

## Appendix 4C Clarification: Regulatory 'Own Funds' and Card Scheme Collateral

**Melbourne, 19<sup>th</sup> October 2017** - iSignthis Ltd (ASX : ISX / DE : TA8 / SWIFT BIC ISEMCY21) ("the Company" or "ISX") confirms that it has recently lodged and met its capital and collateral adequacy requirements, as required under relevant European banking regulations and card scheme requirements, in order to satisfy initial operational requirements for ISXPay®.

Following its recent 4C Report to Shareholders, the Company has received several queries from analysts and shareholders regarding the capital adequacy or 'own funds' requirements for the Company that may be considered necessary for the Company's next stage of growth as a transactional banking / payments company.

### **NAB and WorldLine Agreements**

The Company highlights its two separate agreements re the National Australia Bank (ASX : NAB) announced 08/08/2016 and Worldline BV ( FR : WLN) announced 12/7/2017. Under both agreements, the Card Scheme, Central Bank or Reserve Bank capital adequacy, 'own funds' and/or collateral requirements **are met by the NAB or Worldline respectively**, independent of ISXPay, and irrespective of the transactional banking payment volumes processed by ISXPay with either party.

That is, ISXPay may in principle contract with merchant clients to offer card acquiring, processing and settlement services up to the limit of the capital adequacy 'own funds' of each of the NAB and Worldline separately, in each of either Australia and New Zealand or the European Economic Area, respectively. On the basis of these agreements, the Company does not require any additional 'own funds' or card scheme collateral funding, in order to meet its commitments to merchant clients, or anticipated growth trajectory for its transactional banking /payments services.

Cash settlements linked to the merchant transactions processed by ISXPay are made next business day by the NAB and WLN into the Company's accounts. Merchants are typically paid out and settled against their transactions by ISXPay up to one week later. As such, funding and cashflow of ISXPay merchant settlements is effectively by the NAB and WLN, with funds first deposited into ISXPay client segregated fund accounts, from which ISXPay then settles its clients.

### **ISX collateral lodgements and the "own funds" opportunity**

Notwithstanding the foregoing, ISX has recently lodged various collateral to the amount of AUD\$650k equivalent<sup>1</sup>. For the avoidance of doubt, if ISX were to add these collateral amounts to its 4C cash balance, the total "cash" balance at the end of Sept 2017 would have been approximately A\$3.1m. These lodgements have been made in order to meet iSignthis' card scheme initial collateral requirements including as a Principal Member of Visa Inc (NYSE : V) and Mastercard Worldwide (NYSE : MA), and are classed as a balance sheet asset.

'Own funds' requirements, as calculated under Article 9 of EC 2015/2366 (PSD2)<sup>2</sup>, can be leveraged by the Company approximately 50 times at payment volumes of less than €100m per month, noting that liquidity requirements under EU banking regulations are approximately two percent (2%) when calculated under 'Method B' of the EU Directive. As monthly payment volumes increase, the leverage opportunity for 'own funds' also increases to up to 400 times of 'own funds' held, based upon monthly payment volumes exceeding €250m

The Company has also determined collateral optimisation curves, whereby use of equity funding or reinvestment of earnings versus wholesale funding, can deliver enhanced net margins / gross profits. ISX has uniquely positioned itself whereby collateral and 'own funds' may be incrementally added at any time, allowing the Company to maximise profit margins as opportunity presents by acquiring and settling an increased proportion of payment volume under its own licenses.

Whilst it may be desirable for ISX to lodge some further future own collateral and deposit guarantees in order to increase its net profit margins, it is not essential that the Company does so, as the Company has met or already exceeded its minimum threshold requirements necessary for licensing and 'own funds'.

ISX can therefore cashflow its merchant client growth via the **uncapped** NAB and WLN wholesale payment facilitation agreements, noting that ISX buy rates correspondingly also decrease with increased volumes.

<sup>1</sup> Based on exchange rate of 1.5 AUD (\$) to 1 EURO (€)

<sup>2</sup> See Article 9, of the DIRECTIVE (EU) 2015/2366 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL (PSD2)

The Company also takes the opportunity to clarify that its operational expenditure and staff levels are expected to remain relatively constant, and that current staffing levels are anticipated to meet the requirements of large scale and/or rapid growth.

**About iSignthis Ltd (ASX : ISX / FRA : TA8 / SWIFT BIC : ISEMCY21)**

Australian Securities and Frankfurt Stock Exchange listed iSignthis Ltd (ASX : ISX) is the global RegTech leader in remote identity verification, payment authentication and payment processing. iSignthis provides an end-to-end onboarding service for merchants, with a unified payment and identity service via our Paydentity™ and ISXPay® solutions.

By converging payments and identity, iSignthis delivers regulatory compliance to an enhanced customer due diligence standard, offering global reach to any of the world's 3.5Bn 'bank verified' card or account holders, that can be remotely on-boarded to regulated merchants in as little as 3 to 5 minutes.

iSignthis' Paydentity™ service is the trusted back office solution for regulated entities, allowing merchants to stay ahead of the regulatory curve, and focus on growing their core business.

iSignthis and its subsidiary, iSignthis eMoney Ltd, trade as ISXPay®, and are an EEA authorised eMoney Monetary Financial Institution, offering card acquiring in the EEA, Australia and New Zealand. ISXPay is a principal member of Visa Inc (NYSE : V) Mastercard Worldwide (NYSE : MA) and JCB International.



Read more about the company at our website [www.isignthis.com](http://www.isignthis.com).

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