



# APPENDIX 4D

## HALF-YEAR FINANCIAL REPORT

Name of entity	Zip Co Limited
ABN	50 139 546 428
Reporting period	Half-Year ended 31 December 2018
Previous corresponding period	Half-Year ended 31 December 2017

The information contained in this report should be read in conjunction with the most recent annual financial report.

### RESULTS FOR ANNOUNCEMENT TO THE MARKET

			31 December 2018	31 December 2017
Revenue from ordinary activities	Up	114%	34,232,733	15,975,923
Loss from ordinary activities after income tax attributable to members	Down	54%	(6,758,358)	(14,584,008)
Total comprehensive loss attributable to members	Down	54%	(6,758,358)	(14,584,008)

The company does not have a dividend policy.

NTA Backing	31 December 2018	31 December 2017
Net tangible asset backing per ordinary share	4.74 cents	9.84 cents

### BRIEF EXPLANATION OF THE ABOVE FIGURES

The Group continues to report strong revenue growth with increasing numbers of consumers and merchants embracing the benefits offered by buy now pay later solutions. The Group now has over 1 million customer accounts on its platform, a 39% increase over the six months to 31 December 2018 and over 12,600 merchants.

The Group signed a number of major retailers to its platform during the last six months, including Bunnings Warehouse, Target, Officeworks, Appliances Online and the Super Retail Group. It also completed the rebranding program, started at the end of the 2017 Financial Year, and launched the native App. The native App has been well received by the Zip consumer base, making it easier for them to locate merchants and transact using their Zip digital wallet. The App also allows Zip to communicate more targeted content and offers to its customer base.

The transition from the legacy high cost funding facility in the six months to 31 December 2017 and the scalability of the Group's operations are flowing through to the Group's operating results, leading to the Group reporting a significantly reduced loss for the year. The Group achieved cashflow breakeven on a monthly basis in the second half of the 2018 financial year and has further improved its operating cashflows during the course of the six months to 31 December 2018.

The principal activity of the Group is offering point-of-sale credit and payments to consumers (Retail Finance) and providing a variety of integrated Retail Finance solutions to merchants across numerous industries, both online and in-store.

### Details of Controlled Entities

There has been no gain or loss of control over entities during the financial period.

### Associates / Joint Venture Entities

Zip Co Limited has not engaged in the acquisition or disposal of associates nor has it engaged in any joint ventures in the half-year ended 31 December 2018.

### Review Conclusion

This report is based on the financial statements for the half-year ended 31 December 2018. The financial statements have been subject to a review by an independent auditor and the review is not subject to qualification.

### Dividends

No dividends have been declared for the half-year ended 31 December 2018 or for the previous corresponding period.

A handwritten signature in dark blue ink, appearing to read 'Larry Diamond', with a stylized flourish at the end.

**Larry Diamond**

Managing Director & Chief Executive Officer

20 February 2019



# 2019

## Half-Year Financial Report

# 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**

Andrew Bursill

## **REGISTERED OFFICE**

Level 5, 126 Phillip Street,  
Sydney, NSW 2000  
Telephone: +61 2 9299 9690  
Website: [www.zip.co](http://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](mailto:investors@zip.co)



**ZIP CO LIMITED**  
**ABN 50 139 546 428**

**FINANCIAL REPORT**  
**FOR THE HALF-YEAR ENDED 31 DECEMBER 2018**

This financial report does not include all the notes of the type normally included in an annual financial report. This report is to be read in conjunction with the Annual Report for the year ended 30 June 2018 and any public announcements made by Zip Co Limited during the reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

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# Directors' Report

The directors are pleased to present their report on Zip Co Limited and its controlled entities (consolidated entity or Group) for the half-year ended 31 December 2018.

## DIRECTORS

The following persons were directors of Zip Co Limited (Zip or the Company) during the half 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 (Appointed 3 September 2018)

## REVIEW AND RESULTS OF OPERATIONS

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

	2018		2017	
	Revenue	Loss after Tax	Revenue	Loss after Tax
	\$	\$	\$	\$
Zip Co Limited	34,232,733	(6,758,358)	15,975,923	(14,584,008)

## PRINCIPAL ACTIVITIES

The principal activity of the Group is offering point-of-sale credit and payments to consumers (Retail Finance) and providing a variety of integrated Retail Finance solutions to merchants in the retail, education, health and travel industries, both online and in-store.

## REVIEW OF OPERATIONS

Zip Co Limited is a leading player in the digital retail finance and payments industry. Established in 2013, the Group is headquartered in Sydney, Australia with offices in Melbourne and Brisbane.

The Group offers lines of credit to consumers through its Zip digital wallet. It has two products: Zip Pay (up to \$1,000) and Zip Money (\$1,000 to \$30,000+). Revenue is generated from both Merchants (Merchant Service Fees) and Customers (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.

For the six months ending 31 December 2018, the Group increased customer numbers from 738,000 to over 1 million, while the number of merchants accepting Zip increased from 10,500 to over 12,600.

Zip added major Australian retailers Target, Officeworks, Bunnings Warehouse, Appliances Online and the Super Retail Group to its payments platform during the six months to 31 December 2018, as the penetration of Buy Now Pay Later (BNPL) solutions in the retail sector in Australia continues to grow.



Pocketbook has maintained its position as one of Australia's leading personal financial management apps, increasing its user base to over 600,000 at the end of the six months to 31 December 2018.

Revenue for the six months ending 31 December 2018 increased 114% to \$34.2 million from \$16.0 million for the six months ending 31 December 2017. This was driven by an increase in transaction volume from \$235.3 million for the six months ending 31 December 2017 to \$495.2 million for the six months ending 31 December 2018.

Cost of Sales increased 46% to \$21.2m from \$14.5m for the six months ended 31 December 2017. Interest costs increased 39% with the average interest rate paid for the quarter falling from 7.2% in the six months to 31 December 2017 to 4.9% in the six months to 31 December 2018, following the exiting of the Group's expensive legacy funding programs in November 2017. The bad debts expense increased by 54% to \$9.5 million reflecting a 19% increase in bad debts written off and 112% increase in the allowances for doubtful debts compared to the six months to 31 December 2017. Bank fees and data costs increased by 46% to \$2.4 million.

