

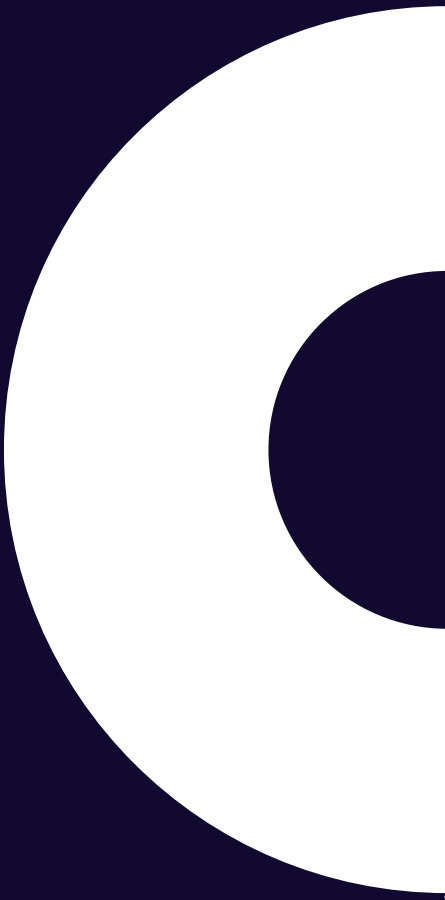


Tyro Payments Limited

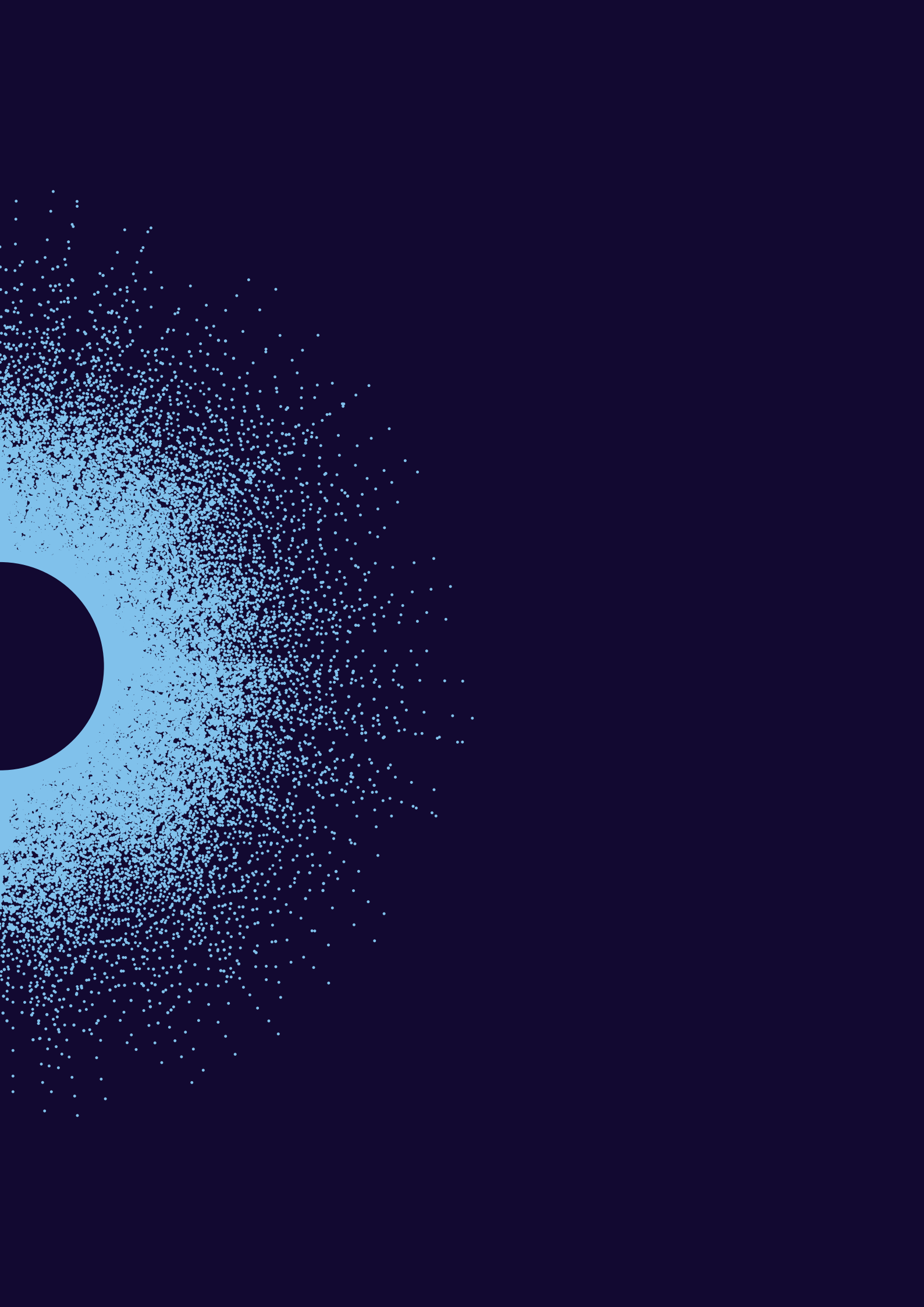
ANNUAL REPORT 2019

ABN 49 103 575 042





This Annual Report does not refer to, or contain, an offer of securities. If any offer were to be made by Tyro a prospectus and an application form would be made available at the time securities were offered if required and any purchase of securities would require the completion of the application form accompanying that prospectus.



19

REVIEW	5
• HIGHLIGHTS	6
• CHAIRMAN'S LETTER	10
• CEO'S OPERATIONAL + FINANCIAL REVIEW	14

DIRECTORS' REPORT	19
• DIRECTORS' REPORT	20
• AUDITOR'S INDEPENDENCE DECLARATION	30

FINANCIAL REPORT	32
• FINANCIAL STATEMENTS	34
• NOTES TO THE FINANCIAL STATEMENTS	38
• DIRECTORS' DECLARATION	77
• INDEPENDENT AUDITOR'S REPORT	78

ADDITIONAL INFORMATION	80
• ADDITIONAL INFORMATION FOR SHAREHOLDERS	81
• CORPORATE DIRECTORY	82

Review





Revenue \$189.8m,
+28% YOY

Transaction volume
\$17.5b

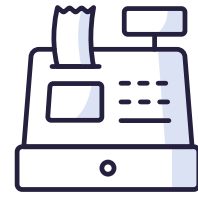


29,000+
customers



Net operating
income \$83.3m,
+20% YOY





Integrated with
275+
POS/PMS solutions



133%
growth on
deposit balance



108%
growth on loan
originations
balance





Winner -

Highest Authorisation Approval Rate (Acquirer) and Lowest Gross Fraud (Acquirer), Global Award Category, Visa 2018 Global Service Quality Awards (GSQA)



5th largest
payments provider*

* In Australia amongst all banks when measured by EFTPOS terminals.
Source: APRA Authorised Deposit-taking Institutions Points of Presence Database June 2018.



Alipay and
eCommerce
launch



Winner -

Best Payment Services Bank,
Australian Business Banking
Awards 2018



Net promoter score of
+34



10
industry firsts

CHAIRMAN'S LETTER

Dear Shareholders

It is with a little sadness that I write my last letter to you as Chairman of Tyro. However, as I mentioned at our Annual General Meeting back in October last year, the time is right, after more than 11 years on Tyro's Board, for me to pass the baton on. I make this decision with absolute confidence in Tyro's future and knowing that we could not have a safer set of hands to take the baton than our Chair elect, David Thodey AO. David has been on the Board for 10 months now and his transition to the Chairman role will be seamless.

Welcome David and I wish you and you all at Tyro every success. I take this opportunity to thank my fellow Board Members, past and present, our executive and you our investors for their strong support over the years.

Looking ahead, I have every confidence in the calibre of the executive team Tyro has assembled over the years. They are a winning team with the experience, the ability and the energy to meet the challenges and to capitalise upon the exciting opportunities ahead, in payments and the broader world of banking.

THE YEAR IN A SNAPSHOT – ANOTHER YEAR OF OUTSTANDING GROWTH

We had a particular focus in the 2019 financial year just passed upon delivering customer facing initiatives. This saw Tyro deliver features including:

- our e-commerce platform enabling us to provide a single payment solution to those of our merchants who also operate an online sales channel;
- a fully integrated Alipay payments solution giving Tyro merchants better access to the significant and growing number of Chinese tourists visiting Australia; and
- our market-first, cost saving, least cost routing solution ('tap & save').

These initiatives and our continuing quest to eliminate friction in payments saw Tyro become the 5th largest Australian bank in 'card-present' payments, measured by EFTPOS terminal numbers.

In the CEO's Review (see page 14), you can see this past financial year was outstanding, with strong growth in our core payments operations and good progress in offering our merchants a suite of business building banking products that complement our payments offering. Financial highlights achieved in FY19 included:

- 31% increase in the value of payments transacted reaching **\$17.5 billion** (FY18: \$13.4 billion);
- 28% increase in total revenues to **\$189.8 million** (FY18: \$148.2 million);
- 108% increase in loan originations in the year totalling **\$52.2 million** (FY18: \$25.2 million);
- 133% increase in deposit balances ending the year at **\$26.9 million** (FY18: \$11.6 million).

In line with our business plan, we generated an EBITDA¹ loss of \$8.6 million (FY18: loss \$9.0 million) reflecting our continuing investment in developing Tyro business building products, our commitment to attracting more businesses to the Tyro ecosystem and our continuing investment in team building. Consistent with our approach at half-year a small component (\$2.5 million) of our investment in technology and product development is capitalised in our Balance Sheet as an intangible asset.

Chairman's Letter

(1) EBITDA includes net interest margin generated from banking operations.

AN OUTSTANDING TEAM

Financial Year 2019 was Robbie Cooke's first as Chief Executive. On behalf of us all, I recognised his outstanding leadership, his energy and the passion he has brought into Tyro. We are extremely fortunate to have him and such a highly talented and dedicated multi-disciplinary team driving Tyro's business. Our results in FY19 are only possible when

you have passionate, energised and focused team members who share a common sense of purpose, a commitment to winning and with a clear vision of what success looks like. To Robbie and to all Tyros, I thank you for the outstanding effort in FY19 and for your individual part in driving Tyro's success.

BOARD CHANGES

Also, I acknowledge the significant contribution in the year of my fellow Board members and to record the changes to the Board's composition in FY19.

Early in the year and after 13 years of service (including acting Managing Director until March last year) our talented colleague Rob Ferguson announced his retirement from the Board. I pay tribute to the crucial role Rob played over his long association with Tyro and for the load he carried in transitioning us to our current leadership.

Rob's departure coincided with the appointment in July 2018 of David Fite bringing his extensive financial sector experience to Tyro not only from his time as a senior banking executive but also as an active fintech investor.

In November 2018 David Thodey AO joined Tyro as a non-executive director, bringing with

him a wealth of management, leadership and technology experience. I am delighted that at our Annual General Meeting in October, David becomes Chairman of the Board.

In February 2019, Mike Cannon-Brookes, after a significant nine years as a Board member, stepped back from his role due to other commitments. We are pleased Mike remains as a significant shareholder in Tyro and on behalf of Tyro I thank him for his commitment and contribution at Tyro.

In April 2019 Hamish Corlett a principal of TDM Growth Partners (also a major Tyro investor), joined the Board as a non-executive director. Hamish brings to the Board his extensive finance and investment experience.

To all my colleagues who served on the Board with me over the years, I say thank you one and all, for what you have done for Tyro and for your influence in its ongoing success.

A POSSIBLE LISTING OF TYRO

Following an extensive five-year business planning process undertaken in the second-half of the year, with Tyro's executive team, the Board decided it might be appropriate to investigate the possibility of moving from our current non-listed public company structure, to an ASX listing.

As a result, we have appointed advisors to assess the possibility of listing in the next 18 months but not earlier than November 2019 (subject to market conditions and other relevant factors). We will keep shareholders informed as our assessment progresses, noting that there is no certainty that a listing will necessarily occur.

FY20 + BEYOND

We spent a great deal of time, particularly in the second-half of the year planning for the next five years. This included refreshing our purpose, our mission and our vision as well as setting goals and targets. In this process, Tyro has explored the future looking deeply

at payments and more broadly at business banking in Australia and beyond. As a result, we have a clear set of business and project priorities to position Tyro for continued strong growth and success.



OUR RESULTS IN FY19 ARE ONLY POSSIBLE WHEN YOU
HAVE PASSIONATE, ENERGISED AND FOCUSED TEAM
MEMBERS WHO SHARE A COMMON SENSE OF PURPOSE.

In closing whilst I will say farewell to you as Tyro's Chairman at our Annual General Meeting on 15 October 2019, I look forward to continuing my association with Tyro as a committed shareholder and passionate advocate of our business. On behalf of all your Tyro Directors, I look forward to joining you at the AGM and presenting our FY19 results to you in detail.

If for any reason you are unable to attend our AGM in person we will be providing an ability to 'dial-in' to the meeting so you are able to benefit from the update.

Thank you for your support in FY19 and throughout my time as Tyro's Chairman.

Sincerely

Kerry Roxburgh
Chairman
Tyro Payments Limited

29 August 2019

Chairman's Letter (cont'd)





CEO'S OPERATIONAL + FINANCIAL REVIEW

It is my great pleasure to present Tyro's operational and financial results for the 2019 financial year. FY19 proved to be another successful year for Tyro, with a number of records set:

- the value of payments transactions processed on our proprietary technology platform increased by \$4.1 billion (up 31%) with a record **\$17.5 billion** in transactions processed by us in the year;
- the number of merchants who chose to trust Tyro with their payments requirements increased by 25%, with close to 5,800¹ additional merchants now benefiting from Tyro's leading payments solution;
- our revenue increased by \$41.5 million (up 28%) to reach a record **\$189.8 million**;
- our loan originations in the year reached an all-time high of **\$52.2 million** – up 108% on the prior year;
- funds on deposit increased 133% – with **\$26.9 million** on deposit with us at the end of the financial year; and
- we became the fifth largest payments provider in Australia amongst all banks when measured by EFTPOS terminal numbers as shown below².

EFTPOS TERMINALS JUN 2018

	TERMINALS ('000)	CAGR '14-'18 (%)
CBA	266	(1%)
ANZ	164	6%
NAB	151	(4%)
Westpac	138	4%
Tyro	40	23%
Bendigo	39	11%
Suncorp	24	(8%)
BOQ	11	n/a ⁴
Citigroup	4	91%
Other ADIs	0	n/a ⁵
Non-ADIs ⁶	125	11%

Reflecting the continued investment in our team, our capabilities and initiatives to attract more businesses to the Tyro ecosystem, and in line with our business plan, we generated an EBITDA³ loss in FY19 of **\$8.6 million** – a slight improvement on FY18's \$9.0 million loss.

Before analysing our FY19 result in more detail, I would like to provide some insight into what makes Tyro different in the Australian payments and banking landscape.

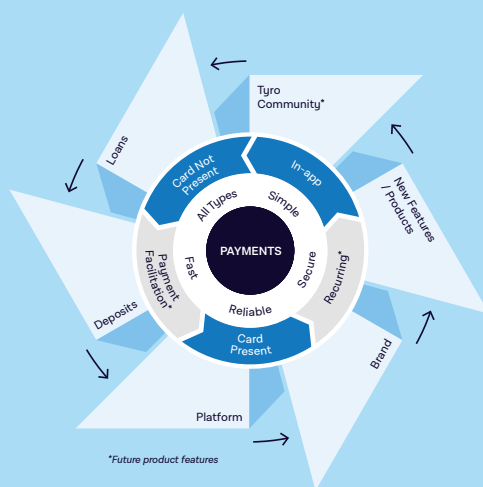
CEO's Operational + Financial Review

(1) Using Merchant IDs as a proxy for our customer numbers. (2) APRA Authorised Deposit-taking Institutions Points of Presence Database June 2018. (3) EBITDA includes net interest margin generated from banking operations. (4) No 2014 data available. (5) Off of a base of 1 terminal. (6) Estimate derived from total terminal market data. Source APRA; AusPayNet.

TYRO'S PURPOSE, VISION + ECOSYSTEM

As a values driven tech company providing payments and banking solutions to Australian business, Tyro is perfectly placed to offer a much-needed alternative to the traditional incumbents. Our DNA is different to the rest of the pack in a number of important respects including:

- we have a long and successful track-record, having established our operation some 16 years ago in the payments segment and have developed deep payments domain knowledge and expertise;
- four years ago, we applied for and were granted an unrestricted Australian Banking Licence – the first new local entrant to the banking sector in a decade – well before the ‘neo bank’ phenomenon.
- we have always had a plan and the determination to establish a payments and banking solution purpose built for Australian business, particularly in the long neglected (by this country's major banks) small and medium enterprises segment;
- our ability to solve the friction points experienced by business in payments and banking stems from the fact that we are a tech driven enterprise with approximately half of our team being technology professionals;
- our plan has always been to stay niche and nimble with a payments centricity – designing banking and other value adding services around our payments core – as represented by the Tyro ecosystem ‘flywheel’ below.



We believe these attributes perfectly position Tyro to live true to its purpose of **setting businesses free to get on with business by simplifying payments and banking.**

THE YEAR IN REVIEW

The 2019 financial year saw our business perform strongly both in our payments core and in our value adding offerings, loans and deposits.

Our payments business processed \$17.5 billion in transactions on behalf of our merchants, a lift of 31% on the prior year (FY18: \$13.4 billion) – with our growth accelerating beyond the 26% year-on-year performance in FY18 and outpacing our 5-year compound annual growth rate (CAGR) of 27%. As mentioned earlier we added close to 5,800 net new merchants to our payments business, taking the total number of merchants trusting Tyro with their payments requirements to more than 29,000 – a 25% increase on FY18 and also outpacing our 5-year CAGR of 23%.

Our merchant cash advance offering continues to display a very promising growth profile and is achieving strong repeat usage. Since product inception (three years ago) we have originated more than \$88.5 million in loans of which \$52.2 million were originated in FY19, a 108% lift on the prior year (FY18: \$25.2 million).

