

REPLACEMENT PRODUCT DISCLOSURE STATEMENT

FOR THE PRODUCT DISCLOSURE STATEMENT DATED 3 JANUARY 2020

OFFER OF DEPOSITS ISSUED BY STEELSANDS CREDIT UNION INCORPORATED

Dated 19 August 2020

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/>. Steelsands Credit Union Incorporated 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.



SECTION 1: KEY INFORMATION SUMMARY

What is this?

This is an offer of call and term accounts in Steelsands Credit Union Incorporated ("Credit Union"). The call and term accounts are redeemable shares (classified as debt securities) issued by the Credit Union. You give the Credit Union money, and in return the Credit Union promises to pay you interest and repay the money at the end of the term. If the Credit Union runs into financial trouble, you might lose some or all of the money you invested.

About Steelsands Credit Union Incorporated

The Credit Union is a credit union incorporated under the Friendly Societies and Credit Unions Act 1982 ("FSCU Act"). Under the FSCU Act, the Credit Union has rules providing for its governance ("Rules"). People who deposit money with the Credit Union are called "members". Members must all fall within the Credit Union's "common bond" which is described in Section 2 (Terms of the offer).

Key terms of the offer

Call accounts

Description of the debt securities	The Credit Union offers the following secured redeemable shares, called "call accounts": Savings Account, Bill Pay Account, Cheque Account, Everyday Account, Goal Saver, Jimmy J Junior Saver, Bfree and Tertiary Share Account. Call accounts are repayable on demand although the FSCU Act provides that the Credit Union may require a 60 day notice period for withdrawals.
Interest rates	Interest rates on call accounts are published by the Credit Union and are subject to change from time to time. A higher interest rate is generally payable where there is a greater amount in an account. Interest rates can be found by telephoning the Credit Union on 09 375 8868 or from the website https://nzcusteelsands.co.nz/
Offer opening and closing dates	The offer opened on 9 November 2016. This is a continuous offer, so there is no closing date.
Dates and frequency of interest payments	The interest on call accounts is paid monthly in arrears and on closure of the accounts.

Term accounts

Description of the term of the debt securities	The Credit Union offers redeemable shares called "term accounts" with the interest rate and term being set on a case by case basis. The minimum deposit is \$1,000 as at the date of this document, there is also a Christmas Club Account which is only repayable on 31 October in each year. If a withdrawal from a term account would reduce a member's paid-up shareholding in the Credit Union to less than the member's total liability (including any contingent liability) to the Credit Union then, for a non-qualifying member, the withdrawal will not be permitted and in other cases withdrawal will be permitted at the discretion of the Credit Union.
Interest rates	Interest rates can be found by telephoning the Credit Union on 09 375 8868 or from the website https://nzcusteelsands.co.nz/ . The interest rate on a term account will be fixed for the length of the term. On expiry of the term the deposit will be reinvested for an equivalent term at the then current interest rate, unless a

	member has, prior to the expiry of the term, given written notice to the Credit Union requesting that the funds be placed in a call account. No notice of reinvestment needs to be given to the member.
Opening and closing dates	The offer opened on 9 November 2016. This is a continuous offer, so there is no closing date.
Dates and frequency of interest payment	The interest on term accounts is paid at the end of the term.
Early withdrawal	If you suffer real financial hardship, the Credit Union has discretion to allow you to withdraw moneys from your term account early before its ordinary maturity date. In these circumstances a "break" interest rate is payable, at the discretion of the Credit Union. This rate is determined by the Credit Union's board of directors from time to time.

Further detail about the Credit Union's accounts, fees, charges, terms and conditions and interest rates can be found on the Disclose Register <https://disclose-register.companiesoffice.govt.nz/>, on the Credit Union's website <https://nzcusteelsands.co.nz/> or from any Credit Union branch.

No guarantee

The accounts are not guaranteed by Covenant Trustee Services Limited ("Supervisor") or any other person and the Credit Union is solely responsible for the repayment of moneys in the accounts.

How you can get your money out early

If the Credit Union believes you have suffered real financial hardship, it has discretion to allow you to withdraw your term account investment early. In these circumstances the interest rate may be adjusted by the application of a break interest rate, which is determined on a case by case basis.

The accounts cannot be sold to anyone else.

How the accounts rank for repayment

On a liquidation of the Credit Union:

- all members' claims will rank equally with other members in relation to repayment priority;
- some specific claims will rank ahead of members' claims, for example, employees' unpaid wages, insolvency costs, Supervisor's fees and any prior permitted security interests; and
- all members' claims will rank ahead of unsecured creditors (to the extent permitted by law).

Further information on the matter can be found at Section 4 (Key features of the accounts) of this document.

What assets are these accounts secured against?

The Credit Union has entered into a trust deed with the Supervisor as amended and restated on 1 January 2020 ("Trust Deed"), under which the Credit Union has granted a first ranking security interest over all its personal property and has charged all of its other property to the Supervisor as security for the payment of the principal and interest payable to members under the accounts.

Further information on the matter can be found at Section 4 (Key features of the accounts) of this document.

Where you can find Steelsands Credit Union Incorporated's financial information

The financial position and performance of the Credit Union are essential to an assessment of the Credit Union's ability to meet its obligations under the accounts. You should also read Section 5 of this document (Steelsands Credit Union Incorporated's financial information).