Operating costs increased from \$16.1 million in the six months to 31 December 2017 to \$16.7 million in the six months to 30 June 2018, and \$19.8 million in the six months to 31 December 2018, a 19% increase on the six months to 30 June 2018. The Group increased its investment in marketing in the six months to 31 December 2018 to maximise the seasonal uplift in the December quarter. The Group's headcount increased to 155 permanent staff and casual staff of approximately 49 at 31 December 2018 compared to 138 permanent and 38 casuals at the end of June 2018. The Group invested further in the Product and Technology teams, and added to the Operations Teams to support the growing consumer and merchant bases. Further investment was also made in the Group's outsourced IT Infrastructure and support services as the operations grow.

The net loss for the six months ending 31 December 2018 attributable to members of Zip Co Limited was \$6.8 million compared to \$14.6 million for the six months ending 31 December 2017.

## Receivables

As at 31 December 2018, the Zip Co Limited receivables portfolio was \$489.0 million, having grown 54% compared to the balance at 30 June 2018 of \$316.7 million. The repayment profile is healthy at approximately 14% (of prior month end portfolio) in monthly collections suggesting a pay back period of approximately seven months.

The reported arrears rate was 1.40% at 31 December 2018 (30 June 2018: 1.87%) and the Group wrote off \$4.6 million in bad debts (after bad debt recoveries) for the six months to 31 December 2018 compared to \$3.8 million in the six months ending 31 December 2017. Net bad debts written off in the last twelve months were 1.81% of customer receivables and gross bad debts written off were 2.05% compared to 2.61% and 2.70% respectively for the twelve months to 30 June 2018.

The Group's Half-year Financial Report has been prepared in accordance with accounting standard AASB 9 Financial Instruments. This requires the Group's allowance for bad debts to be calculated based on "expected losses" rather than "incurred losses" and the calculation follows a prescribed process as set out in Note 8 to the Half-year Financial Report. The initial adoption of AASB 9 resulted in a reduction in retained earnings and an increase in the allowance for doubtful debts at 1 July 2018 of \$5.0 million. Following this adjustment the allowance at 1 July 2018 amounted to 4.57% of the customer receivable balance, compared to 3% prior to the adjustment. As a consequence of an improvement in both arrears at 31 December 2018, and the underlying roll rates of receivables within ageing buckets, in the bad debt provisioning model, the allowance for bad debts at 31 December 2018 has reduced to 3.97% of the customer receivables balance.

## Capital management

The Group has two funding programs in place, the zipMoney Trust 2017-1 (total facility amount at the end of the six months to 31 December 2018 \$460.0 million, drawn \$419.0 million) and the zipMoney Trust 2017-2 (total facility amount at the end of the six months to 31 December 2018 \$71.0 million, drawn \$43.0 million).



The Group holds equity of \$15.8 million in its funding programs and retains the ability to access mezzanine capital in the future, to enable the release of equity to fund growth initiatives and capital expenditure as required.

The zipMoney Trust 2017-1 has a term maturing in May 2019 and the Group is well advanced on its medium term funding roadmap to replace the facility with a new structure that will deliver greater scale at a lower cost.

In January 2019 the Group agreed an increase of \$100.0 million in the available facility commitments within the zipMoney Trust 2017-1 with financier NAB. This brings the total available commitments within the Trust to \$560.0 million, of which \$419.0 million was drawn as at 31 December 2018.

## Cashflows

Cash inflows from operating activities totaled \$7.6m for the half-year ended 31 December 2018, compared to a cash outflow of \$2.8m in the six months ended 31 December 2017. Cash receipts from customers were \$34.0 million for the half-year ended 31 December 2018, having increased from \$16.4 million in the six months ending 31 December 2017. Payments to merchants, suppliers and employees totaled \$17.8 million up from \$12.3 million in the prior year, and Interest paid totaled \$8.7m compared to \$7.0 million in the six months ending 31 December 2017.

Cash outflows from investing activities for the period were \$174.0 million, up from \$88.4 million, reflecting a net increase in customer receivables of \$172.3 million, and \$1.6 million invested in the Group's software applications and architecture.

Cash inflows from financing activities for the period were \$173.0 million, including \$172.0 million in borrowings to fund the growth in customer receivables, and \$1.0 million in proceeds from the issue of shares on the conversion of options.

## POST BALANCE DATE EVENTS

On 7 January 2019 the Group announced that the third performance milestone arising from the original acquisition of zipMoney Holdings Pty Ltd in September 2015 by Rubianna Resources Limited had been met, and accordingly 13.33 million performance shares converted to ordinary shares from that date.

As noted above, in January 2019 the Group agreed an increase of \$100.0 million in the available zipMoney Trust 2017-1 facility commitments with financier NAB.

Other than this, there have been no other material items, transactions or events subsequent to 31 December 2018 which relate to conditions existing at that date and which require comment or adjustment to the figures dealt with in this report.

## 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 on page 7.

This report is made in accordance with a resolution of directors.

**Larry Diamond**  
Managing Director & Chief Executive Officer

20 February 2019



# AUDITOR'S INDEPENDENCE DECLARATION



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

20 February 2019

Dear Board Members

## 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 review of the financial statements of Zip Co Limited for the half-year ended 31 December 2018, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