Similarly, strong growth (recognising the relatively low base) has been achieved by our Tyro Bank Account. This fee-free and interest paying business transaction deposit account achieved strong momentum with more than 2,400 active accounts in existence at year's end, representing an 87% increase on prior year (FY18: 1,285 active accounts).

The strong performance of these three product streams in combination saw our revenue in FY19 increase by \$41.5 million (up 28%) reaching a record \$189.8 million (FY18: \$148.2 million).

Our operating expenses increased 19% to \$103.5 million reflecting continuing investment in our team and capabilities, brand, and customer acquisition / retention. Employee expenses represented the largest cost increase lifting \$7.4 million, reflecting in part an additional 69 personnel joining the Tyro team by year's end. Our marketing spend lifted 65% to \$4.8 million which contributed to lifting our prompted brand awareness to 10%. Consistent with our approach at half-year a component (\$2.5 million) of our investment in technology and product development has been capitalised which appears on our balance sheet as intangible assets.



SETTING BUSINESSES FREE TO GET ON WITH BUSINESS BY SIMPLIFYING PAYMENTS AND BANKING.

CEO's Operational + Financial Review (cont'd)

THE YEAR IN REVIEW (cont'd)

Our business remains well positioned with total cash and investments of \$68.8 million held at the end of the financial year (FY18: \$85.5 million). Our total regulatory capital balance also remains strong at \$79.3 million (FY18: \$96.5 million) and our capital ratio is very healthy at 92% (FY18: 139%). The capital ratio decline is partially due to the more efficient use of capital as we continue to see increased take up of our merchant cash advance by our core customers.

PAYMENTS

Addressing our payments operation in a little more detail, as mentioned, we saw very strong growth in our merchant numbers increasing from 23,245 to 29,031 at the end of FY19.

A number of factors assisted in achieving this outcome, including:

- a focus on merchant satisfaction and retention levels which successfully reduced our merchant churn from 13.0% to 11.7%;
- an increase in our direct integration efforts with our Point of Sale (**POS**) and Practice Management System (**PMS**) partners. At the end of the financial year we had a segment leading 275 POS and PMS partners working with us (FY18: 257), with all these systems integrating seamlessly with our payment terminals; and
- a continuing focus on customer acquisition which saw new merchant applications increase 27%.

As mentioned the value of transactions processed on our platform grew an impressive 31% with \$17.5 billion in card transactions processed in the 12 months to 30 June 2019 (FY18: \$13.4 billion). We achieved an all-time record in monthly transaction values in December 2018 with \$1.7 billion being processed in that month alone. Pleasingly, even with these volume increases, our ongoing transaction reliability to our merchants remained at a high of 99.99% uptime availability for our core acquiring platform.

These factors combined to drive a very strong revenue outcome from our payments operation of \$183.7 million, up 28% (FY18: \$143.0 million).

BANKING OPERATIONS

Whilst still in a 'build-out' phase our two banking products are growing strongly albeit from small bases. These products are designed to complement our payments offering and provide our merchants innovative ways to meet their transactional and unsecured lending needs. We have a strong conviction that these banking solutions meaningfully enhance the overall value proposition we offer to our merchants.

DEPOSITS

Our Tyro Bank Account is a fee free interest bearing transactional account. As at 30 June 2019 we had 2,401 active Tyro Bank Accounts up from 1,285 as at 30 June 2018. We held \$26.9 million of funds on deposit as at 30 June 2019 compared with \$11.6 million a year prior.

FUNDING

Our Tyro Business Loan is a cash-flow based unsecured loan, purpose-built to assist merchants in growing their businesses. This product provides small unsecured loans to eligible Tyro merchants which are repaid via a pre-agreed percentage of their daily EFTPOS / payments settlements, offered on the basis of a fixed upfront fee.

With average loan balances of less than \$40,000 and an average loan term of less than 6 months, this product is being used by many of our merchants as a way of accessing cash-flow earlier to accelerate their growth initiatives. The highly attractive feature of this product is its ease of management, with repayments that cycle up or down in accordance with a merchant's daily card transaction volumes, removing some of the stress of inflexible repayment schedules.

This innovative product was soft launched in early 2017 and to date it has only been available to around 6,000 of our 29,031 merchants. As mentioned, the product is displaying a very promising growth profile and has achieved strong repeat usage. We achieved a 108% lift in loan originations in FY19 reaching \$52.2 million (FY18: \$25.2 million) taking the total originations since product inception to more than \$88.5 million in loans.

NEW INITIATIVES

Beyond the strong financial outcomes in FY19, we achieved a number of other significant operational achievements in the year, including:

- we commenced a brand refresh project which has resulted in a new Tyro logo, new brand positioning and our customer facing assets (including our website) being upgraded;
- on 31 August 2018 we entered into an agreement with one of the world's largest mobile and online payment platforms, Alipay, to become the first Australian bank to offer a seamless, all-in-one EFTPOS solution with Alipay for Tyro's merchants and to improve Australian businesses' access to the Chinese visitor market. Our first Alipay transaction was processed on 19 October 2018 and as at 30 June 2019 we processed in excess of \$12.5 million in Alipay transactions. We currently have more than 3,750 Tyro merchants enabled with Alipay;
- we were proud to have been the first bank to have launched 'least cost routing' to market back in March 2018. Our 'Tap & Save' feature is a cost-saving initiative for our merchants that directs contactless card payments through the transaction path that is the lowest cost for the merchant, instead of the most profitable for the bank. This initiative is a clear demonstration of our commitment to doing the right thing for those Australian businesses that have chosen to partner with Tyro. Since launch over 39 million transactions have been routed through EFTPOS delivering significant savings for our merchants. Pleasingly around one out of every three eligible Tyro merchants have requested our 'Tap & Save' feature be enabled, clearly demonstrating the attractiveness of the feature;
- our e-Commerce payments solution went live on 1 April 2019 enabling Tyro merchants to accept online payments for their businesses. This solution extends our ability to solve payments friction for our merchants true to our purpose.

In closing, I thank our amazing team at Tyro. Without their passion, drive, enthusiasm, and single-minded focus on wowing our customers, we could not have delivered the result we did. So, Tyros, I thank you one-and-all for making our result in the year possible!

Finally, I hope you are able to join us for our Annual General Meeting on 15 October 2019. At the meeting we will provide further insights and outline a few of the new initiatives we have in the pipeline for FY20, so I do hope you can join us for this event.



Robbie Cooke
Chief Executive Officer
Tyro Payments Limited

29 August 2019



I THANK OUR AMAZING TEAM AT TYRO. WITHOUT THEIR PASSION, DRIVE, ENTHUSIASM, AND SINGLE-MINDED FOCUS ON WOWING OUR CUSTOMERS, WE COULD NOT HAVE DELIVERED THE RESULT WE DID.





Directors', Report



The Board of Directors of Tyro Payments Limited (the **Company** or **Tyro**) present their report together with the financial statements for the financial year ended 30 June 2019.

DIRECTORS AND COMPANY SECRETARIES

The names and details of Tyro's Directors that held office during the period commencing on 1 July 2018 and ending on the date of this report are:

Kerry Roxburgh (Chairman)	Director since 18 April 2008
Hamish Corlett	Director since 18 April 2019
David Fite	Director since 3 July 2018
Catherine Harris	Director since 17 December 2015
Paul Rickard	Director since 28 August 2009
David Thodey	Director since 16 November 2018
Mike Cannon-Brookes	Director since 10 December 2009 (resigned 28 February 2019)
Rob Ferguson	Director since 17 November 2005 (resigned 3 July 2018)

Skills, qualifications, term of office, experience and responsibilities for each Director (as at the date of this report) are set out below.

KERRY ROXBURGH, CHAIRMAN

NON-EXECUTIVE DIRECTOR SINCE 18 APRIL 2008

Kerry is currently the Lead Independent Non-executive Director of Ramsay Health Care Ltd and a Non-Executive Director of the Medical Indemnity Protection Society and of MIPS Insurance Ltd. He is Chairman of the Eclix Group Ltd.

Kerry is a Member Practitioner of the Stockbrokers and Financial Advisers Association of Australia. In 2000 he completed a 3 year term as CEO of E*TRADE Australia (a business that he co-founded in 1997), continuing as its non-executive Chairman until June 2007, when it was acquired by the ANZ Bank and subsequently re-named ANZ Share Investing. Prior to this appointment he was an Executive Director of Hong Kong Bank of Australia Group (now HSBC Bank Australia) where for 10 years from 1986, he held various positions including Head of Corporate Finance and Executive Chairman of the group's stockbroker, James Capel Australia. Until 1986 Kerry practiced for more than 20 years as a Chartered Accountant.

OTHER CURRENT DIRECTORSHIPS

Chairman of ASX listed Eclix Group Limited (Director since March 2015); Non-executive Director of ASX listed Ramsay Healthcare Ltd (since July 1997); Directorships with Medical Indemnity Protection Society Ltd and MIPS Insurance Pty Ltd.

SPECIAL RESPONSIBILITIES

Chairman of the Board of Tyro, a Member of the Risk Committee and a Member of the Nominations and Remuneration Committee.

DIRECTORS AND COMPANY SECRETARIES (cont'd)

HAMISH CORLETT

NON-EXECUTIVE DIRECTOR SINCE 18 APRIL 2019

Hamish is a founder and director of TDM Growth Partners, a private investment firm specialising in high growth companies globally. He has over 20 years' experience in investing and investment banking. Prior to TDM, Hamish worked as an Investment Manager at Caledonia Investments, a global fund manager, and an Analyst at Caliburn Partnership (now Greenhill).

Hamish holds a Bachelor of Commerce with Honours Class 1 (Accounting and Finance) from the University of Sydney and a Graduate Diploma of Counselling from the Australian College of Applied Psychologists.

OTHER CURRENT DIRECTORSHIPS

Non-executive Director of Somnomed Ltd.

DAVID FITE

NON-EXECUTIVE DIRECTOR SINCE 3 JULY 2018

David is currently an investor in various credit, financial services and technology businesses, and has been a shareholder in Tyro since 2008. David has significant executive experience in the financial services sector both domestically and globally. David has worked at Westpac Banking Corporation (holding various roles, including Treasurer, Assistant Chief Financial Officer and the Group Executive responsible for all retail and business banking products in Australia). David has also worked at Japan's Shinsei Bank (formerly known as The Long-Term Credit Bank of Japan) as its Senior Corporate Executive Officer, Chief Financial Officer and a member of its Board. Prior to entering the financial services sector, David was a consultant at Bain & Company in Boston and London focussing on manufacturing and consumer products industries.

OTHER CURRENT DIRECTORSHIPS

Non-executive Director of Judo Capital Holdings Ltd and Judo Bank Pty Ltd; Non-executive Director of Evari Insure Pty Ltd and associated entities; Non-executive Director of Collect Ltd (New Zealand company).

SPECIAL RESPONSIBILITIES

Member of the Audit Committee.

CATHERINE HARRIS

NON-EXECUTIVE DIRECTOR SINCE 17 DECEMBER 2015

Catherine is the Chair of Harris Farm Markets Pty Ltd. Her previous roles have included Federal Director of the Affirmative Action Agency and Deputy Chancellor of the University of NSW, Trustee of the Sydney Cricket Ground Trust, The National Gallery of Australia, The Australian Defence Force Academy, The MCA, St Margaret's Public Hospital, The Australian Rugby League Commission, The Sports Australia Hall of Fame and the Australia Japan Foundation.

Catherine is an Officer in the Order of Australia and was awarded the Australian Public Service Medal, The Centenary Medal and has an Honorary Doctorate in Business from UNSW.

OTHER CURRENT DIRECTORSHIPS

Chair of Harris Farm Markets Pty Ltd; Director of The Australian Ballet; Cox's River Rest Pty Ltd; Director of The Australian School of Business of UNSW.

SPECIAL RESPONSIBILITIES

Chair of the Nominations and Remuneration Committee and a Member of the Audit Committee.

DIRECTORS AND COMPANY SECRETARIES (cont'd)

PAUL RICKARD

NON-EXECUTIVE DIRECTOR SINCE 28 AUGUST 2009

Paul is a company director, financial adviser and financial services consultant. He was previously the Executive General Manager, Payments & Business Technology for the Commonwealth Bank. During his 20 year career at the CBA, Paul was the founding Managing Director of CommSec, which he led from 1994 through to 2002. In 2005, Paul was named 'Stockbroker of the Year' and admitted to the Industry Hall of Fame.

OTHER CURRENT DIRECTORSHIPS

Non-executive Director of OpenInvest Ltd, OpenInvest Holdings Pty Ltd, Switzer Financial Group Pty Ltd and ASX listed WCM Global Growth Ltd and holds Board positions with several other Australian private companies.

SPECIAL RESPONSIBILITIES

Chair of the Audit Committee, Chair of the Risk Committee and a Member of the Nominations and Remuneration Committee.

DAVID THODEY AO

NON-EXECUTIVE DIRECTOR SINCE 16 NOVEMBER 2018

David is a business executive with more than 40 years of global experience in the technology and telecommunications industries. He was CEO of Telstra and previously CEO of IBM Australia/New Zealand. David is currently a Director of Ramsay Health Care Ltd and Xero Limited. He is also Chair of the Commonwealth and Scientific Industrial Research Organisation (CSIRO). David has a track record of creating brand and shareholder value and has been successfully involved in innovation across a wide range of sectors. In 2017, David was awarded an Order of Australia for integrity and leadership in business.

OTHER CURRENT DIRECTORSHIPS

Chairman of CSIRO; Non-executive Director of Ramsay Health Care Ltd; Non-executive Director of Xero Limited.

SPECIAL RESPONSIBILITIES

Member of the Risk Committee.

COMPANY SECRETARY

Tyro's Company Secretary as at 30 June 2019 was Sami Wilson.

Sami was appointed Company Secretary on 7 May 2018. In addition, Sami is Tyro's General Counsel and joined Tyro in April 2018. Sami holds Bachelors of Law and Commerce and was previously a member of Herbert Smith Freehills' Private Equity team.

DIVIDENDS

No dividends or distributions were declared or paid for the year ended 30 June 2019.

CORPORATE INFORMATION AND CAPITAL STRUCTURE

CORPORATE STRUCTURE

Tyro is an unlisted public company. It is incorporated and domiciled in Australia. Tyro's registered office is Level 1, 155 Clarence Street, Sydney, New South Wales, 2000.

NATURE OF OPERATIONS AND PRINCIPAL ACTIVITIES

Tyro is an Australian bank and operates under the supervision of the Australian Prudential Regulation Authority (APRA). Tyro provides credit, debit and EFTPOS card acquiring, Medicare and private health fund claiming and rebating services to Australian businesses. Tyro takes money on deposit and offers unsecured cash-flow based lending to Australian EFTPOS merchants. Tyro has implemented appropriate systems and controls to comply with the stringent prudential and regulatory requirements within the Australian banking system.

SHARE CAPITAL

Tyro's issued share capital as at the date of this report was 444,545,571 fully paid ordinary shares.

During the period commencing on 1 July 2018 and ending on the date of this report (Relevant Period), 4,238,316 fully-paid ordinary shares were issued by Tyro upon the exercise of options, raising a total of \$0.68 million in fully paid capital.

CORPORATE INFORMATION AND CAPITAL STRUCTURE (cont'd)

OPTIONS, PERFORMANCE RIGHTS AND REMUNERATION SACRIFICE RIGHTS

As at the date of this report, there were 44,633,588 unissued ordinary shares under either options, performance rights or remuneration sacrifice rights. When exercised (assuming they have vested), Tyro will issue one fully-paid ordinary share in respect of each option, performance right or remuneration sacrifice right exercised. Holders of such rights or options do not have any right, by virtue of the option or right, to participate in any share issue of the Company. A summary of these options and rights is as follows:

OPTION TYPE ¹	EXERCISE PRICE	EXPIRY DATE ²	GRANTED DURING RELEVANT PERIOD	UNISSUED SHARES UNDER OPTION AS AT THE DATE OF THIS REPORT (29 AUGUST 2019) ³
Share options not issued under ESOP ⁴	\$0.08	17 December 2020	-	4,250,000
Monthly Linear Vesting Schedule	\$0.10	29 August 2019	-	205,000
	\$0.12	29 August 2019	-	241,389
	\$0.14	29 August 2019	-	252,612
	\$0.375	17 October 2020	-	3,281,591
	\$0.45	9 October 2021	-	3,466,728
	\$0.60	5 October 2022	-	4,881,850
	\$1.49	1 November 2023	-	5,864,730
	\$1.62	31 March 2024 - 15 October 2024	-	792,500
Annual Linear Vesting Schedule	\$1.76	1 February 2024 - 31 December 2024	2,218,180	8,595,183
	\$0.00	30 December 2024	2,274,946	2,088,057
Performance Annual Linear Vesting Schedule	\$0.00	29 March 2025	459,525	459,525
	\$1.50	30 April 2026	6,154,423	6,154,423
Performance Rights	\$0.00	10 years from the date on which the performance right vests	4,100,000	4,100,000
Remuneration Sacrifice Rights ⁵	\$0.00	N/A	498,587	-
Total			15,705,185	44,633,588

(1) Per 'Type of Option' description in Note 11 of the Financial Report.

(2) Initial expiry date, not taking into account any acceleration of the expiry date (for example due to cessation of employment).

(3) Number of options as at the date of this report (29 August 2019) may not reconcile with the number of options reported at balance date (30 June 2019) in the accompanying Financial Report.

(4) See Note 22 of the Financial Report.

(5) See Note 11 of the Financial Report. As at the date of this report, these rights have fully vested and automatically converted to restricted shares.

CORPORATE INFORMATION AND CAPITAL STRUCTURE (cont'd)

DIRECTOR AND OFFICER OPTION, PERFORMANCE RIGHT AND REMUNERATION SACRIFICE RIGHT GRANTS

During the Relevant Period, the following options, performance rights and remuneration sacrifice rights were granted by Tyro to:

- Tyro's Directors; and
- Tyro's 6 most highly remunerated officers (other than Directors).

