

**This is a replacement Product Disclosure Statement. It replaces the Product Disclosure Statement dated 6 April 2021 relating to an Offer of Secured Redeemable Shares in Credit Union Baywide (trading as NZCU Baywide, NZCU South, NZCU Central and Aotearoa Credit Union)**

**Date: 29 September 2021**

*This document gives you important information about this investment to help you decide whether you want to invest. There is other useful information about this offer on <https://disclose-register.companiesoffice.govt.nz/disclose>. Credit Union Baywide has prepared this document in accordance with the Financial Markets Conduct Act 2013. You can also seek advice from a financial adviser to help you to make an investment decision.*

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### 1. Which products are offered under this PDS?

This offer is for secured redeemable shares (the *Shares*) in one or more of the share accounts (the *Accounts*) offered by Credit Union Baywide (trading as NZCU Baywide, NZCU South, NZCU Central and Aotearoa Credit Union) (*Credit Union Baywide, we, us or our*) which rank equally with all other Shares issued (the *Offer*). Prospective and existing Members (*you*) are invited to subscribe for Shares at \$1.00 per Share, to be held in one or more of the Accounts operated by Credit Union Baywide.

Each Share Account is either on-call or for a fixed term, and (where applicable) the term is agreed when you invest. Under the Friendly Societies and Credit Unions Act 1982 (the *FSCU Act*), as part of the terms and conditions of the Shares, we may require a 60 day notice period for withdrawal from time to time.

The rate of return on Shares is dependent on the type of Account you invest in, the terms of the account and the duration of your investment.

We offer a number of different Accounts to our Members including On-Call Accounts, Term Accounts and Special Share Investment Accounts.

Further details on our On-Call Accounts, Term Accounts and Special Share Investment Accounts terms and conditions, fees and charges and interest rates can be found on the Offer Register at <https://disclose-register.companiesoffice.govt.nz/disclose>, at any relevant Branch Office, or by visiting the relevant website: [nzcubaywide.co.nz](http://nzcubaywide.co.nz), [nzcusouth.co.nz](http://nzcusouth.co.nz), [nzcucentral.nz](http://nzcucentral.nz), or [acu.nz](http://acu.nz).

The Shares are treated as debt securities under the Financial Markets Conduct Act 2013, and this Product Disclosure Statement (*PDS*) is prepared under Schedule 7 of the Financial Markets Conduct Regulations 2014 (*FMC Regulations*).

You may apply for Shares if you are:

- (a) an individual who currently resides or formerly resided in New Zealand;
- (b) a charitable entity as defined by the Charities Act 2005; or
- (c) an incorporated society registered under the Incorporated Societies Act 1908.

We reserve the right to accept or decline any application without giving you any reason for our decision.

## 2. Credit Union Baywide and what it does

### Overview of Credit Union Baywide

We are a financial co-operative registered and incorporated as a credit union under the FSCU Act.

Our objects are the promotion of thrift amongst our Members by the accumulation of their savings, the use and control of our Members' savings for their mutual benefit, the training and education of our Members in the wise use of money and in the management of their financial affairs and, at our discretion and as a minor adjunct to our other objects, the welfare of our Members and the making of donations for charitable, cultural, benevolent or philanthropic purposes.

We operate in accordance with our Trust Deed (the *Trust Deed*) and our Rules (the *Rules*), both as amended from time to time, which are registered in accordance with the FSCU Act. The Trust Deed and the Rules are available on the Offer Register at <https://disclose-register.companiesoffice.govt.nz/disclose>, our website, [nzcubaywide.co.nz](http://nzcubaywide.co.nz) and upon request at our registered office. Our supervisor is Trustees Executors Limited (the *Supervisor*).

We are registered on the Financial Service Providers Register with the registration number FSP27482. We are a non-bank deposit taker (*NBDT*) in terms of the Non-bank Deposit Takers Act 2013 (the *NBDT Act*) and are licensed under section 14 of the NBDT Act, subject to conditions imposed by the Reserve Bank of New Zealand (*Reserve Bank*). We are not a registered bank in terms of the Reserve Bank of New Zealand Act 1989.

As at the date of this PDS, we have four trading subsidiary entities, being:

- (a) Banzpay Technology Holdings Limited (*BT Holdings*);
- (b) Banzpay Technology Operations Limited (a direct subsidiary of Banzpay Technology Holdings Limited) (*BT Operations*);
- (c) Banzpay Technology Services Limited (a direct subsidiary of Banzpay Technology Holdings Limited) (*BT Services*); and
- (d) NZ Financial Platforms Limited (*NZFP*).