Yours sincerely

  
DELOITTE TOUCHE TOHMATSU

Mark Lumsden  
Partner  
Chartered Accountant

# CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

	Note	31 December 2018 \$	31 December 2017 \$
<b>PORTFOLIO INCOME</b>	3	<b>33,652,592</b>	<b>15,607,583</b>
<b>COST OF SALES</b>	4	<b>(21,220,633)</b>	<b>(14,489,851)</b>
<b>GROSS PROFIT</b>		<b>12,431,959</b>	<b>1,117,732</b>
Other income	3	580,141	368,340
<b>EXPENDITURE</b>			
Administration expenses		(4,825,096)	(3,504,775)
Depreciation expense		(472,235)	(182,209)
Amortisation of intangibles		(1,723,902)	(1,356,587)
Finance costs		(741,742)	(964,008)
Occupancy expenses		(1,000,252)	(571,707)
Salaries and employee benefits expenses		(9,466,991)	(7,403,460)
Share-based payments		(1,540,240)	(2,087,334)
<b>LOSS BEFORE INCOME TAX</b>		<b>(6,758,358)</b>	<b>(14,584,008)</b>
Income tax (expense)/benefit		–	–
<b>LOSS AFTER INCOME TAX</b>		<b>(6,758,358)</b>	<b>(14,584,008)</b>
Other comprehensive income for the year, net of tax		–	–
<b>TOTAL COMPREHENSIVE LOSS FOR THE PERIOD ATTRIBUTABLE TO MEMBERS OF ZIP CO LIMITED</b>		<b>(6,758,358)</b>	<b>(14,584,008)</b>
Basic loss per share	6	(2.27)	(5.21)
Diluted loss per share	6	(2.27)	(5.21)

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

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018

	Note	31 December 2018 \$	30 June 2018 \$
<b>ASSETS</b>			
Cash and cash equivalents	7	19,281,157	12,658,134
Other receivables		1,477,377	5,016,738
Term deposit		1,179,153	1,209,153
Customer receivables	8	461,003,570	300,602,824
Property, plant and equipment		2,812,765	3,240,753
Goodwill	9	4,548,276	4,548,276
Other intangible assets	10	5,707,714	5,792,007
<b>TOTAL ASSETS</b>		<b>496,010,012</b>	<b>333,067,885</b>
<b>LIABILITIES</b>			
Trade and other payables		6,906,744	8,027,403
Employee provisions		1,079,839	841,239
Deferred R&D tax incentives		575,145	757,966
Deferred contingent consideration		-	337,200
Borrowings	11	462,894,787	289,723,751
<b>TOTAL LIABILITIES</b>		<b>471,456,515</b>	<b>299,687,559</b>
<b>NET ASSETS</b>		<b>24,553,497</b>	<b>33,380,326</b>
<b>EQUITY</b>			
Issued capital	12	86,764,823	81,328,159
Share-based payment reserves		1,844,683	4,379,167
Accumulated losses		(64,056,009)	(52,327,000)
<b>TOTAL EQUITY</b>		<b>24,553,497</b>	<b>33,380,326</b>

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

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

	Issued Capital	Reserves	Accumulated Losses	Total
	\$	\$	\$	\$
<b>BALANCE AT 1 JULY 2017</b>	<b>37,066,688</b>	<b>4,335,903</b>	<b>(29,777,274)</b>	<b>11,625,317</b>
Loss for the period	-	-	(14,584,008)	(14,584,008)
<b>TOTAL COMPREHENSIVE LOSS</b>	<b>-</b>	<b>-</b>	<b>(14,584,008)</b>	<b>(14,584,008)</b>
Shares issued during the period	40,000,000	-	-	40,000,000
Recognition of share-based payments	-	2,049,004	-	2,049,004
Exercise of share-based payments	-	(2,450,649)	-	(2,450,649)
Issue of ordinary shares under share-based payments plans	1,653,744	-	-	1,653,744
Exercise of options	1,356,250	-	-	1,356,250
Costs of issue	(308,238)	-	-	(308,238)
<b>BALANCE AT 31 DECEMBER 2017</b>	<b>79,768,444</b>	<b>3,934,258</b>	<b>(44,361,282)</b>	<b>39,341,420</b>
<b>BALANCE AT 30 JUNE 2018</b>	<b>81,328,159</b>	<b>4,379,167</b>	<b>(52,327,000)</b>	<b>33,380,326</b>
Adjustment on adoption of AASB 9*	-	-	(4,970,651)	(4,970,651)
<b>BALANCE AT 1 JULY 2018*</b>	<b>81,328,159</b>	<b>4,379,167</b>	<b>(57,297,651)</b>	<b>28,409,675</b>
Loss for the period	-	-	(6,758,358)	(6,758,358)
<b>TOTAL COMPREHENSIVE LOSS</b>	<b>-</b>	<b>-</b>	<b>(6,758,358)</b>	<b>(6,758,358)</b>
Recognition of share-based payments	-	1,540,240	-	1,540,240
Exercise of share-based payments	-	(4,074,724)	-	(4,074,724)
Issue of ordinary shares under share-based payments plans	2,343,279	-	-	2,343,279
Issue of ordinary shares upon achievement of performance milestones relating to the acquisition of Pocketbook	1,500,000	-	-	1,500,000
Exercise of options	1,605,695	-	-	1,605,695
Costs of issue	(12,310)	-	-	(12,310)
<b>BALANCE AT 31 December 2018</b>	<b>86,764,823</b>	<b>1,844,683</b>	<b>(64,056,009)</b>	<b>24,553,497</b>

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

\* Impact of adoption of AASB 9 is discussed in Note 16.

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

	Note	31 December 2018	31 December 2017
		\$	\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers		33,976,296	16,421,678
Payments to suppliers and employees		(17,819,766)	(12,315,133)
Interest received from financial institutions		73,617	121,213
Interest paid		(8,668,438)	(7,037,110)
<b>NET CASH FLOW FROM/TO OPERATING ACTIVITIES</b>		<b>7,561,709</b>	<b>(2,809,352)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Payments for plant and equipment		(44,246)	(2,944,477)
Payments for software development		(1,639,609)	(1,266,703)
Net movement in receivables		(172,279,571)	(84,206,680)
<b>NET CASH FLOW TO INVESTING ACTIVITIES</b>		<b>(173,963,426)</b>	<b>(88,417,860)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from the issue of shares		1,037,050	40,500,000
Costs of share issues		(12,310)	(308,238)
Proceeds from borrowings		172,000,000	95,640,000
Repayment of borrowings		-	(45,500,000)
<b>NET CASH FLOW FROM FINANCING ACTIVITIES</b>		<b>173,024,740</b>	<b>90,331,762</b>
Net increase/(decrease) in cash and cash equivalents		6,623,023	(895,450)
Cash and cash equivalents at the beginning of the half-year		12,658,134	19,214,261
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE HALF-YEAR</b>	<b>7</b>	<b>19,281,157</b>	<b>18,318,811</b>

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

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 1: SIGNIFICANT ACCOUNTING POLICIES OF THE HALF-YEAR FINANCIAL REPORT

### a. Statement of Compliance

The half-year financial report is a general purpose financial report prepared in accordance with the *Corporations Act 2001* and AASB 134 *Interim Financial Reporting*. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*. The half-year report does not include notes of the type normally included in an annual financial report and should be read in conjunction with the most recent annual financial report.

