Annual Report 2020

Zip Co Ltd (ASX: Z1P)

Purpose:
The Freedom
to Own It.

Mission:
To be the first payment
choice everywhere
and every day.

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Who we are

We are reimagining payments.

Our mission is to make Zip the first payment choice everywhere and every day. We give customers the freedom to own it: To own the product, the experience, the moment, and their financial wellbeing. We also give merchants the freedom to own it: To own their destiny, their customer experience and drive incremental sales growth. Zip owns its financial responsibility and gives staff the freedom and tools to own their professional development.

We provide customers and small to medium enterprises (SMEs) digital payment services that are a fast, fair and transparent alternative to the unfair and outdated credit cards. Now available in five countries the potential global growth of interest free instalment payments is massive, and Zip is just getting started.

What we do

We provide a better, fairer, digital alternative.

Zip is an innovative payments provider and credit card disruptor. Our growing range of simple and convenient financial products delivers a value-added payments experience:

- **Zip** An interest-free digital line of credit for consumers that can be used across the Zip network of 24,500 merchants;
- **Zip Business** An interest-free digital line of credit for SMEs to spread the cost of everyday purchases and working capital;
- **Zip App** A digital wallet, with access to exclusive deals and offers from the Zip merchant network with a great shopping experience; and
- **Pocketbook** A free, personal finance app designed to help people manage their finances, budget and save.

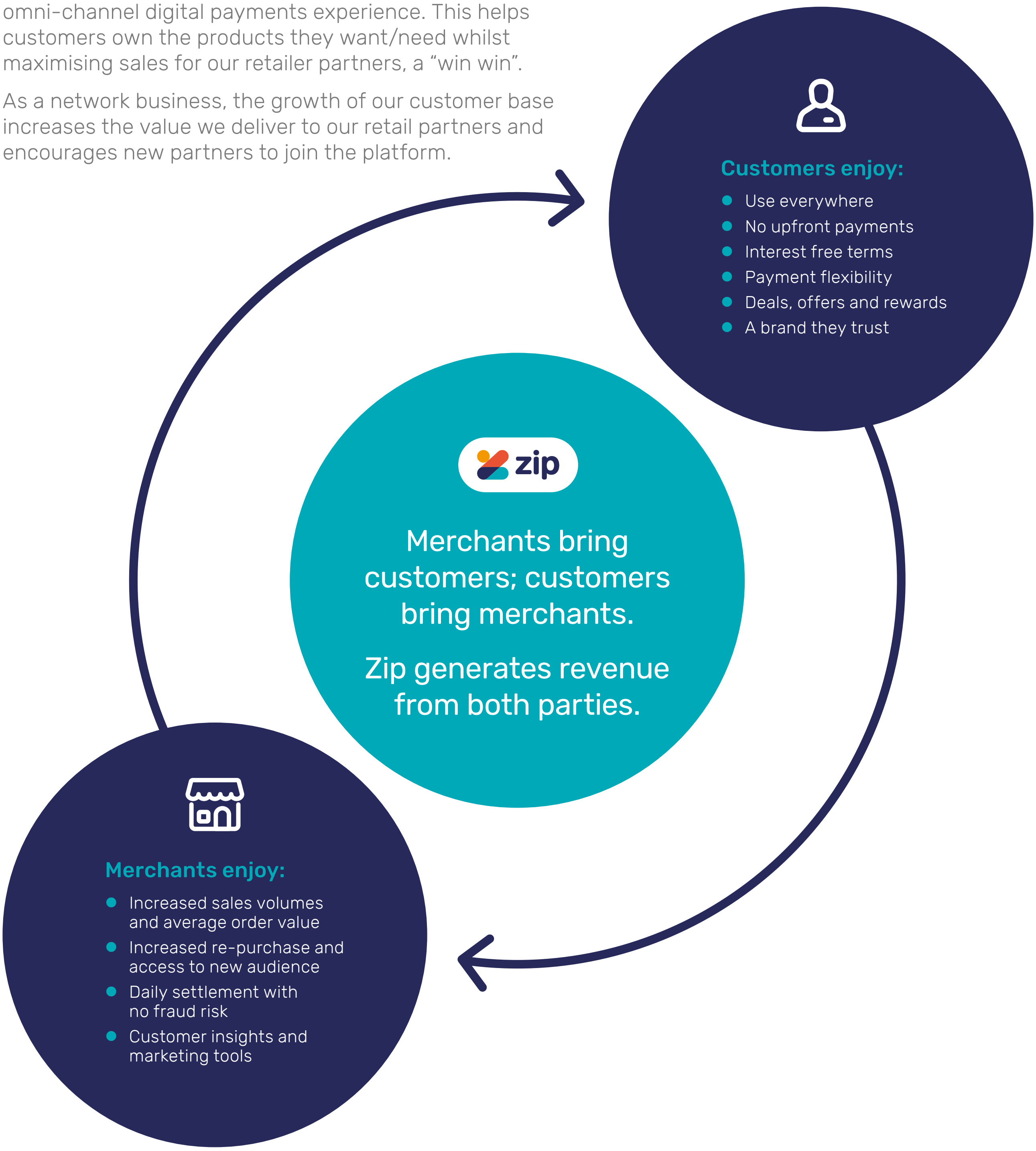
Zip is rapidly delivering on its mission and becoming the first payment choice everywhere and every day.

How we do it

We bring customers and merchants together.

Zip brings customers and merchants together through a fair and valued payment experience. We provide a seamless, omni-channel digital payments experience. This helps customers own the products they want/need whilst maximising sales for our retailer partners, a "win win".

As a network business, the growth of our customer base increases the value we deliver to our retail partners and encourages new partners to join the platform.



01 CEO & Chairman's Report

CEO & Chairman's Report

Dear fellow shareholders,

After the transformational year of FY2019, the past twelve months saw Zip's acceleration into new markets as we build a global payments powerhouse.

In the second half of the financial year, we confronted the realities of COVID-19. We are pleased to report that the Zip business model held up very well with continued growth in transaction volume, strong revenue and market leading credit performance. Against this challenging background Zip continues to deliver on its mission of becoming the first payment choice everywhere and every day.

SUPPORTING CUSTOMERS AND BUSINESSES

Zip continues to support customers and merchants through COVID-19. Back in March we fast-tracked technology to allow consumers to use their interest-free Zip account for everyday spending such as food, bills and petrol. We also enabled merchants as they shifted to online commerce as the channel became increasingly important.

RESILIENCE AND GROWTH

This resilience during COVID can be explained by our robust business model that embodies flexibility, transparency and fairness. And while we saw a spike in customer hardship requests in March/April, at year end, Zip had less than 1,000 of our 2.1 million customers in hardship. More broadly, Zip's product differentiation and penetration into defensive, everyday spend categories together with our global ambition delivered landmark results across the business.

LANDMARK RESULTS DELIVERED ACROSS THE BUSINESS

- **GLOBAL PRESENCE** Market growth and penetration in five countries – Australia, US, UK, NZ and South Africa.
- **FINANCIAL PERFORMANCE** A step-change increase in FY20 revenue to $161.0 million (up 91% on FY19). Now generating annualised revenue of $253 million[1].
- **GROWING CUSTOMER BASE** Now more than 4 million customers across the globe, including 2.1 million in Australia and New Zealand (up 62% on FY19).
- **TRANSACTION VOLUME AND RECEIVABLES** Outstanding growth in transaction volume passing $2.1 billion (up 91% on FY19) and receivables passing $1.2 billion. Total transaction volume now annualised at $3.2 billion[1].
- **LOW LEVEL OF ARREARS** Monthly arrears fell to 1.33% at June 2020 from 1.89% in June 2019, a testament to Zip's market leading real-time credit decision technology.
- **NEW INNOVATIVE PRODUCTS** Launch of Zip Everywhere, a virtual card where Zip customers can pay at any website globally. The pilot of Zip Business, an interest free line of credit for SMEs.
- **EXPANDED THE TALENT POOL** We have continued to invest in people that have an innate drive in the pursuit of excellence, and our team of over 460 Zipsters strive to realise our mission.

GOING GLOBAL

Smart, connected customers with an aversion to expensive credit products is not a uniquely Australian proposition.

The acquisition of QuadPay in June 2020 provides access to the world's largest retail market, the US, valued at US$5 trillion[2], 15 times the size of the Australian market. Acquiring QuadPay, led by its founders Adam Ezra and Brad Lindenberg, has given us an immediate footprint in the US.

The acquisition of PartPay in August 2019 provided an accelerated market entry to New Zealand, the UK and South Africa making our product suite available to more people than ever before. Importantly, the QuadPay business was built on the same code base as PartPay.

Extending our BNPL product offering to SMEs is a natural evolution for Zip. The strategic acquisition of Spotcap ANZ in September 2019 delivered a proven SME credit decisioning platform that will enable us to rapidly scale Zip Business.

We have gained in terms of territories, customers, revenue, talent and products. This presents a strong foundation for future growth.

1. Figures annualised based on Q4FY20 revenue including QuadPay. Converted at a USD/AUD exchange rate of 0.70.
2. US census 2019 (US).

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We are extremely proud of how our Zipsters have stepped up this year, and we would like to thank everyone who has worked hard to support our customers and merchants through these challenging times.

FIRST PAYMENT CHOICE, EVERYWHERE

The payments landscape is rapidly evolving and as an innovative fintech leader, Zip is continually adapting to meet the everyday payment needs of our customers.

Aligned with our mission of everywhere this year we welcomed global brands such as Amazon, Sony and Lenovo to our platform. More recently, we launched Zip Business by partnering with eBay Australia.

Merchants are increasingly looking for a global payment provider and integration simplicity across regions. Cotton On Group became the first merchant to leverage our new Single Merchant Interface (SMI) making our solutions available through a single integration point. We look forward to onboarding more global brands in FY21.

We fast-tracked Zip Everywhere in March 2020, allowing customers to transact at any merchant online through the Zip App by leveraging virtual card technology.

RIGHT SIZE CREDIT, PERSONAL RESPONSIBILITY

Zip takes the responsibility of issuing credit seriously, and from day 1 has built systems and processes to ensure our products and credit limits are suited to consumers in various circumstances. We fully support regulation that delivers minimum standards and appropriate levels of consumer protection. We are actively engaged with regulators and industry groups to encourage the ongoing use of technology to deliver choice and better outcomes for consumers.

MORE ZIPSTERS, EVERYWHERE

We are committed to developing our people and creating an adaptive, performance-enhancing culture. As we are 'Zip' we have to remain nimble and agile as we grow globally in FY21 and beyond. Our team is young and ambitious, and continually contributes to the marketplace of ideas that creates value for our customers and all stakeholders.

Anna Buber-Farovich (Chief People & Culture Officer), Steve Brennen (Chief Customer Officer), Patrick Collins (Chief Product Officer) and Hamish Moline (Chief Commercial Officer) all joined the executive team in the financial year 2020. Their global experience at brands such as Google, Visa and Uber ensure we can benefit from their experience and knowledge.

We are proud of how our Zipsters have stepped up this year, and would like to thank everyone who has worked hard to support our customers and merchants through challenging times. These thanks are also extended to our Board that have proven to be responsive and forward-thinking while providing the stability and assurance needed as we accelerate our growth.

We also would like to thank our loyal shareholders as we continue on our journey in creating a global payments business.

PHILIP CRUTCHFIELD
Chairman

LARRY DIAMOND
Managing Director & CEO

FY20 Scoreboard

91%

$161.0M
Revenue

FY19 $84.2M

62%

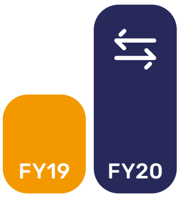
2.1M
Customers

FY19 1.3M

91 %

$2.1B
Transaction Volume

FY19 $1.1B



76%

$1.2B
Receivables

FY19 $682.6M

51%

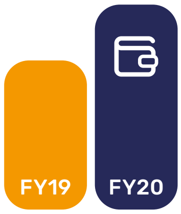
24.5K
Retail Partners

FY19 16.2K

61bps

2.24%
Net Bad Debts[1]

FY19 1.63%



1. Zip AU only.

Proactive and responsive capital management, built for global scale

CREDIT PERFORMANCE[1]

Since day one we have conducted identity and credit checks on all customers. As both the number of customers and transactions processed on the platform have increased, we have improved our underwriting capability. Our investment in technology allows us to leverage traditional and alternative credit data, together with our own risk algorithms, to make better credit decisions.

As COVID-19 emerged, we moved decisively to tighten credit, adjust our application underwriting algorithms, and utilised our real-time portfolio management tools to actively monitor account behaviour. In line with this, our market-leading credit-decision technology continued to demonstrate resilience and drive superior receivables performance as our receivables book passed $1 billion for the first time.

Credit performance continues in line with management guidance. Net bad debts of 2.24% at June 2020 (gross bad debts of 2.52%) outperformed the market. Pleasingly, arrears fell to 1.33% in June 2020 compared to 1.89% at June 2019.

The AU repayment profile remains very healthy closing the financial year at 15% of the opening month receivables, implying the book recycles approximately every 6 months.

FUNDING

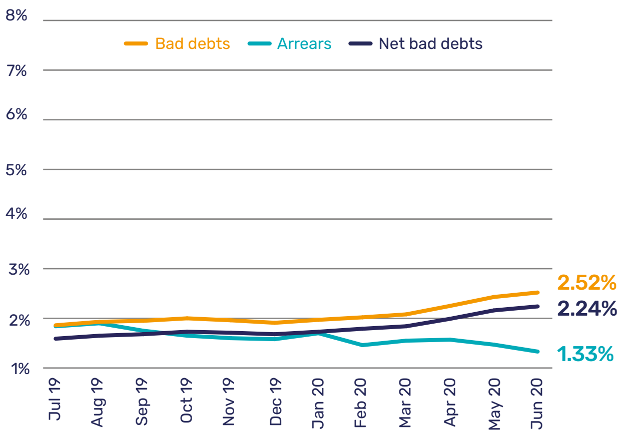
We raised a total of $61.9 million in equity capital and $100.0 million in convertible notes to support global growth, invest in innovative technology, expand our product range and strengthen our balance sheet. More recently, we have raised up to $200 million through a combination of convertible notes and warrants.

Total funding facilities available to power growth now exceed $1.2 billion and the structure supports the future. We launched our Zip Master Trust, raising $475.0 million from debt investors, the largest issuance of its nature by a fintech in Australia. The Zip Master Trust forms part of our longer-term funding program with the aim of further reducing the blended costs of debt.

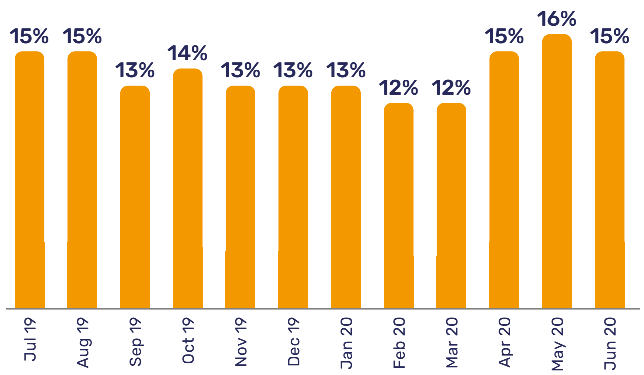
A US$200 million Goldman Sachs led credit facility was secured by QuadPay to support the expansion of its BNPL services throughout the US.

With a strong capital base and great relationships with our current funding partners, we are well placed to support Zip's global expansion and withstand any potential market volatility.

CREDIT PERFORMANCE[1]



REPAYMENT RATE[1]



1. Zip AU only.

Global trends provides strong tailwinds for Zip

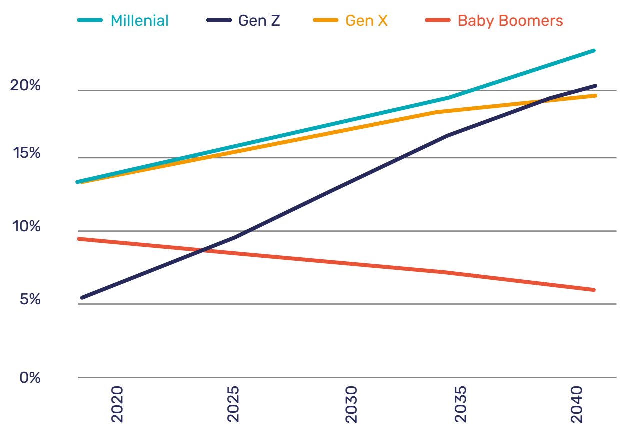
CREDIT, BUT NOT CREDIT CARDS

Access to interest free instalments is quickly being adopted as a better alternative to the unfriendly credit card. Customers are looking for budgeting tools that simply spread the costs of a specific purchase over time easily, and without any hidden fees or costs. By contrast, credit cards place unnecessary burden on users, putting them through hard sign up processes and into an endless cycle of interest payments and revolving balances.

BNPL NOW GLOBAL

In Australia there are now 6 million BNPL accounts[4]. BNPL services are the fastest-growing online payment method in the UK and are now quickly gaining increasing acceptance in the US. The trends we have seen in Australia, namely the growth of debit cards usage, aversion to longer term credit and growth of ecommerce are playing out globally. BNPL is at the cusp of becoming a truly global opportunity.

PURCHASING POWER



4. Based on internal data and market updates from other Australian BNPL players.

ONLINE SHOPPING BOOM

As a safe and convenient alternative to traditional bricks-and-mortar retailing driven by COVID-19, online shopping has seen a step-change in share of retail spend in 2020. This change presents a permanent shift in shopping behaviour, and one which is expected to continue. Improvements in the customer experience, as well as, access to alternative payment solutions such as Zip give customers comfort to transact online, interest free, more often.

THINK GLOBAL, ACT LOCAL

Customers are looking to transact with local merchants, brands they trust, and use a single wallet to manage these transactions. On the other side, brands and retailers are increasingly global and want access to solutions that can be scaled seamlessly across multiple countries.

ADOPTION OF NEW PAYMENT SYSTEMS

The payments landscape is fast evolving with significant innovation on old school payment rails and new technologies quickly evolving and gaining traction. Open Banking, least cost routing, new ways to tokenise credentials, mobile payments and the New Payments Platform (NPP) are enabling new customer experiences. As a payments innovator Zip continues to adopt new technologies that enable customer valued innovation and improved unit economics that align with our mission of being the first payment choice everywhere and every day.

1. UK Finance, Card Spending Update for May 2020.
2. The New York Times, "How Millennials Became Spooked by Credit Cards".
3. MWE Payments Report (June 2020).

02 FY20 Business Review

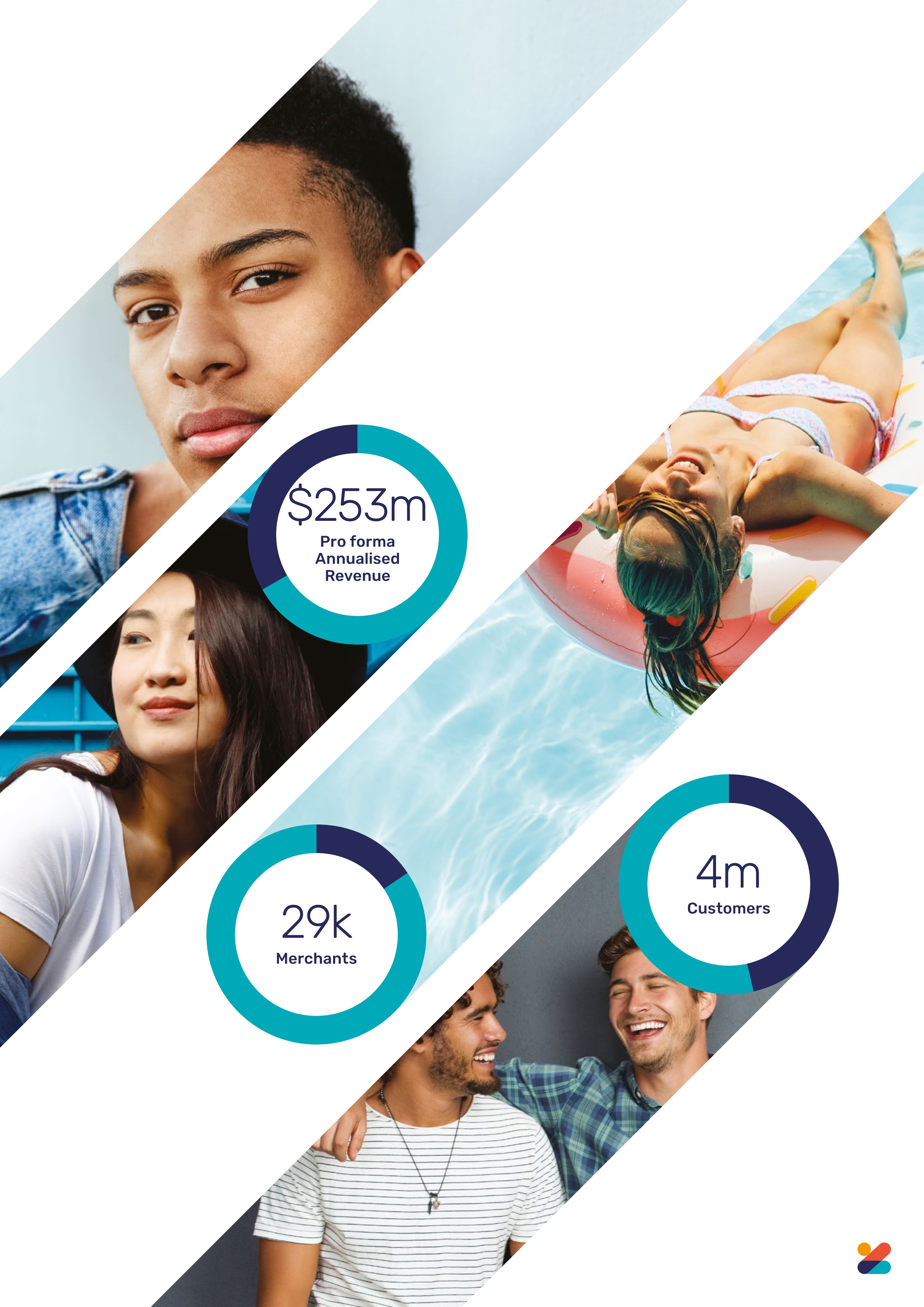
With strong momentum building, Zip continues to accelerate its global expansion strategy and drive growth.

Every day we create, build, and grow. New markets, new products, new partnerships. It's what we do. Here's how we are delivering.

FY20 HIGHLIGHTS

This year has seen significant acceleration as we become a truly global payments business powered by world-class technology and talent. Key metrics include:

- **GLOBAL EXPANSION DRIVING GROWTH** Zip is now a global business with annualised transaction volumes of $3.2 billion and annualised revenues of $253 million.
- **STRATEGIC INTERNATIONAL ACQUISITIONS** QuadPay, PartPay and Spotcap ANZ provide market entry, products and momentum in five territories – Australia, US, UK, NZ and South Africa.
- **FINANCIAL METRICS** Passed over $1 billion in receivables and first $200 million TTV month.
- **EXPANDED TALENT POOL** Key executive hires across product, marketing, commercial and people.
- **MASTER TRUST** First BNPL securitisation program globally initially with $475 million raised.
- **ZIP APP** Over 1.5 million app users shopping, transacting and saving.
- **MARQUEE PARTNERSHIPS** Launched with Amazon AU a customer-first experience and new API services to build new experiences.


$253m
Pro forma Annualised Revenue
29k
Merchants
4m
Customers

Resilience and Performance during COVID-19

Zip is a digital-first business and we were well prepared for the operational impacts resulting from COVID-19, with staff working remotely and without any effect on our ability to support customers and merchant partners.

We continue to monitor customer behaviour to understand and mitigate any risks to loss rates while we deployed parts of our business continuity plan. The business continues to perform in line with expectations with no material impact to the business.

Lower demand was experienced from certain segments, such as bricks-and-mortar retail, discretionary spend categories, travel and tourism, however this has been more than offset by continued strong demand for online purchases, bill payments, everyday spend and health – where Zip continues to increase its penetration. Importantly, many of our 24,500 merchants are SMEs and we helped them generate much needed revenue during this period through our proven channels.

KEY PRODUCT INITIATIVES

Zip Business was launched using the same principles as the core Zip Pay product. Zip Business offers SMEs a digital interest-free wallet. We launched in August 2020, by partnering with eBay Australia, to offer its 40,000 Australian sellers the opportunity to access working capital via the eBay marketplace.

Zip Everywhere was launched to support customers during COVID-19 with the ability to transact at any merchant online, using a one-time virtual card. The feature was very well received with customers able to purchase their everyday needs from the safety of their living room.

ACQUISITIONS

THE QUADPAY ACQUISITION represented an important step in our global expansion and provided immediate access to the world's largest retail market, the US, valued at US$5 trillion.

THE PARTPAY ACQUISITION gave us access to a significant BNPL player in NZ and access to a fully operational UK subsidiary supported by a local team, which is ready to scale.

THE SPOTCAP ANZ ACQUISITION gave us a market-leading commercial-decisioning engine that leverages traditional credit data, accounting data and bank transactional data to provide real-time onboarding. This forms the platform for Zip Business to rapidly scale.

PRODUCT DEVELOPMENT

Single Merchant Interface provided global merchants with integration simplicity across regions. SMI was launched with the Cotton On Group, as a single point of integration offering Zip in Australia, New Zealand and the UK, with the US to follow.

Ongoing investment in product innovation makes it easier for global retailers to onboard and customers to check out across all payment journeys.

PARTNERS

Consistent with our mission to be "the first payment choice, everywhere and every day", Zip continued to drive both enterprise, small business and channel partnerships. At the end of June there were over 24,500 merchants (up 50% YoY). Significant merchant partnerships include:

ebay	**Joins the platform to bring our Zip Business to their marketplace**
amazon.com.au	**Launched Amazon with a customer first experience**
COTTON:ON	**First global partnership Cotton On**

REGULATORY

Zip is taking a leadership position and actively engaging with regulators, industry groups and government to help shape the sector's regulatory environment. Reviews, consultations and active engagements under way include the AFIA BNPL Code of Practice industry consultation; ongoing ASIC review of the BNPL industry and updated market survey; the Senate Select Committee on Fintech and Regtech; and Consumer Data Rights (CDR) and Open Banking.

More customers, more places, more engagement

The Zip customer base has grown to over 4 million across our five countries of operation. Our products are powerful tools for users to take control of their finances without large, revolving interest-bearing debt balances and we are seeing more transactions, more often, every day.

Zip continues to see strong growth across its key engagement metrics. New cohorts are transacting 2X more in their first year than customers that onboarded in FY18. The highly rated Zip app was downloaded more than 100% YoY and is driving increased transactions with our merchant partners.

As the global trend away from cash to digital, contactless payments and e-commerce accelerates, we provide a seamless digital payment experience through the Zip App, online as well as in-store. With our new Zip Everywhere product, customers can now transact at merchants outside the Zip network.

We have continued to support our customers through a challenging year and they have responded by making Zip their first payment choice.

110% Growth in downloads[1]

120% Growth in transactions[1]

ENGAGEMENT CONTINUES TO DEEPEN

Older cohorts transact up to 3.5x more in FY20 vs. their first year[4]

Newer cohorts are transacting 2x more in their first year vs. FY18[4]

TOP 10 APP IN GOOGLE AND APPLE STORES

4.8[3] on Google Play

4.9[3] on Apple Store

55+ NPS

2m[1,2] Downloads

1. Numbers are sourced as at 30th June 2020.
2. Based on internal customer metrics.
3. App Annie for the month of July 2020. Android and iOS.
4. Compared across aggregate transactions per transacting customer.

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So glad not to be paying stupid and excessive interest rates. Have paid out and cancelled my credit card… 5 star all the way, love it!

– Scott

"

…gives the user options to buy now, pay later, pay bills while letting you control how much and how often you want to pay…it's my number one choice when it comes to payment options…

– Ricah

Global merchants, local support

This year more brands, retail partners and merchants of all sizes chose Zip. Our merchant network has now passed 24,500 with global brands such as Amazon AU, Sony and Lenovo joining our ecosystem. Importantly, we also support thousands of SME merchants that are at the heart and soul of every community. We give them a platform to reach more customers, more often and increase sales.

With our global expansion, we have listened to our global merchant partners who are increasingly seeking global BNPL providers, that can offer a single solution across multiple regions. Brands can now use Zip and our new SMI to access multiple countries via one integration.

Importantly, as Zip grows its merchant network, we are also building new services and tools to enable continued business growth. Automated SMB onboarding journeys, self-service integration support and ongoing account management tools via a user-friendly merchant dashboard were areas of focus in FY20.

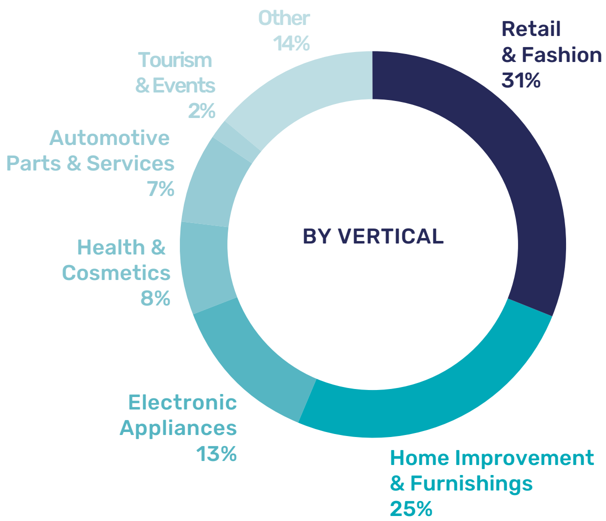
As a credit card disrupter Zip plays across all industry segments including retail, bills, everyday spend categories, auto, home and health.

