

8 September 2022

ASX Announcement

IOUpay Signs Strategic Partnership with IDSB & Commences with New Product Initiative Targeting Malaysian Civil Servants

Highlights

- **IOUpay signs Strategic Partnership Agreement (“Strategic Partnership”) with IDSB to collaborate on financing opportunities targeting Malaysian Federal Civil Servants (“FCS”), in various government ministries;**
- **These ministries include portfolios across Education (teachers), Health (doctors and nurses), and other key government agencies;**
- **First Project initiates with a new Bridging Loan product tailored for and targeting newly-employed Federal Civil Servants that is revenue accretive to both IOUpay and IDSB (in which, IOUpay is a substantial shareholder) in two ways:**
 - **IOUpay: to receive margin on short term bridging loans offered to low risk Bonded Civil Servant initial customer category; and**
 - **IDSB: with pre-committed repayment of the bridging loan through a pre-approved ten (10) year IDSB-facilitated Term Loan (funded by partner banks), IDSB will receive increased revenues through upfront agency fees for each new customer and ongoing loan management fees on the refinanced 10-year loans.**
- **Together, this First Project initiates a unique programme with a local market-first, new short-term bridging finance product across a large target customer base, initially focused on Bonded Civil Servants, with scope to increase this to all Federal Civil Servants more generally;**
- **Based on a 10% penetration of this estimated opportunity, total transaction values could be as much as RM20 million (~A\$6.6 million¹) each year in new Bridging Loan volume and RM200 million (~A\$65.6 million¹) in IDSB Term Loans, with new customers acquired from across Malaysian Government agencies (not only sourced via partner bank referral);**
- **IOUpay to fund new Bridging Loans out of current BNPL capital allocation, and is in the process of discussions to secure a special purpose wholesale funding facility with a leading Malaysian Non-Bank Financial Institution (“NBFI”) dedicated to providing 100% of capital required for the Bridging Loan product as the first project under the IDSB Strategic Partnership;**
- **Discussions with the NBFI are advancing with a view to funding the first project and, if successful, the further projects thereafter envisioned in the Strategic Partnership;**
- **Consistent with the Company’s roadmap as announced in the Business Strategy Update (announced 21 July 2022), further projects under development for future implementation which are included under the Strategic Partnership, will be subject to obtaining support from funding partners such as the NBFI.**

¹ Assumed MYR/AUD exchange rate 3.05 using RBA sourced reference

IOUpay Limited (ASX:IOU) (“IOUpay” or “the Company”) and the Board of Directors are pleased to announce a new Strategic Partnership Agreement with I.Destinasi Sdn Bhd (“**IDSB**”) and preparation for the rollout of the first product initiative under the agreement to newly-hired Malaysian federal civil servants.

The launch of the Strategic Partnership involving a market-first product initiative aimed at capturing newly-hired federal Government employees highlights the strategic value of the Company’s investment in IDSB.

Through the collaboration, IDSB is able to originate large numbers of new civil servants who have a requirement for IOUpay’s short term finance. IOUpay gains access to large numbers of high credit quality customers with a unique product offering, has the opportunity to significantly upscale its monthly transaction volumes and provides a committed deal pipeline for long term finance by IDSB.

Strategic Partnership Agreement

The Company is pleased to announce that its wholly-owned subsidiary, IOU Pay (Asia) Sdn Bhd (“IOUpay Asia”) has entered into a Strategic Partnership Agreement (“SPA”, “Strategic Partnership” or “the Agreement”) with IDSB to collaborate on strategic initiatives that leverage each company’s competitive strengths to generate incremental value in their respective businesses and markets and specifically target financial products to the Federal Civil Servant (“FCS”) customer target category.

Under the SPA, the parties will work together to develop specific product initiatives and marketing programmes for mutual benefit, targeting FCS’ whether they be existing or new Malaysian Government employees.

There are over 1.7 million civil servants in the Malaysian Government’s workforce. Each year approximately 20,000 people commence employment as a FCS in the Education and Health sectors, with a significant proportion of these needing to commit to service for an eight-year period (“Bonded Civil Servants”) to obtain government sponsorship and financial assistance for their tertiary education.

These FCS portfolios of prospective customers represent prime target customers for the Company given their stable, long term employment and IDSB’s ability to utilise the AG-Code Licence to mitigate credit risk. With a proven appetite for instalment based credit and amongst the lowest NPL rates in Malaysia, these FCS portfolios are an optimal fit for the Company’s strategy for sustainable, profitable growth.

These initiatives and programmes/products will be individually governed by the Agreement, and be documented and announced formally, as those initiatives and programmes/products are agreed and defined.

