# KASU LITEPAPER

Oct '24

KASU

# 1. INTRODUCTION

The global financial landscape has undergone significant change over the past few years, catalyzed by the rapid growth of digital technologies and the widespread adoption of blockchain.

As traditional financial (TradFi) systems grapple with the limitations and inefficiencies of centralized control, Decentralized Finance (DeFi) has emerged as a powerful alternative, offering a more transparent, inclusive, and accessible means of managing assets and unlocking value. DeFi's promise of democratizing access to financial products, that are otherwise only available to exclusive investment communities, has attracted immense interest from both institutional and retail investors.

One of the most promising applications of DeFi is the emergence of Real World Asset (RWA) lending, creating a bridge between TradFi & DeFi. This type of lending is where real world assets that exist off-chain are brought on-chain to be used as a source of yield within DeFi.

Businesses in need of debt capital have traditionally relied on centralized intermediaries in TradFi capital markets such as banks, alternative financiers, and private credit. However, traditional credit markets are often burdened by antiquated practices and inefficiencies, such as too many intermediaries, high fees, slow speed to market, overregulation and limited accessibility.

DeFi, on the other hand, offers a more direct, efficient, and decentralized approach to credit markets for both lenders and borrowers, where everyday investors can access lending opportunities on-chain, that would otherwise only be available to 'Sophisticated' and 'Institutional' investors.

As the macroeconomic environment continues to evolve, with traditional capital markets becoming increasingly restrictive and costly, the need for more inclusive and decentralized solutions such as RWA lending has never been more pressing.

RWA lending empowers DeFi investors ("Lenders") and businesses borrowers to connect directly, facilitating more decentralized capital markets that foster greater financial inclusion, drive economic growth and promote the development of a more equitable and sustainable global financial ecosystem. Many RWA lending protocols also invite Loan Managers ("Delegates") to originate real world loans and manage risk on behalf of Lenders. Their involvement ensures a high degree of due diligence and credit risk management that aims to protect Lenders' capital, which is particularly important for retail investors who who may not possess such expertise.

One of the major systemic problems that both TradFi and DeFi capital markets have yet to solve is that, due to the absence of value-add solutions, lending is commoditized. This commoditization drives a market dynamic characterized by minimal customer loyalty, creating a fiercely competitive environment where Loan Originators and Managers solely compete on price.

Similarly, existing RWA lending platforms merely provide a bridge between DeFi Lenders and real-world business borrowers. This bridge still fails to provide any meaningful differentiation in terms of addressing the root cause behind the cash flow problem that brings rise to the initial borrowing need. Consequently, they are simply bringing the existing problems of TradFi, being the commodity of 'money,' on-chain!

**Kasu solves this problem through innovative risk management and cash flow optimisation technology.**

Kasu is an RWA private credit lending platform that uses proven, proprietary technology to optimize businesses' cash flows, thereby improving credit risk. Coupled with automated risk management mechanisms, Kasu delivers the most attractive risk-adjusted returns in all of RWA private credit.

Whilst our peers provide a simple bridge between TradFi and DeFi, this has now become the RWA lending norm. Kasu goes beyond democratizing access to real-world yield opportunities that are otherwise only available to Sophisticated and Institutional investors/lenders. This is demonstrated by Kasu's Receivables Funding Lending Strategy, which uses proprietary technology that unlocks business' cash tied up in debtors prior to lending funds, thereby reducing credit default risk to optimize risk-adjusted returns for Lenders.

**Kasu fixes the cash flow problem at its core first, and lends money second.**

# 2. KASU

Many DeFi solutions primarily offer returns through farming, P2P lending, and staking. They are largely confined to in-market solutions with inherent limitations, such as unsustainable Ponzi-style economics, high volatility, impermanent loss, and the obvious lack of exposure to much larger and sophisticated capital markets investments.

**In the RWA lending space, existing players simply provide a bridge between TradFi and DeFi. This approach is now the 'norm' in RWA lending, which brings two fundamental TradFi problems with it on-chain:**

*1) RWA lending has not solved the commoditized product issue that TradFi is so deeply scrutinized for, leaving borrowers with no loyalty as they pursue the most price competitive loans available due to the absence of value-add services; and,*

*2) the commodity nature of lending is often little more than a quick fix of the underlying problem that creates a borrowing need, thereby encouraging more risk (referred to as 'dumb money' in TradFi versus 'smart money').*

This is a systemic problem in all credit markets, both TradFi and DeFi. There is little differentiation between loan products other than terms and price. Loan Managers rarely (if ever) assist businesses in optimizing their cash flow first to reduce the borrowing need. Consequently, credit markets are burdened with higher than necessary default risk. This risk negatively impacts investors and lenders, and has a spillover effect into macro and microeconomics environments.

Kasu addresses these challenges in the private business credit arena with its integrated technology partner and launch Delegate, Apxium. Through this partnership, Kasu and Apxium deliver innovative Accounts Receivable Automation Software and Smart Payments technology, providing intelligent Receivables and Payables financing solutions for real-world businesses.

Our innovative Accounts Receivable Automation Software and Smart Payments technology delivers deep value to businesses, well beyond lending. This comprises:

- 50% reduction in debtor days;
- 50% reduction in administrative overhead; and,
- 40% reduction in payments processing fees (more competitive than banks).

**This is all before lending a single dollar!**

Kasu presents an unparalleled value proposition that no other banks or lending protocols currently offer. Unlike other RWA lending platforms in DeFi, or FinTech lenders and banks in TradFi, Kasu (via its partnership with Apxium) fixes the root cause of the borrowing need first, by reducing debtor days by 50% to unlock cash tied up in working capital. This solution provides comfort to Lenders that their capital is funding an optimized debtor book that has been de-risked by 50%, thereby reducing credit default risk to drive higher risk-adjusted returns.

Given the extent to which the technology improves business' cash flows and administrative processes, an opportunity exists to leverage this favourable position to provide additional lending solutions that can be also be optimized via Kasu and Apxium's IP. For example, the payments technology and its depth of data integration can also facilitate smart Accounts Payable financing solutions for approved supplier invoices and other creditor payments in a highly efficient, automated, and controlled environment.

By leveraging the power of blockchain, in conjunction with Apxium's award-winning lending architecture, Kasu will provide DeFi Lenders access to short-term accounts receivable and payables financing to highly vetted, creditworthy businesses in established, regulated, and mature markets. Most of these businesses already use Apxium's software, which has already validated their creditworthiness to ensure high quality, sustainable risk-adjusted returns to Lenders.

This technology enables everyday DeFi Lenders to earn more sustainable returns than other lending platforms through superior risk management.

Kasu will also enables other Delegates to launch, manage, and attract capital based on their own investment strategies and underwriting processes (subject to Kasu's due diligence and approval process), delivering superior risk-adjusted returns to Lenders when using Apxium's technology (where applicable).

This technology-driven approach, in a decentralised environment, enables greater flexibility and transparency with proven and unparalleled risk management structuring, offering deep value across the entire RWA lending ecosystem.

Kasu is an RWA lending protocol that not only evolves the way businesses access capital - by bringing real-world yield sources onto the blockchain - but uses proprietary technology to revolutionize the way businesses manage capital and risk for the benefit of Lenders.

# 3. LAUNCH PARTNER - APXIUM

In an effort to provide a truly differentiated product from competitors - whilst facilitating the seamless integration of real world yield on-chain - Kasu has collaborated with a partner that possesses both a proven track record and a market-leading financial technology (FinTech) product.

Apxium is a globally operating SaaS+FinTech company specializing in Accounts Receivable Automation and Smart Payment Services, delivering the most intelligent Receivables and Payables Financing. With a strong presence in the U.S., U.K., Canada, and Australia, this solution is used by globally significant accounting firms, along with their corporate and SME clients.

Kasu will launch with immediate access to Apxium's existing customer base which represents over $2 billion in annual invoicing across some for the largest, and most creditworthy accounting firms in the world. Of this $2 billion in annual invoicing Apxium currently manages for accounting firms, approximately $150 million could be financed today, plus a further $7.5 billion for these firms' clients. This does not even consider the accounts payable financing needs of these firms' clients, which is an even larger opportunity again.

Apxium is the only deeply data integrated SaaS+Payments solution with the world's two largest accounting Practice Management Software systems, IRIS Star & Wolters Kluwer. These systems account for over 50% market share of annual accounting firm invoices in the U.S. presenting a Receivables Financing opportunity of up to $12 billion. The downstream opportunity to these firms' clients is a further $600 billion.

Apxium currently services an existing user base of mid-to-large accounting firms and their clients with AR Software and Payments technology. However, the lending opportunity across this existing network of high creditworthy businesses is under-penetrated. These include top 100 CPA firms in North America and the U.K., some of which Apxium can achieve Trade Credit Insurance (TCI) for, reflective of AA-rating. TCI will be pursued to provide credit enhancement to selected Lending Strategies.