DIRECTOR	OPTIONS GRANTED DURING RELEVANT PERIOD	REMUNERATION SACRIFICE RIGHTS	PERFORMANCE RIGHTS
Kerry Roxburgh	134,829	159,776	-
Mike Cannon-Brookes ⁶	-	-	-
Hamish Corlett	68,000	-	-
Rob Ferguson ⁷	-	-	-
David Fite	82,286	-	-
Catherine Harris	97,486	93,735	-
Paul Rickard	112,586	138,472	-
David Thodey	82,286	-	-
OFFICER			
Robbie Cooke, Chief Executive Officer	3,766,945	106,604	1,200,000
Dave Coombes, Chief Technology Officer	721,220	-	500,000
Angela Green, Chief Risk Officer	39,607	-	300,000
Bronwyn Yam, Chief Product Officer	675,886	-	500,000
Joshua Walther, Chief Customer Officer	675,886	-	500,000
Prav Pala, Chief Financial Officer	706,109	-	500,000

(6) Mike Cannon-Brookes resigned as a Director on 28 February 2019.

(7) Rob Ferguson resigned as a Director on 3 July 2018.

OPERATING AND FINANCIAL REVIEW

REVIEW OF OPERATIONS AND FINANCIAL POSITION

The Company reported the following operating results for the year and the comparative period:

(AMOUNTS IN \$000)	2019	2018
Revenue	\$189,770	\$148,231
Net operating income	\$83,260	\$69,068
Loss before tax expense	(\$20,211)	(\$17,521)
Loss for the year	(\$18,387)	(\$16,370)

The Company had a net loss of \$18.4 million for the year ended 30 June 2019. Tyro continued to scale up its investment in building its banking business and embarked on a significant growth program including new product design, improved operating systems and distribution.

For further information refer to the CEO's Review on pages 14 to 17.

REGULATORY LANDSCAPE, CAPITAL AND FUNDING

Tyro holds an authority under the Banking Act 1959 (Cth) to carry on a banking business as an Authorised Deposit-taking Institution and is subject to prudential capital requirements set by APRA. Tyro is fully compliant with the prudential capital requirements prescribed by APRA and has sufficient capital to fund on-going operations. The information required by APS 330: Public Disclosure is provided in the 'Investors' section of Tyro's website at www.tyro.com/investors (under Regulatory Disclosures).

Tyro had cash and cash equivalents of \$23.9 million at the end of the Reporting Period.

Total Tier 1 capital held as at 30 June 2019 was \$78.3 million. Tyro has always held sufficient capital to meet its internal targets above APRA's prudential capital requirements.

RISK MANAGEMENT

The Board is responsible for reviewing and approving the risk management strategy, including determining Tyro's appetite for risk. The Chief Executive Officer and Management team are responsible for implementing the risk management strategy and framework, and for developing policies, controls, processes and procedures for identifying and managing risk.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

In the opinion of the Directors, there have been no matters or circumstances which have arisen during the financial year that have significantly affected or may significantly affect the operations of the Company, the result of those operations or the state of affairs of the Company in subsequent financial years.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

On 8 July 2019, Tyro announced it was investigating the potential to move from its current non-listed public company structure to an ASX listed structure.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

Tyro's key priorities and strategies for FY20 and beyond are discussed in the CEO's Review on pages 14 to 17. In the Directors' opinion, any further disclosure of information would be likely to result in unreasonable prejudice to the Company.

INDEMNIFICATION AND INSURANCE

Tyro's Constitution allows it to pay insurance premiums for contracts insuring a Director, Secretary or other officer of the Company against any liability incurred in that person's capacity as an officer of the Company, to the extent permitted by law. During the financial year, consistent with Tyro's Constitution, Tyro paid a premium in respect of a contract insuring the current and former Directors of the Company, the Company Secretary and the officers of the Company. The contract of insurance prohibits disclosure of the nature of the liabilities insured against and the amount of the premium.

Clause 104.1 of Tyro's Constitution provides that each current and former Director, Secretary or other officer of the Company is indemnified, to the maximum extent permitted by law against any liability incurred by the person in their capacity as an officer of the Company (including legal costs incurred in defending any legal action or proceedings). Tyro has also entered into deeds of indemnity, insurance and access with its Directors, Chief Executive Officer, Company Secretary and Chief Financial Officer (and certain former officers) which will indemnify them against liability incurred as an officer of the Company, to the extent permitted by law.

Pursuant to the terms of Tyro's standard engagement letter with Tyro's auditor, Ernst & Young (EY), the Company has agreed to indemnify EY against any liability incurred as auditor, to the extent permitted by law.

MEETINGS OF DIRECTORS

The number of Board meetings and meetings of Board Committees held during the year and the number of meetings attended by each Director is as follows:

	BOARD		AUDIT COMMITTEE		RISK COMMITTEE		NOMINATIONS & REMUNERATION COMMITTEE	
	A	B	A	B	A	B	A	B
Kerry Roxburgh	6	6	nm	nm	7	6	4	4
Mike Cannon-Brookes ¹	4	1	nm	nm	5	0	nm	nm
Hamish Corlett	1	1	nm	nm	nm	nm	nm	nm
Rob Ferguson ²	-	-	-	-	-	-	-	-
David Fite	6	6	4	4	nm	nm	nm	nm
Catherine Harris	6	5	4	4	nm	nm	4	4
Paul Rickard	6	6	4	4	7	7	4	4
David Thodey	4	4	nm	nm	4	4	nm	nm

A: number of meetings during the year while the Director was a member of the Board or Committee

B: number of meetings attended by the Director as a member during the year

nm: not a member of the relevant Committee

(1) Mike Cannon-Brookes resigned as a Director on 28 February 2019.

(2) Rob Ferguson resigned as a Director on 3 July 2018.

COMMITTEE MEMBERSHIP

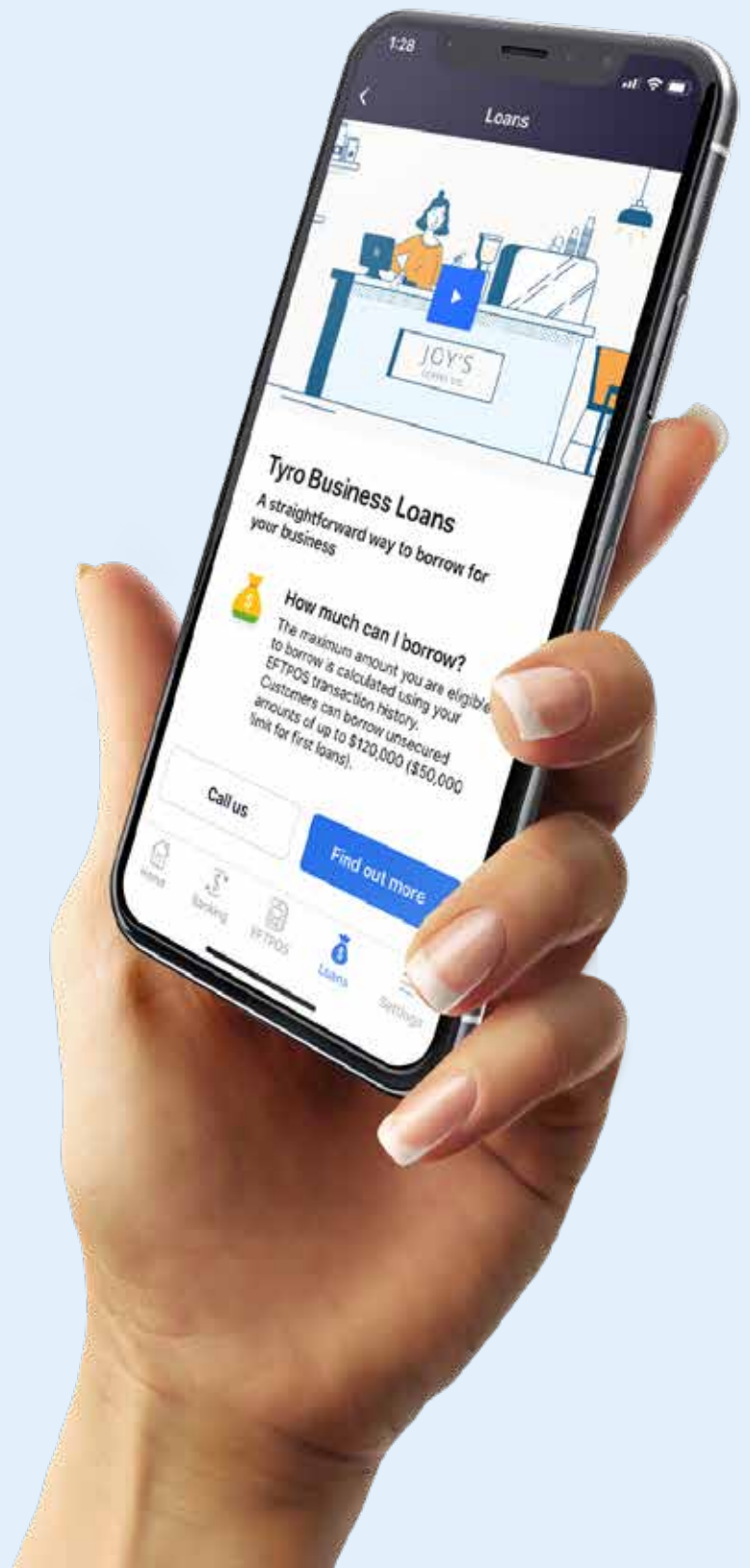
As at the date of this report, Tyro had a Board Audit Committee, a Board Risk Committee and a Board Nominations and Remuneration Committee.

Directors appointed to the Board Committees as at 30 June 2019 were:

AUDIT COMMITTEE	RISK COMMITTEE	NOMINATIONS & REMUNERATION COMMITTEE
P. Rickard (Chair)	P. Rickard (Chair)	C. Harris (Chair)
D. Fite	K. Roxburgh	P. Rickard
C. Harris	D. Thodey	K. Roxburgh

Kerry Roxburgh
Chairman

29 August 2019



Auditor's Independence Declaration



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working world**

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Auditor's Independence Declaration to the Directors of Tyro Payments Limited

As lead auditor for the audit of Tyro Payments Limited for the financial year ended 30 June 2019, I declare to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

A handwritten signature in blue ink that reads 'Ernst & Young'.

Ernst & Young

A handwritten signature in blue ink that reads 'Michael Byrne'.

Michael Byrne
Partner
29 August 2019

Financial Report



FINANCIAL STATEMENTS	34
• STATEMENT OF COMPREHENSIVE INCOME	34
• STATEMENT OF FINANCIAL POSITION	35
• STATEMENT OF CASH FLOWS	36
• STATEMENT OF CHANGES IN EQUITY	37
NOTES TO THE FINANCIAL STATEMENTS	38
• 1. STATEMENT OF ACCOUNTING POLICIES	38
• 2. REVENUE AND EXPENSES	50
• 3. INCOME TAX	51
• 4. CASH AND CASH EQUIVALENTS	52
• 5. DUE FROM OTHER FINANCIAL INSTITUTIONS	52
• 6. TRADE AND OTHER RECEIVABLES	53
• 7. LOANS	53
• 8. FINANCIAL INVESTMENTS - AT FVOCI	54
• 9. PROPERTY, PLANT AND EQUIPMENT	54
• 10. INTANGIBLE ASSETS	55
• 11. SHARE-BASED PAYMENTS	56
• 12. DEPOSITS	60
• 13. TRADE PAYABLES AND OTHER LIABILITIES	60
• 14. PROVISIONS	60
• 15. NON-CURRENT LIABILITIES	61
• 16. CONTRIBUTED EQUITY AND RESERVES	61
• 17. FINANCIAL RISK MANAGEMENT OBJECTIVES, POLICIES AND PROCESSES	64
• 18. COMMITMENTS AND CONTINGENCIES	71
• 19. LEASES	72
• 20. SEGMENT REPORTING	73
• 21. AUDITOR'S REMUNERATION	73
• 22. RELATED PARTY DISCLOSURES	74
• 23. MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR	76
DIRECTORS' DECLARATION	77
INDEPENDENT AUDITOR'S REPORT	78

FINANCIAL STATEMENTS

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2019

	NOTE	2019 ¹ \$000	2018 \$000
Fees and commission income	2	182,787	142,213
Interest income on loans ²		2,912	1,567
Fair value gain on loans ²		26	-
Interest income on treasury investments – at amortised cost		1,298	1,580
Interest income on treasury investments – at FVOCI ³		1,035	918
Terminal and accessories sale		898	810
Other income	2	814	1,143
Total revenue		189,770	148,231
Interchange, integration and support fees expense	2	(105,489)	(78,511)
Interest expense on deposits		(276)	(110)
Terminal and accessories COGS		(745)	(542)
Total direct expenses		(106,510)	(79,163)
Net operating income		83,260	69,068
Employee benefits expense (exc. share-based payments)	2	(60,761)	(53,370)
Share-based payments expense		(3,788)	(1,411)
Administrative expenses	2	(17,775)	(16,162)
Contractor and consulting expenses		(7,715)	(5,201)
Marketing expenses		(4,771)	(2,899)
Depreciation	9	(7,849)	(7,064)
Amortisation	10	(15)	-
Lending and non-lending losses	2	(797)	(482)
Total operating expenses		(103,471)	(86,589)
Loss before tax expense		(20,211)	(17,521)
Income tax benefit	3	1,824	1,151
Loss for the year		(18,387)	(16,370)
Other comprehensive income			
FVOCI ^{3,4} reserve – net revaluation gain, net of tax		42	232
Total comprehensive loss for the year		(18,345)	(16,138)

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

- (1) The 2019 financial year results reflect the adoption of AASB 9 Financial instruments (AASB 9) and AASB 15 Revenue from contracts with customers (AASB 15). The Company has not restated prior periods as permitted by AASB 9 and AASB 15, with applicable transition adjustments being recognised in opening retained earnings at 1 July 2018. Refer to Note 1 for details on the impact of initial adoption of AASB 9 and AASB 15.
- (2) Upon adoption of AASB 9, loans that were classified as loans and receivables and measured at amortised cost under AASB 139 have certain features that resulted in the loans not meeting AASB 9's solely payments of principal and interest requirements. Accordingly, these loans have been re-classified to fair value through profit or loss (FVTPL). Loans measured at FVTPL are not subject to separate impairment testing requirements as the expected repayments are factored into the fair valuation of the portfolio.
- (3) Fair value through other comprehensive income. Refer Note 1(d)
- (4) Represents the available-for-sale revaluation reserve for periods prior to the adoption of AASB 9 on 1 July 2018.

FINANCIAL STATEMENTS (cont'd)

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2019

	NOTE	2019 ¹ \$000	2018 \$000
ASSETS			
Current assets			
Cash and cash equivalents	4	23,900	28,564
Due from other financial institutions	5	7,910	17,812
Trade and other receivables	6	27,762	15,935
Loans	7	15,665	7,590
Prepayments		1,943	1,925
Inventories		60	61
Total current assets		77,240	71,887
Non-current assets			
Financial investments – at FVOCI	8	37,159	39,097
Property, plant and equipment	9	18,734	17,223
Intangible assets	10	2,503	-
Deferred tax assets	3	13,028	11,351
Total non-current assets		71,424	67,671
TOTAL ASSETS		148,664	139,558
LIABILITIES			
Current liabilities			
Deposits	12	26,918	11,563
Trade payables and other liabilities	13	21,593	13,764
Provisions	14	3,162	3,922
Total current liabilities		51,673	29,249
Non-current liabilities			
Provisions	15	1,046	768
Total non-current liabilities		1,046	768
TOTAL LIABILITIES		52,719	30,017
NET ASSETS		95,945	109,541
EQUITY			
Contributed equity	16	141,856	141,258
Reserves	16	17,492	13,973
Accumulated losses	16	(63,403)	(45,690)
TOTAL EQUITY		95,945	109,541

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

(1) The 2019 financial year results reflect the adoption of AASB 9 and AASB 15. The Company has not restated prior periods as permitted by AASB 9 and AASB 15, with applicable transition adjustments being recognised in opening retained earnings at 1 July 2018. Refer to Note 1 for details on the impact of initial adoption of AASB 9 and AASB 15.

FINANCIAL STATEMENTS (cont'd)

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2019

	NOTE	2019 \$000	2018 \$000
Cash flows from operating activities			
Fees and commission income received		183,137	142,178
Interchange, integration and support fees expenses paid		(105,743)	(78,582)
Interest received		5,386	4,004
Interest paid		(258)	(103)
Other operating income received		1,572	1,998
Payments to employees and suppliers:			
Employee benefits expenses paid		(59,899)	(52,321)
Terminals purchased		(8,103)	(6,688)
Other operating expenses paid		(29,901)	(22,923)
Movement in net schemes receivable and other items		(7,416)	(4,489)
Net increase in customer loans		(8,061)	(3,489)
Net increase in retail deposits		15,355	7,616
Net cash flows from operating activities	4	(13,931)	(12,799)
Cash flows from investing activities			
Movement in term deposit investments			
Proceeds on maturity		10,037	35,013
Movement in financial investments			
Purchases		(3,500)	(17,668)
Proceeds		5,691	-
Purchase of property, plant and equipment (exc. terminals)		(1,045)	(2,891)
Payment for recognised intangible assets		(2,518)	-
Net cash flows from investing activities		8,665	14,454
Cash flows from financing activities			
Proceeds from exercise of share options	16	598	2,877
Net cash flows from financing activities		598	2,877
Net (decrease)/increase in cash and cash equivalents		(4,668)	4,532
Effect of foreign exchange rates on cash and cash equivalents		4	(20)
Cash and cash equivalents at beginning of year		28,564	24,052
Cash and cash equivalents at end of year	4	23,900	28,564

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

FINANCIAL STATEMENTS (cont'd)

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2019

ATTRIBUTABLE TO EQUITY HOLDERS OF TYRO PAYMENTS LIMITED	NOTE	CON- TRIBUTED EQUITY	FVOCI RESERVE ¹	SHARE- BASED PAYMENTS RESERVE	ACCU- MULATED LOSSES	OPTION PREMIUM RESERVE	GENERAL RESERVE FOR CRED- IT LOSSES	TOTAL
		\$000	\$000	\$000	\$000	\$000	\$000	\$000
At 30 June 2017		138,381	623	10,276	(29,147)	167	1,091	121,391
Loss for the year		-	-	-	(16,370)	-	-	(16,370)
Other comprehensive income		-	232	-	-	-	-	232
Total comprehensive income		-	232	-	(16,370)	-	-	(16,138)
Option premium reserve		-	-	-	-	-	-	-
Issue of share capital – from options exercised		2,877	-	-	-	-	-	2,877
Share-based payments		-	-	1,411	-	-	-	1,411
Transfer to general reserve for credit losses		-	-	-	(173)	-	173	-
At 30 June 2018		141,258	855	11,687	(45,690)	167	1,264	109,541
Adjustment from initial adoption of AASB 9		-	(798)	-	1,328	-	-	530
Adjusted balance at 1 July 2018		141,258	57	11,687	(44,362)	167	1,264	110,071
Loss for the year		-	-	-	(18,387)	-	-	(18,387)
Other comprehensive income		-	42	-	-	-	-	42
Total comprehensive income		-	42	-	(18,387)	-	-	(18,345)
Option premium reserve		-	-	-	-	(167)	-	(167)
Issue of share capital – from options exercised		598	-	-	-	-	-	598
Share-based payments		-	-	3,788	-	-	-	3,788
Transfer to general reserve for credit losses		-	-	-	(654)	-	654	-
At 30 June 2019	16	141,856	99	15,475	(63,403)	-	1,918	95,945

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

(1) Represents the available-for-sale revaluation reserve for periods prior to the adoption of AASB 9 on 1 July 2018.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

1. STATEMENT OF ACCOUNTING POLICIES

The significant policies which have been adopted in the preparation of this financial report are set out below.