The condensed consolidated financial statements comprise the condensed consolidated financial statements of the consolidated entity. For the purposes of preparing the condensed consolidated financial statements, the consolidated entity is a for-profit entity.

The condensed consolidated financial statements were approved by the Board of Directors and authorised for issue on 20 February 2019.

#### Basis of preparation

The condensed consolidated financial statements have 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, unless otherwise noted.

#### Going concern

The Directors have prepared the half-year financial 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 condensed consolidated statement of profit or loss and other comprehensive income for the half-year ended 31 December 2018 shows a consolidated entity's loss after tax of \$6.8 million. The condensed consolidated statement of cash flows for the half-year ended shows net cash from operations of \$7.6 million.

The Directors have reviewed cash flow forecasts for the consolidated entity through to 31 March 2020. The cash flow forecast indicates 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 condensed consolidated 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 condensed consolidated 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.

#### Critical accounting estimates

The preparation of the condensed consolidated financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 1(c).

#### 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 their operations and effective for the current half-year.

#### New and amended Accounting Standards that are effective for the current half-year

##### AASB 9 Financial Instruments

In the current half-year, the consolidated entity has applied AASB 9 Financial Instruments (as revised in July 2014) and the related consequential amendments to other Accounting Standards that are effective for a half-year period that begins on or after 1 July 2018.

Additionally, the consolidated entity adopted consequential amendments to AASB 7 Financial Instruments: Disclosures that were applied to the disclosures for the current half-year and to the comparative period.



AASB 9 introduced new requirements for:

- (1) The classification and measurement of financial assets and financial liabilities,
- (2) Impairment of financial assets, and
- (3) General hedge accounting.

Details of these new requirements as well as their impact on the consolidated entity's condensed consolidated financial statements are described below.

The consolidated entity has applied AASB 9 in accordance with the transition provisions set out in AASB 9.

- (a) Classification and measurement of financial assets and financial liabilities.

The date of initial application (i.e. the date on which the consolidated entity has assessed its existing financial assets and liabilities in terms of the requirements of AASB 9) is 1 July 2018. Accordingly, the consolidated entity has applied the requirements of AASB 9 to instruments that continue to be recognised as at 1 July 2018 and has not applied the requirements to instruments that have already been derecognised as at 1 July 2018.

The directors of the consolidated entity reviewed and assessed the consolidated entity's existing financial assets and financial liabilities as at 1 July 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of AASB 9 does not have an impact on the consolidated entity's financial assets and financial liabilities as regards their classification and measurement.

The consolidated entity's condensed consolidated statement of financial position included financial instruments, the majority of which were customer receivables and borrowings. The carrying amount presented on the condensed consolidated statement of financial position reflects the consolidated entity's business model for managing the asset. Where that model is to collect contractual cash flows (such as with customer receivables), the financial instrument is measured at amortised cost. Conversely, where the financial instrument is managed on a fair value basis, that instrument will be measured as such.

- (b) Impairment of financial assets

In relation to the impairment of financial assets, AASB 9 requires an expected credit loss model as opposed to an incurred credit loss model under AASB 139. The expected credit loss model requires the consolidated entity to account for expected credit losses and changes in those expected credit

losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

A general three stage model applies to debt instruments at amortised cost or at fair value through other comprehensive income for recognising impairment losses.

The consolidated entity has both long term and short term customer receivables. The consolidated entity's loss allowance on customer receivable changed upon adoption of AASB 9.

The adoption of AASB 9 impacts the consolidated entity's customer receivables balance which is measured at amortised cost. An adjustment of \$4.97 million has been made to increase the impairment of customer receivables to recognise impairment on an expected loss basis for the adoption of AASB 9.

The cumulative effect of applying the change for the first time has been recognised as an adjustment to the opening balance of retained earnings on 1 July 2018.

- (c) General hedge accounting.

New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. The consolidated entity does not have any hedging arrangements in place.

- (d) Disclosures in relation to the initial application of AASB 9

There were no financial assets or financial liabilities which the consolidated entity had previously designated as at FVTPL (Fair Value Through Profit and Loss) under AASB 139 and hence there were no such financial assets or financial liabilities subject to reclassification or which the consolidated entity has elected to reclassify upon the application of AASB 9. There were no financial assets or financial liabilities which the consolidated entity has elected to designate as at FVTPL at the date of initial application of AASB 9.

The impact of initial application of AASB 9 for each condensed consolidated financial statement line item is listed in Note 16.

The application of AASB 9 has had no impact on the condensed consolidated cash flows of the consolidated entity.

## **AASB 15 Revenue from Contracts with Customers**

AASB 15 must be applied for annual reporting periods beginning on or after 1 January 2018. The consolidated entity has adopted this standard from 1 July 2018.

The standard contains a single model that applies to all revenue arising from contracts. AASB 15 introduces a single principles-based five step model for recognising revenue and introduces the concept of recognising revenue when an obligation to a customer is satisfied.

AASB 15 does not have a material impact on the revenue recognition accounting policy for the consolidated entity given that substantially all revenue streams fall within the scope of AASB 9 - Financial Instruments.

### **New Accounting Standards and Interpretations not yet mandatory or early adopted**

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory are presented below. They have not been early adopted by the consolidated entity for the half-year ended 31 December 2018.

#### **AASB 16 Leases**

AASB 16 eliminates the operating and finance lease classifications for lessees currently the model under AASB 117 Leases for lessees. It instead requires an entity to recognise most leases onto its statement of financial position in a similar way to how existing finance leases are treated under AASB 117. An entity will be 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. The consolidated entity has not yet made a detailed assessment of the impact of this standard.