29k Global Merchants[1]

78% of Aussie merchants know Zip[2]

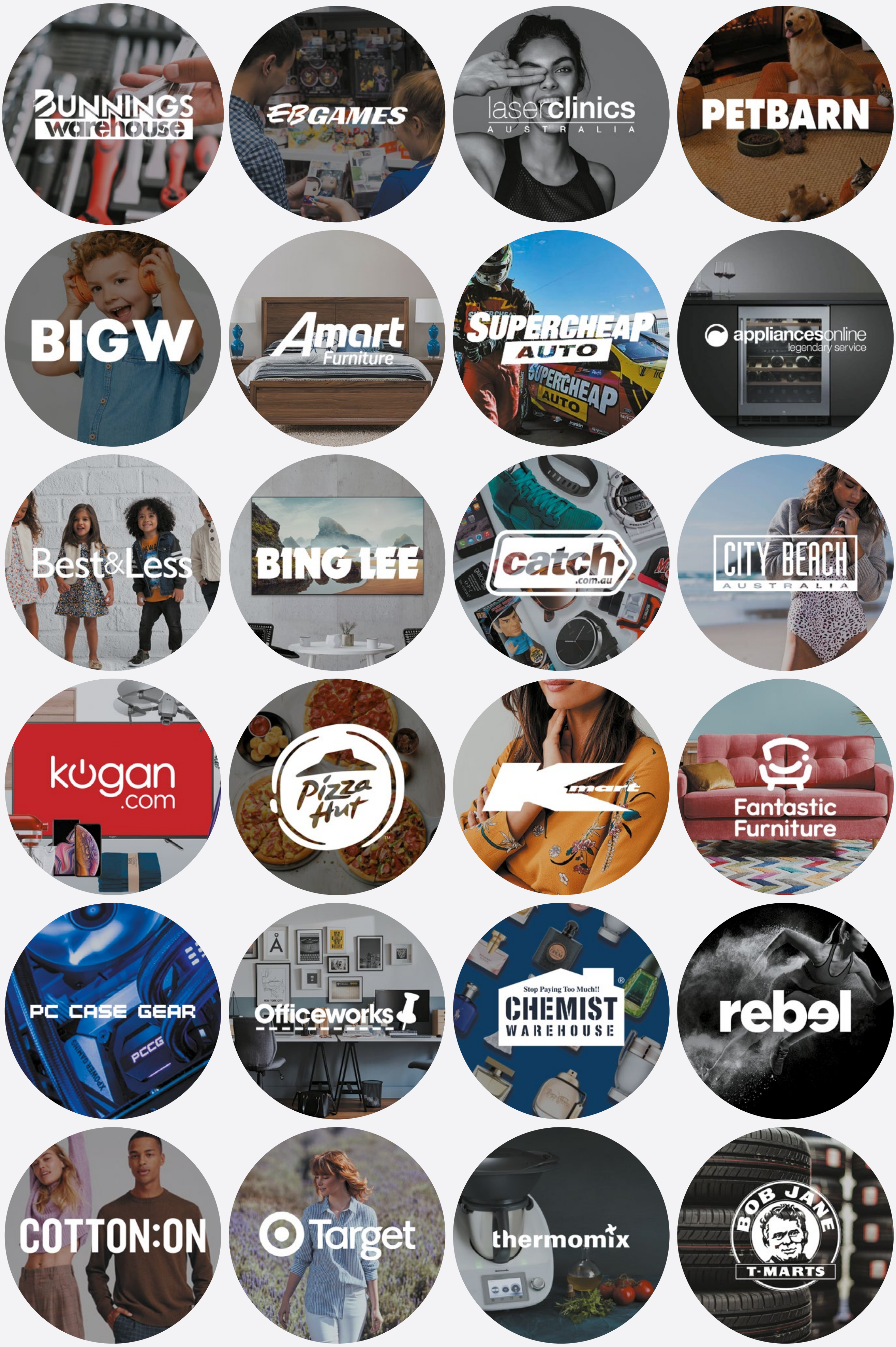
$180 Average basket size in ANZ vs $1,133 credit cards

ZIP IS DIFFERENTIATED AS A CREDIT CARD DISRUPTOR PLAYING IN ALL CATEGORIES[4]



60K+ Points of presence

1. Group pro-forma figures with QuadPay included.
2. RFI Research, Australian Merchant Acquiring Program (March 2020).
3. Calculated from RBA Payment Statistics.
4. Zip Au only.


BUNNINGS warehouse
EB GAMES
laserclinics AUSTRALIA
PETBARN
BIG W
Amart Furniture
SUPERCHEAP AUTO
appliancesonline legendary service
Best&Less
BING LEE
catch .com.au
CITY BEACH AUSTRALIA
kogan .com
Pizza Hut
Kmart
Fantastic Furniture
PC CASE GEAR
Officeworks
Stop Paying Too Much!! CHEMIST WAREHOUSE
rebel
COTTON:ON
Target
thermomix
BOB JANE T-MARTS

03 Sustainability Report

ZIP'S COMMITMENT TO THE FUTURE

We are committed to developing a resilient and sustainable global growth business. This is our first sustainability report, where we share our commitments to our people, customers, environment and good governance to create value for all stakeholders. We commit to continual improvement and reporting our progress.

Zip's commitment to developing our people

We are committed to growing and developing our people and creating an adaptive, performance enhancing culture. Leadership, alignment and culture are critical enablers to the future sustainability of our business.

PERFORMANCE MANAGEMENT AND DEVELOPMENT

We are committed to ensuring that all employees understand our company objectives and key strategies, and their direct contribution to fulfilling our mission. Creating a high performance culture is a key priority. Results of an employee engagement survey to assess employee satisfaction, measure discretionary effort and identify opportunities for improvement showed very high levels of engagement relative to comparable benchmarks. Listening to our people allows us to make continual workplace improvements. Our high engagement enables us to retain and recruit high quality global talent to create a productive workplace.

We have a young, ambitious and agile team with an average age of 31 years. Our team is highly skilled with a very high proportion of University graduates, and over a third of our employees work within Product and Software Engineering to drive innovation.

Our weekly 'all hands' meetings with the CEO and COO to review performance and customer feedback provide areas of focus to drive execution. We communicate with transparency and give and seek feedback to support self-awareness and leadership development. We undertake company-wide initiatives to create a sense of community and drive collaboration. We have also aligned on a range of behavioural standards that define our culture including customer first, collaboration, ownership and the need to 'change the game'.

We have performance and development plans for employees. Individual performance contributes to remuneration and supports career development and learning. All our employees participate in the annual Short Term Incentive Program that measures both individual and company performance and rewards employees in shares in Zip if objectives are achieved. All employees have the opportunity to own shares in our company.

We have a flat structure, wide spans of control, high levels of empowerment and increasing accountability. We have a highly digitally literate workforce, leveraging digital collaboration tools to build fairer and better products that empower our customers.

DIVERSITY AND INCLUSION

We have a diverse, open and inclusive culture that values all our stakeholders. We support a diverse range of employees, partners and customers in each country we operate in – Australia, US, New Zealand and the UK.

Our team is made up of people with a wide range of ethnic backgrounds, religious beliefs, political views, sexual orientation, gender identity and life experiences. We create an equal, fair, safe and positive workplace that seeks to leverage different perspectives when making decisions to balance the needs of all stakeholders. Through our diverse team, we can better design and deliver more inclusive experiences for our customers.

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Everyone is empowered to innovate and change. Improvements to our products, company and culture come from everywhere, from customer service to our partner success team through to our engineers and beyond. Nobody settles for the status quo; we're always seeking better ways of doing things.

– Cheryl

Gender diversity is important and an area of additional focus. Females account for 37% of employees, and we are actively recruiting and developing more female talent at the Board, executive and leadership levels to improve our gender diversity. Our pay equity review ensured that there were no gender pay gaps across job bands.

We also supported multiple women in business groups to increase female engagement outside our business.

We are continually developing policies to ensure that diversity and inclusion is embedded into our operations and processes.

We support the principles of equal employment opportunity and address these principles in our code of conduct. This complements our policies on equal employment opportunity, parental leave, information security and whistle-blower protection.

HEALTH AND SAFETY

The health and safety of our employees, consultants, contractors and visitors is our highest priority. This focus increased as the COVID-19 pandemic emerged. Our response saw us move rapidly to a distributed workforce. For selected employees, who worked from the office, enhanced cleaning and social distancing were adopted.

We recorded no injuries in the workplace through the period and fully complied with all applicable laws and internal regulations.

To support the mental health of our employees we offer a free counselling service through the Employee Assistance Program (EAP) and supported the RUOK campaign. We also support yoga classes, massages and provide employees with support for more flexible working.

Zip's commitment to our customers

Our customers are young, smart digital natives. They are avoiding credit cards, rarely use cash and prefer debit and emerging mobile digital payments solutions like Zip. We are committed to providing transparent, responsible, fairly priced credit and payment products to our customers.

RESPONSIBLE LENDING

The issuing of responsible credit is a founding principle of Zip. Zip is a responsible credit provider, both as a core value and through our legal obligations under our ASIC regulated Australian Credit Licence. We take this responsibility very seriously. We have conducted identity and credit checks on all applications since day one. Zip was one of the first in the industry to adopt real-time bank verifications on credit applications, extracting transactional bank data to verify both income and expenditure. This approach together with our interest-free products means we offer a better and fairer alternative to expensive credit cards.

Using technology to access and leverage both traditional and alternative credit data, we can make informed decisions to ensure the line of credit is suitable and appropriate for that specific consumer, and that they can reasonably afford their repayments.

Our focus on responsible lending and significant investment in Zip's proprietary credit underwriting platform, means loan book performance, delinquency and bad debt rates are considerably better than market comparables.

Accounts that are in arrears cannot transact, so customers cannot accrue further debt. Late fees constitute a very small share of our total revenue and our business model does not rely on customers being charged late fees for our business model to be sustainable.

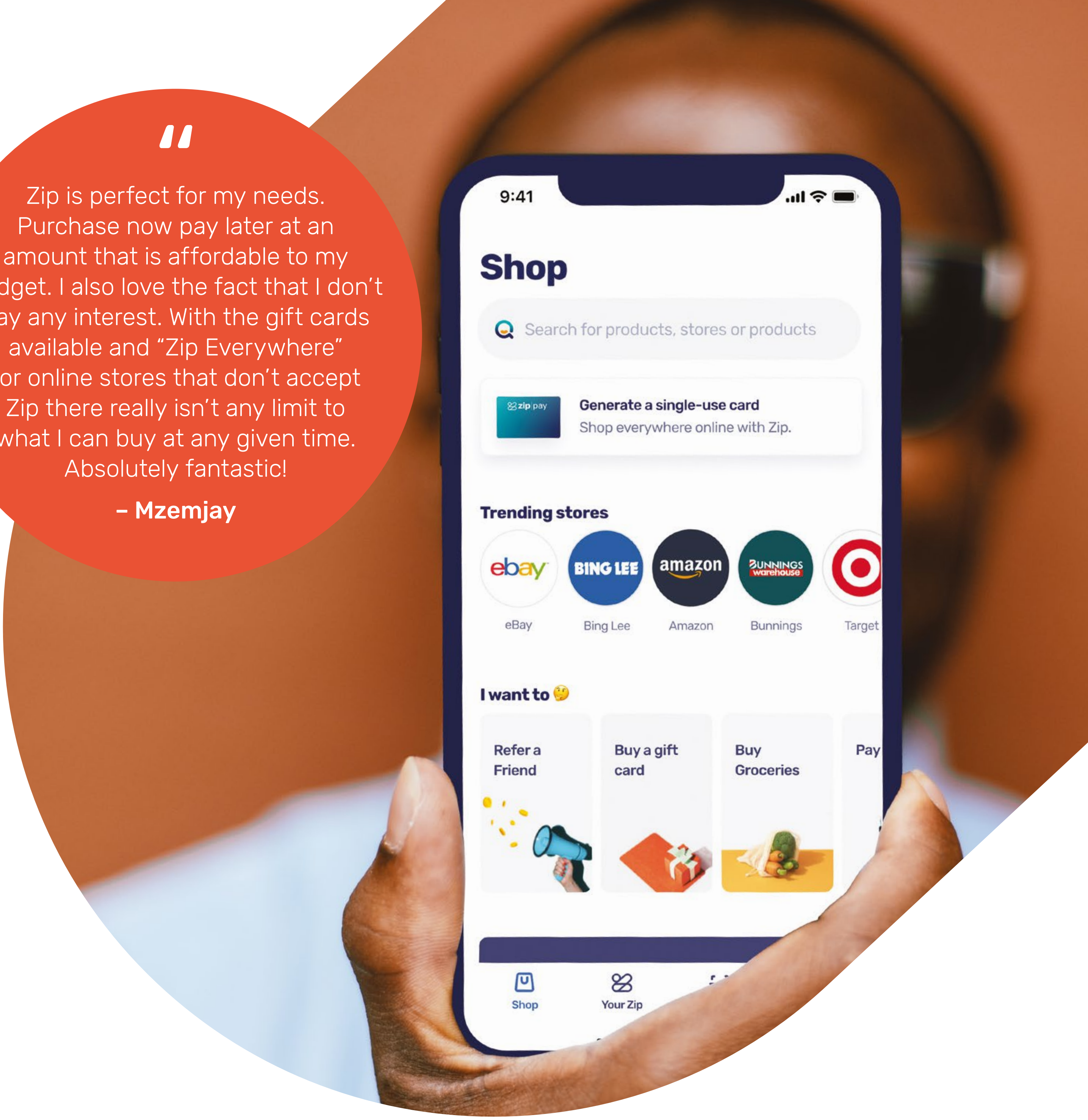
We see strong consumer and social benefit where Zip provides a customer's first credit experience. Together with education, engagement and positive repayment behaviour, this assists customers to build their credit profile.

Zip is managed by a team with deep credit experience. We understand the obligations of issuing credit, and all products offered by Zip are built with an appreciation of the responsibilities that come with issuing credit.

POCKETBOOK BUDGETING AND SAVINGS APP

Aligned to the spirit of financial wellness, we own Pocketbook, the market leading personal finance app trusted by more than 800,000 Australians. Pocketbook provides users with a unified view of their savings and transaction accounts in a free, easy-to-use app. Combined with tracking and budgeting tools, Pocketbook empowers users to take control of their finances. Up to 30 June 2020, Pocketbook has tracked over 1.6 billion transactions totalling approximately $360 billion of spend, giving Australian consumers useful and actionable insights into their spending. Pocketbook also provided over 400 million alerts, helping Australians save millions in late bill payment fees and large bank fee charges. Pocketbook averages 4+ stars on Apple Store and is part of our commitment to helping our customers budget and save.

> Zip is perfect for my needs. Purchase now pay later at an amount that is affordable to my budget. I also love the fact that I don't pay any interest. With the gift cards available and "Zip Everywhere" for online stores that don't accept Zip there really isn't any limit to what I can buy at any given time. Absolutely fantastic!
>
> **– Mzemjay**



CUSTOMER SERVICE

Zip has invested in a local customer support team. Customers can connect with Zip via phone, email and chat and we strive to respond to all customer complaints in an efficient and timely manner. We measure our responsiveness and are focused on ongoing improvements to product design, self-help options and communication to improve our service. Calls are recorded for training and quality assurance purposes and our service outcomes and customer satisfaction scores are tracked to direct ongoing improvement. We are constantly seeking customer feedback both good and bad and listen to our customer when deciding on our strategic focus areas.

HARDSHIP

Supporting our customers through difficult times matters. A small number of customers may experience unforeseen financial stress so we have developed a hardship policy and program that supports customers through financial hardship. We are a member of the Australian Financial Complaints Authority (AFCA) and our customer service team are trained to understand the customer's situation and provide flexible repayment options.

Zip's commitment to good governance

The Board and Senior Executive Team are committed to good governance to enable a resilient, sustainable growth business.

BOARD INDEPENDENCE

The Board seeks to direct strategy, drive accountability, endorse policy, manage risk and monitor performance to position Zip for long-term growth. We are in the process of transitioning to a majority independent Board. An executive search process commenced to recruit two new independent Non-Executive Directors. The search gives consideration to the mix of experience and skills required on the Board, as we expand globally, and our need for greater gender and cultural diversity.

DATA PROTECTION

We understand that cyber-crime is a growing and dynamic risk and we are committed to building our cyber-security resilience to meet this rapidly changing environment. We take the responsibility of securing our customer data very seriously and deploy a range of system design, internal training, defence and detection technologies in support of a cyber-security aware culture.

RISK MANAGEMENT

Our risk management continually improves its risk identification, management and mitigation process. Our response to the COVID-19 pandemic demonstrated our risk preparedness. We sharpened focus on customer behaviour to understand and mitigate any risks related to loss rates. We deployed parts of our business continuity plan as the entire company mobilised to working from home, leveraging our existing investment in digital collaboration tools.

ZIP'S COMMITMENT TO THE ENVIRONMENT

Climate change is a critical risk for all people globally. We understand that our actions can impact on climate. We are seeking to reduce, minimise or eliminate impacts including through recycling. Our digital products are alternatives to physical means of payments like credit cards and cash. We are a digital-first company and through video-conferencing, collaborative apps, and screen sharing technologies, limit the use of paper.

We are at the early stage of our environmental sustainability planning and implementation and commit to continual improvement as well as tracking and disclosing climate change-related data in future years.

FINANCIAL CRIME

Compliance with all regulatory requirements including fraud, financial crime and money laundering is of the highest priority at Zip, and we have increased our resources, enhanced our processes and assigned accountability.

04 FY21 Growth & Outlook

Building a global payments powerhouse

Payments are rapidly evolving with BNPL a global phenomenon. Australia represents only 1% of the addressable global market. BNPL is in its infancy in most territories with market share estimated at well less than 5% in the US and UK.

Though there is still significant upside in the core Australian business, we have begun investing internationally aligned to our vision of building a global payments business.

UNITED STATES

The US is the largest retail market in the world with over US$5 trillion of retail spend (15x the size of the Australian market), a key market for global e-commerce and still very early in its BNPL journey.

We acquired QuadPay one of the leading BNPL platforms in the US in August 2020. QuadPay has over 1.8 million[7] customers and 4.5k merchants[7] in the US, generating annualised revenues of $67 million[7] and annualised TTV of $945 million[7]. The US is a core market and will deliver significant growth to the group in FY21 and beyond.

NEW ZEALAND

We acquired Auckland-based PartPay in August 2019. The PartPay acquisition provided immediate access to the NZ market with leading retailers including The Warehouse Group, TheMarket and Spark.

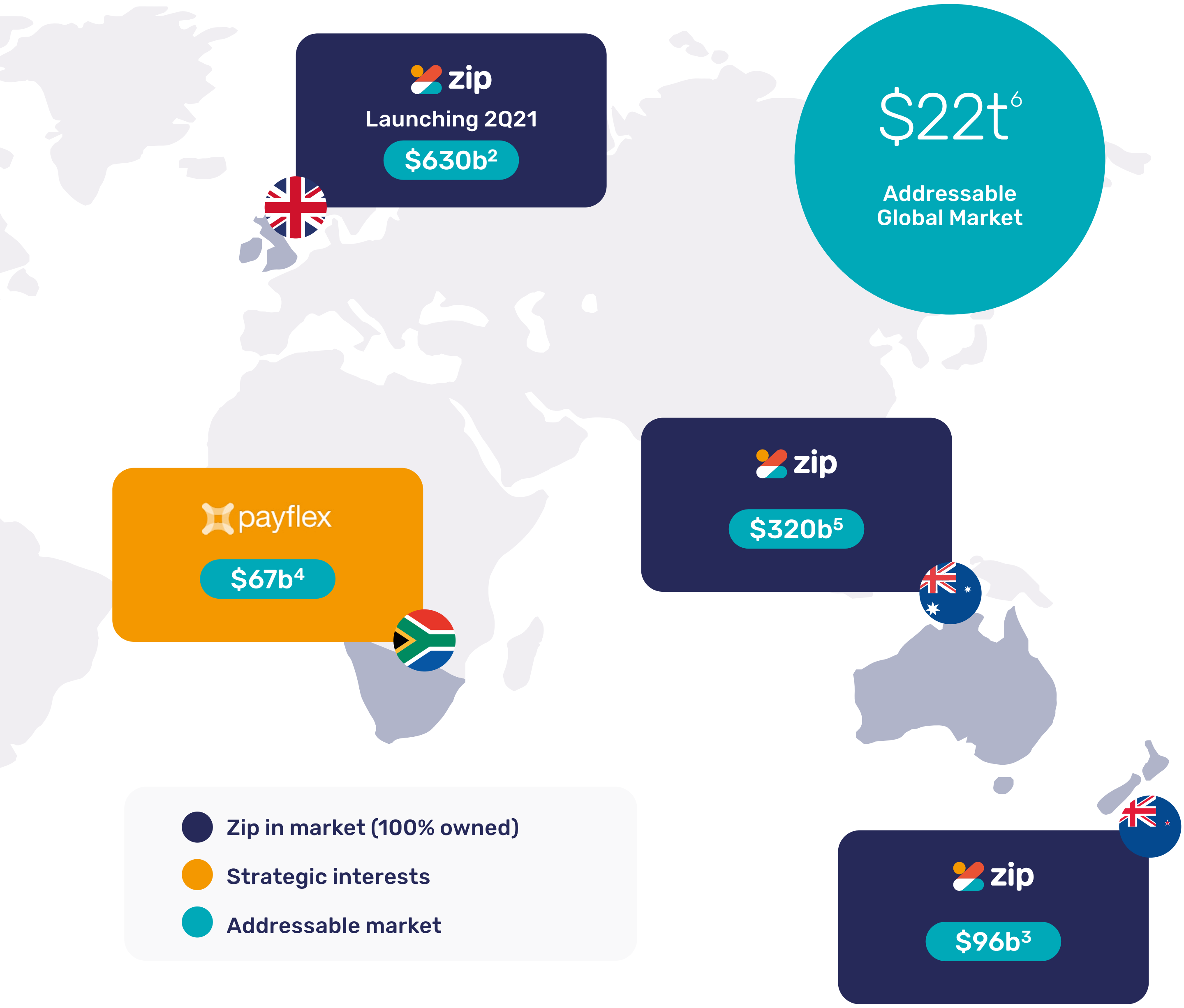
The NZ operation realised over 100% YoY growth and there is a growing pipeline of NZ and trans-Tasman retail partners for us to build upon for FY21.

UNITED KINGDOM

The UK is a key target growth market with a large addressable opportunity, strong online penetration and is more than 3X the Australian market.

Anthony Drury was appointed as Managing Director for the UK operations. Significant investment in the platform as well as building out the sales channels and partner network is occurring in preparation of the official launch in 1HFY21.

1. US Census 2019 (US).
2. Retail Economics UK (2018).
3. Nielsen Insights 2018 (NZ).
4. Dept of Statistics South Africa (2019).
5. NAB Online Retail Sales Index (December 2018).
6. eMarketer Worldwide Retail eCommerce Sales.
7. Figures are based on Q2FY20. Converted at a USD/AUD exchange rate of 0.6902.



"

Zip is live in the United Kingdom, United States, Australia, New Zealand and South Africa with proven instalment technology platforms both online and instore.

GLOBAL OPPORTUNITIES

The global BNPL opportunity is significant and the trends that Zip identified in Australia are quickly taking hold around the globe.

As such, Zip has recently invested in a New Markets function focused on expanding Zip's offering into new geographies. Exploratory discussions have commenced and we anticipate several exciting announcements in FY21.

Goals for FY21

We continue to invest in the development of our core products and new services to improve both the customer and merchant experience as we position the business for rapid global scale.

In FY21 we will maintain a strong core business in ANZ as we invest for growth globally, capitalising on the significant market opportunity.

ZIP APP

Zip will continue to invest in one of Australia's top financial apps, deepening user engagement and enabling penetration into new user segments. New features that allow users to easily find the products and merchants they love, access to personalised deals and offers, and an intuitive user experience will increase the number of monthly transacting users and drive customer referrals to our merchants partners.

ZIP EVERYWHERE

Aligned to Zip's mission to become the first payment choice everywhere and every day, we will step change the number of global points of presence and capitalise on the instore BNPL opportunity. Expanding into everyday categories remains a core focus area as we target increased frequency of usage.

ZIP BUSINESS

The need for simple, interest free payment solutions for SMEs was validated through a pilot in FY20 which led to significant learnings and product enchantments. Partnering with eBay to launch Zip Business in FY21 provides a strong foundation to capitalise on the significant SME BNPL opportunity that is currently under-served by the banks.

PRODUCT INNOVATION

We continually invest in the product set to provide a base for increased global scalability.

- **PLATFORM INTEGRATIONS** Integration of Zip across payment gateways, ecommerce carts and POS to drive digital acceptance.
- **STREAMLINED ONBOARDING** Easier ID verification with OCR and facial ID technology supporting seamless customer onboarding.
- **FRICTIONLESS COMMERCE** Continued improvements across the omni-channel payments experience with new features including fast checkout, tokenization and native mobile drives habitual usage.
- **SINGLE MERCHANT INTERFACE** SMI provides a single point of integration for merchants across global markets.
- **POCKETBOOK** Pocketbook 2.0 is in early release with a significant pipeline of product features ready for shipping as Zip helps users get on top of their finances.

Zip is a customer-obsessed organisation with deep and continuous investment in product and engineering, led by customer research, experimentation and validated learnings. We look forward to delivering enormous value for our customers in FY21 and continuing to uplift our consumer and merchant value proposition.

Continue to innovate and deliver support across all aspects of the user journey

Board of Directors

Philip Crutchfield
Chairman

Philip has been a Board member and Chair of Zip Co since 2015. He currently sits on the board of Encounter Resources Limited, NVOI Limited, Geelong Grammar School Council and Bell Shakespeare. Philip is a former partner of King & Wood Mallesons and a senior barrister in commercial law.

Larry Diamond
Managing Director & CEO

Larry co founded Zip in 2013 overseeing the growth from a technology start-up to an ASX200 company with over 4 million customers globally. Previously, he spent 12 years in retail, technology and investment banking at Pacific Brands, Macquarie Capital and Deutsche Bank.

Peter Gray
Executive Director & COO

Peter co-founded Zip in 2013, with 26 years of experience in the retail finance industry. He has underwritten 2m customers and $1b in loan receivables globally. An operations and consumer credit expert, Peter is also the responsible manager of Zip's Australian Credit Licence.

John Batistich
Non-Executive Director

John is a highly-experienced growth leader who brings marketing, digital and human resources skills to the Board. He is the Chairman of Foodco and Non-Executive Director of Stellar Group, General Pants Group and the Heart Research Institute.

Dianne Challenor
Non-Executive Director

Dianne is General Manager, Global Transaction Services at Westpac. Highly experienced in payments and transaction services, Dianne has also led regional and global teams for JP Morgan and Citibank. In 2018, she was named one of the "Most Influential Women in Payments" by PaymentsSource.

David Franks
Company Secretary

David is a Fellow of the Governance Institute of Australia, Fellow of the Financial Services Institute of Australasia and a Chartered Accountant with over 20 years' experience in company secretarial, finance and accounting.

05 Financial Report

Directors' Report

The Directors are pleased to submit herewith the annual report of Zip Co Limited and its controlled entities (the consolidated entity or the Group) for the financial year ended 30 June 2020. In order to comply with the provisions of the *Corporations Act 2001*, the Directors' report as follows:

DIRECTORS

The following persons were Directors of Zip Co Limited (Zip or the Company) during the whole of the financial year and up to the date of this report, unless otherwise stated:

- Philip Crutchfield
- Larry Diamond
- Peter Gray
- Dianne Challenor
- John Batistich

PRINCIPAL ACTIVITIES

The principal activity of the consolidated entity is offering point-of-sale credit and payments to customers and providing integrated retail finance solutions to merchants in the retail, education, health and travel industries, both online and in-store.

REVIEW AND RESULTS OF OPERATIONS

A summary of revenues and results for the period is set out below:

		30 JUNE 2020 $'000	30 JUNE 2019 $'000
Revenue from ordinary activities	Up 91%	161,001	84,231
Loss from ordinary activities after income tax attributable to members	Up 79%	(19,941)	(11,133)
Total comprehensive loss attributable to members	Up 80%	(20,020)	(11,133)

DIVIDENDS

No dividends have been declared for the year ended 30 June 2020 or for the previous corresponding period.

REVIEW OF OPERATIONS

Zip is a leading player in the digital retail finance and payments industry. Established in 2013, the Group is headquartered in Sydney, Australia with operations in Melbourne, Brisbane, Perth, Auckland and London.

The Group's principal activity is offering point-of-sale credit and payments to customers and providing integrated retail finance solutions to merchants in the retail, education, health and travel industries, both online and in-store. The Group also operates Pocketbook, one of Australia's leading personal financial management Apps with a user base of over 790,000 at 30 June 2020.

CONSUMERS

Across Australia, Zip provides lines of credit through the Zip digital wallet. It has two products: Zip Pay (with limits up to $1,500) and Zip Money (with limits up to $50,000). Revenue is generated from merchants (merchant service fees) and consumers (predominantly monthly fees, establishment fees and interest). The Group has a strong focus on interest-free payment behaviour, encouraged through higher minimum monthly repayments, and promotional interest-free periods.

Following the acquisition of PartPay, Zip now also offers a Buy Now Pay Later (BNPL) service globally whereby consumers can split repayments into equal fortnightly instalments. Merchants pay a merchant services fee (MSF), and the product is free to consumers unless they miss a payment, then a late fee applies.