Apxium's IP is based on its deep, continuous data integration and synchronization with eight major enterprise billing systems used by global accounting firms. This includes Wolters Kluwer and IRIS Global, which are the two largest in the world. This enables Apxium to maintain comprehensive oversight and real-time visibility of each firm's invoices and accounts receivable ledger, thereby ensuring real time covenant reporting and risk management. This further enables Apxium to manage risk in ways not previously possible across any TradFi or DeFi lender, thereby significantly reducing default risk.

In the case of its invoice financing solution, Apxium employs several layers of technology-driven risk management structuring to safeguard the collection of outstanding funds, thereby mitigating default risk:

- **Control over collections bank account:** to which all invoice payments/collections are received. No cash sweep for repayments required.
- **Automated cash charge-back to operating account:** direct debit authority over the firm's bank account to immediately effect a chargeback on any unpaid invoice that have been financed, without any notice required.
- **'Right of Offset' - redirection of all Accounts Receivable collections:** ability to route all cash collections to Apxium, even for invoices that haven't been financed (given that Apxium is the AR software and Payments provider).
- **Equitable assignment over invoices:** security over all the firm's invoices, providing recourse over its debtors ledger.
- **Guarantee & Indemnity:** given by the firm.
- **"Multi-recourse" security structure over the firm and its clients:** Apxium not only has multiple layers of recourse over the firm, but also has direct debit authority over the firm's end client debtor, along with the right to perfect title from the end client debtor in the event that the accounting firm faces insolvency.

Apxium's Accounts Receivable Automation software has proven to de-risk business' debtor exposures by reducing debtor days by 50%. By lending to an optimized debtor book, Apxium has never lost a single dollar in over 8 years of operation.

The scale of Apxium's opportunity is a factor of its highly innovative approach. This has been recognised by two of the largest Practice Management Software systems in the world - IRIS Global and Wolters Kluwer. These two systems are used by accounting firms to manage their complex time and billing (work-in-progress billing) workflows. Their combined user bases of accounting firms generate over 50% of total accounting services revenues in the U.S., with leading market share in Canada, U.K. and Europe.

Apxium is the only deeply data integrated Accounts Receivable Automation Software and Payments provider to IRIS Global and Wolters Kluwer. If any of their accounting firms users wish to achieve an automated accounts receivable experience to reduce debtor days by 50% and payments processing fees by 40%, then the only fully data integrated solution is Apxium. Apxium is also uniquely data integrated with six other major Practice Management Software systems around the world, whose accounting firm user bases have been excluded as part of the opportunity analysis within this Litepaper.

Through Kasu, Apxium can deploy capital into not only financing the invoices currently managed by its Accounts Receivable Automation technology, but the entire Receivables ledger of a firm, with risk management mechanisms that competitors are unable to replicate.

Moreover, accounting firms are widely known as 'trusted advisers' to their clients. Given the high degree of customer advocacy Apxium has achieved from its accounting firm clients, the opportunity to leverage these relationships as a direct referral channel to *their* clients has already been established. The network effect opportunity to also provide Invoice Financing to the clients of these accounting firms is $600 billion (more when considering Accounts Payable funding opportunities). This 'referral activity' is already occurring, presenting funding opportunities beyond invoice financing.

Apxium's value to clients allows for seamless cross-sell of its Invoice Financing product, as it is also already entrenched within its clients' end-to-end accounts receivable and payment workflows. This compares to other lenders who just throw money (debt) at the late debtor collections problem, and do not contribute any value-add to improve their clients' risk and operations as it relates to their debtor exposures and cash flow issues.

Apxium de-risks business' debtor books first, and then lends money second, thereby optimizing risk-adjusted returns and protecting Lenders' capital.

This deep value-add, combined with such a unique captive distribution channel to these accounting firms' clients, places Apxium in a prime position to also offer additional automated lending solutions - namely, Accounts Payable financing to fund approved supplier invoices and other creditor payments.

The uniqueness of this position is as explained follows:

1. **Accountant-client trusted advisor relationship:** a business' accountant plays a key role in recommending financial products to them.
2. **Advocacy:** Apxium already has an enviable client base of globally significant accounting firms demonstrating a high level of loyalty, with an average churn of less than 2% p.a.
3. **RIsk validation:** given Apxium provides accounting firms with the payment gateway through which their clients pay their accounting fees, a history of their clients' payment performance data is at hand. Combined with Open Banking data and the accountant's recommendation (who prepares its clients' financials), Apxium is able to source a pipeline of comprehensively pre-vetted borrowers.
4. **Identity validation:** Apxium's data integration with its accounting firm clients' Practice Management Software systems provides visibility over the identity of their clients.

Whilst combining Apxium's Accounts Receivable Automation software with its Payables financing tech is optimal from a borrower value-add perspective, making the former a condition precedent to access the latter may introduce friction and compromise the scalability objectives of Kasu. Therefore, in order to achieve scale, Apxium's Accounts Payable funding solution can be provided as a stand-alone product, but still avail of the risk mitigation factors provided by Apxium's smart payments tech, credit due diligence practices, and risk validation from the borrower's accountant (which is already an Apxium customer).

One such Payables funding solution (also offered by Apxium) that would benefit from this dynamic is a unique 'Tax Pay' funding solution for profitable business to optimize their tax planning strategies by solving the timing mismatch problem between cash revenues and tax payments. The opportunity rationale for such a solution is as follows:

- **Income tax is an indicator of profitability:** only profitable businesses pay income tax, which is a key (positive) credit risk score driver.
- **Apxium's Tax Agent relationship:** Apxium's accounting firm customers are the Tax Agents and accountants of business' seeking such funding solutions. This presents Apxium with a captive distribution channel to their clients, along with an independent, trusted source to access their tax and financial information.
- **Integration:** given the above point, Apxium is able to gain independent visibility over the outstanding tax obligations of these firms' clients.
- **Smart payment tech:** Apxium's technology is able execute payments on behalf of the client directly to suppliers (in this case, the tax/revenue authority such as IRS in the U.S. and ATO in Australia) to eradicate fraud, in a wide range of currencies with the necessary approval mechanisms built-in.
- **Value-add also to the accountant:** Accounting firms (in their role as Tax Agent for their clients) spend significant time attempting to negotiate payment arrangements with the tax/revenue authority on behalf of their clients. The tax/revenue authorities are deliberately difficult to contact and must only act within certain predefined parameters which makes the entire process extremely inefficient and time consuming for the accountant. Apxium's solution solves this problem.

Hence, Apxium is able to deliver deep value-add for both the tax agent and its client through its technology-driven funding solutions. The value-add for the firm's clients is that of administrative automation and cash smoothing. For example, tax obligations come in various forms (income tax, Pay-As-You-Go (PAYG Tax), PAYG employee tax, GST and VAT etc.), presenting varying cash expense profiles (timing and amount) that rarely match a business' cash revenue profile. Each of these individual tax obligations present varying degrees of 'seasonality' issues and must be paid in regular prescribed intervals regardless of the timing of the business' operating cash flow and working capital cycle.

Apxium's solution provides a tailored 'Tax Pay' debt facility to completely remove the multiple seasonality issues for each tax obligation, and handle all the administrative burden. Apxium's technology can account for each individual tax obligation for each individual tax period. In the backend, this calculates a separate loan repayment schedule for each tax obligation. But, from the client's perspective, a single monthly repayment is made. Apxium's technology simply apportions the appropriate amount from this single monthly repayment and allocates it to the relevant outstanding tax obligation (in a first-in-first-out method).

This method enables the client to continually 'roll in' new tax obligations into the single consolidated facility (subject to a total approved credit limit and debt serviceability metrics), whilst earlier tax debts 'roll off.'

The Tax Pay debt facility will allow business borrowers to take advantage of up to 3 monthly payment holidays in a 12 month period (so long as they have the approved facility limit capacity). This flexibility is an important selling feature when compared to the inflexible and hardened approach of government authorities.

The impact of clients failing to meet their tax payment obligation is severe. For example, bank lending policies restrict the annual renewal of credit lines (let alone approving any increases) for businesses who have outstanding tax debt obligations. Even more severe is the tax/revenue authorities' stance on the issue, since 'interest free' tax obligation relief was provided during COVID-19, resulting in over AU$50 billion in unpaid taxes in Australia, and over US$400 billion in the U.S. In 2023, this rose to a staggering US$1 Trillion in the U.S.

In the U.S. the IRS is tasked with collecting hundreds of billions of dollars in unpaid taxes over the next decade, and tax experts say that business income is an untapped source of revenue. In response, the IRS allocated a $900 million budget, solely dedicated towards tax enforcement efforts in FY 2022. Businesses (not individuals) pay in excess of 92% of all tax raised by government revenue authorities globally, demonstrating the sheer scale of this issue.

Kasu is uniquely positioned to access this significant and timely opportunity through Apxium's relationships with accounting firms who service such businesses.

The Australian Tax Office (ATO) and IRS have recognised that the problem lies in profitable and healthy businesses with the capacity to pay, purposely taking advantage of the relief provided during COVID-19, effectively using the revenue/tax authorities as a 'low interest bank.' The stance of these authorities has radically hardened. They are now seeking to recover tax monies owed without compassion. This includes action such as placing businesses into receivership to rectify the situation, starting with with legal notices without any prior warning.