## **b. Principles of consolidation**

The condensed consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Zip Co Limited ('consolidated entity' or 'Parent Entity') as at 30 December 2018 and the results of all subsidiaries for the half-year then ended. Zip Co Limited and its subsidiaries together

are referred to in these condensed consolidated financial statements as the 'consolidated entity'.

## **c. Critical accounting estimates and judgements**

In preparing this half-year 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.

### **Revenue recognition**

The consolidated entity recognises revenue 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 estimated future cashflows and expected life of the customer receivables balance, the directors have considered the historical repayment pattern of the customer receivables on a portfolio basis.

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

### **Allowance for doubtful debts**

The carrying amounts of certain assets are often determined based on estimates and assumptions of future events. The key sources of estimation uncertainty relate to the allowance for doubtful debts against loans receivable. The risk of impairment to personal loans requires the consolidated entity to assess impairment regularly. The consolidated entity measures the loss allowance for customer receivables at an amount equal to the lifetime expected credit loss (ECL). Refer to Note 13 for further details.

### **Intangible assets**

#### **Software development asset**

Software development costs are capitalised only when:

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

Such costs include payments to external contractors to develop the software, any purchase of materials and equipment and personnel costs of employees directly involved in the 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 Intangible Assets***

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

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.

### ***Impairment of non-financial assets***

Non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

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

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

## NOTE 2: SEGMENT INFORMATION

Management has determined that the consolidated entity has one reporting segment being the provision of financial products and payment solutions to consumers, and providing a variety of integrated solutions to small, medium and enterprise merchants across numerous industries, both online and in-store. The internal reporting framework is based on the principal activity and is the most relevant to assist the Board in making decisions regarding the consolidated entity and its ongoing growth.

The assets as presented relate to the reporting segment, as identified above.

The consolidated entity operates in Australia and New Zealand. At this stage the consolidated entity's operations in New Zealand are immaterial in the context of the consolidated entity's overall revenue and assets.

## NOTE 3: REVENUE

	Consolidated	
	31 December 2018	31 December 2017
	\$	\$
<b>Portfolio income</b>	<b>33,652,592</b>	<b>15,607,583</b>
<b>Other income</b>		
Interest income from financial institutions	73,617	121,213
R&D tax incentives	182,821	247,127
Other	323,703	–
<b>Total other income</b>	<b>580,141</b>	<b>368,340</b>
<b>Total revenue</b>	<b>34,232,733</b>	<b>15,975,923</b>

## NOTE 4: COST OF SALES

	Consolidated	
	31 December 2018	31 December 2017
	\$	\$
Interest expense	9,280,231	6,655,941
Doubtful debts expense	9,534,950	6,188,076
Bank fees and data costs	2,405,452	1,645,834
<b>Total cost of sales</b>	<b>21,220,633</b>	<b>14,489,851</b>

## NOTE 5: EXPENSES

	Consolidated	
	31 December 2018	31 December 2017
	\$	\$
Loss before income tax includes the following specific expenses:		
<b>Amortisation of intangibles</b>		
Amortisation of acquired intangibles	350,202	350,202
Amortisation of internally generated intangibles	1,373,700	1,006,385
<b>Superannuation expense:</b>		
Defined contribution superannuation expense	836,057	657,368
<b>Finance costs:</b>		
Amortisation of funding costs	559,242	914,008
Other funding costs	182,500	50,000
<b>Administration expenses:</b>		
Professional services	597,673	587,908
Information technology expense	1,877,914	1,184,763
Marketing expense	1,341,693	615,301
Other administration expense	1,007,816	1,116,803
<b>Other expenses:</b>		
Operating lease expense	890,111	426,697

## NOTE 6: LOSS PER SHARE

### a. Reconciliation of earnings used in calculating loss per share

All figures in \$	31 December 2018	31 December 2017
Loss attributable to the owners of the consolidated entity used in calculating basic and diluted loss per share	(6,758,358)	(14,584,008)

### b. Weighted average number of shares used as the denominator

Number of shares	31 December 2018	31 December 2017
Weighted average number of ordinary shares used as the denominator in calculating basic and diluted loss per share	298,312,622	279,665,306

### c. Basic and diluted loss per share

	31 December 2018	31 December 2017
	Cents	Cents
Basic loss per share	(2.27)	(5.21)
Diluted loss per share	(2.27)	(5.21)

## NOTE 7: CASH AND CASH EQUIVALENTS

At 31 December 2018, the consolidated entity had cash of \$19,281,157 of which \$6,904,994 is restricted cash (30 June 2018: cash of \$12,658,134 of which \$8,658,406 was in restricted cash). Cash held in corporate accounts, shown as unrestricted, includes amounts remitted to Trusts the next business day. Restricted cash is held by the zipMoney Trust 2017-1 and the zipMoney Trust 2017-2 and is not available to pay creditors of the consolidated entity.

## NOTE 8: CUSTOMER RECEIVABLES

### Classification and Measurement

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

- The consolidated entity provides accounts with lines of credit 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 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, debt financial assets at FVOCI (Fair Value Through Other Comprehensive Income) 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 allowance for bad debts, the consolidated entity has considered receivables attributable to Zip Pay and Zip Money customers separately. 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 months period, to the credit limits of those customers that are considered current and to the respective arrears balances for those customers in arrears. The consolidated entity's policy is to write off balances that are outstanding for over 180 days in accordance with historical experience and industry practice. 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 in arrears, historical roll rates are applied to the arrears balances over the expected life of the credit facility to determine an amount of expected credit loss.

In calculating an allowance for expected credit loss, an allowance for bad 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 factors and modelling risks.



## Significant increase in credit risk since initial recognition

The provisioning model utilises customer receivables 30 days past due as the absolute criteria to identify increases in credit risk.

## Definition of default and credit-impaired assets

Customer receivables 180 days past due are defined as in default and written off.

