

30<sup>th</sup> October 2018

## Report to shareholders for the Quarter Ended 30<sup>th</sup> September 2018

Australian Securities and Frankfurt Stock Exchange cross listed iSignthis Ltd (ASX: ISX | FRA\_DE: TA8), the global leader in RegTech for identity verification and transactional banking/payments, is pleased to provide the following business update and Appendix 4C for the quarter ended 30<sup>th</sup> September 2018.

### Highlights:

- \$10m Institutional Placement completed (issue price of \$0.145 per share)
- Acquisition of Core Banking Platform Provider – Probanx.com
- The Company continues to increase the value of its contracted GPTV, which is now in excess of AU\$880m
- iSignthis is now a Principal Member of Mastercard in two key regions (EU and Australia)
- JCB now live with ISXPAY in the EEA
- Scheme participation – iSignthis Group is now a scheme member of the European Payments Council (EPC) Single Euro Payment Area (SEPA) Scheme
- Payidentity now processing identity verification and payments for Finland's largest cryptocurrency broker service – Prasos
- Agreement to act as a card acquirer of China Union Pay (CUP) issued cards – ISXPAY to acquire CUP cards in 2019

### Summary of events this quarter include:

- On 26<sup>th</sup> September 2018 the Company advised the market of its supply chain issues and the impact on revenue in the quarter. The ability to process, clear and settle funds throughout the quarter was significantly reduced by Kobenhavns Andelkasse Bank (KAB) being placed under the control of the Danish State banking administrator Finansielt Stabilitet (FS). The immediate short term impact on revenue and cash receipts is extremely frustrating for both the Board and shareholders alike, particularly as strong momentum has steadily been building over the previous 3-4 quarters. It does however partly validate the strategy that was put in place regarding the establishment of our own Tier 1 capabilities and the removal of reliance on third parties, in order to allow the Company to service the AML regulated, fintech and payments sector.
- The Company has since put in place an alternative Tier 2 banking partner to replace the KAB, as an alternative to our Tier 1 supplier
- The Company expects that its Tier 1 connection into the SEPA and SWIFT network for EURO (€) based payments is imminent. The Company can then 'bank' itself and its acquiring activities.

- Significant payments have 'bounced' from our banking partners back to source, and these have started to be recovered only in the last 6 weeks.
- Exposure of €255k at KAB, which has been recorded as cash receipts but as yet not been recovered
- Cash receipts of \$986k
- Receivables balance includes an amount of \$482k, which amount is anticipated to be received this quarter based upon invoices raised last quarter.
- In July 2018 the Company was pleased to announce the appointment of Mr. Christakis (Takis) Taoushanis as a non-executive director. Mr. Taoushanis brings extensive banking and finance knowledge and experience to our organisation having spent over 30 years in the industry in various senior roles.
- The Company has commenced the relevant regulatory applications to seek approval to replicate the EEA banking products and services in Australia. It was pleased to announce various card scheme arrangements in the quarter, including;
  - Principal membership in Australia with Mastercard (building on the membership previously awarded in the European Economic Area (EEA))
  - Certification of its card acquiring service with JCB across the EEA
  - Entered in to a card not present / online agreement with Union Pay International to act as a card acquirer of China Union Pay (CUP) issued cards
- The Company has continued to explore new products and services into areas where traditional banking providers are in retreat, or do not have the capability to deliver against the new regulatory requirements.
- Completed a \$10m Institutional Placement at an issue price of 14.5 cents per share. The funds to be used to satisfy prudential Tier 1 capital requirements. The Company is pleased to continue to take positive steps towards Tier 1 capability in EEA and Australia as previously outlined.
- Acquisition of Probanx.com – iSignthis has acquired 100% of the issued capital of EU based core banking platform software business Probanx. iSignthis will utilise the services for its own requirements in issuing IBAN's and maintaining a banking ledger able to manage, report and maintain funds as well as providing additional revenue streams and an expansion to the services on offer. The business will operate independently and deliver a positive EBIT contribution in 2018.

