on Form 10-K for the year ended December 31, 2020 (2)
<a href="#">32.2</a>	Certification of Principal Executive Officer and Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, with respect to PFL's Annual Report on Form 10-K for the year ended December 31, 2020 (2)

(1) Certain portions of this exhibit have been, as applicable, (i) omitted and filed separately with the Commission pursuant to a request for confidential treatment under Rule 406 of the Securities Act or (ii) marked by brackets and omitted because the information is (a) not material and (b) would be competitively harmful if disclosed.

(2) Filed herewith.

(3) Management contract or compensatory plan or arrangement.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, this 28th day of March 2022.

PROSPER MARKETPLACE, INC.

By: /s/ David Kimball  
David Kimball  
Chief Executive Officer (Principal Executive Officer);  
Chairman of the Board

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Usama Ashraf and Edward R. Buell III, and each of them, his true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K and to file the same, with all exhibits thereto, and all other documents in connection therewith, with the Securities and Exchange Commission, granting unto each said attorney-in-fact and agents full power and authority to do and perform each and every act in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or either of them or their or his substitute or substitutes may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<u>Name</u>	<u>Title</u>	<u>Date</u>
<u>/s/ David Kimball</u>	Chief Executive Officer (Principal Executive Officer); Chairman of the Board	March 28, 2022
David Kimball		
<u>/s/ Usama Ashraf</u>	President and Chief Financial Officer (Principal Financial Officer)	March 28, 2022
Usama Ashraf		
<u>*</u>	Director	March 28, 2022
Claire A. Huang		
<u>*</u>	Director	March 28, 2022
Thomas R. Kearney		
<u>*</u>	Director	March 28, 2022
Peter J. deSilva		
<u>*By: /s/ Edward R. Buell III</u>		March 28, 2022
Edward R. Buell III		
Attorney-in-Fact		

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, this 28th day of March 2022.

PROSPER FUNDING LLC

By: /s/ David Kimball  
 David Kimball  
 Chief Executive Officer (Principal Executive Officer);  
 Director

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Usama Ashraf and Edward R. Buell III, and each of them, his true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K and to file the same, with all exhibits thereto, and all other documents in connection therewith, with the Securities and Exchange Commission, granting unto each said attorney-in-fact and agents full power and authority to do and perform each and every act in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or either of them or their or his substitute or substitutes may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Name	Title	Date
<u>/s/ David Kimball</u> David Kimball	Chief Executive Officer (Principal Executive Officer); Director	March 28, 2022
<u>/s/ Usama Ashraf</u> Usama Ashraf	President, Chief Financial Officer and Treasurer (Principal Financial Officer); Director	March 28, 2022
<u>/s/ Bernard J. Angelo</u> Bernard J. Angelo	Director	March 28, 2022
<u>/s/ David V. DeAngelis</u> David V. DeAngelis	Director	March 28, 2022



**ASSET TRANSFER AND LICENSE AGREEMENT**

This ASSET TRANSFER AND LICENSE AGREEMENT (this “*Agreement*”), dated as of August 17, 2021 (the “*Effective Date*”), is entered into by and between Prosper Marketplace, Inc., a Delaware corporation (“*PMI*” or “*Licensee*”), and Prosper Funding LLC, a Delaware limited liability company and a wholly-owned subsidiary of PMI (“*Prosper Funding*” or “*Licensor*”). PMI and Prosper Funding are sometimes individually referred to herein as a “*Party*” and are sometimes collectively referred to herein as the “*Parties*.”

WHEREAS, PMI has developed and operates a white label service, which may be developed into a private label service, to facilitate the origination of certain financial product (such services, “*White Label Services*”);

WHEREAS, PMI is developing, and the Parties intend that PMI will operate, a program for Prosper-branded credit cards, together with any similar financial products (“*Card Program*”); and

WHEREAS, PMI desires to transfer, assign and convey to Prosper Funding, and Prosper Funding desires to acquire, assume and accept from PMI, all intellectual property of PMI currently existing and developed after the date hereof with respect to the White Label Services and Card Program.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties hereby agree as follows:

1. Certain Defined Terms. Each term defined in this Section 1, when used in this Agreement, shall have the meaning set forth below.

“*Current Prosper Card IP*” means any and all Intellectual Property comprising the Card Program, developed by PMI prior to and as of the Effective Date, including, without limitation, all assets listed on Schedule A-1 hereto (with respect to the Card Program) and (a) Patents, Trademarks, Copyrights, Trade Secrets, Software, know how, and associated logos; (b) all work in progress; (c) any and all claims and causes of action with respect to any of the foregoing, whether accruing before, on, or after the date hereof, including all rights to and claims for damages, restitution, and injunctive and other legal and equitable relief for past, present, and future infringement, dilution, misappropriation, violation, misuse, breach, or default, with the right but no obligation to sue for such legal and equitable relief and to collect, or otherwise recover, any such damages; and (d) all related “goodwill assets” of PMI that comprise all of the tangible and intangible assets and information connected with the use of, symbolized by, and embodied in such Intellectual Property that are necessary for Prosper Funding to continue using the Intellectual Property in continuity with PMI’s past practice and plans for future use.

“*Current Prosper White Label IP*” means any and all Intellectual Property comprising the White Label Services developed by PMI prior to and as of the Effective Date, including, without limitation, all assets listed on Schedule A-2 hereto (with respect to White Label Services), (a) Patents, Trademarks, Copyrights, Trade Secrets, Software, know how, and associated logos; (b) all work in progress; (c) any and all claims and causes of action with respect to any of the foregoing, whether accruing before, on, or after the date hereof, including all rights to and claims for damages, restitution, and injunctive and other legal and equitable relief for past, present, and future infringement, dilution, misappropriation, violation, misuse, breach, or default, with the right but no obligation to sue for such legal and equitable relief and to collect, or otherwise recover, any such damages; and (d) all related “goodwill assets” of PMI that comprise all of the tangible and intangible assets and information connected with the use of, symbolized by, and embodied in such Intellectual Property that are necessary for Prosper Funding to continue using the intellectual property in continuity with PMI’s past practice and plans for future use.

“*Improvements*” means, collectively, all work in progress, improvements, enhancements, updates, error corrections, and other changes and additions to the applicable Intellectual Property from and after the Effective Date.

“*Intellectual Property*” means any and all rights in, arising out of, or associated with any of the following in any jurisdiction throughout the world: (a) issued or granted patents and patent applications (whether provisional or non-provisional, published or non-published), including divisionals, continuations, continuations-in-part, substitutions, reissues, reexaminations, extensions, or restorations of any of the foregoing, registrations, applications for registration and renewals thereof, and other governmental authority-issued indicia of invention ownership (including certificates of invention, petty patents, and patent utility models) (“*Patents*”); (b) trademarks, service marks, brands, certification marks, logos, trade dress, trade names, and other similar indicia of source or origin, together with the goodwill connected with the use of and symbolized by, and all registrations, applications for registration, and renewals of, any of the foregoing (“*Trademarks*”); (c) copyrights and works of authorship, whether or not

copyrightable, and all registrations, applications for registration, and renewals of any of the foregoing (“*Copyrights*”); (d) internet domain names and social media account or user names (including “handles”), whether or not Trademarks, all associated web addresses, URLs, websites and web pages, social media sites and pages, and all content and data thereon or relating thereto, whether or not Copyrights; (e) mask works, and all registrations, applications for registration, and renewals thereof; (f) trade secrets, know-how, inventions (whether or not patentable), discoveries, improvements, technology, business and technical information, databases, data compilations and collections, tools, methods, processes, techniques, and other confidential and proprietary information and all rights therein (“*Trade Secrets*”); (g) computer programs, operating systems, applications, firmware and other code, including all source code, object code, application programming interfaces, data files, databases, protocols, specifications, and other documentation thereof (“*Software*”); (h) rights of publicity; and (i) all other intellectual or industrial property and proprietary rights.

“*Prosper Card IP*” means and includes both Current Prosper Card IP and all Improvements thereto, regardless of whether such Improvements are conceived, developed and/or made by, for or on behalf of PMI or Prosper Funding.

“*Prosper White Label IP*” means and includes both Current Prosper White Label IP and all Improvements thereto, regardless of whether such Improvements are conceived, developed and/or made by, for or on behalf of PMI or Prosper Funding.

“*Transferred Assets*” means, collectively, Prosper Card IP and Prosper White Label IP.

2. Assignment and Assumption of Transferred Assets. Upon the terms and subject to the conditions set forth herein, PMI hereby agrees to irrevocably transfer, assign and convey to Prosper Funding and its successors and assigns, and Prosper Funding hereby agrees to acquire, assume and accept from PMI, as of the Effective Date, all of PMI’s right, title and interest in, to and under, all of the Transferred Assets (the “*Asset Transfer*”).

3. Grant of License.

(a) Licensor hereby grants to Licensee a non-exclusive, non-transferable (except as contemplated herein), worldwide license to access and use Prosper Card IP (“*Card License*”) and Prosper White Label IP (the “*White Label License*”) and, together with the Card License, individually and/or collectively, as the context requires, the “*License*”). Licensor further grants to Licensee, without restriction, the right to sublicense any portion of the rights (up to and including all rights) afforded to the Licensee by the Licensor with respect to the License (the “*Sublicense Rights*”); provided, that, (i) upon request, the Licensee shall provide the Licensor with details of any sublicenses granted, (ii) any sublicense granted by the Licensee shall terminate when the applicable License granted by the Licensor to the Licensee terminates, and (iii) Licensee shall be responsible for all such sublicenses’ compliance with Licensee’s duties and obligations set forth in this Agreement with respect to the License. Licensor hereby ratifies any sublicenses granted prior to the date hereof in accordance with the terms of this Agreement and Licensor’s actions taken pursuant to such sublicenses. Licensee shall use and sublicense (A) the Prosper White Label IP exclusively for and in the course of Licensee establishing, marketing and operating the White Label Services (“*White Label Operations*”) and as otherwise mutually agreed upon by the Parties, and (B) the Prosper Card Program IP exclusively for and in the course of Licensee establishing, marketing and operating the Card Program (“*Card Operations*”) and as otherwise mutually agreed upon by the Parties.

(b) The Licensee acknowledges that Licensor owns any and all Intellectual Property of whatever nature, whether real, personal or mixed, tangible or intangible (including goodwill), wherever located and whether now existing or hereafter acquired, which relate to, or are used or held for use in connection with, its White Label Services and Credit Card Program businesses.

4. Asset Transfer Payment; License Fee. As consideration for the Asset Transfer from PMI to Prosper Funding, and taking into account the value of the License from Prosper Funding to PMI and the Sublicense Rights, Prosper Funding shall pay to PMI a one-time fee of ten dollars (\$10).

5. Termination of License.

(c) The Licensor may, by written notice to the Licensee, terminate the Card License or White Label License, as applicable, if (i) the Licensee assigns, or attempts to assign, such License to any other Person without the Licensor’s prior written consent, (ii) the Licensee ceases to perform Card Operations or White Label Operations, as applicable, or declines to make the related products and partnerships available to new customers, registrants or bank partners, as applicable, or announces an intention to take any such action, in each case without the Licensor’s prior written consent, (iii) the Licensee operates either the Card Operations or White Label Operations, as applicable, in violation of any applicable laws and such violation (A) materially impairs the value of the Prosper Card IP or Prosper White Label IP, as applicable, or materially reduces the availability of the Card Program or White Label Services to existing or potential customers, registrants or bank partners, and (B) did not result from any breach by the

Licensor of its obligations under this Agreement or (iv) the Licensee uses the Prosper Card IP or Prosper White Label IP for any purpose other than those applicable purposes contemplated in Section 3(a) hereof.

(d) Licensor and Licensee agree that, if either the Card License or White Label License terminates for any reason, the Licensee may nonetheless continue to perform Card Operations or White Label Operations, as applicable, in relation to any then-outstanding related financial products or, if the Licensor so directs, the Licensor, directly or through other agents, will assume Card Operations or White Label Operations in relation to such financial products or the License will be transferred to a new licensee selected by the Licensor, in each case in a manner that does not adversely affect the related consumers of such financial products.

6. Standard of Liability; Indemnification.

(a) PMI agrees to indemnify, defend and hold Prosper Funding and its successors, assigns, officers, directors, employees and agents harmless from and against any and all claims, damages, losses, liabilities, obligations, deficiencies, taxes, assessments, fines, judgments, costs and expenses (including, without limitation, reasonable fees and disbursements of counsel), joint or several (collectively, "*Losses*"), directly or indirectly resulting from or arising out of (i) the failure of PMI to perform its duties in accordance with the terms of this Agreement, (ii) the material breach of any of PMI's representations, warranties, covenants or agreements contained in this Agreement, (iii) the infringement or misappropriation by PMI of any Patent, Copyright, Trademark, Trade Secret or other proprietary right of Prosper Funding, (iv) the violation of any federal, state and local legal and regulatory requirements (including statutes, rules, regulations and ordinances) binding on PMI, (v) the inappropriate use of the Prosper Card IP or Prosper White Label IP by PMI, (vi) the misuse, neglect, or lack of maintenance of the Prosper Card IP or Prosper White Label IP by PMI, or (vii) the addition, introduction or use of hardware or software that corrupts, damages, negatively interferes or otherwise negatively affect the Prosper Card IP or Prosper White Label IP by PMI; *provided, however*, that PMI shall not be responsible for any Losses resulting from or arising out of (A) the failure of Prosper Funding to perform its duties in accordance with the terms of this Agreement (unless such failure resulted from the actions or omissions of PMI), or (B) the material breach of any of Prosper Funding's representations, warranties, covenants or agreements contained in this Agreement.

(b) Except as otherwise expressly provided herein, PMI shall not be under any obligation by this Agreement to appear in, prosecute or defend any legal action that does not relate to its duties in relation to the foregoing License of the Prosper Card IP or White Label IP in accordance with this Agreement and which in its opinion may involve it in any expense or liability; *provided, however*, that PMI may, with the consent of Prosper Funding, which consent may be exercised by Prosper Funding in its sole and exclusive discretion, undertake any such action that it may deem necessary or desirable in respect of this Agreement and the rights and duties of the parties hereto. In such event, or if a PMI deems it necessary to defend any such action, PMI shall be entitled to reimbursement from Prosper Funding for its reasonable legal expenses and costs of such action.

