ASX ANNOUNCEMENT
31 October 2018

Business Update, Results of Strategic Review and Analysis, Focus on Issuer Processor & Funding Sources

Wednesday, 31 October 2018: U.S-based fintech company Change Financial Limited (ASX:CCA) ("Change Financial" or "the Company"), provides a business update and announces the findings of the Board's strategic review and analysis of the business.

Business update

CCA is pleased to announce that it achieved a major milestone in its progress toward its anticipated status as a registered Mastercard (NYSE:MA) third-party processor. The Company has completed all test transaction cases in the final stage of Mastercard's third-party processor testing procedure, and is now eligible for registration as a Mastercard third-party processor using the Mastercard Network Gateway Services.

As previously announced, the Company has successfully completed the Connectivity, Key Exchange and Administrative Message testing components of the Mastercard testing procedure [ASX Announcement: 31 July 2018]. Once launched, the enterprise solution will provide turn-key services targeting 7,000 Federal Deposit Insurance Corporation (FDIC) banks in the US, 6,000 credit unions in the US, 10,000 corporations in the US, and a host of innovative players in the financial services arena with innovative, cost-effective mobile banking services.

Change Financial has been working with its partners Mastercard (NYSE: MA), Discovery Financial Services' (NYSE: DFS) subsidiary Pulse and the Central Bank of Kansas City to become one of the small number of processors that is fully integrated with Mastercard's Network Gateway Solutions globally. The size of the potential addressable market for the enterprise solution is very large and growing. According to a research conducted by Edgar Dunn, the addressable market in the US is a $50 billion market in 2019, growing at over 60% per annum through 2025.

CBKC Central Payments Division President Trent Sorbe: "We are pleased to recognize Change Financial's progress as they build their transaction processing infrastructure. We will register Change Financial as a third-party processor with Mastercard in the near future. This enterprise offering will enable Change to expand their product offering and customer base. We anticipate the processing platform's sophistication and flexibility combined with an innovative mobile application will attract additional companies who want to partner with Change Financial."

Change Financial Executive Chair Teresa Clarke: "Our engineering team has been working incredibly hard on satisfying the rigorous Mastercard requirements for transaction processing registration. We are thrilled to announce that Change Financial is now eligible to be one of the first companies to achieve Mastercard third-party processor using the Mastercard Network Gateway Services in the US. We are pleased with Mastercard's validation of our processing capabilities."

Strategic review

CCA retained management consultant experts in the payments and digital financial services industry, Edgar Dunn & Company, to review CCA's processor and mobile banking businesses.

Edgar Dunn & Company's conclusion in relation to CCA's issuer processor business is that while it is a work in progress, CCA's processor business offers substantial opportunity given 1) the size of the addressable market and 2) the limited number of competitors. The market size in 2019 will be approximately $50 billion, growing at a CAGR of over 60% per annum through 2025. The number of US competitors in this space is less than 30. That said, in order to extract value from the market opportunity, CCA's issuer processor needs stronger strategic and commercial planning, as well as an experienced management team.

In relation to the mobile banking business Edgar Dunn & Company identified a number of areas of improvement and outlined a strategic road map to increase revenues and decrease expenses for the business in order for it to develop and compete effectively in the market.

Consistent with the board's review of the mobile banking business, there are opportunities to better monetize the base of banking customers. While some of the areas of improvement can be addressed in the immediate term, a longer funding commitment to the business is still required in order for it to achieve this potential.

In assessing the competing capital needs of the two businesses the board has decided the Company does not have the resources or potential resources to fund both businesses. Given the progress to date on the establishment of an issuer processor, the significant size of the addressable market, the projected high growth in the market size over the next six years, the high revenue potential, the limited number of competitors, and the tremendous barriers to entry, the CCA board has decided to focus its efforts on completing the build of its issuer processor. As a result the CCA board has taken the decision to sell the mobile banking business and has hired US investment bankers BTIG to sell the mobile banking line of business.

Consistent with the Company's needs at this time, Muhammad Tahir agreed to step down as CTO effective 30 October 2018.

Expenditure reduction

CCA continues to assess monthly expenditures. Among the line items affected are more efficient expenditures for marketing in the mobile banking business and listing a portion of its Los Angeles office space for sub-lease.

The Company has successfully negotiated to reduce its current processing costs for its mobile banking business.

Young Lee, the CFO, now operates on a part time basis to support the Company through this current phase and will transition out of the Company on December 31, 2018. Executive Director Ian Leijer will continue to perform an oversight role of the Company's financial function.

The CCA board reviewed its listing on the US OTCQX. The initial intentions of listing on the OTCQX had been to increase its shareholder base and improve liquidity in the shares. The incremental benefits did not justify the expense, and hence, the CCA board decided to de-list from the OTCQX.

The Company expects to continue its cost cutting efforts.

Review of sources of funding

As at 30 September 2018 Change Financial had cash balances of US$2.2 million and, in the absence of raising capital or selling assets, an expected cash outflow to 31 December of US$1.7m. Cost reduction strategies mentioned above continue to be a key focus.

Change Financial is currently in advanced negotiations with several parties and is working through a number of funding options and structures in order to fund the development of the processing business. The market will be advised of any developments as soon as they are sufficiently certain.

Accordingly, as previously mentioned in our annual financial statements, in the absence of a successful capital raising or selling assets, there continues to be material uncertainty about Change Financial's ability to continue as a going concern.

Conclusion

CCA Executive Chair Teresa Clarke commented, "The past few months have not been easy for CCA. We have experienced significant departures from key leadership positions. However, the board and the management have come to more fully appreciate the tremendous opportunity that our issuer processor presents to our shareholders. The market opportunity has grown since we started investing in the business, and through completion of the technical aspects of the Mastercard certification process, we have established that our engineering is sound. We have also come to a deeper level of appreciation of how formidable the barriers to entry are, and recognize that we have a valuable asset in this line of business."

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