## 1.0 BUSINESS UPDATE

The Company has been advised by the Single Euro Payment Area (SEPA) scheme operator, the European Payments Council, that its facilities are on track to go live for processing Euro settlement and clearing via its central banking facilities from **November 2018**. The Company will configure its clearing and settlement supply chain directly into its central banking facilities with focus on concluding our EU Tier 1 connections for Visa, Mastercard and JCB at the same time.

The Company had previously planned to use KAB to conduct an orderly transition to its own banking facilities. The KAB matter mean that the company will not be processing EU card transactions (with corresponding impact on revenues) until our own central bank facilities are commissioned.

The Company's core banking and Tier 1 card processing systems will be going live progressively through October (JCB) into early December (Visa, Mastercard, Central Banking) as previously announced, with EMA's going live during November.

Stronger processing volumes experienced in October. Increase in revenue and cash receipts expected versus the September quarter.

The Company anticipates to be commencing revenues across Tier 1 Mastercard, Visa, JCB and EMA's in the EU, during December.

## 2.0 CORPORATE

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### 2.1 CASH POSITION

At the end of the Quarter, the consolidated group cash balance as reported in the Appendix 4C was \$1.97million (excluding cash deposits held as security and Customer Segregated Funds). This amount does not include the funds raised by institutional placement in October 2018. The cash usage for the quarter being within our projected usage for business growth, development, marketing and service deployment.

Cash outflows were abnormally high this quarter due to;

- collateral payments to card schemes, as part of principal membership requirements
- acquisition of Probanx Information Systems Ltd
- completing Tier 1 network and associated commitments
- Product manufacturing and operating costs within the Appendix 4C includes payments relating to direct cost of goods sold as accounted for in the June 2018 period. This amount will reduce significantly in the current quarter. As we move to operating our own Tier 1 networks, this will reduce even further, until the Company is realising our targeted MSF of ~130Bps

### 3.0 OUTLOOK

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#### Forward Looking FY 2019 - Emoney Accounts (EMA's), JCB, VISA, Mastercard

- Card processing/ Acquiring = \$13.2m
  - EMA = \$3m
  - Other Services = \$1.5m
  - Gross Profit Total = \$17.7m
- Annual Operating cost base ~ (\$7m)  
Anticipated FY2019 EBIT: AUD \$10.7m

#### Australian Opportunity

The Company is optimistic that the short term challenges it is facing in its European operation will not in any way impact its upcoming Australian operations. The Company continues to put arrangements in place to allow for card settlement and clearing in Australia to take advantage of the opportunities created by the 'evolving' Australian regulatory landscape and the NAB's revised risk appetite, into FY2019.

#### Summary

Whilst the KAB matter has significant impact on short term revenues, the Company's Tier 1 facilities are being progressively completed and commissioned over the coming weeks. KAB was a short term, one off incident, that partly validates the Company's model to enter into the sector due to the dearth of specialist AML regulated sector banks in the EU. The Company's principal focus is now on delivery of its EU network, and planning for its Australian network, in order to deliver against its contracted forecasts and maximise its opportunities. The Company's overall view remains optimistic and positive with regards to execution of its overarching strategy.

## Glossary

**AML** = *Anti Money Laundering, usually refers to a regulatory regime that banks, brokers, exchanges, credit providers etc. need to comply with. AML requires KYC.*

**Acquiring bank** = *(also called acquirers, processing banks or merchant banks) are financial institutions, members of Visa and MasterCard, that contract with merchants to enable them to accept debit and credit card payments for their products and services. They can also, and mostly do, contract with third parties to provide some of these services.*

**BIC** = *Bank Identifier Code, as issued by the Society for Worldwide Interbank Financial Telecommunication (SWIFT)*

**Cardholder** = authorised user of credit or debit card

**Card issuer** = *(Monetary) financial institutions that are Principal Members of a Credit Card Association, which issue payment cards on behalf of the Credit Card Associations, and contract with their cardholders for the terms of the repayment of transactions. iSignthis is a Principal Member of Visa Inc (NYSE:V), Mastercard Worldwide (NYSE:MA) and JCB International*