We also have a small number of non-trading subsidiary entities. Each of our subsidiaries is a company incorporated in New Zealand.

BT Holdings, together with its subsidiaries BT Operations and BT Services, are referred to in this PDS as the *Banzpay Group*, collectively trading as *Banzpay*.

NZFP is our sole guaranteeing subsidiary (as that term is defined in the Trust Deed and the NBDT Act) and provides a guarantee in relation to Shares and our payment obligations to Members as further described at Section 5 of this PDS. Where we refer to Credit Union Baywide in this PDS, we also refer to NZFP to the extent the information in this PDS relates to Credit Union Baywide and NZFP together as a borrowing group (as that term is defined in the NBDT Act and the FMC Regulations).

None of our other subsidiaries currently provide any guarantee in relation to Shares or our repayment obligations to Members.

Some of our subsidiaries will be amalgamated together as part of the joint venture and restructure involving Credit Union Baywide and the Banzpay Group, as further described in this Section, under the heading "Banzpay Joint Venture and Banking Restructure". Following the amalgamation and restructure and upon the establishment of the joint venture, BT Holdings will also cease to be a wholly-owned subsidiary of Credit Union Baywide, and we will instead hold equal 50% stakes in BT Holdings with a joint venture partner.

### **Operations and Main Activities of Credit Union Baywide**

Our primary activities over the five years preceding the date of this PDS and since our inception on 10 August 1971 have been to provide a co-operative savings facility and banking services for our Members to form a loan fund.

We make loans from your investments and our retained surpluses. The availability of loans is primarily dependent upon the availability of our funds. Loans are made in accordance with our Rules, the Trust Deed, relevant legislation and our internal policies, which may include limits on the maximum amount which may be loaned, the maximum term of loans, or the lending to assets ratio to be observed by us.

Further information on the composition and maturity of the loan portfolio can be found in the notes to our financial statements which can be found on the Offer Register at <https://disclose-register.companiesoffice.govt.nz/disclose>. All loans are subject to our lending criteria and we reserve the right to decline any application for a loan without giving any reason.

Our subsidiary entities provide essential banking, transactional services and other financial services. In accordance with the joint venture and restructure described below, our guaranteeing subsidiary NZFP will acquire certain banking assets previously owned by BT Operations, including core banking technology and banking channels (internet, mobile and phone banking technology).

#### *Banzpay Joint Venture and Banking Restructure*

We are undertaking a restructure of the Banzpay Group, and are entering into a joint venture arrangement alongside a third party investor. The joint venture and restructure follows our entry into unconditional legal arrangements with the third party investor, and the consent and approval provided by the Supervisor (which has been provided to us subject to certain ongoing compliance, reporting and financial conditions). Upon completion of the joint venture and Banzpay Group restructure:

- (a) the banking assets owned by BT Operations, together with related liabilities and contracts, will be restructured and transferred to NZFP (*Banking Business Restructure*);
- (b) contemporaneously with the Banking Business Restructure, BT Holdings, BT Operations and BT Services will be amalgamated into one company entity, carrying on as BT Holdings (*Banzpay Amalgamation*);
- (c) following the Banking Business Restructure and Banzpay Amalgamation, a third party investor will purchase a 50% equity stake in BT Holdings (*Third Party Investment*);
- (d) BT Holdings and NZFP will carry out a mutual services arrangement, under which BT Holdings will provide core banking services to its customers, and NZFP will facilitate this through access to the banking assets that it owns; and
- (e) Banzpay Group subsidiaries will buy-back some of their equity held by BT Holdings and by Credit Union Baywide.

This series of transactions and structural changes is referred to as the *Banzpay Joint Venture and Banking Restructure* in this PDS.

The Banzpay Joint Venture and Banking Restructure has been designed to support the growth and success of the Banzpay Group and the banking and payments businesses acquired through the restructure of the New Zealand Association of Credit Unions (NZACU), as discussed below in this Section. The Banking Business Restructure allows for the separate ownership by us of critical banking business assets through NZFP.

The Third Party Investment will introduce additional capital to the Banzpay Group, which will support the maintenance of existing financial infrastructure and the continued development of the essential business, banking, transactional and other services made available to us, our Members, and to other customers of the Banzpay Group. The Third Party Investment is further aimed at levelling out any risks associated with the reliance of the Banzpay Group on us to provide ongoing capital and liquidity funding.