Key risks affecting this investment

Investments in debt securities have risks. A key risk is that the Credit Union does not meet its commitments to repay you or pay you interest (credit risk). Section 6 of the PDS (risks of investing) discusses the main factors that give rise to the risk. You should consider if the credit risk of these debt securities is suitable for you.

The interest rate for the accounts should also reflect the degree of credit risk. In general, higher returns are demanded by investors from businesses with higher risk of defaulting on their commitments. You need to decide whether the offer is fair. The Credit Union considers that the most significant risk factors are:

- **Industrial credit union risk**

The Credit Union is an industrial credit union, with a concentration of members associated with New Zealand Steel Limited ("NZ Steel"), as well as The New Zealand Refining Company Limited ("Refining NZ"), NZME Limited and Alliance Group Limited. The Credit Union operates on sites associated with these partnered businesses, which imposes certain unique limitations. For example, access to Credit Union premises may be restricted to employees or authorised contractors of the relevant partnered business.

This industry concentration risk is acceptable to the Credit Union as it was formed to service members involved in the industries of its partnered businesses. Membership of the Credit Union is not restricted to employees of partnered businesses only.

Should members leave the industry, their accounts and loans may continue.

Any rationalisation in the relevant industries could result in job losses for the Credit Union's members, and so would have an adverse effect on the Credit Union itself.

Due to the effects of the COVID-19 pandemic on New Zealand industry, NZ Steel and other partnered businesses are conducting ongoing reviews on an operational basis, and Refining NZ announced a six-week shutdown of refining operations over July and August 2020.

Further decisions resulting from these reviews, including measures to downsize and restructure operations, may negatively impact withdrawal and reinvestment rates for a concentration of affected members. This may affect the ability of the Credit Union to meet its repayment obligations to members.

- **Age concentration risk**

The Credit Union's membership is aging, with many members in the age range of 45-65 years. Those members are in a category either planning for or moving toward retirement and there is a consequential risk there could be an increase of withdrawals and loans repaid. As the bulk of the income of the Credit Union comes from lending it is imperative that the Credit Union continues to attract new membership from groups who will have a demand for the lending products that the Credit Union provides.

The aging of the Credit Union membership base is ongoing. There is an element of uncertainty that the Credit Union will appeal to younger age groups, notwithstanding strategies implemented to appeal to this potential membership group.

- **Services risk – Co-op Money**

The Credit Union relies on the New Zealand Association of Credit Unions (trading as Co-op Money NZ) ("Co-op Money") to provide the Credit Union with its core computer operating system, a central bank and "treasury" function and debit card facilities. If Co-op Money failed, the immediate short term ability of the Credit Union to continue to provide services to its members would be impeded. This would have an adverse impact on the Credit Union's ability to meet its payment obligations to its members.

- **Merger Risk – Transfer of Engagements**

The Credit Union entered into a Transfer Agreement with New Zealand Employees Credit Union Incorporated on 14 August 2020 ("Employees Credit Union"), as further described in Section 3 of this PDS (Steelsands Credit Union Incorporated and what it does) ("Transfer Agreement").

The potential merger of the Credit Union with Employees Credit Union will require a review of each credit union's operational activities and governance processes. This may cause operational risks in the short term as the two credit unions consider merging into one.

This summary does not cover all of the risks of investing in the accounts. You should also read Section 6 (Risks of investing) and other places in this document that describe risk factors (for example, Section 4 (Key features of the accounts)).

No Credit Rating

The Credit Union is exempt from the requirement to have its creditworthiness assessed by an approved rating agency. This is because the Credit Union is exempted under the Non-Bank Deposit Takers (Credit Ratings Minimum Thresholds) Exemption Notice 2016 ("Exemption Notice"). The Exemption Notice applies because the average consolidated liabilities of the Credit Union are \$20 million or more but less than \$40 million and it maintains a capital ratio of at least of 12%, making it unduly onerous to comply with the requirement under the FSCU Act to have a credit rating. This means that the Credit Union has not received an independent opinion of its capability and willingness to repay its debts from an approved source.

Commented [A1]: Lane Neave: The nature of a Schedule 2 PDS under the FMCA Regulations only allows headings and information prescribed by the FMCA to be included in the Key Information Summary.

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SECTION 2: TERMS OF THE OFFER

This is an offer for redeemable shares (called "accounts") in the Credit Union. Members and new members may open any of the accounts described below. By opening an account or by making deposits into an existing account the member or new member will be subscribing for redeemable shares of the type described in the relevant account terms and conditions. Accounts may be opened jointly with another person.