SMALL AND MEDIUM SIZED MERCHANTS (SMEs)

With over 24,500 SMEs on the platform in Australia and New Zealand, Zip has a number of credit and payment services to support its SME base online and in-store:

- Merchants can accept Zip Pay and Zip Money, interest free payment methods at checkout, to increase basket sizes, conversion rates, and drive repeat purchases;
- Zip offers SMEs the ability to sign up for Zip Biz, an interest-free digital wallet, allowing payment for everyday purchases in instalments up to $25,000 (Beta tested from Jan 2020); and
- Following the Spotcap acquisition in September 2019, Zip now provides unsecured loans between $20,000 and $500,000 to its merchant base supporting their growth.

REVIEW OF PERFORMANCE

OPERATIONAL PERFORMANCE

Zip's customer focused business model has proved resilient during COVID-19 with growth achieved across all key metrics. Over the financial year:

- Consumer numbers increased by 62% to over 2.1 million;
- Merchant numbers increased by 51% to over 24,500;
- Transaction volumes generated increased by 91% to $2.1 billion;
- Transactions processed increased by 120% to 10.5 million; and
- App downloads increased by 110%.

Zip's online presence and merchant diversity meant it was well placed for the impact of COVID-19. COVID-19 saw consumers move purchasing online with the Group seeing strong demand for everyday categories, bills, home improvements and office supplies, electronics, gaming, whitegoods, and furnishings.

Significant retailers were added to the Australian platform during the year, including: Amazon, Big W, Cotton On, Just Group, Kmart Australia, Petbarn and Tupperware. The Cotton On agreement was the Group's first global deal and covers Australia, New Zealand, UK, South Africa and the US. New Zealand onboarded Sony, Bunnings, Nutrimetics and Trade Depot onto the platform, joining the Warehouse Group.

Directors' Report

Continued

To promote simple, seamless experiences for both its consumer and merchant based, Zip introduced a number of new product initiatives during the year. These initiatives included:

- Investment in the technology platform to deliver step changes in speed and stability, accelerating checkout experiences and reducing time from software development to production;
- The new Shop Everywhere feature allows consumers to shop at any merchant online using a one-time-use virtual card;
- Face ID Verification was introduced to make identity and fraud checks quick and frictionless;
- Hey You went live with the new mobile SDK that provides a seamless mobile app integration for partners; and
- The new Single Merchant Interface delivered a single point of integration for all Zip's global partners.

The UK business continues to build, and while COVID-19 delayed the launch planned for earlier this calendar year, the launch is now expected in the first half of the 2020-21 financial year.

Zip piloted a new BNPL product for SMEs, Zip Biz, during the financial year. Following a period of extensive product and market testing, Zip will launch with eBay in the first half of the new financial year.

Spotcap saw drawdowns drop off in the final quarter of the year as the impact of COVID-19 hit SMEs across Australia and New Zealand. Volumes started to increase towards the end of June across a number of resilient industries and the business is well placed offering both standard and SME Guarantee Scheme backed loans to eligible SMEs.

FINANCIAL PERFORMANCE

Revenue generated in the financial year increased by 91% to $161.0 million compared with the previous financial year. Excluding the impact of revenue reported by entities acquired during the financial year of $10.0 million revenue grew by 79%.

Transaction volumes generated by consumers increased from $1.1 billion reported in the year to 30 June 2019 to $2.1 billion in the year to 30 June 2020, an increase of 91%. Excluding the impact of acquisitions, transaction volumes increased 82% to $2.0 billion.

Third-party revenue splits, comprising commissions payable to Spotcap's distributor network based on loan originations, and amounts paid to ecommerce partners based on transactions processed on their respective platforms, have increased to $2.4 million from $0.7 million in the prior year following the inclusion of Spotcap in the Group's results.

Cost of Sales increased to $105.3 million from $51.4 million for the year to 30 June 2019 reflecting the growth in transaction volume and receivables. Reported gross profit was 32% of portfolio income, compared with 37% in the prior year. Excluding the impact of the movement in the provision for expected credit losses of $25.8 million (FY19: $11.1 million), gross profit was 49% of portfolio income, compared with 51% in the year to 30 June 2019.

Interest costs increased by $16.0 million due to the growth in borrowings to support the growth in receivables. The average interest rate paid decreased from 5.2% in the year to 30 June 2019 to 4.7% in the year to 30 June 2020.

Bad and doubtful debts increased to $53.7 million, reflecting a $17.0 million increase in bad debts written off (net of recoveries) and a $14.7 million increase in the provision for expected credit losses compared to the prior year. The reported provision for expected credit losses is 4.40% compared with the net bad debt rate of 2.36%. As detailed later in this report the credit performance of Zip's consumer receivables book has been extremely strong in a COVID-19 environment.

Bank fees and data costs increased to $10.8 million from $5.5 million in the prior year. Amortisation of funding costs increased by $0.8 million to $1.9 million as a result in the expansion of the Groups funding programs.

Zip's stated strategy at the beginning of the financial year was to invest in growth. Following the emergence of COVID-19 in March 2020, while trading volumes had not deteriorated significantly, Zip positioned the business for a protracted downturn. Consequently, Zip reduced its headcount by approximately 20%, delayed its UK business launch, reduced capital spending and the board, executive team and senior leaders took a voluntary 20% salary cut. As the impact of COVID-19 became more clear during the financial year's final quarter, Zip re-instated a number of capital spending projects and repositioned itself for growth in the financial year to 30 June 2021.

Operating costs increased to $121.4 million in the year to 30 June 2020 from $43.2 million in the year to 30 June 2019. The Group incurred a number of one-off costs during the period, excluding one-off costs totalling $23.2 million (as detailed later in this report), operating costs were $98.2 million for the year to 30 June 2020.

Administration costs increased by $5.2 million, including a $3.4 million increase in the cost of professional services and recruitment costs.

The Group spent an extra $6.7 million in information technology during the year, a 140% increase compared with the prior year. Zip invested in expanding its infrastructure to support volumes, enhancing monitoring and other software tools to position the platforms for growth and scalability globally.

Marketing costs increased by $6.1 million compared with the year to June 2020, including a brand campaign, the re-brand of PartPay to Zip, and increased spending on direct marketing, promotions and partner integrations.

The amortisation of intangibles increased by $5.5 million to $9.1 million. Amortising acquired intangibles resulting from the PartPay and Spotcap acquisitions increased the charge for the year by $3.2 million, including $1.9 million to write off the PartPay brand. The remaining increase reflected an increase in the amortisation of software development during the year.

The impact of the introduction of AASB 16 *Leases* (refer Note 12) on Zip's result has been to increase depreciation charged for the financial year by $2.5 million. The interest on lease liability was $0.2 million and principal repayment was $2.2 million, reducing occupancy costs by $2.4 million. Excluding the impact of AASB 16, Zip's occupancy costs increased by $2.5 million as prior COVID-19 Zip had increased the amount of floorspace leased to accommodate increased headcount.

At 30 June 2020, the Group had a total headcount of 371, including 63 employees across the operations of Spotcap and PartPay, a 57% increase when compared with 30 June 2019. Salaries and employee benefits increased 117% to $44.3 million including a $20.2 million increase in wages and salaries and contractor costs. The largest increases by function were in Product and Technology, Data and Risk, and Marketing. Operational headcount grew in line with increased volumes. In addition, Zip has extended the Executive Team to grow and develop Zip's operations globally.

Share-based payments increased by $17.2 million primarily due to the expense related to the issue of warrants to Amazon Australia, amounting to $7.2 million and $5.0 million for the provision of marketing and promotional services. The remaining increase reflects an increase in short-term and long-term employee incentives, including sign-on and project specific incentives.

Acquisition costs of $10.3 million comprise the costs of professional advisors supporting Zip in the acquisition of PartPay and Spotcap and costs incurred to 30 June 2020 in relation to the proposed acquisition of QuadPay Inc (QuadPay).

The Group reported a fair value gain for an amount of $47.5 million relating to the revaluation at 30 June 2020 of the Group's investment in QuadPay. The fair value adjustment was based on the value attributable to Zip's shareholding in QuadPay. on the basis of the merger ratio agreed for the proposed acquisition, using Zip's share price at 30 June 2020, and adjusting for the probability of deal success and discount for control.

Directors' Report

Continued

Zip's New Zealand and United Kingdom operations reported revenue of $2.5 million in the eight months since acquisition on transaction volumes of $78.8 million. The net loss for the eight months since acquisition totalled $5.3 million excluding the impact of the amortisation of acquired intangibles of PartPay of $2.4 million.

Spotcap, Zip's SME lending business, generated revenue of $7.4 million in the nine months since acquisition and reported a loss of $3.9 million excluding the impact of the amortisation of acquired intangibles of Spotcap of $0.8 million.

The net loss before tax for the year to 30 June 2020 attributable to members of Zip Co Limited was $20.6 million ($44.9 million after one off adjustments as set out in the following table) compared with $11.1 million for the year to 30 June 2019.

ADJUSTED NET LOSS

The Group's result for year to 30 June 2020 includes a number of non-recurring items and items that have had a significant impact on the result but have a reduced impact going forward. The Group's adjusted loss before tax (which is non-IFRS information) is as follows:

Reported loss before tax	$20.6 million	
Add back:		
Acquisition of business costs	$10.3 million	On acquisitions made or announced in the period
Write-off of acquired intangible	$1.9 million	PartPay brand, written off on re-branding to Zip
Share-based payments	$11.0 million	• $6.0 million: Warrants vesting to Amazon on signing the Amazon agreement The remaining warrants to vest over the 7 years from award date, based on the achievement of performance hurdles • $5.0 million: One off cost for the provision of marketing and promotional services
Fair value gain on investment	($47.5) million	Arising on the revaluation of the investment in QuadPay at 30 June 2020
Adjusted loss before tax	$44.9 million	

RECEIVABLES

The Group's gross receivables portfolio increased to $1,182.0 million at 30 June 2020, up from $682.6 million at 30 June 2019, an increase of 73%. Net of unearned future income and the provision for expected credit losses the Group reported receivables of $1,116.6 million compared to $647.5 million in the prior year.

The Group wrote off $27.8 million in bad debts (net of bad debt recoveries) during the financial year, as compared with $10.8 million in the prior financial year. The Group reported a provision for expected credit losses of 4.40% of the gross receivables portfolio at 30 June 2020, compared with 3.75% at 30 June 2019, as a result of an increase in the economic overlay in Zip's provisioning model (actual net bad debts currently running at 2.36%).

Zip's Australian-based consumer business reported gross receivables of $1,143.0 million up 67% over the prior year. The monthly repayment profile remains strong averaging at 13.9% (of the opening receivables balance repaid each month) during the year and closing at 14.8% for the month of June 2020 which, equates to the book recycling approximately every 6-7 months. The reported arrears rate (accounts over 60 days past due) was 1.33% of the gross receivables balance at the end of June 2020, an excellent result in the COVID-19 environment, compared with 1.89% at 30 June 2019. Bad debt write-offs (net of recoveries) were 2.24% (net amount written off as a percentage of closing receivables) at 30 June 2020, compared with 1.63% at 30 June 2019, and remain well below management's expectations of 3%, and market comparisons. Excluding the impact of recoveries, bad debt write-offs increased from 1.82% at 30 June 2019 to 2.52% at 30 June 2020, in line with management's stated objective prior to COVID-19.

Zip's provision for expected credit losses is calculated in accordance with AASB 9 as set out in Note 10. The average roll rates between receivables ageing buckets in Zip's Australian-based consumer receivables portfolio have improved at 30 June 2020 compared with 30 June 2019. However, due to the economic uncertainty from COVID-19 Zip has increased the economic overlay in its provisioning model. As a result, the provision for expected credit losses for Australian consumer receivables, calculated on an expected-loss basis in accordance with AASB 9, has increased to 4.18% of closing gross consumer receivables compared with 3.75% at 1 July 2019. Actual bad debt write-offs for the Australian consumer receivables book were 2.24% at 30 June 2020. Balances subject to hardship claims peaked at the end of March following the identification of COVID-19, and at the end of June 2020 comprised less than 0.08% of the receivables portfolio.

The Zip Global segment reported gross receivables of $1.9 million, up from $1.1 million at the time of acquisition. Zip contractually bears the credit risk for receivables totalling $5.0 million attributable to the segment that are not consolidated into the Group balance sheet. Zip has recorded a provision for expected credit losses equating to 5.5% of the closing receivables balance of $6.9 million, which includes the receivables balances that are not consolidated.

Spotcap recorded gross receivables of $37.1 million at the end of June up from $31.4million at the time of acquisition. The reported arrears rate (payments overdue by greater than 60 days) at 30 June was 3.13%. Write-offs in the period since acquisition totalled $0.8 million, and gross bad debts written off were 2.15% for the 12 months to 30 June 2020.

During the second half, the SME market was adversely impacted by COVID-19 and a number of government initiatives put in place across both Australia and New Zealand to provide support to SME's. Of Spotcap's receivables portfolio at 30 June 2020, 34.3% were considered to be in hardship with interest being capitalised, this compares to a peak of 37.8% since March 2020.

In determining Spotcap's expected credit losses in accordance with AASB 9 the Group considered performing loans and loans in hardship in separate pools and applied different levels of economic overlay to each pool. The expected credit loss reported for the combined pool equates to 10.4% of the receivables balance at 30 June 2020, compared to 1.8% at the time of acquisition.

Across its receivables portfolio, overall Zip has increased the economic overlay included in the reported provision for expected credit losses by $11.9 million as a consequence of COVID-19.

Directors' Report

Continued

CORPORATE ACTIVITY

Zip acquired the Australian and New Zealand businesses of global SME lending provider Spotcap in the year. This provided Zip with an SME lending business and a proven SME credit-decisioning platform to support the "go to market" strategy for its Zip Biz BNPL product in Australia and New Zealand. Shares to the value of $8.9 million were issued for the acquisition of Spotcap, and cash of $0.4 million paid.

Following the provisional valuation of intangible assets acquired as a result of the Spotcap acquisition at 31 December 2019, Zip engaged an external valuer to perform an independent valuation of the intangible (differences in acquired asset values between the provisional and independent valuation are set out in Note 13). The independent valuation resulted in acquired intangibles totalling $4.9 million being recognised, resulting in an amortisation charge of $0.8 million being recognised in the financial year. Spotcap's net assets at the time of acquisition totalled $2.2 million, consequently, the Company has recorded Goodwill of $2.1 million on the acquisition of Spotcap.

During the year Zip acquired global BNPL technology platform PartPay Limited providing Zip with exposure to four key geographies – New Zealand, United Kingdom, United States and South Africa. At the time of acquisition PartPay was a significant player in New Zealand, had an early stage business in the UK, owned 8.9% of Quadpay Inc. a New York-based BNPL provider and 24.7% of Payflex (PTY) Limited, a BNPL provider in South Africa. Zip subsequently increased its ownership in Payflex to 25.2%.

Concurrently with the acquisition of PartPay, the Group invested $16.6 million (US$11.4 million) in QuadPay, which took Zip's interest in QuadPay to 15% and increased the Group's exposure to the large US market. The investment was settled in cash.

Zip issued shares to the value of $59.9 million to acquire PartPay and will issue additional shares to the value of approximately $14.0 million (NZ15.0 million) based on the achievement of certain performance-based milestones. Zip has recorded a cost of acquisition of $73.9 million on the basis the performance-based milestones are achieved. The first performance-based milestone has been achieved and accordingly shares to the value of approximately $7.0 million (NZ$7.5 million) will be issued following the release of Zip's Annual Report for the year ended 30 June 2020.

Following the provisional valuation of intangible assets acquired as a result of the PartPay acquisition at 31 December 2019, Zip engaged an external valuer to perform an independent valuation of the intangibles (differences in acquired asset values between the provisional and independent valuation are set out in Note 13). The independent valuation resulted in acquired intangibles totalling $6.4 million being recognised, resulting in an amortisation charge of $2.4 million in the year to 30 June 2020, including a charge of $1.9 million to write off the PartPay brand as a result of the business re-branding to Zip during the period. PartPay's net assets at the time of acquisition totalled $20.8 million, consequently, the Group has recorded goodwill of $46.8 million on the acquisition of PartPay.

CAPITAL MANAGEMENT

The Group has a number of funding programs supporting the growth of its consumer and SME receivables book, both in Australia and overseas.

During the year Zip launched the Zip Master Trust to fund consumer receivables in Australia. The Master Trust's structure allows a single pool of receivables to be funded by any number of note series. In August Zip closed the issuance of the Trust's first rated note series, raising $475.0 million, the largest fintech issuance of its nature in Australia. The facility was fully drawn from inception and to provide a variable funding source within the Master Trust Zip subsequently issued an unrated Variable Funding Note with a facility limit of $139.5 million within the Trust. The Variable Funding Note facility was increased to $209.3 million subsequent to the year end. The Master Trust is available to fund originations in existing and new accounts, and with the forecast growth in receivables Zip will add additional note series, both rated and unrated into the Master Trust structure. At 30 June 2020, facilities in the Master Trust totalled $614.5 million (increased to $684.3 million post year end) of which $544.5 million had been drawn.

Zip also has the zipMoney Trust 2017-1 (total facility available $460.0 million, drawn $440.0 million at 30 June 2020) to fund consumer receivables in Australia, and the zipMoney Trust 2017-2 (total facility available $70.0 million, drawn $65.5 million at the end of June 2020). The zipMoney Trust 2017-2 is available to fund receivables, fund junior notes and to Zip for general corporate purposes (up to an amount of $32.0 million).

The facilities, available to fund receivables in Zip's Australian consumer business, have not benefited from any of the Government initiatives to support debt capital markets in Australia to date. A summary of Zip's consumer receivable funding facility is as below:

FACILITY TYPE	FACILITY LIMIT	DRAWN AT 30 JUNE 2020 $'M	UNDRAWN AT 30 JUNE 2020 $'M
Zip Master Trust			
– Rated Note Series	475.0	475.0	–
– Variable Funding Note	139.5	69.5	70.0
2017-1 Trust	460.0	440.0	20.0
2017-2 Trust	70.0	65.5	4.5
Total	1,144.5	1,050.0	94.5

Undrawn consumer facilities increase to $164.3 million subsequent to the end of the financial year.

The Group has funding facilities totalling $46.2 million available to fund loans originated to SME customers across Australia and New Zealand, drawn $32.1 million. at 30 June 2020. Zip worked closely with its funding partner to navigate the impact of COVID-19 on its SME lending business. In response to Government-led initiatives to facilitate payment holidays and interest capitalisation for SMEs in hardship, Zip agreed an equivalent position with its funding partner which impacted cashflow's and income, albeit the impact was immaterial to the Group. Zip has been approved under the Australian Government Coronavirus SME Guarantee Scheme which provides a government guarantee for 50% of eligible new loans granted under the program. The number and amount of new loans granted under this program to 30 June 2020 was immaterial.

In December 2019, the Group raised a total of $61.9 million ($59.8 million net of costs) in equity, from new and existing retail, institutional, sophisticated and professional investors. Funds were raised to support Zip's expansion overseas, expand Zip's product range, increase investment in product and technology and strengthen the Group's balance sheet. As a result of COVID-19, Zip deferred its overseas expansion, paired back expected investment in product and technology, and used funds to strengthen Zip's balance sheet predominantly through funding receivables.

CASHFLOWS

The Group generated an operating cash inflow of $14.6 million during the financial year compared with $22.6 million in the previous financial year. This excludes bad debts written-off in the financial year of $27.8 million (2019: $10.8 million) shown in the net movement in receivables.

Receipts from customers totalled $160.5 million for the financial year, a 92% increase from $83.7 million in the prior financial year, in line with the increase in revenue. Payments to suppliers and employees totalled $99.2 million up from $39.0 million in the prior financial year. Interest payments on borrowings to fund the Group's receivables increased 72% from $22.3 million to $38.4 million.

Payments relating to the acquisition of PartPay and Spotcap together with costs paid in relation to the proposed acquisition of QuadPay totalled $8.3 million for the financial year. Further costs for completing the QuadPay acquisition will be paid in the year to 30 June 2021.

Directors' Report

Continued

Cashflow used in investing activities increased from $374.1 million in the prior financial year to $522.3 million in the financial year to 30 June 2020. Payments for plant and equipment has increased from $0.3 million, to $2.4 million as the Group has fitted out its leased office space during the financial year. The Group spent $17.1 million in the financial year on product development, including $4.1 million to acquire a software license to support product initiatives to be launched in the new financial year, a $13.5 million increase on the prior financial year. The acquisition of PartPay and Spotcap resulted in a net cash inflow of $2.7 million. At the time of announcement of the acquisition of PartPay, Zip invested $16.6 million to increase its stake in QuadPay. In addition, Zip increased its investment in Payflex by $0.07 million during the year. The net movement in receivables totalled $488.8 million, compared with $370.2 million in the prior financial year.

Cash from financing activities totalled $527.8 million compared with $351.4 million in the prior year. Proceeds from the issue of shares in the capital raising and the conversion of options totalled $62.1 million, $60.0 million net of transaction costs. The Group incurred costs of $2.9 million to establish the Master Trust, issue note series within it, and increase funding available in Zip's SME funding program. Zip borrowed an additional $473.6 million to fund receivables in the financial year compared with $297.5 million in the prior financial year. The Group made principal lease payments of $2.2 million during the year reported as a Cashflow to Financing Activities and the interest on leasing is reported as a Cash flow to Operating Activities as required under AASB 16.

CHANGES IN THE STATE OF AFFAIRS

Other than detailed in this report, no significant changes in the state of affairs of the consolidated entity occurred during the financial year.

FUTURE DEVELOPMENTS

In future financial years, Zip will increase its investment in growth across both new and existing markets, further develop its product offering to attract new merchants and consumers to its platforms, and introduce new products to provide additional benefits to its customers.

POST BALANCE DATE EVENTS

Subsequent to the year end the limit available under the Variable Funding Note Facility increased by $69.8 million.

The consolidated entity invested a further $0.1 million in Payflex in July 2020, the consolidated entity's associated company in South Africa. This increase takes Zip's interest in Payflex to 26.2%.

Zip has accounted for its investment in QuadPay on the balance sheet at 30 June 2020 as an investment, as it held a 14.09% interest in QuadPay (refer Note 6). On 2 June 2020 Zip announced its intention to acquire the 85.91% of QuadPay it did not already own, to raise $100.0 million through the issue of convertible notes to CVI Investments, Inc. (CVI), an affiliate of Heights Capital Management, which is part of the US-based Susquehanna International Group (SIG) and to issue warrants with an exercise value of $100.0 million to CVI. Zip's shareholders approved the acquisition of QuadPay and the issuance of the convertible notes and warrants at the Company's EGM held on Monday 31 August 2020. Following the EGM, Zip completed the acquisition of QuadPay with 118,776,119 ordinary shares and 10,480,369 options being issued. Concurrently, Zip issued the 1,000 convertible notes with face value of $100,000 and granted 19,365,208 warrants to CVI. At the time of this report, the accounting for the QuadPay acquisition is not complete. The consolidated entity will report the accounting for the QuadPay acquisition in the half year report ended 31 December 2020.

The performance shares of 20,000,000 issued to Columbus Capital in 2015 in connection with the facilitation of an institutional financing facility (Warehouse Facility) expired in September 2020 due to the provision of the Warehouse Facility not being completed and accordingly the performance milestones was not met.

In September 2020, the Board granted 705,041 ordinary shares to its employees for their contribution to the performance of the consolidated entity. These shares were valued at $6.17, vest immediately (other than for KMP) at grant date and were issued under the Employee Short Term Incentive Plan.

There have been no other material items, transactions or events subsequent to 30 June 2020 which relate to conditions existing at that date and which require comment or adjustment to the figures dealt with in this report.

ENVIRONMENTAL REGULATION

The Group is not subject to any significant environmental regulation under Australian Commonwealth or State law.

INFORMATION ON DIRECTORS

Name:	Philip Crutchfield
Title:	Non-Executive Chairman
Experience and expertise:	Philip is a Board member of Encounter Resources Limited, NVOI Limited, Geelong Grammar School Council, Bell Shakespeare Theatre Company, and the Victorian Bar Foundation Limited. He holds a Master of Laws and a Bachelor of Commerce.
Other current Directorships:	None
Former Directorships (last 3 years):	None
Interests in shares:	3,802,980
Interest in options:	None

Name:	Larry Diamond
Title:	Managing Director and Chief Executive Officer
Experience and expertise:	Larry co founded Zip in 2013 overseeing the growth from a technology start-up to an ASX200 company with over 4 million customers globally. Previously, he spent 12 years in retail, technology and investment banking at Pacific Brands, Macquarie Capital and Deutsche Bank. He is a qualified CA and holds Bachelor of Information Technology and Master of Commerce (Finance) degrees.
Other current Directorships:	None
Former Directorships (last 3 years):	None
Interests in shares:	55,986,987
Interest in performance rights:	610,000

Directors' Report

Continued

Name:	Peter Gray
Title:	Executive Director and Chief Operating Officer
Experience and expertise:	Peter co-founded Zip in 2013, with 26 years of experience in the retail finance industry. He has underwritten over 2m customers and $1b in loan receivables globally. An operations and consumer credit expert, Peter is also the responsible manager of Zip's Australian Credit Licence. He holds a Diploma of Finance.
Other current Directorships:	None
Former Directorships (last 3 years):	None
Interests in shares:	18,038,013
Interest in performance rights:	610,000

Name:	Dianne Challenor
Title:	Non-Executive Director
Experience and expertise:	Dianne is General Manager, Global Transaction Services at Westpac. Highly experienced in payments and transaction services, Dianne has also led regional and global teams for JP Morgan and Citibank. In 2018, she was named one of the "Most Influential Women in Payments" by PaymentsSource. She holds a Master of Business Administration and a Bachelor of Commerce.
Other current Directorships:	None
Former Directorships (last 3 years):	None
Interests in shares:	None

Name:	John Batistich
Title:	Non-Executive Director
Experience and expertise:	John is a highly-experienced growth leader who brings marketing, digital and human resources skills to the Board. He is the Chairman of Foodco and Non-Executive Director of Stellar Group, General Pants Group and the Heart Research Institute. He holds a Master of Management and a Bachelor of Business and is a graduate of the Australian Institute of Company Directors.
Other current Directorships:	None
Former Directorships (last 3 years):	None
Interests in shares:	363,561

Former Directorships quoted above are Directorships held in the last 3 years for listed entities only and exclude Directorships of all other types of entities, unless otherwise stated.

Pippa Downes will commence as a Zip director on 1 October 2020 and will chair the Zip Audit and Risk Committee. Dianne Challenor retires as a director on 1 October 2020.

Ms Downes is a professional company director who has held executive and non-executive roles across listed, not-for-profit and government enterprises. She brings significant experience in international banking and capital markets to the Board as well as broad industry knowledge across financial services, technology, infrastructure and property. Ms Downes currently serves on the boards of ALE Property Group and Australian Technology Innovators and is a Commissioner of Sport Australia. She holds a Masters in Applied Finance and a Bachelor of Science (Business Administration) and is a member of the Australian Institute of Company Directors and Women Corporate Directors.

COMPANY SECRETARY

David Franks is a Fellow of the Governance Institute of Australia, Fellow of the Financial Services Institute of Australasia and a Chartered Accountant with over 20 years' experience in company secretarial, finance and accounting. Mr Franks has been CFO, Company Secretary and/or Director for numerous ASX listed and unlisted public and private companies in a range of industries, including the company secretary of Top 200 and 300 ASX listed entities.

MEETING OF DIRECTORS

The number of meetings of the Company's Board of Directors ('the Board') and of each Board committee held during the year ended 30 June 2020, and the number of meetings attended by each Director were:

	BOARD OF DIRECTORS		AUDIT AND RISK COMMITTEE		REMUNERATION & NOMINATION COMMITTEE	
	HELD	ATTENDED	HELD	ATTENDED	HELD	ATTENDED
Philip Crutchfield	10	10	3	3	1	1
Larry Diamond	10	10	NM	NM	NM	NM
Peter Gray	10	10	NM	NM	NM	NM
Dianne Challenor	10	8	3	3	1	1
John Batistich	10	10	3	3	1	1

Note: NM = not a member of the committee.

Held represents the number of meetings held during the time the Director held office or was a member of the relevant committee.

Directors' Report

Continued

REMUNERATION REPORT (AUDITED)

Dear Shareholder

On behalf of the Zip Co Board, I am pleased to present the Remuneration Report for the year ended 30 June 2020.

This report forms part of the Company's FY20 Director's Report and sets out Zip's remuneration arrangements for Key Management Personnel (KMP) in accordance with the requirements of the *Corporations Act 2001* and its regulations. KMP are those persons having authority and responsibility for planning, directing and controlling the activities of the group, directly or indirectly, including all Directors.

This report outlines Zip's approach to remuneration for KMP and executives and is set out under the following main headings:

- Group performance
- Details of remuneration for KMP
- Service agreements
- Remuneration strategy
- Total fixed remuneration
- At risk Short Term Incentive Plan
- At risk Long Term Incentive Plan
- Share-based compensation
- Additional disclosures relating to KMP
- Use of remuneration consultants
- Performance and risk adjustment overlay
- Governance

The Board takes its obligation to develop and implement a fair, responsible and competitive remuneration framework seriously. Specifically, the Board is focused on ensuring that remuneration is sufficient to attract and retain high quality KMP and executives and designs its remuneration framework to attract, retain and motivate high quality executives globally, aligning their interests with the creation of value for shareholders and with Zip's standards of behaviour and risk appetite.

The remuneration framework rewards decision making and performance by executives and aligns with the long term interests of shareholders. The framework consists of a Fixed Salary and performance based at-risk Short Term and Long Term incentives.