The Banzpay Joint Venture and Banking Restructure has changed how some of the risks of investing in Shares may apply to you. Information on the specific risks relating to the Banzpay Joint Venture and Banking Restructure can be found at Section 6 of this PDS (Specific risks of investing).

*March 2021 Restructure of Banzpay (formerly the New Zealand Association of Credit Unions, known as Co-op Money NZ)*

On 31 March 2021, a series of transactions and structural changes were completed to transfer the business, assets and obligations of the New Zealand Association of Credit Unions (NZACU) to a new corporate structure. The business, assets and obligations were transferred to BT Operations and other subsidiaries of Credit Union Baywide. This series of transactions and structural changes is referred to as the *March 2021 Banzpay Restructure* in this PDS.

The banking related assets, contracts and agreements, together with assumed liabilities, will be acquired by NZFP from BT Operations as part of the Banzpay Joint Venture and Banking Restructure described in this Section above.

The March 2021 Banzpay Restructure was undertaken to transition the historic functions of NZACU to a new model with greater capability, and provide us with a more flexible corporate structure. It is our goal to extend these benefits through the further Banzpay Joint Venture and Banking Restructure.

NZACU is in the process of being formally wound up and deregistered following completion of the March 2021 Banzpay Restructure, and we will cease to be a member of NZACU once this process is completed.

### **Purchase of Assets by NZFP**

Under the Banzpay Joint Venture and Banking Restructure, NZFP will acquire certain assets, obligations and liabilities from BT Operations. These assets include our core banking system licence and banking facilities, and other assets necessary for NZFP to provide banking services to the Banzpay Group.

### **Main Sector in Which Credit Union Baywide Operates**

We operate as a NBDT in the financial services industry with a focus on savings and lending for individuals and families who live in New Zealand. NZFP operates as a provider of certain banking services to our members and other financial services businesses through the Banzpay Group.

## **Aspects of the Business that are Key to Generating Income**

We have a nationwide presence and a diverse membership across New Zealand. The aspects of our business that are key to generating income are as follows:

### *Loan Portfolio*

We make loan advances from your investments and our retained surpluses. We make income from the interest charged on these loans. The majority of our loan advances are of a consumer nature and are made to assist Members with residential home loans or to fund various personal items such as vehicle purchases, holidays and debt consolidations. As the loan portfolio provides the majority of our surplus, it is desirable to grow the loan portfolio.

### *Other Products and Services*

We also generate income from commissions on loan insurance, KiwiSaver products and retail transactional banking.

### *Investment*

We have investments which contribute to our overall income. These investments include our equity investments in Banzpay Group and (upon completion of the Banzpay Joint Venture and Banking Restructure) NZFP and their ongoing businesses, our deposits with banks, and our other investments as further described in Section 6 of this PDS (Specific risks of investing).

We have also provided loans to the Banzpay Group as further described in Section 6 of this PDS (Specific risks of investing).

Upon the completion of the Banzpay Joint Venture and Banking Restructure, this lending will be repaid and replaced with inter-group lending arrangements between us and NZFP.

### *Banzpay Group Operations*

The Banzpay Group (together with NZFP, following completion of the Banzpay Joint Venture and Banking Restructure) provides banking, transactional and other financial services to Credit Union Baywide and other financial service provider-customers. It generates income from these services.

### *Bailment Facility*

We have entered into an ATM Bailment Facility Agreement (*Bailment Facility*) with a provider of ATM hardware and services in New Zealand.

Under the Bailment Facility, we generate income through the services we perform in relation to the bailment of cash and the operation of ATMs.

Further information about the Bailment Facility is included in Section 6 of this PDS (Specific risks of investing).

### 3. What is Credit Union Baywide’s credit rating?

A credit rating is an independent opinion of the capability and willingness of an entity to repay its debts (in other words, its creditworthiness). It is not a guarantee that the financial product being offered is a safe investment. A credit rating should be considered alongside all other relevant information when making an investment decision.

Credit Union Baywide has been rated by Fitch Ratings. Fitch Ratings gives ratings from AAA through to C. We have a local and foreign currency long-term issuer credit rating of **BB** with a stable outlook, and a short-term issuer credit rating of **B**, issued on 17 October 2016 and affirmed most recently on 1 March 2021.

