

This is a replacement Product Disclosure Statement. It replaces the Product Disclosure Statement dated 23 November 2020 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: 6 April 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, nzcusouth.co.nz, nzcucentral.nz, or acu.nz.

The Shares are treated as debt securities under the Financial Markets Conduct Act 2013, and this PDS is prepared under Schedule 7 of the Financial Markets Conduct Regulations 2014.

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 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.

We currently have four subsidiary entities referred to as the Banzpay Group and collectively trading as Banzpay and, 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); and
- (d) Credit Union New Zealand Limited (a non-trading direct subsidiary of Banzpay Technology Holdings Limited).

Each of our subsidiaries is a company incorporated in New Zealand. Our subsidiaries do not currently provide any guarantee in relation to Shares or our repayment obligations to Members. We have advanced a secured loan to BT Operations to assist it with its business, as further described in Section 6 of this PDS (Specific risks of investing). The amount of the secured loan facility is limited to \$3.7 million, and we cannot advance further funding to our subsidiaries without the consent of the Supervisor.

Operations and Main Activities of Credit Union Baywide

Our primary activities over the five years preceding the date of this Product Disclosure Statement (*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.

From 31 March 2021, our main activities also expanded to investments in our subsidiary entities, which provide essential banking, transactional services and other financial services as further described below in this Section.

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 a new subsidiary company (BT Operations) and other entities controlled by NZACU which also became our subsidiaries. Unlike the NZACU, an association structure primarily governed by the FSCU Act, these new corporate entities are subject to the requirements of the Companies Act 1993 and other related legislation. This series of transactions and structural changes is hereafter referred to as the *Banzpay Restructure*.

The Banzpay Restructure follows our November 2019 acquisition of all of the Base Capital Notes issued by NZACU, which were akin to capital in NZACU. All of our Base Capital Notes were redeemed as part of the Banzpay Restructure.

The banking, settlement and transactional business and assets previously owned and operated by NZACU are now owned and operated by BT Operations. BT Operations has also acquired existing contracts and agreements between NZACU and its previous customers and suppliers, through either replacement arrangements or by a novation process.

In addition, two subsidiary companies previously owned by NZACU (Banzpay Technology Services Limited and the non-trading company Credit Union New Zealand Limited) are now our subsidiaries as a result of the Banzpay Restructure, and are directly owned by BT Holdings.

The Banzpay Restructure promotes a positive and efficient new model, which enables the historic functions of NZACU to be carried out with greater effect and capability, and provides us with a more flexible corporate structure.

Further, it is expected that the Banzpay Restructure will protect and improve the continuity of essential business, banking, transactional and other services to us, our Members, and to other customers of the Banzpay Group.

There remain a number of residual matters to finalise over the course of 2021 in order to give full effect to the benefits of the Banzpay Restructure. We continue to be a member of NZACU which is expected to be wound up in the current financial year.

The Supervisor has provided its consent to the Banzpay Restructure, subject to a number of ongoing conditions and requirements, including reporting, funding and lending restrictions, and other operational requirements relating to our subsidiaries.

The Banzpay Restructure may affect how certain risks apply to us and how these risks may apply to your investment in Shares. Further information on these specific risks can be found in Section 6 of this PDS (Specific risks of investing).

2019 Merger of Credit Unions

On 1 May 2019, a process known as a “transfer of engagements” was completed, whereby Credit Union South, Credit Union Central and Aotearoa Credit Union (the *Transferring Credit Unions*) transferred all of their engagements to Credit Union Baywide. In effect, this represented a merger of the Transferring Credit Unions with Credit Union Baywide. The transfer of engagements means that Credit Union Baywide has assumed all assets and liabilities of each of the Transferring Credit Unions and operates as a single merged entity, with each Transferring Credit Union ceasing to exist. However, the trading names of the Transferring Credit Unions are currently still used as trading names of Credit Union Baywide.

Further information about the risks relating to the merger are provided in Section 6 of this PDS, under the heading “Transfer of Engagements and Merger Risk”.