Call Accounts	
Description of Securities	The Credit Union offers the following redeemable shares called "call accounts": Savings Account, Bill Pay Account, Cheque Account, Everyday Account, Goal Saver, Jimmy J Junior Saver, Bfree and Tertiary Share Account.
Minimum investment amount	The minimum investment amount is \$1.00 at the date of this document. The board of the Credit Union may from time to time (and also on a case by case basis) alter the maximum amount.
Term	Call accounts are generally repayable at call. However the FSCU Act provides that the Credit Union may require a 60 day notice period for withdrawals. If a withdrawal from a call account would reduce a member's paid-up shareholding in the Credit Union to less than the member's total liability (including any contingent liability) to the Credit Union then, for a non-qualifying member, the withdrawal will not be permitted and in other cases withdrawals will be permitted at the Credit Union's discretion.
Basis for ascertaining the interest rates	Interest rates on call accounts are published by the Credit Union and are subject to change from time to time. Interest rates can be found by telephoning the Credit Union on 09 375 8868 or from the website https://nzcusteelsands.co.nz/
Offer opening and closing dates	The offer opened on 9 November 2016. This is a continuous offer, so there is no closing date.
Dates and frequency of interest payments	The interest on call accounts is paid monthly in arrears for all accounts or on closure.
Ranking on liquidation	Call accounts are secured by a first ranking security interest over all of the assets of the Credit Union in favour of the Supervisor, which is subject to the following potential prior charges: <ul style="list-style-type: none"> • preferential creditors whose claims arise through the operation of law, including wages, taxes and liquidation costs; • permitted prior charges under the Trust Deed in favour of Co-op Money or another lender approved by the Supervisor. This can be up to 10% of total tangible assets. At the date of this document there is no prior charge in this category. In addition, prior charges securing indebtedness for specific assets may be granted up to a further 2% of total tangible assets; • Supervisor's fees, costs and disbursements. <p>Call accounts rank equally with all other call accounts and with all term accounts with the Credit Union. Call accounts rank ahead of unsecured creditors, to the extent permitted by law.</p>

Transfer rights	Call accounts are not transferable. However, a member may nominate a person to receive up to a maximum of \$2,000 of that member's shareholding on that member's death. This nomination must be in writing, signed by the member and sent to the Credit Union's registered office.
Term Accounts	
Description of securities	<p>The Credit Union offers redeemable shares called term deposit accounts. The term of each term account is set by the board (via delegated authority to management) of each term account at the time the account is opened.</p> <p>There is a Christmas Club Account which is only repayable on 31 October in each year.</p> <p>There is also a Loan Provider Account which is used as security for loans made to a member. The minimum amount in each Loan Provider Account is agreed on a case by case basis and the funds in this account are repayable as the outstanding loan amount reduces.</p> <p>If a withdrawal from a term account would reduce a member's paid-up shareholding in the Credit Union to less than the member's total liability (including any contingent liability) to the Credit Union then, for a non-qualifying member, the withdrawal will not be permitted and in other cases withdrawals will be permitted at the Credit Union's discretion.</p>
Minimum investment amount	<p>The minimum amount for a term deposit account and the Christmas Club Account is \$1.00. The minimum amount for any Loan Provider Account is set on a case by case basis by reference to the amount of the corresponding loan.</p> <p>The maximum amount, at the date of this document, for any term deposit account, the Christmas Club Account and the Loan Provider Account is \$150,000. The board of the Credit Union may, from time to time (and also on a case by case basis) alter the maximum amount.</p>
Term	The term deposit accounts are for terms determined by the board from time to time. The Christmas Club Account has a 12 month term, as referred to above. The term of each Loan Provider Account corresponds with the associated loan term.
Basis for ascertaining the interest rates	<p>Interest rates on term accounts are published by the Credit Union and are subject to change from time to time. Interest rates can be found by telephoning the Credit Union on 09 375 8868 or from the website https://nzcusteelsands.co.nz/. The interest rate on a term account will be fixed for the length of the term. A term deposit may only be redeemed prior to maturity with the Board's approval. See "Early withdrawal" below.</p> <p>On expiry of the term of a term deposit account the deposit is reinvested for an equivalent term at the then current interest rate, unless the member has, prior to the expiry of the term given written notice to the Credit Union requesting that the funds be placed in a call account. No notice of reinvestment needs to be given to the member.</p>
Offer opening and closing dates	The offer opened on 9 November 2016. This is a continuous offer, so there is no closing date.
Dates and frequency of interest payments	The interest on term accounts is paid at the end of the term.

Ranking on liquidation	<p>Term accounts are secured by a first ranking security interest over all of the assets of the Credit Union in favour of the Supervisor, subject to the following potential prior charges:</p> <ul style="list-style-type: none"> • preferential creditors whose claims arise through the operation of law, including wages, taxes and liquidation costs; • permitted prior charges under the Trust Deed in favour of the Co-op Money or another lender approved by the Supervisor. This can be up to 10% of Total Tangible Assets. At the date of this document there is no prior charge in this category. In addition, prior charges securing indebtedness for specific assets may be granted up to a further 2% of total tangible assets; • Supervisor's fees, costs and disbursements. <p>Term accounts rank equally with all other term accounts and with all call accounts with the Credit Union. Term accounts rank ahead of unsecured creditors, to the extent permitted by law.</p>
Transfer rights	<p>Term accounts are not transferable. However, a member may nominate a person to receive up to a maximum of \$2,000 of the member's shareholding on that member's death. This nomination must be in writing, signed by the member and sent to the Credit Union's registered office.</p>
Early withdrawal	<p>If you suffer real financial hardship, the Credit Union has discretion to allow you to withdraw moneys from your term account early before its ordinary maturity date. In these circumstances the interest rate will be reduced, as determined by the board.</p>

The Credit Union charges fees for EFTPOS transactions, card transactions, ATM usage and other electronic banking. Information about these fees and charges can be found on the Disclose Register <https://disclose-register.companiesoffice.govt.nz/>, on the Credit Union's website <https://nzcusteelsands.co.nz/> or from any Credit Union branch.