The following table summarises customer receivables as at reporting date:

	Consolidated		
	31 December 2018	1 July 2018*	30 June 2018
	\$	\$	\$
Gross customer receivables	488,999,473	316,741,362	316,741,362
Unearned future income	(8,561,293)	(6,636,297)	(6,636,297)
Allowance for bad debts	(19,434,610)	(14,472,892)	(9,502,241)
	<b>461,003,570</b>	<b>295,632,173</b>	<b>300,602,824</b>

\* Impact of adoption of AASB 9 is discussed in Note 16.

The following tables summarise gross carrying amount of customer receivables and allowance for bad debts by stages:

	31 December 2018	1 July 2018
	\$	\$
<b>Gross customer receivables</b>		
12 month expected loss	467,399,539	298,964,242
Lifetime	21,599,934	17,777,120
<b>Total gross carrying amount</b>	<b>488,999,473</b>	<b>316,741,362</b>
Unearned future income	(8,561,293)	(6,636,297)
<b>Total gross carrying value including valuation adjustments</b>	<b>480,438,180</b>	<b>310,105,065</b>
<b>Less Allowance for bad debts</b>		
12 month expected loss	4,961,450	4,306,903
Lifetime	14,473,160	10,165,989
<b>Total allowance for bad debts</b>	<b>19,434,610</b>	<b>14,472,892</b>
<b>Net balance sheet carrying value</b>	<b>461,003,570</b>	<b>295,632,173</b>

## Allowance for bad debts movement

From June 2018 to December 2018, the allowance for bad debts has increased by \$4,961,718, which was primarily driven by the \$172,258,111 increase in the value of receivables. The allowance for bad debts as a percentage of receivables has fallen from 4.57% of the gross customer receivables balance at on 1 July 2018 to 3.97% as a result of an improvement in the historic roll rates and improvement in arrears at 31 December 2018 compared to 30 June 2018.

## NOTE 9: GOODWILL

	Consolidated	
	31 December 2018	30 June 2018
	\$	\$
Cost	4,548,276	4,584,276
Less : Accumulated impairment losses	-	-
	<b>4,548,276</b>	<b>4,584,276</b>

## NOTE 10: OTHER INTANGIBLE ASSETS

	Consolidated	
	31 December 2018	30 June 2018
	\$	\$
<b>Carrying amounts of</b>		
Brand names and trademarks	127,608	145,308
Customer database	252,994	298,996
IT development and software	5,327,112	5,347,703
	<b>5,707,714</b>	<b>5,792,007</b>

	Brand Names and Trademarks	Customer Database	IT Development and Software	Total
	\$	\$	\$	\$
<b>Cost</b>				
Balance at 1 July 2018	207,258	460,000	10,320,078	10,987,336
Additions	-	-	1,639,609	1,639,609
<b>Balance at 31 December 2018</b>	<b>207,258</b>	<b>460,000</b>	<b>11,959,687</b>	<b>12,626,945</b>

	Brand Names and Trademarks	Customer Database	IT Development and Software	Total
	\$	\$	\$	\$
<b>Accumulated amortisation</b>				
Balance at 1 July 2018	61,950	161,004	4,972,375	5,195,329
Additions	17,700	46,002	1,660,200	1,723,902
<b>Balance at 31 December 2018</b>	<b>79,650</b>	<b>207,006</b>	<b>6,632,575</b>	<b>6,919,231</b>

## NOTE 11: BORROWINGS

### Borrowings and securitisation warehouse

The consolidated entity sells customer receivables to special purpose vehicle securitisation warehouses (zipMoney Trust 2017-1 and zipMoney Trust 2017-2) through its asset-backed securitisation program. The special purpose vehicles are consolidated as the consolidated entity is exposed 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, server, liquidity provider, purchaser of notes and/or purchaser of residual interest units.

	Consolidated	
	31 December 2018	30 June 2018
	\$	\$
Class A Notes	401,000,000	230,000,000
Class B Notes	61,000,000	60,000,000
Add: Accrued interest	1,360,822	749,029
Less: Unamortised costs	(466,035)	(1,025,078)
	<b>462,894,787</b>	<b>289,723,751</b>

At 31 December 2018 the undrawn facility amounted to \$69.0 million (30 June 2018: \$90.0 million).

### Total secured liabilities

	Consolidated	
	31 December 2018	30 June 2018
	\$	\$
Class A Notes	401,000,000	230,000,000
Class B Notes	61,000,000	60,000,000
	<b>462,000,000</b>	<b>290,000,000</b>

### Assets pledged as security

The table below presents the assets and underlying borrowings as a result of the securitisation warehouse:

	Consolidated	
	31 December 2018	30 June 2018
	\$	\$
Customer receivables <sup>(1)</sup>	455,888,025	295,794,526
Cash held by securitisation warehouse	6,904,994	8,658,406
	<b>462,793,019</b>	<b>304,452,932</b>
Borrowings related to receivables <sup>(2)</sup>	<b>477,800,000</b>	<b>306,400,000</b>

(1) The amount recognised above represents the carrying value of the customer receivables held by the zipMoney Trusts and is net of allowance for doubtful debts and unearned future income. This excludes customer receivables totaling \$5.1 million held by zipMoney Payment Pty Ltd at 31 December 2018 and \$4.7 million at 30 June 2018.

(2) Including \$15.8 million Class C Notes held by zipMoney Payments Pty Ltd (30 June 2018 \$16.4 million).

## Financing arrangements

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

	31 December 2018	30 June 2018
	\$	\$
<b>Total facility size</b>		
Total facility size – securitisation warehouse	521,000,000	370,000,000
Total facility size – working capital	10,000,000	10,000,000
<b>Used at the reporting date</b>		
Used facility – securitisation warehouse	462,000,000	290,000,000
Used facility – working capital	–	–
<b>Unused at the reporting date</b>		
Unused facility – securitisation warehouse	59,000,000	80,000,000
Unused facility – working capital	10,000,000	10,000,000

## Terms of the facilities

The consolidated entity has two securitisation warehouses in place.

Under each warehouse program, loans are originated on the consolidated entity's balance sheet and continuously sold into a program administered by Perpetual Trustee Limited.