(c) Promptly upon receipt of notice of any claim, demand or assessment or the commencement of any suit, demand, action or proceeding in respect of which indemnity may be sought pursuant to this Section 6, Prosper Funding will use its best efforts to notify PMI in writing thereof in sufficient time for PMI to respond to such claim or answer or otherwise plead in such action. Except to the extent that PMI is prejudiced thereby, the omission of Prosper Funding to promptly notify PMI of any such claim or action shall not relieve PMI from any liability which it may have to Prosper Funding in connection therewith. If any claim, demand or assessment shall be asserted or suit, action or proceeding commenced against Prosper Funding, PMI will be entitled to participate therein, and to the extent it may wish to assume the defense, conduct or settlement thereof, with counsel reasonably satisfactory to Prosper Funding. After notice from PMI to Prosper Funding of its election to assume the defense, conduct, or settlement thereof, PMI will not be liable to Prosper Funding for any legal or other expenses consequently incurred by Prosper Funding in connection with the defense, conduct or settlement thereof. Prosper Funding will cooperate with PMI in connection with any such claim and make its personnel, books and records relevant to the claim available to PMI. In the event PMI does not wish to assume the defense, conduct or settlement of any claim, demand or assessment, Prosper Funding will not settle such claim, demand or assessment without the prior written consent of PMI, which consent shall not be unreasonably withheld.

7. Additional Transfer Agreements. Each of Prosper Funding and PMI hereby acknowledges and agrees that it will negotiate in good faith and enter into one or more transfer agreements, if necessary or prudent, to document any contributions or transfers of additional property to Prosper Funding from PMI that may include, without limitation, any and all improvements, enhancements, updates, error corrections, and other changes and additions to the Prosper Card IP or White Label IP from and after the Effective Date (regardless of whether such improvements, enhancements, updates, error corrections, and other changes and additions are conceived, developed and/or made by, for or on behalf of Prosper Funding or PMI), or any additional hardware, software or other property related to the Prosper Card IP or White Label IP. Prosper Funding and PMI hereby acknowledge and agree that any such agreement shall be substantially similar to this Agreement.

8. Assignment and Assumption of Assets. On the Effective Date, each of PMI and Prosper Funding shall deliver to the other Party a duly executed Assignment and Assumption of Assets in substantially the form attached hereto as Schedule D.

9. Intellectual Property Filings.

(a) In connection with the Asset Transfer, following the Effective Date and upon the reasonable direction of Prosper Funding, PMI agrees to (i) record and file at the United States Patent and Trademark Office and any necessary foreign equivalents, at its own expense, the original executed trademark assignment set forth on Schedule B hereto to provide third parties with notice of the conveyance hereunder and to perfect the assignment of the trademark assets to Prosper Funding within the applicable timeframes required in each jurisdiction, (ii) record and file at the United States Copyright Office and any necessary foreign equivalents, at its own expense, the original executed copyright assignment set forth on Schedule C hereto to provide third parties with notice of the conveyance hereunder and to perfect the assignment of the Copyright assets to Prosper Funding within the applicable timeframes required in each jurisdiction, (iii) to cause all financing statements and continuation statements (including, without limitation, filings under the Uniform Commercial Code as in effect in Delaware and any other relevant state of the United States, or any foreign equivalent thereto), this Agreement and all amendments hereto, and (iv) record and file at the United States Patent and Trademark Office and any necessary foreign equivalents, at its own expense, the original executed patent assignment set forth on Schedule E hereto to provide third parties with notice of the conveyance hereunder and to perfect the assignment of the Patent assets to Prosper Funding within the applicable timeframes required in each jurisdiction, any other documents necessary to provide third parties with notice of Prosper Funding's right, title and interest in, to and under all Intellectual Property included in the Transferred Assets to be promptly filed, recorded and registered, and at all times to be kept filed, recorded and registered, all in such manner and in such places as may be required by law fully to preserve and protect the right, title and interest of Prosper Funding in such Transferred Assets, and to deliver to Prosper Funding copies or filing receipts for any document so filed, recorded or registered as soon as reasonably available after such filing, recording or registration. Prosper Funding will cooperate fully with PMI in connection with PMI's performance of its obligations set forth in this Section 9(a), including, without limitation, by executing any and all documents reasonably required to fulfill the intent of this Section 9(a).

(b) In connection with the foregoing, from and after the Effective Date, PMI will provide Prosper Funding, its successors, assigns or legal representatives, cooperation and assistance at Prosper Funding's request and expense (including, but not limited to, the execution and delivery of any and all affidavits, declarations, oaths, assignments, powers of attorney or other documentation as may be reasonably required) in:

- (i) the preparation and prosecution of any applications for registration or any applications for renewal of a registration covering any of the transferred Trademarks;
- (ii) the preparation and prosecution of any applications for grant covering any of the transferred Patents;
- (iii) the preparation and prosecution of any applications for registration covering any of the transferred Copyrights;
- (iv) the prosecution or defense of any trademark, patent or copyright office proceedings, infringement proceedings or other proceedings that may arise in connection with any of the transferred Trademarks, Patents or Copyrights, including, without limitation, testifying as to any facts related to the transferred Trademarks, Patents or Copyrights, the transfer thereof to Prosper Funding or this Agreement;
- (v) obtaining any additional Trademark, Patent or Copyright protection reasonably appropriate that may be secured under the laws now or hereinafter in effect in the United States or any other relevant jurisdiction for the transferred Trademarks, Patent or Copyright; and
- (vi) the implementation of or perfection of this Agreement and the grants, rights and transactions contemplated hereby.

10. Security Interests. It is the intention of the Parties that the Asset Transfer contemplated by this Agreement constitutes an absolute assignment and transfer, and that the beneficial interest in all of the Transferred Assets not be property of PMI's estate in the event of any filing of a bankruptcy petition by or against PMI under any bankruptcy, insolvency or receivership law. However, if the transfer of any of the Transferred Assets is deemed to be other than an absolute assignment and transfer, the Parties intend that this Agreement comprise a security agreement (as such term is defined in the Uniform Commercial Code or equivalent statute or law concerning the grant and perfection of security interests in every relevant jurisdiction) that grants a security interest in all of the Transferred Assets to Prosper Funding such that Prosper Funding shall have the rights, powers and privileges of a secured party under the Uniform Commercial Code or equivalent statute or law concerning the grant and perfection of security interests in every relevant jurisdiction, and that the filings, recordings and registrations described in this Section 10 give Prosper Funding a first priority perfected security interest in, to and under all of the Transferred Assets.

11. Representations and Warranties of PMI. PMI represents and warrants to Prosper Funding, as of the date hereof and as of the Effective Date, as follows:

(a) Authorization. PMI is an entity duly organized and validly existing in good standing under the laws of its jurisdiction of organization. PMI has the requisite power and authority to enter into, execute and deliver this Agreement and to perform all of its obligations hereunder. This Agreement and the transactions contemplated hereby have been duly authorized, executed and delivered by it, and this Agreement constitutes its legal, valid and binding obligation, enforceable against it in accordance with its terms, subject only to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar laws of general applicability relating to or affecting creditors' rights and to general equity principles.

(b) No Conflicts. Neither the execution and delivery of this Agreement nor the performance by PMI of its obligations hereunder will conflict with, breach, violate, constitute a default under or accelerate any rights or obligations under (or constitute an event which, with the passage of time, would result in any of the foregoing): (i) any indenture, mortgage, deed of trust, loan agreement or other contract, agreement, commitment or instrument to which PMI is a party or by which it is bound and which relates to, or imposes any restrictions upon the ability of PMI to transfer to Prosper Funding, the Transferred Assets; (ii) the organizational or other governing documents of PMI; or (iii) in any material respect, any statute, law, judgment, order, writ, decree, permit, license, rule or regulation of any court or governmental or regulatory agency or body having jurisdiction over PMI or its property. The performance by PMI of its obligations hereunder will not require any consent or approval of, or any filing, qualification or registration with, any court or governmental or regulatory agency or authority having jurisdiction over PMI or its property or any other third party.

(c) Title to Transferred Assets. PMI owns all right, title and interest in, to and under the Transferred Assets, free and clear of all liens, pledges, claims, security interests, charges, restrictions, limitations or other encumbrances of any kind (collectively, "*Liens*"). Upon the occurrence of the Effective Date hereunder and the consummation of the other transactions contemplated hereby, Prosper Funding will acquire good title to such Transferred Assets free and clear of all Liens.

(d) Transferred IP Assets.

(i) Schedule of Licenses. The information set forth in each of Schedule A-1 and Schedule A-2 hereto is true and correct in all material respects.

(ii) Compliance with Law. The assignment of the Transferred Assets pursuant to this Agreement complies in all material respects with all requirements of applicable federal, state, local, and foreign laws, and regulations thereunder.

(iii) All Filings Made. PMI has caused or will, in consultation with Prosper Funding, cause the filing of all appropriate financing statements and other filings (including, but not limited to, UCC filings (and relevant foreign equivalents) and trademark, patent or copyright filings (with the United States Patent and Trademark Office, United States Copyright Office and relevant foreign equivalents)) in the proper filing office in the appropriate jurisdictions under applicable law in order to perfect the security interest in the Transferred Assets granted to Prosper Funding hereunder, or as otherwise necessary in any jurisdiction to provide third parties with notice of the transfers and assignments herein contemplated and to perfect the absolute conveyance of the Transferred Assets from PMI to Prosper Funding at the Effective Date, and no other consent, approval, or order of, or filing with, any court or governmental body is required to be obtained or made by PMI for the consummation of the transactions in the manner contemplated by this Agreement, except such as have been obtained (and not revoked) on or prior to the Effective Date; *provided, however,* that if (A) any filing or trademark, patent or copyright filing is not accepted by the relevant governmental authority or is not effective to provide such notice or to perfect such conveyance, and (B) such nonacceptance or ineffectiveness would not have a material adverse effect on the conveyance of the Transferred Assets, such event will not constitute a breach of this representation.

(iv) Priority. Other than the security interest granted to Prosper Funding pursuant to this Agreement, PMI has not pledged, assigned, sold, granted a security interest in, or otherwise conveyed any of the Transferred Assets. PMI has not authorized the filing of and is not aware of any financing statements against PMI that include a description of collateral covering the Transferred Assets other than any financing statement relating to the security interest granted to Prosper Funding hereunder or that has been terminated. PMI is not aware of any judgment or tax lien filings against PMI.

(v) Lawful Assignment. The contribution, transfer, and assignment of the Transferred Assets under this Agreement and the related assignments are not unlawful, void, or voidable pursuant to the

laws or statutes of any jurisdiction, nor will they result in a breach, default, conflict, lien, violation of, or material adverse effect upon, any of the Transferred Assets.

(vi) Validity. The Trademarks that are part of the Transferred Assets are valid, subsisting, enforceable, and have not been abandoned in any applicable jurisdiction.

(vii) No Infringement. The Trademarks, Patents and Copyrights that are part of the Transferred Assets do not violate the Trademark, Patent or Copyright rights of any third party and there is no action or proceeding pending or threatened alleging that such Trademarks infringe upon the rights of any third party.

(viii) No Adverse Judgments. No domestic or foreign court, tribunal, or other official governmental authority, including the United States Patent and Trademark Office, United States Copyright Office or any foreign equivalent, has entered a holding, judgment or decision canceling or otherwise limiting PMI's interest in the Transferred Assets.

(ix) No Pending Actions. No action or proceeding is pending or, to PMI's knowledge, threatened, seeking to limit, cancel, or question the validity of any material portion of the Transferred Assets or of PMI's ownership interest therein, that if adversely determined would have a material adverse effect on the Transferred Assets or the conveyance thereof by PMI to Prosper Funding hereunder.

(x) Quality Control. Through the Effective Date, PMI has examined, monitored and otherwise policed the trademarks that are part of the Transferred Assets in a manner and to an extent necessary and sufficient to prevent the abandonment of any such Trademarks.

12. Representations and Warranties of Prosper Funding. Prosper Funding represents and warrants to PMI, as of the date hereof and as of the Effective Date, as follows:

(a) Authorization. Prosper Funding is an entity duly organized and validly existing in good standing under the laws of its jurisdiction of organization. Prosper Funding has the requisite power and authority to enter into, execute and deliver this Agreement and to perform all of its obligations hereunder. This Agreement and the transactions contemplated hereby have been duly authorized, executed and delivered by it, and this Agreement constitutes its legal, valid and binding obligation, enforceable against it in accordance with its terms, subject only to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar laws of general applicability relating to or affecting creditors' rights and to general equity principles.

(b) No Conflicts. Neither the execution and delivery of this Agreement nor the performance by Prosper Funding of its obligations hereunder will conflict with, breach, violate, constitute a default under or accelerate any rights or obligations under (or constitute an event which, with the passage of time, would result in any of the foregoing): (i) any indenture, mortgage, deed of trust, loan agreement or other contract, agreement, commitment or instrument to which Prosper Funding is a party or by which it is bound and which relates to, or imposes any restrictions upon the ability of Prosper Funding to acquire from PMI, the Transferred Assets; (ii) the organizational or other governing documents of Prosper Funding; or (iii) in any material respect, any statute, law, judgment, order, writ, decree, permit, license, rule or regulation of any court or governmental or regulatory agency or body having jurisdiction over Prosper Funding or its property. The performance by Prosper Funding of its obligations hereunder will not require any consent or approval of, or any filing, qualification or registration with, any court or governmental or regulatory agency or authority having jurisdiction over Prosper Funding or its property or any other third party.

13. Reserved.

14. Further Assurances. Each Party hereby agrees to furnish upon request to the other Party such further information, to execute and deliver to the other Party such other documents, and to do such other acts and things, in each case as the other Party may reasonably request for the purpose of carrying out the intent of this Agreement and perfecting the transactions contemplated hereby.

15. Third Party Beneficiaries. This Agreement does not confer any rights or remedies upon any person other than the Parties, their respective successors and permitted assigns.

16. Severability. If any term or other provision of this Agreement is determined to be invalid, illegal or incapable of being enforced by any rule of applicable law, all other terms and provisions of the Agreement shall remain in full force and effect. Upon such determination, the Parties shall negotiate in good faith to modify this Agreement so as to give effect to the original intent of the Parties to the fullest extent permitted by applicable law.

17. Amendment, Modification and Waiver. No amendment, modification, waiver or termination of this Agreement shall be binding unless executed in writing by both of the Parties.

18. Assignment. This Agreement shall not be assigned by either Party without the prior written consent of the other Party, and any assignment in violation of this Section 18 shall be void. Subject to the foregoing sentence, all of the terms and provisions of this Agreement shall be binding upon and inure to the benefit of and be enforceable by the respective successors and assigns of the Parties.

19. Notices. Any notice, request, demand, waiver, consent, approval, or other communication that is required or permitted to be given to either Party hereunder shall be in writing and shall be deemed given only if delivered to such Party personally or sent to such Party by email with acknowledgment of receipt, by overnight courier, or by registered or certified mail (return receipt requested), with postage and registration or certification fees thereon prepaid, addressed to the Party at its address set forth below:

If to PMI:

Prosper Marketplace, Inc.  
221 Main Street, Suite 300  
San Francisco, CA 94105  
Attention: General Counsel  
Email: legalnotices@prosper.com

If to Prosper Funding:

Prosper Funding LLC  
c/o Prosper Marketplace, Inc.  
221 Main Street, Suite 300  
San Francisco, CA 94105  
Attention: General Counsel  
Email: legalnotices@prosper.com

or to such other address or person as either Party may have specified in a notice duly given to the other Party as provided herein.