Trust Deed

The accounts are opened subject to, governed by, and in accordance with the Trust Deed between the Supervisor and the Credit Union.

A full copy of the Trust Deed can be obtained from the Credit Union or on the Disclose Register <https://disclose-register.companiesoffice.govt.nz/>.

Rules

The Credit Union operates in accordance with its Rules, which are registered under the FSCU Act. The Rules govern all members of the Credit Union and can only be amended by way of a special resolution passed by a 75% majority of members voting at a meeting. A copy of the Rules can be found on the Disclose Register at <https://disclose-register.companiesoffice.govt.nz/>. Copies are also available at <https://nzcusteelsands.co.nz/> and upon request at any branch of the Credit Union.

Under its Rules, the offer is made only to members of the Credit Union who are:

- Any employee or former employee of NZ Steel, or any of its subsidiary or associated companies;
- Any employee or former employee of the Credit Union;
- Any employee or former employee of any company or organisation in New Zealand;
- Any person who is a member of the same household as, and is a relative of, a member (a relative is a spouse, former spouse, de facto spouse, lineal ancestor or descendant, brother, sister, uncle, aunt, nephew, niece, first cousin or any of their spouses or former or de facto spouses);
- A charitable entity as defined by the Charities Act 2005;
- An incorporated society registered under the Incorporated Societies Act 1908.

If a member ceases to be within the common bond, that member is called a non-qualifying member. Up to 10% of the Credit Union's membership can be non-qualifying members.

Meetings of members and voting rights

The Rules require the Credit Union to hold an annual general meeting of members each year. In certain circumstances a special general meeting of members may be called. Each member is entitled to one vote only, irrespective of the number of shares that member holds. With a joint account the person first named on the account will have the sole vote.

Directors

Directors are elected by the members at the annual general meeting. The directors must determine and implement the policies of the Credit Union and they are responsible for the general management of the affairs of the Credit Union.

SECTION 3: STEELSANDS CREDIT UNION INCORPORATED AND WHAT IT DOES

Overview

The Credit Union is a financial co-operative and was established under the FSCU Act on 3 August 1978. It became an incorporated credit union on 1 January 2020.

Under the FSCU Act, a credit union can only act in accordance with its statutory objects, which include the promotion of thrift amongst its members by the accumulation of their savings, the use and control of members' savings for their mutual benefit and the training and education of members in the wise use of money and management of their financial affairs.

As well as operating in accordance with the Trust Deed, the FSCU Act and the Rules, the Credit Union is a non-bank deposit taker ("NBDT") licensed under the Non-bank Deposit Takers Act 2013 ("NBDT Act").

The Credit Union is also a registered financial service provider under the Financial Service providers (Registration and Dispute Resolution) Act 2008 ("FSP Act"), under registration number 37128.

The Credit Union is not a registered bank in terms of the Reserve Bank of New Zealand Act 1989.

Under the Trust Deed, the Supervisor is appointed as the supervisor of the Credit Union, and monitors the operations of the Credit Union to assist us in complying with our statutory obligations.

Operations and main activities of Steelsands Credit Union Incorporated

The Credit Union makes loan advances from share capital of the Credit Union to its members. Most of the Credit Union's members are employed by NZ Steel, Refining NZ, Alliance Group Limited and NZME Limited. The Credit Union makes income from the interest charge on these loans. The interest paid (less the Credit Union's costs, expenses and reserves) is passed back to the members by way of interest on their accounts.

Money lent to members is generally secured by charges over motor vehicles, or other personal property.

Money not lent out to members is held in deposits with registered banks and with Co-op Money. The interest earned on bank deposits and with Co-op Money is lower than the interest charged on loans. Accordingly, the interest terms which the Credit Union is able to offer on members' accounts is linked to being able to make loans to members (which fit the Credit Union's loan requirements).

Main sector in which Steelsands Credit Union Incorporated operates

Since its establishment, the Credit Union has operated in the finance industry sector. The Credit Union is an NBDT, with a focus on savings and lending for individuals and families who fall within the Credit Union's "common bond" which is described in Section 2 (Terms of the Offer).

Aspects of the business that are key to generating income

The Credit Union makes loan advances from members' investments, and receives income from the interest charged on these loans. The majority of the Credit Union's loan advances are residential mortgages and consumer finance provided to members for personal, domestic and household purposes such as vehicle purchases, holidays and debt consolidations. As the income generated by the loan portfolio provides the majority of the Credit Union's surplus, it is desirable to grow the loan portfolio.

The Credit Union also has a number of investments which contribute to our overall income, including deposits with registered banks and with Co-op Money.

The Credit Union also generates income from commissions on loan insurance, KiwiSaver products and retail transactional banking.

Withdrawal from Co-op Money

During November 2019, the Credit Union (among other credit unions) sold all Base Capital Notes issued by Co-op Money and held by those credit unions to Credit Union Baywide, as part of a sale and purchase arrangement.