The Board believes the remuneration framework to be appropriate and effective in its ability to attract and retain high quality KMP and executives to operate and manage the consolidated entity across multiple markets.

John Batistich
Chair, Remuneration and Nomination Committee

Group performance

Zip delivered impressive financial results, strong growth in both customer and merchant numbers and new technological innovations throughout the financial year 2020. As shown in the table below, the Group has grown strongly over the period which has led to a significant increase in the company's share price.

YEAR ENDING 30 JUNE ($)	2020	2019	2018	2017	2016
Revenue ($'000)	161,001	84,231	40,407	17,002	3,170
Gross Receivables($'000)	1,181,980	682,556	316,741	152,039	40,712
Share Price High ($)	6.97	3.98	1.27	0.94	0.74*
Share Price Low($)	1.05	0.84	0.56	0.60	0.25*
Share Price Close($)	5.23	3.31	0.87	0.65	0.62

* Shown for the period from reinstatement to 30 June 2016.

Details of remuneration for KMPs

Details of the remuneration of KMP of the consolidated entity are set out in the following tables. The KMP of the consolidated entity in the financial year consisted of the following:

- Philip Crutchfield, Non–Executive Chairman
- Larry Diamond, Executive Director
- Peter Gray, Executive Director
- Dianne Challenor, Non–Executive Director
- John Batistich, Non–Executive Director
- Martin Brooke, Chief Financial Officer, Executive Management

	TOTAL FIXED REMUNERATION				AT RISK VARIABLE REMUNERATION		
FY20 ($)	CASH SALARY AND FEES[1]	SALARY SACRIFICE	SUPER–ANNUATION	ANNUAL LEAVE	SHORT TERM INCENTIVE	LONG TERM INCENTIVE	TOTAL
Non–Executive Directors:							
P. Crutchfield	165,898	–	15,760		–	–	181,658
D. Challenor	–	–	–	–	–	–	
J. Batistich	139,536	–	13,256		–	–	152,792
Executive Directors:							
L. Diamond	401,166	14,408	38,111	20,750	186,750	158,649	819,834
P. Gray	386,666	3,602	36,733	23,077	180,000	158,649	788,727
Executive Manager:							
M. Brooke	314,166	–	29,846	6,250	178,750	127,101	656,113
Total	1,407,432	18,010	133,706	50,077	545,500	444,399	2,599,124

1. In response to COVID-19, KMP took a temporary 20% reduction in cash salary and fees for the months of April and May 2020.

Directors' Report

Continued

FY19 ($)	CASH SALARY AND FEES	TOTAL FIXED REMUNERATION SALARY SACRIFICE	SUPER-ANNUATION	ANNUAL LEAVE	AT RISK VARIABLE REMUNERATION SHORT TERM INCENTIVE	LONG TERM INCENTIVE	TOTAL
Non-Executive Directors:							
P. Crutchfield	140,000	–	13,300	–	–	–	153,300
D. Challenor	–	–	–	–	–	–	–
J. Batistich[1]	83,333	–	7,917	–	–	–	91,250
Executive Directors:							
L. Diamond	350,000	20,400	33,250	10,508	153,125	22,434	589,717
P. Gray	350,000	–	33,250	9,594	153,125	22,434	568,403
Executive Manager:							
M. Brooke	275,000	–	26,125	15,312	137,500	17,653	471,590
Total	1,198,333	20,400	113,842	35,414	443,750	62,521	1,874,260

1. Appointed 3 September 2018.

Service agreements

Remuneration and other terms of employment for KMP are formalised in service agreements. Details of these agreements are as follows:

Name:	Larry Diamond
Title:	Managing Director and CEO
Agreement commenced:	1 July 2016
Term of agreement:	Annual salary of $415,000 exclusive of statutory superannuation. In addition a parking space is provided at $14,408. Eligible for an annual performance-based bonus of $207,500. This was based on an independent review conducted during the year of market comparable salaries. The Company may terminate the agreement on 6 months' notice or by providing cash payments equal to 6 months' pay.

Name:	Peter Gray
Title:	Executive Director and COO
Agreement commenced:	1 July 2016
Term of agreement:	Annual salary of $400,000 exclusive of statutory superannuation. In addition, a parking space is provided for 3 months at $3,602. Eligible for an annual performance-based bonus of $200,000. This was based on an independent review conducted during the year of market comparable salaries. The Company may terminate the agreement on 6 months' notice or by providing cash payment equal to 6 months' pay.

Name:	Philip Crutchfield
Title:	Independent Non-Executive Chairman
Agreement commenced:	14 December 2015
Term of agreement:	Annual salary of $200,000 inclusive of statutory superannuation. This was based on an independent review conducted during the year of market comparable salaries. Tenure and retirement/ resignation as a director is governed by the Corporations Act 2001 and the Company's constitution.

Name:	Dianne Challenor
Title:	Non-Executive Director
Agreement commenced:	1 February 2018
Term of agreement:	Dianne is the General Manager – Global Transaction Services of Westpac and was nominated by Westpac to join the Board as a Non-Executive Director. No fees are payable to either Dianne or Westpac for acting in this capacity.

Name:	John Batistich
Title:	Independent Non-Executive Director
Agreement commenced:	3 September 2018
Term of agreement:	Annual salary of $175,000 inclusive of statutory superannuation. This was based on an independent review conducted during the year of market comparable salaries based on an independent review conducted during the year of market comparable salaries. Tenure and retirement/resignation as a Director is governed by the Corporations Act 2001 and the Company's constitution.

Name:	Martin Brooke
Title:	Chief Financial Officer
Agreement commenced:	9 January 2017
Term of agreement:	Annual salary of $325,000 exclusive of statutory superannuation. Eligible for annual performance-based bonus of $162,500. The Company may terminate the agreement on 3 months' notice or by providing cash payment equal to 3 months' pay.

Directors' Report

Continued

Remuneration strategy

The Board is focused on aligning the remuneration strategy with the business strategies. We will continue to grow and develop our people, develop an adaptive high performance culture and drive clear leadership alignment to support execution and sustainable value creation for shareholders:

REMUNERATION STRATEGY	
Mission	To be the first payment choice everywhere and every day.
Key Strategies	• Develop our people and culture, and align our leadership • Build reliable, scalable and secure global platform • Deliver seamless payment experiences • Maximise acceptance with merchants • Drive high levels of frequent users • Expand into attractive global markets and customer segments.
Relevant People Strategies	• Grow and develop world class talent • Develop an adaptive high performance culture across all markets • Drive leadership alignment to support strong execution.
Remuneration Strategy	• To attract, retain and motivate the best talent to drive a high performance culture that delivers on our business strategy and contributes to sustainable long-term returns for shareholders.
Remuneration Principles	• Strategic Alignment: Provide clear alignment of remuneration with strategic objectives; • Competitive: Provide market competitive remuneration to attract quality global talent; • Simple and Transparent: Implement remuneration structures and policies that are simple, transparent and well understood; • Performance Based: Support merit-based remuneration achievement across a diverse global workforce; • Supports Culture: Support appropriate risk culture and employee conduct aligned to with our standards of behaviour; • Retention: Retains and motivates high quality talent in global markets; and • Sustainable Value: Ensure remuneration outcomes reflect sustainable value creating performance for shareholders.

The remuneration framework is guided by the key principles outlined above. The Board seeks to drive strategic alignment, ensure we are competitive to attract quality talent, create a simple and transparent design, ensure that remuneration supports high performance, strengthens culture, retains talent and drives sustainable value for shareholders.

The Board engaged independent advisors during the year to advise on appropriate remuneration levels for the executive Directors and other senior executives in line with our objectives. Following the review, the Board determined that executive remuneration packages should be comprised of:

- Base salary plus superannuation – set to reflect the market median for the role, having regard to the responsibilities and complexity of the role, and the experience and skills required to successfully perform in the role. Base salary, salary sacrifice and superannuation is paid in cash.
- Short Term Incentive – based on the achievement of both group financial performance (50%) and personal performance targets (50%). Short Term Incentives awarded are settled in shares in Zip Co Limited and 50% of shares issued are subject to a 12 months escrow period.
- Long Term Incentive – aligned to the delivery of long term performance and delivery of returns to shareholders. Long Term Incentives are delivered through the issue of Performance Rights and/or Options.

The Board will continue to review executive packages annually by reference to the consolidated entity's performance, executive performance and comparable information from industry sectors and other listed companies in similar industries.

The executive Directors and executives do not receive any retirement benefits other than the superannuation guarantee contribution required by the government.

All remuneration paid to Directors and executives is valued at the cost to the consolidated entity and expensed. Shares issued under the Short Term Incentive Plan are expensed as share-based payments as the obligation is incurred. Performance Rights granted are valued using the Monte Carlo simulation model and the benefits are amortised as share-based payments over the vesting period.

The Board has developed a remuneration framework for Executive KMPs aligned to the remuneration strategy and principles:

OBJECTIVE	ATTRACT AND RETAIN HIGH QUALITY TALENT	REWARD SHORT TERM PERFORMANCE	REWARD LONG TERM SUSTAINABLE PERFORMANCE
REM Component	Total Fixed Remuneration (TFR)	At Risk Short Term Incentive (STI)	AT Risk Long Term Incentive (LTI)
	TFR is set in relation to the external market and considers the size and complexity of the role, individual scope of responsibilities, and experience and skills.	STI rewards for performance for the current year and is based on business and individual performance outcomes.	LTI ensures alignment to long-term overall company performance in line with long term security holder returns.
Delivery	Base salary, salary sacrifice and superannuation.	Ordinary Shares 100% with 50% of shares issued subject to a 12 months escrow period. Weighted at 50% of Fixed Salary.	Performance Rights 100% (vesting after three years, subject to achieving performance hurdles). Weighted at 50% of Fixed Salary.
FY20 Approach	Target TFR is positioned conservatively against comparable benchmarks(1).	Measures Individual performance and Business results for Total Transaction Value and Cash EBTDA.	LTI performance measures are based upon growth hurdles for Total Shareholder Return (TSR) being achieved.

(1) Benchmarks included information from companies in the financial services, consumer sectors, and ICT sectors with two or more comparable financial metrics – companies 50% smaller and 50% larger.

The remuneration mix for Executive KMPs is weighted towards variable 'at risk' remuneration to ensure there is significant focus on achieving above market sustainable value growth.

Directors' Report

Continued

Total fixed remuneration

Remuneration for Executive KMPs is positioned at the median of the comparable market and consists of salary, salary sacrifice (where relevant) and superannuation:

KMP TOTAL FIXED REMUNERATION	
Target	• Positioned at the median of the comparable market.
Purpose	• Provided to attract and retain executives, considering the size and complexity of the role, individual responsibilities, experience and skills.
Delivery	• Fixed remuneration compromises cash salary, salary sacrifice items (where applicable) and superannuation contributions.
Approach	• Our fixed remuneration is positioned conservatively having regard to the role, responsibilities, criticality, complexity, skills, experience, performance and comparable companies with whom Zip competes globally for talent. • The Board sought independent external advice on benchmarks for Executive KMPs across comparable financial services, consumer, payments and technology sector companies. • Annual review process makes adjustments for changes in role or promotion, internal equity and significant market changes. • Any increases to Executive KMP remuneration require Remuneration Committee and Board approval.

Remuneration for Non-Executive Directors is positioned at the median of the comparable market and consists of Directors fees and superannuation:

NON-EXECUTIVE DIRECTOR TOTAL FIXED REMUNERATION	
Target	• Positioned at the median of the comparable market.
Purpose	• The remuneration policy for Non-Executive Directors is to deliver market competitive fees at the median to attract and retain talented, qualified Directors; preserve independence, and align Director and shareholder interests.
Delivery	• Fixed remuneration compromises Director fees and superannuation contributions.
Approach	• The Board policy is to remunerate non-executive Directors at market rates for comparable companies for time, commitment and responsibilities. Director fees are set with reference to relevant market benchmarks in the financial services, consumer, payments and technology sectors targeting the market median. • The Board determines payments to the Non-Executive Directors and reviews their remuneration annually, based on market practice, duties and accountability and consists of base fees and additional fees for membership and/or chairing of the Audit and Risk, and Remuneration and Nominations Committees. • The Board sought external advice on market rates during the year, and as a result, adjustments were made to the remuneration of Non-Executive Directors, where appropriate, to reflect market rates. The maximum aggregate amount that can be paid to Non-Executive Directors is $1,000,000. • Payments to non-executive Directors are not linked to the performance of the consolidated entity. • Non-Executive Directors are encouraged to hold securities in the Group to create alignment between interests of Directors and securities holders.

At risk Short Term Incentive Plan (STIP)

All employees have the opportunity to participate in the STIP to reward individual and business performance and to continue to develop a culture of performance and ownership. The Executive KMPs participate in the STIP to reward short-term performance against key financial and non-financial measures for the year.

The STI opportunity for the Executive KMPs is targeted at a maximum of 50% of the base salary.

Under the terms of the Employee Incentive Plan approved at the Company's Annual General Meeting on 20 November 2018 the consolidated entity may issue shares or options under its Short Term Incentive Plan to Directors, senior executives and employees to align their interests with the objectives of the consolidated entity and provide incentives.

Under the terms of the Short Term Incentive Plan the consolidated entity may offer shares or options to provide a short term incentive to employees to reward the achievement of performance targets set for the year. Performance targets set for the year ended 30 June 2020 were set 50% based on the Group's financial performance and 50% on the achievement for personal performance targets. No consideration is payable in respect of the shares or options issued, but the Board retains the flexibility to include time-based vesting conditions where appropriate. The goals and their weightings were as follows:

STI GOALS	% OF STI
Group's Financial Goals:	
Total Transaction Value	25%
Cash EBTDA	25%
Total	50%
Personal Performance Targets (mix of business and people results)	50%

For FY2020, a target was set by the Board for the TTV and Cash EBTDA business objectives. The policy allows for a threshold and maximum pay-out. Meeting the Maximum performance standard will earn 100% of the award whilst the Threshold will attract a reward at 50% of the award. Any result above the Threshold, but below the Maximum, will be rewarded on a pro-rata basis. Any result below the Threshold will not qualify for any reward on that measure. For Executive KMPs, the targeted maximum STI reward is 50% of the base remuneration and delivered as ordinary shares of which 50% are subject to a 12 months escrow period.

STI outcomes are subject to risk management overlay and negative discretion that provides the Board with the capacity to adjust STI outcomes (including to zero if appropriate) if information comes to light that all or part of the award was not justified.

Directors' Report

Continued

AT-RISK SHORT-TERM INCENTIVE PLAN (STIP)	
Purpose	• Rewards financial and non-financial performance consistent with the Company's strategy over the short term.
Delivery	• Awards are made against the following criteria: – 50% on achievement of Group financial targets; and – 50% on achievement of Team/Personal goals. • STI is delivered in Ordinary Shares.
Participants and Opportunity Award	• All employees have the opportunity to participate in the STIP to drive short-term performance and ownership. • The Executive KMPs have a targeted maximum STI opportunity as a percentage of base salary at 50%.
Approach	• The STI performance measures have been selected to ensure focus on key strategies. • STI for the Group financial targets will measure Total Transaction Value (25%) and Cash EBTDA (25%). • STI for the Team/Personal goals (50%) will consider delivery of relevant business and people/team results.
Performance Standards	• Performance standards for the Group Financial measures has a Threshold and Target for TTV and Cash EBTDA. • Individual performance will be assessed against the business and team/people results achieved by the Executive. For exceptional performance that exceeds expectations, an opportunity exists to be awarded above the 100% pay-out. • For below Threshold performance standard, no STI will be awarded. • For above Threshold and below Target performance, a pro-rata STI will be awarded. • For above Target performance standard, the full STI will be awarded. • Meeting the Target performance standard will earn 100% of the award whilst meeting the Threshold will attract 50% of the award. Any result above the Threshold but below the Maximum will be rewarded on a pro-rata basis. • Negative discretion will result from misconduct, regulatory non-compliance and/or reputational damage.

Shares granted to KMP under the Short Term Incentive Plan for the financial year to 30 June 2020 totalled $545,550 based on 80% achievement of the group's financial performance targets, and 100% achievement of personal performance targets for the executive directors. The amount awarded to Martin Brooke was assessed to be 110% of the maximum STI opportunity due to over achievement of personal performance targets set for the year. Amounts awarded were as follows:

STIP	MAXIMUM STI OPPORTUNITY $	MAXIMUM STI OPPORTUNITY AS A PERCENTAGE OF BASE SALARY	VALUE STI AWARDED $	% OF MAXIMUM STI AWARDED	% OF MAXIMUM STO FORFEITED
Executive Directors:					
Larry Diamond	207,500	50%	186,750	90%	10%
Peter Gray	200,000	50%	180,000	90%	10%
Executive Management:					
Martin Brooke	162,500	50%	178,750	110%	–

At risk Long Term Incentive Plan (LTIP)

The LTIP is designed to provide senior Executives with an incentive for future performance, with conditions for the vesting and exercise of performance rights subject to performance hurdles, aligned directly with shareholder interests, and continued employment. Under the terms of the Employee Incentive Plan approved at the Company's Annual General Meeting on 20 November 2018 the consolidated entity may offer Options and/or Performance Rights to eligible employees under its Long Term Incentive Plan. Incentives issued are subject to vesting conditions comprising both performance and time-based hurdles, and both hurdles must be satisfied for vesting to occur. Options and performance rights granted under the plan carry no dividend or voting rights.

The Board is responsible for administering the LTIP in accordance with the shareholder approved Employee Incentive Plan rules and the terms and conditions of specific grants of options and/or performance rights in the LTIP. The Board may determine which persons will be eligible to participate in the LTIP with those eligible applying to participate in the plan. The Board may in its discretion, accept such applications.

Performance Rights issued have a nil exercise price and vest based on the achievement of Total Shareholder Return hurdles, and time-based hurdles, over the period from the date of grant to the assessment dates. The assessment dates are up to 3, 4, and 5 years from the date of grant.

The Board set a Target Total Shareholder Return of 20% compound growth in the Company's share price and a Threshold Total Shareholder Return of 15% compound growth as the Total Shareholder Return hurdles. Total Shareholder Returns account for 100% of the LTI measure and directly aligns Executive rewards to long term Shareholder value. Performance rights will fully vest if the Target Return is achieved and will proportionately vest if the Threshold is achieved but not the Target.

The time-based hurdle requires the participant to remain continuously employed at each of the assessment dates set by the Board.

Unless the Board determines otherwise, unvested Performance Rights will lapse in the event a recipient ceases to be an employee of the Group. Performance Rights must be exercised within six years of the date of grant or they will lapse. Unvested performance rights will automatically lapse.

Like the STIP, the LTIP is subject to adjustments for negative discretion via malus (forfeiture prior to payment) and clawback (recovery after payment) provisions during the performance period if required, if the award is not justified.

Directors' Report

Continued

AT RISK LONG-TERM INCENTIVE PLAN (LTIP)	
Purpose	• Aligns executive accountability and remuneration outcomes with the delivery of sustained group performance and shareholder interests over the long term.
Delivery	• Awards under the LTIP will be performance rights, their value equivalent to being a zero-exercise price option. These rights vest over a fixed period if performance hurdles are achieved. • The measurement period is three years, awarded in annual tranches beyond the vesting period, unless otherwise determined by the Board. • The initial grant of Rights will be based on the VWAP for the 10 days pre and post announcement of the Company's result for the financial year or the Company's VWAP 10 days either side of the quarterly results announcement prior to the recipient joining the company. • Rights will vest in equal proportion based on Total Shareholder Return Testing Date's at the end of years 3, 4 and 5. Testing dates will be based on the date of issue of the Performance Rights. • Any unvested Performance Rights at the first two testing points are carried forward, and if the VWAP at the final testing point is achieved, 100% of all the Performance Rights initially granted will vest.
Participants and Potential Award	• Rights initially granted will vest.
Approach	• LTI performance measures compound Total Shareholder Return (TSR) against Threshold and Target levels. This approach rewards Executives on long term shareholder returns. • The participant receives the Rights based upon ongoing employment unless death or permanent disability where the Board reserves the discretion to pro-rata the award in line with service.
Performance Standards	• Performance standards for the LTI are: – Threshold is compound TSR growth of 15%; and – Target is compound TSR growth of 20%. • For below Threshold performance standard, no LTI will be granted for the year. • For above Threshold and below Target performance, a proportional LTI will be granted for the year. • For above Target performance standard, the full LTI will be granted for the year. • Negative discretion will result from misconduct, regulatory non-compliance and/or reputational damage.

Share-based compensation

Issue of shares

Other than set out in this report, there were no shares issued to Directors and other KMP as part of compensation during the year ended 30 June 2020.

Performance Rights holding

The number of Performance Rights in the Company held during the financial year by each Director and other members of KMP of the consolidated entity, including their personally related parties affecting remuneration of Directors and other KMP in the current or future financial years is set out below:

PERFORMANCE RIGHTS	BALANCE AT THE START OF THE YEAR	GRANTED	CONVERSION TO ORDINARY SHARES	DISPOSALS/ OTHER	BALANCE AT THE END OF THE YEAR
Larry Diamond	610,000	–	–	–	610,000
Peter Gray	610,000	–	–	–	610,000
Martin Brooke	480,000	–	–	–	480,000
Total	1,700,000	–	–	–	1,700,000

ISSUE DATE	VESTING DATE	EXPIRY DATE	NUMBER OF RIGHTS ISSUED	FAIR VALUE AT GRANT DATE $
15 February 2019	15 September 2021	15 February 2025	160,000	0.287
15 February 2019	15 February 2022	15 February 2025	406,666	0.287
15 February 2019	15 September 2022	15 February 2025	160,000	0.317
15 February 2019	15 February 2023	15 February 2025	406,666	0.317
15 February 2019	15 September 2023	15 February 2025	160,000	0.330
15 February 2019	15 February 2024	15 February 2025	406,668	0.330
Total			**1,700,000**	

Options

Details of each grant of options over ordinary shares affecting remuneration of Directors and other KMP in previous financial years are as follows:

	BALANCE AT THE START OF THE YEAR	GRANTED	CONVER-SION TO ORDINARY SHARES	DISPO-SALS/ OTHER	BALANCE AT THE END OF THE YEAR	EXERCISE PRICE $	FAIR VALUE AT GRANT DATE $
Options over ordinary shares							
Philip Crutchfield							
5 December 2019	150,000	–	(150,000)	–	–	0.70	0.260
5 December 2019	150,000	–	(150,000)	–	–	0.50	0.290

The options above are fully vested and were fully exercised.

Options granted carry no dividend or voting rights.

Directors' Report

Continued

Additional disclosures relating to KMP

Shareholding

The number of shares in the Company held during the financial year by each Director and other members of KMP of the consolidated entity, including their personally related parties, is set out below:

ORDINARY SHARES	BALANCE AT THE START OF THE YEAR	AT APPOINTMENT DATE	CONVERSION FROM PERFORMANCE SHARES	CONVERSION FROM OPTIONS	NET ADDITIONS/ (DISPOSALS)	BALANCE AT THE END OF THE YEAR
Philip Crutchfield	4,502,980	–	–	300,000	(1,000,000)	3,802,980
Larry Diamond	61,445,778	–	–	–	(5,458,791)	55,986,987
Peter Gray	19,293,370	–	–	–	(1,255,357)	18,038,013
John Batistich	363,561	–	–	–	–	363,561
Dianne Challenor	–	–	–	–	–	–
Martin Brooke	150,536	–	–	–	5,954	156,490

Other transactions

There were no loans to/from and no other transactions in the financial year ended 30 June 2020 and to the date of this report.

between the Company and:

- the Directors; and
- other members of KMP of the consolidated entity, including their personally related parties.

Use of remuneration consultants

During the financial year, the Board engaged Egan Associates Pty Limited to provide independent advice on a range of matters including the remuneration arrangements of KMP and executives. As reported in the Remuneration Report to 30 June 2019, Egan Associates Pty Limited was paid $45,480 excluding GST for these services.

The Board is satisfied the remuneration recommendations were made free of any undue influence by any member or members of key management or executives to whom the recommendations relate as Egan Associates Pty Limited was engaged by, and reported directly to, the Board.

Performance and risk-adjustment overlay

All performance is assessed by the Board with reference to company risk management policies. The Board retains the ultimate discretion to adjust remuneration outcomes and/or unvested variable reward (including to zero). This applies to equity granted under both the deferred STI and LTI plans if information comes to light that all or part of the award was not justified.

Governance

The Zip Board reviews and approves remuneration policy and principles, remuneration frameworks for Executives and Non-Executive Directors, and specific remuneration outcomes for Executive KMPs.

The Remuneration and Nomination Committee is responsible for assisting the Board to set the Remuneration Policy and determine the appropriate remuneration for Directors and Senior Executives.

The Committee refers to the Policy when developing Board recommendations about Executive KMP remuneration outcomes. The Remuneration and Nominations Committee Charter sets out the committee's roles, responsibilities, composition, structure and membership requirements. The Committee is independent of Management when making decisions affecting employee remuneration. Where appropriate, the Chief Financial Officer and Chief People and Culture Officer attend Committee meetings, however, they do not participate in formal decision-making or in discussions relating to their own remuneration.

The Committee may seek and consider advice from external and independent advisers from time to time to assist the Committee discharge its duties, including periodically testing the market competitiveness of the Remuneration policy and framework benchmarking against comparable companies.

The information provided in this remuneration report has been audited as required by section 308(3C) of the *Corporations Act 2001*. This concludes the remuneration report, which has been audited.

SHARES UNDER OPTIONS OR ISSUED ON EXERCISE OF OPTIONS

Shares under options

Options – Westpac Banking Corporation

The Company had 9,800,000 options which were granted to Westpac Banking Corporation 9,800,000 options to acquire ordinary shares at $0.81 that vest based on the achievement of certain revenue hurdles as set out below:

REVENUE HURDLE	RELEVANT AMOUNT THRESHOLD	PERFORMANCE OPTIONS TO VEST
Hurdle 1	$25,000,000	1,960,000
Hurdle 2	$37,500,000	1,960,000
Hurdle 3	$50,000,000	1,960,000
Hurdle 4	$62,500,000	1,960,000
Hurdle 5	$75,000,000	1,960,000
Total shares under option at 30 June 2020		9,800,000
Lapsed after 30 June 2020		(3,920,000)
Total shares under option at the date of this report		5,880,000

In the event a hurdle is achieved, the associated options vest, and lapse 12 months after vesting. Options relating to any hurdle not achieved by 10 August 2022 automatically lapse. Additionally, if the first revenue hurdle is not achieved by 10 August 2020, then 3,920,000 options will lapse. The first revenue hurdle was not met on 10 August 2020 and the 3,920,000 options lapsed.

No person entitled to exercise the options had or has any right by virtue of the option to participate in any share issue of the Company or of any other body corporate.

Directors' Report

Continued

Options – QuadPay employees

The following options of Zip Co Limited were issued to the existing employees and other option holders of QuadPay on 31 August 2020:

GRANT DATE	EXERCISE PRICE	NUMBER ISSUED
31 August 2020	$0.03	892,574
31 August 2020	$0.07	230,809
31 August 2020	$0.09	7,953,219
31 August 2020	$0.26	1,403,767
Total		10,480,369

Each option expires on the earlier of:

- the expiry dates of the options which varies between 28 May 2028 and 28 May 2030; and
- the date on which the option otherwise lapses in accordance with the terms of the Award Agreement between the Company and the relevant QuadPay option holder and the terms of the QuadPay Option Plan.

The options can be exercised by the holder at any time before the options expire. No person entitled to exercise the options had or has any right by virtue of the option to participate in any share issue of the Company or of any other body corporate.

Shares issued on exercise of options

The following ordinary shares of Zip Co Limited were issued on exercise of options during the financial year ended 30 June 2020.

EXPIRY DATE	EXERCISE PRICE	NUMBER ISSUED
5 December 2019	$0.50	150,000
5 December 2019	$0.70	150,000

There were no shares issued as a result of exercise of options since the end of the financial year to the date of this report.

SHARES UNDER PERFORMANCE SHARES

The consolidated entity issued 20,000,000 performance shares to Columbus Capital in 2015 in connection with the facilitation of an institutional financing facility (Warehouse Facility). The provision of the "Warehouse Facility" was not completed and accordingly the performance milestones are unable to be met. The 20,000,000 performance shares remained outstanding at 30 June 2020 and expired in September 2020.

No person entitled to exercise the performance rights had or has any right by virtue of the performance right to participate in any share issue of the Company or of any other body corporate.

SHARES UNDER PERFORMANCE RIGHTS

ISSUE DATE	VESTING DATE	EXPIRY DATE	NUMBER OF RIGHTS ISSUED	FAIR VALUE AT GRANT DATE $
15 February 2019	15 September 2021	15 February 2025	510,000	0.287
15 February 2019	15 February 2022	15 February 2025	406,666	0.287
15 February 2019	15 September 2022	15 February 2025	510,000	0.317
15 February 2019	15 February 2023	15 February 2025	406,666	0.317
15 February 2019	15 September 2023	15 February 2025	510,000	0.330
15 February 2019	15 February 2024	15 February 2025	406,668	0.330
15 December 2019	15 September 2022	15 December 2025	20,548	1.900
15 December 2019	15 September 2022	15 December 2025	20,117	1.980
15 December 2019	15 September 2022	15 December 2025	106,165	0.630
15 December 2019	15 September 2023	15 December 2025	106,165	0.760
15 December 2019	15 September 2024	15 December 2025	106,164	0.810
Total at 30 June 2020			3,109,159	

Performance rights of 2,750,000 and 359,159 were issued for no consideration under the Employee Incentive Plan during the financial year ended 30 June 2019 and 30 June 2020 respectively. The performance rights have a nil exercise price and vest based on the achievement of Total Shareholder Return hurdles and time based hurdles as set out previously in the Remuneration Report. Performance rights issued and lapsed after 30 June 2020 to the date of this report are set out in the following tables.