Rating	AAA	AA	A	BBB	BB	B	CCC	CC	D
Strength	Extremely strong	Very strong	Strong	Adequate	Less Vulnerable	More vulnerable	Currently vulnerable	Currently highly vulnerable	Default imminent or inevitable
Historic likelihood of default over 5 years <sup>1</sup>	1 in 600	1 in 300	1 in 150	1 in 30	1 in 10	1 in 5	1 in 2	1 in 2	

Ratings from 'AA' to 'B' may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories. A Fitch Ratings rating may also include an 'Outlook' assessment. An Outlook assessment considers the potential direction of a long-term credit rating over the intermediate term (one to two years) but does not mean the rating will change. The principal Outlook definitions include: Positive – the rating may be raised; Negative – the rating may be lowered; and Stable – the rating is not likely to change.

Further information regarding our credit rating is outlined at Section 6 of this PDS, under the heading "Credit Rating Risk".

Credit Union Baywide’s credit rating is reviewed regularly and may be reviewed as a result of events that could have an impact on the existing credit rating.

<sup>1</sup> Reserve Bank of New Zealand publication 'Know your credit ratings', dated March 2010, <https://rbnz.govt.nz/research-and-publications/fact-sheets-and-guides/factsheet-know-your-credit-ratings>.

## **4. Credit Union Baywide's financial information**

Credit Union Baywide is required by law and its Trust Deed to meet certain financial requirements. The Key Ratios table shows how Credit Union Baywide is currently meeting those requirements. These are minimum requirements. Meeting them does not mean that Credit Union Baywide is safe. The section on specific risks of investing (at Section 6 of this PDS, under the heading "Specific risks of investing") sets out risk factors that could cause its financial position to deteriorate. The offer register provides a breakdown of how the figures in the Key Ratios Table are calculated, as well as full financial statements.

The Key Ratios Table and other financial information (including full financial statements) can be found on the Offer Register at <https://disclose-register.companiesoffice.govt.nz/disclose>.

### ***Key Ratios***

The key ratios and other financial information tables can be found on the Offer Register at <https://disclose-register.companiesoffice.govt.nz/disclose>.

### ***Prior Ranking Debt***

The Shares are secured to the extent permitted by law by a first ranking security interest granted in favour of the Supervisor under the Trust Deed over all of the present and after acquired personal property of Credit Union Baywide and of NZFP (*Supervisor's Security Interest*).

Under the Trust Deed, we are permitted, with the consent of the Supervisor, to create security interests that rank prior to, or equally with, the Supervisor's Security Interest. Those permitted prior ranking security interests are set out in more detail below.

#### *Settlement Bond*

Under the terms and conditions of our banking arrangements, we have lodged a settlement bond which is held on trust by the Banzpay Group. In the event that we are unable to settle our inter-bank requirements, the settlement bond provides security to the Banzpay Group, and ultimately to the bank(s) that provide settlement services to the Banzpay Group. The bond is held on term deposit in a trust account. The Supervisor has consented to the bond and an amount of up to 3% of our total tangible assets being excluded from the Supervisor's Security Interest.

#### *Security Interests over Leased Assets*

We lease some photocopiers and office assets from Fuji Xerox Finance Limited (*Fuji Xerox*). As part of its lease arrangement, Fuji Xerox registers a security interest on the Personal Property Securities Register. The Supervisor has agreed to Fuji Xerox registering this interest. The security interest does not secure the payment or performance of an obligation from us. It registers Fuji Xerox's interest in its own property leased to us in order to protect ownership of that property. Therefore, the leased assets do not have an asset value to us. This security interest ranks in priority to the Supervisor's Security Interest in relation to the specified leased office photocopiers.

Except as otherwise agreed with the Supervisor, we will ensure that all debts or liabilities owed by us to third parties other than normal trade creditors are Subordinated Debt (as that term is defined in the Trust Deed).

### **Other limitations, restrictions and prohibitions**

Set out below is a summary of the other limitations, restrictions and prohibitions applicable to us. For further details refer to the Trust Deed on the Offer Register at <https://disclose-register.companiesoffice.govt.nz/disclose>.