As at 31 December 2018, the zipMoney Trust 2017-1 had \$460.0 million in committed Class A and B wholesale debt financing with a term maturing on 10 May 2019. The facility is secured against the underlying pool of receivables with no credit recourse back to the consolidated entity. Subsequent to the reporting period end, the consolidated entity increased the facilities available from NAB within the zipMoney Trust 2017-1 by \$100.0 million. The consolidated entity is well advanced in the process of assessing alternatives for the re-financing, or extension, of the facility.

As at 31 December 2018, the zipMoney Trust 2017-2 had \$71.0 million in committed Class A wholesale debt financing with a term maturing on 31 December 2020, with an option for the Class A financier to terminate the facility on 31 December 2019 by giving not less than six months notice. The facility is available to fund customer receivables junior notes and as a source of working capital funding to the consolidated entity. The facility is secured against the underlying pool of receivables and by way of corporate guarantee provided by the parent Zip Co Limited.

## NOTE 12: ISSUED CAPITAL

	Consolidated			
	31 December 2018	31 December 2018	30 June 2018	30 June 2018
	Shares	\$	Shares	\$
Ordinary shares – fully paid	301,706,286	86,764,823	295,548,222	81,328,159
Performance shares	33,330,000	–	33,330,000	–
	<b>335,036,286</b>	<b>86,764,823</b>	<b>328,878,222</b>	<b>81,328,159</b>

## Movements in ordinary share capital

Details	Date	Shares	\$
<b>Balance</b>	<b>1 July 2018</b>	<b>295,548,222</b>	<b>81,328,159</b>
Issue of shares – employee incentives		2,286,407	2,343,279
Issue of shares – Pocketbook achievement of performance milestones		1,887,942	1,500,000
Issue of shares – exercise of options		1,983,715	1,605,695
Costs of issue during the period		–	(12,310)
<b>Balance</b>	<b>31 December 2018</b>	<b>301,706,286</b>	<b>86,764,823</b>

## Movements in performance shares

Details	Date	Share numbers
<b>Balance</b>	<b>1 July 2018</b>	<b>33,330,000</b>
<b>Balance</b>	<b>31 December 2018</b>	<b>33,330,000</b>

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 milestones are unable to be met. The consolidated entity’s shareholders approved the cancellation of the performance shares at the AGM in November 2017. The consolidated entity is awaiting the completion of formal documentation by Columbus Capital to formally cancel the shares. In the event that formal documentation is not completed by Columbus Capital, the performance shares will expire on 28 July 2020.

The balance of 13,330,000 performance shares represent those shares that will be issued to the original vendors in the event pre-tax break-even is achieved in a consecutive three calendar month period prior to 17 September 2018. On 7 January 2019 the consolidated entity announced that the third performance milestone arising from the original acquisition of zipMoney Holdings Pty Ltd by Rubianna Resources Limited in September 2015 had been met, and accordingly 13,330,000 performance shares converted to ordinary shares from that date.

## Movements in options

Details	Date	Option numbers
<b>Balance</b>	<b>1 July 2018</b>	<b>12,403,715</b>
Options exercised		(1,983,715)
Options expired not exercised		(320,000)
<b>Balance</b>	<b>31 December 2018</b>	<b>10,100,000</b>

## NOTE 13: FINANCIAL INSTRUMENTS

### Financial risk management objectives

The consolidated entity’s activities expose it to a variety of financial risks: market risk (such as interest rate 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, foreign exchange and other price risks, ageing analysis for credit risk and beta analysis in respect of investment portfolios to determine market risk.

Risk management is carried out by management under policies approved by the Board of Directors (‘the Board’).

These policies include identification and analysis of the risk exposure of the consolidated entity and appropriate procedures, controls and risk limits. Management identify and evaluate financial risks within the consolidated entity’s operating units and report to the Board.

## Market risk

### Foreign currency risk

The foreign currency risk is limited as the consolidated entity mainly operates in Australia.

### Price risk

The consolidated entity is not exposed to any significant price risk.

### Interest rate risk

The consolidated entity's main interest rate risk arises from its borrowings. The consolidated entity's borrowings are all on variable rates.

In the event of a +/- 1% movement in the BBSW, the consolidated entity's interest expense would move by +/- \$4,620,000.

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

## 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 references and setting appropriate credit limits prior to the customers joining the Zip Co platform.

The consolidated entity regularly reviews customer collections, and collections in arrears. 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 allowance for doubtful debts to ensure that the level of allowance is sufficient to mitigate the credit risk exposure in terms of financial reporting. The credit allowance raised represents management's best estimate of losses are expected to be in the receivables portfolio at reporting date based on their experienced judgement.

The consolidated entity measures the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses (ECL) if the credit risk on that financial instrument has increased significantly since initial recognition, or if the financial instrument is a purchased or originated credit-impaired financial asset.

However, if the credit risk on a financial instrument has not increased significantly since initial recognition (except for a purchased or originated credit-impaired financial asset), the consolidated entity measures the loss allowance for that financial instrument at an amount equal to 12-months ECL.

The maximum exposure to credit risk at the reporting date to recognised financial assets is the carrying amount, net of any allowance for doubtful debts of those assets, as disclosed in the consolidated statement of financial position and notes to the consolidated financial statements. The consolidated entity does not hold any collateral.

For the purpose of assessing whether there has been a significant increase in credit risk since initial recognition of financial instruments that remain recognised on the date of initial application of AASB 9, the directors have compared the credit risk of the respective financial instruments on the date of their initial recognition to their credit risk as at 1 July 2018. The following table is a comparison of impairment allowances determined in accordance with AASB 139 to the corresponding impairment allowance determined in accordance with AASB 9 on 1 July 2018.

Items existing on 1 July 2018 that are subject to the impairment allowance of AASB 9	AASB 139 as at 30 June 2018		AASB 9 on 1 July 2018		
	Collectively assessed	Total	12 month expected loss	Lifetime	Total
Allowance for bad debts	9,502,241	9,502,241	4,306,903	10,165,989	14,472,892



## Customer receivables

The consolidated entity's customer receivable balances are high volume low value advances to individual customers.