The financial report of Tyro Payments Limited (the **Company**) was authorised for issue by the Directors on 29 August 2019.

The Company is an unlisted public company, incorporated and domiciled in Australia. The nature of the operations and principal activities of the Company are described in the Directors' report.

(A) BASIS OF PREPARATION

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report has also been prepared on a historical cost basis, except for loans and financial investments which have been measured at fair value.

Similar categories of income and expenses have been grouped together. Prior year comparative information for these amounts, where necessary, has been reclassified to achieve consistency in disclosure with current financial year amounts and other disclosures.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars, under the option available to the Company under ASIC Corporations Instrument 2016/191, unless otherwise stated.

(B) STATEMENT OF COMPLIANCE

The financial report complies with Australian Accounting Standards issued by the Australian Accounting Standards Board and complies with International Financial Reporting Standards and Interpretations issued by the International Accounting Standards Board.

(C) GOING CONCERN

The Company had net current assets of \$25.6 million as at 30 June 2019 (2018: \$42.6 million).

The Directors consider the Company is able to pay its debts as and when they fall due, and therefore the Company is able to continue as a going concern.

(D) NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

(i) Changes in accounting policies

The accounting policies are consistent with those applied in the previous financial year except for:

AASB 9 Financial Instruments

AASB 9 replaced AASB 139 Financial Instruments: Recognition and Measurement from 1 July 2018 for the Company. AASB 9 results in changes to accounting policies for financial assets and financial liabilities in the areas of Classification and Measurement, Impairment and Hedge Accounting. The Company has applied the requirements of AASB 9 in the current reporting period beginning 1 July 2018 in respect of the classification and measurement of financial assets and impairment of financial assets. The Company currently does not have any hedges in place. The transition adjustments have been recognised in opening retained earnings at 1 July 2018 with no restatement of prior periods, as permitted by AASB 9.

The key changes in accounting policies and impacts from the transition are summarised below:

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019 (cont'd)

1. STATEMENT OF ACCOUNTING POLICIES (cont'd)

Classification and measurement:

Financial assets:

AASB 9 introduces a new model that categorises financial assets based on the Company's business model for realising these assets and whether the contractual cash flows of the asset represent solely payments of principal and interest (SPPI). The Company applies the following policies for the three new AASB 9 classification and measurement categories:

- *Amortised Cost* - A financial asset will be measured at amortised cost if both of the following conditions are met:
 1. the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
 2. the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
- *Fair Value through Other Comprehensive Income (FVOCI)* - A financial asset will be measured at FVOCI if both of the following conditions are met:
 1. the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
 2. the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Changes in the fair value of financial assets that are classified as FVOCI are recognised in the FVOCI reserve, except for recognition of expected credit losses, interest revenue or dividend income which is recognised in the Statement of Comprehensive Income (SOCl).

Interest income for the above financial assets are recognised in the SOCl under 'Interest income on treasury investments' using the effective interest rate (EIR) method (or a method that approximates the EIR method).

When financial assets at FVOCI (other than equity investments) are derecognised, the cumulative gain or loss previously recognised in the FVOCI reserve is reclassified to the SOCl. For equity investments that the Company has elected to measure at FVOCI, the cumulative gain or loss recognised in the FVOCI reserve is never recycled to the SOCl upon derecognition. The Company may reclass between equity accounts.

- *Fair Value through Profit and Loss (FVTPL)* - All financial assets that are not measured at amortised cost or FVOCI will be measured at FVTPL. All financial assets that are equity instruments will be measured at FVTPL unless the Company irrevocably elects to present subsequent changes in the fair value in other comprehensive income. The Company has not made this election for equity instruments. The Company may also irrevocably elect to designate a financial asset as measured at FVTPL on initial recognition if doing so eliminates or significantly reduces an accounting mismatch.

Interest income from loans at FVTPL are recognised in the SOCl under 'Interest income on loans'.

The Company determines the business model at the level that reflects how groups of financial assets are managed. In determining the business model, all relevant evidence that is available at the date of assessment is used including:

- how the performance of financial assets held within that business model are evaluated and reported to the Company's key management personnel; and
- the risks that affect the performance of the business model and the way in which those risks are managed.

Judgement is exercised to determine the appropriate level to assess the Company's business model.

Financial liabilities:

The accounting for financial liabilities is largely unchanged.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019 (cont'd)

1. STATEMENT OF ACCOUNTING POLICIES (cont'd)

Impairment:

AASB 9 introduces a revised impairment model which moves from an incurred loss model to an expected credit loss (ECL) model. The ECL model requires more timely recognition of ECL's as well as recognition of full lifetime expected losses. The standard uses a three-stage approach:

- Stage 1 - For financial assets where there has been no significant increase in credit risk since origination, a provision for 12-month ECL is required;
- Stage 2 - For financial assets where there has been a significant increase in credit risk, a provision for full lifetime ECL is required;
- Stage 3 - For financial assets where the asset is credit impaired, a provision for full lifetime ECL is required.

The impairment model is only applicable to financial assets measured at amortised cost or FVOCI.

Transition Impacts:

As permitted by AASB 9, the Company has not restated prior periods, with applicable transition adjustments being recognised in opening retained earnings at 1 July 2018. The table below shows the presentation, classification and measurement, and impairment changes on transition, with the key changes being:

Presentation:

Changes to the **Statement of Financial Position:**

1. Addition of a new line item titled 'Financial Investments – at FVOCI', replacing the previously disclosed 'Available-for-sale investments'. Financial assets within this classification consist of floating rate notes and equity investments.
On transition, the addition of a new line item titled 'Financial Investments – at FVTPL' was also included in the Statement of Financial Position. This consisted of Visa shares which were subsequently sold during the financial year. Refer below for related classification and measurement changes; and
2. The 'Available-for-sale revaluation reserve' has been replaced with the 'FVOCI reserve'.

Changes to the **Statement of Comprehensive Income:**

In order to align the presentation of items of income and expense with the categories of financial instruments presented in the Statement of Financial Position, the following change was made:

3. Addition of a new line item titled 'Fair value gain on loans', due to the change in classification and measurement of loans to FVTPL.

Classification and measurement:

4. Loans that were previously measured at amortised cost are now measured at FVTPL, with transition adjustments taken through opening retained earnings. The SPPI requirements of AASB 9 were not satisfied; and
5. Investments in Visa shares that were previously measured at FVOCI, were measured at FVTPL as part of the transition to AASB 9.

Impairment:

6. An impairment assessment is no longer applicable to the Company's loans following the reclassification of loans from amortised cost to FVTPL. Impairment provisions relating to previously disclosed periods were reclassified through opening retained earnings on transition; and
7. No adjustments to opening retained earnings were recognised for impairment of financial assets at amortised cost or FVOCI. The amendments to accounting policies did not result in material changes to the amounts recognised previously at 30 June 2018, or the low credit risk exemption was applied.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019 (cont'd)

1. STATEMENT OF ACCOUNTING POLICIES (cont'd)

The following table summarises the adjustments from initial adoption on the Statement of Financial Position.

(AMOUNTS IN \$000)	REFERENCE TRANSITION IMPACT COMMENTARY	AASB 139 MEASUREMENT CATEGORY	CARRYING AMOUNT 30 JUN 18	AASB 9 PRESENTATION & CLASSIFICATION		AASB 9 REMEASUREMENTS			AASB 9 MEASUREMENT CATEGORIES			
				CHANGES	REVISED PRESENTATION 1 JUL 18	RE-MEASUREMENT ADJUSTMENTS	ECL ADJUSTMENTS	REVISED CARRYING AMOUNT 1 JUL 18	AMORTISED COST	FVOCI	FVTPL	CARRYING AMOUNT 1 JUL 18
Financial Assets												
Cash and cash equivalents	7	AC	28,564	-	28,564	-	-	28,564	28,564	-	-	28,564
Due from other financial institutions	7	AC	17,812	-	17,812	-	-	17,812	17,812	-	-	17,812
Trade and other receivables	7	AC	15,935	-	15,935	-	-	15,935	15,935	-	-	15,935
Loans	4,6	AC	7,590	(7,590)	-	-	-	-	-	-	-	-
	4,6	FVTPL	-	7,590	7,590	530	-	8,120	-	-	8,120	8,120
Available-for-sale investments	1	FVOCI	39,097	(39,097)	-	-	-	-	-	-	-	-
Financial investments – at FVOCI	1,5	FVOCI	-	37,875	37,875	-	-	37,875	-	37,875	-	37,875
Financial investments – at FVTPL	5	FVTPL	-	1,222	1,222	-	-	1,222	-	-	1,222	1,222
Financial Liabilities												
Deposits		AC	11,563	-	11,563	-	-	11,563	11,563	-	-	11,563
Trade payables and other liabilities		AC	13,764	-	13,764	-	-	13,764	13,764	-	-	13,764
Equity												
Available-for-sale revaluation reserve	2,5	-	855	(855)	-	-	-	-	n/a	n/a	n/a	-
FVOCI reserve	2,5	-	-	855	855	(798)	-	57	n/a	n/a	n/a	57
Retained earnings	4,5,6	-	(45,690)	-	(45,690)	1,328	-	(44,362)	n/a	n/a	n/a	(44,362)

AC - Amortised Cost

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019 (cont'd)

1. STATEMENT OF ACCOUNTING POLICIES (cont'd)

AASB 15 Revenue from Contracts with Customers

AASB 15 replaces AASB 118 and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The core principle of AASB 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with the core principles explained in a step by step approach in the standard.

The Company adopted AASB 15 on 1 July 2018. On conclusion of the transition project it was determined that no adjustments to opening retained earnings were required as the amendments to the accounting policies did not result in significant changes to the timing, amount or presentation of revenue recognised previously at 30 June 2018.

The Company's revenue from contracts with customers is primarily in the nature of fees and commission income as presented in the Statement of Other Comprehensive Income.

Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the financial statements of the Company. The Company has not early adopted any standards, interpretations, or amendments that have been issued but are not yet effective.

(ii) Accounting standards and interpretations issued but not yet effective

The following Australian Accounting Standards and Interpretations which may have a material impact on the Company have been issued, but are not yet effective, and unless otherwise stated have not been early adopted by the Company:

AASB 16 Leases

AASB 16 replaces AASB 117 with the primary change applying to the lessee's accounting for leases. Under AASB 16 the lessee is required to recognise a lease on the balance sheet which involves recognising a right-of-use (ROU) asset and a related lease liability, being the present value of future lease payments. This does not apply where the underlying asset is of low value or the lease has a term of 12 months or less as permitted by the practical expedients in AASB 16. The lessor accounting remains relatively unchanged from AASB 117.

AASB 16 applies to annual reporting periods beginning on or after 1 January 2019 and is mandatory from 1 July 2019 for the Company. Apart from the increase in recognised assets and liabilities on the Statement of Financial Position, the financial impact from the changes on transition are not expected to be material.

Other amendments to existing standards that are not yet effective are not expected to result in significant changes to the Company's accounting policies.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019 (cont'd)

1. STATEMENT OF ACCOUNTING POLICIES (cont'd)

(E) SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

In applying the Company's accounting policies, Management continually evaluates judgements, estimates and assumptions based on experience and other factors, including expectations of future events that may have an impact on the Company. All judgements, estimates and assumptions made are believed to be reasonable based on the most current set of circumstances available to Management. Actual results may differ from judgements, estimates and assumptions. Significant judgements, estimates and assumptions made by Management in the preparation of these financial statements are outlined as follows:

Share-based payments transactions - The Company recognises the cost of equity-settled transactions with employees (including Key Management Personnel) by reference to the fair value of the equity instruments at the date on which they are granted. The fair value is determined using the Black-Scholes option valuation model, with the assumptions detailed in Note 11. The options are expensed using a linear probability of vesting approach.

Classification of and valuation of investments - The Company classifies its investments in equity securities and floating rate notes as *Financial Investments* - at FVOCI, with movements in fair value recognised directly in equity. The fair value of listed shares has been determined by reference to published price quotations in an active market. Where no active market exists for a particular asset, the Company uses a valuation technique to arrive at the fair value. The fair value of floating rate notes has been estimated using pricing data inputs provided by an independent third party pricing service which factors in recent arm's length transactions into their valuation methods. This makes maximum use of observable market inputs and places minimal reliance on entity specific inputs.

Valuation of loans - The Company classifies and measures its loans at fair value, with movements in fair value recognised directly in the Statement of Comprehensive Income. The fair value of loans has been estimated using a valuation technique that converts forecasted cash flows to a present value amount (discounted cash flow method). The forecasted cash flows are actuarially determined using predictive models based partly on evidenced historical performance and expected repayment profiles. Further information on the inputs into the valuation model to derive the fair value of loans are detailed in Note 17.

Capitalisation of internally generated software - An intangible asset arising from development expenditure on an internal project is recognised by the Company only when the following can be demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- its intention to complete and its ability to use or sell the asset;
- how the asset will generate probable future economic benefits;
- availability of resources to complete the development; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The Company commences amortising internally generated software projects from the point the asset is ready for use.

Estimation of useful lives of assets - The estimation of the useful lives of assets has been primarily based on historical experience. In addition, the condition of the assets is assessed at least once per year and considered against their remaining useful lives. Adjustments to useful lives are made when considered necessary. Depreciation charges for property, plant and equipment are included in Note 9 and Note 10 for amortisation of intangible assets with finite useful lives. In assessing whether the useful life of an intangible asset is finite or indefinite, Management use judgement in determining the period over which expected future benefits will be generated, also factoring in the market that the Company operates in and the longer term strategy for the Company. An impairment assessment is conducted and reviewed by Management at least annually as to whether indicators of impairment such as technical obsolescence exist.

Long service leave - Entitlements that arise in respect of non-current long service leave have been measured at their present values of expected future payments. Long service leave is calculated based on assumptions and estimates of when employees will take leave and the prevailing wage rates at the time the leave will be taken. Long service leave liability also requires a prediction of the number of employees that will achieve entitlement to long service leave.

Taxation - Provisions for taxation require significant judgement with respect to outcomes that are uncertain. The Company has estimated its tax provisions based on expected outcomes. Deferred tax assets are recognised for deductible temporary differences as Management considers that it is probable that future taxable profits will be available to utilise those temporary differences. In forming their view, Management considers the probability of forecast future taxable income and performs stress testing on expected budgets to assess the likelihood of deferred tax assets being utilised. Management does not recognise deferred tax assets where utilisation is not considered probable. An assessment of research and development (R&D) activities and associated expenditure that is considered claimable, is conducted and reviewed by Management at least annually as part of the annual R&D tax incentive application. An assessment of the continuity of ownership test (and where applicable, the same business test) is also performed to support the recognition of any carry forward tax losses and R&D credits.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019 (cont'd)

1. STATEMENT OF ACCOUNTING POLICIES (cont'd)

(F) REVENUE RECOGNITION

Revenue from contracts with customers is recognised in accordance with AASB 15 which introduced a single, principle-based five step recognition and measurement model. The five steps are:

1. Identify the contract with a customer;
2. Identify separate performance obligations in the contract;
3. Determine the transaction price;
4. Allocate the transaction price to each performance obligations identified in Step 2; and
5. Recognise revenue when a performance obligation is satisfied.

The Company's fee income from contracts with customers is derived primarily from the following sources:

- Merchant service fee income is generated from merchant customers for credit, debit and charge card acquiring services. Fees are charged to merchants depending on the type of transaction being performed based on a percentage of transaction value or on a fixed amount per transaction. Fees related to payment transactions are recognised at the time transactions are processed. Related interchange fee, which is collected from merchants and paid to credit institutions is recognised as an expense instead of netting-off against merchant service fee income in the Statement of Comprehensive Income.
- Revenue from processing Medicare Easyclaim generated from merchants is based on a fixed fee per transaction and is recognised when transactions are processed.
- Revenue from Dynamic Currency Conversion (DCC) transactions generated from merchants is calculated based on the individual value of the transactions and is recognised once the transaction has been processed.

Terminal rental income generated from operating leases with merchants is recognised progressively based on a fixed monthly rental on terminal. There is no minimum rental period for merchants.

Interest income is recognised in the Statement of Comprehensive Income in accordance with AASB 9 using a method that approximates the effective interest method. The effective interest method measures the amortised cost of a financial asset and allocates the interest income over the relevant period using the effective interest which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

(G) LEASES

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and whether the arrangement conveys a right to use the asset. Leases which transfer substantially all the risks and rewards incidental to ownership of an asset are classified as a finance lease. All other leases are operating leases.

For operating leases entered into by the Company as lessee, operating lease payments are recognised as an expense in the Statement of Comprehensive Income on a straight-line basis over the lease term. Deferred lease incentives are recognised as a liability on the Statement of Financial Position on inception of the lease and subsequently reduced on a straight line basis over the lease term by recognising the incentive through rent expense.