The size of the opportunity for Apxium to leverage its accounting firm relationship to access profitable businesses with the capacity to pay, but would prefer to convert such significant on-time payments into instalment payments, is a unique and significant one.

Based on Apxium's existing accounting firm relationships, is it estimated that the opportunity to fund the tax obligation for their clients is approximately $20 billion p.a. Through its proprietary technology, Apxium is currently data integrated with firms' Practice Management systems, who act as Tax Agent and adviser to their clients. Hence, this opportunity is unique in that Apxium already sees these business' accounting bill payment performance (given Apxium provides the payment gateway through which they pay their accounting fees) along with being able to seek further validation of their creditworthiness from their accountants. Apxium already holds strong, long standing relationships with their accountants.

Moreover, given the consequence of failing to meet tax obligations, demand for such a funding facility is currently stronger than any other funding need. Apxium's unique access to these businesses, combined with the urgency to fund such obligations, provides an opportunity to offer significantly risk-adjusted returns (higher than what these borrowers would ordinarily pay for a funding need that does not possess the same level of urgency).

As a result, Kasu will be able to offer up to 25% interest through these strategies (via its Junior tranche offering). The captive distribution opportunity via Apxium's existing user base and software partners enables Kasu to reach scale in a sustainable manner across a cohort of highly creditworthy business borrowers with technology that provides superior risk management to protect lender funds.

**Through this captive channel, average returns for lenders are in the order of 14% p.a. This compares to Kasu's peers, who offer average returns of approximately 9% p.a. (www.rwa.xyz), but without the technology to reduce risk. Kasu will therefore offer lower risk (relative to returns) than its competitors - not only more attractive on a risk-adjusted basis, but also on an absolute return basis.**

Additional scale will be reached through Kasu's platform and infrastructure offering to other approved Delegates beyond Apxium. The value proposition for additional Delegates is the use of Apxium's intellectual property - via its Accounts Receivable Automation Software, Global Payment Rails, and Automated Financing technology - to also enable these Delegates to generate optimized risk-adjusted returns for their lenders.

# 4. THE KASU DIFFERENCE

## The commodity mousetrap problem of credit markets and lending

The broad concept of Kasu is to provide an interface between DeFi lenders and RWA lending opportunities – supported by unique token utility. However, this can largely be replicated by competitors. In fact, variations of this concept already exist and will inevitably continue to be rolled out by competing protocols as the demand for real world asset returns in DeFi intensifies.

In essence, these RWA 'bridges' employ an approach that is merely a technology driven iteration of a long-standing lending model, where the combination of capital and money management is now a homogeneous commodity.

Competing protocols will therefore attempt to avoid the 'commodity mousetrap' and differentiate via their lending product offerings (and token utility) – which again, are merely 'features' that can easily be replicated. This necessitates the need to build a community, with both liquidity demand and supply side catered for, that requires mass network effects to build a solid moat.

The bigger problem behind today's commoditized credit markets is that there has been no effort for lending protocols, banks, and credit funds to address the root cause of the borrowing need to begin with. Often, this root cause lies in working capital constraints, with the underlying problem being poor cash flow management, debtor collections processes, and manual invoice processing.

## Kasu's Competitive Moat

Kasu delivers a competitive moat with a combination of unique technical and commercial intellectual property. The technical IP comprises software and payments technology that address the root causes of the borrowing need, as it relates to working capital constraints. The commercial IP relates to deep market access across an existing user base for which the technology currently processes over $2 billion in annual invoicing for high creditworthy accounting firms.

This IP has created significant barriers to entry for competitors given that it is the only deeply data integrated solution with the world's largest enterprise billing and accounting systems (Practice Management Software) utilized by mid to large tier accounting firms.

**This IP delivers a deep value proposition to these firms by not only reducing their administrative overhead by 50%, but more importantly, reducing their debtor days by 50% (on average) and payments processing fees by 40%.**

The success of this technology has resulted in substantial commercial IP. That is, deep market access to over $12 billion in invoice financing opportunities to accounting firms in the U.S., which utilize the Practice Management Software systems with which Apxium's technology is uniquely data integrated. This includes sales and distribution support form these software vendors. This commercial IP is further strengthened by the network effects associated with accessing these accounting firms' clients, which represents a further $600 billion lending opportunity.

Apxium was purpose-built to reduce the very cause of the borrowing need to begin with, being late debtor collections, as a key step prior to lending a single dollar. Fundamentally, this offers lenders highly unique risk-adjusted return dynamics.

> Apxium optimizes a borrower's accounts receivable collections by reducing debtor days by 50%, prior to deploying any capital to fund these receivables. This results in less credit exposure and less risk.

Moreover, Apxium's deep data integration IP with enterprise billing systems used by professional practice offers real time visibility over every invoice status, enabling real time automated covenant reporting and risk management (versus banks' manual, retrospective covenant reporting).

Additionally, given that Apxium is a global Payments Acquirer delivering Global Payment Rails to its customers, this ensures that every debtor of a borrower that Apxium has loaned funds to is already pre-identified. Therefore, Apxium has real time visibility over these debtors' payments performance – again, providing a significant risk mitigation factor to optimize risk adjusted returns.

In contrast, competing protocols, banks, and other FinTech lenders simply bring together the commodity product of capital to mask the cash flow problems with debt. Unfortunately, they do little to address the very problem that causes the borrowing need to begin with.

Moreover, Apxium's deep data integrations with global billing systems provides captive access to over 50% of accounting firms revenues in the U.S. along with a significant share in Canada, Australia, UK, and Europe. Therefore, Kasu does not rely on marketing and community that two-sided marketplace models require to scale.

Whilst Kasu will also operate as a platform for other Delegates, the opportunities brought about by Apxium alone unlock greater scale than other RWA lending competitors in the private credit space.

The captive opportunity via Apxium's distribution access to 50% market share in the U.S. (via its data integration partnership with Wolters Kluwer and IRIS Global) is larger than the entire value of loans ever deployed in the Private Credit RWA lending market (as it stands today).

When additional Delegates join Kasu, it may be a condition precedent that they adopt Apxium's unique IP and payment rails, thereby ensuring the highest degree of risk management is present across the entire Kasu platform.

Apxium's data integration therefore presents significant IP that is yet to be replicated by any competitor in TradFi or DeFi. The combination of this technical and commercial IP provides Kasu with a competitive moat that bypasses the commodity mousetrap that its competitors are subjected to.