Proposed Transfer of Engagements

During early 2021, we entered into a Heads of Agreement with New Zealand Firefighters Credit Union (NZFCU) to explore and discuss the viability of a potential transfer of engagements from NZFCU to us.

The Heads of Agreement provides the opportunity for us and NZFCU to undertake due diligence and obtain any approvals and consents required for the transfer of engagements under the FSCU Act, the Rules, the Trust Deed, or otherwise.

If the proposed transfer of engagements proceeds, we would assume all of the assets and liabilities of NZFCU.

Further information about the potential risks relating to the proposed transfer of engagements is provided in Section 6 of this PDS, under the heading “Transfer of Engagements and Merger Risk”.

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.

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, including our equity investment in our subsidiary BT Holdings and its ongoing business (and by extension the business of its subsidiaries), our deposits with banks, and our other investments as further described in Section 6 of this PDS (Specific risks of investing).

BT Holdings is the direct parent company of BT Operations and the other companies acquired as part of the Banzpay Restructure, as further described in this Section under the heading "Restructure of Banzpay". Through the Banzpay Restructure, BT Operations acquired the business and assets previously operated by NZACU.

The Banzpay Group now provides banking, transactional and other financial services to us, our Members, and other customers.

Further information about our investment in BT Holdings and the Banzpay Restructure is included in Section 6 of this PDS (Specific risks of investing).

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. The Bailment Facility replaces previous arrangements which were previously provided by NZACU.

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** and a short-term issuer credit rating of **B**, issued on 17 October 2016 and affirmed most recently on 1 March 2021. On 1 March 2021, Fitch Ratings changed the outlook on our long-term issuer rating from ‘negative’ to ‘stable’.

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 ¹	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.

¹ 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 Credit Union Baywide's present and after acquired personal property (*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 BT Operations. In the event that we are unable to settle our inter-bank requirements, the settlement bond provides security to BT Operations, and ultimately to the bank(s) that provide settlement services to BT Operations. 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;
- (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%;
- (h) allow its aggregate exposure to related parties to exceed 15% of capital (as calculated in accordance with the regulations mentioned in (g) above). For further details on the current position, refer to Section 6 of this PDS, under the heading "Risk of Non-compliance with the Prudential Requirements for NBDTs"; 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 disregard the share equity we hold in our subsidiary BT Holdings from the calculation under (f) above. This consent is subject to a number of conditions.

5. Guarantors

As at the date of this PDS, the Shares and return on the Shares are not guaranteed by the Supervisor, any of our subsidiaries, or any other person. We are currently solely responsible for repayment of the Shares.

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 usually occurs when debtors fail to repay us.

Our investments include call deposits and term deposits with banks, deposits with BT Operations and a loan advanced to BT Operations, described further below (*Banzpay Loan*).

The deposits and the Banzpay Loan described above were previously investments by us in NZACU. As part of the Banzpay Restructure, these investments have in each case been novated by NZACU to BT Operations.

The Banzpay Loan we have provided to BT Operations is used to fund its working capital and for day-to-day business use. The Banzpay Loan will vary over time, but will not exceed \$3.7 million without the consent of the Supervisor.

The Banzpay Loan is secured in our favour by way of a first ranking general security interest over all of the assets of BT Operations, subject only to specific security interests held by Westpac in relation to bank overdraft facilities made available to BT Operations, and to certain interests held by asset financiers and trade creditors of BT Operations.

The Banzpay Loan helps ensure the continuity of the key services provided by BT Operations to us and our Members, and 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 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
- 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 – Restructure of Banzpay

The purchase of Base Capital Notes prior to the Banzpay Restructure reduced our level of available capital, but we expect that this will recover once the positive benefits and efficiencies of the restructure are fully realised. Our capital ratio may also be reduced if we are required in the future to consolidate all or part of the Banzpay Group for the purpose of calculating our capital ratio.

We are confident that we will remain compliant with all minimum capital ratios required under the Trust Deed and the NBDT Regulations.

