

ASX Announcement

6 January 2020

**Next investment round in Novatti's banking services subsidiary
at post-money valuation of \$40m**

Highlights

- **Up to an aggregate of \$18m investment comprising up to \$10m cash and up to \$8m of technology**
- **Follows first investment round at \$20m pre-money valuation**
- **Funds Novatti's banking subsidiary for grant of full ADI application**
- **Strategic Hong Kong and Australian investors with financial services expertise and technology providing expanded customer acquisition opportunities**
- **Accelerates grant of Restricted ADI to banking unit and migrant banking rollout plans**

Novatti Group Limited (ASX: NOV) (Novatti) a payments innovator and processor, is pleased to announce that it has entered into a binding heads of agreement (**HOA**) for additional capital funding and technology investment into Novatti B Holding Company Pty Ltd (**NBHC**), Novatti's banking services subsidiary, from new Hong Kong and Australian strategic financial services and fintech investors. The investment will comprise a cash subscription for ordinary shares in NBHC of up to \$10 million and a technology contribution to NBHC at up to \$8 million of ordinary shares.

The capital to be raised will enable NBHC to fund its Tier 1 capital requirements for the Restricted Authorised Deposit-taking Institution (**RADI**) licence from the Australian Prudential Regulation Authority (**APRA**), working capital for its operations during the RADI phase and the costs of the application for the full Authorised Deposit-taking Institution (**ADI**) licence.

The investors comprise Hong Kong-based Fortune Fund Investment (Asia) Limited (**Fortune Fund**) and Australia-based Sydney Digital Currency Exchange Limited (**SDCE**). Fortune Fund is focussed on investments in new digital banking ventures and lending ventures, with initial investments in China, Indonesia, India, Brazil and Ukraine. Fortune Fund brings extensive digital banking technology from its China investment in Billions Leasing Limited, a specialist provider of consumer financial services. SDCE, enrolled with AUSTRAC, provides digital assets trading and transaction services for local and global users with an in-house built online system and business network. Both Fortune Fund and SDCE can strongly assist in new customer acquisition for the bank.

The investment will ensure that NBHC is capitalised and has leading technology to drive its mobile and digital plans for its banking business, together with rapid customer acquisition through its innovative business model.

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Peter Cook, CEO of Novatti said, *"We are delighted with this investment and what this means for Novatti's banking services subsidiary following its comprehensive application to APRA for the RADI licence. The investment underpins what we expect to be a long-term partnership with this investor group for the growth and development of our banking services subsidiary and removes funding uncertainty for the grant of the RADI licence and next steps to grant of a full ADI licence."*

Mr Colin Shi Liu, CEO of Fortune Fund said, *"The Fortune Fund team has a strong understanding of the regulatory environment, technology needs and the market place. We hope to accelerate the customer acquisition via our partners and channels and we hope to accelerate the technology leadership by way of providing multiple proven scalable technologies we currently use in China."*

The HOA provides for equity cash funding over three stages of up to \$10 million in aggregate. The first two stages, comprising \$8 million in aggregate, are required to be held in escrow prior to the grant of the RADI licence and will be invested after grant. The third stage, comprising a further \$2 million in aggregate, is required to be invested after grant. Up to a further \$8 million in equity will be issued to the investor group and additional strategic investors on the provision of requisite banking technology and support arrangements to NBHC.

Combined with Novatti's current equity holding (of \$20 million), the converting note agreement with Australian Fintech Investment Group¹ and allowances for directors, management and consultants equity, the post-money valuation for NBHC is \$40 million.

The key terms of the HOA are set out in the annexure to this announcement.

Application for RADI licence

As previously announced to ASX, Novatti lodged the initial application to APRA for a RADI licence in November 2018².

Novatti's goal is for NBHC to create, through its wholly owned subsidiary Novatti IBA Pty Ltd (**IBA**), Australia's leading migrant services bank through the offer of new banking services to Australian customers with a focus on new migrants.³ This consumer-led focus is intended to be on delivering an innovative suite of digital first banking solutions to migrants in Australia through a culturally appropriate, customer centric approach.

¹ ASX announcement dated 8 November 2019, "First investment round in Novatti's banking services unit at pre-money valuation of \$20m".

² ASX announcement dated 28 November 2018, "Confirmation of Lodgement of Restricted Bank Licence application to APRA".

³ ASX announcement dated 11 February 2019, "Creating Australia's Leading Migrant Bank".

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The RADl is a new regulatory framework whereby the licensee may launch limited banking services whilst making application for a full banking licence. APRA reviews and processes the application as the relevant regulatory body.

Following ongoing consultation with APRA, on 12 November 2019 IBA resubmitted the RADl licence application with all additional documents and information for the RADl licence application required by APRA, and this is currently being assessed by APRA.

For further information, contact:

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This ASX release has been approved for release to ASX by Peter Cook, Managing Director.

About Novatti Group Limited (ASX:NOV)

Novatti is an innovative high growth payment services provider. Novatti's transaction processing services include Flexepin, an open-loop cash voucher service, Flexewallet for remittance and compliance services, Chinapayments.com for bill payment services and Vasco Pay for the issue of reloadable Visa cards. Novatti subsidiary Flexewallet Pty Ltd holds an Australian Financial Services Licence No 448066 and is registered with AUSTRAC as a Remittance Network Provider. Novatti subsidiary Novatti IBA Pty Ltd has applied to APRA for a RADl licence. Novatti's software solutions include Consumer Digital Wallets, Branchless Banking, Mobile Money, Bill Payments, Remittance Services and Voucher Management Systems.