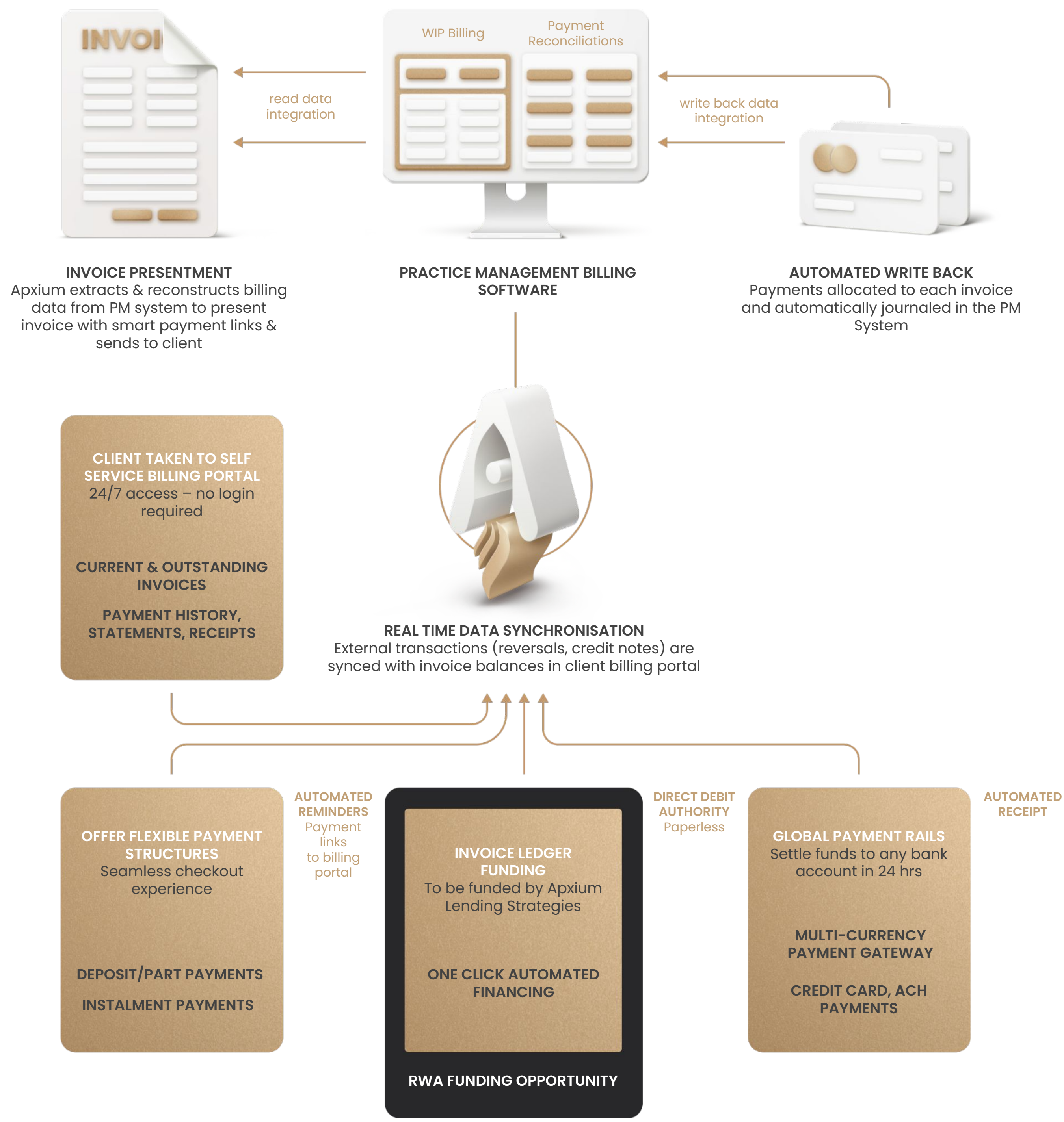
# 5. AWARD WINNING TECHNOLOGY

Apxium has an outstanding track record of performance and recognition, as evidenced by several awards and Australian government grants at both State and Federal levels:

- **2023** - Apxium received **grant funding and business planning support** from the **Government of South Australia** under the 'Global Expansion Program (GEP).'
- **2023** - Apxium won the **Premier's Export Award for the 'Most Innovative Business'** in South Australia, sponsored by South Australian Government Department for Trade and Investment.
- **2023** - Apxium won the **Premier's Export Award for the 'e-Commerce Exporter of the Year'**, sponsored by South Australian Government Department for Trade and Investment.
- **2023** - Apxium was a **National Finalist in the 'e-Commerce Exporter of the Year' category at the Australian Export & Investment Awards**, hosted by the Australian Trade Commission (**Austrade**), which is the Australian (Commonwealth) Government's trade and export body.
- **2022** - Apxium was a **finalist and runner-up in the 'Emerging Exporter' category at the Premier's Export Awards**.
- **2022** - Apxium was chosen as one of the **'Best and Brightest Fintechs in Australia' by the Australian Trade Commission** (Austrade - Australian Government) and WEVE Acceleration, selected to attend the New York Fintech Landing Pad Program in NYC.
- **2022** - Apxium received **export grant funding from the Government of South Australia** under the South Australia Export Accelerator Program to facilitate expansion to North America the UK.
- **2022** - Apxium was awarded **grant funding from the Government of South Australia** under the 'eCommerce Accelerator Program' to assist in commercialization in the U.S.
- **2021** - Apxium won the **Premier's Export Award under the the 'Small Business' category**, sponsored by the Department for Trade and Investment, Government of South Australia.
- **2021** - Apxium was a **National Finalist in the 'Small Business category' at the Australian Export & Investment Awards,** hosted by Austrade.
- **2019** - Apxium received **grant funding from the Government of South Australia under the 'Research, Commercialisation, and Startup Fund'** to commercialize its world-leading intellectual property, being the data integrations of its technology with IRIS Group and Wolters Kluwer.

## Apxium Architecture

Apxium's SaaS+Payments technology delivers the most intelligent invoice financing solution in all of TradFi and DeFi. This technology is used by some of the largest Accounting Firms in the world, reducing their debtor days by 50%, with real time visibility into every single invoice financed to optimize risk management.

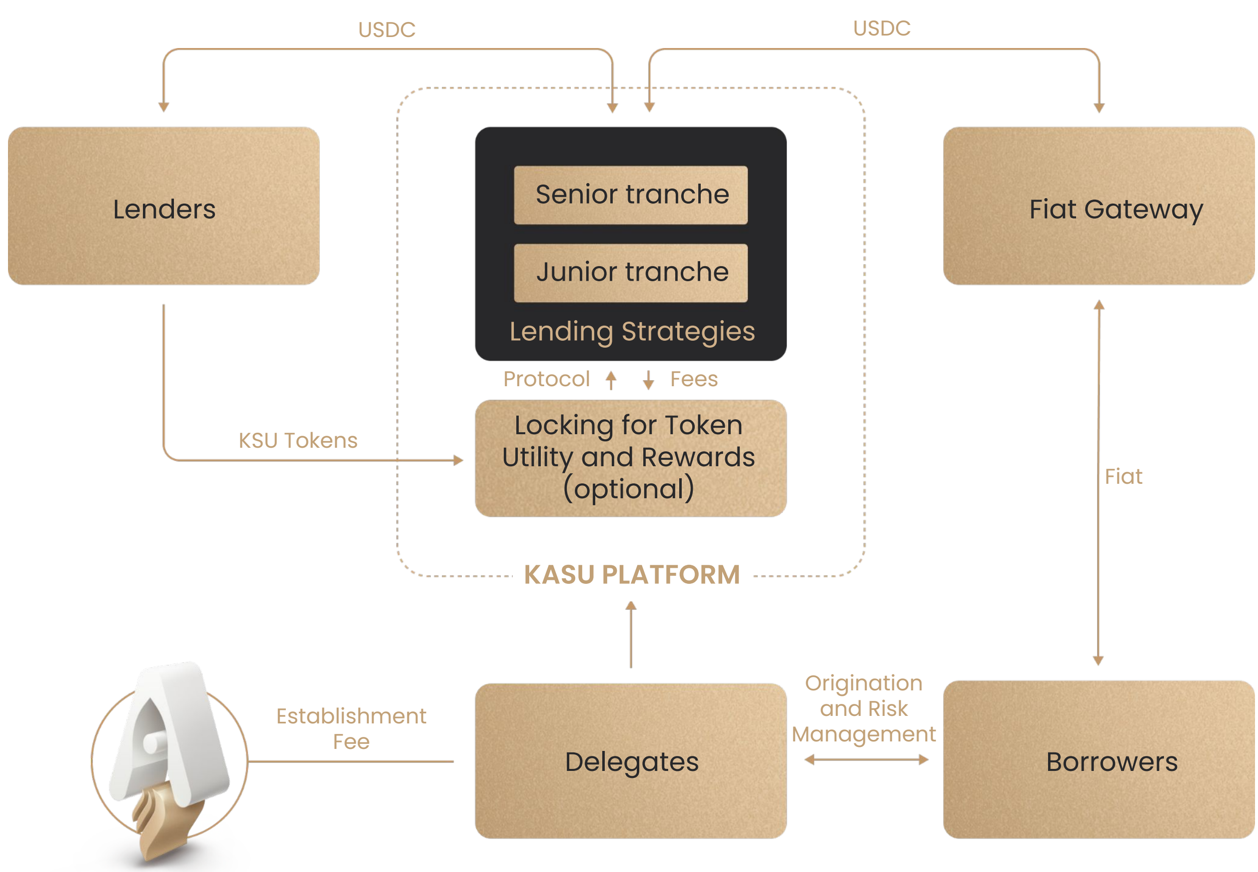


# 6. PROTOCOL OVERVIEW

Kasu enables Delegates to offer a range of Lending Strategies to Lenders to earn interest. Delegates are loan originators and risk managers of commercial loans. Each Lending Strategy offers an interest rate reflective of the credit risk associated with its real world business borrowers. Lending Strategies can also can be structured into various tranches that attract a waterfall risk recovery structure, each offering different interest rates reflective of repayment priority structure in the event of losses. Delegates who request access to Kasu must first undergo rigorous credit assessment and due diligence by the Kasu team, which boast considerable expertise in banking, credit risk management, treasury management, structured finance and securitisation

## KASU Architecture

A robust platform uniting Lenders with Borrowers with risk management undertaken by world class loan originators, combined with proprietary technology that delivers real time risk management and reporting.



# 7. GENERAL SPECIFICATIONS

## Lending Strategies

Kasu Lending Strategies (Strategies) are created and categorized based on their credit risk profiles by the respective Delegates. Strategies can be structured into three tranches (or less): Senior, Mezzanine and Junior. Tranching enables a Delegate to promote a wider variety of interest rate offerings in an attempt to attract a wider base of Lenders with differing risk profiles. For example, a Senior tranche offers the lowest interest and carries the lowest risk, as it has the highest ranking priority (for recovery of funds in the event of losses) across all tranches. The Mezzanine tranche offers a higher interest rate due to its second ranking priority (for recovery of funds in the event of losses), with the Junior tranche offering the highest interest rate due to its last ranking repayment priority position (for recovery of funds in the event of losses).

This provides a waterfall priority structure for loss recovery, where in the case of default and/or losses, the Junior tranche is most affected by absorbing losses first, followed by the Mezzanine tranche, before finally the Senior tranche is affected.