20. Counterparts. This Agreement may be executed in two counterparts, each of which shall be deemed an original, but both of which together shall constitute one and the same Agreement. This Agreement may also be executed and delivered in two counterparts, each of which shall be deemed an original, but both of which together shall constitute one and the same instrument. An executed signature page to this Agreement delivered by facsimile transmission or by electronic mail in "portable document format" (".pdf") shall be as effective as an original executed signature page hereto.

21. Headings. The headings of the sections of this Agreement are inserted for convenience only and shall not be deemed to constitute part of this Agreement or to affect the construction thereof.

22. Governing Law and Consent to Jurisdiction. This Agreement and the legal relations between the Parties shall be governed by, and construed and enforced in accordance with, the laws of the State of California, without regard to its conflict of laws rules.

[Signature Page Follows]

above. IN WITNESS WHEREOF, the Parties have executed this Agreement as of the date first written

Prosper Funding LLC

By: /s/ Usama Ashraf

Name: Usama Ashraf  
Title: President and Chief Financial Officer  
Address: 221 Main Street, 3rd Floor  
San Francisco, CA 94105

Tax Identification No.: 45-4526070

PROSPER MARKETPLACE, INC.

By: /s/ Edward R. Buell III

Name: Edward R. Buell III  
Title: General Counsel and Secretary  
Address: 221 Main Street, 3rd Floor  
San Francisco, CA 94105

Tax Identification No.: 73-1733867

[Signature Page to Asset Transfer Agreement]



## **Schedule A-1**

### **Prosper Card IP**

#### **1. Schedule of Goodwill and Other Assets**

- Style Guides
- Advertising, marketing or promotional materials, signage or other related materials bearing any licensed or unlicensed Trademarks in any form, whether or not they are currently in use
- Previously utilized unlicensed brand research and materials however embodied, used, presented, stored or presented
- Brand research and materials not yet implemented
- Current or newly created data associated with Prosper Card IP stored on any medium, including cloud services, such as [\*\*\*].
- Social media accounts, including Twitter, Facebook, Youtube, LinkedIn and Google+ accounts
- Code associated with Prosper Card IP, including source code, executable code, or any form of instructions that execute a computer, that is stored in a code hosting platform, such as [\*\*\*].
- All other Intellectual Property assets of PMI associated with the Card Program and its present and ongoing operation, use and maintenance, exclusive of computer or electronic hardware (including personal computers, servers, routers, modems, blackberries, telephones, switching equipment, cabling or other similar or related physical property) which, for the avoidance of doubt, PMI and Prosper Funding expressly acknowledge does not comprise goodwill related to the trademarks, does not comprise Transferred Assets and shall continue to be owned by PMI.

#### **2. Schedule of Copyrights**

- The Prosper Marketplace, Inc. (PMI), Website, Registration Number TX0006314545, and any and all other PMI's copyrights, whether or not completed, in development, declared or manifested on websites having or using the www.prosper.com domain name (or any other website that PMI hosts or licenses content to), and each page thereof, and whether or not they are currently in use, and whether or not such copyrights have yet been registered or applications for the registration thereof prepared and delivered.

## Schedule A-2

### White Label IP

#### 1. Schedule of Goodwill and Other Assets

- Style Guides
- To the extent the marks belong to PMI, all manifestations of the licensed and unlicensed trademarks appearing on <https://heloc.bbvausa.com/heloc/apply/tell-us-about-your-home> or a successor website, and each page thereof, whether or not the trademarks are currently in use
- Advertising, marketing or promotional materials, signage or other related materials bearing any licensed or unlicensed trademarks in any form, whether or not they are currently in use
- Previously utilized unlicensed brand research and materials however embodied, used, presented, stored or presented
- Brand research and materials not yet implemented
- Code associated with White Label IP, including source code, executable code, or any form of instructions that execute a computer, that is stored in a code hosting platform, such as [\*\*\*].
- The technology stored on [\*\*\*] and associated with White Label Services
- Social media accounts, including Twitter, Facebook, Youtube, LinkedIn and Google+ accounts
- All other Intellectual Property assets of PMI associated with the Card Program and its present and ongoing operation, use and maintenance, exclusive of computer or electronic hardware (including personal computers, servers, routers, modems, blackberries, telephones, switching equipment, cabling or other similar or related physical property) which, for the avoidance of doubt, PMI and Prosper Funding expressly acknowledge does not comprise goodwill related to the trademarks, does not comprise Transferred Assets and shall continue to be owned by PMI.

## Schedule B

### Form of Trademark Assignment for Recording

#### ASSIGNMENT OF TRADEMARKS

WHEREAS, Prosper Marketplace, Inc., a Delaware corporation, located and doing business at 211 Main Street, Suite 300, San Francisco, CA 94105, hereinafter “Assignor”, is the owner of the trademarks and service marks listed in Exhibit A attached hereto and incorporated by reference herein (the “Trademarks”), and the United States registrations and applications therefor; and

WHEREAS, Prosper Funding LLC, a Delaware limited liability company, located and doing business at 211 Main Street, Suite 300, San Francisco, CA 94105, hereinafter “Assignee”, is desirous of acquiring all of the rights, title and interest of Assignor in, to and under the Trademarks, together with all related goodwill of the Assignor’s business associated with the Trademarks;

NOW THEREFORE, in consideration of good and valuable consideration from Assignee to Assignor, the sufficiency and receipt of which are hereby acknowledged by Assignor, Assignor confirms the transfer and hereby transfers and assigns to Assignee, the entire right, title and interest in, to and under the Trademarks, together with the all related goodwill of the Assignor’s business associated with the Trademarks, and all trademark registrations and applications therefor; and

Assignor does hereby also sell, assign, transfer and set over unto Assignee, its successor, assigns and legal representatives, all claims for damages by reason of past infringement of the

Trademarks, the right to sue for and collect the same for its own use and enjoyment and the use and enjoyment of its successors, assigns and legal representatives; and

Assignor hereby assigns all right, title and interest in, to and under the marks listed in Exhibit A in all jurisdictions and further agrees to execute such additional documents as may be required in all jurisdictions to effectuate such assignment, including the assignment of applications and registrations for the Trademarks and to record the same.

IN WITNESS WHEREOF, the parties have executed this instrument on this \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_.

PROSPER MARKETPLACE, INC., Assignor

By: \_\_\_\_\_  
Name:  
Title:

PROSPER FUNDING LLC, Assignee

By: \_\_\_\_\_  
Name:  
Title:

## Schedule C

### **Form of Copyright Assignment for Recording**

#### ASSIGNMENT OF COPYRIGHTS

WHEREAS, Prosper Marketplace, Inc., a Delaware corporation, located and doing business at 211 Main Street, Suite 300, San Francisco, CA 94105, hereinafter “Assignor”, is the owner of the copyrights listed in Exhibit A attached hereto and incorporated by reference herein (collectively, the “Copyrights”), and the United States registrations and applications therefor; and

WHEREAS, Prosper Funding LLC, a Delaware limited liability company, located and doing business at 211 Main Street, Suite 300, San Francisco, CA 94105, hereinafter “Assignee”, is desirous of acquiring all of the rights, title and interest of Assignor in, to and under the Copyrights;

NOW THEREFORE, in consideration of good and valuable consideration from Assignee to Assignor, the sufficiency and receipt of which are hereby acknowledged by Assignor, Assignor confirms the transfer and hereby transfers and assigns to Assignee, the entire right, title and interest in, to and under the Copyrights, and all copyright registrations and applications therefor; and

Assignor does hereby also sell, assign, transfer and set over unto Assignee, its successor, assigns and legal representatives, all claims for damages by reason of past infringement of the

Copyrights, the right to sue for and collect the same for its own use and enjoyment and the use and enjoyment of its successors, assigns and legal representatives; and

Assignor hereby assigns all right, title and interest in, to and under the Copyrights in all jurisdictions and further agrees to execute such additional documents as may be required in all jurisdictions to effectuate such assignment, including the assignment of applications and registrations for the Copyrights and to record the same.

IN WITNESS WHEREOF, the parties have executed this instrument on this \_\_\_\_ day of \_\_\_\_\_,  
20\_\_\_\_\_.

PROSPER MARKETPLACE, INC., Assignor

By: \_\_\_\_\_  
Name:  
Title:

PROSPER FUNDING LLC, Assignee

By: \_\_\_\_\_  
Name:  
Title:

## Schedule D

### Form of Assignment and Assumption of Assets

#### ASSIGNMENT AND ASSUMPTION OF ASSETS

WHEREAS, this Assignment and Assumption of Assets is being entered into to effect the transactions contemplated by the Asset Transfer Agreement, dated as of \_\_\_\_\_, by and between Prosper Marketplace, Inc. (“PMI”) and Prosper Funding LLC (“Prosper Funding”) (as amended, modified, supplemented or restated from time to time, the “Transfer Agreement”).

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

SECTION 1. Defined Terms. All capitalized terms not otherwise defined herein shall have the respective meanings ascribed to them set forth in the Transfer Agreement.

SECTION 2. Assignment. Pursuant to the Transfer Agreement, PMI does hereby unconditionally and irrevocably transfer, assign and convey to Prosper Funding and its successors and assigns, as of the date hereof, in accordance with and subject to the terms of the Transfer Agreement, all of its right, title and interest in, to and under all of the following assets (collectively, the “Transferred Assets”), free and clear of any encumbrances or liens: \_\_\_\_\_

SECTION 3. Prosper Funding Acceptance. Prosper Funding does hereby acquire, assume and accept from PMI the transfer, assignment and conveyance of all of the Transferred Assets, and hereby assumes all of PMI's obligations thereunder, as of the date hereof.

SECTION 4. Conflicts. This Assignment and Assumption of Assets is subject to all the terms and conditions of the Transfer Agreement. No provision of this Assignment and Assumption of Assets shall be deemed to enlarge, alter or amend the terms or provisions of the Transfer Agreement. Notwithstanding anything to the contrary set forth herein, if there is any conflict between the terms and conditions of this Assignment and Assumption of Assets and the terms and conditions of the Transfer Agreement, the terms and conditions of the Transfer Agreement shall control.

IN WITNESS WHEREOF, the parties have executed this instrument on this \_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_.

PROSPER MARKETPLACE, INC.

By: \_\_\_\_\_  
Name:  
Title:

PROSPER FUNDING LLC

By: \_\_\_\_\_  
Name:  
Title:



**Schedule E**

**Form of Patent Assignment for Recording**

ASSIGNMENT OF PATENTS

WHEREAS, Prosper Marketplace, Inc., a Delaware corporation, located and doing business at 211 Main Street, Suite 300, San Francisco, CA 94105, hereinafter "Assignor", is the owner of the patents and patent applications listed in Exhibit A attached hereto and incorporated by reference herein (the "Patents"), and the United States patents and applications therefor; and

WHEREAS, Prosper Funding LLC, a Delaware limited liability company, located and doing business at 211 Main Street, Suite 300, San Francisco, CA 94105, hereinafter "Assignee", is desirous of acquiring all of the rights, title and interest of Assignor in, to and under the Patents, together with all divisions, continuations, continuations-in-part, reissues, extensions, and foreign counterparts thereof, and all Letters Patent (domestic and foreign), inventor's certificates and other rights thereon granted in the United States and foreign countries that may be granted therefor, and all related goodwill of the Assignor's business associated with the Patents;

NOW THEREFORE, in consideration of good and valuable consideration from Assignee to Assignor, the sufficiency and receipt of which are hereby acknowledged by Assignor, Assignor confirms the transfer and hereby transfers and assigns to Assignee, the entire right, title and interest in, to and under the Patents, together with all divisions, continuations, continuations-in-part, reissues, extensions, and foreign counterparts thereof, and all Letters Patent (domestic and foreign), inventor's certificates and other rights thereon granted in the United States and foreign countries that may be granted therefor, and all related goodwill of the Assignor's business associated with the Patents; and

Assignor does hereby also sell, assign, transfer and set over unto Assignee, its successor, assigns and legal representatives, all claims for damages by reason of past infringement of the Patents, the right to sue for and collect the same for its own use and enjoyment and the use and enjoyment of its successors, assigns and legal representatives; and

Assignor hereby assigns all right, title and interest in, to and under the marks listed in Exhibit A in all jurisdictions and further agrees to execute such additional documents as may be required in all jurisdictions to

effectuate such assignment, including the assignment of applications and registrations for the Patent and to record the same.

IN WITNESS WHEREOF, the parties have executed this instrument on this \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_.

PROSPER MARKETPLACE, INC., Assignor

By: \_\_\_\_\_  
Name:  
Title:

PROSPER FUNDING LLC, Assignee

By: \_\_\_\_\_  
Name:  
Title:

# Borrower Registration Agreement and Limited Power of Attorney

This Personal Loan Borrower Registration Agreement (this "Agreement") is made and entered into between you ("you" and "your" refer to each and every borrower, including any joint applicant/co-borrower) and Prosper Funding LLC ("Prosper").

The Prosper marketplace is an online credit platform (the "Platform") operated by Prosper. Among other things, Prosper offers access to unsecured personal loans in the form of the promissory note attached hereto as Exhibit A (the "Promissory Note"). All personal loans originated through the Platform are made by WebBank, a Utah-chartered industrial bank ("WebBank" or "Bank"). A separate legal entity, Prosper Marketplace, Inc. ("PMI"), provides services to Bank in connection with the origination of such personal loans. Prosper services all personal loans made through the Platform, but has engaged certain third parties (including PMI) to act as agents of Prosper in the performance of such servicing. The following Agreement describes those services as well as your rights and obligations should you elect to register as a personal loan borrower on the Platform. For purposes of clarity, this Agreement shall apply to personal loans offered through the Platform, and all references to "loan" shall mean personal loan, unless otherwise stated. Except for Section 24, when used in this Agreement "we" or "us" refers to Prosper, Bank and their respective agents and affiliates (including without limitation PMI in its capacity as agent of Prosper or Bank).

**1. Registration as a Prosper Borrower.** You are registering with Prosper as a borrower so that you can make loan requests ("listings") through the Platform. In entering into this Agreement, you are agreeing to comply with the Terms of Use and Electronic Consent ("Terms of Use") for the Platform as well as any other rules or policies set forth on Prosper's website ([www.prosper.com](http://www.prosper.com))(collectively, the "Prosper Terms and Conditions"). The Prosper Terms and Conditions are accessible on Prosper's website.