Key terms of the Strategic Partnership Agreement

- **Commencement:** 8 September 2022;
- **Strategic focus:** To focus on identified areas in which the parties are able to cooperate with the view of achieving synergy in the parties’ offerings to their respective markets and businesses. In particular:
 - Shariah-compliant personal financing to Federal Civil Servants in a salary deduction scheme under the Accountant General Code for salary deduction, and the provision of loan management services including payment collections for its bank customers;
 - Creating short term products using IOUpay’s platform, existing product suite, and ability to create new products in coordination with IDSB and third party funders (including partner banks and NBFIs), to assist IDSB in marketing IOUpay’s and IDSB’s products jointly to Federal Civil Servants;
 - Other synergistic products or marketing offerings for financial products that the Companies can monetise and collaboratively explore together;
- **Exclusivity:** Non-exclusive, however there is a non-competition clause in that neither party can cooperate with another party to undertake business similar to initiatives under the SPA;
- **Term:** Five (5) years, which can be extended by written agreement between the parties; and
- **Termination:** Either party may terminate the Agreement without cause by giving one (1) month’s prior written notice, or immediately if there is a material breach by giving notice to the breaching party.

There is no consideration paid by the Company to IDSB for entering into the Agreement.

First Project: Bridging Loan Product

Requirement for Bridging Finance

When a new civil servant commences their employment there is a period of up to three (3) months before their salary is paid and a payslip issued. Mainstream financial institutions will not extend credit before a payslip is issued, notwithstanding verifiable employment status.

Therefore, there exists a considerable gap in cash flow that the new employee must accommodate. To date, this has been achieved through savings, the assistance of friends and family, or unregulated borrowing via unconventional and, in some cases, unlicensed money lenders.

The Malaysian FCS population exceeds 1.7 million and the ministries of Education and Health employ approximately 20,000 new FCS each year with a significant proportion of these being Bonded Civil Servants indentured to government service for eight (8) years.

IOUpay's New Bridging Loan Product Solution

In the normal course, federal government employees qualify for unsecured personal loans of RM100,000 (~A\$32,787¹) repayable via monthly instalments over ten (10) years. However, these personal loans cannot be drawn until the borrower can provide a payslip and specific documentation signed by the employer (relevant agency department head).

The first project being initiated under the Strategic Partnership Agreement is a short term bridging loan product to fund this cash flow gap. Individual loans of RM10,000 (~A\$3,279¹) will be provided to new Malaysia Government employees consistent with responsible lending practices outlined by Bank Negara Malaysia (Malaysia's central bank).

The initial rollout of the Bridging Loan Product to newly-hired FCS will be limited to employees of the Ministry of Education with a view to expanding to other key ministries over time.

IOUpay will take the short term credit risk of the individual borrowers but takeout (full repayment) is via a pre-approved IDSB 10-year term loan to be funded by IDSB's bank partners.

Therefore, the Company's exposure to individual borrower credit risk is effectively limited to the potential for termination of employment prior the first payslip, a highly uncommon event given a significant proportion of these civil servants are subject to pre-existing, 8-year bonding programmes with the relevant Government agency commencing from completion of their Government-funded tertiary education (e.g. teachers with Ministry of Education and doctors/nurses/etc. with Ministry of Health).

For illustrative purposes, based upon a 10% penetration into newly commenced FCS employees of the ministries of Education and Health, new business volumes of IOUpay Bridging Loan product would approximate RM20 million (~A\$6.6 million) each year. The Company anticipates the net margin on the Bridging Loans (after debt funding costs and IDSB's origination & management fees) to be similar to the margins earned on standard, 3-month BNPL transactions.

Indicative Terms of new IOUpay Bridging Loan

Facility:	IOUpay Bridging Loan (unsecured consumer finance)
Borrower:	Malaysia Government employees
Lender:	IOUpay Asia
Manager:	IDSB will originate the loans and manage the receivables
Amount:	RM10,000
Term:	Up to three (3) months
Fees:	All charges are capitalised to the loan
Repayment:	In full (principal plus fees), refinanced through drawdown of IDSB Term Loan
Documentation:	Standard form documents required by IOUpay & IDSB

IDSB First Collaboration with IOUpay to Offer 10-Year Refinance of IOUpay's New Bridging Finance

IDSB will facilitate the 10-year term loan to be funded by IDSB's bank partners, in effect pre-arranging to refinance the shorter-term credit risk taken by IOUpay of the individual borrowers. The term loan refinance is pre-approved for (and pre-committed by) the IOUpay's Bridging Loan customer at the initial application stage, with drawdown subject only to provision of the first payslip plus a standard government form issued by the employer (relevant agency department head).

Therefore, the lender's exposure to individual borrower credit risk is effectively limited to the potential for termination of employment prior the first payslip, a highly uncommon event given the bonding programmes and the high social value placed on civil service jobs.

IOUpay's understanding is that the average IDSB Term Loan amount is ~RM100,000 (~A\$32,787¹) based upon IDSB's historical experience in marketing its term loan products (lending facilitated by partner banks) to targeted FCS borrowers. Maximum term loan amounts are determined by IDSB's respective partner bank funders, and the borrowing capacity of individual customers is determined by each partner bank relative to each applicant's salary, and the lenders standard lending criteria.