Base Capital Notes are effectively the capital issued by Co-op Money, and as a result of the sale to Credit Union Baywide, the Credit Union no longer holds any investment in the Base Capital Notes issued by Co-op Money.

In accordance with the sale process, a number of credit unions, including the Credit Union, formally withdrew as members of Co-op Money.

While the Credit Union no longer holds Base Capital Notes, and is no longer a member of Co-op Money, the Credit Union still receives banking, transactional and other essential services provided by Co-op Money. The sale of Base Capital Notes and resulting changes to the membership of Co-op Money is intended to ensure that these services can continue to be effectively provided to the Credit Union, and offered to members.

Directors and senior managers

The Rules require that there be no less than five and no more than nine directors. The directors elect from their number the following officers: Chairperson, Deputy Chairperson, Secretary and Treasurer.

The directors are elected by members at the annual general meeting. The directors serve a term of two years, retire by rotation, and are eligible for re-election. Up to two directors may be independent directors; all other directors must be members of the Credit Union. The board of directors are responsible for the management of the Credit Union.

All persons nominated as directors must be likely to pass a "fit and proper" test (as that term is defined in the Rules).

Merger of Credit Unions – Transfer of Engagements

The Credit Union and Employees Credit Union entered into the Transfer Agreement on 14 August 2020.

The Transfer Agreement enables the Credit Union and Employees Credit Union to conduct a due diligence process to explore the potential merger of the two credit unions through a process under the FSCU Act known as a "transfer of engagements".

As at the date of this PDS, the Credit Union and Employees Credit Union are in the process of carrying out due diligence procedures and seeking the approvals necessary to facilitate a transfer of the engagements of Employees Credit Union to the Credit Union.

Subject to the relevant approvals being obtained and certain conditions being met, it is intended that the merger will take effect in December 2020.

Upon the transfer of engagements, the Credit Union will assume all of the assets and liabilities of Employees Credit Union, and the two credit unions will be merged. It is intended that the Credit Union will adopt Employees Credit Union as one of its trading names, and maintain its current branding.

Further information about the risks relating to the merger are provided in Section 6 of this PDS (Risks of investing).

SECTION 4: KEY FEATURES OF THE ACCOUNTS

Ranking and security

The call and term accounts are secured under the terms of the Trust Deed by a security interest which the Credit Union has granted over all of its assets in favour of the Supervisor ("Supervisor's Security Interest"). The Supervisor's Security Interest secures all amounts payable by the Credit Union on the call and term accounts and all other moneys payable by the Credit Union under the terms of the Trust Deed, which include the Supervisor's fees. The amount of the liability secured by the security based on the financial position of the Credit Union as at its most recent balance date is incorporated by reference into this document and is available on-line on the Disclose Register <https://disclose-register.companiesoffice.govt.nz/>.

Under the Trust Deed and with the consent of the Supervisor, the Credit Union is permitted to create security interests that rank prior to, or equally with, the Supervisor's Security Interest.

Under the terms and conditions of the banking arrangements between the Credit Union and Co-op Money, the Credit Union has lodged a settlement bond with Co-op Money. In the event that the Credit Union is unable to settle its inter-bank requirements, the settlement bond provides security to Co-op Money and, ultimately, to the bank(s) that provide settlement services to Co-op Money. The settlement bond is held on term deposit in a trust account. The Supervisor has consented to the bond arrangements and to a maximum amount equal to 3% of the Credit Union's total tangible assets, or its limit on permitted prior funding under the Trust Deed (whichever sum is lower) being deposited under the settlement bond.

The Credit Union is also permitted under the Trust Deed to create a security interest over specific assets which ranks in priority to the security interest granted to the Supervisor to secure any borrowing or money owed in connection with the purchase of that asset. The amounts secured in this way may not exceed 2% of the Credit Union's total tangible assets.

Except as set out above, the Trust Deed prevents the Credit Union from creating any security interest over its assets which ranks in priority to, or equally with, the Supervisor's Security Interest.

Financial Covenants

In addition to the above prior charge restrictions, the Trust Deed (and where applicable, the Exemption Notice) imposes the following financial restrictions on the Credit Union:

- > To ensure that the liability of the Credit Union to its creditors (including contingent liabilities) does not exceed 10% of its total liabilities;
- > While it has no credit rating from an approved rating agency, to maintain a minimum capital ratio at 12% or more;
- > To ensure the maximum aggregate exposure of the Credit Union to related parties will not exceed 15% of the Credit Union's capital;
- > To ensure that the liquidity coverage ratio shall not fall below 1.2 at any time where:

Liquidity Coverage Ratio means in respect of the immediately following month, the ratio of:

$$\frac{L + LR + SC}{SR}$$

L means Liquid Assets for that month;

LR means expected loan receivables within that month;

SC means expected gross share (and any credit union security) contributions within that month; and

SR means expected gross share (and any credit union security) redemptions within that month; and

- > To ensure to the satisfaction of the Supervisor (acting reasonably), that the liquid assets of the Credit Union that are or may be available to it are sufficient or likely to be sufficient to enable the Credit Union to meet its liabilities to members when they become due, and shall confirm this in writing to the Supervisor as requested by the Supervisor from time to time.