**2. Authorization to Obtain Credit Report.** By registering on the Platform as a borrower, you authorize us or our agents (including PMI), to obtain credit reports from one or more consumer credit reporting agencies (a) in connection with an application for an extension of credit, (b) in order to consider your eligibility for and to present you with other credit products, offers or services, or (c) at any other time in our sole discretion during the term of your loan. We may use the credit reports for any purpose, including but not limited to (i) for authentication purposes, to make sure you are who you say you are; (ii) to make credit decisions; (iii) for modeling, audit and analysis purposes; (iv) in connection with the sale of any Borrower Payment Dependent Notes ("Notes") associated with your loan or the sale of your loan in its entirety; (v) to obtain and display information and characteristics from your credit report to potential investors in your loan or Notes associated with your loan including purchasers on a secondary trading platform or to other third parties as permitted by applicable law; and (vi) to market products or services to you. Information from your credit report will be displayed on the Prosper website with your listing. You authorize us to verify information in your credit report and your listing, and you agree that we may contact third parties without further notice to you to verify any such information.

**3. Appointment of Limited Power of Attorney and Note Registrar.** If your listing receives sufficient investor commitments to fund, and you do not withdraw your listing prior to expiration of the listing period, you hereby authorize each of Prosper and PMI (and their affiliates) to act as your true and lawful Attorney-in-Fact and agent, with full power of delegation and substitution, for you in your name, place and stead, in any and all capacities, to complete and execute a Promissory Note containing the material terms set forth on the attached Exhibit A on your behalf in favor of Bank and reflecting the debt obligation reflected on your final Truth in Lending disclosure(s). You further authorize Prosper and PMI (and their affiliates) to (i) perform each and every act necessary to be done in connection with executing such Promissory Note as you might or could do in person and (ii) approve, execute and deliver the provisions of any instruments,

documents, agreements, powers, releases and certificates related to the Promissory Note and to perform each and every action regarding the same, including but not limited to, any legal or beneficial assignment of the Promissory Note. This Power of Attorney is limited to the purpose described above.

This Power of Attorney may be revoked by contacting Prosper by emailing us at [support@prosper.com](mailto:support@prosper.com) or calling us at 1-866-615-6319 and closing your account only if done prior to the origination of your loan and execution of the Promissory Note on your behalf. If you choose to revoke this Power of Attorney prior to execution, we will be unable to process your loan request and any pending loan request will be considered withdrawn. Any act or thing lawfully done hereunder prior to any revocation and within the powers herein by any attorney in fact shall be binding on you and your heirs, legal and personal representatives and assigns.

You further appoint Prosper as your authorized agent (in such capacity the "Note Registrar") to maintain a book-entry system (the "Register") identifying the owners of such Promissory Note and the owners' addresses and payment instructions. The person or persons identified as owners of such Promissory Note in the Register shall be deemed to be the owner(s) of the Promissory Note for purposes of receiving payment of principal and interest on such Promissory Note and for all other purposes. Any transfer of such Promissory Note shall be effective only upon being recorded in the Register. The Note Registrar may retain the services of another party to fulfill its duties as Note Registrar. The Note Registrar's recordkeeping obligations will be unaffected by any transfers of the Promissory Note.

**4. Listings.** The Platform connects applicants who wish to obtain loans with investor members who wish to commit funds to loan listings. To receive a loan, you, a borrower member, must submit a loan listing through the Platform. The listing is a request by you for a loan in the amount and at the interest rate specified in the listing. In order to submit a listing through the Platform, you must have a good faith intent to obtain and repay your loan, and your listing must be consistent with that intent.

In order for your listing to become a loan, your listing must receive aggregate funding commitments from Prosper investor members that equal or exceed the minimum funding amount applicable to your listing. After you submit your listing and complete certain verification stages, Prosper will allocate your listing to one of three funding channels, based upon an allocation methodology determined by Prosper: (i) the first channel allows investor members to commit to purchase Notes from Prosper, the payments of which are dependent on the payments you make on your loan (the "Note Channel"); (ii) the second channel allows investor members to commit to purchase 100% of your loan directly from Prosper ("Active Loan Channel"); and (iii) the third channel reserves your loan for sale to an investor member who has already committed to purchase loans like yours from Prosper ("Passive Loan Channel"). Prosper may add or remove funding channels and modify the allocation process at any time in its sole discretion. If your listing receives sufficient commitments to fund, Bank will originate a loan to you in an amount equal to the total amount of those commitments. If your listing is allocated to Passive Loan Channel, it will automatically be considered to have received a commitment equal to the amount of the loan requested.

If your listing is allocated to the Note Channel, investor members who purchase Notes tied to your loan may resell those Notes to other investor members on a secondary trading platform. Prosper may add or remove secondary trading platforms at any time in its sole discretion.

Information Included in Listings. To submit a listing, you must provide the amount of the loan you are requesting as well as your annual income, occupation and employment status. The minimum and maximum loan amounts you may request are posted on the Prosper website and are subject to change by us at any time without notice. We reserve the right to restrict the submission of listings through the Platform to applicants who meet minimum credit guidelines and other criteria, as determined by us in our sole discretion.

You authorize and agree that we may include in your listing any information from the credit report we obtain pursuant to Section 2 above, including but not limited to the following information:

- (i) Your Prosper Rating, which is calculated by us but based on information from your credit report;
- (ii) Your debt-to-income ratio, expressed as a percentage, reflecting the ratio between the amount of your monthly non-mortgage debt, as compared to the amount of monthly income that you indicated when completing your listing;
- (iii) The number of accounts on which you are currently late on a payment;
- (iv) The total past-due amount you owe on all delinquent and charged-off accounts;
- (v) The number of 90+ days past due delinquencies on your credit report;
- (vi) The number of public records (e.g., bankruptcies, liens, and judgments) on your credit report;
- (vii) The month and year the oldest account on your credit report (e.g., revolving, installment, or mortgage credit) was opened;
- (viii) The total number of credit lines appearing on your credit report, along with the number that are open and current;
- (ix) The total balance on all of your open revolving credit lines;
- (x) Your bankcard utilization ratio, expressed as a percentage, reflecting the ratio of the total balance used, to the aggregate credit limit on, all of your open bankcards; and
- (xi) The number of inquiries made by creditors to your credit report in the last six months.

In addition, you authorize and agree that we may display any of the above information in a listing for a Note corresponding to your loan on a secondary trading platform, and that we may display updated information from your credit report, as well as information about the payment history and status of your loan, in any such listing.

Listings displayed on either Platform may also include any information we ask you to provide. You authorize us to verify your residence, income, employment and any other information you provide in connection with a listing or your registration as a borrower, and you agree that we may contact third parties to verify information you provide. If any such information changes after you submit a listing but before the listing expires, you must either (i) promptly notify us of the change, or (ii) if possible, withdraw your listing.

In creating your listing, or posting content anywhere on Prosper's website, you may not include (i) any personally identifiable information, including, without limitation, your name, address, phone number, email address, Social Security number, driver's license number, bank account number or credit card number, (ii) any information that reveals your race, color, religion, national origin, sex, marital status, age, sexual orientation, military status, source of income, or plans for having a family, and (iii) any information that is inconsistent with your obligations to refrain from engaging in any Prohibited Activities (as defined below) (any information of the type described in parts (i), (ii) or (iii) being, "Prohibited Information"). We may take remedial action with respect to any Prohibited Information you post on Prosper's web site, including without limitation canceling any listing containing Prohibited Information or deleting or modifying all or any portion of a listing description or other content that contains Prohibited Information; provided, however, that we are under no obligation to take any such action, and any posting of Prohibited Information by you on Prosper's web site is done solely at your own risk.

*Listings Allocated to the Note Channel.* Any person who visits the Prosper website will be able to view your listing and see your Prosper Rating as well as certain information about the loan you have requested; provided, however, information from your credit report will only be viewable by investor members.

We may elect in our sole discretion to give you a partial funding option, which means your loan will be funded if it receives commitments totaling less than the full amount of your requested loan but equal to or exceeding 70% of that amount (subject to the loan size minimum). Each loan listing related to a borrower who was offered the partial funding option will indicate the minimum amount required for the loan to fund. The current percentage threshold for partial funding is 70%, but we may change that threshold from time to time. Any such change will only affect listings created after the change is made.

*Duration of Listings.* A listing will expire at the earlier of (a) the time at which it has received commitments equal to the full amount of the loan requested (which could be immediately after being listed) or (b) if allocated to the Note Channel, 14 days after being allocated, unless the listing is withdrawn by you or cancelled by us prior to either of those events. If a listing is allocated to Active Loan Channel and does not receive commitments sufficient to fund within a reasonable amount of time determined in Prosper's sole discretion after being allocated, it may be reallocated to the Note Channel.

*WITHDRAWAL OF LISTINGS.* YOU HAVE THE RIGHT TO WITHDRAW YOUR LISTING AT ANY TIME PRIOR TO THE EXPIRATION OF THE LISTING PERIOD AS DESCRIBED ABOVE. AFTER THE LISTING PERIOD EXPIRES, YOU WILL NO LONGER HAVE THE RIGHT TO WITHDRAW YOUR LISTING. IF A LOAN IS MADE TO YOU, YOU DO NOT HAVE ANY RIGHT TO RESCIND THE LOAN.

If you elect to withdraw your listing, the inquiry posted on your credit profile upon your acceptance of this Agreement will not be removed. We reserve the right, in our sole discretion, to limit the number of listings you submit or attempt to submit through the Platform.

*Additional Loans.* Additional loans are subject to additional restrictions. The guidelines and eligibility requirements for additional loans are posted on the Prosper website and are subject to change by us in our sole discretion at any time without notice. Subject to these requirements, you may have up to two loans outstanding at any one time, provided that the aggregate outstanding principal balance of your loans does not exceed the maximum loan amount then in effect. You may not submit a listing for a second loan unless you meet the eligibility requirements then in effect as of the date of such submission.

*Prohibited Activities.* You agree that you will not, in connection with any listings, investor commitments, loans or other transactions involving or potentially involving Prosper or Bank, (i) make any false, misleading or deceptive statements or omissions of material fact; (ii) misrepresent your identity, or describe, present or portray yourself as a person other than yourself; (iii) give to or receive from, or offer or agree to give to or receive from, any Prosper investor member or other person any fee, bonus, additional interest, kickback or thing of value of any kind, including in exchange for such person's commitment, or offer or agreement to make a commitment with respect to your listing; and (iv) represent yourself to any person as a director, officer or employee of Prosper, PMI or Bank, unless you are such director, officer or employee.

## **5. Right to Verify Information and Cancel Funding.**

a. We reserve the right to verify the accuracy of all information provided by borrower and investor members in connection with listings, investor commitments and loans. We also reserve the right to determine in our sole discretion whether a registered user is using, or has used, the Prosper website illegally or in violation of any order, writ, injunction or decree of any court or governmental instrumentality, for purposes of fraud or deception, or otherwise in a manner inconsistent with the Prosper Terms and Conditions or any agreement between Prosper or Bank and such user. We may conduct our review at any time - before, during or after the submission of a listing, or before or after the funding of a loan. You agree to respond promptly to our requests for information in connection with any such review by us. We reserve the right to cancel your listing if we determine, under our sole discretion, that you have failed to respond to our requests for information in a timely manner in connection with our verification process.

b. In the event we determine that a listing, or an investor commitment for the listing, contains materially inaccurate information (including but not limited to inaccuracies related to your income, residence or creditworthiness, whether or not due to changes in circumstance) or was

submitted illegally, in violation of any order, writ, injunction or decree of any court or governmental instrumentality, for purposes of fraud or deception, or otherwise in a manner inconsistent with the Prosper Terms and Conditions or any member agreement, or was generated in error or is otherwise inconsistent with the applicable credit policy and criteria, or verification process, we may cancel the listing and/or cancel all investor commitments with respect to that listing.

c. When a listing receives commitments equal to or exceeding the minimum amount required for the loan to fund, we may conduct a "pre-funding" review prior to funding of the loan. Loan funding occurs when loan proceeds are disbursed to you or at your direction. We may, at any time and in our sole discretion, delay funding of a loan (i) in order to enable us to verify the accuracy of information provided by you, or provided by investor members in connection with the listing; (ii) in order to reconfirm investor commitments made with respect to the listing; (iii) to determine whether there are any irregularities with respect to the listing or the investor commitments; or (iv) if we become aware of information concerning you or the listing during our pre-funding review, as a result of which we determine, in our sole discretion, that the likelihood of you not making payments on the loan is materially greater than would be expected based on the assigned Prosper Rating. We may cancel or proceed with funding the loan, depending on the results of our pre-funding review. If funding is cancelled, the listing will be removed from the Platform and all investor commitments against the listing will be cancelled. In the event we cancel funding of a loan, we will notify you, and all investor members who made commitments with respect to the listing of such cancellation.

d. We may verify any of the information you provide in applying for a loan and creating a listing, and may require that you submit evidence sufficient to permit us to verify the information you provided or other information we deem necessary. We have sole discretion to determine what evidence suffices, and it is your obligation to provide that evidence. If you fail to do so within a reasonable timeframe within our discretion, we may cancel your listing. However, if we are able to obtain the information we require from other sources, or determine that the information is no longer necessary, your loan may originate even though you have not submitted the required documents.

e. If you provide your bank login credentials to a bank verification vendor hosted on Prosper's site, you agree that Prosper (including PMI), its agents and affiliates, and the Bank may access and obtain your bank account information, including without limitation your account and routing number, account holder name, and transactional history. We may access and obtain this information for any bank account available through your bank login credentials. You authorize Us to use this information for any lawful purpose, including to verify your bank account (including ownership), income and employment, identity, for anti-fraud purposes, and to determine or verify eligibility (including for a loan or for specific terms such as pricing). We may access and obtain this information throughout the term of your loan.

Depending on which service you select and which vendor Prosper utilizes, you may use/ authorize Plaid Inc. ("Plaid") to gather your bank account information from certain financial institutions and provide that information to Prosper. You grant Plaid and Us the right, power and authority to act on your behalf to access and transmit your personal and financial information from the relevant financial institution, as described above. By using the Plaid service, you agree that you are providing your bank login credentials to Plaid and that your personal and financial information will be transferred, stored and accessed by Plaid in accordance with the Plaid Privacy Policy. For information on how Plaid stores and uses your bank credentials and account information, please review Plaid's privacy policy, available at <https://plaid.com/legal>.

You understand that if you provide inaccurate credentials, your bank may restrict your ability to access your account information until you can establish your identity and reset your credentials, and we may be unable to process your loan application. If we are not able to verify necessary items through this process, you may be required to undergo manual verification.