## Financial Covenants

Under the Trust Deed, we have agreed that we will not grant any charge or other security interest in priority to or ranking equally with the security interest granted in favour of the Supervisor, without the Supervisor's prior written consent. Credit Union Baywide has further covenanted, subject to the terms and conditions contained in the Trust Deed, not to:

- (a) permit its secured liabilities to exceed 1% of its total tangible assets;
- (b) permit its liquid assets to be less than 8% of its total tangible assets;
- (c) permit its liquid assets to be less than 115% of any deficit arising from the contracted principal and interest due to it in the next 3 months less the aggregate of 20% of the principal due on specified securities, 100% of the interest due on those specified securities (in each case based on contractual maturities) and 20% of its undrawn committed lending facilities;
- (d) fail to ensure that it has sufficient assets at all times to discharge all debts as they fall due;
- (e) permit the aggregate of its secured investments, unsecured investments and listed securities, to exceed 15% of its total tangible assets;
- (f) permit the aggregate of certain investments (primarily those not with the New Zealand Government, a Bank, or which are not listed on a stock exchange) to exceed 3% of its total tangible assets, except where the Supervisor provides express consent (please see below for details in relation to the Supervisor's consent);
- (g) allow the capital ratio, as calculated under the Deposit Takers (Credit Ratings, Capital Ratios and Related Party Exposures) Regulations 2010 (the *NBDT Regulations*) to be less than 8% (please see below for details relating to the Supervisor's conditions applying to our capital ratio);
- (h) allow its aggregate exposure to related parties to exceed 15% of capital (as calculated in accordance with the regulations mentioned in (g) above); and
- (i) borrow any monies except on terms and conditions to which the Supervisor has previously consented in writing. Such borrowing is not to exceed 15% of Credit Union Baywide's total equity, unless the borrowing is to fund expenditure of a capital nature subject to the prior approval of the Supervisor.

The Supervisor has provided consent for us to increase our permitted investments under (f) above to 5% (up from 3%) of our total tangible assets until 31 December 2022. This consent ensures that the Banzpay Joint Venture and Banking Restructure may be carried out in compliance with the Trust Deed. This consent is subject to a number of conditions.

As a condition to its consent to the Banzpay Joint Venture and Banking Restructure, the Supervisor has required us to ensure that our capital ratio calculated under (g) above does not fall below 8.5% (being an increase from 8%). This condition will be reviewed by the Supervisor in September 2022.

## 5. Guarantors

The Shares and returns on Shares are not guaranteed by the Supervisor, and no party other than Credit Union Baywide and NZFP is responsible for repayment.

NZFP is a guaranteeing subsidiary of Credit Union Baywide for the purposes of the NBDT Act and the Trust Deed, in accordance with a supplementary trust deed dated 21 August 2021. This means that NZFP provides an unlimited, unconditional guarantee as to all of our secured obligations. This includes our obligations to repay Shares and returns on Shares to members.

NZFP has provided a security interest over all of its present and after acquired personal property in favour of the Supervisor, forming part of the Supervisor's Security Interest. The property of NZFP constituting the security interest provided by NZFP alone is insufficient to repay the entire liability of NZFP's guarantee. However, we remain principally liable and responsible for our own secured obligations, including for the repayment of Shares and returns on Shares to members.

NZFP is a member of our borrowing group in accordance with the NBDT Act.

## 6. Specific risks of investing

In this section we have described the circumstances of which we are aware, that exist or are likely to arise, that significantly increase the risk that we may default on our payment obligations under the shares.

### Specific risks relating to Credit Union Baywide's creditworthiness

#### ***Liquidity Risk***

Liquidity risk is about ensuring that we have enough liquid assets available to meet our obligations as they fall due, including in a range of operating circumstances and at times of extreme liquidity pressure.

We are currently reliant on funding from retail depositors only. Our analysis shows that the contractual funding maturity profile is shorter than the lending maturity profile. Therefore as a large proportion of Members can withdraw their funds at any time (or with relatively short notice), there is a risk that at any one time there might not be enough funds to meet our payment obligations. We rely on high reinvestment rates for Term Accounts, a consistent and reliable level of On-Call and Special Share Investment Accounts, and regular receipts of principal and interest from borrowers. If reinvestment rates, Member Account balances or borrower repayments were to reduce materially, there is a risk that we may not have enough cash on hand at any one time to repay Members in a timely manner.

We manage liquidity risk by:

- continuously monitoring forecast and actual daily cash flows;
- maintaining adequate cash reserves, currently at least 11.5% of total tangible assets as liquid assets, to meet Member withdrawals when requested. Should the liquidity ratio fall below this level, then we may limit or suspend loans, obtain new deposits, utilise borrowing facilities and assess what assets can be sold;
- reviewing the maturity profiles of financial assets and liabilities;
- regularly monitoring loan repayments and comparing to forecast cash flows; and
- maintaining a liquidity mismatch ratio so we have sufficient funds available to meet any short term funding deficit.

