

ASX Announcement

15 December 2020

Operational Update

Highlights

- **Merchant Service Agreements signed with two (2) Payment Gateway providers in Malaysia as well as one of Malaysia's leading Banks, enabling the Company's customer's BNPL transactions to be supported by credit and debit card payments, along with prospective selected merchants from the Bank's 7,000+ e-commerce merchants and 10,000 in-store merchants**
- **Agreements signed with five (5) leading independent credit data service providers for identity and financial information verification, completing the Company's initial build of its proprietary credit processing system**
- **IOUpay Platform enhancements and Core proprietary BNPL platform modules completed on schedule and deployed**

IOUpay Limited (ASX Code: **IOU**) (**Company**) is pleased to announce an operational update on its business activities and new product development initiatives outlined in the corporate update and investor presentation released to ASX on 28 October 2020. References to the Company signing agreements include agreements signed by its Malaysian subsidiary IOU PAY (Asia) Sdn Bhd.

Merchant Services Agreements (MSAs) signed with leading Payment Gateways with related essential and one (1) partnering Bank in Malaysia

The Company recently signed MSA's with two Payment Gateway providers in Malaysia including one of the top 3 in Malaysia based on number of active merchants and customer payment transactions. Payment gateways process most of the consumer online and smart terminal credit card and debit card payments for e-commerce and in-store merchants and have partnership agreements with card issuing and merchant acquiring banks which are appointed by the major credit and debit card companies pursuant to their Card Schemes.

For the activities contemplated in the MSA's to be operable by the Company, meaning the Company can process BNPL services in compliance with required bank and global Card Scheme regulations, due diligence and approval of the Company and its operations is required by one of the payment gateway's card issuing and merchant acquiring bank partners. This approval process involves extensive due diligence and continuous compliance monitoring and audits once approved, including strict transaction and customer data protection, security and storage capabilities and compliance with the Payment Card Industry Data Security Standards (PCIDSS) which in turn includes compliance with the Cardholder Information Security Program (CISP), the Site Data Protection Program (SDP) and the Payment Card Industry Standards (PCIS). As a bank approved master merchant connecting credit and debit card payments for BNPL services, potentially through thousands of other bank approved master merchants and individual merchants, the level of due diligence required and operating and compliance standards is much higher than for a single merchant approval.

The Company has now received approval from a card issuing and merchant acquiring partnership bank of one of the two Payment Gateways which enables the Company to process BNPL transactions for its merchant customers using credit and debit card payments processed by the Company's platform. The bank is one of Malaysia's largest commercial banks with 7,000+ e-commerce merchants and 10,000 instore merchants. The MSA and bank approval effectively provides the Company with credit and debit card payment processing for BNPL payments as

approved by Visa and Mastercard under their Card Scheme approved agreements with one of their approved card issuing banks whose name is withheld for commercial confidentiality reasons. Approval from the partnering bank related to the second Payment Gateway is pending.

With the first card issuing and merchant acquiring bank having approved the Company commercially and for system integration with the IOUpay Platform, the agreement represents an essential pre-requisite and milestone for the Company to process credit and debit card payments for BNPL facilities in accordance with Visa and Mastercard approved and regulated Card Schemes.

The MSA's are based on standard industry templated terms including ninety (90) days termination notice in the event of any unremedied breaches of the MSA terms.

Background to regulatory framework for BNPL services in Malaysia

BNPL services offered to consumers and merchants in Malaysia are required to comply with the following legislation and regulatory frameworks:

- The Personal Data Protection Act 2010 (PDPA)
- Anti-Money Laundering Act 2010 (AMLA)
- Money Lending Act 1951
- Financial Services Act 2013 regulated by Malaysia's Central Bank, Bank Negara Malaysia (BNM)
- Card Payment Schemes of the major credit and debit card issuers in Malaysia – Visa, Mastercard, MyDebit, American Express & JCB (Japan Credit Bureau)

Through the system, policy and procedural reviews, certifications and contracted terms with key credit data providers, the payment gateway merchant services agreement and acquiring bank approvals, the Company now meets the compliance requirements for the PDPA, AMLA and Card Payment Schemes of Visa and Mastercard in Malaysia.

The Company's compliance with Malaysia's Money Lending Act 1951 and Bank Negara Malaysia's Financial Services Act 2013 is scheduled to be completed before 31 January 2021.

Services Agreement signed with CTOS Data Systems Sdn Bhd (247651-H) (CTOS)

On 23 November 2020, the Company signed a Subscription for Service Agreement with Malaysia's leading credit reporting agency CTOS Data Systems Sdn Bhd and on 26 November 2020, was approved and certified by CTOS as a CTOS Trusted Party of which there are approximately 150 entities in Malaysia consisting of banks and major non-bank financial institutions, credit card companies, insurance companies, credit leasing companies, telcos, utilities and government agencies. Although privately held, CTOS was established in 1990 under the purview of the Registrar Office of Credit Reporting Agencies, Ministry of Finance and is regulated under *the Credit Reporting Agencies Act 2010*.

Based on BNM and industry data CTOS has approximately 75% market share of the credit reporting market in Malaysia with 2 million companies and 15 million individual information and 7 million unique legal records and 4 million trade references.

Within the CTOS credit reporting system, the Credit Bureau of Bank Negara Malaysia provides its Central Credit Reference Information known as CCRIS which collects financial and credit related information on all borrowers of participating financial institutions in Malaysia including the profile of the borrower, all current credit facilities and credit application data. Moreover, CTOS collects data from multiple independent public sources providing more sophisticated and reliable identity and electronic Know Your Customer (eKYC) checks including the National Registration Department, Companies Commission Malaysia (CCM) and Malaysia's Insolvency department.