**Credit Card Associations** = *member-owned association of banks that govern the issuing of Visa, MasterCard, JCB, AMEX, Diners, Discover and China UnionPay cards and the acquiring of transactions from those cards. Both organisations have developed payment systems to facilitate the processing of transactions between member banks.*

**CTF or CFT** = *Counter Terrorism Funding, or Counter Funding of Terrorism, is often paired with AML as AML/CTF or AML/CFT*

**Dynamic Data** = *one-time data related to an e-Payment transaction, that is current and used as an input at the time of KYC check. Unlike **Historic Data**, Dynamic data is only applicable and accessible via the person to whom it relates and can only be compiled with the KYC target person's active involvement. Refer to 'Secret'*

**e-KYC** = *electronic or digital KYC. The process of customer identification remotely via the internet, rather than face-to-face / manual processes.*

**eMoney** = *electronic money whether it is held on a payment device in the electronic money holder's possession or stored remotely at a server and managed by the electronic money holder through a specific account for electronic money.*

**eMoney Regulation** = *DIRECTIVE 2009/110/EC OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 16 September 2009 on the taking up, pursuit and prudential supervision of the business of electronic money institutions<sup>1</sup>*

**e-Wallet** = *a means of storing or processing funds via your mobile, laptop, tablet etc. to more than one merchant or other person. An eWallet holds eMoney.*

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<sup>1</sup> <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32009L0110&from=en>

**Enhanced Due Diligence (EDD)** = for Higher-Risk Customers. Customers that pose higher money laundering or terrorist financing risks present increased exposure to merchants; **due diligence** policies, procedures, and processes should be **enhanced** as a result.

**EOI** = Evidence of Identity, which forms the basis of **KYC**.

**Gross Processed Turnover Value (GPTV)** = the value of third party monies processed by the Company for which it charges an MSF

**KYC** = Know Your Customer, a mandatory customer identification process that banks and AML regulated entities must perform prior to offering a consumer service in order to comply with AML law or regulation.

**Identification** = the means whereby a person is identified by name and other unique attributes, prior to those details being verified by a customer due diligence process.

**Interchange (IC) Fee** = the fee, designated in basis points, is a component of the MSF charged to the merchant for the provision of transactional banking services, where the IC Fee is set by the Credit Card Association, and is as published on each Credit Card Association website.

**Merchant** = *is a business that has contracted with an acquiring MFI or Payment Facilitator to accept card payments*

**Payidentity** = the convergence of payments and identity, incorporating payment instrument verification and customer identification, in order to remotely link an electronic payment with a person's identity, usually for the purpose of satisfying Anti Money Laundering (AML) or Anti-Fraud, or both requirements.

**Monetary Financial Institution (MFI)** = *EU Regulation 2013/33/13 defines MFIs as resident undertakings that belong to any of the following sectors Credit Institution (Bank), Central Bank or eMoney Institution (e-Bank), such as iSignthis eMoney Ltd.*

**Merchant Discount Rate (MDR)** = the fee, designated in basis points, charged to the merchant for the provision of transactional banking services by the Company, comprising the MSF and the Interchange (IC) Fee

**Merchant Services Fee (MSF)** = is a component of the MDR fee, designated in basis points, charged to the merchant for the provision of transactional banking services by the Company

**Payment Facilitator** = *is an organisation that has contracted with an acquiring bank to provide merchants with card payment processing services on behalf of an acquirer. Payment processors must be registered with Visa and MasterCard and must identify on all of their marketing materials, including their websites, the name of the bank partner.*

**Payment Service Provider (PSP)** = *an entity licensed or authorised to provide transactional banking services, including card issue, card acquire, credit facilities and bank transfers. The Company's subsidiary iSignthis eMoney Ltd is a European Economic Area Authorised eMoney Monetary Financial Institution (MFI) no 115.1.3.17 and can offer PSP service, including card acquiring and issuing.*