In some cases, it may be a condition imposed by Kasu that a Delegate must contribute a set amount (or a percentage of the total Strategy amount) of its own funds as first loss capital. This depends upon the credit due diligence outcomes undertaken by Kasu on each Delegate. Should a Delegate be required to contribute first loss capital, these funds act as a capital reserve account that cannot be deployed into loans. The purpose is to add further protection to Lenders by absorbing losses prior to the waterfall affecting the lowest ranking tranche.

## Delegates

Delegates manage and structure their Strategies according to their lending asset class specializations and credit risk framework policies. Terms are offered to Lenders that are suitable to differing risk profiles, with risk management policy and security structuring fully disclosed. Delegates originate business lending opportunities according to their own credit due diligence policies and manage all loan servicing, credit risk, covenant reporting, repayments, recovery action etc. The unique aspect of Kasu is that Delegates do not ‘pool’ Lenders’ funds to manage loan portfolios (applied to Lenders who deploy less than 350,000 USDC). Rather, Kasu and Delegates provide Lenders with full transparency, control and choice as to the business lending opportunities available and the deployment of their funds from one End Borrower to another. This includes full disclosure of every End Borrower to which each Lender’s funds are deployed, with the opportunity to opt out should a particular End Borrower not appeal to a Lender.

Delegates are required to define each Strategy's risk profile, interest rate, and capacity, and set the tranche conditions accordingly. They  are responsible for undertaking credit due diligence of each End Borrower in order to offer loan terms, fees, repayment structures, interest costs, covenant reporting and conditions of funding - all depending upon the individual creditworthiness of each End Borrower. Kasu's credit risk assessment of a Delegate may require some financial and reporting covenants to be imposed. In such a case, reporting will be provided to Lenders. This will create the level of transparency required to promote a market mechanism of 'supply and demand' to ensure Delegates are constantly offering an acceptable level of interest relative to their performance and risk.

## Lenders

Lenders are individuals, businesses and institutions who deploy USDC to any of the Lending Strategies on Kasu that align with their risk profiles.  This grants Lenders access to interest earnings from real-world global private credit markets, uncoupled from other cryptocurrency market prices. For Lenders who deploy less than 350,000 USDC, funds are not "pooled.' and therefore maintain choice, transparency and control as to the various business lending opportunities available and the deployment of their funds from one End Borrower to another. This includes full disclosure of every End Borrower (with NDAs in place) to which each Lender's funds are deployed, with the opportunity to opt out should a particular End Borrower not appeal to a Lender.

## End Borrowers

End Borrowers comprise real-world businesses to which Delegates deploy Lenders' funds. Each Borrower may be offered different loan terms, repayment profiles, interest costs, covenant reporting and conditions of funding imposed, depending upon their individual creditworthiness and risk ratings. However, this is all managed by the credit underwriting models of each Delegate. Delegates curate the entire process, including best-in-class credit risk structuring, allowing Borrowers access to the global cryptocurrency stablecoin market without requiring direct communications with each Lender.

## Epochs

Epochs are the periods of time in which transactions occur. Lending and Withdrawal Requests are Epoch-based and assigned slots weekly, on day 7 (the final day of the Epoch). Lenders may request withdrawals at any time during the Epoch and the withdrawal slots will be allocated based on total requests, current capital utilization, and Kasu loyalty level at the end of each Epoch.

# 8. THE KASU TOKEN

The Kasu Token ($KSU) is a utility token that has a supply limited to one billion tokens. In order for Lenders to maximise the associated benefits, KSU must be locked for either 30, 180, 360 or 720 days in order to achieve tiered Loyalty Levels. Each KSU locking period will generate a specific amount of temporary, non-redeemable and non-transferrable rKSU tokens that will accumulate, so long as KSU remains locked.

A synthetic value is applied to rKSU (pegged to the KSU price), simply for the purposes of calculating a Lender's Loyalty Level. The amount and synthetic value of rKSU accumulated by a Lender, relative to their USDC lending (inclusive of queued Lending Requests) determines their Loyalty Level. Kasu will launch with three Loyalty Levels, with each level determining the extent of the following utility and rewards:

1. **Priority Access to Lending Strategies:** Mitigating the risk of Lending Strategies being oversubscribed.
2. **Priority Withdrawals:** Prioritised for higher Loyalty Levels.
3. **APY Bonus:** Bonus interest paid in KSU tokens.
4. **Share in Protocol Fees**: Paid in USDC.

It is noted that to participate in Kasu Lending Strategies as a Lender, purchasing and locking the KSU token to achieve a Loyalty Level is not a prerequisite. Anyone can lend USDC to a Kasu Lending Strategy if they so wish (subject to full KYC/KYB). However, in order to avail of the above KSU token utility and rewards, one must also achieve a Loyalty Level. Lenders can therefore maximise their lending experience (subject to KSU token price volatility) if they are also Token Lockers.

While rKSU cannot be liquidated due to its non-transferable and non-redeemable nature, Token Lockers maintain ownership of their KSU tokens once unlocked. Given that rKSU is temporary, it therefore only provides utility and rewards to Lenders whilst KSU remains locked. Once KSU tokens are unlocked, the proportionate amount of rKSU is burned, which may adversely affect utility and rewards for Lenders.

A broad overview of KSU Loyalty Levels and associated utility and rewards for each level is as follows:

| Loyalty Level | rKSU-to-lending ratio | Utility/Reward | Detail |
|---|---|---|---|
| 1 | Less than 1% | Protocol fee sharing (USDC) | Based on your amount of rKSU relative to all other lenders' rKSU |
| 2 | 1%-4.99% | Protocol fee sharing (USDC) | See above |
| | | Priority access to Lending Strategies | Behind Loyalty Level 3 |
| | | Priority withdrawals | Behind Loyalty Level 3 |
| | | APY Bonus ($KSU) | Less than Loyalty Level 3 |
| 3 | 5%+ | Protocol fee sharing (USDC) | See above |
| | | Priority access to Lending Strategies | Highest priority |
| | | Priority withdrawals | Highest priority |
| | | APY Bonus ($KSU) | Highest amount |

A detailed explanation of the above KSU token utility and rewards, along with the mechanics behind the rKSU-to-Lending Ratio as it relates to Loyalty Levels, is outlined below.

## KSU Token Locking Mechanism

Each KSU locking period detailed below entitles a Lender to a multiplier on the specific amount of temporary, non-redeemable and non-transferrable, rKSU that will accumulate, so long as KSU remains locked. A synthetic value is applied to rKSU, which is pegged to the KSU price (i.e. if the price of KSU rises, so will the synthetic value of rKSU; and if the price of KSU falls, so will the synthetic value of rKSU).

| KSU Locking Period | rKSU Multiplier based on locked KSU |
|---|---|
| 30 days | 0.05x multiplier |
| 180 days | 0.25x multiplier |
| 360 days | 0.50x multiplier |
| 720 days | 1.00x multiplier |

For example, a Lender that locks 100 KSU for 30 days will receive 5 rKSU. Similarly, a Lender that locks 100 KSU for 360 days will receive 50 rKSU. The manner in which a Lender's rKSU is used to determine their Loyalty Level (and associated utility and rewards) is described on the following page.

## Loyalty Levels

The extent to which a Lender benefits from token utility and rewards is dependent upon their Loyalty Level. A Lender's Loyalty Level is determined by synthetic value of their rKSU balance, relative to total existing USDC Lending (inclusive of queued Lending Requests) across all Lending Strategies known as the rKSU-to-Lending Ratio. The ratio is calculated as follows:

$$\frac{(\text{rKSU} * \text{KSU Token Price in USDC})}{(\text{Existing Lending} + \text{Queud Lending Requests})}$$

**Loyalty Level 1**

If the synthetic value of a Lender’s rKSU balance, relative to their total combined value of current USDC lending (inclusive of queued USDC Lending Requests that are yet to be cleared) across all Lending Strategies exceeds 0%, but is less than 1%, then the Lender will  achieve Loyalty Level 1.

This entitles the Lender to the following reward:

- Share of Kasu Protocol Fees, determined by the Lender’s rKSU relative to all Lenders’ rKSU.

The Lender **will not** be entitled to the following utility and rewards:

- Priority access to Lending Strategies available on Kasu including loan Tranches in the case that they are oversubscribed.
- Priority for Withdrawal Requests from existing lending.
- Additional interest (bonus interest) on all lending on Kasu, awarded in KSU tokens (subject to change according to liquidity demand and supply requirements).

**For example,** a Lender has 1,500 USDC in existing lending, and a further 100 USDC queued Lending Requests (that have yet to be accepted). The Lender has also purchased and locked 200 KSU for 30 days. The 0.05x rKSU multiplier (per the above table) provides the Lender with 10 rKSU. For the purposes of this calculation, it is assumed that the current price of KSU is 1 USDC. Therefore, the synthetic value of the Lender’s 10 rKSU is 10 USDC.