For purchased assets where the Company is the lessor under an operating lease, these are carried at cost and depreciated over their useful lives. Property, plant and equipment includes assets leased out under operating leases. Operating lease income is recognised on a straight-line basis over the lease term unless another systematic basis is more appropriate.

The Company does not have any finance leases in place.

(H) CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash balances, call deposits and term deposits with an original maturity of three months or less from the date of acquisition.

(I) DUE FROM OTHER FINANCIAL INSTITUTIONS

Includes term deposits with maturities greater than three months from the date of acquisition, and term deposits pledged to counterparties as collateral. These are initially measured at fair value and subsequently measured at amortised cost using a method that approximates the effective interest method.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019 (cont'd)

1. STATEMENT OF ACCOUNTING POLICIES (cont'd)

(J) TRADE AND OTHER RECEIVABLES

Trade receivables, which generally have 30 day terms, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for expected credit losses (ECL). Collectability of trade receivables is reviewed on an ongoing basis. Debts that are known to be uncollectible are written off when identified.

AASB 9 impairment requirements are based on the ECL model. This replaces the "incurred loss" approach under AASB 139. The Company has applied the simplified approach to calculate ECL for trade receivables where a loss allowance is based on lifetime ECL at each reporting date. An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e. by customer type). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic condition.

(K) PREPAYMENTS

Prepayments are recognised for amounts paid whereby goods have not transferred ownership to the Company or where services have not yet been provided. Upon receipt of goods or the service the corresponding asset is recognised in the Statement of Financial Position or the expense is recognised in the Statement of Comprehensive Income.

(L) INVENTORIES

(i) Cost and valuation

The costs of purchase of inventories comprise the purchase price, import duties and other taxes (other than those subsequently recoverable by the Company from the taxing authorities), and transport, handling and other costs directly attributable to the acquisition of finished goods, materials and services. Trade discounts, rebates and other similar items are deducted in determining the costs of purchase. Inventories are subsequently held at the lower of cost and their net realisable value. Impairment is assessed on an annual basis. Inventories are derecognised when the rights to benefits are transferred to a third party.

(ii) Impairment

Management make assessments of the net realisable value of inventory on an annual basis. The cost of inventory may not be recoverable where the inventory is damaged, wholly or partially obsolete, or if selling prices have declined. In accordance with AASB 102 Inventories, where the cost of inventory exceeds the net realisable value, inventory is written down to their net realisable value.

Net realisable value is an estimate, based on the most reliable evidence at the time, of the amount the inventories are expected to realise.

(M) LOANS

(i) Recognition and measurement

Loans to merchants are classified and measured at fair value with changes in the fair value being recognised in the Statement of Comprehensive Income. The loans are unsecured with an upfront ("unearned") fee charged to the merchant. As the merchant receives daily settlements, a percentage is taken towards loan repayments. The loan repayment includes a portion which recycles the unearned fee into the Statement of Comprehensive Income as interest income and is disclosed together with the fair value movement on loans.

When the loan is uncollectible, it is written-off. Such write-offs of loans occur after all the necessary assessment for write-off procedures have been completed and the amount of the loss has been determined. Loan write-offs are disclosed as lending losses in the SOCI. Subsequent recoveries of amounts previously written off go to the SOCI.

(N) FINANCIAL INVESTMENTS

Financial investments are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition of the investment. After initial recognition these investments are measured at fair value through other comprehensive income (FVOCI). Gains or losses on financial investments are recognised in a separate reserve component of equity until the investment is sold, collected or otherwise disposed of or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is transferred to the Statement of Comprehensive Income. The recycling to the Statement of Comprehensive Income upon derecognition does not apply to equity investments that the Company has irrevocably elected to measure at FVOCI. For these investments the cumulative gain or loss remains in equity, though the Company may reclass between equity accounts.

Purchase and sale of investments are recognised on trade date - the date on which the Company becomes party to the contractual provisions of the investment.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019 (cont'd)

1. STATEMENT OF ACCOUNTING POLICIES (cont'd)

(O) INCOME TAXES

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authority. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the statement of comprehensive income. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

(P) DEFERRED TAX ASSET

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date (Note 3).

(Q) OTHER TAXES

Goods and Services Tax (GST)

Revenues, expenses, assets and liabilities are recognised net of the amount of GST except for the following:

- when the GST incurred on the purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- trade receivables and trade payables are stated with the amount of GST included.

The net amount of GST recoverable from or payable to the taxation authority is included as part of other receivables or other payables in the Statement of Financial Position. Commitments and contingencies are disclosed net of the amount of GST. Cash flows are included in the Statement of Cash Flows on a gross basis (unless stated otherwise) and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority is classified as part of operating cash flows.

(R) PROPERTY, PLANT AND EQUIPMENT

(i) Cost and Valuation

Property, plant and equipment are measured at cost less accumulated depreciation and any impairment in value. The Company recognises in the carrying amount of an item of property, plant and equipment the cost of replacing parts when the cost is incurred and the recognition criteria are met. When each major inspection is performed, its cost is recognised in the carrying amount of the item of property, plant or equipment, as a replacement, provided that the recognition criteria are satisfied.

(ii) Depreciation

Depreciation is provided on a straight-line basis over the estimated useful life of each specific item of property, plant and equipment.

ESTIMATED USEFUL LIVES ARE AS FOLLOWS:	2019	2018
Plant and equipment:		
EFTPOS terminals	3 years	3 years
Furniture and office equipment	5 years	5 years
Computer equipment	4 years	4 years
Leasehold improvements	Remaining term of lease	Remaining term of lease

The assets' residual values, remaining useful lives and depreciation methods are reassessed and adjusted, if appropriate at each reporting date.

(iii) Impairment

Management has identified applicable impairment indicators in accordance with AASB 136 Impairment of Assets. The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount. The recoverable amount of plant and equipment is the greater of fair value less costs of disposal and its value in use.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019 (cont'd)

1. STATEMENT OF ACCOUNTING POLICIES (cont'd)

(iv) De-recognition and disposal

An item of property, plant and equipment is derecognised on disposal or when no future economic benefits are expected to arise from continued use of the asset. Gains and losses on disposals are calculated as the difference between the net disposal proceeds and the asset's carrying amount and are included in the Statement of Comprehensive Income in the year the asset is derecognised.

(S) INTANGIBLE ASSETS

AASB 138 Intangible Assets

The Company continues to make significant investments in various projects to develop new products and enhance existing products' capabilities. For certain projects, it is more probable that future economic benefits from the assets arising from the projects will flow to the entity and their expenditure can be measured reliably with enhancements in the Company's data governance, system and reporting. Therefore, software development costs for those projects are recognised as intangible assets in the Statement of Financial Position in accordance with AASB 138.

Following initial recognition of the development expenditure as an asset, the intangible asset is carried at its cost less any accumulated amortisation and any accumulated impairment losses. Each development project will then be reviewed annually for any indicator of impairments in accordance with AASB 136 Impairment of Assets.

(T) DEPOSITS FROM CUSTOMERS

Deposits from customers are initially recognised at fair value. Subsequent to initial recognition, these liabilities are measured at amortised cost. Interest expense on deposits is recognised in the Statement of Comprehensive Income using a method that approximates the effective interest method.

(U) TRADE AND OTHER PAYABLES

Merchant payables arise when the Company has received monies from the relevant schemes and financial institutions that have not yet been settled with the merchant.

Payables to merchants are only recognised to the extent that a liability arises. This liability arises when the proceeds have been paid by the schemes and financial institutions and received by the Company.

Liabilities for trade and other payables are carried at cost, which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Company.

(V) PROVISIONS AND CONTINGENCIES

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits may be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

If the impact of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Contingent liabilities are not recognised in the Statement of Financial Position, but are disclosed in the relevant notes to the financial statements. They may arise from uncertainty as to the existence of a liability or represent an existing liability in respect of which settlement is not probable or the amount cannot be reliably measured. Only when settlement becomes probable will a liability be recognised.

The Company is contingently liable for processed credit card sales transactions in the event of a dispute between the cardholder and a merchant. If a dispute is resolved in the cardholder's favour, the Company will credit or refund the amount to the cardholder and charge back the transaction to the merchant. If the Company is unable to collect the amount from the merchant, the Company will bear the loss for the amount credited or refunded to the cardholder.

Management evaluates the risk of such transactions and estimates its potential loss from chargebacks based primarily on historical experience and other relevant factors. A provision is recognised in the general reserve for credit losses for merchant losses necessary to absorb chargebacks and other losses for merchant transactions that have been previously processed and on which revenues have been recorded.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019 (cont'd)

1. STATEMENT OF ACCOUNTING POLICIES (cont'd)

(W) GENERAL RESERVE FOR CREDIT LOSSES

The Company appropriates for estimated future credit losses from chargebacks, with a general reserve for credit losses. The Company estimates the reserve by using a multiple of historical losses over a rolling 120 day period of transaction values. The general reserve for credit losses is then allocated as a separate reserve within equity.

The Company also appropriates for estimated future credit losses from loans to ensure the Company has sufficient capital to cover credit losses estimated to arise over the full life of the loans as required by APRA Prudential Standard APS 220.

The methodology and assumptions used for estimating the general reserve for credit losses required are reviewed regularly.

(X) 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.

Entitlements arising in respect of salaries and wages, annual leave and other employee benefits that are expected to be settled within one year have been measured at their nominal amounts. Employees are entitled to 20 days annual leave each year.

Entitlements that arise in respect of long service leave which are expected to be settled more than 12 months after the reporting date have been measured at their present values of expected future payments. Long service leave is calculated based on assumptions and estimates of when employees will take leave and the prevailing wage rates at the time the leave will be taken. Long service leave liability also requires a prediction of the number of employees that will achieve entitlement to long service leave. Expected future payments are discounted using market yields at the reporting date on high quality corporate bonds with terms to maturity and currencies that match as closely as possible to the estimated future cash outflows.

No provision has been made for sick leave as all sick leave is non-vesting and the average sick leave to be taken in the future by all employees at the reporting date is estimated to be less than the annual entitlement for sick leave.

(Y) SHARE-BASED PAYMENT TRANSACTIONS

Share-based compensation benefits are provided to employees (including Key Management Personnel) via the Employee Share Option Plan, whereby employees render services in exchange for rights over the Company's shares. The cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined internally using the Black-Scholes option valuation model.

The cost of equity-settled transactions is recognised, together with any corresponding increase in equity, over the period in which the employees become fully entitled to the award (the vesting period).

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects the extent to which the vesting period has expired and the number of awards that, in the opinion of the Directors of the Company, will ultimately vest. This opinion is based on the best available information at the reporting date. No adjustment is made for the likelihood of performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

No expense is recognised for awards that do not ultimately vest. Details of the types of share-based payments and their respective terms and vesting conditions are disclosed in Note 11.

The Company also has share-based compensation benefits in the form of rights which are tied to performance conditions, as well as remuneration sacrifice rights. The policy treatment is consistent with that for share options via the Employee Share Option Plan.

(Z) CONTRIBUTED EQUITY

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are accounted in contributed equity as a deduction, net of tax, from the proceeds of issue.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019 (cont'd)

1. STATEMENT OF ACCOUNTING POLICIES (cont'd)

(AA) FOREIGN CURRENCY TRANSLATION

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the spot rate of exchange ruling at the reporting date.

Non-monetary assets and liabilities are translated at their historic rates of exchange at their respective transaction dates.

(AB) DE-RECOGNITION OF ASSETS AND LIABILITIES

Assets and liabilities are derecognised from the Statement of Financial Position upon sale, maturity or settlement. The Company de-recognises scheme receivables against associated merchant payables as the risks and rewards are passed through in line with contractual obligations.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019 (cont'd)

2. REVENUE AND EXPENSES

The operating loss before tax expense has been arrived at after accounting for the following items:

	2019 \$000	2018 \$000
Fees and commission income		
Merchant service fee	162,174	125,618
Terminal rental income	15,452	11,793
Other fee income	5,161	4,802
	182,787	142,213
Other income		
Sublease and other rental income	600	1,124
Fair value gains on equity instruments	157	-
Other income	57	19
	814	1,143
Interchange, integration and support fees expense		
Interchange fees and scheme fees	(97,259)	(71,863)
Integration, support and other fee expense	(8,230)	(6,648)
	(105,489)	(78,511)
Employee benefits expense		
Wages, salaries and bonuses	(52,395)	(45,784)
Superannuation	(4,690)	(4,213)
Other employee benefits expense	(3,676)	(3,373)
	(60,761)	(53,370)
Administrative expenses		
Communications, hosting and licencing costs	(5,532)	(4,132)
Rent	(4,100)	(4,052)
Terminal management and logistics	(2,162)	(1,671)
Recruitment	(387)	(957)
Assurance and accounting related services	(722)	(686)
Legal	(427)	(586)
Other administrative expenses	(4,445)	(4,078)
	(17,775)	(16,162)
Lending and non-lending losses		
Lending losses ⁽¹⁾	(542)	(411)
Non-lending losses	(255)	(71)
	(797)	(482)

(1) Lending losses in the 2019 financial year consists of loans written off. In the comparative period, when loans were measured at amortised cost prior to the adoption of AASB 9, lending losses consists of loans written off along with specific and collective provisions for impairment.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019 (cont'd)

3. INCOME TAX

A) INCOME TAX BENEFIT

Major components of income tax benefit for the period ended 30 June 2019:

	2019 \$000	2018 \$000
Current income tax		
Current income tax charge	-	-
Deferred income tax		
Relating to origination and reversal of temporary differences	1,824	1,151
Income tax benefit in the statement of comprehensive income	1,824	1,151
Amount reported directly in other comprehensive income		
Deferred tax related to items recognised in equity during the year	(183)	-
Deferred tax on unrealised gain on financial investment – at FVOCI	36	(100)
Income tax expense reported in equity	(147)	(100)

B) RECONCILIATION OF INCOME TAX EXPENSE AND PRIMA FACIE TAX:

	2019 \$000	2018 \$000
Operating loss before tax	(20,211)	(17,521)
At the statutory income tax rate of 30%	6,063	5,256
Research and development incentive	700	184
Share-based payment remuneration	(1,137)	(423)
Entertainment expenses	(490)	(106)
Adjustment in respect to previous year's tax balances	(17)	-
Tax effect of current year losses for which no deferred tax asset is recognised	(3,153)	(3,760)
Sale of VISA shares	(142)	-
Total income tax benefit	1,824	1,151

C) DEFERRED INCOME TAX ASSETS AND LIABILITIES

	2019			2018		
	STATEMENT OF FINANCIAL POSITION \$000	STATEMENT OF COMPREHENSIVE INCOME \$000	OTHER COMPREHENSIVE INCOME \$000	STATEMENT OF FINANCIAL POSITION \$000	STATEMENT OF COMPREHENSIVE INCOME \$000	OTHER COMPREHENSIVE INCOME \$000
Deferred tax assets						
Fixed assets	708	154	-	1,097	173	-
Provisions & accruals	3,461	812	-	3,021	513	-
Other (legal fees)	679	519	-	58	(24)	-
Lease break fee	(21)	(21)	-	21	(21)	-
R&D credits	6,400	898	-	5,502	(1,139)	-
Tax losses	1,751	(342)	-	2,093	1,677	-
	12,978	2,020		11,792	1,179	
Prepayments	(5)	4	-	(9)	(4)	-
Financial investments – at FVOCI	55	(200)	(147)	(367)	-	(100)
Unrealised FX gain	-	-	-	(65)	(24)	-
	50	(196)	(147)	(441)	(28)	(100)
Total	13,028	1,824	(147)	11,351	1,151	(100)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019 (cont'd)

4. CASH AND CASH EQUIVALENTS

	2019 \$000	2018 \$000
Deposits at call	23,900	18,564
Short term deposits	-	10,000
	23,900	28,564

Deposits at call include cash at banks, cash held in the exchange settlement account with the Reserve Bank of Australia, and cash in hand. Short-term deposits are those with maturities of three months or less from date of acquisition.

RECONCILIATION OF OPERATING LOSS AFTER TAX TO NET CASH FLOWS USED IN OPERATIONS

	2019 \$000	2018 \$000
Loss for the year	(18,387)	(16,370)
Adjustments for:		
Depreciation and amortisation	7,864	7,064
Share-based payments expense	3,788	1,411
Options premium reserve	(167)	-
Loans written off	542	411
Fair value gains on loans	(26)	-
Fair value gains on equity instruments	(157)	-
Foreign currency (gain)/loss	(4)	20
Gain on disposal of property plant and equipment	(94)	(10)
Deferred tax benefits	(1,824)	(1,151)
Other	65	-
Changes in assets and liabilities		
(Increase) in loans	(8,061)	(3,489)
(Increase) in interest and other receivables	(6,872)	(4,549)
Decrease in inventories	1	68
(Increase)/decrease in prepayments	(18)	67
Increase in retail deposits	15,355	7,616
(Decrease) in interest and other payables	(5,454)	(5,406)
(Decrease)/increase in provisions	(482)	1,519
Net cash flow from operating activities	(13,931)	(12,799)

5. DUE FROM OTHER FINANCIAL INSTITUTIONS

	2019 \$000	2018 \$000
Term deposits	-	10,000
Deposits held as collateral	7,910	7,812
	7,910	17,812

Includes term deposits with maturities greater than three months from the date of acquisition and deposits pledged to counterparties as collateral. Refer to Note 18 for details of deposits held as collateral.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019 (cont'd)

6. TRADE AND OTHER RECEIVABLES

	2019 \$000	2018 \$000
Scheme and other receivables	23,003	11,812
Merchant acquiring fees	4,729	3,978
Interest receivable	30	145
	27,762	15,935

Scheme receivables are presented net of merchant payables in line with the accounting policy disclosed in Note 1.

The Company's ageing of scheme and other trade receivables before impairment is as follows:

	TOTAL \$000	CURRENT \$000	1-30 DAYS \$000	31-60 DAYS \$000	61-90 DAYS \$000	>90 DAYS \$000
Carrying value 2019	23,003	22,464	494	-	10	35
Carrying value 2018	11,812	11,234	455	3	41	79

The Company has considered expected credit losses which have been determined to be immaterial.