**PCI** = *Payment Card Industry, comprising Visa, Mastercard, American Express, Diners, Discover, China Union Pay. PCI sets the global standards required for security and interconnectivity of banks & processors to merchants via its data security standard (DSS). Level / Tier 1 is the highest standard possible, to which level the Company is certified.*



**PSC = A Person of Significant Control** is anyone that exerts a significant influence or control over a company. They are identified as a PSC if they meet any of the following criteria: Hold more than 25% of a share in a company or have the right to participate in more than 25% of the surplus assets of a company.

**Revenue** = i) GPTV x MSF and/or, ii) Flat Fee Charge x Units Consumed, and/or iii) Integration and Ad Hoc Services.

**Secret** = Information which can only be known by or in the possession of (e.g. one-time passcode or cryptographic key) the authorised users. This information is transmitted by iSignthis securely within standard payment messages and used as the basis of challenge / response knowledge based authentication **EOI**. The Secret is comprised of **Dynamic Data**. By way of example, the United Kingdom's Joint Money Laundering Steering Group (JMLSG) 2017 Revision at s5.3.89 refers.

**Service provider** = *any third party that provides a service used in the card payment transaction process: point-of-sale terminals, payment gateways, web hosting, SSL certificates, shopping carts etc.*

**SCA** = Strong Customer Authentication, a means whereby two factor authentication (2FA) is linked to a person's KYC identity and a specific payment instrument (e.g. card or eWallet), and the 2FA is used to authenticate remote payment transactions executed on the payment instrument.

**Static Data (aka Historic Data)** = data that may have been secret at a historic point in time. E.g. What is or was presumed to be non-public data related to a **KYC** target person, including their credit history report, the person's mother's maiden name, the persons full name, their driver's license number etc. It may predate the **KYC** process by years, months or days, and may be discernible to party's other than who it relates by way of data hacks/breaches<sup>2</sup>, social media. Static Data is susceptible to data breaches, such as the US and UK 2017 Equifax data breach.

**UBO** = Ultimate Beneficial Owner, companies are increasingly expected to understand who they are doing business with. This serves to prevent doing business with mala fide parties. Any institutions that fall within the scope of the Anti-Money Laundering and Anti-Terrorist Financing Act must retrieve the identity of the UBO (the ultimate beneficial owner) of their business relations on a mandatory basis.

**Verification** = the means whereby a person's details, including name, date of birth, address and other unique attributes having been previously identified, are verified via a customer due diligence process.

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<sup>2</sup> <http://www.informationisbeautiful.net/visualizations/worlds-biggest-data-breaches-hacks/>

## Appendix 4C

### Quarterly report for entities subject to Listing Rule 4.7B

Introduced 31/03/00 Amended 30/09/01, 24/10/05, 17/12/10, 01/09/16

**Name of entity**

ISIGNTHIS LTD

**ABN**

93 075 419 715

**Quarter ended ("current quarter")**

30 SEPTEMBER 2018

| <b>Consolidated statement of cash flows</b>               |  | <b>Current quarter<br/>\$A'000</b> | <b>Year to date<br/>(3 months)<br/>\$A'000</b> |
|---|--|------------------------------------|--|
| <b>1. Cash flows from operating activities</b>            |  |                                    |  |
| 1.1 Receipts from customers                               |  | 986                                | 986  |
| 1.2 Payments for  |  |                                    |  |
| (a) research and development                              |  | (84)                               | (84)   |
| (b) product manufacturing and operating costs             |  | (1,674)                            | (1,674)  |
| (c) advertising and marketing                             |  | (10)                               | (10)   |
| (d) leased assets   |  | -                                  | -  |
| (e) staff costs   |  | (1,035)                            | (1,035)  |
| (f) administration and corporate costs                    |  | (887)                              | (887)  |
| 1.3 Dividends received (see note 3)                       |  | -                                  | -  |
| 1.4 Interest received                                     |  | 10                                 | 10   |
| 1.5 Interest and other costs of finance paid              |  | -                                  | -  |
| 1.6 Income taxes paid                                     |  | -                                  | -  |
| 1.7 Government grants and tax incentives                  |  | -                                  | -  |
| 1.8 Other (provide details if material)                   |  | -                                  | -  |
| <b>1.9 Net cash from / (used in) operating activities</b> |  | <b>(2,694)</b>                     | <b>(2,694)</b>                                 |
| <b>2. Cash flows from investing activities</b>            |  |                                    |  |
| 2.1 Payments to acquire:                                  |  |                                    |  |
| (a) property, plant and equipment                         |  | (4)                                | (4)  |
| (b) businesses (see item 10)                              |  | -                                  | -  |
| (c) investments   |  | -                                  | -  |
| (d) intellectual property                                 |  | -                                  | -  |
| (e) other non-current assets                              |  | -                                  | -  |