Based on the formula outlined on the previou page, the ratio of the Lender's rKSU to current USDC lending (inclusive of queued Lending Requests that have yet to be accepted) is as follows:

***rKSU synthetic value ÷ (Current Lending + Queued Lending Requests)***

The resultant output demonstrates that it is greater than 0%, but is less than 1%, providing the Lender with Loyalty Level 1:

***10 USDC ÷ (1,500 USDC + 100 USDC) = 0.63%***

**Loyalty Level 2**

If the synthetic value of a Lender's rKSU balance, relative to their total combined value of current USDC lending (inclusive of queued USDC Lending Requests that are yet to be cleared) across all Lending Strategies equals 1%, but is less than 5%, then the Lender will achieve Loyalty Level 2. This entitles the Lender to the following utility and rewards:

- Second order priority access to Lending Strategies available on Kasu including loan Tranches in the case that they are oversubscribed (behind Loyalty Level 3)
- Second order priority for Withdrawal Requests from existing Lending (behind Loyalty Level 3) but only for variable interest rate loans (not fixed interest rate loans).
- Additional interest (Loyalty Level 2 bonus interest) on all lending on Kasu, awarded in KSU tokens (subject to change according to liquidity demand and supply requirements).
- Protocol Fee Sharing based on the Lender's rKSU relative to all Lenders' rKSU, paid in USDC.

**For example,** a Lender has 400 USDC in existing lending, and a further 100 USDC queued Lending Requests (that have yet to be accepted). The Lender has also purchased and locked 200 KSU for 30 days. The 0.05x rKSU multiplier (per the previous table) provides the Lender with 10 rKSU. For the purposes of this calculation, it is assumed that the current price of KSU is 1 USDC. Therefore, the synthetic value of the Lender's 10 rKSU is 10 USDC.

Based on the formula outlined above, this ratio of the Lender's rKSU to current USDC lending (inclusive of queued Lending Requests that have yet to be accepted) is as follows:

***rKSU synthetic value ÷ (Current Lending + Queued Lending Requests)***

The resultant output demonstrates that it exceeds 1%, but is less than 5%, providing the Lender with Loyalty Level 2:

***10 USDC ÷ (400 USDC + 100 USDC) =2%***

**Loyalty Level 3**

If the synthetic value of a Lender's rKSU balance, relative to their total combined value of current USDC lending (inclusive of queued USDC Lending Requests that are yet to be cleared) across all Lending Strategies equals 5% or greater, then the Lender will achieve Loyalty Level 3. This entitles the Lender to the following utility and rewards:

- First order priority access to Business Lending Opportunities available on Kasu (including loan Tranches in the case that they are oversubscribed.
- First order priority for Withdrawal Requests from existing lending but only for variable interest rate loans (not fixed interest rate loans).
- Additional interest (Loyalty Level 3 bonus interest) on all lending on Kasu, awarded in KSU tokens (subject to change according to liquidity demand and supply requirements).
- Protocol Fee Sharing based on the Lender's rKSU relative to all Lenders' rKSU, paid in USDC.

**For example,** a Lender has 100 USDC in existing lending, and a further 30 USDC queued Lending Requests (that have yet to be accepted). The Lender has also purchased and locked 200 KSU for 30 days. The 0.05x rKSU multiplier (per the above table) provides the Lender with 10 rKSU. For the purposes of this calculation, it is assumed that the current price of KSU is 1 USDC. Therefore, the synthetic value of the Lender's 10 rKSU is 10 USDC.

Based on the formula outlined above, this ratio of the Lender's rKSU to current USDC lending (inclusive of queued Lending Requests that have yet to be accepted) is as follows:

***rKSU synthetic value ÷ (Current Lending + Queued Lending Requests)***

The resultant output demonstrates that it exceeds 5%, providing the Lender with Loyalty Level 3:

***10 USDC ÷ (100 USDC + 30 USDC) = 7.69%***

Those who have not had their withdrawal request processed after 5 Epochs will be elevated to the highest priority (exceeding Loyalty Level 3). However, despite the loyalty hierarchy, a Delegate may apply forced withdrawals at its discretion and this takes precedence over all other requests. These withdrawal requests are processed first, during the next clearing period, regardless of a Lender's Loyalty Level to ensure operational compliance and integrity.

Upon maturity of a KSU locking period, any amount of KSU can be unlocked. There is no requirement to unlock the entire amount. However, once KSU is unlocked, the proportionate balance of rKSU is burned. This may adversely affect the Loyalty Level should the remaining synthetic value of rKSU relative to current USDC lending falls below 5% (for Loyalty Level 3) or below 1% (for Loyalty Level 2).

Given that a key driver of the Loyalty Level formula depends upon the price of KSU (to derive the synthetic value of rKSU), token price fluctuations will also affect Loyalty Levels (both positively and negatively).

The Kasu Loyalty Level system is specifically designed for inclusiveness, regardless of a Lender's wealth or socio-economic background. This is achieved by the ratio driven formula of rKSU relative to USDC lending (inclusive of queued Lending Requests), as opposed to rewarding absolute USDC lending balances. This enables a Lender (who is also a Token Locker) with just 1,000 USDC lending to achieve more utility (higher priority access and withdrawal priority) and relative rewards than a Lender with, say, 1,000,000 USDC deployed.

Kasu may add additional Loyalty Levels at any time to provide additional increments of benefit. Similarly, it may reduce the number of Loyalty Levels. However, Kasu will launch with just three Loyalty Levels.

## Protocol Fee Sharing

Financial democratisation also means breaking down the barriers. That's why Kasu also rewards lenders who lock any amount of KSU to get started on Loyalty Level 1 and start earning a share of protocol fees right away, even if it's just 0.1% rKSU-to-lending ratio. On the other end of the spectrum, Lenders' share of protocol fees aren't capped once Loyalty Level 3 is achieved through the minimum 5% rKSU-to-Lending ratio. The higher the ratio, the more share of protocol fees Lenders can earn.

The Kasu protocol fee model derives 10% of the gross interest earned by Lenders. KSU Token Lockers who are also Lenders can claim a share in 50% of this fee derived from the Kasu protocol's lending activity. This equates to 5% of all Lenders' total gross interest.

The proportion of this amount to which a KSU Token Locker (who is also a Lender) is entitled is based on the their rKSU balance.

For example, in a scenario where a total of 1,000 rKSU exists in the entire Kasu ecosystem, a Token Locker (who is also a Lender) who has 150 of these rKSU would be entitled to 15% of all Protocol Fees. This proportionality is augmented as more Lenders' KSU tokens are locked (or unlocked) to generate more rKSU (or burn more rKSU), entitling them to a proportionate share of protocol fees.

Protocol fee sharing is based on the fees generated by Kasu, which totals 10% of all interest generated for Lenders. This fee is shared as follows:

- 5% is allocated proportionally to KSU Token Lockers (who are also Lenders) based on their rKSU token balance.
- 5% is allocated to the Kasu Protocol wallet.

For example, assume a Lending Strategy offers 20% APY to Lenders. The associated protocol fees are therefore shared as follows:

- 1% is allocated to KSU Token Lockers (based on the above requirements). i.e. this represents 5% of 20% APY paid by the Lending Strategy.
- 1% is allocated to the Kasu protocol wallet, which represents the remaining 5% of the 20% APY.

The Delegate derives revenue by adding a margin to the 20% APY example when it originates loans. This portion is excluded from the above fee structure.

## KSU Launch Bonus

A total of 5% of the KSU token supply is allocated to a Launch Bonus Locking Program, which rewards KSU Token Lockers with additional KSU if they lock for longer periods. The reward structure for this bonus is as follows:

| Locking Period | KSU Multiplier |
|---|---|
| 30 days | 0.00x multiplier |
| 180 days | 0.10x multiplier |
| 360 days | 0.25x multiplier |
| 720 days | 0.70x multiplier |

Note that the rKSU issued to Token Lockers (outlined previously) includes these bonus tokens in the calculation. For example, assume a KSU Token Locker locks 1,000 KSU for 360 days. They instantly receive 250 KSU (derived from their 0.25x multiplier for that locking period) to be locked alongside their 1,000 KSU. The result is a position of 1,250 KSU locked for 360 days.

Subsequently, the rKSU multiplier of 0.5x is applied, corresponding to the locking period. This results in the KSU Token Locker receiving 625 rKSU in addition to their KSU deposit.

## Governance Rights

In the future, rKSU may also present an opportunity for KSU Token Lockers to govern the acceptance of new lending strategies onto the platform, given that Lending Strategies act as drivers of new protocol revenue. It is expected that, over time, Kasu will move to a more decentralized governance model in keeping with the ethos of web3 and blockchain, but only at such time that it is prudent to do so.