Performance rights lapsed after 30 June 2020 to the date of this report:

ISSUE DATE	VESTING DATE	EXPIRY DATE	NUMBER LAPSED
15 February 2019	15 September 2021	15 February 2025	(116,667)
15 February 2019	15 September 2022	15 February 2025	(116,667)
15 February 2019	15 September 2023	15 February 2025	(116,666)
Total			(350,000)

Performance rights issued after 30 June 2020 to the date of this report:

ISSUE DATE	VESTING DATE	EXPIRY DATE	NUMBER ISSUED
2 July 2020	15 September 2023	24 June 2026	388,164
2 July 2020	15 September 2024	24 June 2026	388,162
2 July 2020	15 September 2025	24 June 2026	388,160
Total			1,164,486

Directors' Report

Continued

SHARES UNDER WARRANTS

The following table shows warrants issued during the financial year ended 30 June 2020 and to the date of this report:

ISSUE DATE	EXPIRY DATE	EXERCISE PRICE	NUMBER ISSUED
6 November 2019	6 November 2026	$4.70	14,615,000
1 September 2020	1 September 2023	$5.16	19,365,208
Total			33,980,208

During the financial year, 14,615,000 warrants were issued to Amazon Australia in Nov 2019. Refer to Note 20 of the Financial Statements for details.

Subsequent to the financial year, Zip issued 19,365,208 warrants to CVI Investments, Inc. (CVI), an affiliate of Heights Capital Management, which is part of the US-based Susquehanna International Group. Warrants were issued with nil consideration and with an exercise price being the lower of $5.1639 and the price of any equity securities (excluding issues for prescribed business as usual and agreed strategic transactions) in the period to September 2023.

SHARES UNDER CONVERTIBLE NOTES

There were no convertible notes issued during the financial year ended 30 June 2020. The following table shows convertible notes issued since the end of financial year to the date of this report:

ISSUE DATE	EXPIRY DATE	CONVERSION PRICE	NUMBER ISSUED
1 September 2020	1 September 2025	see below	1,000
Total			1,000

Subsequent to the financial year, Zip issued 1,000 convertible notes to CVI, referred as Susquehanna Convertible Notes, with a face value of $100,000 each. The Convertible Notes bear interest payable semi-annually at a fixed amount of $752,690.

The conversion price of the convertible notes varies based on movements in Zip's share price subject to a floor and a ceiling price.

The initial conversion price was $5.5328, representing a 50% premium to Zip's 1-day volume weighted average price (VWAP) of its shares on the Australian Stock Exchange (ASX) on 29 May 2020 (the last trading day prior to the announcement of the Convertible Note Raising). The conversion price resets semi-annually to a price equal to 93% of the then prevailing current market price of Zip's shares on the ASX, subject to a minimum price of $1.8443 (the "Floor Price") and a maximum price equal to the initial conversion price of $5.5328 (the "Ceiling Price").

The convertible notes may be converted into a maximum of 58,302,282 fully paid ordinary shares, based on a conversion price of 1.8443 per share, being the floor price under the Susquehanna Convertible Notes (unless the floor price is adjusted in accordance with the term of the Susquehanna Convertible Notes).

INDEMNITY AND INSURANCE OF OFFICERS

The Company has indemnified the Directors and executives of the Company for costs incurred, in their capacity as a Director or executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, the Company paid a premium in respect of a contract to insure the Directors and executives of the Company against a liability to the extent permitted by the *Corporations Act 2001*. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

INDEMNITY AND INSURANCE OF AUDITOR

The Company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the Company or any related entity against a liability incurred by the auditor.

During the financial year, the Group has not paid a premium in respect of a contract to insure the auditor of the Company or any related entity.

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied to the Company under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

NON-AUDIT SERVICES

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in Note 26 to the financial statements. Total amount paid for non-audit services for the year amounted to $251,600 (2019: $151,000).

OFFICERS OF THE COMPANY WHO ARE FORMER PARTNERS OF DELOITTE TOUCHE TOHMATSU

There are no officers of the Company who are former partners of Deloitte Touche Tohmatsu.

AUDITOR'S INDEPENDENCE DECLARATION

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

AUDITOR

Deloitte Touche Tohmatsu continues in office in accordance with section 327 of the *Corporations Act 2001*.

This report is made in accordance with a resolution of Directors, pursuant to section 298(2)(a) of the *Corporations Act 2001*. On behalf of the Directors,

Larry Diamond
Managing Director & Chief Executive Officer

30 September 2020

Auditor's Independence Declaration

Deloitte.

Deloitte Touche Tohmatsu
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The Board of Directors
Zip Co Limited
Level 14, 10 Spring Street
Sydney NSW 2000

30 September 2020

Dear Board Members

Auditor's Independence Declaration to Zip Co Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Zip Co Limited.

As lead audit partner for the audit of the financial statements of Zip Co Limited for the financial year ended 30 June 2020, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
(ii) any applicable code of professional conduct in relation to the audit.

Yours faithfully

Deloitte. Touche. Tohmatsu.

DELOITTE TOUCHE TOHMATSU

Mark Lumsden
Partner
Chartered Accountants

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the Year Ended 30 June 2020

	NOTE	30 JUNE 2020 $'000	30 JUNE 2019 $'000
Portfolio Income	3	159,372	82,877
Third party revenue splits		(2,379)	(696)
Net Portfolio Income		156,993	82,181
Cost of Sales			
Interest expense		(38,944)	(22,940)
Bad and doubtful debts expense		(53,669)	(21,947)
Bank fees and data costs		(10,844)	(5,461)
Amortisation of funding costs		(1,877)	(1,090)
Total Cost of Sales		(105,334)	(51,438)
Gross Profit		**51,659**	**30,743**
Other income	3	1,629	1,354
Expenditure			
Administration expenses	4	(9,932)	(4,704)
Depreciation expense	4	(3,993)	(968)
Amortisation of intangibles	4	(9,045)	(3,587)
Information technology expenses		(11,496)	(4,787)
Marketing expenses		(9,515)	(3,446)
Occupancy expenses		(2,233)	(2,124)
Salaries and employee benefits expenses		(44,315)	(20,399)
Share-based payments	4	(20,393)	(3,215)
Acquisition of business costs		(10,273)	–
Share of loss of associate	5	(187)	–
Fair value gain on investment	6	47,505	–
Loss Before Income Tax		**(20,589)**	**(11,133)**
Income tax benefit	7	648	–
Loss After Income Tax Attributable to Members of Zip Co Limited		**(19,941)**	**(11,133)**
Other Comprehensive Income for the year			
Foreign exchange differences on translation		(79)	–
Total Other Comprehensive Income for the year, Net of Tax		(79)	–
Total Comprehensive Loss for the year Attributable to Members of Zip Co Limited		**(20,020)**	**(11,133)**
Earnings per share			
Basic loss per share	8	(5.31)	(3.52)
Diluted loss per share	8	(5.31)	(3.52)

The above Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

Consolidated Statement of Financial Position

as at 30 June 2020

	NOTE	30 JUNE 2020 $'000	30 JUNE 2019 $'000
Assets			
Cash and cash equivalents	9	32,712	12,611
Other receivables		6,876	10,920
Term deposit		1,507	1,179
Customer receivables	10	1,116,618	647,544
Investment	6	82,930	–
Investment in associate	5	1,184	–
Property, plant and equipment	11	3,512	2,547
Right-of-use assets	12	8,160	–
Intangible assets	13	25,093	5,813
Goodwill	15	53,441	4,548
Total Assets		1,332,033	685,162
Liabilities			
Trade and other payables	17	19,533	19,657
Employee provisions		2,753	1,368
Deferred R&D tax incentives	18	–	392
Deferred contingent consideration	16	13,979	–
Lease liability	12	8,414	–
Borrowings	19	1,081,954	587,445
Total Liabilities		1,126,633	608,862
Net Assets		205,400	76,300
Equity			
Issued capital	20	274,151	141,211
Reserves		19,621	3,520
Accumulated losses		(88,372)	(68,431)
Total Equity		205,400	76,300

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

Consolidated Statement of Changes in Equity

for the Year Ended 30 June 2020

	ISSUED CAPITAL $'000	SHARE-BASED PAYMENTS RESERVE $'000	FOREIGN CURRENCY TRANSLATION RESERVE $'000	ACCUMULATED LOSSES $'000	TOTAL $'000
Balance at 1 July 2018	81,328	4,380	–	(57,298)	28,410
Loss for the period	–	–	–	(11,133)	(11,133)
Total Comprehensive Loss	–	–	–	(11,133)	(11,133)
Recognition of share-based payments	–	3,215	–	–	3,215
Exercise of share-based payments	–	(4,075)	–	–	(4,075)
Issue of ordinary shares under share-based payments plans	2,343	–	–	–	2,343
Issue of ordinary shares upon achievement of performance milestones relating to the acquisition of Pocketbook	1,500	–	–	–	1,500
Exercise of options	1,606	–	–	–	1,606
Issue of shares – capital raising	56,765				56,765
Costs of issuing shares	(2,331)	–	–	–	(2,331)
Balance at 30 June 2019	141,211	3,520	–	(68,431)	76,300
Balance at 1 July 2019	141,211	3,520	–	(68,431)	76,300
Loss for the period	–	–	–	(19,941)	(19,941)
Other comprehensive income	–	–	(79)	–	(79)
Total Comprehensive Loss	–	–	(79)	(19,941)	(20,020)
Recognition of share-based payments	–	20,393	–	–	20,393
Exercise of share-based payments	–	(4,213)	–	–	(4,213)
Issue of ordinary shares under share-based payments plans	4,213	–	–	–	4,213
Exercise of options	180	–	–	–	180
Issue of shares – acquisitions	68,805	–	–	–	68,805
Issue of shares – capital raising	61,871	–	–	–	61,871
Costs of issuing shares	(2,129)	–	–	–	(2,129)
Balance at 30 June 2020	274,151	19,700	(79)	(88,372)	205,400

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Consolidated Statement of Cash Flows

for the Year Ended 30 June 2020

	NOTE	30 JUNE 2020 $'000	30 JUNE 2019 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Portfolio income from customers		160,501	83,668
Payments to suppliers and employees		(99,217)	(39,016)
Interest received from financial institutions		107	197
Interest paid		(38,431)	(22,257)
Acquisition of business costs		(8,332)	–
Net Cash Flow from Operating Activities		14,628	22,592
CASH FLOWS TO INVESTING ACTIVITIES			
Payments for plant and equipment		(2,436)	(275)
Payments for software development		(17,041)	(3,608)
Payments for acquisitions, net of cash acquired	16	2,667	–
Net increase in receivables		(488,811)	(370,177)
Payment for investments		(16,676)	–
Net Cash Flow to Investing Activities		(522,297)	(374,060)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from the issue of shares		62,051	57,802
Costs of share issues		(2,129)	(2,331)
Proceeds from borrowings		473,605	297,500
Repayment of borrowings		(551)	–
Borrowing transaction costs		(2,932)	(1,550)
Repayment of lease liabilities		(2,195)	–
Net Cash Flow from Financing Activities		527,849	351,421
Net increase/(decrease) in cash and cash equivalents		20,180	(47)
Cash and Cash Equivalents at the Beginning of the Year		12,611	12,658
Foreign exchange effect		(79)	–
Cash and Cash Equivalents at the End of the Year	9	32,712	12,611

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

Notes to the Financial Statements

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES OF THE FULL YEAR FINANCIAL REPORT

A. STATEMENT OF COMPLIANCE

The full-year financial report is a general purpose financial report prepared in accordance with the *Corporations Act 2001*, Australian Accounting Standards and Interpretations, and complies with other requirements of the law.

Compliance with Australian Accounting Standards ensures that the financial statements and notes of the consolidated entity comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). Consequently, this financial report has been prepared in accordance with and complies with IFRS as issued by the IASB.

The consolidated entity is a for-profit entity and the financial statements comprise the consolidated financial statements of the consolidated entity.

The financial statements were approved by the Board of Directors and authorised for issue on 30 September 2020. The Directors have the power to amend and reissue the financial statements.

B. BASIS OF PREPARATION

The Report has been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars and all values are rounded to the nearest thousand ($'000), unless otherwise noted. When necessary, comparative figures have been adjusted to comply with the changes in presentation in the current period.

C. GOING CONCERN

The Directors have prepared the Report on the going concern basis, which assumes continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business. The consolidated statement of profit or loss and other comprehensive income for the year ended 30 June 2020 reflects a consolidated entity's total comprehensive loss after tax of $20.0 million. The consolidated statement of cash flows for the year ended 30 June 2020 reflects net cash flows from operations of $14.6 million.

The Directors have reviewed cash flow forecasts for the consolidated entity through to 30 September 2021. The cash flow forecast indicate that the consolidated entity will have sufficient funding to operate as a going concern during the forecast period. The Directors have concluded that it is appropriate to prepare the financial statements on the going concern basis, as they are confident that the consolidated entity will be able to pay its debts as and when they become due and payable from operating cash flows and available finance facilities.

The financial statements do not include adjustments relating to the recoverability and classification of recorded asset amounts nor to the amounts and classification of liabilities that might be necessary should the consolidated entity not continue as a going concern.

Notes to the Financial Statements

Continued

D. ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS

The consolidated entity has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current financial year and that have a significant impact on the consolidated entity's financial statements:

New and amended Accounting Standards that are effective for the current financial year

AASB 16 Leases

AASB 16 eliminates the operating and finance lease classifications for lessees previously the model under AASB 117 *Leases*. It instead requires an entity to recognise most leases on its statement of financial position in a similar way to how finance leases were treated under AASB 117. An entity is required to recognise a lease liability and a right-of-use asset in its statement of financial position for most leases.

There are some optional exemptions for leases with a period of 12 months or less and for low value leases.

The application date of this standard is for annual reporting periods beginning on or after 1 January 2019.

AASB 16 has been initially adopted by the consolidated entity for the financial year ended 30 June 2020.

Under AASB 16, right-of-use assets are tested for impairment in accordance with AASB 136 *Impairment of Assets*.

This replaced the previous requirement to recognise a provision for onerous lease contracts.

The consolidated entity has chosen the modified retrospective application of AASB 16 in accordance with AASB 16 C5(b). Consequently, the consolidated entity has not restated the comparative information.

On initial application of AASB 16, for all leases (except as set out in this note), the consolidated entity has:

- Recognised right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments that are not paid at the initial application date, discounted by using the incremental borrowing rate determined at the date of implementation; and
- Recognised depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit and loss.

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- The amount expected to be payable by the lessee under residual value guarantees; and
- Lease payments applicable under extension options if it is reasonably certain the options will be exercised.

The lease liability is presented as a separate line in the consolidated statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect lease payments made.

Right-of-use assets are depreciated over the shorter period of lease term or useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the consolidated entity expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented as a separate line in the consolidated statement of financial position.

The consolidated entity applies AASB 136 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss.

There are some optional exemptions for leases with a period of 12 months or less and for low value leases. For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers and office furniture), the consolidated entity has recognised lease expenses on a straight-line basis as permitted by AASB 16.

The consolidated entity chooses to use the practical expedient not to separate contracts into lease and non-lease components as at 1 July 2019.

E. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

In preparing this annual report, the consolidated entity has been required to make certain estimates and assumptions concerning future occurrences. There is an inherent risk that the resulting accounting estimates will not equate exactly with actual events and results in the future.

Revenue recognition

The consolidated entity recognises net portfolio income on customer receivables using the effective interest rate method (in accordance with AASB 9), based on estimated future cash receipts over the expected life of the financial asset. In making their judgement of the estimated future cashflows and the expected life of the customer receivables balance, the Directors have considered the historical repayment pattern of the customer receivables on a portfolio basis for each type of its products.

These estimates require significant judgment and will be reviewed on an ongoing basis and where required, appropriate adjustments to the recognition of revenue will be made.

The Directors consider that revenue from Merchant fees, Establishment fees, Monthly fees and Interest are akin to financial or portfolio interest income which should be accrued on a time proportionate basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition. Refer to Note 10 for details.

The difference between Fees and Interest booked to customers' accounts and portfolio interest income is reported as unearned future income in the financial statements.

Provision for Expected Credit Loss

Financial assets, other than those at fair value through profit and loss, are assessed for indicators of impairment at the end of each reporting period. The carrying amounts of certain assets are often determined based on estimates and assumptions of future events.

An expected credit loss model is used for the assessment of impairment of customer receivables under AASB 9. Expected credit losses (ECL) are based on the difference between the contractual cash flows due in accordance with the terms of the consolidated entity's products and all the cash flows that the consolidated entity expects to receive from the customers. The expected credit losses are calculated based on either 12 months or the lifetime of the customer receivables.

When measuring expected credit losses the consolidated entity uses reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other. Loss given default is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements. Probability of default constitutes a key input in measuring ECL. Probability of default is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions. Judgement has been applied in the assessment of the macroeconomic overlay in the current financial year taking into account a higher than usual level of uncertainty during the COVID-19 pandemic period. Refer to Note 10 for further details.

Notes to the Financial Statements

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Intangible assets

Software development asset

Software development costs are capitalised only when:

- The technical feasibility and commercial viability or usefulness of the project is demonstrated;
- The consolidated entity has an intention, ability and financial resources to complete the project and use it or sell it; and
- The costs can be measured reliably.

Such costs include payments to external contractors, any purchase of materials and equipment, and the costs of employees, directly involved in the software project.

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Acquired intangibles

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date.

Acquired intangibles are independently valued by an external valuer and the fair values are recorded at initial recognition. Refer to Note 13 for the valuation of intangibles acquired during the financial year.

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

The useful life of the intangible assets is assessed on either the duration for which the assets contribute to the consolidated entity's value or the timing of the projected cashflow of the relationships.

Impairment of non-financial assets

Non-financial assets other than goodwill and other indefinite life intangible assets are reviewed for indicators of impairment. Goodwill and other indefinite life intangible assets are tested for impairment annually or more frequently if there are indications that goodwill and indefinite life intangible assets might be impaired. If an intangible asset was recognised during the current annual period, that intangible asset is tested for impairment before the end of the current annual period.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

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

CGUs are defined as the smallest group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or group of assets. Intangible assets such as brands, customer relationships and trademarks used by the consolidated entity for its own activities are unlikely to generate largely independent cash inflows and will therefore be tested at a CGU level. Please refer to Note 15 for detailed assumptions and assessment of impairment for goodwill and intangible assets.

Assessments of impairment for investment in associate and impairment for right-of-use asset are detailed in Note 5 and Note 12, respectively.

Fair value of share-based payment

Equity-settled share-based payments to directors, employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. The fair value excludes the effect of non-market-based vesting conditions.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight line basis over the vesting period, based on the consolidated entity's estimate of the number of equity instruments that will eventually vest. At each reporting date, the consolidated entity revises its estimate of the number of equity instruments expected to vest as a result of the effect of non-market-based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to reserves.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

F. PRINCIPLES OF CONSOLIDATION

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Zip Co Limited ('parent entity') as at 30 June 2020 and the results of all subsidiaries for the twelve months then ended (for acquired subsidiaries since acquisition dates). Zip Co Limited and its subsidiaries together are referred to in these financial statements as the 'consolidated entity'.

Subsidiaries are all entities over which the consolidated entity has control. The consolidated entity controls an entity when the consolidated entity is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between consolidated entity companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred.

G. SEGMENT REPORTING

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers (CODM). CODM include the Non-Executive Directors, Chief Executive Officer, Chief Operations Officer and Chief Financial Officer. The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

H. BUSINESS COMBINATIONS

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value which is calculated as the sum of the acquisition date fair values of assets transferred to the former owners, liabilities incurred by the consolidated entity to the former owners of the acquiree, and the equity instruments issued by the consolidated entity in exchange for control of the acquiree. Goodwill arises in a business combination when the consideration transferred to the acquiree is greater than the net of the acquisition-date fair value of identifiable assets and the liabilities assumed. Acquisition costs are recognised in profit or loss as incurred.

Notes to the Financial Statements

Continued

Where the consideration transferred by the consolidated entity in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value. If there are changes in the fair value of the contingent consideration that qualify as measurement period adjustments, they are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as a liability is remeasured at subsequent reporting dates in accordance with AASB 9 *Financial Instruments*, or AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the consolidated entity reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

I. CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

J. PROPERTY, PLANT AND EQUIPMENT

Plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the consolidated entity and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All repairs and maintenance are charged to the Income Statement during the reporting period in which they are incurred.

Depreciation is calculated using the straight-line or diminishing value method to allocate their cost or revalue amounts, net of their residual values, over their estimated useful lives, as follows:

PP&E	METHOD	USEFUL LIFE
Computer equipment	Diminishing	4
Leasehold improvements	Straight-line	4

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing proceeds with the carrying amount of the asset disposed. These are included in the Income Statement.

K. GOODWILL

Goodwill arising on the acquisition of a business is carried at cost as established at the date of the acquisition of the business, less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the consolidated entity's CGUs (or groups of CGUs) that are expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is so allocated is (a) representing the lowest level within the entity at which the goodwill is monitored for internal management purposes; and (b) not be larger than an operating segment determined in accordance with AASB 8 *Operating Segments*.

A CGU to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the CGU is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant CGU, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

L. TRADE AND OTHER PAYABLES

Trade and other payables represent the principal amounts outstanding at balance date, plus, where applicable, any accrued interest.

M. EMPLOYEE BENEFITS

Provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leave, and long service leave.

Liabilities arising in respect of wages and salaries, annual leave and any other employee benefits expected to be settled within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled. All other employee benefit liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date. In determining the present value of future cash outflows, the market yield as at the reporting date on high quality corporate bond rates, which have terms to maturity approximating the terms of the related liability, are used.

Share-based payments

Equity-settled and cash-settled share-based compensation benefits are provided to employees.

Equity-settled share-based payment transactions are awards of shares, or options over shares that are provided to employees in exchange for the rendering of services.

There are no cash-settled share-based payments as at year end. Share-based payments which have been approved but yet to be issued to the employees at the end of the reporting period are recognised on the basis of equity settled share-based payment transactions.

N. BORROWINGS

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

Notes to the Financial Statements

Continued

O. FINANCIAL INSTRUMENTS

Recognition and measurement of financial instrument

Financial assets and financial liabilities are recognised when the consolidated entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value.

Financial assets measured at amortised costs include cash and cash equivalents, term deposits, other receivables (excluding prepayments) and other financial assets which are explained in this note. Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI are measured at FVTPL. Investments in equity instruments are classified as at FVTPL, unless the consolidated entity designates an equity investment that is neither held for trading nor a contingent consideration arising from a business combination as at FVTOCI on initial recognition. The consolidated entity did not have any financial assets measured at FVTOCI at 30 June 2020 and 30 June 2019.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss to the extent they are not part of a designated hedging relationship. The net gain or loss is recognised in profit or loss. There is no requirement to recognise an impairment loss.

Financial liabilities including trade and other payables and deferred contingent considerations are measured subsequently at amortised cost using the effective interest method.

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on changes in fair value recognised in profit or loss to the extent that they are not part of a designated hedging relationship. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item in profit or loss if any.

Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Derecognition of financial assets and liabilities

The consolidated entity derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the consolidated entity neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the consolidated entity recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the consolidated entity retains substantially all the risks and rewards of ownership of a transferred financial asset, the consolidated entity continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss. In addition, on derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss. In contrast, on derecognition of an investment in an equity instrument which the consolidated entity has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings.

The Consolidated entity derecognises financial liabilities when, and only when, the consolidated entity's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Customer receivables and other receivables

Customer receivables are non-derivative financial assets which are measured at amortised cost using the effective interest method, less any impairment. Refer to Note 10 for further details of customer receivables and impairment of such financial assets.

The consolidated entity applies a simplified approach in calculating the ECLs for other receivables based on lifetime expected credit losses. Other receivables that are at risk of non-recovery are written off. The provision for expected credit losses related to other receivables was nil (2019: nil).

P. ISSUED CAPITAL

Ordinary shares are classified as equity and are carried at cost.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds.

Q. INCOME TAX

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Where uncertainty exists over the income tax treatments of certain tax positions, an assessment of each uncertain tax position is made based on whether it is considered probable that the relevant taxation authority will accept the position. Where it is not probable, the effect of the uncertainty is reflected in determining the relevant taxable profit or loss, tax bases, unused tax losses and unused tax credits or tax rates. The consolidated entity has assessed the impact of the interpretation and does not believe that there are any uncertain tax positions for which the consolidated entity is required to reflect a different tax treatment in determining both current and deferred taxes.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- When the deferred tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with interests in subsidiaries and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Notes to the Financial Statements

Continued

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

Tax consolidation legislation

Zip Co Limited and its wholly-owned Australian controlled subsidiaries are members of a tax-consolidated group under Australian tax law. Zip Co limited is the head entity within the tax-consolidated group.

In addition to its own current and deferred tax amounts, the head entity also recognises the current tax liabilities and assets and deferred tax assets arising from unused tax losses and relevant tax credits of the members of the tax-consolidated group.

Amounts payable or receivable under the tax-funding arrangement between the head entity and the entities in the tax consolidated group are determined using a 'separate taxpayer within group' approach to determine the tax contribution amounts payable or receivable by each member of the tax-consolidated group. This approach results in the tax effect of transactions being recognised in the legal entity where that transaction occurred and does not tax effect transactions that have no tax consequences to the group. The same basis is used for tax allocation within the tax-consolidated group.

R. EARNINGS PER SHARE

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the owners of Zip Co Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

S. RECOVERABLE AMOUNT OF ASSETS

The carrying amounts of assets other than financial instruments and goodwill are reviewed by the Directors where there is an impairment indicator to ensure they are not in excess of the recoverable amounts. The expected net cash flows are discounted to present values in determining recoverable amounts.

T. GOODS AND SERVICES (GST) AND OTHER SIMILAR TAXES

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable.

The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

U. GOVERNMENT GRANTS/RESEARCH AND DEVELOPMENT TAX INCENTIVES

Grants from the government (such as research and development tax incentives) are recognised at their fair value where there is a reasonable assurance that the grant will be received and the consolidated entity will comply with all attached conditions.

Government grants are initially recognised as deferred income and are recognised in the profit or loss on a systematic basis over the useful life of the underlying asset.

V. PARENT ENTITY INFORMATION

In accordance with the *Corporations Act 2001*, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in Note 27.

W. FOREIGN CURRENCIES

In preparing the consolidated financial statements of the consolidated entity, the results and financial position of each group entity are expressed in Australian dollars, which is the functional currency of the consolidated entity and the presentation currency for the consolidated financial statements.

Transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At each reporting date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the consolidated entity's foreign operations are translated at exchange rates prevailing on the reporting date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in a foreign exchange translation reserve and may be subsequently reclassified to profit and loss in future reporting period.

NOTE 2: SEGMENT INFORMATION

An operating segment is a component of an entity engaging in business activities from which it may earn revenue and incur expenses, whose operating results are reviewed and used by the Chief Operating Decision Makers (CODM) in assessing performance and in determining the allocation of resources. Intersegment loans are eliminated on consolidation and there is no aggregation of operating segments.

The consolidated entity had one operation segment being Zip AU in the financial year ended 30 June 2019. Following the acquisition of Spotcap and PartPay, the consolidated entity has increased the number of operating segments it has. The operating segments may change in the future as the consolidated entity continues to re-assess its operating model, reporting systems, and the financial information presented to the CODM for decision making purposes. For the year ended 30 June 2020, the consolidated entity has identified the following operating segments and reported the results of each segment in table that follows:

ZIP AU: Offers consumers a line of credit wallet including the consolidated entity's Pocketbook operations.

Zip Global: Formerly PartPay, offering BNPL instalment products to consumers outside of Australia.

Spotcap: Provides unsecured loans to small and medium-sized businesses.