Further information on liquidity, including expected maturity analysis and reinvestment assumptions, can be found in the Notes to the Financial Statements. The Financial Statements can be found on the Offer Register at <https://disclose-register.companiesoffice.govt.nz/disclose>.

## **Loan Default Risk**

Loan default risk is the risk that a borrower does not repay the full amount of principal and interest due to us. Loan default risk includes both credit risk and security position risk as outlined below.

Credit risk is the risk that the other party to a financial instrument will fail to discharge their obligation resulting in a financial loss to us. This can occur when borrowers fail to repay their loans.

We have a risk policy for loans to manage credit risk. The key points are:

- credit assessment of all applications for loans and facilities is based on potential credit risk, suitability of security offered, and ability to repay;
- specifying the level and type of security required for a loan;
- setting exposure limits for individual borrowers;
- reassessment and review of the credit exposures on loans and facilities;
- monitoring and reviewing loans in arrears;
- establishing appropriate provisions for impaired loans;
- maintaining and reviewing the performance of debt recovery; and
- compliance monitoring and auditing of credit decisions.

If we experience significant credit losses (i.e. borrowers not repaying their loans), this will have an adverse impact on our financial performance and the ability to pay returns to Members. If this was sufficiently substantial so as to cause the liquidation and winding up of our operations, then the value returned to you, in respect of your Shares, may be less than the amount you invested.

We may take security from a borrower for loans to them. However, in a default situation:

- our ability to realise the borrower's assets taken as security may be restricted or prohibited by the terms of any prior ranking security;
- where the borrower's assets are realised, the value of those assets may fluctuate due to market prices; and
- where the borrower's assets are realised, the borrower may be unable to repay some or all of the remaining funds advanced by us.

We may incur losses in the above circumstances, which may affect our profitability and returns payable to you. Therefore, we make provision for doubtful debts in our financial statements in accordance with industry standards, to reflect this risk.

Our loan portfolio, subject to lending criteria, includes loans to borrowers secured by property with high Loan-to-Value (LVR) ratios. These borrowers are more susceptible to credit losses if there are fluctuations in market prices. We may be exposed to increased security risk in the residential property market if house prices fall. To mitigate this risk we limit the proportion of high LVR lending at a portfolio level.

In the unlikely event that the security position deteriorates for a significant number of borrowers, this could have an adverse impact on our financial performance. If this was sufficiently substantial so as to cause the liquidation and winding up of our operations, then the value returned to you, in respect of your Shares, may be less than the amount you invested.

The Trust Deed provides that indebtedness of a borrower must not exceed:

- 10% of our total tangible assets, in the case of a secured loan;
- 5% of our total tangible assets, in the case of an unsecured loan; or
- such lesser amount as we may from time to time determine.

As at the date of this PDS, the maximum indebtedness of any one Member does not exceed 1% of our total tangible assets. We are therefore not exposed to any one large loan to a borrower going into default.

### **General Credit Risk**

Credit risk is the risk that the other party to a financial instrument will fail to discharge their obligation resulting in a financial loss. This could occur if a bank or other party failed to repay us.

Our investments include call deposits and term deposits with banks. We also have a deposit with the Banzpay Group held as a settlement bond further described at Section 4 of this PDS, under the heading "Settlement Bond".

As at the date of this PDS, we have provided lending to BT Operations to support its working capital requirements and day-to-day business, which is secured in our favour by a general security interest granted by BT Operations. This loan cannot exceed \$3.7 million without the consent of the Supervisor. This loan will be repaid and replaced with inter-group lending arrangements with NZFP following completion of the Banzpay Joint Venture and Banking Restructure, as described at Section 2 of this PDS. From then on, any new lending we provide to the Banzpay Group may only be provided with the consent of the Supervisor.

There is a credit risk that where BT Operations fails to repay its loans, we could experience losses which may affect our ability to repay Shares and returns on Shares.

Our lending support to the Banzpay Group helps ensure the continuity of the key services provided by Banzpay to us and our Members, and to other Banzpay customers.

### **General Capital Risk**

Capital risk management is about ensuring we have sufficient capital to provide a buffer against unexpected losses, and supports the ability to fund future investment in products and services.

We need to meet capital adequacy requirements set by the NBDT Regulations. The capital requirements set by the NBDT Regulations are "risk weighted" depending on the category of assets we hold, e.g. cash has a lower risk rating than residential mortgages.

We are reliant on generating surpluses to provide retained earnings to increase our capital.