The terms used in these covenants, and the calculations under these covenants, are in accordance with the terms of the Deposit Takers (Credit Ratings, Capital Ratios, and Related Party Exposures) Regulations 2010.

The diagram below illustrates the ranking of the call and term accounts on liquidation of the Credit Union.

	Ranking on liquidation of Steelsands Credit Union Incorporated	Examples of Liabilities	
<p>High ranking/priority</p>  <p>Lower ranking/priority</p>	Liabilities that rank in priority to the call and term accounts	Liabilities owed to preferential creditors, (such as the employees of the Credit Union), permitted prior charges and the Supervisor's costs, fees and expenses	<p>A ranking diagram including indicative amounts based on the financial position of the Credit Union as at its most recent balance date is incorporated by reference into this document and is available online on the Disclose Register (https://disclose-register.companiesoffice.govt.nz/)</p>
	Liabilities that rank equally with the call and term accounts	Call and term accounts will rank equally with all other term and call accounts issued by the Credit Union	
	Liabilities that rank below the term and call accounts	Lower ranking creditors, such as unsecured creditors	
	Equity	The amount owed to members following the distribution of surplus assets.	

SECTION 5: STEELSANDS CREDIT UNION INCORPORATED'S FINANCIAL INFORMATION

On the online Disclose Register (<https://disclose-register.companiesoffice.govt.nz/>) there is a document filed under the Credit Union's offer information entitled "Steelsands Financial Information". That document is incorporated by reference into this document. It sets out the following information for the most recently audited financial years of the Credit Union:

- Capital ratio
- Related party exposures
- Liquidity ratio
- Other selected financial information

SECTION 6: RISKS OF INVESTING

General risks

The principal risk to members is that they will not be repaid some or all of the amount in their accounts and/or the interest due on those accounts.

Members could be exposed to that risk if the Credit Union became insolvent for any reason, and the amounts recovered from its assets prove to be insufficient to meet its obligations to members, notwithstanding the security granted by the Credit Union to the Supervisor (for the protection of the amounts in the members' accounts).

Specific risks relating to Steelsands Credit Union Incorporated's creditworthiness

Industrial credit union risk

The Credit Union is an industrial credit union with a concentration of members associated with NZ Steel, Refining NZ, NZME Limited and Alliance Group Limited. The Credit Union operates on sites associated with these partnered businesses, which imposes certain unique limitations. For example, access to Credit Union premises may be restricted to employees or authorised contractors of the relevant partnered business.

This concentrated membership base has resulted in a high proportion of retail lending by the Credit Union to members who are employees of NZ Steel and other partnered businesses, with a further concentration of members and activity in the Waiuku and Pukekohe areas. This concentration is acceptable to the Credit Union as it was formed to service these members. Membership of the Credit Union is not restricted to employees of partnered businesses alone. For example, the Credit Union also has members employed at the Invercargill premises of Alliance Group Limited, Refining NZ at Marsden Point and at NZME Limited sites in Auckland. Should members leave the industry, their accounts and loans may continue.

As there is a concentration of members employed by NZ Steel and other partnered businesses, the Credit Union is vulnerable to factors which might adversely impact members associated with these businesses, including in respect of their employment.

Any rationalisation in the relevant industries could have a serious impact on the Credit Union if those industries experienced significant redundancies. Due to the effects of the COVID-19 pandemic on New Zealand industries, NZ Steel and other partnered businesses are conducting ongoing reviews on an operational basis, and Refining NZ announced a six-week shutdown of refinery operations over July and August 2020.

Further decisions resulting from these reviews, including measures to downsize and restructure the operations of partnered businesses, may negatively impact withdrawal and reinvestment rates for a concentration of affected members. This may also affect these members' ability to meet their loan repayment obligations to the Credit Union. These factors may adversely affect the ability of the Credit Union to meet its repayment obligations to members.

The Credit Union's strategy is to diversify its membership base within the terms of its common bond to reduce the reliance over time of member concentration within NZ Steel. An example of this is the acceptance of the transfer of engagements from Alliance Group Credit Union, which operated in the South Island.

Age concentration risk

The Credit Union's membership is aging, with a concentration of members in 45-65 year age group. Those members are either planning for or moving toward retirement, so there is a risk of an increase of withdrawals and loans repaid. There is the ongoing risk that the Credit Union will not be able to attract new members to replace those who, through reaching retirement, change the nature of their relationship with the Credit Union.

The continued aging of the Credit Union membership base is ongoing. There is an element of uncertainty that the Credit Union can appeal to younger age groups, notwithstanding that strategies to appeal to this potential membership group are in place.

Any increase of withdrawals and loans repaid in full, would reduce the amount of income generated for the Credit Union. If new members could not be attracted, benefits to members would be difficult to sustain and members would likely look elsewhere for the products and services the Credit Union provides.

Member surveys indicate a willingness for existing members to advocate to friends and family members to join. The Credit Union is employing marketing initiatives that seek to leverage this advocacy and to make offers that will appeal to the target markets focussed on.

Liquidity risk

This is the risk that that the Credit Union may encounter difficulties meeting member demands to withdraw their money or to meet their requests for new or increased lending. This would result from having insufficient short term investments or new member deposits to match to demand. This risk also covers any cash obligations the Credit Union may have in relation to other matters.