## **6. Matching of Investor Commitments and Listings; Loan Funding.**

a. If your listing is allocated to the Note Channel, Prosper investor members will be able to view your listing and commit funds to purchase Notes issued by Prosper, the payments on which will be dependent on payments Prosper receives from you on your loan. In other words, the Prosper investor members who committed funds will receive payments on their Notes only to the extent you make payments on your loan. If your listing is allocated to the Active Loan Channel or the Passive Loan Channel, Prosper investor members will commit funds to purchase from Prosper a Promissory Note evidencing the loan made by Bank to you.

b. A match of your listing with one or more investor commitments equal to or exceeding the minimum amount required for the loan to fund, will result in a loan from Bank to you, subject to our right to verify information as described above. The loan will be evidenced by a Promissory Note in the form set forth on the attached Exhibit A. Depending on the loan product you receive, loan proceeds are disbursed into your designated deposit account or they are paid directly to a merchant in satisfaction of your purchase of goods and/or services from that merchant. The loan may be sold by Bank to Prosper, and Prosper may hold the loan or sell it to one of its investor members. Prosper or its agents will service the loan on behalf of the loan's owner.

c. We do not warrant or guaranty that your listing will be matched with any investor commitments. Your listing must receive one or more investor commitments equal to or exceeding the minimum amount required for the loan to fund in order for a loan to be made.

d. To safeguard your privacy rights, your name and address will not be included in your listing. Only your Prosper screen name will appear on your listing, and only the screen name of the investor members will appear with investor commitments.

**7. Compensation.** If you receive a loan, you must pay Bank a non-refundable origination fee. The amount of the estimated origination fee is stated in the disclosures provided to you at the time you apply. This amount will decline if you've been offered a partial funding option and your loan is not 100% funded. Notwithstanding the foregoing, no amount of the finally determined fee is refundable. The finally determined fee will be stated in your Truth in Lending disclosure. This fee will be deducted from your loan proceeds, so the loan proceeds delivered to you or at your direction will be less than the full amount of your issued loan. You acknowledge that the origination fee will be considered part of the principal on your loan and is subject to the accrual of interest.

**8. Making Your Loan Payments.** At the time you register as a borrower, you (or your joint applicant/co-borrower, as applicable) must provide your bank account information to facilitate transfers of funds to and from your bank account. Your loan payments will be made by the payment method you choose, as described in Section 7 of the Promissory Note. Prosper or its agents will act as the servicer for all loans you obtain through the Platform, and all communications regarding your loan must be made to Prosper or its agents.

**9. Collection & Reporting of Delinquent Loans.** In the event you do not make your loan payments on time, Bank or any subsequent owner of the loan will have all remedies authorized or permitted by the Promissory Note and applicable law. In addition, if you fail to make timely payments on your loan, your loan may be referred to a collection agency for collection. Prosper or its agents may report loan payment delinquencies in excess of thirty (30) days to one or more credit reporting agencies in accordance with applicable law. See the "Permission to Contact" section below for additional important information.

**10. No Guarantee.** Neither Prosper nor Bank warrants or guarantees (1) that your listing will be matched with any investor commitments, or (2) that you will receive a loan as a result of submitting a listing.

**11. Restrictions on Use.** You are not authorized or permitted to use the Prosper website to obtain, or attempt to obtain, a loan for someone other than yourself. You are not authorized or permitted to use the Prosper website to obtain, or attempt to obtain, a loan for the purpose of (i) buying, carrying or trading in securities or for the purpose of buying or carrying any part of an investment contract security, (ii) paying for postsecondary educational expenses (i.e., tuition, fees, required equipment or supplies, or room and board) at a college/university/vocational school, as the term "postsecondary educational expenses" is defined in Bureau of Consumer



Financial Protection Regulation Z, 12 C.F.R. § 1026.46(b)(3), or (iii) engaging in any illegal activity or gambling, and you warrant, represent and agree that you will not use the proceeds of any loan for such purposes. You must be an owner of the deposit account you designate for electronic transfers of funds, with authority to direct that loan payments be made from the account. Although you are registering as a borrower member, you may also register and participate on the Platform as an investor member. If you participate on the Platform as an investor member, any amounts in your Prosper funding account are subject to set-off against any delinquent amounts owing on any loans you obtain as a Prosper borrower. You will not receive further notice in advance of our exercising our right to set-off amounts in your Prosper funding account against any delinquent amounts owing on any loans you obtain. If you obtain a loan and fail to pay your loan in full, whether due to default, bankruptcy or other reasons, you will not be eligible to submit any further listings or re-register with Prosper as a borrower or investor member. We may in our sole discretion, with or without cause and with or without notice, restrict your access to the Prosper website or Platform.

**12. Authority.** You warrant and represent that you have the legal competence and capacity to execute and perform this Agreement.

**13. Termination of Registration.** Prosper may, in its sole discretion, with or without cause, terminate this Agreement at any time by giving you notice as provided below. In addition, upon our determination that you committed fraud or made a material misrepresentation in connection with a listing, investor commitment or loan, performed any prohibited activity, or otherwise failed to abide by the terms of this Agreement or the Prosper Terms and Conditions, we may, in our sole discretion, immediately and without notice, take one or more of the following actions: (i) terminate or suspend your right to submit listings or otherwise participate on the Platform; or (ii) terminate this Agreement and your registration with Prosper. Upon termination of this Agreement and your registration with Prosper, any listings you have submitted through the Platform shall be cancelled, and will be removed from the Platform immediately. Any loans you obtain prior to the effective date of termination resulting from listings you had placed on the Platform shall remain in full force and effect in accordance with their terms.

**14. Change-In-Terms.** No provision of this Agreement shall be modified, changed, or limited except by a written agreement signed by both you and Prosper.

**15. Posting of Personal Information.** You may not include or display any personally identifying information of any Prosper member anywhere on the Prosper website, including, without limitation, any Prosper member's name, address, phone number, email address, Social Security number, driver's license number, bank account number or credit card number.

**16. Notices.** All notices and other communications hereunder shall be given either by: (1) email to your registered email address; (2) deposit with U.S. mail or other nationally recognized courier, and shall be deemed to have been duly given and effective upon transmission; or (3) any other means authorized by you. It is your responsibility to monitor these areas. You can contact us by sending an email to [support@prosper.com](mailto:support@prosper.com). You agree to notify Prosper if your registered email address changes, and you agree to update your registered residence address, mailing address and telephone number on the Prosper website if any of those items changes. You also acknowledge and agree that, for loans with joint applicants/co-borrowers, notice may be given to either of you and shall be deemed to have been duly given to and effective for all parties, except as otherwise provided by applicable law.

**17. No Warranties.** Except for the representations contained in this Agreement, Prosper does not make any representations or warranties to you or any other party with regard to your use of the Prosper website or the Platform, including, but not limited to, any implied warranties of merchantability or fitness for a particular purpose.

**18. Limitation on Liability.** In no event shall any party to this Agreement be liable to any other party for any lost profits or special, exemplary, consequential or punitive damages, even if informed of the possibility of such damages. Furthermore, neither party makes any representation or warranty to any other party regarding the effect that the Agreement may have

upon the foreign, federal, state or local tax liability of the other. For purposes of clarity, the term "party" in this Section shall mean you or Prosper.

**19. Joint and Several Liability.** Each joint applicant/co-borrower shall be jointly and severally liable for all obligations under this Agreement, and we may proceed against either of you to enforce any such obligation without waiving our right to proceed against the other. We may also proceed against either of you to enforce any obligation under this Agreement without first proceeding against the other.

## **20. STATE NOTICES**

California Residents: Married registrants may apply for a separate account.

Maine Residents: NOTICE TO CONSUMER: Do not sign this agreement before you read it. You are entitled to a copy of this agreement. Maine law requires that the following disclosures be provided to you before any contract is signed with, and before any money is paid to, Prosper or to third parties. The agreement between you and Prosper must be in writing and signed, and must contain a description of the services to be performed, payment details, any guarantees, the time frame of the contract, and offers of full or partial refunds, as well as a notice informing you of the importance of reading the contract and retaining a copy. Prosper has a \$25,000 consumer protection bond on file with the State of Maine. If you have a claim against Prosper that cannot be resolved through informal means, you may institute an action to recover your loss from that bond by filing a written complaint with the Superintendent, Bureau of Consumer Credit Protection, 35 State House Station, Augusta, Maine 04333-0035.

North Dakota Residents: NOTICE: MONEY BROKERS ARE LICENSED AND REGULATED BY THE DEPARTMENT OF FINANCIAL INSTITUTIONS, 2000 SCHAFFER STREET, SUITE G, BISMARCK, NORTH DAKOTA 58501-1204. THE DEPARTMENT OF FINANCIAL INSTITUTIONS HAS NOT PASSED ON THE MERITS OF THE CONTRACT AND LICENSING DOES NOT CONSTITUTE AN APPROVAL OF THE TERMS OR OF THE BROKER'S ABILITY TO ARRANGE ANY LOAN. COMPLAINTS REGARDING THE SERVICES OF MONEY BROKERS SHOULD BE DIRECTED TO THE DEPARTMENT OF FINANCIAL INSTITUTIONS.

South Dakota Residents: Any improprieties in the making of this loan or loan practices related to this loan may be referred to the South Dakota Division of Banking. The Division of Banking is located at 1601 N. Harrison Avenue, Suite 1, Pierre, SD 57501. Phone: 605.773.3421.

Ohio Residents: The Ohio laws against discrimination require that all creditors make credit equally available to all credit worthy customers, and that credit reporting agencies maintain separate credit histories on each individual upon request. The Ohio civil rights commission administers compliance with this law.

Texas Residents: For questions or complaints about this loan, contact Prosper Marketplace, Inc. at 1-866-615-6319 or [support@prosper.com](mailto:support@prosper.com). Prosper Marketplace, Inc. is licensed and examined under Texas law by the Office of Consumer Credit Commissioner (OCCC), a state agency. If a complaint or question cannot be resolved by contacting Prosper Marketplace, Inc., consumers can contact the OCCC to file a complaint or ask a general credit-related question. OCCC address: 2601 N. Lamar Blvd., Austin, Texas 78705. Phone: (800) 538-1579. Fax: (512) 936-7610. Website: [occc.texas.gov](http://occc.texas.gov). E-mail: [consumer.complaints@occc.texas.gov](mailto:consumer.complaints@occc.texas.gov)

Wisconsin Residents: No provision of a marital property agreement, a unilateral statement or a court decree adversely affects the interest of the creditor unless the creditor, prior to the time the credit is granted, is furnished a copy of the agreement, statement or decree or has actual knowledge of the adverse provision when the obligation to the creditor is incurred.

**Please see the attached Promissory Note for additional important state notices.**

**21. Miscellaneous.** You may not assign, transfer, sublicense or otherwise delegate your rights under this Agreement to another person without Prosper's prior written consent. Prosper may assign this Agreement at any time without your permission, unless prohibited by applicable law. Any such assignment, transfer, sublicense or delegation in violation of this Section 21 shall be

null and void. This Agreement shall be governed by federal law and, to the extent that state law applies, the laws of the State of Delaware. Any waiver of a breach of any provision of this Agreement will not be a waiver of any other breach. Failure or delay by either party to enforce any term or condition of this Agreement will not constitute a waiver of such term or condition. If any part of this Agreement is determined to be invalid or unenforceable under applicable law, then the invalid or unenforceable provision will be deemed superseded by a valid enforceable provision that most closely matches the intent of the original provision, and the remainder of the Agreement shall continue in effect. Bank is not a party to this Agreement, but you agree that Bank is a third-party beneficiary and is entitled to rely on the provisions of this Agreement, including without limitation your representations, covenants and agreements herein. There are no third party beneficiaries to this Agreement other than Bank.

**22. Performance by Prosper and Bank.** You acknowledge and agree that any obligations of or actions by Prosper under this Agreement may be performed by PMI on behalf of Prosper in PMI's capacity as servicer or agent of Prosper under any administrative services or similar agreement entered into between PMI and Prosper pursuant to which Prosper appoints PMI as servicer or agent to provide administrative, management, servicing or other services to Prosper. You also acknowledge and agree that any obligations of or actions by Bank under this Agreement may be performed by PMI on behalf of Bank in PMI's capacity as agent of Bank under any loan program or similar agreement entered into between PMI and Bank pursuant to which Bank appoints PMI as agent to provide services to Bank.

**23. Separate Entities.** Notwithstanding Section 22, you acknowledge and agree that Prosper, Bank and PMI are separate legal entities and that neither entity has guaranteed the performance by the other entity of its obligations hereunder.

#### **24. Arbitration Section.**

**RESOLUTION OF DISPUTES: YOU ACKNOWLEDGE THAT YOU HAVE READ THIS ARBITRATION SECTION (the "Arbitration Agreement") CAREFULLY, UNDERSTAND THAT IT CONSTITUTES A BINDING AGREEMENT BETWEEN YOU AND US TO ARBITRATE WHENEVER YOU OR WE ELECT TO ARBITRATE A CLAIM (AS DEFINED BELOW), AND UNDERSTAND THAT IT LIMITS YOUR RIGHTS IN THE EVENT OF A DISPUTE BETWEEN YOU AND US. YOU UNDERSTAND THAT YOU HAVE THE RIGHT TO REJECT THIS ARBITRATION AGREEMENT, AS PROVIDED IN PARAGRAPH (P) BELOW.**

(A) Definitions. This Arbitration Agreement incorporates the defined terms within the Agreement unless specifically defined below. In this Arbitration Agreement:

- (i) "You" and "your" mean each individual entering into this Arbitration Agreement (Section 24), as well as any person claiming through such individual;
- (ii) "We" and "us" mean Bank and Prosper Funding LLC and each of their respective parents, subsidiaries, affiliates, predecessors, successors, and assigns, as well as the officers, directors, and employees of each of them;
- (iii) "Claim" means any dispute, claim, or controversy (whether based on contract, tort, intentional tort, constitution, statute, ordinance, common law, or equity, whether pre-existing, present, or future, and whether seeking monetary, injunctive, declaratory, or any other relief) arising from or relating in any way to the Agreement or your relationship with us. The term "Claim" has the broadest possible meaning, and includes initial claims, counterclaims, cross claims, and third party claims. It includes disputes based upon contract, tort, consumer rights, fraud and other intentional torts, constitution, statute, regulation, ordinance, common law and equity (including any claim for injunctive or declaratory relief). The term "Claim" also includes any dispute related to the scope, validity, or enforceability of this Arbitration Agreement; thus, all such disputes are expressly delegated to an arbitrator for decision, with two exceptions noted below in the sections entitled "Class and Representative Action Waiver" and "Public Injunctive Relief Requests".

(B) Agreement to Arbitrate. You and we agree that in the event a Claim arises, either you or we may, without the other's consent, elect to resolve the Claim by binding arbitration. This agreement to arbitrate is binding on both you and us, and applies to all Claims (as defined

above) except for those claims mentioned in paragraph (C) below entitled "Non-Arbitrable Claims."