The implications of the Banzpay Joint Venture and Banking Restructure on our level of capital are further described below in this Section.

We manage our capital risk by:

- maintenance of a capital adequacy policy and reporting requirements;
- continuously monitoring the actual and forecast capital ratio;
- restricting lending if required; and
- managing interest rate margin and other revenue and expense items.

Further information on capital requirements can be found in the Notes to the Financial Statements and on the Key Ratios Table. The Financial Statements and Key Ratios Table can be found on the Offer Register at <https://disclose-register.companiesoffice.govt.nz/disclose>.

### **Specific Capital Risk – Restructures of Banzpay**

Our level of available capital will be reduced through the completion of the Banzpay Joint Venture and Banking Restructure, because we are required to consolidate NZFP (as our guaranteeing subsidiary) in our capital calculations.

The reduction in our available capital reduces our ability to absorb any unexpected losses, however we expect that our available capital will recover through maintaining our profitability

and managing our balance sheet growth.

We are required to remain compliant with all minimum capital ratios required under the Trust Deed and the NBDT Regulations, and as further specified by the Supervisor in accordance with the conditions applying to the Banzpay Joint Venture and Banking Restructure.

Further information can be found in Section 2 of this PDS under the heading "Banzpay Joint Venture and Banking Restructure".

### ***Services Risk - Banzpay and NZFP***

We are reliant on our subsidiary BT Operations to provide us with essential services such as our core banking system, agency banking, settlement services and card facilities. From the completion of the Banzpay Joint Venture and Banking Restructure, these essential services will be provided by BT Holdings utilising assets owned by NZFP.

If these entities were unable to provide these essential services to us for any reason, then we may not be able to provide transactional services to our Members for the period of any such service outage.

As at the date of this PDS, we are supporting the business of BT Operations through a loan facility, and maintain oversight and control of BT Operations as its ultimate parent entity. From the completion of the Banzpay Joint Venture and Banking Restructure, this loan will be repaid, and our joint venture partner will join us in our oversight of the operations of the Banzpay Group. We will retain oversight over our subsidiary NZFP.

The additional capital investment in BT Holdings under the Third Party Investment will further support the provision and continuity of essential services, by introducing funds necessary to maintain critical infrastructure and develop new products and services.

### ***Bailment Facility Risk***

We have entered into the Bailment Facility as described further at Section 2 of this PDS, under the heading "Operations and Main Activities of Credit Union Baywide".

Through the Bailment Facility, we make banknotes available for the purposes of stocking some non-bank ATMs. As the banknotes are physical cash, we mitigate the risk of loss to the bailed banknotes through insurance and registration of our security over the banknotes on the Personal Property Securities Register (PPSR).

Where cash is withdrawn from an ATM by a customer, there is a brief period during which we are exposed to a minor credit risk before the customer's bank (or credit union) repays us. We manage the Bailment Facility and our associated relationships with the ATM provider to ensure this credit risk is tightly controlled.

Under the terms of the Bailment Facility, we provide a limited commercial indemnity to the ATM provider. This means that if we materially default under the Bailment Facility, we may be liable to the provider, in limited circumstances, up to a maximum of \$250,000.

### ***Credit Rating Risk***

As at the date of this PDS, we have a local and foreign currency short-term issuer credit rating of B and a long-term issuer credit rating of BB, with a stable outlook, which was affirmed by Fitch Ratings on 1 March 2021.

Fitch reviews our credit rating on a regular basis, and may also review it if an event occurs that could affect the current rating. There is a risk that if our credit rating falls, it could make it harder for us to attract deposits, or we may have to offer higher interest rates on deposits to compete with other financial institutions.

The reports issued by Fitch Ratings are available on the Offer Register at <https://disclose-register.companiesoffice.govt.nz/disclose>.

### ***Geographic Concentration Risk***

The concentration of deposits from Members and loans to borrowers in an area can create a risk from those groups of Members having similar risks due to common underlying factors, e.g. economic sector or geographical location.

A significant event, such as a natural disaster or economic downturn in New Zealand, or in an area where there are a significant proportion of Members, could have an adverse impact on withdrawal and reinvestment rates for Member deposits and the ability of Members to meet their repayment obligations to us. This could affect our ability to meet our payment obligations to our Members. We have no single name concentration exposure to any individual Member. We mitigate this risk by limiting exposure to individual Members and monitoring exposure by regions. We also have business continuity and disaster recovery plans in place.