7. LOANS

	2019 \$000	2018 \$000
Loans (net of unearned fees)	15,665	7,985
Specific provision for impairment	-	(206)
Collective provision for impairment	-	(189)
	15,665	7,590

Loans recognised on the Statement of Financial Position are unsecured, with an upfront ("unearned") fee charged to the merchant. As the merchant receives daily settlements, a percentage is taken towards loan repayments. The loan repayment includes a portion which recycles the unearned fee into the Statement of Comprehensive Income as interest income.

On transition to AASB 9 on 1 July 2018, loans that were previously measured at amortised cost, are now measured at FVTPL. The loan balance at 30 June 2019 includes a fair value gain, compared to prior disclosing periods which are reported at amortised cost under AASB 139. Refer to the transition disclosure in Note 1(d) for further detail.

PROVISION FOR IMPAIRMENT

	2019 \$000	2018 \$000
Specific provisions		
Opening balance	206	24
Net movement in provision	(206)	334
Sub-total	-	358
Bad debts written off	-	(152)
Closing balance – specific provisions	-	206
Collective provisions		
Opening balance	189	112
Net movement in provision	(189)	77
Closing balance – collective provisions	-	189
Total provision for impairment	-	395

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019 (cont'd)

8. FINANCIAL INVESTMENTS - AT FVOCI

	2019 \$000	2018 \$000
Floating rate notes	36,948	37,875
Equity investments - VISA shares	-	1,222
- Other	211	-
	37,159	39,097

VISA shares were acquired following the demutualisation of VISA International, as a result of which listed VISA shares were issued to members of the VISA network. On transition to AASB 9 on 1 July 2018, Visa shares that were previously classified as available-for-sale with changes in the fair value taken to the available-for-sale revaluation reserve, were reclassified to FVTPL. The transition adjustments were recognised in opening retained earnings. During the financial year the Company sold all of its remaining VISA shares.

During the financial year, the Company received equity instruments as part of a sublease arrangement of Level 5 of the Company's registered office. The sublease term is aligned to the remaining head lease term ending 21 January 2022 and will continue to be used as a coworking space. For these reasons, the Company elected to measure these investments at FVOCI, resulting in no recycling of fair value changes to the Statement of Comprehensive Income upon a derecognition event.

9. PROPERTY, PLANT AND EQUIPMENT

Reconciliation of net carrying amounts at the beginning and end of the year:

	EFTPOS TERMINALS \$000	FURNITURE AND OFFICE EQUIPMENT \$000	COMPUTER EQUIPMENT \$000	LEASEHOLD IMPROVEMENTS \$000	TOTAL \$000
Year ended 30 June 2019					
At 30 June 2018 net of accumulated depreciation and impairment	10,412	952	3,234	2,625	17,223
Additions/transfers	8,182	87	929	184	9,382
Disposals/transfers	(22)	-	-	-	(22)
Depreciation for the year	(5,314)	(390)	(1,407)	(738)	(7,849)
At 30 June 2019 net of accumulated depreciation and impairment	13,258	649	2,756	2,071	18,734
At 30 June 2018					
Cost or fair value	28,646	2,115	7,222	4,246	42,229
Accumulated depreciation and impairment	(18,234)	(1,163)	(3,988)	(1,621)	(25,006)
Net carrying amount	10,412	952	3,234	2,625	17,223
At 30 June 2019					
Cost or fair value	36,668	2,202	8,152	4,430	51,452
Accumulated depreciation and impairment	(23,410)	(1,553)	(5,396)	(2,359)	(32,718)
Net carrying amount	13,258	649	2,756	2,071	18,734

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019 (cont'd)

9. PROPERTY, PLANT AND EQUIPMENT (cont'd)

	EFTPOS TERMINALS \$000	FURNITURE AND OFFICE EQUIPMENT \$000	COMPUTER EQUIPMENT \$000	LEASEHOLD IMPROVEMENTS \$000	TOTAL \$000
Year ended 30 June 2018					
At 30 June 2017 net of accumulated depreciation and impairment	7,951	1,342	2,156	3,051	14,500
Additions/transfers	7,243	2	2,316	251	9,812
Disposals/transfers	(24)	-	(1)	-	(25)
Depreciation for the year	(4,758)	(392)	(1,237)	(677)	(7,064)
At 30 June 2018 net of accumulated depreciation and impairment	10,412	952	3,234	2,625	17,223
At 30 June 2017					
Cost or fair value	21,502	2,113	4,909	3,995	32,519
Accumulated depreciation and impairment	(13,551)	(771)	(2,753)	(944)	(18,019)
Net carrying amount	7,951	1,342	2,156	3,051	14,500
At 30 June 2018					
Cost or fair value	28,646	2,115	7,222	4,246	42,229
Accumulated depreciation and impairment	(18,234)	(1,163)	(3,988)	(1,621)	(25,006)
Net carrying amount	10,412	952	3,234	2,625	17,223

10. INTANGIBLE ASSETS

Reconciliation of net carrying amounts at the beginning and end of the year

	INTERNALLY GENERATED SOFTWARE \$000
Year ended 30 June 2019	
At 30 June 2018 net of accumulated amortisation and impairment	-
Additions	2,518
Amortisation for the year	(15)
At 30 June 2019 net of accumulated amortisation and impairment	2,503
At 30 June 2018	
Cost	-
Accumulated amortisation and impairment	-
Net carrying amount	-
At 30 June 2019	
Cost	2,518
Accumulated amortisation and impairment	(15)
Net carrying amount	2,503

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019 (cont'd)

10. INTANGIBLE ASSETS (cont'd)

RESEARCH AND DEVELOPMENT

Research costs on an individual project are expensed as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software product controlled by the Company are recognised as an intangible asset when the following criteria can be demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- its intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Capitalised project development costs primarily consist of personnel costs of employees, contractors and consultants directly involved in the project. They are amortised from the point at which the asset is ready for use over the period of expected future benefit and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses.

KEY ESTIMATES AND ASSUMPTIONS

The following method is used in the calculation of amortisation:

INTANGIBLE ASSET	AMORTISATION METHOD	USEFUL LIFE
Internally generated software	Straight line	Finite (3 - 5 years)

The useful life of finite intangible assets is judgmental and reviewed annually by management with adjustments made where deemed necessary.

11. SHARE-BASED PAYMENTS

The Company provides benefits to employees (including Key Management Personnel (KMP)) from time to time including share-based payments as remuneration for service.

(A) EMPLOYEE SHARE OPTION PLAN

The Employee Share Option Plan (ESOP) was established to grant options over ordinary shares in the Company to employees or Directors who provide services to the Company.

Options granted pursuant to the ESOP may be exercised, in whole or part, subject to vesting terms and conditions as indicated below:

TYPE OF OPTION	VESTING TERMS AND CONDITIONS
Monthly linear vesting schedule	Options granted will vest in proportion to the time that passes linearly during the vesting schedule, subject to maintaining continuous status as an employee or KMP with the Company during the vesting schedule. The options generally vest in equal amounts each month over the vesting term.
Annual linear vesting schedule	Options vest similarly to the monthly linear vesting schedule, except they vest in equal amounts annually over the vesting term.
Performance annual linear vesting schedule	Options vest in equal amounts annually over the vesting term, and are also subject to performance criteria.
Service vesting schedule	Options that vest according to a period of service may be exercised as to a set number of shares per agreed day of service, as defined in the specific option grant.
Fully vested at time of grant	Options may be exercised from the date of grant.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019 (cont'd)

11. SHARE-BASED PAYMENTS (cont'd)

All option grants must be held for a minimum period commencing on the date on which the options are granted and continuing until the earlier of:

- the date which is 3 years after the date on which options are granted; or
- the date on which the participant ceases employment with the Company.

Other relevant terms and conditions applicable to options granted under the ESOP include:

- The term of each option grant ranges primarily between 6 to 7 years from the date of grant or such shorter term as provided in the Employee Share Option Plan agreement.
- Each option entitles the holder to one ordinary share.
- All awards granted under the ESOP are equity-settled.
- A 2 year holding lock applies to those options with annual linear or performance annual linear vesting schedules. For annual linear options, the lock period applies following the relevant vesting date, and for performance annual linear options the lock period applies from exercise date. During this period the shares issued cannot be transferred, sold, encumbered or otherwise dealt with.

(B) FAIR VALUE OF OPTIONS UNDER THE ESOP

The fair value of each option is estimated on the date of grant using the Black-Scholes option valuation model. The table below lists the assumptions used in determining the fair value of the options granted during the year ended 30 June 2019:

	DEC 2018	APR 2018	MAY 2019
Dividend yield (%)	0%	0%	0%
Expected volatility (%)	44%	40%	40%
Risk-free interest rate (%)	1.99%	1.46%	1.70%
Share price (\$)	\$1.05	\$1.10	\$1.10

A zero dividend policy assumption is used for valuing all option grants. This is in line with the Company's capital management policy and growth strategy.

Expected volatility used is the historical volatility of the peer group. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may not necessarily be the actual outcome.

The average expected life for 6 and 7 year options is assumed to be 5 - 6 years from the grant date. The expected life for 10 year options is assumed to be 5 - 8 years. For all other options with a contractual life of 5 year or less, the expected life is assumed to be the total contractual life from the date of grant to the expiry date.

There were 1,939,496 options exercised during the year ended 30 June 2019 (2018: 14,090,505).

The weighted average remaining contractual life for share options outstanding as at 30 June 2019 was 4 years (2018: 4 years).

The following table summarises further details of the share options outstanding at 30 June 2019:

RANGE OF EXERCISE PRICES	CONTRACTUAL LIFE	VESTING CONDITIONS	NO. OF OUTSTANDING OPTIONS	
			2019	2018
162 cents	10 years or less	No vesting in first 6 months of 5 year linear vesting period	690,000	400,000
150 cents	4 years	4 year annual vesting, plus performance criteria	6,154,423	-
6 cents to 176 cents	10 years or less	5 year linear vesting	27,311,604	31,715,817
6 cents to 45 cents	5 years and 10 years	12 months service	-	1,043,478
6 cents to 55 cents	3, 5 and 10 years	12 months linear vesting	3,017	10,626
0 cents	4 years	5 year annual vesting	2,611,147	-
Total			36,770,191	33,169,921

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019 (cont'd)

11. SHARE-BASED PAYMENTS (cont'd)

The following table illustrates the number and weighted average exercise prices (WAEP) in cents and movements of share options during the year:

	2019 NUMBER	2019 WAEP (CENTS)	2018 NUMBER	2018 WAEP (CENTS)
<i>Linear vesting schedule</i>				
Outstanding at the beginning of the year	32,126,443	91	34,364,325	19
Granted during the year	400,000	176	10,813,180	175
Exercised during the year	(896,018)	45	(9,449,918)	25
Forfeited/expired during the year	(3,625,804)	148	(3,601,144)	120
Outstanding at the end of the year	28,004,621	112	32,126,443	91
Exercisable at the end of the year	8,023,259	39	4,682,461	36
<i>Annual linear vesting schedule*</i>				
Outstanding at the beginning of the year	-	-	-	-
Granted during the year	2,734,471	-*	-	-
Exercised during the year	-	-	-	-
Forfeited/expired during the year	(123,324)	-*	-	-
Outstanding at the end of the year	2,611,147	-*	-	-
Exercisable at the end of the year	-	-	-	-
<i>Performance annual linear vesting schedule</i>				
Outstanding at the beginning of the year	-	-	-	-
Granted during the year	6,154,423	150	-	-
Exercised during the year	-	-	-	-
Forfeited/expired during the year	-	-	-	-
Outstanding at the end of the year	6,154,423	150	-	-
Exercisable at the end of the year	-	-	-	-
<i>Fully vested at time of grant</i>				
Outstanding at the beginning of the year	-	-	4,640,587	8
Granted during the year	-	-	-	-
Exercised during the year	-	-	(4,640,587)	8
Forfeited/expired during the year	-	-	-	-
Outstanding at the end of the year	-	-	-	-
Exercisable at the end of the year	-	-	-	-
<i>Service Vesting Schedule</i>				
Outstanding at the beginning of the year	1,043,478	6	1,043,478	6
Granted during the year	-	-	-	-
Exercised during the year	(1,043,478)	6	-	-
Forfeited/expired during the year	-	-	-	-
Outstanding at the end of the year	-	-	1,043,478	6
Exercisable at the end of the year	-	-	1,043,478	6
Total outstanding at the end of the year	36,770,191		33,169,921	
Total exercisable at the end of the year	8,023,259		5,725,939	

Refer to Note 22, for outstanding share options at the end of the year that are not part of ESOP.

*These options have a zero exercise price. No amount is payable when the vested options are exercised.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019 (cont'd)

11. SHARE-BASED PAYMENTS (cont'd)

(C) PERFORMANCE AND REMUNERATION SACRIFICE RIGHTS

Performance rights

During the period, the Company granted 2,900,000 performance rights as part of an equity incentive arrangement.

The following model inputs were used in the Black-Scholes valuation model to determine the fair value:

Grant date	May-19
Vesting period	3 equal annual tranches - first tranche on the date the performance condition is met
Expiry date	10 years from the date on which the performance right vests
Share price at grant date (\$)	\$1.10
Dividend yield (%)	0%
Expected volatility (%)	N/A
Risk-free interest rate (%)	N/A

	2019 NUMBER	2019 WAEP (CENTS)	2018 NUMBER	2018 WAEP (CENTS)
<i>Performance Rights</i>				
Outstanding at the beginning of the year	1,200,000	-	1,200,000	-
Granted during the year	2,900,000	-	-	-
Exercised during the year	-	-	-	-
Forfeited/expired during the year	-	-	-	-
Outstanding at the end of the year	4,100,000	-	1,200,000	-
Exercisable at the end of the year	-	-	-	-

Remuneration sacrifice rights

The Company granted 498,587 remuneration sacrifice rights during the period. By the end of the period, these grants have fully vested. Trading restrictions on shares issued apply with a minimum 1 year restriction period.

The following model inputs were used in the Black-Scholes valuation model to determine the fair value:

Grant date	Sep-18
Vesting period	Conversion date (automatic exercise) - post the end of the relevant financial year
Expiry date	Employment conditions apply
Share price at grant date (\$)	Using a 60 day volume weighted average - \$1.028
Dividend yield (%)	0%
Expected volatility (%)	N/A
Risk-free interest rate (%)	N/A

	2019 NUMBER	2019 WAEP (CENTS)	2018 NUMBER	2018 WAEP (CENTS)
<i>Remuneration sacrifice rights</i>				
Outstanding at the beginning of the year	-	-	-	-
Granted during the year	498,587	-	-	-
Exercised during the year	-	-	-	-
Forfeited/expired during the year	-	-	-	-
Outstanding at the end of the year	498,587	-	-	-
Exercisable at the end of the year	-	-	-	-

Expenses arising from share-based payment transactions

During the period, of the \$3.8 million recognised as share-based payment expenses, \$1.7 million relates to performance and remuneration sacrifice rights.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019 (cont'd)

12. DEPOSITS

	2019 \$000	2018 \$000
Deposits	26,918	11,563
	26,918	11,563

The deposits are at call, earn a daily interest with rates that increase for every dollar held for longer than 30 days, 60 days and 90 days, and are guaranteed by the Australian Government up to \$250,000 per customer.

13. TRADE PAYABLES AND OTHER LIABILITIES

	2019 \$000	2018 \$000
Accounts payable	3,320	2,933
Deferred rent incentive	2,654	2,978
Accruals – scheme fees, commissions, bonuses and others	6,738	4,332
Other liabilities – payroll liabilities and clearing suspense	8,881	3,521
	21,593	13,764

14. PROVISIONS

	2019 \$000	2018 \$000
Annual leave provision		
Balance at the beginning of the year	2,475	1,907
Provided for during the year	4,103	3,446
Released during the year	(3,696)	(2,878)
Balance at the end of the year	2,882	2,475
Long service liability		
Balance at the beginning of the year	303	299
Provided for during the year	120	82
Released during the year	(143)	(78)
Balance at the end of the year	280	303
Other provisions		
Balance at the beginning of the year	1,144	430
Provided for during the year	-	714
Released during the year	(1,144)	-
Balance at the end of the year	-	1,144
Total provisions – current liabilities	3,162	3,922

Other provisions were calculated based on potential contractual obligations, which did not subsequently arise. The provision was therefore released during the year.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019 (cont'd)

15. NON-CURRENT LIABILITIES

	2019 \$000	2018 \$000
Provisions		
Long service leave liability		
Balance at the beginning of the year	359	272
Provided for during the year	183	132
Released during the year	(52)	(45)
Balance at the end of the year	490	359
Make good provision		
Balance at the beginning of the year	409	262
Provided for during the year	147	147
Balance at the end of the year	556	409
Total provisions - non-current liabilities	1,046	768

16. CONTRIBUTED EQUITY AND RESERVES

(i) Ordinary shares

	2019 NUMBER OF SHARES	2018 NUMBER OF SHARES	2019 \$000	2018 \$000
Issued and fully paid				
Ordinary shares paid at 5 cents each	61,018,733	61,018,733	3,051	3,051
Ordinary shares paid at 6 cents each	186,909,116	185,865,638	11,215	11,152
Ordinary shares paid at 8 cents each	17,473,939	15,848,939	1,398	1,267
Ordinary shares paid at 10 cents each	8,669,606	8,659,606	867	866
Ordinary shares paid at 12 cents each	570,206	463,539	68	56
Ordinary shares paid at 14 cents each	52,389	52,389	7	7
Ordinary shares paid at 15 cents each	10,475,433	10,475,433	1,571	1,571
Ordinary shares paid at 30 cents each	35,575,640	35,575,640	10,673	10,673
Ordinary shares paid at 37.5 cents each	3,123,539	2,799,346	1,121	1,050
Ordinary shares paid at 45 cents each	9,702,268	9,414,989	4,366	4,237
Ordinary shares paid at 55 cents each	12,562,168	12,562,168	6,909	6,909
Ordinary shares paid at 60 cents each	1,222,357	895,848	713	537
Ordinary shares paid at 1.04 dollars each	96,638,869	96,638,869	100,127	100,127
Ordinary shares paid at 1.49 dollars each	52,721	36,118	69	54
	443,871,751	440,307,255	142,155	141,557
Costs directly attributable to the capital raising (net of tax)			(299)	(299)
Ordinary shares			141,856	141,258

The issuance payments above reflect a combination of transactions at arm's length, as well as by way of options being exercised.