(C) Non-Arbitrable Claims. This Arbitration Agreement shall not apply to covered borrowers as defined in the Military Lending Act, 10 U.S.C. § 987. Further, this Arbitration Agreement shall not apply to an individual Claim filed by you in a small claims or similar court (if any), so long as the Claim is pending on an individual basis only in such court.

(D) JURY WAIVER AND LIMITATION OF RIGHTS. YOU AND WE AGREE THAT, BY ENTERING INTO THIS ARBITRATION AGREEMENT, THE PARTIES ARE EACH WAIVING THE RIGHT TO A TRIAL BY JURY OR A TRIAL BEFORE A JUDGE IN COURT. YOU AND WE ACKNOWLEDGE THAT ARBITRATION WILL LIMIT OUR LEGAL RIGHTS, INCLUDING THE RIGHT TO PARTICIPATE IN A CLASS ACTION, THE RIGHT TO A JURY TRIAL, THE RIGHT TO CONDUCT FULL DISCOVERY, AND THE RIGHT TO APPEAL (EXCEPT AS PERMITTED IN PARAGRAPH (N) OR UNDER THE FEDERAL ARBITRATION ACT).

(E) Arbitration Forum and Rules. Any Claim shall be resolved, upon the election of either us or you, by binding arbitration administered by the American Arbitration Association ("AAA") or JAMS, under the applicable arbitration rules of the administrator in effect at the time a Claim is filed ("Rules"). Any arbitration under Arbitration Agreement will take place on an individual basis; class arbitrations and class actions are not permitted. If you file a claim, you may choose AAA or JAMS as the administrator; if we file a claim, we may choose the administrator, but we agree to change to the other permitted administrator at your request (assuming that the other administrator is available). You can obtain the Rules and other information about initiating arbitration by contacting the American Arbitration Association at 1633 Broadway, 10th Floor, New York, NY 10019, [www.adr.org](http://www.adr.org); or by contacting JAMS at 1920 Main Street, Suite 300, Irvine, CA 92614, (949) 224-1810, [www.jamsadr.com](http://www.jamsadr.com). Further, to the extent there is any conflict between the Rules and this Arbitration Agreement, this Arbitration Agreement will prevail.

(F) Arbitrator Selection. Claims will be arbitrated by a single, neutral arbitrator, who shall be a retired judge or a lawyer with at least ten years' experience. The arbitrator shall be selected in accordance with the administrator's rules.

(G) Arbitration Fees and Expenses. You agree to pay the initial filing fee charged by the administrator for any arbitration you commence, up to a cap of \$300. If the initial filing fee is more than \$300, we will pay the balance over that amount. We will pay all other fees charged by the administrator or arbitrator, including any filing, administration, and/or arbitrator fees. We will pay the entire initial filing fee if: (1) you claim to be unable to afford it; and (2) you seek but cannot obtain a waiver of that fee from the administrator.

(H) Arbitration Hearing Location. Any in-person arbitration hearing will be held in the county in which you reside, or in such other location as you and we may mutually agree.

(I) Commencing Arbitration. The party electing arbitration must notify the other of such election. This notice may be given before or after a lawsuit has been filed concerning the Claim or with respect to other Claims brought later in the lawsuit, and it may be given by papers filed in the lawsuit such as a motion to compel arbitration. If you elect to initiate arbitration you must notify us in writing. Your notice must be sent to Prosper Marketplace, Inc., 221 Main Street, Suite 300, San Francisco, CA 94105, Attention: Legal Department. If we commence arbitration we will notify you in writing at your last known address on file or, if we do so by moving to compel arbitration in a case you have brought in court, we will notify you by providing service of process as required by the rules of the applicable jurisdiction.

(J) Governing Law. You and we acknowledge and agree that the arbitration agreement set forth in this Arbitration Agreement is made pursuant to a transaction involving interstate commerce, and that the Federal Arbitration Act, 9 U.S.C. § 1-16 ("FAA"), shall govern the interpretation and enforcement of this Arbitration Agreement. The arbitrator shall apply applicable substantive law consistent with FAA and the governing law clause set forth in Section 21 (Miscellaneous) of the Agreement. Further, if requested by either party, the arbitrator must provide written reasoned findings of fact and conclusions of law. In the event that a dispute does not proceed to arbitration, the Agreement shall be governed by and construed in accordance with the laws of

the United States and, to the extent state law applies, to the laws of the State of Delaware, without regard to its conflict of laws rules.

(K) Available Relief. Except as set forth below in paragraph (L) (entitled "CLASS ACTION AND REPRESENTATIVE ACTION WAIVER"), the arbitrator shall have the power to award any relief available to a claimant in court under applicable law, including but not limited to equitable and injunctive relief.

(L) CLASS ACTION AND REPRESENTATIVE ACTION WAIVER. YOU AND WE AGREE THAT EACH MAY BRING CLAIMS AGAINST THE OTHER ONLY IN OUR INDIVIDUAL CAPACITY, AND NOT AS A PLAINTIFF OR CLASS MEMBER IN ANY PURPORTED CLASS OR REPRESENTATIVE PROCEEDING. Further, unless both you and we agree otherwise in writing, the arbitrator may not consolidate more than one person's claims, except that claims brought by joint applicants or co-borrowers relating to the same loan transaction shall be consolidated. The arbitrator shall have no authority to conduct any class, private attorney general or other representative proceeding. The validity, enforceability, and effect of this paragraph (L) shall be determined exclusively by a court, and not by the administrator or any arbitrator. This paragraph does not apply to requests for public injunctive relief, which are addressed in the paragraph below entitled "Public Injunctive Relief Requests."

(M) PUBLIC INJUNCTIVE RELIEF REQUESTS. If you or we seek public injunctive relief as a remedy for any Claim against one another (a "Public Injunctive Relief Request,") you and we agree that Public Injunctive Relief Request cannot be arbitrated. Instead, that Public Injunctive Relief Request shall be adjudicated by a court after all other Claims to be decided in arbitration under this Arbitration Agreement are resolved in arbitration. You and we agree to jointly request that the court stay the Public Injunctive Relief request until after the remaining Claims have been finally resolved in arbitration, and that the parties will only seek to lift the stay and request that the court resolve the Public Injunctive Relief Request if an arbitrator finds that one of them is liable for a Claim for which public injunctive relief is an available remedy. The enforceability, validity and effect of this paragraph (M) shall be determined exclusively by a court, and not by the administrator or any arbitrator.

(N) Enforcement and Appeals. Any appropriate court may enter judgment upon the arbitrator's award. The arbitrator's decision will be final and binding except that: (1) any party may exercise any appeal right under the FAA; and (2) any party may appeal any award relating to a claim for more than \$100,000 to a three-arbitrator panel appointed by the administrator, which will reconsider de novo any aspect of the appealed award. The panel's decision will be final and binding, except for any appeal right under the FAA. The parties shall bear their own attorneys' fees and costs of any appeal.

(O) Severability and Survivability. This Arbitration Agreement shall survive: (i) termination or changes in the Agreement or the relationship between you and us concerning the Agreement; and (ii) the bankruptcy of any party. If any portion of this Arbitration Agreement (except for paragraph (L) above) is deemed invalid or unenforceable for any reason, it shall not invalidate the remaining portions of this Arbitration Agreement. However, if paragraph (L) of this Arbitration Agreement is deemed invalid or unenforceable in whole or in part, then this entire Arbitration Agreement shall be deemed invalid and unenforceable.

(P) Opt-Out Right. You understand that you may reject the provisions of this Arbitration Agreement, in which case neither we nor you will have the right to elect arbitration. Rejection of this Arbitration Agreement will not affect the remaining parts of the Agreement. To reject this Arbitration Agreement, you must send us written notice of your rejection within 30 days after the date that the Agreement was made. You must include your name, address, and account number. The notice of rejection must be mailed to Prosper Marketplace, Inc., 221 Main Street, Suite 300, San Francisco, CA 94105, Attention: Legal Department. This is the only way that you can reject this Arbitration Agreement.

(Q) Pre-Dispute Notice. You agree that you will notify us in writing of any Claim and give us a reasonable period of time to address it BEFORE bringing any legal action, either individually, as a class member or representative, or as a private attorney general, against us.

(R) Amendment. Section 14 (Change-In-Terms) does not apply to this Arbitration Agreement. Instead, the following terms apply to amendment of this Arbitration Agreement. You and we agree that we have the right to amend this Arbitration Agreement, and that if we make any amendment to this Arbitration Agreement (other than an amendment to any notice address or website link provided herein), that amendment shall be effective upon our provision of written notice to you. We will notify you of amendments to this Arbitration Agreement by providing notice via email to your registered email address. You agree to notify us if your registered email address changes. Any amendment shall not apply to any claim against us that accrued prior to the effective date of the amendment. Instead, the amendment shall apply to all other disputes or claims governed by this Arbitration Agreement that have arisen or may arise between you and us. If you do not agree to these amended terms, you may reject the amended Arbitration Agreement and you will not be bound by it. To reject the amended terms, you must send us written notice of your rejection within 30 days after the date we provided notice of the amendment. You must include your name, address, and account number. The notice of rejection must be mailed to Prosper Marketplace, Inc., 221 Main Street, Suite 300, San Francisco, CA 94105, Attention: Legal Department. This is the only way that you can reject amendments to this Arbitration Agreement.

**25. Electronic Transactions.** This Agreement includes your express consent to electronic transactions and disclosures, which consent is set forth in the section entitled "Consent to Doing Business Electronically" as disclosed in our [Terms of Use](#) on our website. The terms and conditions of the "Consent to Doing Business Electronically" section are expressly incorporated herein in their entirety. You expressly agree that each of (a) this Agreement and (b) any Promissory Note in the form set forth on the attached Exhibit A that we sign on your behalf, may comprise a "transferable record" for all purposes under the Electronic Signatures in Global and National Commerce Act and the Uniform Electronic Transactions Act.

**26. Permission to Contact.** When you give us your contact information (including but not limited to home and/or mobile phone number, work phone number, address and email address), we have your permission to contact you at any of those numbers or addresses, and any other number, address or email address that you provide in the future or that we believe we may reach you through (unless prohibited by applicable law), about your Prosper accounts. Your consent allows us to use written, electronic or verbal means to contact you, including but not limited to text messaging, artificial or prerecorded voice messages, automatic dialing technology and emails, for all purposes not prohibited by applicable law. Message and data rates may apply. Some of the purposes for calls and messages include (but are not limited to): suspected fraud or identity theft; obtaining information; transactions on or servicing of your account; and collecting on your account. Our rights under this Section extend to our affiliates, subsidiaries, parents, agents, vendors, and anyone so affiliated with the owner of any note evidencing a loan you obtain. Notify us immediately of any changes to your contact information by changing your contact information on your Prosper account information – settings page.

**27. Military Lending Act.** The Military Lending Act provides specific protections for active duty service members and their dependents in consumer credit transactions. This Section includes information on the protections provided to covered borrowers as defined in the Military Lending Act.

(a) Statement of MAPR.

Federal law provides important protections to members of the Armed Forces and their dependents relating to extensions of consumer credit. In general, the cost of consumer credit to a member of the Armed Forces and his or her dependent may not exceed an annual percentage rate of 36 percent. This rate must include, as applicable to the credit transaction or account: The costs associated with credit insurance premiums; fees for ancillary products sold in connection with the credit transaction; any application fee charged (other than certain application fees for specified credit transactions or accounts); and any participation fee charged (other than certain participation fees for a credit card account).

(b) The following sections of this Agreement and the Promissory Note shall not be applicable to, and shall not be enforceable against, a covered borrower as defined in the Military Lending Act: Section 24 of this Agreement and Section 18 of the Promissory Note.

(c) Oral Disclosures. Please call 1-855-993-2967 to obtain oral disclosures, including the statement of MAPR and the payment schedule applicable to your loan, required under the Military Lending Act.

**28. Borrower Authorizations and Instructions.** For loans with joint applicants/co-borrowers, any authorization or instruction that either of you provides to us may be treated by us as effective for both of you.

**29. Authorization to Correct Clerical Errors.** You authorize us to correct obvious clerical errors appearing in information you provide to us, without notice to you, although we expressly undertake no obligation to identify or correct such errors.

**30. Entire Agreement.** This Agreement, along with the Prosper Terms of Use, represents the entire agreement between you and Prosper regarding your participation as a borrower on the Platform, and supersedes all prior or contemporaneous communications, promises and proposals, whether oral, written or electronic, between you and Prosper with respect to your involvement as a borrower on the Platform.

Date: \_\_\_\_\_

By: Prosper Funding LLC

(Signed Electronically)

\_\_\_\_\_ [Borrower]

(Signed Electronically)

\_\_\_\_\_ [Co-Borrower]

(Signed Electronically)

\_\_\_\_\_

### EXHIBIT A

Promissory Note

Loan ID: \_\_\_\_\_

Borrower Address: \_\_\_\_\_.

Co-Borrower Address: \_\_\_\_\_.

**1. Promise to Pay.** In return for a loan I (each "I" or "me" shall include all parties obligated hereunder, including any joint applicant/co-borrower) have received, I promise to pay WebBank ("you") the principal sum of \_\_\_\_\_ Dollars (\$ \_\_\_\_\_), together with interest thereon commencing on the date of origination at the rate of \_\_\_\_\_ percent (\_\_\_\_%) per annum simple interest. I understand that, as a borrower or co-borrower, I am liable for repayment of this loan. I also understand that references in this Promissory Note ("Note") to you shall also include any person to whom you transfer this Note.

**2. Payments.** I will pay the principal, interest, and any late charges or other fees on this Note when due. This Note is payable in \_\_\_\_\_ monthly installments of \$ \_\_\_\_\_ each, consisting of principal and interest, commencing on the \_\_\_\_\_ day of \_\_\_\_\_, and continuing until the final payment of \_\_\_\_\_ on, which is the maturity date of this Note. Because of the daily accrual of interest on my loan and the effect of rounding, my final payment may be more or less than my regular payment. My final payment shall consist of the then remaining principal, unpaid accrued interest and other charges due under this Note. All payments will be applied first to any unpaid fees then due, whether they are incurred as a result

of failed payments, as provided in Paragraph 11, payment processing fees assessed, or any late payments, as provided in Paragraph 4; then to any interest then due; and then to principal. However, if I am delinquent, the application of my payments may change. No unpaid interest, fees or charges will be added to principal. I further acknowledge that, if I make my payments after the scheduled due date, or incur a charge/fee, this Note will not amortize as originally scheduled, which may result in a substantially higher final payment amount.

**3. Interest.** Interest will be charged on unpaid principal until the full amount of principal has been paid. Interest under this Note will accrue daily, on the basis of a 365-day year. The interest rate I will pay will be the rate I will pay both before and after any default.