Further information relating to the Banzpay Restructure can be found in Section 2 of this PDS under the heading "Restructure of Banzpay".

Specific Credit Risk – Banzpay

Our subsidiary BT Operations provides essential banking, transactional and other financial services.

BT Operations holds an overdraft facility with Westpac, which is currently used to fund its day-to-day operations. This overdraft facility is backed by us through the Banzpay Loan, as described above in this Section. The Westpac overdraft facility and the Banzpay Loan has been novated to BT Operations as part of the Banzpay Restructure.

There is a risk that BT Operations may default on its repayment obligations to us under the Banzpay Loan. Banzpay Group has previously experienced challenging trading conditions. It is actively addressing these and has created a financial plan that identifies opportunities for costs savings and increased income through pricing changes. This plan has resulted in it preparing a comprehensive forecast, which we are monitoring.

We are supporting the financial recovery of Banzpay Group through the Banzpay Loan, and increased support to Banzpay Group. The terms of the support arrangement provide for our investment to be repaid to us in certain situations. If BT Operations defaults on its obligations, this could result in financial loss for us in the event we are unable to recover the full amount of the Banzpay Loan. We are also exploring the recapitalisation of the Banzpay Group through potential third party investment.

Following the completion of the Banzpay Restructure, we have effective oversight and control over the business of the Banzpay Group, which assists in mitigating the credit risks associated with BT Operations and the business it has acquired from NZACU.

Services Risk - Banzpay

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.

If BT Operations was 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.

We are supporting the business of BT Operations through the Banzpay Loan, and maintain oversight and control of BT Operations as its ultimate parent entity.

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. The affirmation upgraded the previous negative outlook to a stable outlook. In its most recent rating report, Fitch Ratings noted that our upgrade to a stable outlook reflects a substantial reduction in key risks since our previous credit rating revision.

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.

BT Operations is a related party of Credit Union Baywide, therefore the Banzpay Loan described above in this Section increases our related party exposure. The Reserve Bank has granted an exemption that effectively increases our maximum permitted related party exposure ratio (the ratio of our related party exposures to capital) from 15% to 25% until 21 May 2021, by which time it is expected that the exemption will no longer be required.

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 our information technology systems. 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. Our operations are likely to be significantly affected should our information technology systems fail or not operate in an efficient manner. We mitigate this risk by ensuring we have appropriate information security and backup systems in place and all third party suppliers have appropriate disaster recovery procedures.

Our core banking system licence is owned and managed by BT Operations. The banking platform is integral to our operations and on-going development of relevant products and services for our Members. It is intended that BT Operations itself will transition to this banking platform in the future. There is a risk that this transition could disrupt our payment system communications or create other problems that affect the stability and reliability of our core banking system. The risks associated with this project are managed through project safeguards.

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.

Transfer of Engagements and Merger Risk

2019 Merger of Credit Unions

The merger with the Transferring Credit Unions described in Section 2 of this PDS under the heading "2019 Merger of Credit Unions" has raised some additional risks for Credit Union Baywide.

While the merging and integration process is now well advanced, there remains a residual requirement to commit time, capital and resources towards fully realising the benefits of the merger. This could create operational risk for Credit Union Baywide in the short term while the different entities are merged.

Proposed Transfer of Engagements

The proposed transfer of engagements involving NZFCU as described in Section 2 of this PDS under the heading "Proposed Transfer of Engagements" may give rise to potential future risks for Credit Union Baywide.

Should the proposed transfer of engagements proceed, it could require the commitment of some expenditure in order to complete the transfer of engagements, and place some strain on our personnel and resources in the short term during the period in which the transfer of engagements is carried out.

NZFCU is currently in breach of certain financial audit and regulatory requirements due to delays in meeting the statutory filing deadlines for its annual report and audited financial statements. Further information relating to NZFCU is available on the Offer Register at <https://disclose-register.companiesoffice.govt.nz/disclose>, under Offer Number OFR11328.

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, nzcusouth.co.nz, nzcucentral.nz, acu.nz or free of charge on request at any of our Branch Offices.