During the year ended 30 June 2019, 3,564,496 ordinary shares were issued upon exercise of options, raising a total of \$0.6 million in fully paid capital.

Terms and conditions of contributed equity

Ordinary shares have the right to receive dividends when declared and, in the event of winding up of the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on ordinary shares held. Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the Company.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019 (cont'd)

16. CONTRIBUTED EQUITY AND RESERVES (cont'd)

(ii) Share-based payments reserve

	2019 \$000	2018 \$000
Balance at the beginning of the year	11,687	10,276
Share-based payments expensed	3,788	1,411
Balance at the end of the year	15,475	11,687

The share-based payments reserve is used to record the value of share-based payments or benefits provided to any Directors and employees as part of their remuneration or compensation.

(iii) General reserve for credit losses

	2019 \$000	2018 \$000
Balance at the beginning of the year	1,264	1,091
Transfer from accumulated losses:		
Appropriation for chargeback losses	223	72
Appropriation for lending losses	431	101
Balance at the end of the year	1,918	1,264

The general reserve for credit losses has been created to satisfy APRA's prudential standards for ADIs as described in Note 1(w). The Company applies an internal methodology to estimate the credit risk of its merchant customers and the maximum losses based upon a number of assumptions concerning the performance of merchants in relation to the Company's credit risk grading system and actual experience.

(iv) FVOCI reserve

	2019 \$000	2018 \$000
Balance at the beginning of the year	855	623
Adjustment from initial adoption of AASB 9	(798)	-
Total revaluations for the year	42	232
Balance at the end of the year	99	855

For periods prior to the adoption of AASB 9 on 1 July 2018, this reserve represented the available-for-sale revaluation reserve under AASB 139.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019 (cont'd)

16. CONTRIBUTED EQUITY AND RESERVES (cont'd)

(v) Option premium reserve

	2019 \$000	2018 \$000
Balance at the beginning of the year	167	167
Total options transferred to shares	(167)	-
Balance at the end of the year	-	167

	2019 \$000	2018 \$000
Total reserves at the end of the year	17,492	13,973

(vi) Accumulated losses

	2019 \$000	2018 \$000
Movements in accumulated losses were as follows:		
Accumulated losses at the beginning of the financial year	(45,690)	(29,147)
Adjustment from initial adoption of AASB 9	1,328	-
Loss attributable to shareholders of the Company	(18,387)	(16,370)
Transfer to general reserve for credit losses	(654)	(173)
Accumulated losses at the end of the financial year	(63,403)	(45,690)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019 (cont'd)

17. FINANCIAL RISK MANAGEMENT OBJECTIVES, POLICIES AND PROCESSES

The Company's principal financial instruments include cash and cash equivalents, deposits due from other financial institutions, trade and other receivables, loans, financial investments, deposits and trade and other payables.

(i) Risk management

The Board is responsible for approving and reviewing the Risk Management Strategy, and determining the Company's appetite for risk. The CEO and Management team are responsible for implementing the Risk Management Strategy, and for developing policies, controls, processes and procedures for identifying and managing risk.

Various management committees, including the Management Risk Committee (**MRC**), the Management Credit Committee (**MCC**) and the Asset and Liability Management Committee (**ALCO**), ensure appropriate execution of the risk management strategy is applied to the day-to-day operations and regularly report to the Board Risk Committee (**BRC**).

(ii) Risk controls

Risks are controlled through a process that identifies key risks, establishes controls to manage those risks, and maintains a regular review process to monitor the effectiveness of controls. Business risks are controlled within tolerance levels approved by the Board.

(iii) Internal Audit

The Company has an independent and adequately resourced Internal Audit function. The Internal Audit function provides independent assurance to the Board on the adequacy and effectiveness of the control environment and risk framework.

(iv) Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is exposed to credit risk from its operating activities (primarily trade receivables) and from its lending and investing activities, including deposits with banks and financial institutions, foreign exchange transactions and financial investments in floating rate notes.

The maximum exposure to credit risk is represented by the carrying amounts of the financial assets at the reporting date. The Company's credit risk management framework outlines the core values which govern its credit risk taking activities and reflect the priorities established by the Board.

The framework is used to develop target market strategies, underwriting standards and credit procedures which define the operating processes. The operation of a credit risk grading system coupled with ongoing monitoring, reporting and review allows the Company to identify changes in credit quality at client and portfolio levels and to take corrective actions in a timely manner.

Credit losses from chargebacks

In addition, the Company is subject to the risk of credit card losses via chargebacks. The maximum period the Company is potentially liable for such chargebacks is 120 days after the date of the transaction. The Company manages credit risk associated with its merchant portfolio both at an individual and a portfolio level, by monitoring the concentration of risk by industry and type of counterparty.

It is the Company's policy that all merchants are subject to credit verification procedures including an assessment of their independent credit rating, past behaviour and an overview of trading history.

As part of equity, a General Reserve for Credit Losses is maintained to cover losses due to uncollectible chargebacks that have not been specifically identified. The reserve is calculated based on estimated future credit losses as described in Note 1(w). The Company does not hold any credit derivatives or collateral to offset its credit exposure. The Company's exposure to bad debts from chargebacks is not significant at the reporting date.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019 (cont'd)

17. FINANCIAL RISK MANAGEMENT OBJECTIVES, POLICIES AND PROCESSES (cont'd)

Credit losses from loans

The Company is also subject to the risk of credit losses from its unsecured loan product. The Company manages this risk in accordance with the Board approved Lending Credit Risk Policy. Responsibility for monitoring and management of this risk is delegated to the Chief Risk Officer (CRO). The CRO is also responsible for ensuring the Lending Credit Risk Policy is reviewed regularly and submitted to the BRC for endorsement and approval by the Board.

To manage the risk of credit losses, various underwriting criteria is in place before a loan can be offered, which includes assessment of credit bureau scores, age of credit files and no adverse records, time in business, and an internal credit risk assessment. A merchant must also have a minimum acquiring transaction history to be eligible for a loan offer, as well as providing a personal guarantee.

The Company maintains a General Reserve for Credit Losses to also cover credit losses estimated but not certain to arise over the full life of the loans as described in Note 1(w).

This table summarises the Company's credit risk exposures as at reporting date:

30 JUNE 2019 STANDARD & POORS CREDIT RATING*	CASH AND BALANCES WITH FINANCIAL INSTITUTIONS (\$000)	DUE FROM OTHER FINANCIAL INSTITUTIONS (\$000)	TRADE RECEIVABLES (\$000)	LOANS AND ADVANCES (\$000)
AAA	21,725	-	726	-
AA	2,175	7,839	-	-
A+	-	71	-	-
A	-	-	-	-
A-	-	-	64	-
BBB+	-	-	-	-
unrated	-	-	26,972	15,665
	23,900	7,910	27,762	15,665

30 JUNE 2018 STANDARD & POORS CREDIT RATING*	CASH AND BALANCES WITH FINANCIAL INSTITUTIONS (\$000)	DUE FROM OTHER FINANCIAL INSTITUTIONS (\$000)	TRADE RECEIVABLES (\$000)	LOANS AND ADVANCES (\$000)
AAA	16,414	-	968	-
AA	12,150	17,744	28	-
A+	-	68	-	-
A	-	-	3	-
A-	-	-	114	-
BBB+	-	-	-	-
unrated	-	-	14,822	7,590
	28,564	17,812	15,935	7,590

*Long-term credit rating

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019 (cont'd)

17. FINANCIAL RISK MANAGEMENT OBJECTIVES, POLICIES AND PROCESSES (cont'd)

(v) Operational risk

Operational risk is the risk that arises from inadequate or failed internal processes and systems, human error or misconduct, or from external events. It also includes, amongst other things, technology risk, model risk and outsourcing risk.

The BRC is responsible for monitoring the operational risk profile, the performance of operational risk management and controls, and the development and ongoing review of operational risk policies.

(vi) Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise four types of risk: interest rate risk, foreign currency risk, commodity price risk and other price risk, such as equity price risk. The Company does not engage in financial market trading activities nor assume any foreign exchange, interest rate or other derivative positions and does not have a trading book. The Company does not undertake any hedging around the values of its financial instruments as any risk of loss is considered insignificant to the operations of the Company at this stage.

Any government securities, bank bills or other marketable instruments that the Company holds are for investment or liquidity purposes and held in the normal course of business in line with investment and liquidity guidelines. Each component of market risk is detailed below as follows:

1) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company has exposure to interest rate risk primarily on its variable interest-bearing cash and cash equivalent balances, term deposits, floating rate notes, loans and variable deposits (bank account for businesses).

Interest rate sensitivity analysis

The following demonstrates the sensitivity to a reasonably possible change in interest rates. With all other variables held constant, the Company's profit is affected as follows:

An increase of 50 basis points for 12 months in the general cash rate (assuming other factors remain constant) will increase the Company's profit and increase equity by \$284,669 (2018: \$403,019). A decrease of 50 basis points in the general cash rate will have an equal and opposite effect.

The following table shows the financial assets and liabilities on which the interest rate sensitivity analysis has been performed.

(AMOUNTS IN \$000)	VARIABLE INTEREST RATE	FIXED INTEREST RATE			TOTAL
		< 3 MONTHS	3 TO 12 MONTHS	> 1 YEAR	
Financial assets					
Cash and cash equivalents	23,400	-	-	-	23,400
Other term deposits	1,460	1,547	1,547	1,431	5,985
USD term deposit	-	-	1,854	-	1,854
Loans	-	3,750	11,174	741	15,665
Floating rate notes	36,948	-	-	-	36,948
Financial liabilities					
Deposits	(26,918)	-	-	-	(26,918)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019 (cont'd)

17. FINANCIAL RISK MANAGEMENT OBJECTIVES, POLICIES AND PROCESSES (cont'd)

2) Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Company is not exposed to foreign currency risk in the settlement of merchant transactions as all monies received and paid are in Australian dollars. The Company's settlement of fees with card schemes and the purchases of terminals from foreign suppliers are transacted in foreign currencies at the exchange rate prevailing at the transaction date. At the reporting date the Company has some US dollar and Euro exposure.

Foreign currency sensitivity analysis

The following demonstrates the sensitivity to a reasonably possible change in the US dollar and Euro exchange rates, with all other variables held constant.

An appreciation of 15% of the US dollar and Euro compared to the Australian dollar (assuming other factors remain constant), will increase the Company's profit and increase equity by \$183,055 (2018: \$381,991). A depreciation of 15% of the US dollar and Euro compared to the Australian dollar will reduce the Company's profit and reduce equity by \$135,302 (2018: \$282,341).

The following table shows the financial assets and liabilities on which the foreign currency sensitivity analysis has been performed.

		AUD 2019 (\$000)	AUD 2018 (\$000)
USD term deposit	USD	1,854	1,759
UnionPay deposit	USD	71	68
Financial investments	USD	-	1,222
Trade payables	EUR	888	809
Trade payables	USD	-	75

3) Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market conditions (other than those arising from interest rate risk or currency risk), for example from changes in equity prices. The Company historically had price risk from its investment in Visa shares which were valued by way of reference to an underlying listed equity on the New York Stock Exchange and as such its fair value fluctuated in direct proportion with the quoted market price indicated. The Company sold all of its Visa shares during the financial year.

(vii) Capital Management

The Company's capital management objectives are to:

- Maintain a sufficient level of capital above the regulatory minimum to provide a buffer against loss arising from unanticipated events, and allow the Company to continue as a going concern; and
- Ensure that capital management is closely aligned with the Company's business and strategic objectives.

The Company manages capital adequacy according to the framework set out by APRA Prudential Standards.

APRA determines minimum prudential capital ratios (eligible capital as a percentage of total risk-weighted assets) that must be held by all ADIs. Accordingly, the Company is required to maintain a minimum prudential capital ratio (eligible capital as a percentage of total risk-weighted assets) on a Level 1 basis as determined by APRA.

The Board considers the Company's strategy, financial performance objectives, and other factors relating to the efficient management of capital in setting target ratios of capital above the regulatory required levels. These processes are formalised within the Company's Internal Capital Adequacy Assessment Process (ICAAP). The Company operates under the specific capital requirements set by APRA. The Company has satisfied its minimum capital requirements throughout the 2019 financial year in the form of Tier 1 capital which is the highest quality components of capital.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019 (cont'd)

17. FINANCIAL RISK MANAGEMENT OBJECTIVES, POLICIES AND PROCESSES (cont'd)

CAPITAL ADEQUACY	2019 (\$'000)	2018 (\$'000)
Tier 1 Capital		
Common Equity Tier 1 Capital		
Contributed capital	141,856	141,258
Accumulated losses & reserves	(47,828)	(32,981)
	94,028	108,277
Regulatory adjustments to Common Equity Tier 1 Capital		
Net deferred tax assets	(13,028)	(11,351)
Capitalised expenses	(2,503)	-
Other adjustments	(211)	(1,222)
	(15,742)	(12,573)
Common Equity Tier 1 Capital	78,286	95,704
Additional Tier 1 Capital	-	-
Total Tier 1 Capital	78,286	95,704
Tier 2 Capital		
General reserve for credit losses ⁽¹⁾	977	769
Total Tier 2 Capital	977	769
Total Capital	79,263	96,473
Total risk weighted assets	85,827	69,208
Risk weighted capital ratios	%	%
Common Equity Tier 1	91	138
Tier 1	91	138
Total Capital ratio	92	139

(1) Standardised approach (to a maximum of 1.25% of total risk weighted assets).

(viii) Liquidity risk

The Company's liquidity risk is the risk that the Company will have insufficient liquidity to meet its obligations as they fall due. This could potentially arise as a result of mismatched cash flows.

The Company manages this risk by the Board approved liquidity framework. Responsibility for liquidity management is delegated to the CFO and CEO. The CFO manages liquidity on a daily basis and submits monthly reports to ALCO, and to the BRC at the seating of the BRC. The CFO is also responsible for monitoring and managing capital planning. The capital plan outlines triggers for additional funding should liquidity be required.

Liquidity risk management framework models the ability to fund under both normal conditions and periods of stress. The capital plan and liquidity management is reviewed at least annually.

At the reporting date, the Board of Directors determined that there was sufficient cash available to meet its financial liabilities and anticipated expenditure.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019 (cont'd)

17. FINANCIAL RISK MANAGEMENT OBJECTIVES, POLICIES AND PROCESSES (cont'd)

MATURITY ANALYSIS

Amounts in the table below are based on contractual undiscounted cash flows for the remaining contractual maturities.

(AMOUNTS IN \$000)	<3 MONTHS	3 TO 6 MONTHS	>6 TO 12 MONTHS	>1 TO 5 YEARS	>5 YEARS	TOTAL
As at 30 June 2019						
Financial liabilities						
Deposits	(26,918)	-	-	-	-	(26,918)
Trade payables and other liabilities	(21,593)	-	-	-	-	(21,593)
	(48,511)	-	-	-	-	(48,511)

	<3 MONTHS	3 TO 6 MONTHS	>6 TO 12 MONTHS	>1 TO 5 YEARS	>5 YEARS	TOTAL
As at 30 June 2018						
Financial liabilities						
Deposits	(11,563)	-	-	-	-	(11,563)
Trade payables and other liabilities	(13,764)	-	-	-	-	(13,764)
	(25,327)	-	-	-	-	(25,327)

(ix) Fair values

The Company uses various methods in estimating the fair value of a financial instrument. The methods comprise:

Level 1 – the fair value is calculated using quoted prices in active markets.

Level 2 – the fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).

Level 3 – the fair value is estimated using inputs for the asset or liability that are not based on observable market data.

Quoted market price represents the fair value determined based on quoted prices in active markets as at the reporting date without any deduction for transaction costs.

The table below shows the Company's financial assets that are measured at fair value. Management has assessed that for other financial assets and liabilities not disclosed in the table below, that due to their short-term maturity profile, the carrying amount is an approximation of fair value. Refer to Note 1(d) for further detail on the change in measurement of loans to FVTPL on transition to AASB 9.

	YEAR ENDED 30 JUNE 2019 (\$000)			TOTAL
	LEVEL 1	LEVEL 2	LEVEL 3	
Financial Asset				
Floating rate notes	36,948	-	-	36,948
Loans	-	-	15,665	15,665
Equity investments - VISA shares	-	-	-	-
- Other	-	-	211	211
	36,948	-	15,876	52,824

	YEAR ENDED 30 JUNE 2018 (\$000)			TOTAL
	LEVEL 1	LEVEL 2	LEVEL 3	
Financial Asset				
Floating rate notes	37,875	-	-	37,875
Equity investments - VISA shares	1,222	-	-	1,222
	39,097	-	-	39,097

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019 (cont'd)

17. FINANCIAL RISK MANAGEMENT OBJECTIVES, POLICIES AND PROCESSES (cont'd)

FLOATING RATE NOTES

The floating rate notes invested in by the Company have a short-term repricing profile and are of high credit quality. The fair value of these floating rate notes is obtained from an independent third party pricing service that uses tradable prices and quotes from active markets.

LOANS

Loans are included in Level 3 due to one or more of the significant inputs used in determining the fair value being based on unobservable inputs. To determine the fair value, an income valuation approach is used. This technique converts forecasted cash flows to a present value amount (also known as a discounted cash flow method). Forecast cash flows are actuarially determined using predictive models based partly on evidenced historical performance and expected repayment profiles.

This model was developed due to the change in accounting policy for AASB 9 which resulted in loans being measured at fair value (previously at amortised cost). The fair value model will be periodically reviewed, tested and refined as needed.

The fair value of loans requires estimation of:

- The expected future cash flows;
- The expected timing of receipt of those cash flows; and
- Discount rates derived from similar observed rates for comparable assets that are traded in the market.

The main inputs used in measuring the fair value of loans are as follows:

- Loan balance - accepted principal and fee, outstanding principal and fee, and date of acceptance;
- Annual settlement amount - forecasted total annual settlements for loan customers;
- Current repayment percentage - percentage of daily settlements through the loan customers' terminals that go towards loan repayments;
- Historical default and recovery information; and
- Discount rates - market benchmarked discount rate and allows for a market level of default risk.