**4. Late Charge.** If the full amount of any monthly payment is not made by its due date, I will pay you a late charge of the greater of \$15 or 5.00% of the unpaid portion of the monthly payment. I will pay this late charge when it is assessed but only once on each late payment.

**5. Claims and Defenses; Waiver of Defenses; Exception to Waiver** Except as otherwise provided in this Note, you are not responsible or liable to me for the quality, safety, legality, or any other aspect of any property or services purchased with the proceeds of my loan. If I have a dispute with any person from whom I have purchased such property or services, I agree to settle the dispute directly with that person.

**If and only if the proceeds of my loan will be applied in whole or part to purchase property or services from a person or entity that has entered into a contractual relationship with you or Prosper related to financing of such property or services, the following notice may apply:**

#### NOTICE

**ANY HOLDER OF THIS CONSUMER CREDIT CONTRACT IS SUBJECT TO ALL CLAIMS AND DEFENSES WHICH THE DEBTOR COULD ASSERT AGAINST THE SELLER OF GOODS OR SERVICES OBTAINED WITH THE PROCEEDS HEREOF. RECOVERY HEREUNDER BY THE DEBTOR SHALL NOT EXCEED AMOUNTS PAID BY THE DEBTOR HEREUNDER.**

**6. Certifications.** I certify that the proceeds of my loan will not be applied in whole or in part to postsecondary educational expenses (i.e., tuition, fees, required equipment or supplies, or room and board) at a college/university/vocational school, as the term "postsecondary educational expenses" is defined in Bureau of Consumer Financial Protection Regulation Z, 12 C.F.R. § 1026.46(b)(3). I also certify that the proceeds of my loan will be received by me or otherwise used for my benefit. For purposes of clarity, the words "I", "me" and "my" in this Section shall include any co-borrower.

**7. Method of Payment.** I may make payments (i) by electronic fund transfer from an account that I designate using an automated clearinghouse (ACH), or (ii) by check.

I understand that payments by check may incur an additional processing fee of up to \$5.00 for each payment by check. Currently applicable fees are available at [www.prosper.com](http://www.prosper.com) or by calling 1-866-615-6319. I will make all checks payable to Prosper Funding LLC and send them to Prosper Marketplace Inc., P.O. Box 886081, Los Angeles, CA 90088-6081 in a manner so as to ensure that it is received with sufficient time to process prior to my scheduled payment due date. To ensure efficient processing of my check, I will reference my loan number on the check.

I recognize that if I have automated withdrawal enabled, it is my responsibility to ensure that all amounts I owe are paid when due, even if not debited from my account.

If I close my account or if my account changes or is otherwise inaccessible such that you are unable to withdraw my payments from that account or process my check, I will notify you at least three (3) business days prior to any such closure, change or inaccessibility of my account, and authorize you to withdraw my payments, or I will provide a check, from another account that I designate.



With regard to payments made by automatic withdrawals from my account, I have the right to (i) stop payment of a preauthorized automatic withdrawal, or (ii) revoke my prior authorization for automatic withdrawals with regard to all further payments under this Note, by notifying the financial institution where my account is held, orally or in writing at least three (3) business days before the scheduled date of the transfer. I agree to notify you orally or in writing, at least three (3) business days before the scheduled date of the transfer, of the exercise of my right to stop a payment or to revoke my prior authorization for further automatic withdrawals.

**8. Default and Remedies.** If I fail to make any payment when due in the manner required by Paragraph 7, I will be delinquent. If I (a) am delinquent, (b) file or have instituted against me (which, for purposes of clarity, shall mean either party obligated under this Note) a bankruptcy or insolvency proceeding or make any assignment for the benefit of creditors, or (c) in the event of my death (which, for purposes of clarity, shall mean either party obligated under this Note), you may in your sole discretion deem me in default and accelerate the maturity of this Note and declare all principal, interest and other charges due under this Note immediately due and payable. You also have sole discretion to proceed against any party obligated under this Note. If you deem me in default due to delinquency and if you exercise the remedy of acceleration, you will use reasonable efforts to provide prior notice of acceleration.

**9. Prepayments.** I may prepay this Note in full or in part at any time without penalty. I acknowledge that partial prepayments will not change the due date or amount of my monthly payment.

**10. Waivers.** You may accept late payments or partial payments, even though marked "paid in full," without losing any rights under this Note, and you may delay enforcing any of your rights under this Note without losing them. You do not have to (a) demand payment of amounts due (known as "presentment"), (b) give notice that amounts due have not been paid (known as "notice of dishonor"), or (c) obtain an official certification of nonpayment (known as "protest"). I hereby waive presentment, notice of dishonor and protest. Even if, at a time when I am in default, you do not require me to pay immediately in full as described above, you will still have the right to do so if I am in default at a later time. Neither your failure to exercise any of your rights, nor your delay in enforcing or exercising any of your rights, will waive those rights. Furthermore, if you waive any right under this Note on one occasion, that waiver will not operate as a waiver as to any other occasion.

**11. Insufficient Funds Charge.** If I attempt to make a payment, whether by automated withdrawal from my designated account or by other means, and the payment cannot be made due to (i) insufficient funds in my account, (ii) the closure, change or inaccessibility of my account without my having notified you as provided in Paragraph 7, or (iii) for any other reason (other than an error by you), I will pay you an additional fee of \$15 for each returned or failed automated withdrawal or other item, unless prohibited by applicable law. I will pay this fee when it is assessed.

**12. Attorneys' Fees.** To the extent permitted by law, I am liable to you for your legal costs if you refer collection of my loan to a lawyer who is not your salaried employee. These costs may include reasonable attorneys' fees as well as costs and expenses of any legal action.

**13. Loan Charges.** If a law that applies to my loan and sets maximum loan charges is finally interpreted so that the interest or other loan charges collected or to be collected in connection with my loan exceed the permitted limits, then: (a) any such loan charge shall be reduced by the amount necessary to reduce the charge to the permitted limit; and (b) any sums already collected from me that exceeded permitted limits will be refunded to me. You may choose to make this refund by reducing the principal I owe under this Note or by making a direct payment to me.

**14. Assignment.** I may not assign any of my obligations under this Note without your written permission. You may assign this Note at any time without my permission. Unless prohibited by applicable law, you may do so without telling me. My obligations under this Note apply to all of my heirs and permitted assigns. Your rights under this Note apply to each of your successors and assigns.

**15. Notices.** All notices and other communications hereunder shall be given in writing and shall be deemed to have been duly given and effective (i) upon receipt, if delivered in person or by facsimile, email or other electronic transmission, or (ii) one day after deposit prepaid for overnight delivery with a national overnight express delivery service. Except as expressly provided otherwise in this Note, notices to me may be addressed to my registered email address or to my address set forth above unless I provide you with a different address for notice by giving notice pursuant to this Paragraph, and notices to you must be addressed to WebBank at legal@prosper.com or c/o Prosper Marketplace, Inc., 221 Main Street, Third Floor, San Francisco, CA 94105, Attention: Legal Department. I also acknowledge and agree that, if this loan has both a borrower and a co-borrower, notice may be given to either of us and that such notice shall be deemed to have been duly given to and effective for both of us, except as otherwise provided by applicable law.

**16. Governing Law.** This Note is governed by federal law and, to the extent that state law applies, the laws of the State of Utah.

**17. Miscellaneous.** No provision of this Note shall be modified or limited except by an agreement signed by both you and me. The unenforceability of any provision of this Note shall not affect the enforceability or validity of any other provision of this Note.

**18. Arbitration Section**

**RESOLUTION OF DISPUTES: I ACKNOWLEDGE THAT I HAVE READ THIS ARBITRATION SECTION (the "Arbitration Agreement") CAREFULLY, UNDERSTAND THAT IT CONSTITUTES A BINDING AGREEMENT BETWEEN ME AND YOU TO ARBITRATE WHENEVER YOU OR I ELECT TO ARBITRATE A CLAIM (AS DEFINED BELOW), AND UNDERSTAND THAT IT LIMITS MY RIGHTS IN THE EVENT OF A DISPUTE BETWEEN YOU AND ME. I UNDERSTAND THAT I HAVE THE RIGHT TO REJECT THIS ARBITRATION AGREEMENT, AS PROVIDED IN PARAGRAPH (P) BELOW.**

(A) Definitions. This Arbitration Agreement incorporates the defined terms within the Note unless specifically defined below. In this Arbitration Agreement:

(i) "I," "me" and "my" mean the promisor under this Note, as well as any person claiming through such promisor;

(ii) "You" and "your" mean WebBank, any person servicing this Note for WebBank, any subsequent holders of this Note or any interest in this Note, any person servicing this Note for such subsequent holder of this note, and each of their respective parents, subsidiaries, affiliates, predecessors, successors, and assigns, as well as the officers, directors, and employees of each of them; and

(iii) "Claim" means any dispute, claim, or controversy (whether based on contract, tort, intentional tort, constitution, statute, ordinance, common law, or equity, whether pre-existing, present, or future, and whether seeking monetary, injunctive, declaratory, or any other relief) arising from or relating in any way to this Note or my relationship with you. The term "Claim" has the broadest possible meaning, and includes initial claims, counterclaims, cross claims, and third party claims. It includes disputes based upon contract, tort, consumer rights, fraud and other intentional torts, constitution, statute, regulation, ordinance, common law and equity (including any claim for injunctive or declaratory relief). The term "Claim" also includes any dispute related to the scope, validity, or enforceability of this Arbitration Agreement; thus, all such disputes are expressly delegated to an arbitrator for decision, with two exceptions noted below in the sections entitled "Class and Representative Action Waiver" and "Public Injunctive Relief Requests".

(B) Agreement to Arbitrate. You and I agree that in the event a Claim arises, either you or I may, without the other's consent, elect to resolve the Claim by binding arbitration. This agreement to arbitrate is binding on both you and I, and applies to all Claims (as defined above) except for those claims mentioned in paragraph (C) below entitled "Non-Arbitrable Claims."

(C) Non-Arbitrable Claims. This Arbitration Agreement shall not apply to covered borrowers as defined in the Military Lending Act, 10 U.S.C. § 987. Further, this Arbitration Agreement shall not

apply to an individual Claim filed by me in a small claims or similar court (if any), so long as the Claim is pending on an individual basis only in such court.

(D) JURY WAIVER AND LIMITATION OF RIGHTS. YOU AND I AGREE THAT, BY ENTERING INTO THIS ARBITRATION AGREEMENT, THE PARTIES ARE EACH WAIVING THE RIGHT TO A TRIAL BY JURY OR A TRIAL BEFORE A JUDGE IN COURT. YOU AND I ACKNOWLEDGE THAT ARBITRATION WILL LIMIT OUR LEGAL RIGHTS, INCLUDING THE RIGHT TO PARTICIPATE IN A CLASS ACTION, THE RIGHT TO A JURY TRIAL, THE RIGHT TO CONDUCT FULL DISCOVERY, AND THE RIGHT TO APPEAL (EXCEPT AS PERMITTED IN PARAGRAPH (N) OR UNDER THE FEDERAL ARBITRATION ACT).

(E) Arbitration Forum and Rules. Any Claim shall be resolved, upon the election of either you or me, by binding arbitration administered by the American Arbitration Association (“AAA”) or JAMS, under the applicable arbitration rules of the administrator in effect at the time a Claim is filed (“Rules”). Any arbitration under this Arbitration Agreement will take place on an individual basis; class arbitrations and class actions are not permitted. If I file a claim, I may choose the administrator; if you file a claim, you may choose the administrator, but you agree to change to the other permitted administrator at my request (assuming that the other administrator is available). I can obtain the Rules and other information about initiating arbitration by contacting the American Arbitration Association at 1633 Broadway, 10th Floor, New York, NY 10019, [www.adr.org](http://www.adr.org); or by contacting JAMS at 1920 Main Street, Suite 300, Irvine, CA 92614, (949) 224-1810, [www.jamsadr.com](http://www.jamsadr.com). Further, to the extent there is any conflict between the Rules and this Arbitration Agreement, this Arbitration Agreement will prevail.

(F) Arbitrator Selection. Claims will be arbitrated by a single, neutral arbitrator, who shall be a retired judge or a lawyer with at least ten years’ experience. The arbitrator shall be selected in accordance with the administrator’s rules.

(G) Arbitration Fees and Expenses. I agree to pay the initial filing fee charged by the administrator for any arbitration I commence, up to a cap of \$300. If the initial filing fee is more than \$300, you will pay the balance over that amount. You will pay all other fees charged by the administrator or arbitrator, including any filing, administration, and/or arbitrator fees. You will pay the entire initial filing fee if: (1) I claim to be unable to afford it; and (2) I seek but cannot obtain a waiver of that fee from the administrator.

(H) Arbitration Hearing Location. Any in-person arbitration hearing will be held in the county in which I reside, or in such other location as you and I may mutually agree.

(I) Commencing Arbitration. The party electing arbitration must notify the other of such election. This notice may be given before or after a lawsuit has been filed concerning the Claim or with respect to other Claims brought later in the lawsuit, and it may be given by papers filed in the lawsuit such as a motion to compel arbitration. If I elect to initiate arbitration I must notify you in writing. My notice must be sent to Prosper Marketplace, Inc., 221 Main Street, Suite 300, San Francisco, CA 94105, Attention: Legal Department. If you commence arbitration you will notify me in writing at my last known address on file or, if you do so by moving to compel arbitration in a case I have brought in court, you will notify me by providing service of process as required by the rules of the applicable jurisdiction.

(J) Governing Law. You and I acknowledge and agree that the arbitration agreement set forth in this Arbitration Agreement is made pursuant to a transaction involving interstate commerce, and that the Federal Arbitration Act, 9 U.S.C. § 1-16 (“FAA”), shall govern the interpretation and enforcement of this Arbitration Agreement. The arbitrator shall apply applicable substantive law consistent with the FAA and the Governing Law clause of the Note. Further, if requested by either party, the arbitrator must provide written reasoned findings of fact and conclusions of law. In the event that a dispute does not proceed to arbitration, the Note shall be governed by and construed in accordance with the laws of the United States and, to the extent state law applies, to the laws of the State of Utah, without regard to its conflict of laws rules.

(K) Available Relief. Except as set forth below in paragraph (L) (entitled “CLASS ACTION AND REPRESENTATIVE ACTION WAIVER”), the arbitrator shall have the power to award any relief

available to a claimant in court under applicable law, including but not limited to equitable and injunctive relief.