The table below provides information about customer receivables from customers by payment due status but not deemed to be impaired.

	Consolidated	
	31 December 2018	30 June 2018
	\$	\$
Past due under 30 days	9,898,010	9,949,636
Past due 31 days to under 60 days	4,888,152	1,909,418
Past due 61 to under 180 days	6,813,772	5,918,066

While the consolidated entity believes that the level of allowance for doubtful debts provided in the condensed consolidated financial statements is sufficient to address any potential write-offs arising from the arrears above, the consolidated entity will continue to maximise its effort to minimise the risk of actual bad debts through its robust debtor management practices.

## Liquidity risk

Vigilant 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 reporting period.

## Financing arrangements

Unused borrowing facilities at the reporting date are disclosed in Note 11.

## Remaining contractual maturities

The financial instrument assets of the consolidated entity predominantly comprise customer receivables that have an average repayment profile of approximately six and fourteen months, for Zip Pay and Zip Money receivables respectively.

The following tables detail the consolidated entity's remaining contractual maturity for its financial instrument 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 Condensed Consolidated Statement of Financial Position.

	Weighted average interest rate	1 year or less	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Remaining contractual maturities
Consolidated 31 December 2018	%	\$	\$	\$	\$	\$
<b>Non-derivatives</b>						
<i>Non-interest bearing</i>						
Payables		6,906,744	–	–	–	6,906,744
<i>Interest-bearing – variable rate</i>						
Borrowings	5.22%	463,360,822	–	–	–	463,360,822
<b>Total non-derivatives</b>		<b>470,267,566</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>470,267,566</b>

	Weighted average interest rate	1 year or less	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Remaining contractual maturities
Consolidated 30 June 2018	%	\$	\$	\$	\$	\$
<b>Non-derivatives</b>						
<i>Non-interest bearing</i>						
Payables		8,027,403	–	–	–	8,027,403
Deferred contingent consideration		337,200	–	–	–	337,200
<i>Interest-bearing – variable rate</i>						
Borrowings	5.19%	273,749,029	17,000,000	–	–	290,749,029
<b>Total non-derivatives</b>		<b>282,112,632</b>	<b>17,000,000</b>	<b>–</b>	<b>–</b>	<b>299,113,632</b>

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

## Fair value of financial instruments

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

## NOTE 14: COMMITMENTS

The following table summarises the operating lease commitments of the consolidated entity:

	Consolidated	
	31 December 2018	30 June 2018
	\$	\$
<b>Operating lease commitments</b>		
Not later than 1 year	1,710,679	1,704,537
Later than 1 year and not more than 5 years	5,905,314	6,498,617
<b>Total minimum lease payments</b>	<b>7,615,993</b>	<b>8,203,154</b>

## NOTE 15: CONTINGENCIES

There are no contingent liabilities or contingent assets as at 31 December 2018.

## NOTE 16: IMPACT OF INITIAL APPLICATION OF AASB 9 ON CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Following a review of the impact of AASB 9 on the condensed financial statements the consolidated entity concluded that an increase in the allowance for bad debts recorded against customer receivables at 30 June 2018 was required. In accordance with the requirements of AASB 9 an additional amount of \$4,970,651 was added to the allowance for doubtful debts and a corresponding amount recognised as an adjustment to retained earnings.

The tables below show the amount of adjustment for each financial statement line item affected by the application of AASB 9 for the prior half-year.

### Impact on assets, liabilities and equity as at 1 July 2018

Consolidated 1 July 2018	30 June 2018 \$	AASB 9 adjustments \$	1 July 2018 \$
Customer receivables	300,602,824	(4,970,651)	295,632,173
<b>Net assets</b>	<b>33,380,326</b>	<b>(4,970,651)</b>	<b>(28,409,675)</b>
Accumulated losses	(52,327,000)	(4,970,651)	(57,297,651)
<b>Equity</b>	<b>33,380,326</b>	<b>(4,970,651)</b>	<b>(28,409,675)</b>

The application of AASB 9 has had no impact on the condensed consolidated cash flows of the consolidated entity.

## NOTE 17: SUBSEQUENT EVENTS

On 7 January 2019 the consolidated entity announced that the third performance milestone arising from the original acquisition of zipMoney Holdings Pty Ltd by Rubianna Resources Limited in September 2015 had been met, and accordingly 13.33 million performance shares converted to ordinary shares from that date.

As noted above, in January 2019 the consolidated entity agreed an increase of \$100.0 million in its available zipMoney Trust 2017-1 facility commitments with financier NAB.

Other than this, there have been no other material items, transactions or events subsequent to 31 December 2018 which relate to conditions existing at that date and which require comment or adjustment to the figures dealt with in this report.

# Directors' Declaration

1. the financial statements and notes set out on pages 8 to 27 are in accordance with the *Corporations Act 2001*, including:
  - (a) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
  - (b) giving a true and fair view of the consolidated entity's financial position as at 31 December 2018 and of its performance for the half-year ended on that date; and
2. based on the matters set out in Note 1(a) there are reasonable grounds to believe that Zip Co Limited will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the directors.

A handwritten signature in blue ink, appearing to read 'Larry Diamond', with a stylized flourish at the end.

**Larry Diamond**

Managing Director & Chief Executive Officer

20 February 2019

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS



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

### *Report on the Half-Year Financial Report*

We have reviewed the accompanying half-year financial report of Zip Co Limited, which comprises the condensed consolidated statement of financial position as at 31 December 2018, and the condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of cash flows and the condensed consolidated statement of changes in equity for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information and, the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year as set out on pages 8 to 28.

### *Directors' Responsibility for the Half-Year Financial Report*

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

### *Auditor's Responsibility*

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of Zip Co Limited's financial position as at 31 December 2018 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Zip Co Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

### *Auditor's Independence Declaration*

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Zip Co Limited, would be in the same terms if given to the directors as at the time of this auditor's review report.




#### *Conclusion*

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

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2018 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

  
DELOITTE TOUCHE TOHMATSU

  
Mark Lumsden  
Partner  
Chartered Accountants  
Sydney, 20 February 2019