Notes to the Financial Statements

Continued

YEAR ENDED 30 JUNE 2020	ZIP AU $'000	ZIP GLOBAL $'000	SPOTCAP $'000	TOTAL $'000
Portfolio income	149,454	2,549	7,369	159,372
Third party revenue splits	(1,906)	(1)	(472)	(2,379)
Cost of sales	(97,222)	(1,858)	(6,254)	(105,334)
Gross profit	50,326	690	643	51,659
Other income	1,569	2	58	1,629
Operating expenses	(66,918)	(6,022)	(4,551)	(77,491)
EBTDA (excluding Corporate items)	(15,023)	(5,330)	(3,850)	(24,203)
Employee remuneration related share-based payments	(8,192)	–	–	(8,192)
Other share-based payments	(12,201)	–	–	(12,201)
Acquisition of business costs	(10,273)	–	–	(10,273)
Share of loss of associate	(187)	–	–	(187)
Fair value gain on investment	47,505	–	–	47,505
EBTDA	1,629	(5,330)	(3,850)	(7,551)
Depreciation of right-of-use assets	(2,477)	–	–	(2,477)
Depreciation of PP&E	(1,470)	(33)	(13)	(1,516)
Amortisation of intangibles	(5,839)	(2,439)	(767)	(9,045)
Loss before income tax	(8,157)	(7,802)	(4,630)	(20,589)

NOTE 3: REVENUE

	CONSOLIDATED	
	30 JUNE 2020 $'000	30 JUNE 2019 $'000
Portfolio income	159,372	82,877
Other income		
Interest income from financial institutions	107	197
R&D tax incentives	392	366
Transaction processing fees	698	366
Other	432	425
Total Other Income	1,629	1,354
Total Revenue	161,001	84,231

NOTE 4: EXPENSES

	CONSOLIDATED	
	30 JUNE 2020 $'000	30 JUNE 2019 $'000
Loss before income tax includes the following specific expenses:		
Depreciation Expense:		
Depreciation of property, plant and equipment	1,516	968
Depreciation of right-of-use assets	2,477	–
Total Depreciation Expense	3,993	968
Amortisation of Intangibles:		
Amortisation of acquired intangibles	2,007	700
Write-off of acquired intangible	1,900	–
Amortisation of internally generated IT development and software	5,138	2,887
Total Amortisation of Intangibles	9,045	3,587
Administration Expenses:		
Professional services	4,071	1,578
Recruitment costs	1,524	614
Other administration expense	4,337	2,512
Total Administration Expenses	9,932	4,704
Share-Based Payments:		
Employee remuneration related share-based payments	8,192	3,215
Amortisation of warrants (refer to Note 20)	7,201	–
Provision of marketing and promotional services	5,000	–
Total Share-Based Payments	20,393	3,215

NOTE 5: INVESTMENT IN ASSOCIATE

	CONSOLIDATED $'000
Balance at 1 July 2019	–
Acquisition	1,301
Additional investment	70
Share of loss of associate	(187)
Balance at 30 June 2020	1,184

Notes to the Financial Statements

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As a result of the acquisition of PartPay, the consolidated entity initially held a 24.7% interest in Payflex (Pty) Ltd (Payflex) a provider of BNPL services to consumers in South Africa. On acquisition, the consolidated entity accounted for the investment as an associate due to the consolidated entity's significant influence and initially measured the investment in associate at cost, being the fair value upon acquisition of PartPay. An investment of $1.30 million was recorded on this basis.

At 30 June 2020, the consolidated entity held a 25.2% interest in Payflex, being the initial 24.7% interest plus a further 0.5% interest acquired in May 2020 for an investment of $0.07 million. At 30 June 2020, the consolidated entity accounted for the investment as an associate due to the consolidated entity's continuing significant influence.

For the financial year ended 30 June 2020, the consolidated entity recognised its share of the loss of Payflex amounting to $0.19 million. At 30 June 2020, the carrying amount of the consolidated entity's investment in associate was recorded at $1.2 million, being the cost of the investment less its share of losses since the acquisition date.

The investment in associate is not considered to be impaired as its carrying amount is lower than its recoverable amount at 30 June 2020. The recoverable amount has been determined based on Payflex's most recent capital raising in May 2020.

NOTE 6: INVESTMENT

	CONSOLIDATED $'000
Balance at 1 July 2019	–
Acquisition	18,819
Additional investment	16,606
Fair value gain on revaluation	47,505
Balance at 30 June 2020	82,930

As a result of the acquisition of PartPay, the consolidated entity initially held an 8.9% interest in QuadPay Inc., a New York based BNPL provider. Concurrently, with the acquisition of PartPay, Zip invested $16.6 million in Quadpay taking Zip's interest to 15%.

As a result of options being converted and other dilutions the holding reduced to 14.09% at 30 June 2020. On 2 June 2020 Zip announced its intention to acquire the remaining 85.91% of QuadPay and has recorded a fair value gain of $47.5 million. The fair value gain was based on the value attributable to Zip's shareholding in QuadPay on the basis of the merger ratio agreed for the proposed acquisition, using Zip's share price at 30 June 2020, and adjusting for the probability of deal success and a discount for control.

The investment is reported as an investment measured at FVTPL as the Directors of the consolidated entity did not consider that the consolidated entity was able to exercise significant influence over QuadPay at 30 June 2020. Accordingly, it was not deemed to be controlled at 30 June 2020.

Zip's shareholders approved the acquisition of QuadPay and the issuance of the convertible notes and warrants at the Company's EGM held on Monday 31 August 2020. Refer to Note 30 for details.

NOTE 7: INCOME TAX

	CONSOLIDATED	
	30 JUNE 2020 $'000	30 JUNE 2019 $'000
Numerical reconciliation of income tax benefit and tax at the statutory rate		
Loss before income tax benefit	(20,589)	(11,133)
Tax at the statutory tax rate of 30%	(6,177)	(3,340)
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Share-based payments	6,118	965
Non-deductible expenses	1,536	919
R&D tax incentives	(118)	(110)
Effect of different tax rates of subsidiaries operating in other jurisdictions	116	–
	1,475	(1,566)
Prior year tax losses brought to account	–	(2,066)
Current year tax losses not recognised	4,136	–
Movement in temporary differences (recognised)/not recognised	(6,259)	3,632
	(648)	–

NOTE 8: LOSS PER SHARE

A. RECONCILIATION OF EARNINGS USED IN CALCULATING LOSS PER SHARE

	30 JUNE 2020 $'000	30 JUNE 2019 $'000
Loss attributable to the owners of the consolidated entity used in calculating basic and diluted loss per share	(19,941)	(11,133)

B. WEIGHTED AVERAGE NUMBER OF SHARES USED AS THE DENOMINATOR

NUMBER OF SHARES	30 JUNE 2020 '000	30 JUNE 2019 '000
Weighted average number of ordinary shares used as the denominator in calculating basic and diluted loss per share	375,617	316,161

C. BASIC AND DILUTED LOSS PER SHARE

	30 JUNE 2020 CENTS	30 JUNE 2019 CENTS
Basic loss per share	(5.31)	(3.52)
Diluted loss per share[1]	(5.31)	(3.52)

1. As the consolidated entity reported losses for the financial year ended 30 June 2020 and 30 June 2019, no dilutive shares have been included in the EPS calculation.

Notes to the Financial Statements

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NOTE 9: CASH AND CASH EQUIVALENTS

At 30 June 2020, the consolidated entity had cash of $32.7 million of which $8.4 million was restricted cash (30 June 2019: cash of $12.6 million of which $6.4 million was restricted cash). Cash held in corporate accounts, considered as unrestricted, includes amounts subsequently remitted to securitisation warehouses and special purpose vehicles post year end (30 June 2020: $15.1 million; 30 June 2019: $5.3 million). Restricted cash is held by the securitisation warehouses and special purpose vehicles and is not available to pay creditors of the consolidated entity.

RECONCILIATION OF LOSS AFTER INCOME TAX TO NET CASH FROM OPERATING ACTIVITIES

	30 JUNE 2020 $'000	30 JUNE 2019 $'000
Loss after income tax benefit for the year	(19,941)	(11,133)
Adjustments for:		
Depreciation and amortisation expense	13,038	4,555
Bad and doubtful debts expense	53,669	21,947
Share-based payments	20,393	3,215
Share of loss of associate	187	–
Fair value gain on investment	(47,505)	–
Change in operating assets and liabilities:		
Increase in other receivables	(6,261)	(4,813)
Increase in trade and other payables	936	8,661
Increase in employee provisions	1,152	526
Decrease in R&D tax incentives	(392)	(366)
Decrease in deferred tax liabilities	(648)	–
Net cash from operating activities	14,628	22,592

NOTE 10: CUSTOMER RECEIVABLES

Under AASB 9, customer receivables are initially recognised at fair value. Subsequently, they are classified and measured at amortised cost as:

- The consolidated entity provides accounts with lines of credit and instalments products to customers, and the business model is to hold such accounts and collect contractual cash flows until the account is closed. There have been no historic sales and there are no current plans to sell the accounts for fair value gains; and
- The contractual terms of the accounts give rise on specified dates to cash flows that are solely payments of principal and "effective interest" and when providing lines of credit permit customers to vary the dates and frequency of payments.

IMPAIRMENT

AASB 9 requires recognition of expected credit losses based on unbiased forward-looking information and is applicable to all financial assets at amortised cost and loan commitments. The guidance requires assets to be classified into the following three stages:

Stage 1: instruments that have not had a significant increase in credit risk since initial recognition or that have low credit risk at the reporting date. For these assets, 12-month expected credit losses (ECL) are recognised and "effective interest" revenue is calculated on the gross carrying amount of the asset. 12-month ECL are the expected credit losses that result from default events that are expected within 12 months after the reporting date.

Stage 2: instruments that have experienced a significant increase in credit risk since initial recognition but that do not have objective evidence of impairment. For these assets, lifetime ECL are recognised, but "effective interest" revenue is still calculated on the gross carrying amount of the asset. Lifetime ECL are the expected credit losses that result from all possible default events over the expected life of the financial instrument.

Stage 3: includes financial assets that have objective evidence of impairment at the reporting date. For these assets, lifetime ECL are recognised and "effective interest" revenue is calculated on the net carrying amount.

Provisioning Model

In determining the appropriate level of provision for expected credit losses, the consolidated entity has considered receivables attributable to each of its product offerings separately and aggregated by segment in this note. For each classification of receivable, the consolidated entity has applied historic roll rates (the percentage of receivables that move into the next ageing bucket), averaged over a 12 month period, to the credit limits of those customers that are considered current and to the respective receivable balances for those customers accounts over 30 days past due.

The consolidated entity's policy is to write off balances that are outstanding for over 180 days for its line of credit products and 60 days for its instalment products, in accordance with historical experience and industry practice. The consolidated entity's instalment product has a short term duration for customer repayments, being up to 56 days.

Accordingly, under the requirements of AASB 9, a provision has been recognised for performing customer receivables to the extent that expected life time losses emerge within a 12-month period by applying historical roll rates to the credit facility limits. For customers overdue, historical roll rates are applied to the overdue balances over the expected life of the credit facility to determine an amount of expected credit losses.

In the assessment of the provision for expected credit losses at 30 June 2020, management took into consideration all available information relevant to the assessment, including information about past events, current economic conditions and reasonable and supportable information about future events and economic conditions at the report date.

An allowance for debt recoveries is applied to the resulting estimated exposure at default and an economic overlay is added to take account of forward-looking macro-economic and regulatory factors (including GDP, unemployment rate, and inflation rate) and modelling risks.

Significant increase in credit risk since initial recognition

The provisioning model utilises customer receivables 30 days past due or customer receivables in hardship cases as criteria to identify significant increases in credit risk.

Notes to the Financial Statements

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Definition of default and credit-impaired assets

Where there has been objective evidence of impairment for a loan receivable, the allowance will be based on lifetime expected credit losses. A loan receivable will be considered in default at 90 days past due and when the consolidated entity is unlikely to receive the outstanding contractual amount in full based on internal or external indicators.

Expected credit losses

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted based on forward-looking information as described below. The exposure at default is estimated on gross customer receivables at the reporting date, adjusted for expected repayments and future drawdowns up to the point the exposure is expected to be in default.

In the assessment of expected credit losses at 30 June 2020, management considered base, good and bad scenarios applying a weighted probability when determining the reported expected credit losses. The base scenario was based on the actual performance of the customer receivable book. The good and bad scenarios were assessed by applying upside/downside movements to key variables which could have a significant impact on the credit risk. These variables include the probability of default, the rate of customer repayments, the customer repayment lifecycle and the bad debts recovery rate. The movement in the variables was supported by modelling macroeconomic scenarios based on forward looking information.

Forward-looking information considered in assessing macroeconomic scenarios included economic reports published by financial analysts, governmental bodies, and other similar organisations, including assessments of the outlook for the Australian and global economies in a COVID-19 virus environment. Whilst social distancing restrictions and other containment measures that have been in place to control the virus, resulting in a contraction in economic activity, the impact of temporary government stimulus and assistance has mitigated the impact of this contraction. As a result of the economic environment, management have increased the economic overlay applied at 30 June 2020, when compared to 30 June 2019, to reflect the increased uncertainty that exists in the economy as a result of the impact of COVID-19.

A sensitivity analysis was undertaken by increasing/decreasing the assessed economic overlay by 10% which increased/decreased the provision for expected credit losses by $2.5 million.

Other than the increased uncertainty that exists in the economy as a result of COVID–19, that has resulted in an increase in the economic overlay at 30 June 2020, Zip's experience during COVID–19 has seen:

- an increase in repayment rates in Q4 FY2020 to 15.6% compared to 13.5% in Q4 FY2019;
- hardship cases in the Zip AU portfolio peaking at the end of March and representing less than 0.08% of the receivables portfolio at 30 June 2020;
- hardship cases in Spotcap's receivables portfolio reaching 37.8% in March, and falling to 34.3% at 30 June 2020; and
- no material change in estimated repayment profiles.

The consolidated entity has modified the term of Spotcap's customer receivables that are in hardship. On a case by case basis, repayment periods have been extended, interest has been capitalised, and repayments have been varied. In assessing the economic overlay, management considered loans in hardship separately, applying an increased overlay to such customer receivables. An ECL of $2.1 million has been recognised on $12.8 million of Spotcap's customer receivables which were considered in hardship at 30 June 2020.

Under the terms of an agreement with a merchant in the Zip Global segment, the consolidated entity contractually bears the credit risk for receivables totalling $5.0 million that are not consolidated into the consolidated entity's balance sheet. An ECL of $0.2 million has been recognised for financial year ended 30 June 2020 in relation to this receivable.

The undrawn credit limits underlying the customer receivables reported as Stage 1 in gross customer receivables in this note were $1.5 billion at 30 June 2020 ($1.0 billion at 30 June 2019), against which an ECL of $5.0 million has been recognised ($2.9 million at 30 June 2019).

From 30 June 2019 to 30 June 2020, the provision for expected credit losses have increased by $26.4 million (including $0.6 million taken on the acquisition of Spotcap and PartPay), which was primarily driven by the $499.4 million increase in the value of receivables and the increased economic overlay outlined above. The provision for expected credit losses as a percentage of receivables was 3.75% at 30 June 2019 compared to 4.40% of the gross customer receivables balance at 30 June 2020. Zip will reassess the economic overlay portion of the ECL model at each reporting date, and expects the economic overlay to reduce as the COVID-19 pandemic recedes.

The consolidated entity believes that the provision for expected credit losses provided in the consolidated financial statements is sufficient to address any potential write-offs arising from the current economic environment, and will continue to maximise its effort to minimise the risk of actual bad debts through its robust debtor management practices.

The following table summarises customer receivables as at the reporting date:

	ZIP AU $'000	ZIP GLOBAL $'000	SPOTCAP $'000	CONSOLIDATED $'000
Gross customer receivables	682,556	–	–	682,556
Unearned future income	(9,421)	–	–	(9,421)
Provision for expected credit losses	(25,591)	–	–	(25,591)
Balance at 30 June 2019	647,544	–	–	647,544

	ZIP AU $'000	ZIP GLOBAL $'000	SPOTCAP $'000	CONSOLIDATED $'000
Gross customer receivables	1,143,033	1,892	37,055	1,181,980
Unearned future income	(12,379)	(179)	(785)	(13,343)
Provision for expected credit losses	(47,779)	(381)	(3,859)	(52,019)
Balance at 30 June 2020	1,082,875	1,332	32,411	1,116,618

The following table summarises reconciliations of provision for expected credit in the reporting periods:

PROVISION FOR EXPECTED CREDIT LOSSES	ZIP AU $'000	ZIP GLOBAL $'000	SPOTCAP $'000	CONSOLIDATED $'000
Balance at 1 July 2018	14,473	–	–	14,473
Provided for the year	21,947	–	–	21,947
Receivables written-off during the year	(12,358)	–	–	(12,358)
Recoveries during the year	1,529	–	–	1,529
Balance at 30 June 2019	25,591	–	–	25,591
Taken on acquisition	–	46	551	597
Provided for the year	48,410	1,209	4,050	53,669
Receivables written-off during the year	(28,837)	(923)	(796)	(30,556)
Recoveries during the year	2,615	49	54	2,718
Balance at 30 June 2020	47,779	381	3,859	52,019

Notes to the Financial Statements

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The consolidated entity's customer receivable balances are predominately high volume low value advances to individual customers. The following tables provides information about customer receivables classified into Stage 1 to Stage 3 and the provision provided for expected credit losses for each stage. As the consolidated entity's customer receivables are short-term in nature, the staging transfer disclosures have not been provided.

	CONSOLIDATED $'000
GROSS CUSTOMER RECEIVABLES	
Stage 1	649,427
Stage 2	26,632
Stage 3	6,497
Balance at 30 June 2019	682,556
PROVISION FOR EXPECTED CREDIT LOSSES	
Stage 1	(10,316)
Stage 2	(11,092)
Stage 3	(4,183)
Balance at 30 June 2019	(25,591)

	ZIP AU $'000	ZIP GLOBAL $'000	SPOTCAP $'000	CONSOLIDATED $'000
GROSS CUSTOMER RECEIVABLES				
Stage 1	1,102,069	1,710	22,409	1,126,188
Stage 2	30,827	105	13,756	44,688
Stage 3	10,137	77	890	11,104
Balance at 30 June 2020	1,143,033	1,892	37,055	1,181,980
PROVISION FOR EXPECTED CREDIT LOSSES				
Stage 1	(23,806)	(338)	(1,877)	(26,021)
Stage 2	(16,134)	(24)	(1,495)	(17,653)
Stage 3	(7,839)	(19)	(487)	(8,345)
Balance at 30 June 2020	(47,779)	(381)	(3,859)	(52,019)

The following table provides information about customer receivables by payment past due status. Figures presented in the table differ from the staging table as the staging table is based on the assessment of credit risk which includes, but is not limited to past due status.

	CONSOLIDATED	
	30 JUNE 2020 $'000	30 JUNE 2019 $'000
Past due under 30 days	20,934	17,060
Past due 31 days to under 60 days	6,408	5,684
Past due 61 to under 90 days	5,396	3,888
Past due 91 to under 180 days	11,027	6,497

The following table shows customer receivables and provision for expected losses presented based on the location of origination:

CUSTOMER RECEIVABLES	30 JUNE 2020 $'000	30 JUNE 2019 $'000
Australia	1,169,962	682,556
New Zealand	11,797	–
UK	221	–
Balance	1,181,980	682,556

PROVISION FOR EXPECTED CREDIT LOSSES	30 JUNE 2020 $'000	30 JUNE 2019 $'000
Australia	(50,650)	(25,591)
New Zealand	(1360)	–
UK	(9)	–
Balance	(52,019)	(25,591)

Zip AU and Zip Global customer receivables are consumer based in nature and industry classification is not applicable. The following table shows Spotcap customer receivables presented in their industry classification:

CUSTOMER RECEIVABLES AT 30 JUNE 2020	SPOTCAP $'000
Agriculture	1,316
Construction	3,510
Financial	1,112
Manufacturing	4,076
Mining	287
Retail	10,413
Services	11,645
Transportation	1,112
Wholesale	3,584
Balance at 30 June 2020	37,055

Notes to the Financial Statements

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NOTE 11: PROPERTY, PLANT AND EQUIPMENT

	CONSOLIDATED	
	30 JUNE 2020 $'000	30 JUNE 2019 $'000
Carrying amounts of		
Computer equipment	1,189	499
Leasehold improvements	2,323	2,048
	3,512	2,547

	COMPUTER EQUIPMENT $'000	LEASEHOLD IMPROVEMENTS $'000	TOTAL $'000
Cost			
Balance at 1 July 2018	1,004	2,977	3,981
Additions	235	40	275
Disposals	–	–	–
Balance at 30 June 2019	1,239	3,017	4,256
Additions	1,410	1,026	2,436
Additions through acquisitions	124	4	128
Disposals	(108)	(24)	(132)
Balance at 30 June 2020	2,665	4,023	6,688

	COMPUTER EQUIPMENT $'000	LEASEHOLD IMPROVEMENTS $'000	TOTAL $'000
Accumulated depreciation			
Balance at 1 July 2018	412	328	740
Additions	328	640	968
Disposals	–	–	–
Balance at 30 June 2019	740	968	1,708
Additions	760	756	1,516
Additions through acquisitions	84	0	84
Disposals	(108)	(24)	(132)
Balance at 30 June 2020	1,476	1,700	3,176

NOTE 12: LEASES

The consolidated entity has recognised right-of-use assets and a lease liability in relation to property leases that have over 12 months to expiry. The average lease term of these leases is 4 years from inception. Short-term leases are not included in accordance with AASB 16 *Leases* exemptions.

The operating lease commitment reported in the consolidated entity's Annual Report to 30 June 2019 was $10.1 million, of which $10.0 million related to property leases with over 12 months to expiry. The consolidated entity's preliminary assessment of the impact of AASB 16 indicated a lease liability of approximately $8.9 million in relation to these leases. Upon adoption of AASB 16, the consolidated entity applied a single incremental borrowing rate of 3.08% when discounting lease payments, as compared to differing rates used in the initial assessment. Applying this single rate and discounting the remaining lease payments to their present value resulted in the recognition of an initial lease liability of $6.6 million at 1 July 2019. Extension options have not been included in the assessment as exercising the options is not considered reasonably certain.

The consolidated entity has not received any rent concessions for its property leases as at 30 June 2020. Management consider the shift to working from home and the resulting impact on office space requirements brought on by the COVID-19 pandemic is an impairment indicator for the right-of-use assets. With the consolidated entity's continuing growth and recruitment plans, the floor space is expected to be fully utilised in the future and consequently the right-of-use assets have not been impaired at 30 June 2020. The consolidated entity does not intend to break or early terminate any of its property leases.

RIGHT-OF-USE ASSETS

The tables below show the right-of-use assets at the beginning and end of the current year:

CONSOLIDATED	PROPERTY $'000
Carrying amount	
Balance at 1 July 2019	6,623
Balance at 30 June 2020	8,160

CONSOLIDATED	PROPERTY $'000
Cost	
Balance at 1 July 2019	6,623
Additions – new leases	4,014
Balance at 30 June 2020	10,637

CONSOLIDATED	PROPERTY $'000
Accumulated depreciation	
Balance at 1 July 2019	–
Depreciation	2,477
Balance at 30 June 2020	2,477

Notes to the Financial Statements

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LEASE LIABILITIES

The following table shows the operating lease commitments disclosed applying AASB 117 at 30 June 2019, discounted using the incremental borrowing rate of 3.08% at the date of initial application and the lease liabilities recognised in the statement of financial position at the date of initial application.

Reconciliation of operating lease commitments to lease liabilities:

CONSOLIDATED	$'000
Operating lease commitments disclosed at 30 June 2019	10,088
Discounted using incremental borrowing rate at initial adoption of AASB 16	(3,393)
Leases with low value or less than 12 month term	(72)
Lease liabilities recognised at 1 July 2019	6,623
Analysed as:	
Current	1,722
Non-current	4,901
Lease liabilities recognised at 1 July 2019	6,623

The tables below show the lease liabilities at the beginning and end of the current year:

CONSOLIDATED	LEASE LIABILITIES $'000
Lease liabilities	
Balance at 1 July 2019	6,623
Additions	3,986
Interest	253
Repayment of lease liabilities	(2,448)
Balance at 30 June 2020	8,414
Analysed as:	
Current	1,722
Non-current	4,901
Balance at 30 June 2020	8,414

Amounts recognised in profit and loss for the financial year ended 30 June 2020

CONSOLIDATED	$'000
Depreciation expense on right-of-use assets	2,477
Interest expense on lease liabilities	253
Expense relating to short-term leases	1,335

Expenses relating to short-term leases are reported in occupancy expenses in the Statement of Profit and Loss together with the cost of utilities and other office expenses, and are reported as cash flow to operating activities in the Consolidated Statement of Cash Flows. Refer to Note 22 for maturity analysis of lease liabilities at 30 June 2020.

NOTE 13: INTANGIBLE ASSETS

	CONSOLIDATED 30 JUNE 2020 $'000	CONSOLIDATED 30 JUNE 2019 $'000
Carrying amounts		
Brand names and trademarks	128	116
Customer database	1,501	207
Transacting partner database	1,207	–
IT development and software	22,257	5,490
	25,093	5,813

CONSOLIDATED	BRAND NAMES AND TRADEMARKS $'000	CUSTOMER DATABASE $'000	TRANSACTING PARTNER DATABASE $'000	IT DEVELOPMENT AND SOFTWARE $'000	TOTAL $'000
Cost					
Balance at 1 July 2018	207	460	–	10,321	10,988
Additions	6	–	–	3,602	3,608
Write-off	–	–	–	–	–
Balance at 30 June 2019	213	460	–	13,923	14,596
Additions through acquisitions	1,952	1,662	1,472	6,173	11,259
Additions	33	–	–	17,033	17,066
Write-off[1]	(1,900)	–	–	–	(1,900)
Balance at 30 June 2020	298	2,122	1,472	37,129	41,021

1. The acquired PartPay brand of $1.9 million was written off as a result of the business re-branding to Zip during the financial year ended 30 June 2020.

CONSOLIDATED	BRAND NAMES AND TRADEMARKS $'000	CUSTOMER DATABASE $'000	TRANSACTING PARTNER DATABASE $'000	IT DEVELOPMENT AND SOFTWARE $'000	TOTAL $'000
Accumulated amortisation					
Balance at 1 July 2018	62	161	–	4,973	5,196
Additions	35	92	–	3,460	3,587
Balance at 30 June 2019	97	253	–	8,433	8,783
Additions	73	368	265	6,439	7,145
Balance at 30 June 2020	170	621	265	14,872	15,928

Notes to the Financial Statements

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The following useful lives are used in the calculation of amortisation:

Internally generated intangibles:

- IT development and software 2.5 years

Acquired intangibles:

- Brand names and trademarks 1 to 5 years
- Customer database 4 to 5 years
- Transacting partner database 4 to 5 years
- IT development and software 5 to 6 years

The impairment assessment of intangible assets is detailed in Note 15.

NOTE 14: DEFERRED TAX NOT RECOGNISED

The consolidated entity has the following deferred tax asset which has not been brought to account.

	CONSOLIDATED	
	30 JUNE 2020 $'000	30 JUNE 2019 $'000
Deferred tax assets comprise temporary differences attributable to:		
Timing differences		
– Provision for expected credit losses	15,557	6,186
– Other provision and payables	906	460
Tax Losses	10,009	5,305
Total	26,472	11,951
Deferred tax liabilities comprise temporary differences attributable to:		
Timing differences		
– Fair value gain on investment	(14,252)	–
– Other	(628)	(295)
Total	**(14,880)**	**(295)**
Net deferred tax assets not brought to account	11,592	11,656

The deferred tax assets will be recognised in the accounts once the consolidated entity can demonstrate that it is probable the tax benefits will be utilised within the foreseeable future. Management have taken a conservative position and have not recognised a deferred tax asset in the financial statements.

Tax losses in FY20 include adjustments in respect of losses brought forward from FY19 amounting to $568,315 (FY19: $243,325) and timing difference brought forward from FY19 amounting to $1,491,197 (FY19: nil).

NOTE 15: GOODWILL

The consolidated entity has three cash-generating units (CGUs) at 30 June 2020 as set out in the following table. Goodwill has been allocated to these cash-generating units. Goodwill recognised in the financial year ended 30 June 2020 arises on the acquisitions of PartPay and Spotcap and reflects the growth potential of the acquired entities.

CONSOLIDATED	ZIP AU $'000	ZIP GLOBAL $'000	SPOTCAP $'000	CONSOLIDATED $'000
Balance at 30 June 2018	4,548	–	–	4,548
Balance at 30 June 2019	4,548	–	–	4,548
Add: Amount recognised on acquisition	–	46,781	2,112	48,893
Less: Accumulated impairment losses	–	–	–	–
Balance at 30 June 2020	4,548	46,781	2,112	53,441

Impairment assessment for goodwill, including intangible assets:

For the purpose of impairment testing, goodwill together with intangibles are allocated to each of the consolidated entity's CGUs.

As at 30 June 2020, for each of the consolidated entity's CGUs, the recoverable amount has been calculated based on value in use using cash flow projections based on financial budgets and forecasts approved by the Directors covering a five-year period and an estimated terminal value, using a pre-tax discount rate reflecting an estimate of the weighted average cost of capital (WACC). Cash flows beyond the five-year period were extrapolated using a steady long term annual growth rate which did not exceed the long term average for the sectors and economies in which the CGUs operate. The steady long term growth rate was estimated by management based on past performance of the cash-generating unit and the growth expectations for the markets in which they operate.

Cash flow projections during the forecast period are based on forecast revenue growth arising from increasing total transactions volumes for the Zip AU and Zip Global CGUs, and future originations for the Spotcap CGU. Forecast increases in gross margin and operating costs have been included to support the forecast growth in volumes. The impact of COVID-19 on the markets in which the CGUs operate has been considered in determining the forecasts.

Management have conducted sensitivity analysis by increasing/decreasing basis points on the long term annual growth rate to assess the effect on recoverable amount of changes in the key assumptions. All CGUs are satisfied that the assumptions on which the recoverable amounts are based are fair and reasonable. Key rates used in determining value and sensitivity analysis movements are set out in the following table:

AT JUNE 2020	ZIP AU	ZIP GLOBAL	SPOTCAP
Pre-tax discounting rate	12.2%	20.1%	29.6%
Long term annual growth rate	2.5%	2.5%	2.5%
Sensitivity analysis (+/– basis points)	100	100	100

Notes to the Financial Statements

Continued

Management estimate that a decrease in long term growth rate by 100 basis points would not reduce the headroom in the CGUs to below zero and therefore would not result in an impairment charge. Forecast transaction volumes and originations are the key drivers in determining the cash flow projections for each CGU. In the event that transaction volumes do not reach the levels forecast there is a risk that the forecast cash flows are not sufficient to support the carrying value of goodwill and an impairment charge will be reported in a future accounting period. Management estimate that a 100 basis points decrease in the forecast growth rates for transaction volumes and originations would not reduce the headroom in the CGUs to below zero, and therefore would not result in an impairment charge.

For each of the CGUs, the carrying amount does not exceed the recoverable amount for each of the cash-generating units, therefore no impairment of goodwill and intangible assets as at 30 June 2020 has been recorded.