| <b>Consolidated statement of cash flows</b> |   | <b>Current quarter<br/>\$A'000</b> | <b>Year to date<br/>(3 months)<br/>\$A'000</b> |
|---|---|------------------------------------|--|
| 2.2   | Proceeds from disposal of:                            |                                    |  |
|   | (a) property, plant and equipment                     | -                                  | -  |
|   | (b) businesses (see item 10)                          | (491)                              | (491)  |
|   | (c) investments                                       | -                                  | -  |
|   | (d) intellectual property                             | -                                  | -  |
|   | (e) other non-current assets                          | -                                  | -  |
| 2.3   | Cash flows from loans to other entities               | -                                  | -  |
| 2.4   | Dividends received (see note 3)                       | -                                  | -  |
| 2.5   | Other (cash deposits)                                 | -                                  | -  |
| <b>2.6</b>                                  | <b>Net cash from / (used in) investing activities</b> | <b>(495)</b>                       | <b>(495)</b>                                   |

|             |   |              |              |
|-------------|---|--------------|--------------|
| <b>3.</b>   | <b>Cash flows from financing activities</b>                                 |              |              |
| 3.1         | Proceeds from issues of shares  | -            | -            |
| 3.2         | Proceeds from issue of convertible notes                                    | -            | -            |
| 3.3         | Proceeds from exercise of share options                                     | -            | -            |
| 3.4         | Transaction costs related to issues of shares, convertible notes or options | -            | -            |
| 3.5         | Proceeds from borrowings  | -            | -            |
| 3.6         | Repayment of borrowings   | -            | -            |
| 3.7         | Transaction costs related to loans and borrowings                           | -            | -            |
| 3.8         | Dividends paid  | -            | -            |
| 3.9         | Other (card scheme membership security)                                     | (408)        | (408)        |
| <b>3.10</b> | <b>Net cash from / (used in) financing activities</b>                       | <b>(408)</b> | <b>(408)</b> |

|            |  |              |              |
|------------|--|--------------|--------------|
| <b>4.</b>  | <b>Net increase / (decrease) in cash and cash equivalents for the period</b> |              |              |
| 4.1        | Cash and cash equivalents at beginning of quarter/year to date               | 5,523        | 5,523        |
| 4.2        | Net cash from / (used in) operating activities (item 1.9 above)              | (2,694)      | (2,694)      |
| 4.3        | Net cash from / (used in) investing activities (item 2.6 above)              | (495)        | (495)        |
| 4.4        | Net cash from / (used in) financing activities (item 3.10 above)             | (408)        | (408)        |
| 4.5        | Effect of movement in exchange rates on cash held                            | (50)         | (50)         |
|            | Cash acquired on acquisition*  | 95           | 95           |
| <b>4.6</b> | <b>Cash and cash equivalents at end of quarter</b>                           | <b>1,971</b> | <b>1,971</b> |

\* The cash acquired on acquisition represents cash held by Probanx Information Systems Ltd as at the date of acquisition.