Further information on current geographic concentration, including regions with greater than 4% of our total loans and/or deposits, can be found in the Notes to the Financial Statements. The Financial Statements can be found on the Offer Register at <https://disclose-register.companiesoffice.govt.nz/disclose>.

### ***Interest Rate Margin Risk***

We are subject to interest rate margin risks. This is because we make the bulk of our income from the difference in the interest rate we pay to Members for deposits, and the interest we earn from borrowers who borrow funds and our investments. This difference is called net interest margin. As interest rates can be fixed for differing periods on loans and Member accounts, there is a risk that changes in market interest rates may cause fluctuations in net interest margin, as Members Accounts and loans to borrowers re-price at different times.

We adopt an 'on-book' hedging strategy to manage interest rate risk. The objective of this approach is to match the interest rate repricing profile of loans provided to borrowers and our investments to the repricing profile of the borrowing of funds from Members. The approach is ultimately limited by the investment and borrowing decisions of individual Members that impact the repricing profile. We do not currently use derivatives, such as interest rate swaps, to manage interest rate risk.

We maintain a market risk policy which covers how this risk will be managed to minimise interest rate margin risk. If net interest margin reduces there would be an adverse impact on our financial performance. If this was sufficiently substantial so as to cause the liquidation and winding up of our operations, then the value returned to you, in respect of your Shares, may be less than the amount you invested.

Further information on interest rate risk, including interest rate risk analysis can be found in the Notes to the Financial Statements included on the Offer Register at <https://disclose-register.companiesoffice.govt.nz/disclose>.

### ***Risk of Non-compliance with the Prudential Requirements for NBDTs***

The NBDT Act governs matters such as licensing of NBDTs, suitability assessments for directors and senior officers, restrictions on changes of ownership, and includes powers for the Reserve Bank to manage instances of distress and failure of NBDTs. The NBDT Regulations set minimum liquidity and capital standards and limit related party exposures. Failure to comply with the requirements under the NBDT Act or NBDT Regulations could in some circumstances result in us having our NBDT licence revoked, and being ordered to cease trading.

### **Information Technology Risk**

Information technology plays a critical role in our business, with the delivery of financial services to customers dependent on the availability and reliability of information technology systems managed by us or by third parties.

Our ability to compete effectively in the future will, in part, be driven by our ability to maintain an appropriate information technology platform for the efficient delivery of our products and services. This includes the on-going development and enhancement of our information technology systems both internally and via third parties.

Our operations are likely to be significantly affected should information technology systems that we use fail or not operate in an efficient manner and this could lead to a disruption to our banking or payment services or channels.

We mitigate this risk by ensuring we have appropriate project management safeguards, information security and backup systems in place and all third party suppliers have appropriate protections in place and robust disaster recovery procedures.

### **Cyber Security Risk**

Cyber security risk is the risk of a breach or unauthorised access to our customer data, or other confidential information, or the risk of an incident occurring that causes us or our service providers to suffer data breaches, data corruption or lose operational functionality.

A successful cyber-attack may result in negative consequences, including loss of revenue, additional regulatory scrutiny, remediation costs, litigation and reputational damage. Information technology controls are in place to mitigate the risk of cyber-attacks that could destroy or damage data and critical systems and hamper the smooth running of our operations.

### **Economic Risk - COVID-19**

Our financial performance is influenced by, amongst other things, the economic environment both domestically and internationally.

The COVID-19 global pandemic and the related domestic and international measures taken to combat the spread of the virus have had a general negative impact on economic conditions in New Zealand.

Should these conditions materially deteriorate, this may negatively affect our financial position and may amplify the existing loan default, liquidity, credit and other risks described elsewhere in this Section.

## **7. Register entry**

Further information regarding Credit Union Baywide and the Shares on offer can be found on the Offer Register at <https://disclose-register.companiesoffice.govt.nz/disclose> or on request from the Registrar of Financial Service Providers by emailing: registrar@fspr.govt.nz.

The information contained on the Offer Register includes among other things a copy of the Trust Deed, financial information for Credit Union Baywide, the Rules, new member application form, details of each of the Accounts available and their associated fees and interest rates.

A copy of this PDS, the Rules, the Trust Deed and other information regarding Credit Union Baywide and our Accounts can also be found by visiting the relevant website: [nzcubaywide.co.nz](http://nzcubaywide.co.nz), [nzcusouth.co.nz](http://nzcusouth.co.nz), [nzcucentral.nz](http://nzcucentral.nz), [acu.nz](http://acu.nz) or free of charge on request at any of our Branch Offices.