Based upon a penetration of only 10% into the targeted FCS in the education and health sectors, the new Bridging Loan Product can provide potential IDSB Term Loan volumes of RM200 million (~A\$65.6 million¹) each year. This would represent a significant increment (in excess of 20% based upon current quarterly new business written of up to A\$75 million) to IDSB's new business activity.

Indicative Terms of Repayment via 10-year Pre-Approved IDSB Term Loan Facility

Facility:	IDSB Term Loan
Borrower:	Malaysia Government employees
Lender:	IDSB's standard loan offering funded by its partner banks
Manager:	IDSB will originate the loans and manage the receivables
Amount:	Minimum RM10,000, and maximum subject to bank lending criteria (RM100,000 estimated average)
Term:	10 years
Fees:	All charges are capitalised to the loan
Repayment:	In full and amortised over 10 years via monthly instalments collected by IDSB utilising AG-Code licence
Documentation:	Standard form documents required by IDSB's partner banks

Funding, Scale and Expansion of the Strategic Partnership

The Company is in advanced stages of negotiation with a reputable non-bank financial institution for a bespoke funding facility structured to finance the Bridging Loan drawdowns on a daily batched basis. The prospective facility is planned to provide 100% funding so working capital requirements for the project are minimal given IDSB will be originating and managing the individual Bridging Loans.

As the first initiative is proven up, the initial rollout is anticipated to be expanded to encompass all new hires into the ministries of Education and Health and, more broadly, into other key agencies over time. Approval and support from individual government agencies is required before offering the financing products to their respective employees.

The Company and IDSB are working on further specific strategic initiatives to be implemented under the SPA, which will be separately announced as and when they are defined and agreed. The Company envisages each initiative being separately funded via wholesale funding facilities established with financial institutions with an appetite for and interest in the target customers (including, for example, the NBF1 and IDSB's partner banks).

The value of establishing wholesale funding facilities initiated through this collaboration extends well beyond the initial IDSB strategic initiatives, with potential for increasingly larger scale, lower cost capital to meet the Company's sustainable and profitable growth objectives across all of its customer portfolios.

This Strategic Partnership Initiative for Bridging Loan Product reflects the Company's continued consumer finance diversification, focusing on short term credit for low risk customers, and leveraging its competitive strengths to capture a greater share of customer lifetime value.

The release of this announcement was authorised by the Board of the Company and released by the Company Secretary.

Yours faithfully,

IOUpay Limited

(Aaron) Lee Chin Wee
Managing Director

Media Enquiries:

Marietta Delvecchio
+61 413 479 721
Media & Capital Partners
marietta.delvecchio@mcpartners.com.au

About IOUpay (ASX:IOU):

IOUpay Limited (ASX:IOU) provides fintech and digital commerce software solutions and services that enable its institutional customers to securely authenticate end-user customers and process banking, purchase and payment transactions.

The Company's core technology platform enables large customer communities to connect to end user customers using any mobile device and integrate mobile technology throughout their existing business and customer product offerings. The Company's business divisions consist of Mobile Banking and Digital Payments which service leading banks in Malaysia and large telcos and corporates in Malaysia & Indonesia. IOUpay also works with telecommunication network providers to provide mobile OTT (over-the-top) services that leverage their subscriber base to build active communities.

Forward Looking Statements

This announcement contains forward looking statements, including statements of current intention, statements of opinion and predictions as to possible future events. Forward looking statements should, or can generally, be identified by the use of forward-looking words such as "believe", "expect", "estimate", "will", "may", "target" and other similar expressions within the meaning of securities laws of applicable jurisdictions, and include but are not limited to the expected outcome of the acquisition. Indications of, and guidance or outlook on, future earnings or financial position or performance are also forward-looking statements. Such statements are not statements of fact and there can be no certainty of outcome in relation to the matters to which the statements relate. These forward-looking statements involve known and unknown risks, uncertainties, assumptions and other important factors that could cause the actual outcomes to be materially different from the events or results expressed or implied by such statements. Those risks, uncertainties, assumptions and other important factors are not all within the control of IOUpay and cannot be predicted by IOUpay and include changes in circumstances or events that may cause objectives to change as well as risks, circumstances and events specific to the industry, countries and markets in which IOUpay operates. They also include general economic conditions, exchange rates, interest rates, competitive pressures, selling price, market demand and conditions in the financial markets which may cause objectives to change or may cause outcomes not to be realised.

None of IOUpay or any of its subsidiaries, advisors or affiliates (or any of their respective officers, employees or agents) makes any representation, assurance or guarantee as to the accuracy or likelihood of fulfilment of any forward-looking statement or any outcomes expressed or implied in any forward-looking statements. Statements about past performance are not necessarily indicative of future performance.