Traditionally, members' funds at call and payable within one month exceed loans repayable within the same time frame.

The Credit Union aims to manage this liquidity risk by:

- > Continuously monitoring forecast and actual daily cash flows.
- > Reviewing the maturity profiles of loans to be repaid or deposits likely to mature
- > Forecasting capital expenditure requirements
- > Maintaining adequate reserves, liquidity support facilities and reserve borrowing facilities.

It is the policy of the Credit Union that adequate cash reserves and committed credit facilities are maintained to meet member withdrawal demands.

In addition, the Credit Union has a number of available options designed to manage liquidity risk. These include a reduction in lending, invoking the 60 day notice period of withdrawal option on call shares and monitoring maturity dates of assets and liabilities (that is, the timing of when loans and deposits or other investments are due to be repaid or mature. The Board has also actively sought facilities from other financial institutions.

Credit quality risk

Credit risk is the risk of members not repaying their loans or making interest payments on the due date.

Any significant reduction in loan repayments would reduce profitability. This might lead to a reduction in returns to members and, if there were significant loan defaults, to an inability to repay members' deposits when these fell due.

Money lent to members is generally secured by charges over motor vehicles or other personal property. The value of motor vehicles substantially decreases over time. Accordingly, with loan default where a motor vehicle is the security it is likely that the value realised on the motor vehicle would be less than the loan.

To manage this risk the Credit Union assesses the overall repayment ability of borrowers, so that the Credit Union is not just relying on the security value of charged assets.

Economic Risk – COVID-19

The financial performance of the Credit Union is influenced by the domestic and international economic environment, including the growth and performance of steel making, oil production and storage, news media, food processing and other related industries.

The impact of the COVID-19 pandemic and measures taken by the New Zealand and overseas governments to combat the spread of the virus may have significant and unforeseen impacts on the financial sector, the industries associated with NZ Steel and other partnered businesses, and the New Zealand economy generally.

While the identifiable and long term effects of COVID-19 are unclear, any material negative impact on levels of employment, business and prosperity in New Zealand may negatively impact the Credit Union. This may result in an increase in the liquidity, credit quality, capital and other risks described elsewhere in this document.

Specific credit risk – Co-op Money

The Credit Union holds deposits with Co-op Money "at call". These investments are unsecured, and are not subject to any security arrangements.

Co-op Money is reliant upon maintaining a certain level of business, including non-member business, in order to have the scale to provide its essential services efficiently. Its revenue is concentrated on a small number of customers.

Since 2017, Co-op Money's liquidity and financial performance has deteriorated, as a result of capital expenditure, operating losses, decreased trading activity and one-off costs and losses. This has resulted in Co-op Money operating a net deficit and negative cash position. Co-op Money has an existing overdraft facility that it will use to fund its day-to-day operations, and which is backed by a cash deposit funded by Credit Union Baywide.

Accordingly, there is a concentration of credit risk associated with the Credit Union's deposits with Co-op Money. If Co-op Money should encounter further financial difficulties and defaulted on its obligations, the Credit Union could experience losses which could adversely affect the ability to meet payment obligations to members.

To mitigate this risk, the Credit Union, alongside a number of other credit unions which use Co-op Money services, undertook a sale of Base Capital Notes to Credit Union Baywide. Some credit unions party to the transactions (including the Credit Union) subsequently withdrew as members of Co-op Money. These changes are intended to allow Credit Union Baywide to continue its support of Co-op Money and the essential services it provides, and are described further at Section 3 (Steelsands Credit Union Incorporated and what it does).

Co-op Money has a credit rating of BB-, with a negative outlook.

While Co-op Money and Credit Union Baywide are actively addressing the liquidity and financial performance of Co-op Money, there remains a risk that if Co-op Money failed, the Credit Union may be unable to recover the deposits held with Co-op Money. This would have an adverse impact on the Credit Union's ability to meet its payment obligations to its members.

Services risk – Co-op Money

The Credit Union is reliant on Co-op Money to provide essential services such as the core banking system, agency banking, settlement services and card facilities.

The decline in financial performance of Co-op Money has increased the risk that Co-op Money may not be in a position to continue providing the Credit Union with essential services. Should the financial position of Co-op Money deteriorate further, there will be a heightened likelihood that the Credit Union will be unable to provide members with services in a reliable and efficient manner over the short term.

There is accordingly a risk that the Credit Union's access to services provided by Co-op Money could become more costly, restricted, delayed or disrupted. This would likely affect the confidence members have in the Credit Union, leading to an adverse impact on withdrawal and reinvestment rates and the ability of the Credit Union to meet its repayment obligations to members.

The Credit Union could approach alternative providers if Co-op Money were unable to meet its contracted obligations to us at any time. There are a range of alternatives but these would come at a cost to the Credit Union and there would be a time delay. Additionally, Co-op Money has an extensive disaster recovery program in place, which is regularly tested and audited.

Premises risk

No lease has been entered into, and no rent is payable, by the Credit Union in respect of its branches at Mission Bush Road, Glenbrook, Port Marsden Highway, Ruakaka, Graham Street, Auckland and Invercargill.

The Credit Union does not anticipate this situation changing.