(L) CLASS ACTION AND REPRESENTATIVE ACTION WAIVER. YOU AND I AGREE THAT EACH MAY BRING CLAIMS AGAINST THE OTHER ONLY IN OUR INDIVIDUAL CAPACITY, AND NOT AS A PLAINTIFF OR CLASS MEMBER IN ANY PURPORTED CLASS OR REPRESENTATIVE PROCEEDING. Further, unless both you and I agree otherwise in writing, the arbitrator may not consolidate more than one person's claims, except that claims brought by joint applicants or co-borrowers relating to the same loan transaction shall be consolidated. The arbitrator shall have no authority to conduct any class, private attorney general or other representative proceeding. The validity, enforceability, and effect of this paragraph (L) shall be determined exclusively by a court, and not by the administrator or any arbitrator. This paragraph does not apply to requests for public injunctive relief, which are addressed in the paragraph below entitled "Public Injunctive Relief Requests."

(M) PUBLIC INJUNCTIVE RELIEF REQUESTS. If you or I seek public injunctive relief as a remedy for any Claim against one another (a "Public Injunctive Relief Request,") you and I agree that Public Injunctive Relief Request cannot be arbitrated. Instead, that Public Injunctive Relief Request shall be adjudicated by a court after all other Claims to be decided in arbitration under this Arbitration Agreement are resolved in arbitration. You and I agree to jointly request that the court stay the Public Injunctive Relief request until after the remaining Claims have been finally resolved in arbitration, and that the parties will only seek to lift the stay and request that the court resolve the Public Injunctive Relief Request if an arbitrator finds that one of them is liable for a Claim for which public injunctive relief is an available remedy. The enforceability, validity and effect of this paragraph (M) shall be determined exclusively by a court, and not by the administrator or any arbitrator.

(N) Enforcement and Appeals. Any appropriate court may enter judgment upon the arbitrator's award. The arbitrator's decision will be final and binding except that: (1) any party may exercise any appeal right under the FAA; and (2) any party may appeal any award relating to a claim for more than \$100,000 to a three-arbitrator panel appointed by the administrator, which will reconsider de novo any aspect of the appealed award. The panel's decision will be final and binding, except for any appeal right under the FAA. The parties shall bear their own attorneys' fees and costs of any appeal.

(O) Severability and Survivability. This Arbitration Agreement shall survive: (i) termination or changes in the Note or the relationship between you and I concerning the Note; and (ii) the bankruptcy of any party. If any portion of this Arbitration Agreement (except for paragraph (L) above) is deemed invalid or unenforceable for any reason, it shall not invalidate the remaining portions of this Arbitration Agreement. However, if paragraph (L) of this Arbitration Agreement is deemed invalid or unenforceable in whole or in part, then this entire Arbitration Agreement shall be deemed invalid and unenforceable.

(P) Opt-Out Right. I understand that I may reject the provisions of this Arbitration Agreement, in which case neither you nor I will have the right to elect arbitration. Rejection of this Arbitration Agreement not affect the remaining parts of this Note. To reject this Arbitration Agreement, I must send you written notice of my rejection within 30 days after the date that this Note was made. I must include my name, address, and account number. The notice of rejection must be mailed to WebBank, c/o Prosper Marketplace, Inc., 221 Main Street, San Francisco, CA 94105, Attention: Legal Department. This is the only way that I can reject this Arbitration Agreement.

(Q) Pre-Dispute Notice. I agree that I will notify you in writing of any claim or dispute concerning or relating to this Note, and give you a reasonable period of time to address it BEFORE bringing any legal action, either individually, as a class member or representative, or as a private attorney general, against you.

**19. Electronic Transactions.** THIS NOTE INCLUDES YOUR EXPRESS CONSENT TO ELECTRONIC TRANSACTIONS AND DISCLOSURES, WHICH CONSENT IS SET FORTH IN THE PARAGRAPH ENTITLED "CONSENT TO DOING BUSINESS ELECTRONICALLY" AS DISCLOSED IN PROSPER'S TERMS OF USE ON PROSPER.COM. THE TERMS AND

CONDITIONS OF THE "CONSENT TO DOING BUSINESS ELECTRONICALLY" SECTION ARE EXPRESSLY INCORPORATED HEREIN IN THEIR ENTIRETY. YOU EXPRESSLY AGREE THAT THIS NOTE MAY COMPRISE A "TRANSFERABLE RECORD" FOR ALL PURPOSES UNDER THE ELECTRONIC SIGNATURES IN GLOBAL AND NATIONAL COMMERCE ACT AND THE UNIFORM ELECTRONIC TRANSACTIONS ACT.

**20. Registration of Note Owners.** I have appointed Prosper Funding LLC as my authorized agent (in such capacity, the "Note Registrar") to maintain a book-entry system (the "Register") for recording the beneficial owners of interests in this Note (the "Note Owners"). The person or persons identified as the Note Owners in the Register shall be deemed to be the owner(s) of this Note for purposes of receiving payment of principal and interest on such Note and for all other purposes. With respect to any transfer by a Note Owner of its beneficial interest in this Note, the right to payment of principal and interest on this Note shall not be effective until the transfer is recorded in the Register.

**21. Joint and Several Liability.** I acknowledge and agree that if this loan has both a borrower and a co-borrower, (a) each of us shall be jointly and severally liable for all obligations under this Note, (b) you may proceed against either of us to enforce such obligations without waiving your right to proceed against the other, and (c) you may proceed against either of us without first proceeding against the other.

## **22. State Notices**

### California Residents

Married registrants may apply for a separate account. As required by law, I am hereby notified that a negative credit report reflecting on my credit record may be submitted to a credit reporting agency if I fail to fulfill the terms of my credit obligations.

### Iowa Residents

NOTICE TO CONSUMER: 1. Do not sign this paper before you read it. 2. You are entitled to a copy of this paper. 3. You may prepay the unpaid balance at any time without penalty and may be entitled to receive a refund of unearned charges in accordance with law.

**IMPORTANT: READ BEFORE SIGNING. The terms of this agreement should be read carefully because only those terms in writing are enforceable. No other terms or oral promises not contained in this written contract may be legally enforced. I may change the terms of this agreement only by another written agreement.**

### Kansas Residents

NOTICE TO CONSUMER: 1. Do not sign this agreement before you read it. 2. You are entitled to a copy of this agreement. 3. You may prepay the unpaid balance at any time without penalty.

### Missouri Residents

**Oral or unexecuted agreements or commitments to loan money, extend credit or to forbear from enforcing repayment of a debt including promises to extend or renew such debt are not enforceable. To protect me (borrower(s)) and you (creditor) from misunderstanding or disappointment, any agreements we reach covering such matters are contained in this writing, which is the complete and exclusive statement of the agreement between us, except as we may later agree in writing to modify it.**

### Nebraska Residents

A credit agreement must be in writing to be enforceable under Nebraska law. To protect you and me from any misunderstandings or disappointments, any contract, promise, undertaking, or offer to forebear repayment of money or to make any other financial accommodation in connection with this loan of money or grant or extension of credit, or any amendment of, cancellation of, waiver of, or substitution for any or all of the terms or provisions of any instrument or document

executed in connection with this loan of money or grant or extension of credit, must be in writing to be effective.

#### New Jersey Residents

Because certain provisions of this Note are subject to applicable laws, they may be void, unenforceable or inapplicable in some jurisdictions. None of these provisions, however, is void, unenforceable or inapplicable in New Jersey.

#### Ohio Residents

The Ohio laws against discrimination require that all creditors make credit equally available to all credit worthy customers, and that credit reporting agencies maintain separate credit histories on each individual upon request. The Ohio civil rights commission administers compliance with this law.

#### Utah Residents

As required by Utah law, I am hereby notified that a negative credit report reflecting on my credit record may be submitted to a credit reporting agency if I fail to fulfill the terms of my credit obligations.

This Note is the final expression of the agreement between the parties and may not be contradicted by evidence of any alleged oral agreement.

**Vermont Residents:** *NOTICE TO CO-SIGNER: YOUR SIGNATURE ON THIS NOTE MEANS THAT YOU ARE EQUALLY LIABLE FOR REPAYMENT OF THIS LOAN. IF THE BORROWER DOES NOT PAY, THE LENDER HAS A LEGAL RIGHT TO COLLECT FROM YOU.*

#### Washington Residents:

For primarily non-consumer purpose loans: Oral agreements or oral commitments to loan money, extend credit or to forbear from enforcing repayment of a debt are not enforceable under Washington law.

#### Wisconsin Residents

No provision of a marital property agreement, a unilateral statement or a court decree adversely affects the interest of the creditor unless the creditor, prior to the time the credit is granted, is furnished a copy of the agreement, statement or decree or has actual knowledge of the adverse provision when the obligation to the creditor is incurred.

**23. Military Lending Act.** The Military Lending Act provides specific protections for active duty service members and their dependents in consumer credit transactions. This Section includes information on the protections provided to covered borrowers as defined in the Military Lending Act.

#### (a) Statement of MAPR.

Federal law provides important protections to members of the Armed Forces and their dependents relating to extensions of consumer credit. In general, the cost of consumer credit to a member of the Armed Forces and his or her dependent may not exceed an annual percentage rate of 36 percent. This rate must include, as applicable to the credit transaction or account: The costs associated with credit insurance premiums; fees for ancillary products sold in connection with the credit transaction; any application fee charged (other than certain application fees for specified credit transactions or accounts); and any participation fee charged (other than certain participation fees for a credit card account).

(b) Section 18 of this Note shall not be applicable to, and shall not be enforceable against, a covered borrower as defined in the Military Lending Act.

(c) Oral Disclosures. Please call 1-855-993-2967 to obtain oral disclosures, including the statement of MAPR and the payment schedule applicable to your loan, required under the Military Lending Act.

24. **Borrower Authorizations and Instructions.** If this loan has both a borrower and a co-borrower, any authorization or instruction that either of us provides to you may be treated by you as effective for both of us.

25. By signing this Note, I acknowledge that I (i) have read and understand all terms and conditions of this Note, (ii) agree to the terms set forth herein, and (iii) acknowledge receipt of a completely filled-in copy of this Note.

Wisconsin Residents: NOTICE TO CUSTOMER: (a) DO NOT SIGN THIS IF IT CONTAINS ANY BLANK SPACES. (b) YOU ARE ENTITLED TO AN EXACT COPY OF ANY AGREEMENT YOU SIGN. (c) YOU HAVE THE RIGHT AT ANY TIME TO PAY IN ADVANCE THE UNPAID BALANCE DUE UNDER THIS AGREEMENT AND YOU MAY BE ENTITLED TO A PARTIAL REFUND OF THE FINANCE CHARGE.

**CAUTION -- IT IS IMPORTANT THAT YOU THOROUGHLY READ THE CONTRACT BEFORE YOU SIGN IT.**

Date: \_\_\_\_\_

By: Prosper Marketplace, Inc.

Attorney-in-Fact for Borrower and Co-Borrower (if applicable)

\_\_\_\_\_ [Borrower]

(Signed Electronically)

\_\_\_\_\_ [Co-Borrower]

(Signed Electronically)

Last Updated: November 2021

**PROSPER MARKETPLACE, INC. SUBSIDIARIES**

<b>Entity Name</b>	<b>State of Organization</b>
BillGuard, Inc.	Delaware
Prosper Funding LLC	Delaware
Prosper Healthcare Lending LLC	Delaware
Prosper Marketplace Issuance Trust, Series 2019-1 (deconsolidated on September 27, 2021)	Delaware
Prosper Marketplace Issuance Trust, Series 2019-2 (deconsolidated on September 27, 2021)	Delaware
Prosper Marketplace Issuance Trust, Series 2019-4 (deconsolidated on September 27, 2021)	Delaware
Prosper Warehouse I Trust	Delaware
Prosper Warehouse II Trust	Delaware



**PROSPER FUNDING LLC SUBSIDIARIES**

<u>Entity Name</u>	<u>State of Organization</u>
Prosper Depositor LLC	Delaware

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in the Registration Statement Nos. 333-213141, 333-210715, 333-204079, 333-203532, and 333-223904 on Form S-8 of our report dated March 28, 2022 relating to the consolidated financial statements of Prosper Marketplace, Inc. and subsidiaries, and our report dated March 28, 2022 relating to the consolidated financial statements of Prosper Funding LLC (a wholly owned subsidiary of Prosper Marketplace, Inc.) and subsidiaries (which report expresses an unqualified opinion on the consolidated financial statements and includes an explanatory paragraph referring to certain related party transactions with its parent, Prosper Marketplace, Inc.) appearing in this Annual Report on Form 10-K of Prosper Marketplace, Inc. and Prosper Funding LLC for the year ended December 31, 2021.

/s/ Deloitte & Touche LLP  
San Francisco, California  
March 28, 2022

## CERTIFICATIONS

I, David Kimball, certify that:

1. I have reviewed this Annual Report on Form 10-K of Prosper Marketplace, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 28, 2022

/s/ David Kimball

David Kimball

Chief Executive Officer of Prosper Marketplace, Inc.

*(Principal Executive Officer)*

## CERTIFICATIONS

I, Usama Ashraf, certify that:

1. I have reviewed this Annual Report on Form 10-K of Prosper Marketplace, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 28, 2022

/s/ Usama Ashraf

Usama Ashraf

President and Chief Financial Officer of Prosper Marketplace,  
Inc.

*(Principal Financial Officer)*

## CERTIFICATIONS

I, David Kimball, certify that:

1. I have reviewed this Annual Report on Form 10-K of Prosper Funding LLC;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 28, 2022

/s/ David Kimball

David Kimball

Chief Executive Officer of Prosper Funding LLC

*(Principal Executive Officer)*

## CERTIFICATIONS

I, Usama Ashraf, certify that:

1. I have reviewed this Annual Report on Form 10-K of Prosper Funding LLC;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 28, 2022

/s/ Usama Ashraf

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Usama Ashraf

President, Chief Financial Officer and Treasurer of Prosper Funding  
LLC

*(Principal Financial Officer)*

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Prosper Marketplace, Inc. (“PMI”) on Form 10-K for the year ended December 31, 2021, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), each of the undersigned officers of PMI certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to such officer’s knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of PMI.

Date: March 28, 2022

/s/ David Kimball

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David Kimball

Chief Executive Officer of Prosper Marketplace, Inc.

*(Principal Executive Officer)*

/s/ Usama Ashraf

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Usama Ashraf

President and Chief Financial Officer of Prosper Marketplace, Inc.

*(Principal Financial Officer)*

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Prosper Funding LLC (“Prosper Funding”) on Form 10-K for the year ended December 31, 2021, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), each of the undersigned officers of Prosper Funding certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to such officer’s knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Prosper Funding.

Date: March 28, 2022

/s/ David Kimball

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David Kimball

Chief Executive Officer of Prosper Funding LLC

*(Principal Executive Officer)*

/s/ Usama Ashraf

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Usama Ashraf

President, Chief Financial Officer and Treasurer of Prosper Funding LLC

*(Principal Financial Officer)*