The CTOS Services Agreement with the Company provides for a range of services including:

- Pre-screening of prospective customers, suppliers and contractors;

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- Credit evaluation & debt recovery processes;
- Guarantor evaluation;
- Employment evaluation, review and monitoring;
- Property tenant evaluation, review, monitoring & debt recover processes; and
- Legal action history and documentation, insolvency & enforcement data and consideration

Under the CTOS Services Agreement the Company is required to do the following:

- Develop and produce written policies and procedures to be followed by all employees, agents and contractors;
- Establish system and process controls around user identification (KYC), passwords, tokenization and digital signatures and other biometric recognition measures;
- Provide adequate information and training to ensure compliance with policies and procedures to monitor usage and regular compliance with policies procedures and controls;
- Maintain records and log all system access, modifications and audit trails to the credit information;
- Satisfy regular compliance audits by CTOS; and
- Comply with the Personal Data Protection Act 2010 and the Credit Reporting Agencies Act 2010 including having access and input to payment histories of accounts held with financial institutions licensed under Bank Negara Malaysia (BNM) and meet regulations and guidelines as required by BNM

In addition to CTOS, the Company has also signed agreements and integrated its IOUpay Platform with two additional well established specialist international identity and eKYC vendors.

In addition to CCRIS, the Company has signed an agreement and integrated its IOUpay Platform with an additional international specialist bank statement and financial records processing vendor for sophisticated credit and financial information verification and analysis.

IOU Pay Platform & Architecture Enhancements - Core BNPL Platform modules completed

The Company has completed development and testing of core system functionality and interoperability of its BNPL transaction processing platform and service offering as scheduled.

These enhancements have been made to the Customer, Merchant and Administration Systems and include essential and proprietary system access and security, user feature sets and interface combined with processing, administration, compliance and reporting functionality.

Customer System

Key system enhancements allow for easy self-onboarding via the IOU Pay Platforms Customer Web Portal and Mobile Apps (Android & IOS) and for customers to process enquiries on their available spend limits, account and transaction history and current BNPL application and transaction status.

The Web Portal enhancements are now complete with the Consumer App (Android & IOS) development in progress.

Merchant System

Platform enhancements have been completed to enable approved merchants to integrate with IOUpay's BNPL services via their merchant websites. This is a critical requirement for large and specialist e-commerce merchants and merchants who support their in-store operations with a significant online sales presence.

The Merchant Web Portal has also been enhanced to enable merchants and their sub-merchants to process enquiries about past and current transactions including merchant settlement and transaction payout status. This enhancement has been supported by the development of an API integrating merchant website and backend systems with the IOU Pay platform facilitating merchants being able to submit BNPL applications for first time transactions.



The Company has also developed an Android mobile App running on an IOUpay Smart Terminal for in-store merchants with the Smart Terminal enabling dedicated merchant on-boarding of in-store customers and processing BNPL transactions.

Administration and Back Office System

Enhancements to the Administration and Back Office System includes:

- System analytics and Management Dashboard to show portfolios of customer transactions profiling merchant performance and key statistics, BNPL funds deployed and sales and operational performance including key Company KPI's for its BNPL service offerings including Return on Capital Employed (ROCE);
- Management and maintenance of customer profiles for customers on-boarded by each merchant;
- Management and maintenance of merchant, sub-merchant and merchant user profiles onboarded with BNPL payment options adopted, merchant Discount rates (MDR) chargeable for each BNPL payment option and key merchant settlement terms;
- Management and maintenance of Payment Gateway and Bank functions including routing tables to multiple payment gateways and their associated MDR, including redundancy routing to address intermittent, scheduled or unscheduled system service downtime; and
- Payment Gateway and Bank integrations now also include:
 - BNPL transactions to be supported by credit and debit card payments
 - a new range of transaction categories including pre-authorization, capture, authorisation & sales, refunds, tokenisation and settlements
 - support for 3D and non-3D merchant identification and verification of customers for recurring transactions. 3D identification consists of transactions requiring a One-Time Password (OTP) from the account holder, while non-3D consists of tokenised card and customer username and password data encrypted for security purposes for recurring transactions and system use
 - IOUpay operations and back office enquiries to manage and support merchant and customer payments and enquiries.

System Security Enhancements

Completed enhancements to the IOU Pay Platform include the following:

- Digital Signature Certificates to ensure data integrity and completeness during transmission and for verification of sender identification
- SQL Injection Free to exploit security vulnerability occurring in the database layer of any platform applications
- Pre-determined Request & Response URL's – only registered URL's are allowed to communicate with the platform with others treated as security threats, blocked and registered for investigation
- Unique Merchant ID's & Keys
- Embedded encryption for all sensitive information
- Hardware firewalls protecting from hackers and virus attacks
- DDOS Attack Prevention (Denial of Service attack mitigation)
- Anti-Fraud system protection and monitoring

For more information regarding this announcement please contact Mr Lee Chin Wee, the Company's Interim Chairperson and Executive Director at aaron.lee@iou.pay.com.

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

Yours faithfully

IOUpay Limited

**Jarrold White
Company Secretary**

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, Digital Payments and Digital Services which service leading domestic and international banks in Malaysia and large telco's and corporates in Malaysia & Indonesia. IOUpay also works with telecommunication network providers to provided mobile OTT (over-the-top) services that leverage their subscriber base to build active communities.

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