| <b>5. Reconciliation of cash and cash equivalents</b><br>at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts | <b>Current quarter<br/>\$A'000</b> | <b>Previous quarter<br/>\$A'000</b> |
|--|------------------------------------|-------------------------------------|
| 5.1 Bank balances  | 1,971                              | 5,523                               |
| 5.2 Call deposits  | -                                  | -                                   |
| 5.3 Bank overdrafts  | -                                  | -                                   |
| 5.4 Other (provide details)  | -                                  | -                                   |
| <b>5.5 Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>   | <b>1,971</b>                       | <b>5,523</b>                        |

| <b>6. Payments to directors of the entity and their associates</b>                                       | <b>Current quarter<br/>\$A'000</b> |
|--|------------------------------------|
| 6.1 Aggregate amount of payments to these parties included in item 1.2                                   | 60                                 |
| 6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3                       | -                                  |
| 6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2 |                                    |

Payments to directors and director related entities during the September 2018 quarter.

During the September 2018 quarter, the Company entered into a formal, short term, interest bearing loan agreement with Etherstack Pty Limited a wholly owned subsidiary of Etherstack Plc of which Mr Scott Minehane is a director. A total of \$272,000 was advanced to Etherstack Pty Limited and subsequently repaid during the quarter and as such does not appear in section 6.2. A total of \$3,000 interest was paid as part of the agreement. The transaction was completed at arm's length.

| <b>7. Payments to related entities of the entity and their associates</b>                                | <b>Current quarter<br/>\$A'000</b> |
|--|------------------------------------|
| 7.1 Aggregate amount of payments to these parties included in item 1.2                                   | -                                  |
| 7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3                       | -                                  |
| 7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2 |                                    |

Nil

| <b>8. Financing facilities available</b><br><i>Add notes as necessary for an understanding of the position</i>   | <b>Total facility amount<br/>at quarter end<br/>\$A'000</b> | <b>Amount drawn at<br/>quarter end<br/>\$A'000</b> |
|--|---|--|
| 8.1 Loan facilities  | -   | -  |
| 8.2 Credit standby arrangements  | -   | -  |
| 8.3 Other (please specify)   | -   | -  |
| 8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well. |   |  |
| Nil  |   |  |

| <b>9. Estimated cash outflows for next quarter</b>   | <b>\$A'000</b> |
|--|----------------|
| 9.1 Research and development                         | 70             |
| 9.2 Product manufacturing and operating costs        | 500            |
| 9.3 Advertising and marketing                        | 20             |
| 9.4 Leased assets                                    | -              |
| 9.5 Staff costs                                      | 1,000          |
| 9.6 Administration and corporate costs               | 800            |
| 9.7 Other (provide details if material)              | -              |
| <b>9.8 Total estimated cash outflows<sup>1</sup></b> | <b>2,390</b>   |

<sup>1</sup> The company is an operating business that generates cash inflows each quarter. Estimated cash outflows are based on assumptions including activity on estimated inflows. The above summary of estimated cash outflows does not reflect the anticipated net cash flows for the following quarter, as it excludes cash inflows (such as receipts from customers). In addition, subsequent to period end the company completed a capital raising in the amount of \$10,000,000 (before costs).

| <b>10. Acquisitions and disposals of business entities<br/>(items 2.1(b) and 2.2(b) above)</b> | <b>Acquisitions</b>   | <b>Disposals</b> |
|--|---|------------------|
| 10.1 Name of entity  | Probanx Information Systems Ltd   | -                |
| 10.2 Place of incorporation or registration  | Cyprus  | -                |
| 10.3 Consideration for acquisition or disposal   | 1. €300,000 cash;<br>2. €100,000 in ISX ordinary shares due in six months; and<br>3. An earn out commission against future receipt of sales closed within the next three (3) months | -                |
| 10.4 Total net assets  | A\$410k   | -                |
| 10.5 Nature of business  | Core banking platform service provider  | -                |

### Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Sign here: .....  
(Company secretary)

Date: 30 October 2018

Print name: Todd Richards

### Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.