The consolidated entity had one CGU at 30 June 2019, being Zip AU. There was no impairment for the Zip AU CGU at 30 June 2019.

NOTE 16: ACQUISITIONS

(A) SUMMARY OF ACQUISITIONS

Spotcap

On 18 September 2019, the consolidated entity acquired a 100% interest in the Australian and New Zealand businesses of global SME lending provider Spotcap (Spotcap), providing significant capability in lending to small and medium sized enterprises (SME). Upon acquisition, the consolidated entity acquired a 100% interest in the following entities:

- Spotcap Australia Pty Ltd;
- Funding Box 3 (Australia) Pty Limited; and
- Spotcap New Zealand Ltd.

Total consideration for the acquisition of Spotcap comprised:

- Cash consideration of $0.4 million; and
- 2,576,643 new Zip Co Limited shares valued at $8.9 million issued at an issue price of $3.44.

The fair value of the tangible assets and liabilities of Spotcap included in the net assets acquired were considered to be equal to their pre-acquisition book value, as described in this note. Intangible assets were not recognised prior to acquisition. In accordance with AASB 3, the fair values of intangible assets were recognised, as detailed in the table in this note.

PartPay

On 7 November 2019, the consolidated entity acquired a 100% interest in global instalment technology platform PartPay Limited (PartPay), providing exposure to four key geographies – New Zealand, United Kingdom, United States and South Africa. Upon acquisition of PartPay, the consolidated entity acquired a 100% interest in the following entities:

- Zip Co Payments UK Limited (formerly PartPay Limited UK);
- Zip Co Finance UK Limited (formerly PartPay Finance Limited UK);
- Zip Co NZ Finance Limited (formerly PartPay Finance Limited NZ); and
- Zip Co NZ Limited (formerly PartPay Limited NZ).

Total consideration for the acquisition of PartPay comprised:

- 17,424,801 new Zip Co Limited shares valued at $59.9 million issued at an issue price of $3.44; and
- Deferred contingent consideration of $13.979 million in Zip Co Limited shares to be issued within 24 months after 30 June 2019, subject to various transaction volume milestones being achieved and based on a 10-day volume weighted average price immediately preceding the deferred consideration payment dates.

The consolidated entity made two adjustments to the pre-acquisition book values of the assets of PartPay to reflect fair market value:

- The carrying value of the investment in QuadPay was revalued from $0.1 million to $18.8 million based on the fair value paid by Zip for its direct holding in QuadPay; and
- The carrying value of the investment in associate Payflex was revalued from $0.5 million to $1.3 million based on the fair value of Payflex as determined by the most recent equity issuance.

The fair value of all other tangible assets and liabilities of PartPay included in the net assets acquired were considered to be equal to their pre-acquisition book value, as described in this note. Intangible assets were not recognised prior to acquisition. In accordance with AASB 3, the fair values of intangible assets were recognised, as detailed in the table in this note.

Management determined the acquisition dates as the date on which the Company obtained control over the acquired entity.

The initial accounting for the acquisition of both Spotcap and PartPay was provisionally determined at the end of the half year as detailed in the consolidated entity's half year report to 31 December 2019. Following an independent market valuation of acquired intangibles, final accounting has been completed at 30 June 2020 which is within the required measurement period outlined in AASB 3 *Business Combinations* and any adjustments required are reported in the table in (B) comparative information in this note.

Had the revenue and results of Spotcap and PartPay prior to the acquisition been included in the consolidated entity's results for the financial year ended 30 June 2020, the impact would not have been material. The amounts of revenue and profit or loss of Spotcap and PartPay since the acquisition dates are included in the Consolidated Statement of Profit or Loss and Other Comprehensive Income in the reporting period.

Goodwill recognised on the acquisition of Spotcap and PartPay has been calculated as the consideration transferred less the fair value of net assets acquired, and reflects the growth potential of the acquired entities.

Acquisition-related costs totalling $2.3 million have been excluded from the consideration transferred and have been recognised as an expense in profit or loss in the financial year ended 30 June 2020.

Notes to the Financial Statements

Continued

Details of the purchase consideration, and finalised fair values of the net assets acquired and goodwill at the date of acquisition are as follows:

DETAILS OF THE ACQUISITIONS ARE AS FOLLOWS (FAIR VALUE):	SPOTCAP SEPTEMBER 2019 $'000	PARTPAY NOVEMBER 2019 $'000	TOTAL $'000
Cash and cash equivalents	2,008	1,064	3,072
Customer receivables	30,834	1,021	31,855
Other receivables	38	297	335
Plant and equipment	23	22	45
Investment	–	18,819	18,819
Investment in associate	–	1,301	1,301
Trade and other payables	(9,063)	(803)	(9,866)
Employee provisions	(157)	(77)	(234)
Borrowings	(21,109)	(533)	(21,642)
Deferred tax liability	(318)	(330)	(648)
Net assets acquired	2,256	20,781	23,037
Acquired brand names and trademarks	52	1,900	1,952
Acquired IT development and software	2,892	3,281	6,173
Acquired customer database	1,008	1,178	2,186
Acquired transacting partner database	948	–	948
Goodwill[1]	2,112	46,781	48,893
Acquisition date fair value of the total consideration transferred	9,268	73,921	83,189
Representing:			
Cash paid to vendor	405	–	405
Zip Co Limited shares issued to vendor	8,863	59,942	68,805
Deferred contingent consideration	–	13,979	13,979
Total	9,268	73,921	83,189
Cash used to acquire business, net of cash acquired:			
Acquisition date fair value of the total consideration transferred	9,268	73,921	83,189
Less: cash and cash equivalent acquired	(2,008)	(1,064)	(3,072)
Less: shares issued by Zip Co limited as part of consideration	(8,863)	(59,942)	(68,805)
Less: Deferred contingent consideration	–	(13,979)	(13,979)
Payments for acquisitions, net of cash acquired	1,603	1,064	2,667

1. None of the goodwill is expected to be deductible for tax purpose.

(B) COMPARATIVE INFORMATION

In this annual report, the value of acquired intangible assets and deferred tax liabilities reported as at 31 December 2019 have been restated to reflect the finalisation of the accounting for the acquisitions of Spotcap and PartPay. The following table illustrates the quantum of the final fair values recognised on acquisition and their impact on impacted comparatives presented in the consolidated entity's half year report to 31 December 2019, where different to those reported in the consolidated entity's Half Year Report.

	TOTAL 31 DECEMBER 2019 $'000	TOTAL 31 DECEMBER 2019 (RESTATED) $'000
Assets		
Intangible assets	20,165	18,886
Goodwill	51,514	53,441
Total Assets	1,150,577	1,151,225
Liabilities		
Deferred tax liabilities	–	648
Total Liabilities	965,433	966,081

NOTE 17: TRADE AND OTHER PAYABLES

	CONSOLIDATED	
	30 JUNE 2020 $'000	30 JUNE 2019 $'000
Trade payables	16,429	18,951
Other payables and accruals	3,104	706
	19,533	19,657

Refer to Note 22 for further information on financial risk management.

NOTE 18: DEFERRED R&D TAX INCENTIVES

	CONSOLIDATED	
	30 JUNE 2020 $'000	30 JUNE 2019 $'000
Deferred R&D tax incentive	–	392

The consolidated entity recognises its R&D tax incentives as deferred income in accordance with the guidance under AASB 120 *Government Grants* and systematically amortises it to the profit or loss as other income over the expected useful life of the underlying development assets (2.5 years).

Notes to the Financial Statements

Continued

NOTE 19: BORROWINGS

BORROWINGS AND SECURITISATION WAREHOUSE

The consolidated entity sells customer receivables to securitisation warehouses and special purpose vehicles through its asset-backed securitisation program. The securitisation warehouses and special purpose vehicles are consolidated as the consolidated entity is exposed to, or has rights to, variable equity returns, and has the ability to affect its returns through its power over the securitisation vehicle. The consolidated entity may serve as a sponsor, servicer, manager, liquidity provider, purchaser of notes and/or purchaser of residual interest units.

	CONSOLIDATED	
	30 JUNE 2020 $'000	30 JUNE 2019 $'000
Secured borrowings	1,082,087	587,500
Add: Accrued interest	2,370	1,431
Less: Unamortised costs	(2,503)	(1,486)
	1,081,954	587,445

ASSETS PLEDGED AS SECURITY

The table below presents the assets and underlying borrowings as a result of the securitisation warehouses and special purpose vehicles:

	CONSOLIDATED	
	30 JUNE 2020 $'000	30 JUNE 2019 $'000
Customer receivables[1]	1,111,711	644,277
Cash held by securitisation warehouse	8,393	6,436
	1,120,104	650,713
Borrowings related to receivables[2]	1,162,486	660,000

1. The amount recognised above represents the carrying value of the customer receivables held by securitisation warehouses and special purpose vehicles and is net of provision for expected losses and unearned future income. This excludes customer receivables totalling $4.9 million held by entities that are not securitisation vehicles at 30 June 2020 and $3.3 million at 30 June 2019.
2. Including $80.4 million junior notes held by Zip's corporate entities ($72.5 million at 30 June 2019).

FINANCING ARRANGEMENTS

Unrestricted access was available at the reporting date to the following lines of credit:

	30 JUNE 2020 $'000	30 JUNE 2019 $'000
Total facility size		
Total facility size – securitisation warehouse	1,158,712	621,500
Total facility size – working capital	32,000	10,000
Total facility size	1,190,712	631,500
Drawn at the reporting date		
Drawn facility – securitisation warehouse	1,072,587	587,500
Drawn facility – working capital	9,500	–
Total drawn at the reporting date	1,082,087	587,500
Undrawn at the reporting date		
Undrawn facility – securitisation warehouse	86,125	34,000
Undrawn facility – working capital	22,500	10,000
Total undrawn at the reporting date	108,625	44,000

Term of the facilities

Consumer Receivables

SECURITISATION WAREHOUSES	FACILITY LIMIT $'000	DRAWN AT 30 JUNE 2020 $'000	MATURITY
Zip Master Trust			
– Rated Note Series	475,000	475,000	August 2021
– Variable Funding Note	139,500	69,500	February 2022
zipMoney 2017-1 Trust	460,000	440,000	May 2021
zipMoney 2017-2 Trust	70,000	65,497	December 2020

SME Receivables

SECURITISATION WAREHOUSES	FACILITY LIMIT $'000	DRAWN AT 30 JUNE 2020 $'000	MATURITY
Funding Box 3 Australia	35,000	24,598	January 2022
Funding Box NZ	11,212[1]	7,492	February 2022

1. Facility limit NZD $12.0 million translated to AUD at exchange rate of 1.0703.

Notes to the Financial Statements

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Reconciliation of borrowings

	30 JUNE 2019 $'000	CASH MOVEMENT[1] $'000	NON-CASH MOVEMENT[2] $'000	30 JUNE 2020 $'000
Gross borrowings[1]	587,500	494,587	–	1,082,087
Accrued interest	1,431	(38,178)	39,117	2,370
Unamortised costs	(1,486)	(2,932)	1,915	(2,503)
Total	587,445	453,477	41,032	1,081,954

	30 JUNE 2018 $'000	CASH MOVEMENT $'000	NON-CASH MOVEMENT $'000	30 JUNE 2019 $'000
Gross borrowings	290,000	297,500	–	587,500
Accrued interest	749	(22,257)	22,939	1,431
Unamortised costs	(1,025)	(1,550)	1,089	(1,486)
Total	289,724	273,693	24,028	587,445

1. The cash movements shown in gross borrowings in the financial year ended 30 June 2020 includes a taken-on amount of $21.5 million as a result of the acquisitions of Spotcap and PartPay. Note that interest payment of $0.2 million for leasing liabilities is excluded from the cash movement in the reconciliation.
2. The non-cash movement of accrued interest and unamortised costs in the financial year ended 30 June 2020 includes the recognition of accrued interest of $0.2 million and unamortised costs of $(0.06) million as a result of the acquisitions of Spotcap and PartPay.

NOTE 20: ISSUED CAPITAL

ORDINARY SHARES

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

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

	CONSOLIDATED			
	30 JUNE 2020 SHARES '000	30 JUNE 2020 $'000	30 JUNE 2019 SHARES '000	30 JUNE 2019 $'000
Ordinary shares – fully paid	390,390	274,151	352,138	141,211
Performance shares	20,000	–	20,000	–
	410,390	274,151	372,138	141,211

MOVEMENTS IN ORDINARY SHARE CAPITAL

DETAILS	DATE	SHARES '000	$'000
Balance	1 July 2018	295,548	81,328
Issue of shares – employee incentives		2,286	2,343
Issue of shares – Pocketbook achievement of performance milestones		1,888	1,500
Conversion from performance shares		13,330	–
Issue of shares – exercise of options		1,984	1,606
Issue of shares – capital raising		37,102	56,765
Costs of issuing shares		–	(2,331)
Balance	30 June 2019	352,138	141,211
Balance	1 July 2019	352,138	141,211
Issue of shares – employee incentives		1,229	4,213
Issue of shares – exercise of options		300	180
Issue of shares – acquisitions		20,001	68,805
Issue of shares – capital raising		16,722	61,871
Costs of issuing shares		–	(2,129)
Balance	30 June 2020	390,390	274,151

MOVEMENTS IN PERFORMANCE SHARES

DETAILS	DATE	SHARES '000
Balance	30 June 2018	33,330
Conversion to ordinary shares		(13,330)
Balance	30 June 2019	20,000
Balance	30 June 2020	20,000

Notes to the Financial Statements

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The consolidated entity issued 20,000,000 performance shares to Columbus Capital in 2015 in connection with the facilitation of an institutional financing facility (Warehouse Facility). The provision of the Warehouse Facility was not completed and accordingly the performance milestones are unable to be met. The performance shares expired subsequent to the year end, in September 2020.

MOVEMENTS IN OPTIONS

DETAILS	DATE	OPTIONS '000
Balance	30 June 2018	12,404
Options exercised		(1,984)
Options expired not exercised		(320)
Balance	30 June 2019	10,100
Options exercised		(300)
Balance	30 June 2020	9,800

The remaining options are held by Westpac Banking Corporation and vest based on the achievement of certain revenue hurdles. In the event a hurdle is achieved, the associated options vest, and lapse 12 months after vesting. Options relating to any hurdle not achieved by 10 August 2022 automatically lapse. Additionally, if the first revenue hurdle is not achieved by 10 August 2020, then 3,920,000 options will lapse. The first revenue hurdle was not met on 10 August 2020 and accordingly 3,920,000 options lapsed.

MOVEMENTS IN PERFORMANCE RIGHTS

DETAILS	DATE	RIGHTS '000
Balance	30 June 2018	–
Issue of performance rights		2,750
Balance	30 June 2019	2,750
Issue of performance rights		359
Balance	30 June 2020	3,109

MOVEMENTS IN WARRANTS

DETAILS	DATE	WARRANTS '000
Balance	30 June 2018	–
Balance	30 June 2019	–
Issue of warrants		14,615
Balance	30 June 2020	14,615

In November 2019, Zip entered a strategic agreement with Amazon Commercial Services Pty Limited (Amazon Australia) whereby Zip is offered as a payment choice on Amazon Australia. Zip issued Amazon Australia warrants to acquire 14,615,000 ordinary shares in Zip at an exercise price of $4.70 exercisable based on achievement of certain performance hurdles.

The warrants have been independently valued by an external valuer using a custom-built Monte Carlo model which simulates share price paths over the duration of the warrants' life. As a result, each warrant issued to Amazon Australia has been valued at $1.65 which approximates the value of the service received. Of the warrants issued, 3,653,750 warrants (25% of the total) vested concurrently with Zip's entry into the strategic agreement, and the remainder of the warrants will vest based on performance milestones relating to transaction volumes being achieved over the 7 years from issue date. On vesting, the warrants may be exercised any time up to 7 years from the issue date.

An expense of $6.0 million was recognised in relation to the warrants that vested on entering the agreement. An additional share-based payment expense of $1.2 million has been recognised for the financial year ended 30 June 2020 based on management's assessment of the likelihood of the performance milestones being met over the 7 years from issue date. Further assessments will be made at each future reporting date and adjustments made to the amounts recognised based on this assessment.

SHARE BUY-BACK

There is no current on-market share buy-back.

NOTE 21: DIVIDENDS

There were no dividends paid, recommended, or declared during the current or previous financial year.

NOTE 22: FINANCIAL RISK MANAGEMENT

FINANCIAL RISK MANAGEMENT OBJECTIVES

The consolidated entity's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The consolidated entity's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the consolidated entity. These methods include sensitivity analysis in the case of interest rate and other price risks, ageing analysis for credit risk.

MARKET RISK

Foreign currency risk

Foreign currency risk arises on financial instruments that are denominated in a foreign currency, that is in a currency other than the functional currency in which they are measured. Foreign currency risk does not arise from financial instruments that are non-monetary items or from financial instruments denominated in the functional currency.

The consolidated entity was exposed to the New Zealand Dollar (NZD) and Great British Pound (GBP) in the financial year ended 30 June 2020. The consolidated entity undertakes transactions denominated in its subsidiaries' functional currencies; consequently, limited exposures to exchange rate fluctuations arise.

The foreign currency risk was limited in the financial year ended 30 June 2019 as the consolidated entity mainly operated in Australia.

The consolidated entity did not hedge any foreign currency risks during the financial year ended 30 June 2020 or 30 June 2019.

Notes to the Financial Statements

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Translation exposures arise from financial and non-financial items held by an entity with a functional currency different from the consolidated entity's presentation currency. The consolidated entity's exposure to translation-related risk arises from its investments in its New Zealand and United Kingdom businesses. The foreign exchange gain or loss on translation for the investment in foreign subsidiaries to Australian dollars at the end of the financial year is recognised in Other Comprehensive Income and accumulated in the foreign currency translation reserve.

Price risk

The consolidated entity is exposed to the equity share price risk arising from its investment in QuadPay at 30 June 2020.

The investment in QuadPay was held for strategic investment rather than trading purposes as at 30 June 2020. The consolidated entity does not actively trade this investment. The fair value of the investment at 30 June 2020 was based on the value attributable to Zip's shareholding in QuadPay Inc., on the basis of the merger ratio agreed for Zip's proposed acquisition of the 85.91% shareholding in QuadPay it did not already own, using Zip's share price at 30 June 2020, and adjusting for the probability of deal success and a discount for control. The fair value of the investment is dependent on share price of Zip which is listed on the Australian Securities Exchange (ASX).

The sensitivity analyses below have been determined based on the exposure to Zip's share price at the reporting date.

If Zip's share price had been 1% higher/lower:

- Loss after tax for the year ended 30 June 2020 would decrease/increase by $0.8 million as a result of the changes in fair value of the investment; and
- Equity would increase/decrease by $0.8 million as a result of the changes in fair value of the investments in equity instruments.

Subsequent to 30 June 2020, the acquisition of QuadPay was approved at the EGM held on Monday 31 August 2020. As a result of the acquisition, Zip holds a 100% interest in QuadPay and the investment in QuadPay was derecognised subsequent to the year end, but prior to the issue of these financial statements, on this basis.

The consolidated entity was not exposed to other significant price risk at 30 June 2019.

Interest rate risk

The consolidated entity's main interest rate risk arises from its cash and cash equivalents, term deposits and borrowings. Secured borrowings to fund the customer receivables are a mix of fixed rate borrowings and floating rate borrowings where the rates are set as a fixed margin plus 1-month BBSW rate.

The consolidated entity also earns interest from its customer receivables on fixed rates. In the event of a movement in interest rates the consolidated entity would review its pricing framework in accordance with its risk management policy.

At the end of the reporting periods, the consolidated entity had the following variable rate borrowing outstanding:

	WEIGHTED AVERAGE INTEREST RATE	30 JUNE 2020 $'000	WEIGHTED AVERAGE INTEREST RATE	30 JUNE 2019 $'000
Floating rate secured borrowing	3.48%	(1,049,997)	4.65%	(587,500)

At the end of reporting periods, the consolidated entity had the following financial assets and liabilities exposed to variable interest rate risk:

	30 JUNE 2020 $'000	30 JUNE 2019 $'000
Cash and cash equivalents	32,712	12,611
Term deposit	1,507	1,179
Floating rate secured borrowing	(1,049,997)	(587,500)

In the event of a +/– 1% movement in the BBSW, based on reasonable possible judgement, and with all other variables held constant, the consolidated entity's:

- Loss after tax for the year ended 30 June 2020 would increase/decrease by $7.1 million (2019: increase/decrease by $4.0 million). This is mainly attributable to the consolidated entity's exposure to interest rates on its floating rate borrowings; and
- Equity at 30 June 2020 would decrease/increase by $7.1 million (2019: decrease/increase by $4.0 million)

CREDIT RISK

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the consolidated entity. The consolidated entity has a strict code of credit, including obtaining agency credit information, confirming application details and setting appropriate credit limits prior to customers joining the Zip platform.

The consolidated entity regularly reviews customer collections, and collections past due. If there are uncollectable customer receivables, the consolidated entity will write off these receivables but will continue to work on their recovery.

The consolidated entity regularly reviews the level of provision for expected credit loss to ensure that the level of provision is sufficient to mitigate the credit risk exposure in terms of financial reporting. The provision raised represents management's expectation for credit losses in the receivables portfolio at the reporting date measured in accordance with AASB 9.

The collective provision is estimated on the basis of historical loss experience for assets with similar credit characteristics by the consolidated entity and other companies with similar portfolios. The maximum exposure to credit risk at the reporting date for recognised financial assets is the carrying amount, net of any provisions for expected credit losses of those assets, as disclosed in the consolidated statement of financial position and notes to the consolidated financial statements. Refer to Note 10 for detailed assessment of expected credit losses.

The consolidated entity does not hold any collateral or other credit enhancements.

Notes to the Financial Statements

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LIQUIDITY RISK

Liquidity risk management requires the consolidated entity to maintain sufficient liquid assets (mainly cash and cash equivalents) and available borrowing facilities to be able to pay debts as and when they become due and payable. The consolidated entity manages liquidity risk by maintaining adequate cash reserves and available borrowing facilities, by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.

Each of the securitisation warehouses in place has loan covenants that are in line with standard market practice given the nature of the warehouse facilities. There were no material breaches of any of the covenants in place during the financial period.

Financing arrangements

Unused borrowing facilities at the reporting date are disclosed in Note 19.

Remaining contractual maturities

The financial assets of the consolidated entity predominantly comprise customer receivables that have:

- An average repayment profile of six months for Zip Pay receivables and twelve months for Zip Money and SME receivables; and
- Instalment payments generally due within 14-56 days for instalments product within the Zip Global CGU.

The following tables detail the consolidated entity's remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the Consolidated Statement of Financial Position.

CONSOLIDATED 30 JUNE 2020	WEIGHTED AVERAGE INTEREST RATE %	1 YEAR OR LESS $'000	BETWEEN 1 AND 2 YEARS $'000	BETWEEN 2 AND 5 YEARS $'000	OVER 5 YEARS $'000 $	REMAINING CONTRACTUAL MATURITIES $'000
Non-interest-bearing						
Trade and other payables		19,533	–	–	–	19,533
Deferred contingent consideration		13,979	–	–	–	13,979
Lease liabilities		3,008	3,157	2,619	–	8,784
Interest-bearing						
– floating rate						
Borrowings	3.48%	507,574	544,500	–	–	1,052,074
– fixed rate						
Borrowings	10.00%	293	32,090	–	–	32,383
Total non-derivatives		544,387	579,747	2,619	–	1,126,753

CONSOLIDATED 30 JUNE 2019	WEIGHTED AVERAGE INTEREST RATE %	1 YEAR OR LESS $'000	BETWEEN 1 AND 2 YEARS $'000	BETWEEN 2 AND 5 YEARS $'000	OVER 5 YEARS $'000	REMAINING CONTRACTUAL MATURITIES $'000
Non-derivatives						
Non-interest-bearing						
Trade and other payables		19,657	–	–	–	19,657
Interest-bearing						
– floating rate						
Borrowings	4.65%	2,931	586,000	–	–	588,931
Total non-derivatives		22,588	586,000	–	–	608,588

The cash flows in the maturity analysis above are not expected to occur significantly earlier than disclosed above.

Fair value of financial instruments

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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the consolidated entity. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

Fair value hierarchy

AASB 13 *Fair Value Measurement* requires disclosure of fair value measurements by level in the fair value measurement hierarchy as follows:

Level 1 – the instrument has quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – a valuation technique is used using inputs other than quoted prices within level 1 that are observable for the financial instrument, either directly (i.e. as prices), or indirectly (i.e. derived from prices).

Level 3 – a valuation technique is used using inputs that are not observable based on observable market data (unobservable inputs).

Notes to the Financial Statements

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The Directors consider that the carrying amount of financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair values.

	FAIR VALUE HIERARCHY AT 30 JUNE 2020			
	LEVEL 1 $'000	LEVEL 2 $'000	LEVEL 3 $'000	TOTAL $'000
Financial assets				
Cash and cash equivalents	32,712	–	–	32,712
Other receivables	–	4,571	–	4,571
Term deposit	–	1,507	–	1,507
Customer receivables	–	1,116,618	–	1,116,618
Investment[1]	–	–	82,930	82,930
Total	32,712	1,122,696	82,930	1,238,338
Financial liabilities				
Trade and other payables	–	19,533	–	19,533
Deferred contingent consideration	–	13,979	–	13,979
Borrowings	1,081,954	–	–	1,081,954
Total	1,081,954	33,512	–	1,115,466

1. Refer to price risk analysis in this note for the valuation method of investment in QuadPay which is classified as level 3.

	FAIR VALUE HIERARCHY AT 30 JUNE 2019			
	LEVEL 1 $'000	LEVEL 2 $'000	LEVEL 3 $'000	TOTAL $'000
Financial assets				
Cash and cash equivalents	12,611	–	–	12,611
Other receivables	–	10,237	–	10,237
Term deposit	–	1,179	–	1,179
Customer receivables	–	647,544	–	647,544
Total	12,611	658,960	–	671,571
Financial liabilities				
Trade and other payables	–	19,657	–	19,657
Borrowings	–	587,445	–	587,445
Total	–	607,102	–	607,102

NOTE 23: CONTINGENCIES

On 24 June 2019, Zip announced to the ASX that Firstmac Limited had commenced proceedings in the Federal Court against Zip Co Limited and zipMoney Payments Pty Ltd alleging infringement of Firstmac's "ZIP" trademark, which is registered in respect of financial affairs (loans). Zip continues to vigorously defend the proceedings and has brought a cross-claim seeking cancellation of Firstmac's "ZIP" trademark. However, as the proceedings are ongoing, there remains the possibility of a liability being incurred contingent on the outcome of the proceedings.

There were no other contingent liabilities or contingent assets as at 30 June 2020 (30 June 2019: nil).

NOTE 24: KEY MANAGEMENT PERSONNEL DISCLOSURES

Directors

The following persons were Directors of Zip Co Limited (Zip or the Company) during the whole of the financial year:

- Philip Crutchfield
- Larry Diamond
- Peter Gray
- Dianne Challenor
- John Batistich

Compensation

The aggregate compensation paid to Directors and other members of key management personnel of the consolidated entity is set out below:

	30 JUNE 2020 $'000	30 JUNE 2019 $'000
Short-term employee benefits	1,425	1,219
Post-employment benefits	134	114
Long-term benefits	50	35
Share-based payments	990	506
	2,599	1,874

NOTE 25 : RELATED PARTY TRANSACTIONS

Parent entity

Zip Co Limited is the parent entity.

Subsidiaries

Interests in subsidiaries are set out in Note 28.

Key management personnel

Disclosures relating to key management personnel are set out in Note 24 and the remuneration report included in the Directors' report.

Transactions with related parties

Other than reported in Note 24, there were no transactions with related parties during the current and previous financial year.

Receivable from and payable to related parties

There were no trade receivables due from, or trade payables due to, related parties at the current and previous reporting date.

Loans to/from related parties

There were no loans to/from related parties at the current or previous reporting date.

Terms and conditions

All transactions were made on normal commercial terms and conditions and at market rates.

Notes to the Financial Statements

Continued

NOTE 26: REMUNERATION OF AUDITORS

During the financial year the following fees were paid or payable for services provided by Deloitte Touche Tohmatsu, the auditor of the consolidated entity:

	30 JUNE 2020 $'000	30 JUNE 2019 $'000
Audit and review of the financial statements	442	214
Other assurance and Agreed-upon procedures	–	124
Consulting services	252	23
Tax compliance services	–	4
Total	694	365

NOTE 27: PARENT ENTITY INFORMATION

The accounting policies of the parent entity, which have been applied in determining the financial information shown below, are the same as those applied in the consolidated financial statements except as set out below.

Investments in subsidiaries, associates and joint ventures

Investments in subsidiaries, associates and joint ventures are accounted for at cost. Dividends (if any) received from subsidiaries, associates and joint ventures are recognised in profit or loss when a right to receive the dividend is established (provided that it is probable that the economic benefits will flow to the Parent and the amount of income can be measured reliably).

Tax consolidation

The Company and its wholly-owned Australian resident entities are members of a tax-consolidated group under Australian tax law. The Company is the head entity within the tax-consolidated group. In addition to its own current and deferred tax amounts, the Company also recognises the current and deferred tax amounts of the members of the tax-consolidated entity.

See Note 1 for a summary of the significant accounting policies relating to the consolidated entity.

Set out below is the supplementary information about the parent entity.

