

## Market Update – Supply Chain Issues

**Melbourne, 26<sup>th</sup> September, 2018:** iSignthis Ltd (“the Company”) provides an update regarding its third party supply chain.

### A> Kobenhavns Andelskasse Bank (<https://kbh-andelskasse.dk>)

As of the 13<sup>th</sup> September 2018, the Kobenhavns Andelskasse Bank (“KAB”) was placed under the control of the Danish State administration company for banks, known as “Finansiel Stabilitet” (“FS”)<sup>1</sup>. The Company is continuing to seek clarification but has received information from FS in the last 24 hours, that where a resolution was previously thought possible, means the Company’s clearing and settlement of its partner card networks via KAB is no longer possible.

The KAB matter has already impacted processing, clearing and settlement intermittently during July and August, and most of the September month. The Company’s merchants have in the meantime made arrangements to continue to utilise their existing card processing facilities outside of the Company’s present network.

The Company had used KAB as part of its card and APM clearing and settlement network, including for holding Company’s own, settlement and client funds in EMA’s. The direct exposure to KAB is circa €255k, which is likely to be returned under the Danish ‘Guarantee Scheme for Depositors and Investors’, with the Company awaiting details as to timing of release of funds.

The matter with KAB however demonstrates that execution of the previously communicated core strategy is paramount, and the main priority is for the Company to conclude the implementation of its Tier 1 (direct) connections to central banks and card schemes as soon as possible, in order to not be impacted by third party issues.

### B> Revenue Impact

The Company’s revenues and cash flow will be impacted this quarter as a consequence of settlement funds being returned back up the supply chain, and settlement being deferred or via alternate (non company) channels. The resulting deferred cash flows and corresponding revenues will be recognised once settled, with a further USD\$500k identified in third party (non KAB) suspense accounts. Consequently, the Company advises September quarter receipts will be down significantly from last quarter, with resultant cash receipts possibly as low as \$1.2m. The Company is working to manually clear funds on a priority basis.

### C> Central Banking

**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 on the 8<sup>th</sup> October 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 into early December as previously announced, with EMA’s going live before end of October.

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

The Company’s forecasts announced yesterday for FY19 commencing January to December are restated, with a typographical error amended:

- Card processing/ Acquiring = \$13.2m
- EMA = \$3m
- Other Services = \$1.5m
- Gross Profit Total = \$17.7m (was stated as \$17.5m in announcement dated 25/9/18)

Annual Operating cost base ~ (\$7m)

Anticipated FY2019 EBIT: AUD \$10.7m (was stated as \$10.5m in announcement dated 25/9/18))

### E> 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.

### F> 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 in any case. 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.

<sup>1</sup> <https://www.finanstilsynet.dk/en/Nyheder-og-Presse/Pressemeddelelser/2018/Decision-that-Koebenhavns-Andelskasse-is-likely-to-fail>