## Summary

A summary of all the above utility and benefits associated with the locking KSU is as follows:

| | KSU | rKSU |
|---|---|---|
| Liquidity | Yes | No |
| Priority Access (Lending & Withdrawals) | No | Yes |
| Yield Bonuses | No | Yes |
| Protocol Fee Share | No | Yes |
| Governance* | No | Yes |

*Future state

# Token Vesting Schedule

| | Seed Sale | Strategic Sale | Public Sale | Team & Advisors | Ecosystem | Launch Inc. | Treasury | Liquidity | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Token Allocation** | 125 000 000 | 166 666 666 | 20 000 000 | 150 000 000 | 178 333 333 | 50 000 000 | 300 000 000 | 10 000 000 | 1 000 000 000 |
| **% of Total Supply** | 12.50 % | 16.67 % | 2.00 % | 15.00 % | 17.83 % | 5.00 % | 30.00 % | 1.00 % | 100.00 % |
| **Token Price ($)** | 0.0080 | 0.0120 | 0.0150 | | | | | | |
| **Raise Amount ($)** | 1 000 000 | 2 000 000 | 300 000 | | | | | Total Raised > | $3 300 000 |
| **Total Valuation at Each Round ($)** | 8 000 000 | 12 000 000 | 15 000 000 | | | | | Blended FDV > | $10 285 714 |
| **Unlock at TGE** | 10.00% | 10.00% | 20.00% | 0.00 % | 8.00 % | 12.50 % | 8.00 % | | |

| | Seed Sale | Strategic Sale | Public Sale | Team & Advisors | Ecosystem | Launch Inc. | Treasury | Liquidity | Circ Supply % |
|---|---|---|---|---|---|---|---|---|---|
| M0 | 12 500 000 | 16 666 667 | 4 000 000 | 0 | 14 266 667 | 6 250 000 | 24 000 000 | 10 000 000 | 8.77 % |
| M1 | 0 | 0 | 4 000 000 | 0 | 13 672 222 | 6 250 000 | 24 000 000 | | 13.46% |
| M2 | 0 | 0 | 4 000 000 | 0 | 13 672 222 | 6 250 000 | 24 000 000 | | 18.15% |
| M3 | 0 | 0 | 4 000 000 | 0 | 13 672 222 | 6 250 000 | 24 000 000 | | 22.85% |
| M4 | 7 500 000 | 10 000 000 | 4 000 000 | 0 | 13 672 222 | 6 250 000 | 24 000 000 | | 29.29% |
| M5 | 7 500 000 | 10 000 000 | | 0 | 13 672 222 | 6 250 000 | 24 000 000 | | 35.33% |
| M6 | 7 500 000 | 10 000 000 | | 0 | 13 672 222 | 6 250 000 | 24 000 000 | | 41.37% |
| M7 | 7 500 000 | 10 000 000 | | 10 000 000 | 13 672 222 | 6 250 000 | 24 000 000 | | 48.41% |
| M8 | 7 500 000 | 10 000 000 | | 10 000 000 | 13 672 222 | | 24 000 000 | | 54.83% |
| M9 | 7 500 000 | 10 000 000 | | 10 000 000 | 13 672 222 | | 24 000 000 | | 61.25% |
| M10 | 7 500 000 | 10 000 000 | | 10 000 000 | 13 672 222 | | 24 000 000 | | 67.67% |
| M11 | 7 500 000 | 10 000 000 | | 10 000 000 | 13 672 222 | | 24 000 000 | | 74.08% |
| M12 | 7 500 000 | 10 000 000 | | 10 000 000 | 13 672 222 | | | | 80.50% |
| ... | ... | ... | | ... | | | | | ... |
| M18 | 7 500 000 | 10 000 000 | | 10 000 000 | | | | | 97.00% |
| ... | | | | ... | | | | | ... |
| M21 | | | | 10 000 000 | | | | | 100.00% |

# 9. COMPETITOR MATRIX

| | Lender Benefit | Kasu | Maple | Goldfinch | Centrifuge | Clearpool | TrueFi |
|---|---|---|---|---|---|---|---|
| **Award-winning TradFi SaaS+Fintech Partner** | Superior Security & Risk Structuring | Y | N | N | N | N | N |
| **Multi-resource Security & Risk Structuring** | Superior Security & Risk Structuring | Y | N | N | N | N | N |
| **Integrated Fiat Payment Rails for RWA Fiat Loan Management** | Superior Security & Risk Structuring | Y | N | N | N | N | N |
| **Realtime Covenant Reporting** | Superior Risk Management | Y | N | N | N | N | N |
| **Reduce Borrowers' Admin Costs & Debtor Days by 50% - Unlocking More Cash to Reduce Credit Exposure** | Lower Credit Risk | Y | N | N | N | N | N |
| **Transparency & Choice Over End Borrowers Funds Are Loaned To** | Greater Transparency, Choice & Control | Y | N | N | N | N | N |
| **Lending Strategy Performance & Credit Risk Dashboards** | Greater Transparency, Choice & Control | Y | N | N | N | N | N |
| **Equality and Inclusive Access Priority for Token Lockers** | Democratizing Access | Y | N | N | N | N | N |
| **Bonus Yield for Token Lockers** | Enhanced ROI | Y | N | Y | Y | N | N |
| **Platform Fee Sharing for Token Lockers (must also be a Lender)** | Enhanced ROI | Y | Y | Y | N | Y | Y |
| **Incentivized Token Locking** | Stakeholder Alignment | Y | N | N | N | N | N |
| **Senior, Mezzanine & Junior Tranches** | Greater Choice | Y | N | Y | Y | Y | Y |
| **Fully Diluted Token Value** | | $15M | $221M | $537M | $526M | $283M | $162M |
| **Average Base APY** | | 14.00% | 7.94 % | 11.05 % | 8.73 % | 7.24 % | 0.75 % |

# 10. RISKS

All lending carries risk. Different Lending Strategies may also carry different levels of risk. Some of the risks of lending on Kasu are as follows:

**General risks**

Prospective Lenders should understand that all lending carries varying degrees of risk, including the potential for loss of some or all of a Lender's income and/or capital, a less than expected interest rate return (APY), and delays in End Borrower repayments and Lender Withdrawals. When considering a Lending opportunity, it is important to consider such things as:

- The risks involved in Lending in a particular Lending Strategy;
- The extent that the Lending Strategy fits your financial objectives and goals; and
- Your risk appetite.

It is generally considered that opportunities offering potentially higher returns (APY) also carry a higher level of risk. Lenders should seek their own independent financial advice before lending on Kasu.

**Income and capital risks**

Risks attaching to Lending on Kasu include (but are not limited to):

- You may not receive the interest return you expected; and/or,
- You may lose some or all of your capital.

The degree of income and capital risk associated with Lending on Kasu relate to the financial performance of Delegates and their End Borrower customers, to which your funds are on-lent. This will be affected by factors including End Borrowers' ability to repay their Loans and Delegates' competence in credit diligence, credit risk structuring and risk management.
Neither Kasu, nor any of its directors, employees and contractors, nor any other related company or Delegates, guarantee the performance of the loans or the repayment of loaned capital. Loans on Kasu are subject to credit (and other) risks. This could involve delays in repayment of Loans, loss of some or all of interest returns and capital, and interest returns that fluctuate.

**Performance and default risk**

Your lending balance can increase based on interest earned, and it can decrease based on any losses and defaults caused by End Borrowers. Interest earnings are not guaranteed, and you may lose money. Interest rates (APY) vary, so future interest returns may differ from past interest returns.

## Market risk

Changes in financial markets, interest rate markets, the economy, political changes, technological developments, global or local-specific events and changes in market sentiment continually affect the risk of lending. These market risks can affect End Borrowers' ability to repay loans, which in turn, may cause defaults and losses.

## Interest rate risk

Changes in interest rates can directly and indirectly affect your lending balance and interest returns. For example, an increase in official interest rates may result in increased default risk to End Borrowers, affecting their ability to repay loans, which in turn, may cause defaults and losses.

## Credit risk

Credit risk is the risk that the Underlying Borrowers (End Borrowers) may not meet their obligations in full and not pay interest and repay capital or other financial obligations on time. In the case that this results in losses, the balance of your lending may reduce. Examples of credit risk include where the End Borrower is a business and becomes insolvent or under external administration, or a guarantor is an individual and becomes bankrupt or dies.

All lending to Kasu is completely unsecured, which increases risk compared with secured lending. Kasu on-lends Lenders' funds to Delegates, who on-lend to End Borrowers. There is no direct security taken by Lenders over Kasu or Delegates. Delegates seek to reduce credit risk by taking security over End Borrowers for the benefit of Lenders. Delegates also provide choice of loans across a range of End Borrowers, industries and geographic sectors. Delegates employ a range of risk management strategies and credit structuring to reduce credit risk where possible.

## Delegate counterparty risk

Kasu does not guarantee the performance of Delegates and their End Borrower customers. All credit due diligence, credit underwriting and credit risk management related to End Borrowers is undertaken by Delegates. Kasu accepts no responsibility for any losses. This includes the potential failure and credit risk of a Delegate.

### Protocol risks

The Kasu protocol could terminate. Fees could increase. There is no guarantee that the Lending Strategies offered on Kasu will perform successfully and as intended.

### KSU token price risk

The KSU token is subject to price volatility. If you lock KSU to avail of the token's utility and benefits, negative price fluctuations in the token may negate some, or all, of these benefits and may even fluctuate to the point where you may be in a less favourable overall position than if you didn't purchase and lock KSU to achieve utility and benefits.