Statement of profit or loss and other comprehensive income

	PARENT	
	30 JUNE 2020 $000	30 JUNE 2019 $000
Loss after income tax	(12,937)	(1,399)
Total comprehensive loss	(12,937)	(1,399)

Statement of financial position

	PARENT	
	30 JUNE 2020 $000	30 JUNE 2019 $000
Total current assets	4	31
Total non-current assets	284,581	145,931
Total assets	284,585	145,962
Total current liabilities	2,625	187
Total liabilities	2,625	187
Net assets	**281,960**	**145,775**
Issued capital	289,643	156,702
Reserve	20,233	4,052
Accumulated losses	(27,916)	(14,979)
Total equity	**281,960**	**145,775**

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries

During the financial year ended 30 June 2019 and financial year 30 June 2020, the parent entity and certain subsidiaries had a deed of cross guarantee in place under which each company guarantees the debts of the others.

By entering into the deed, the wholly-owned entities have been relieved from the requirement to prepare financial statements and Directors' Report under Corporations Instrument 2016/785 issued by the Australian Securities and Investments Commission.

The effect of the Deed is that the parent entity guarantees to each creditor payment in full of any debt in the event of winding up of the subsidiaries included in the Deed under certain provisions of the *Corporations Act 2001*.

The subsidiaries detailed in Note 28 are parties to a deed of cross guarantee under which each guarantees the debts of the others. These controlled entities have been relieved of the requirement to prepare a financial report and Directors' Report under ASIC Corporations (Wholly-owned Companies) Instruments 2016/785. These controlled entities and the Company form a closed group. Included in the closed group are receivables on zipMoney Payments Pty Ltd's balance sheet which are transferred to the Trusts but failed derecognition due to zipMoney Payments Pty Ltd retaining substantially all risks and rewards of ownership. The effects of transactions between entities to the deed are eliminated in full in the Consolidated Statement of Financial Position and Consolidated Statement of Profit or Loss and Other Comprehensive Income as set out in the following tables.

The parent entity has provided a corporate guarantee to secure the funding facility of the zipMoney 2017-2 Trust as at 30 June 2020 and 30 June 2019. ZipMoney 2017-2 is not party to the deed of cross guarantee.

Notes to the Financial Statements

Continued

The Consolidated Statement of Financial Position of the Closed Group is set out in the following table:

	30 JUNE 2020 $000	30 JUNE 2019 $000
Assets		
Cash and cash equivalents	27,737	12,595
Other receivables	112,701	8,536
Customer receivables	1,081,155	646,284
Property, plant and equipment	3,359	2,547
Right-of-use assets	8,160	–
Intangible assets	17,040	5,813
Total Assets	**1,250,152**	**675,775**
Liabilities		
Trade and other payables	(19,191)	(10,292)
Employee provisions	(2,349)	(1,368)
Deferred R&D tax incentives	–	(392)
Lease liabilities	(8,414)	–
Borrowings	(1,049,710)	(587,445)
Total Liabilities	**(1,079,664)**	**(599,497)**
Net Assets	**170,488**	**76,278**
Equity		
Issued capital	274,152	141,211
Reserves	19,700	3,520
Accumulated losses	(123,364)	(68,453)
Total Equity	**170,488**	**76,278**

The Consolidated Statement of Profit or Loss and Other Comprehensive Income of the Closed Group is set out in the following table:

	30 JUNE 2020 $'000	30 JUNE 2019 $'000
Portfolio Income	149,231	82,737
Third party revenue splits	(1,906)	(696)
Cost of Sales	(97,110)	(51,422)
Gross Profit	**50,215**	**30,619**
Other income	2,051	1,468
Administration expenses	(6,393)	(4,239)
Depreciation expense	(3,920)	(968)
Amortisation of intangibles	(5,864)	(3,587)
Information technology expenses	(10,238)	(4,098)
Marketing expenses	(8,419)	(3,357)
Salaries and employee benefits expenses	(37,909)	(20,399)
Share-based payments	(20,393)	(3,215)
Acquisition costs	(10,273)	–
Other operating costs	(3,768)	(3,365)
Loss Before Income Tax	**(54,911)**	**(11,141)**
Income tax expense	–	–
Loss After Income Tax	**(54,911)**	**(11,141)**
Other Comprehensive Income, Net of Tax	–	–
Total Comprehensive Loss	**(54,911)**	**(11,141)**

Contingencies

Other than reported in the Note 23, the parent entity had no contingencies as at 30 June 2020 and 30 June 2019.

Capital commitments – Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2020 and 30 June 2019.

Notes to the Financial Statements

Continued

NOTE 28: INTEREST IN SUBSIDIARIES

(a) Ultimate parent

Zip Co Limited is the ultimate parent entity and the parent entity of the consolidated entity from a legal perspective.

(b) Corporate structure

The legal corporate structure of the consolidated entity is set out below;

NAME	PRINCIPAL PLACE OF BUSINESS/COUNTRY OF INCORPORATION	OWNERSHIP INTEREST 30 JUNE 2020 %	OWNERSHIP INTEREST 30 JUNE 2019 %
Legal parent			
Zip Co Limited[1]	Australia		
Legal subsidiaries			
zipMoney Payments Pty Ltd[1]	Australia	100%	100%
zipMoney Trust 2017-1[2]	Australia	100%	100%
zipMoney Trust 2017-2[2]	Australia	100%	100%
Zip Master Trust[2]	Australia	100%	–
zipMoney Holdings Pty Ltd[1]	Australia	100%	100%
zipMoney Securities Ltd	Australia	100%	100%
Pocketbook Holdings Pty Ltd	Australia	100%	100%
Pocketbook Australia Pty Ltd	Australia	100%	100%
Pocketbook Technologies Pty Ltd	Australia	100%	100%
Zip Domestic Holdings Pty Limited	Australia	100%	–
Zip International Holdings Pty Limited	Australia	100%	–
zipMoney Payments (NZ) Limited	New Zealand	100%	100%
Spotcap Australia Pty Ltd	Australia	100%	–
Spotcap New Zealand Ltd	New Zealand	100%	–
Funding Box 3 (Australia) Pty Limited	Australia	100%	–
Funding Box NZ Limited	New Zealand	100%	–
Zip Co NZ Limited	New Zealand	100%	–
Zip Co NZ Finance Limited	New Zealand	100%	–
Zip Co Payments UK Limited	United Kingdom	100%	–
Zip Co Finance UK Limited	United Kingdom	100%	–
Zip Global Consulting Pte Ltd	Singapore	100%	–

1. These entities have entered into a deed of cross guarantee, refer to Note 27 for details.
2. Ownership is through zipMoney Payments Pty Ltd, which is both the Participating Unitholder and Residual Unitholder of the zipMoney Trust 2017-1, and the zipMoney Trust 2017-2 and the Zip Master Trust.

NOTE 29: SHARE-BASED PAYMENTS

MOVEMENTS IN SHARE-BASED PAYMENTS RESERVE

DETAILS	30 JUNE 2020 $'000	30 JUNE 2019 $'000
Opening balance	**3,520**	**4,380**
Recognised for the year		
– Employee Short Term Incentive Plan	12,046	2,893
– Employee Long Term Incentive Plan	925	101
– Westpac options	221	221
– Amazon warrants	7,201	–
Total recognised for the year	20,393	3,215
Exercised for the year		
– Employee Short Term Incentive Plan	(4,213)	(2,345)
– Pocketbook achievement of performance milestones	–	(1,163)
– Option exercised	–	(567)
Total exercised for the year	(4,213)	(4,075)
Closing balance	**19,700**	**3,520**

Employee Short Term Incentive Plan

Short term incentives are granted to employees for their contribution to the performance of the consolidated entity and include annual share awards, sign-on bonuses and project specific incentives. Provision is made during the year for incentives that are to be issued during the year and in subsequent years.

Shares have been issued under the Employee Short Term Incentive Plan as follows:

- 2,286,407 ordinary shares issued in August 2018 with weighted average share price of $1.03; and
- 1,228,395 ordinary shares issued in September 2019 and December 2019 with weighted average share price of $3.43.

Shares issued vest immediately other than those issued to KMP.

Shares issued under the Short Term Incentive Plan are expensed as share-based payments as the obligation is incurred.

Employee Long Term Incentive Plan

Performance rights have been issued under the consolidated entity's Employee Long Term Incentive Plan as follows:

- 2,750,000 performance rights issued in February 2019 to executive Directors and management; and
- 359,159 performance rights issued in December 2019 to executive management.

Notes to the Financial Statements

Continued

Performance rights were issued for no consideration are set out in the following table:

ISSUE DATE	VESTING DATE	EXPIRY DATE	NUMBER OF RIGHTS ISSUED	FAIR VALUE AT GRANT DATE $
15 February 2019	15 September 2021	15 February 2025	510,000	0.287
15 February 2019	15 February 2022	15 February 2025	406,666	0.287
15 February 2019	15 September 2022	15 February 2025	510,000	0.317
15 February 2019	15 February 2023	15 February 2025	406,666	0.317
15 February 2019	15 September 2023	15 February 2025	510,000	0.330
15 February 2019	15 February 2024	15 February 2025	406,668	0.330
15 December 2019	15 September 2022	15 February 2025	20,548	1.900
15 December 2019	15 September 2022	15 February 2025	20,117	1.980
15 December 2019	15 September 2022	15 February 2025	106,165	0.630
15 December 2019	15 September 2022	15 February 2025	106,165	0.760
15 December 2019	15 September 2022	15 February 2025	106,164	0.810
Total at 30 June 2020			3,109,159	

The performance rights have a nil exercise price and vest on the achievement of Total Shareholder Return hurdles and time based hurdles over the period from the date of grant to the assessment dates. The assessment dates are up to 3, 4, and 5 years from the date of grant.

Performance Rights granted were valued by an independent valuation using the Monte Carlo simulation model and the benefits are amortised as share-based payments over the vesting period.

Westpac Options

During the financial year, an expense of $0.2 million was recognised in relation to the Westpac options as detailed in Note 20.

Amazon Warrants

During financial year ended 30 June 2020, an expense of $7.2 million was recognised in relation to the Amazon warrants as detailed in Note 20.

Employee share option plan of a subsidiary acquired in the current year

There were no employee share option plans in place for either Spotcap or PartPay on acquisition by the consolidated entity.

NOTE 30: SUBSEQUENT EVENTS

Subsequent to the year end the limit available under the Variable Funding Note Facility increased by $69.8 million.

The consolidated entity invested a further $0.1 million in Payflex in July 2020, the consolidated entity's associated company in South Africa. This increase takes Zip's interest in Payflex to 26.2%.

Zip has accounted for its investment in QuadPay on the balance sheet at 30 June 2020 as an investment, as it held a 14.09% interest in QuadPay (refer Note 6). On 2 June 2020 Zip announced its intention to acquire the 85.91% of QuadPay it did not already own, to raise $100.0 million through the issue of convertible notes to CVI Investments, Inc. (CVI), an affiliate of Heights Capital Management, which is part of the US–based Susquehanna International Group (SIG) and to issue warrants with an exercise value of $100.0 million to CVI. Zip's shareholders approved the acquisition of QuadPay and the issuance of the convertible notes and warrants at the Company's EGM held on Monday 31 August 2020. Following the EGM, Zip completed the acquisition of QuadPay with 118,776,119 ordinary shares and 10,480,369 options being issued. Concurrently, Zip issued the 1,000 convertible notes with face value of $100,000 and granted 19,365,208 warrants to CVI. At the time of this report, the accounting for the QuadPay acquisition is not complete. The consolidated entity will report the accounting for the QuadPay acquisition in the half year report ended 31 December 2020.

The performance shares of 20,000,000 issued to Columbus Capital in 2015 in connection with the facilitation of an institutional financing facility (Warehouse Facility) expired in September 2020 due to the provision of the Warehouse Facility not being completed and accordingly the performance milestones was not met.

In September 2020, the Board granted 705,041 ordinary shares to its employees for their contribution to the performance of the consolidated entity. These shares were valued at $6.17, vest immediately (other than for KMP) at grant date and were issued under the Employee Short Term Incentive Plan.

There have been no other material items, transactions or events subsequent to 30 June 2020 which relate to conditions existing at that date and which require comment or adjustment to the figures dealt with in this report.

Directors' Declaration

The Directors declare that in the Directors' opinion:

- There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;
- The attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in Note 1 to the financial statements;
- The attached financial statements and notes comply with the *Corporations Act 2001*, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
- The attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 30 June 2020 and of its performance for the financial year ended on that date; and
- The Directors have been given the declarations required by section 295A of the *Corporations Act 2001*.

At the date of this declaration, the Company is within the class of companies affected by ASIC Corporations (Wholly owned Companies) Instrument 2016/785. The nature of the deed of cross guarantee is such that each company which is party to the deed guarantees to each creditor payment in full of any debt in accordance with the deed of cross guarantee.

In the Directors' opinion, there are reasonable grounds to believe that the Company and the companies to which ASIC Corporations (Wholly owned Companies) Instrument 2016/785 applies, as detailed in Note 27 to the financial statements will, as a group, be able to meet any liabilities to which they are, or may become, subject because of the deed of cross guarantee.

Signed in accordance with a resolution of Directors made pursuant to section 295(5)(a) of the *Corporations Act 2001*.

On behalf of the Directors,

Larry Diamond
Managing Director & Chief Executive Officer

30 September 2020

Deloitte.

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Independent Auditor's Report to the Members of Zip Co Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Zip Co Limited (the "Company") and its subsidiaries (the "Group") which comprises the consolidated statement of financial position as at 30 June 2020, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Group's financial position as at 30 June 2020 and of its financial performance for the year then ended; and

(ii) complying with Australian Standards and the *Corporations Regulation 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Independent Auditor's Report To The Members

Continued

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Key Audit Matters	How the scope of our audit responded to the Key Audit Matters
Effective interest rate Revenue recognition is calculated using the effective interest rate ('EIR') method under AASB 9 *Financial Instruments* ('AASB 9'). When calculating the effective interest rate, the Group shall estimate the expected cash flows by considering all the contractual terms of the loan receivables but shall not consider the expected credit losses. As at 30 June 2020, net portfolio income of $156.9m was reported as disclosed in the financial statements. Net portfolio income contains merchant fees, establishment fees, monthly fees, interest and third party revenue splits. The effective interest rate method is based on a management revenue recognition model with a number of key estimates and assumptions including: • estimated future cash flows; and • historical repayment patterns.	Our audit procedures included, but were not limited to: • Obtaining an understanding of revenue streams, products and offerings; • Assessing the accounting policies adopted by management in respect of revenue and ensuring they are in accordance with the relevant accounting standards; • Assessing the relevant internal controls over the capture and measurement of revenue transactions; • Assessing the appropriateness of key assumptions used in the revenue recognition model, including the estimated future cash flows and the expected life of the customer receivables balance; • Agreeing a sample of revenue transactions to underlying signed loan, merchant agreements and bank statements; • Assessing the appropriateness of any unearned future income adjustments made by management in accordance with the relevant accounting standards; and • Recalculating the material components of portfolio income under the effective interest rate method. We have also assessed the appropriateness of the disclosures in Note 1e and 1p to the financial statements.

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Expected credit loss provisioning As at 30 June 2020, the carrying value of Customer Receivables recorded was $1,116.6m, which includes a provision for expected credit loss of $52.0m as disclosed in Note 10. Models to measure the 'expected credit losses' involve significant judgements and assumptions made by management, including; • criteria for identifying a significant increase in credit risk; • parameters of the models in relation to probability of default, loss given default, behavioural life and exposure at default; • determining the most appropriate information and datasets to be used as inputs; and • forward looking economic scenarios that consider the impact on expected credit losses of potential macro-economic events, including the impact of the COVID-19.	Our audit procedures included, but were not limited to: • Obtaining an understanding of credit judgments made by management in the ECL models; • Testing the key controls relating to the customer loan approval processes and identification of overdue amounts; • Agreed a sample of data used as inputs to the ECL models to relevant source documentation and historical loan portfolio performance records; • Testing the data inputs in calculating the probability of default roll rates to assess reasonableness; • Assessing the reasonability of management's key assumptions and recent historical recovery data used in determining loss given default and lifetime expected loss period; • Assessing the provisioning methodology with reference to relevant accounting standards and market practices; • Testing model calculations through re-performance; • Challenging management's judgements in respect to the macroeconomic factors and judgemental overlays in response to the current macroeconomic environment. We have also assessed the appropriateness of the disclosures in Note 1e, 1p, 10 and 22 to the financial statements.

Acquisition accounting The Group completed two acquisitions during the financial year which were accounted for in accordance with AASB 3 *Business Combinations*: • Spotcap was acquired on 18 September 2019, for $9.3m based on consideration of shares and working capital; and • Partpay was acquired on 7 November 2019 for $73.9m in consideration of Zip shares. Management engaged an external valuation expert to complete the purchase price allocation of the assets acquired and liabilities assumed on acquisition. Significant estimation was used, in particular to the valuation of acquired intangible assets, such as brands, technology and exclusive contracts. The residual balance of $48.9m was allocated to goodwill, as disclosed in Note 16. In addition, the acquisition of Partpay included an investment in Quadpay which was recognised at fair value through profit and loss on acquisition and subsequently revalued to recognise the fair value as at the balance sheet date and recognised a valuation gain since acquisition of $47.5m.	Our audit procedures included, but were not limited to: • Assessing management's key assumptions in determining the appropriate business combination treatment and the acquisition date of control in accordance with the relevant accounting standard; • Assessing management's recognition and measurement criteria in recording the purchase price, identified assets and liabilities as part of the acquisition, and the residual allocation of goodwill; • Engaging financial reporting specialists to review management's position paper in assessing the acquisition date and goodwill allocation as well as operating segments; • Inspecting the opening balances of acquired cash, loans, facilities and other material balance sheet items of Spotcap and Partpay back to signed agreements and bank statements; • Evaluating the external valuation reports used by management in relation to the fair values of acquired assets and liabilities of Spotcap and Partpay; • Assessed the competence and capabilities of management's valuation expert; • In conjunction with our valuation specialists, we assessed management's final fair value adjustments over identified and acquired intangible assets,

Independent Auditor's Report To The Members

Continued

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	especially the reasonability of forecasts, growth rates and discount rates used; • Assessing the Partpay contingent consideration and its impact on the acquisition price as well as the reasonability in achieving the associated performance hurdles up to the financial year ended; and • Evaluating the reasonability that the fair value determined by management was appropriate. We have also assessed the appropriateness of the disclosures in Note 1e, 1f, 13 and 16 to the financial statements.
Goodwill impairment As a result of the acquisitions, the Group's recognised goodwill was considered by management for impairment. Goodwill acquired in a business combination was allocated to each of the Group's cash-generating unit (CGU), or groups of CGUs, that are expected to benefit from the synergies of the combination and represents the lowest level within the Group at which the goodwill is monitored for internal management purposes as disclosed in Note 15. Management's impairment assessment of the carrying value of goodwill was based on key assumptions; particularly transaction volume forecasts, terminal growth rates and discount rates. Management identified multiple CGUs – Zip (ANZ), Spotcap and Partpay (Zip Global). This is a significant judgemental area and the impairment models are sensitive to these key assumptions: • The forecasted transaction volumes; • The discount rate; and • The terminal growth rate.	Our audit procedures included, but were not limited to: • Obtaining an understanding over any changes to the internal and external impairment indicators (such as the impact of COVID-19 on cash flow forecasts, market capitalisation) in assessing goodwill impairment through inquiries with management and external market evidence; • Assessing management's position paper and board minutes to identify the CGU to which goodwill has been allocated and ensured that CGU is not allocated at a higher level than its operating segment; • Evaluating consistency of management's projections, historical track record and external market evidence; • Recalculating the mathematical accuracy and model integrity of the impairment calculations; • Assessing the reasonableness of key assumptions used in the model prepared by management such as the forecasted transaction volumes, terminal growth rates and discount rates; and • In conjunction with our valuation specialists, we tested the model integrity and reasonability of management assumptions used. We have also assessed the appropriateness of the disclosures in Note 1e, 1l and 15 to the financial statements.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2020, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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Responsibilities of the Directors for the Financial Report

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

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group's audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Independent Auditor's Report To The Members

Continued

Deloitte.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 52 to 65 of the Directors' report for the year ended 30 June 2020.

In our opinion, the Remuneration Report of Zip Co Limited for the year ended 30 June 2020 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Deloitte. Touche. Tohmatsu.

DELOITTE TOUCHE TOHMATSU

Mark Lumsden
Partner
Chartered Accountants
Sydney, 30 September 2020

Shareholder Information

The shareholder information set out below was applicable as at 10 September 2020.

DISTRIBUTION OF EQUITABLE SECURITIES

Analysis of number of equitable security holders by size of holding

RANGE	NUMBER OF HOLDERS OF ORDINARY SHARES	NUMBER OF UNLISTED PERFORMANCE SHARES	NUMBER OF HOLDERS OF UNLISTED WARRANTS EXP 06.11.2026
1 to 1,000	62,396	–	–
1,001 to 5,000	20,310	–	–
5,001 to 10,000	3,471	–	–
10,001 to 100,000	2,782	–	–
100,001 and over	244	1	1
Total	89,203	1	1
Holding less than a marketable parcel	4,793	–	–

RANGE	NUMBER OF HOLDERS OF UNLISTED WARRANTS EXP 01.09.2023	CONVERTIBLE NOTES	NUMBER OF HOLDERS OF UNQUOTED OPTIONS VESTING 10.08.2022
1 to 1,000	–	1	–
100,001 and over	1	–	1
Total	1	1	1
Holding less than a marketable parcel	–	–	–

RANGE	NUMBER OF HOLDERS OF UNQUOTED PERFORMANCE RIGHTS, VESTING 15.02.2022	NUMBER OF HOLDERS OF UNQUOTED PERFORMANCE RIGHTS, VESTING 15.02.2023	NUMBER OF HOLDERS OF UNQUOTED PERFORMANCE RIGHTS, VESTING 15.02.2024
100,001 and over	2	2	2
Total	2	2	2
Holding less than a marketable parcel	–	–	–

RANGE	NUMBER OF HOLDERS OF UNQUOTED PERFORMANCE RIGHTS, VESTING 15.09.2021	NUMBER OF HOLDERS OF UNQUOTED PERFORMANCE RIGHTS, VESTING 15.09.2022	NUMBER OF HOLDERS OF UNQUOTED PERFORMANCE RIGHTS, VESTING 15.09.2023
100,001 and over	3	3	3
Total	3	3	3
Holding less than a marketable parcel	–	–	–

Shareholder Information

Continued

RANGE	NUMBER OF HOLDERS OF UNQUOTED PERFORMANCE RIGHTS, VESTING 15.09.2023	NUMBER OF HOLDERS OF UNQUOTED PERFORMANCE RIGHTS, VESTING 15.09.2024	NUMBER OF HOLDERS OF UNQUOTED PERFORMANCE RIGHTS, VESTING 15.09.2025
100,001 and over	7	7	7
Total	7	7	7
Holding less than a marketable parcel	–	–	–

RANGE	NUMBER OF HOLDERS OF UNQUOTED PERFORMANCE RIGHTS, VESTING 15.09.2022	NUMBER OF HOLDERS OF UNQUOTED PERFORMANCE RIGHTS, VESTING 15.09.2023	NUMBER OF HOLDERS OF UNQUOTED PERFORMANCE RIGHTS, VESTING 15.09.2024
10,001 to 100,000	4	2	2
Total	4	2	2
Holding less than a marketable parcel	–	–	–

RANGE	QUADPAY EMPLOYEE OPTIONS
5,001 to 10,000	6
10,001 to 100,000	52
100,000 and over	11
Total	69
Holding less than a marketable parcel	–

EQUITY SECURITY HOLDERS

Twenty largest quoted equity security holders

The names of the twenty largest security holders of quoted equity securities are listed below:

	ORDINARY SHARES	
	NUMBER HELD	% OF TOTAL SHARES ISSUED
DIAMOND VENTURE HOLDINGS PTY LTD <DIAMOND FT A/C>	55,942,344	10.99
WESTPAC BANKING CORPORATION	55,195,164	10.84
CITICORP NOMINEES PTY LIMITED	18,899,160	3.71
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	16,898,499	3.32
AJE COMPANY PTY LTD <AJE INVESTMENT A/C>	16,424,037	3.23
BLEEKER STREET NOMINEES PTY LIMITED <BLEEKER STREET A/C>	15,770,548	3.10
MR PETER JOHN GRAY	15,706,105	3.09
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	11,455,080	2.25
UBS NOMINEES PTY LTD	9,721,014	1.91
SIRIUS ENTERPRISES PTY LTD <SIRIUS A/C>	7,585,912	1.49
MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED	6,961,566	1.37
MR ADAM MARC FINGER	5,463,317	1.07
CS THIRD NOMINEES PTY LIMITED <HSBC CUST NOM AU LTD 13 A/C>	5,349,840	1.05
BRAD MARC LINDENBERG	4,249,847	0.83
ROCKET INTERNET CAPITAL PARTNERS SCS <RICP SCS A/C>	4,136,433	0.81
ACN 163 625 198 PTY LTD <SR-71 A/C>	3,977,382	0.78
ADAM JORDAN EZRA	3,792,405	0.75
NATIONAL NOMINEES LIMITED	3,385,719	0.66
BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT DRP>	3,025,048	0.59
COMSEC NOMINEES PTY LIMITED	2,492,360	0.49
Total	266,431,780	52.33

Shareholder Information

Continued

Unquoted equity securities

	NUMBER ON ISSUE	NUMBER OF HOLDERS
Unlisted Performance Shares	20,000,000	1
Unlisted Warrants, Expiry 6 November 2026	14,615,000	1
Unlisted Warrants, Expiry 1 September 2023	19,365,208	1
Unlisted Performance Options Vesting 10.08.2022	5,880,000	1
Convertible Notes, face value $100,000	1,000	1
Quadpay Employee options	10,480,369	69
Unlisted Performance Rights Vesting 15.09.2021	393,333	3
Unlisted Performance Rights Vesting 15.02.2022	406,666	2
Unlisted Performance Rights Vesting 15.09.2022	146,830	4
Unlisted Performance Rights Vesting 15.09.2022	393,334	3
Unlisted Performance Rights Vesting 15.02.2023	406,666	2
Unlisted Performance Rights Vesting 15.09.2023	106,165	2
Unlisted Performance Rights Vesting 15.09.2023	393,333	3
Unlisted Performance Rights Vesting 15.09.2023	388,164	7
Unlisted Performance Rights Vesting 15.02.2024	406,668	2
Unlisted Performance Rights Vesting 15.09.2024	388,162	7
Unlisted Performance Rights Vesting 15.09.2024	106,164	2
Unlisted Performance Rights Vesting 15.09.2025	388,160	7

The following persons holds 20% or more of unquoted equity securities:

NAME	CLASS	NUMBER HELD
OZTRAL EQUITIES PTY LTD <AUSTRAL EQUITIES UNIT A/C>	Unlisted Performance Shares	20,000,000
AMAZON.COM NV INVESTMENT HOLDINGS LLC	Unlisted Warrants Expiry 6.11.2026	14,615,000
WESTPAC BANKING CORPORATION	Unlisted Performance Options Vesting 10 August 2022	5,880,000
CVI INVESTMENTS, INC	Unlisted Warrants Expiry 1.09.2023	19,365,208
CVI INVESTMENTS, INC	Convertible Notes, Face Value $100,000	1,000

SUBSTANTIAL HOLDERS

Substantial holders in the Company are set out below based on the shares disclosed as held from the last Form 604 lodged by the shareholder:

	ORDINARY SHARES	
	NUMBER HELD	PERCENTAGE %
ZIP CO LIMITED	84,474,850	16.59
MR LARRY DIAMOND, MR LARRY DIAMOND + MRS ASHLYN DIAMOND DIAMOND VENTURE HOLDINGS PTY LTD <DIAMOND UNIT A/C>	55,986,987	11.00
WESTPAC BANKING CORPORATION	55,460,987	10.89

VOTING RIGHTS

Voting rights are as set out below:

Ordinary shares:

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Options:

All quoted and unquoted options do not carry any voting rights.

ASX LISTING RULE 3.13.1 AND 14.3

The Annual General Meeting (AGM) is scheduled to be held on 30 November 2020.

The location of the AGM is subject to COVID-19 restrictions, including regulatory requirements. Further details of the location, or whether the meeting will be held as a hybrid or virtual meeting, will be confirmed closer to the AGM.

Further to Listing Rule 3.13.1, Listing Rule 14.3 and Clause 8.1(k) of the Company's Constitution, nominations for election of directors at the AGM must be received not less than 35 business days before the meeting, being no later than Monday 12 October 2020.

ASX LISTING RULE 4.10.3

The corporate governance statement that meets the requirements of this rule is located on the Company's website: https://zip.co/investors/about/corporate-governance

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Corporate Directory

DIRECTORS

Philip Crutchfield (Chairman)
Larry Diamond (Managing Director, CEO)
Peter Gray (Executive Director, COO)
Dianne Challenor (Non-Executive Director)
John Batistich (Non-Executive Director)

COMPANY SECRETARY

David Franks

REGISTERED OFFICE

Level 5
126 Phillip Street
Sydney, NSW, 2000
Website: www.zip.co

SECURITIES EXCHANGE LISTING

ASX Code: Z1P

AUDITORS

Deloitte Touche Tohmatsu
Grosvenor Place, 225 George Street
Sydney, NSW 2000

SOLICITORS

Arnold Bloch Liebler
Level 24, 2 Chifley Square
Sydney NSW 2000

SHARE REGISTRY

Computershare Investor Services Pty Limited
Level 11, 172 St Georges Terrace
Perth, WA 6000

INVESTOR ENQUIRIES

investors@zip.co

INVESTOR ENQUIRIES
Zip Co Limited
investors@zip.co
Level 14, 10 Spring Street
Sydney NSW 2000

ACN 139 546 428