The unobservable pricing inputs which determine fair value are based on:

- Tyro pricing of loans;
- Historical data with respect to behavioural repayment patterns - generally ranging between 3 to 6 months; and
- Default experience.

These inputs directly affect the fair value and there are no reasonable alternative inputs which warrant disclosure.

Refer to Note 2 for the components making up the fair value gain in the period.

EQUITY INVESTMENTS

As at the reporting date, the only remaining investments in equity were those equity instruments received as part of the sublease arrangement of Level 5 of the Company's registered office to a third party, which previously operated as the Tyro Fintech Hub.

These investments are also included in Level 3 due to one or more of the significant inputs used in determining the fair value being based on unobservable inputs. To determine the fair value, a revenue multiples approach was used using comparative industry multiples of the third party to arrive at an enterprise value, and then deriving the investment value of the Company's share in that enterprise.

The unobservable pricing inputs which determine fair value are based on:

- Industry multiples; and
- Historical data with respect to revenue of the third party.

TRANSFER BETWEEN CATEGORIES

There were no transfers between Level 1, Level 2 or Level 3 during the financial year.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019 (cont'd)

18. COMMITMENTS AND CONTINGENCIES

COMMITMENTS RELATING TO BECS

The Company pays merchants through the BECS system (Bulk Electronic Clearing System). As a result of BECS intra-day settlements, which went live in November 2013, all merchant settlements committed are processed on the same day.

Contingent liabilities arising from commitments are secured by way of standby letters of credit or bank guarantees as follows:

	2019 \$000	2018 \$000
CONTINGENT LIABILITIES – SECURED		
(i) Irrevocable standby letters of credit in favour of:		
Mastercard International	3,254	3,159
Visa International	60	60
UnionPay International	71	68
(ii) Bank Guarantee in favour of:		
UIR Australia, the lessor of 155 Clarence Street, Sydney	4,525	4,525
	7,910	7,812

The Company has provided an irrevocable standby letter of credit of \$3.4 million (in 2018: \$3.3 million) secured through fixed charges over term deposits with the Commonwealth Bank of Australia and Westpac Banking Corporation, to Mastercard International, Visa International and UnionPay International. These are one-year arrangements that are subject to automatic renewal on an annual basis. Mastercard International and Visa International, at their discretion, may increase the required amounts of the standby letters of credit upon written request to the Company. The required amounts of the standby letters of credit are dependent on Mastercard International's and Visa International's view of their risk exposure to the Company.

A bank guarantee has been issued by the Westpac Banking Corporation in relation to the lease arrangement for the office premises. The amount represents up to 9 month's rent and includes all annual increases of 4% since 2016 until lease maturity and is refundable on expiry of the lease agreement, subject to satisfactory vacation of the leased premises.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019 (cont'd)

19. LEASES

(A) OPERATING LEASE COMMITMENTS - COMPANY AS LESSOR

Prior to April 2010, the Company operated a "rent to own" model whereby ownership of the terminal would transfer to the merchant once they had made 36 consecutive rental payments. However, the Company carried the risk of repairing or replacing the terminal over the 3 year period. The merchant would then continue to pay a service and maintenance fee after this period.

From April 2010, the Company has moved to a perpetual rental model whereby there will be no transfer of ownership of the asset, and the merchant will pay terminal rental for the duration that they are with the Company. There is no minimum rental period for merchants and they are able to terminate with the Company at any time with no penalty or buy out fees, provided the terminal is returned to the Company.

TYPE OF TERMINALS	COST \$000	ACCUMULATED DEPRECIATION \$000	NET CARRYING VALUE \$000
Yomani XR and Yoximo 3G (including accessories)	30,756	(17,498)	13,258
Xenta, Xentissimo and Yomani	5,912	(5,912)	-
	36,668	(23,410)	13,258

(B) OPERATING LEASE COMMITMENTS - COMPANY AS LESSOR (SUBLEASE ARRANGEMENT)

Future minimum rentals receivable under the non-cancellable operating leases as at 30 June 2019 are as follows:

	2019 \$000	2018 \$000
Within one year	635	-
After one year but not more than five years	1,436	-
	2,071	-

The operating lease commitments relate to the sublease of Level 5 of the Company's registered office. It is a non-cancellable lease with a term of up to 2 years, 6 months and 21 days ending 20 January 2022, aligned to the Company's head-lease. The sublease agreement does not provide the lessee with the option to extend the lease. Lease payments are subject to annual increases of 4%.

(C) OPERATING LEASE COMMITMENTS - COMPANY AS LESSEE

Future minimum rentals payable under the non-cancellable operating leases as at 30 June 2019 are as follows:

	2019 \$000	2018 \$000
Within one year	4,721	4,482
After one year but not more than five years	7,703	12,279
	12,424	16,761

The operating lease commitments relate to the lease of the Company's registered office located at Level 1, 155 Clarence Street, Sydney NSW. It is a non-cancellable lease with a term of up to 7 years ending 21 January 2022. The lease agreement provides the Company with the option to extend the lease for another 3 years. Lease payments are subject to annual increases of 4%.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019 (cont'd)

20. SEGMENT REPORTING

The Company operates in one geographical segment being Australia. Currently the acquiring business segment which provides EFTPOS solutions to merchants (transaction processing, clearing and settlement activities within the Australian Payments System) comprises the only material contributor to the Company's Statement of Comprehensive Income. Therefore, no segment reporting attributed to other products has been presented in the current year.

21. AUDITOR'S REMUNERATION

Amounts paid or payable to the auditor, Ernst & Young (EY), for audit, audit-related, and non-audit services performed during the year are set out as follows:

	2019 \$000	2018 \$000
Audit and audit-related services to the Company		
Audit or review of the financial reports of the Company	372	384
Audit-related services (regulatory compliance)	55	160
Other services in relation to the Company		
Tax compliance	64	72
Other assistance and services	35	30
	526	646

The Directors are satisfied that the provision of non-audit services, during the year, by the auditor (or by another person or firm on the auditor's behalf) is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The Directors are of the opinion that the services as disclosed in Note 21 do not compromise the external auditor's independence for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in Code of Conduct APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional & Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risks and rewards.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019 (cont'd)

22. RELATED PARTY DISCLOSURES

(A) COMPENSATION OF KEY MANAGEMENT PERSONNEL

The amounts disclosed in the table are the amounts recognised as an expense during the reporting period related to Key Management Personnel.

Details of Key Management Personnel

DIRECTORS	TITLE	APPOINTED
Kerry Roxburgh	Non-executive Director, Chairman	18 April 2008
Mike Cannon-Brookes ¹	Non-executive Director	10 December 2009
Hamish Corlett	Non-executive Director	18 April 2019
Rob Ferguson ²	Non-executive Director	17 November 2005
David Fite	Non-executive Director	3 July 2018
Catherine Harris	Non-executive Director	17 December 2015
Paul Rickard	Non-executive Director	28 August 2009
David Thodey	Non-executive Director	16 November 2018

(1) Resigned 28 February 2019.

(2) Appointed to Acting Managing Director and Acting Chief Executive Officer from 14 June 2017 to 23 March 2018. Resigned on 3 July 2018.

EXECUTIVES	TITLE	APPOINTED
Robbie Cooke	Chief Executive Officer	23 March 2018
Dave Coombes	Chief Technology Officer	3 July 2017
Angela Green	Chief Risk Officer	3 June 2019
Justin Mitchell ¹	Chief Risk Officer	19 March 2007
Praveenesh Pala	Chief Financial Officer	20 October 2014
Joshua Walther	Chief Customer Officer	25 May 2017
Bronwyn Yam	Chief Product Officer	16 October 2017

(1) Ceased employment on 7 June 2019.

Compensation of Key Management Personnel

	2019 \$000	2018 \$000
Short-term benefits	4,444	3,312
Long-term benefits (long service leave)	22	-
Post-employment benefits (superannuation)	286	264
Share-based payments	2,413	563
Total	7,165	4,139

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019 (cont'd)

22. RELATED PARTY DISCLOSURES (cont'd)

Interests held by Key Management Personnel

Share options and rights held by Key Management Personnel to purchase ordinary shares have the following expiry dates and exercise prices.

ISSUE YEAR	EXPIRY YEAR	EXERCISE PRICE(\$)	2019 NUMBER OUTSTANDING	2018 NUMBER OUTSTANDING
FY08/09	FY18/19	\$0.060	-	1,043,478
FY10/11	FY17/18	\$0.080	-	3,250,000
FY13/14	FY19/20	\$0.375	442,397	-
FY13/14	FY20/21	\$0.375	98,160	528,287
FY14/15	FY19/20	\$0.450	234,038	-
FY14/15	FY21/22	\$0.450	323,945	549,297
FY15/16	FY19/20	\$0.600	171,173	-
FY15/16	FY22/23	\$0.600	252,150	461,289
FY16/17	FY19/20	\$1.490	149,959	-
FY16/17	FY23/24	\$1.490	227,103	477,076
FY16/17	FY23/24	\$1.620	200,000	200,000
FY17/18	FY19/20	\$1.760	94,166	-
FY17/18	FY23/24	\$1.760	3,068,180	400,000
FY17/18	FY24/25	\$1.620	400,000	3,605,680
FY17/18	No expiry date	\$0.000	1,200,000	-
FY18/19	FY24/25	\$0.000	745,237	-
FY18/19	FY25/26	\$1.500	4,599,709	-
FY18/19	No expiry date	\$0.000	2,798,587	-

During the year, 5,344,946 options and 2,798,587 rights were granted to Key Management Personnel.

(B) TRANSACTIONS WITH RELATED PARTIES

The following table provides the total amount of transactions that were entered into with related parties for the relevant financial year. These transactions were on arm's length commercial terms and conditions.

RELATED PARTY	2019 \$000	2018 \$000	2018 \$000
Atlassian Pty Ltd	Software purchased	(48)	(47)

Mike Cannon-Brookes, a Non-Executive Director of the Company until his resignation on 28 February 2019, is Co-Founder, CEO and Director of Atlassian.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019 (cont'd)

22. RELATED PARTY DISCLOSURES (cont'd)

(C) SHARE OPTIONS WITH RELATED PARTIES (NOT UNDER ESOP)

In December 2010, the Company granted 7.5 million share options to related parties for providing a (now expired) loan facility to the Company for liquidity purposes, which was drawn down. These options are not under ESOP.

During the year, 1.6 million share options were exercised. As at 30 June 2019, 4.3 million shares were outstanding with a WAEP of 8 cents.

	OUTSTANDING OPTIONS AT THE END OF THE YEAR
Euclid Capital Partners, related party of David Fite (Shareholder) ¹	2,625,000
Abyla Pty Ltd, related party of Mike Cannon-Brookes (Director) ²	1,625,000
Total	4,250,000

(1) Appointed Director on 3 July 2018.

(2) Resigned 28 February 2019.

23. MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

On 8 July 2019, the Company announced it was investigating the potential to move from its current non-listed public company structure to an ASX listed structure.

In the opinion of the Directors, there have been no other matters or circumstances which have arisen between 30 June 2019 and the date of this report that have significantly affected or may significantly affect the operations of the Company, the result of those operations or the state of affairs of the Company in subsequent financial years.

DIRECTORS' DECLARATION

In accordance with a resolution of the Directors of Tyro Payments Limited, I state that:

In the opinion of the Directors:

- a) the financial statements and notes of the Company are in accordance with the Corporations Act 2001, including:
 - I. giving a true and fair view of the Company's financial position as at 30 June 2019 and of its performance for the year ended on that date; and
 - II. complying with Accounting Standards and Corporations Regulations 2001;
- b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 1; and
- c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.



Kerry Roxburgh
Chairman

Sydney, 29 August 2019

INDEPENDENT AUDITOR'S REPORT



EY

**Building a better
working world**

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Independent Auditor's Report to the Members of Tyro Payments Limited

Opinion

We have audited the financial report of Tyro Payments Limited (the Company), which comprises the statement of financial position as at 30 June 2019, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, 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 Company is in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the Company's financial position as at 30 June 2019 and of its financial performance for the year ended on that date; and
- b) complying with Australian Accounting Standards and the *Corporations Regulations 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 Company 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* (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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Information Other than the Financial Report and Auditor's Report Thereon

The directors are responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial report and our auditor's report thereon. The other information comprises the Chairman's Letter, Chief Executive Officer's Operational and Financial Review and Directors' Report accompanying the financial report.

Our opinion on the financial report does not cover the other information and accordingly 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.

INDEPENDENT AUDITOR'S REPORT (cont'd)



Page 2

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 Company's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have 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.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_files/ar3.pdf. This description forms part of our auditor's report.

A handwritten signature in blue ink that reads 'Ernst & Young'.

Ernst & Young

A handwritten signature in blue ink that reads 'M Byrne'.

Michael Byrne
Partner
Sydney
29 August 2019

Additional Information



Additional Information for Shareholders

INFORMATION FOR SHAREHOLDERS

A hard copy of this Annual Report can be obtained by contacting the Company Secretary. The Company became a disclosing entity in the 2016 financial year and publishes an Interim Financial Report for each half-year ended 31 December.

Details of announcements released by Tyro can be found on Tyro's Investors page at www.tyro.com.

ANNUAL GENERAL MEETING

The Tyro Annual General Meeting will be held at the Sydney Opera House, at Bennelong Point, 2 Macquarie Street, Sydney NSW 2000 on Tuesday 15 October 2019, commencing at 3pm.

Share Registry Information

Tyro maintains its share registry. For information about your shareholding or to notify a change of address or contact details, please contact Tyro's Company Secretary via:

Phone: **+61 2 8907 1700** Email: cosec@tyro.com

Tyro Payments Limited

Attn: Company Secretary
Level 1, 155 Clarence Street
Sydney NSW 2000

ELECTRONIC COMMUNICATIONS

Shareholders can elect to receive the Annual Report and other shareholder communications by email. Shareholders who wish to register or notify a change of their email address should contact Tyro's Company Secretary via:

Phone: **+61 2 8907 1700** Email: cosec@tyro.com

Tyro Payments Limited

Attn: Company Secretary
Level 1, 155 Clarence Street
Sydney NSW 2000

Corporate Directory

DIRECTORS

Kerry Roxburgh (Chairman)

Hamish Corlett

David Fite

Catherine Harris

Paul Rickard

David Thodey

COMPANY SECRETARY

Sami Wilson

REGISTERED OFFICE

Level 1, 155 Clarence Street
Sydney NSW 2000

+61 2 8907 1700

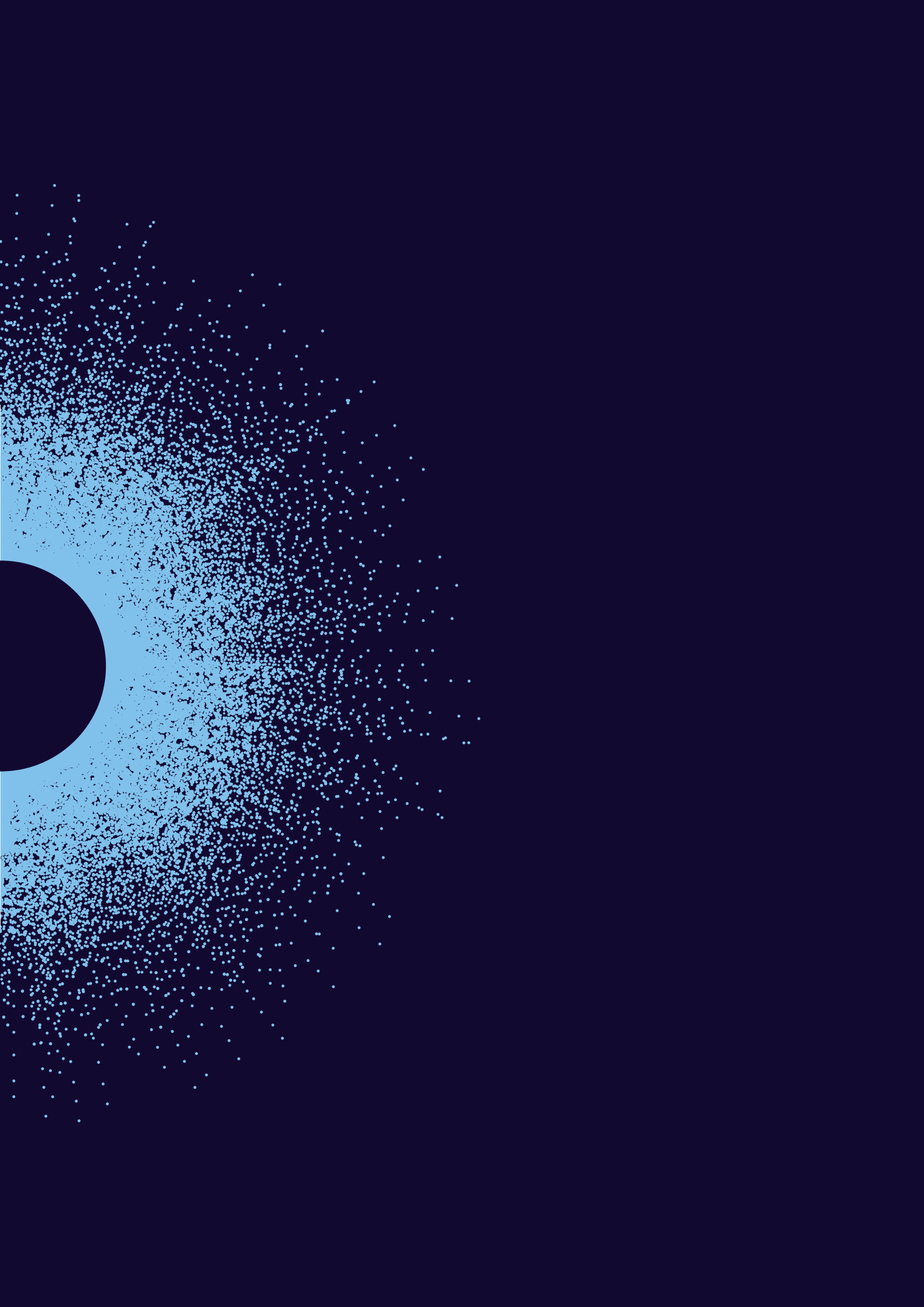
AUDITORS

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WEBSITE

www.tyro.com



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