### Smart contract risk

As with any RWA (real world asset) lending protocol, bugs or errors in the code, as well as malicious actors exploiting vulnerabilities, could lead to unexpected or incorrect results and financial losses to Lenders. Smart Contracts on Kasu have undergone audits to address such potential risks; however there is no guarantee that audits are or will be successful in identifying errors in the code and Lenders use the protocol at their own risk.

### End Borrower concentration risk

Lending Strategies may be subject to some degree of concentration risk, being the risk associated with Delegates that may only on-lend to a limited number of End Borrowers, thus increasing the risk if an End Borrower fails to repay its loan.

### Delegate concentration and KSU token price risk

At the current point in time, Apxium is the only Delegate Kasu has partnered with. This not only presents concentration risk in the event that the Delegate and/or its End Borrower clients fail, but also presents risk to KSU token holders. For example, if Apxium ceased participating as a Delegate on Kasu, then the KSU token may no longer have utility, which in turn, may affect the KSU token price significantly.

### Tranche risk

In the event of any end borrower defaults, Senior Tranche Lenders are paid first from any recovered funds, but this still depends on the overall recovery rate. In the event that less than 100% is recovered, losses are proportionately applied across Lenders in the lowest ranking tranche first (Junior Tranche), proceeding up the line through Mezzanine Tranche (if applicable) and finally to Senior Tranche.

This proportionality is applied in line with the abovementioned ranking order, regardless of which individual end borrower(s) a particular Lender's funds are loaned to (i.e.any losses borne by the Lending Strategy are mutualised across Lenders starting from the lowest ranking tranche).In the absence of Junior and Mezzanine Tranches, losses are proportionately applied across all Lenders in the single available tranche

**Currency exchange risk**

Cryptocurrency-Fiat Exchange Rate Risk: Lenders deploy USDC (or a cryptocurrency that is swapped to USDC via 1inch), which Delegates convert to fiat currency to originate business loans to End Borrowers. Given that not all fiat loans will be denominated in US Dollars (e.g.. AUD, GBP and CAD), currency exchange rate risk may be evident. Similarly, Delegates convert fiat currency to USDC to meet Withdrawal Requests from Lenders, which similarly carries currency risk. Where deemed appropriate, Delegates may use currency hedging instruments to mitigate such risks.

**Political, legal and regulatory risks**

The regulatory environment for cryptocurrencies is still evolving. New regulations or changes in existing laws can impact the operation of RWA lending platforms (and DeFi in general), potentially leading to closures, additional compliance requirements, unanticipated expenses or other challenges that could affect Lenders and End Borrowers. As above, it is important for users to understand and manage these and other risks before participating in activities on the Kasu protocol. Kasu has engaged a Tier 1 global legal firm to seek advice around the regulatory environment in which Kasu operates

**Liquidity (withdrawal) risk**

This arises when there is insufficient liquidity in a strategy to facilitate smooth withdrawals, which may result in Lenders being unable to withdraw funds as and when required.

**Cyber (data security and electronic delivery) Risk**

Because your lending on Kasu is on the blockchain and fully online, which relies on computers, information technology (IT) networks and the internet, it is subject to inherent IT risks including (but not limited to) software and smart contract bugs, computer viruses and malware, unauthorised interference with data, loss of data, unavailability or unreliability of the internet, computer malfunction, network vulnerabilities, latency, and cyber hacking resulting in the theft of data.

The online Kasu platform may be unavailable from time to time. You will need to consider the potential for disruption or other difficulties when planning to use Kasu and the dApp.

**No guarantee**

None of Kasu and its related entities, officers or personnel, or Delegates on Kasu, guarantee the performance of your loans, or the repayment of any loan amount, or the interest returns. Lending on Kasu is entirely at the risk of Lenders. No one and no entity makes any representation as to the success or otherwise of your lending on Kasu.

# Risk Management

## Default Risk:

- Launch Partner, Apxium, possesses best-in-class default risk management systems.
- Kasu will work closely with each Delegate to ensure their End Borrower clients meet minimum credit criteria.
- Trade Credit Insurance will be sought on selected Lending Strategies.
- Receivables Funding Lending Strategies will be secured by a diversified based of invoices. This diversification offers protection against any one particular invoice default.
- Other Lending Strategies may require other forms of minimum security, such as Director(s) Guarantees from End Borrowers.
- Other minimum credit criteria is in place, such as financial and reporting covenants that will be continually monitored.
- Delegates are regulated within their own jurisdiction, with a proven historical track record.
- Some Delegates may be required to post first loss capital, to provide loss protection on Lenders' capital..
- In the unlikely event of default and/or losses, the Delegate will make multiple attempts to recover losses, including potentially pursuing legal action. If this is not successful:
    - First loss capital is drawn upon (where/if applicable).
    - The Active Loans balance within the affected Lending Strategy is reduced by the amount of the remaining unrecovered funds. Then, the priority of return of capital is:
        - Senior tranche - funds split pro rata between participants.
        - Mezzanine tranche - overflow funds are distributed pro rata between participants.
        - Junior tranche - remaining funds to be pro rata split between participants.

## Cryptocurrency-Fiat Exchange Rate Risk:

- Where applicable, Delegates will manage currency exchange rate risk through hedging instruments such as Options, Forward Contracts, Swaps and similar.
- Moreover, many business loans to End Borrowers will be denominated in US dollars, thereby providing a natural hedge when paired with USDC..

## 3rd-Party and Counterparty Risk:

- **Due Diligence:** Kasu will conduct thorough due diligence on third parties to assess their financial stability, reputation, and compliance with regulations.
- **Contracts and SLAs:** We will ensure contracts include clear terms, responsibilities, and service level agreements to define performance expectations and remedies for non-compliance.
- **Continuous Monitoring:** We will regularly monitor third-party performance, security practices, and compliance through regular reviews and audits.
- **Counterparty Risk:** We will undertake due diligence on Delegates through Kasu's experienced team which has a background in credit risk management, wholesale funding, and lending to non-bank financial institutions (NBFI).

## Liquidity Risk:

- Liquidity risk is mitigated through the epochs, where withdrawals can be requested during a specific time period, and withdrawal slots will be assigned by the end of each epoch.
- The withdrawals approved will depend on total requests made, current capital utilization, and locked KSU tokens. These mechanisms control the liquidity available within each Lending Strategy, and help to mitigate liquidity risk.
- This is further mitigated by the lending asset classes employed by Apxium (Accounts Receivable and Payables financing), which are short duration loans.

## Macroeconomic Risk:

- The industries in which end borrowers operate are completely uncorrelated to cryptocurrency markets. RWA loans on Kasu are also uncorrelated to crypto markets.
- Much of Kasu's credit exposure is to Professional Services Practices (i.e. Accounting Firms), which offer non-discretionary services, and therefore somewhat insulated against recession risk.

## Smart Contract Risk:

- Funds only remain on-chain in a short-term transitory state, as Lenders' funds are converted to Fiat to originate 'real world' loans.
- Audits have been carried out by leading smart contract audit firms.
- A bug bounty program will be run to identify potential attack vectors.
- Smart contract insurance may be sought (where applicable) as an additional safety net for users.
- Only Lenders who have met KYC/KYB and AML requirements can interact with the protocol.

## Regulatory Risk:

- **TIer 1 Legal Advice:** Kasu Kasu has engaged a Tier 1 global legal firm to seek advice around the regulatory environment in which Kasu operates. Kasu also has a dedicated compliance manager with a considerable legal background.
- **Staying Informed:** We constantly monitor regulatory updates and engage in industry discussions to keep Kasu ahead.
- **Robust Compliance Infrastructure:** We've built a compliance system adaptable to KYC, AML, and CTF regulations, ready for any changes.
- **Risk Management:** Regulatory risks are integrated into our risk strategy, preparing us for diverse regulatory outcomes with specific contingency plans.

# 11. CONCLUSION

DeFi has emerged as a powerful alternative to traditional financial systems, offering a more transparent, inclusive, and accessible means of managing assets and value.

Kasu is redefining the way businesses access capital by bringing real-world interest earnings onto the blockchain. It offers an efficient use of capital, using companies like Apxium with its proprietary technology and network of creditworthy business borrowers.

Kasu's moat is therefore the ability to deliver deep value-add across the entire lending value chain. Other RWA lending platforms merely lend money, which is a commoditized product. Kasu provides technology that maximizes cash flow to reduce the borrowing need for business borrowers, thereby optimizing risk management to deliver superior-quality yields to Lenders.

Kasu's technology-driven and decentralized approach enables greater flexibility and transparency throughout the process, benefitting all participants and promoting the growth of the decentralized finance ecosystem.

As the macroeconomic environment continues to evolve, Kasu aims to usher in a new era of capital flows that fosters greater financial inclusion.. Combined with superior risk management technology, Kasu is driving the development of a more equitable and sustainable global financial ecosystem, unlike any other RWA lender in the private credit space. .

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