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**Annexure
 Heads of Agreement
 Key Commercial Terms**

Investors	Sydney Digital Currency Exchange Limited (SDCE) Fortune Fund Investment (Asia) Limited (Fortune Fund)
Cash Investment	<p><i>First Contribution:</i> \$6 million payable by 10 January 2020 to an escrow agent. SDCE and Fortune Fund must pay \$2 million and \$4 million, respectively.</p> <p><i>Second Contribution:</i> \$2 million payable by 24 January 2020 to an escrow agent. SDCE and Fortune Fund must pay \$1 million and \$1 million, respectively.</p> <p><i>Third Contribution:</i> \$2 million payable by Fortune Fund to NBHC within 10 business days of the grant of the RADI licence.</p> <p>In aggregate the \$10 million investment shall be for the subscription of 10 million fully paid ordinary shares in NBHC at a post money valuation of \$40 million (ie. equal to 25% interest on a fully diluted basis).</p> <p>If either investor fails to pay the First Contribution when due, then the other investor may elect to:</p> <ul style="list-style-type: none"> • obtain a refund of its contribution and terminate the agreement • make the relevant contribution in lieu of the non-contributing party and replace that party in respect of its future obligations, or • elect not to replace and allow NBHC to source the funds from elsewhere within 90 days, failing which the agreement terminates and the funds shall be repaid. <p>If either investor fails to pay the Second Contribution or the Third Contribution when due, then:</p> <ul style="list-style-type: none"> • NBHC must first offer the other investor the opportunity to make the contribution; and • only if the other investor does not do so, NBHC may source the funds from elsewhere. <p>The failure of investors to make the Second Contribution and/or Third Contribution to NBHC will not constitute a breach of the agreement.</p> <p>The payments above may be satisfied by a nominee of SDCE or Fortune Fund (as relevant).</p>
Conditions to release of funds	Release of first and second contribution to NBHC from escrow is conditional upon:

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	<ul style="list-style-type: none"> • execution of a subscription agreement and shareholders' agreement; • full disclosure of the financial status of NBHC and IBA (collectively the IBA Group) by NBHC to SDCE and Fortune Fund, and • grant of RADI licence to IBA. <p>Sunset date for satisfaction of conditions is 3 July 2020 or such other date as the parties agree. The agreement shall terminate and all funds must be repaid if the parties fail to satisfy these conditions by the sunset date.</p>
Technology Investment	<p>Within 90 days of IBA being granted the RADI licence the parties on a reasonable endeavours basis must negotiate the terms of technology licences from Fortune Fund and SDCE (or their nominees) to the IBA Group and agreements to migrate customers and provide marketing and technical support services to the IBA Group, each for a term of at least 3 years. If agreed the aggregate consideration for such licences will be the issue of NBHC shares worth up to \$8 million representing 20% of the ordinary share capital of NBHC on a fully diluted basis.</p>
Directors, management and consultants equity	<p>Ordinary shares valued at \$900,000 at a post-money valuation of \$40 million will be reserved for directors, management and consultants of the IBA Group to be issued as soon as practicable following the grant of the RADI Licence.</p>
Board and management appointment rights	<p>A shareholder that holds 6.5% or more of the total number of shares in NBHC on issue has the right to appoint one director to the NBHC board of directors and the right to recommend one independent director.</p> <p>If Fortune Fund holds a 10% or greater shareholding in NBHC, it has the right to nominate two senior executives in agreed roles who NBHC must consider a fair and reasonable basis and in good faith.</p> <p>All appointments are subject to APRA fit and proper person requirements.</p> <p>Within 90 days of IBA being granted the RADI licence, NBHC will appoint Mr Peng Yang as Chair of the IBA Group Advisory Committee.</p>
Change of name	<p>Within 90 days of IBA being granted the RADI licence, NBHC and IBA will change company names to names previously advised to APRA, subject to APRA consent.</p>
Next round of equity funding	<p>Following grant of the RADI licence and completion of the current funding round, NBHC must commence a next round of equity</p>

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	<p>funding, endeavouring to raise \$25 million with a target post-money valuation of not less than \$100 million.</p> <p>SDCE and Fortune Fund shall proportionate to their holdings have the first right to subscribe for, or introduce investors to subscribe for, shares valued at \$20 million in such raising within six months after the grant of the RADI licence.</p> <p>NBHC shall issue share options representing 5% of the fully diluted share capital of NBHC post-raising to directors and management of NBHC as part of its employee incentive arrangements post RADI licence grant.</p> <p>Based on successfully achieving agreed customer acquisition and business development support on product and technology strategic planning, Fortune Fund and its nominee shall have a first right to be allocated a further 5% of NBHC shares for marketing and business development support contribution, on a target post-money valuation of \$100m from the next round.</p>
<p>APRA equity restrictions</p>	<p>No party may subscribe for shares in NBHC to the extent it would cause that party to breach the shareholding limits in financial sector companies set out in section 10 of the Financial Sector (Shareholdings) Act 1998 and any such subscription must be delayed until such time as the making of that subscription would not cause the relevant party to breach of such shareholding limits.</p>