However, if the Credit Union was required either to pay rent on its current premises or to relocate to new premises, this could affect the profitability of the Credit Union. This is because the Credit Union might have to stop operating for a period while it looked for new premises and any rental payments would decrease the operating surplus of the Credit Union, and in turn, members' returns.

The Credit Union has a business continuity plan that addresses any relocation requirements. There would be some disruption of services to members but a variety of options are available and within cost estimates that make management of this risk acceptable.

Regulatory risk

The Credit Union is required to comply with various legal obligations.

Any material failure to comply with these could result in damage to the Credit Union's reputation and expose the Credit Union to financial and/or other penalties. Severe reputational damage and/or large financial penalties could increase withdrawal rate and decrease re-investment rate which could have a material and adverse effect on the financial condition of the Credit Union which ultimately could affect payment obligations to members. This risk is particular to the Credit Union as for a relatively

small entity, the costs are harder to absorb. Failure to meet all regulatory requirements could result in the loss of its operating licence and would no longer be able to meet the needs of its members.

To mitigate this risk the Credit Union has an internal Audit Committee and risk management policies and procedures in place to reduce the likelihood of non-compliance, but there is always an unknown factor for human error. The Credit Union regularly monitors proposed changes in legislation in all areas. The Credit Union has access to the support of its industry body and other credit unions who have qualified and dedicated resources to assist the Credit Union to understand, implement and manage continued compliance with all regulatory requirements.

Capital risk

The Credit Union is licensed under the NBDT Act.

The requirements of that licence under sections 30 – 35 of the NBDT Act, require that minimum levels of capital are maintained. The risks to the Credit Union are that it does not meet these regulatory minimums which result in loss of its licence and the ability to trade and return funds to members if called upon to do so.

Currently the minimum level of Risk Weighted Capital required by the Credit Union is 12%. Compliance with this requirement is publicly reported quarterly and is monitored by the Credit Union on a monthly basis.

The Credit Union is monitoring its exposure monthly and has put in place contingency plans to ensure it can meet its obligations on an ongoing basis.

Merger risk

The potential merger between the Credit Union and Employees Credit Union described in Section 3 of this PDS (Steelsands Credit Union Incorporated and what it does) has raised some additional risks for the Credit Union.

While the due diligence, merging and integration process takes place, there is a requirement to commit time, capital and resources before fully realising the benefits of the merger. It also requires a review of operational activities and governance processes. This could create operational risk for the Credit Union in the short term while the credit unions further consider the merger.

In the event that this process is more difficult than anticipated, the merger may cause excess strain on the Credit Union's resources and cause services to be delivered less efficiently to members in the short term.

For further information about Employees Credit Union, please see the most recently registered product disclosure statement of Employees Credit Union available on the Offer Register at <http://www.business.govt.nz/disclose> by searching offer number OFR11238.

Section 7: TAX

The Credit Union is required by law to deduct resident withholding tax ("RWT") from any returns paid or credited to any member resident in New Zealand and to account for this deduction to the Inland Revenue Department ("IRD"). For members who supply the Credit Union with their IRD number and nominate a RWT rate, RWT will be deducted at the rate nominated. In the event that an individual member:

- omits to notify the Credit Union of that member's IRD number, the Credit Union will deduct RWT at 45%, or such other amount as required by law; or
- has notified the Credit Union of that member's IRD number, but omits to nominate the rate at which that member wishes RWT to be deducted, RWT will be deducted at 17.5% for existing accounts or 33% for new accounts, or such other amount as required by law.

For members who are incorporated societies, the Credit Union will deduct RWT at 30% or such other amount as required by law.

The Credit Union is not required to deduct RWT from returns to any member who holds a valid certificate of exemption. Members who hold a valid certificate of exemption from RWT issued by the IRD are required to forward a copy to the Credit Union.

In addition to RWT there may be other tax consequences from you acquiring or disposing of (opening and closing) accounts.

Further information is available at the Inland Revenue website at www.ird.govt.nz.

If you have queries relating to the tax consequences of your accounts, you should obtain independent professional advice on those consequences, which is specific to your circumstances.

SECTION 8: WHO IS INVOLVED?

	Name	Role
Issuer	Steelsands Credit Union Incorporated	The issuer of the call and term accounts and responsible to you for repayment of the accounts
Supervisor	Covenant Trustee Services Limited	Provides independent monitoring and oversight of the Credit Union under the Trust Deed and applicable law

SECTION 9: HOW TO COMPLAIN

Any complaints about your accounts can be made to the Credit Union, the Supervisor or the Credit Union's approved dispute resolution scheme.

In the first instance complaints should be made to the general manager of the Credit Union or, if you still have problems, to the board of Steelsands Credit Union Incorporated at Steelsands Credit Union Incorporated, c/- NZ Steel Limited, Private Bag 92 121 Victoria Street West, Auckland 1142, telephone (09) 375 8868.

If you are still not satisfied, you may raise concerns with the Supervisor, Covenant Trustee Services Limited, PO Box 4243, Shortland Street, Auckland 1140, telephone (09) 302 0638.

As a financial service provider registered under the FSP Act, Steelsands Credit Union Incorporated is a member of an approved dispute resolution scheme. The scheme is operated by Financial Services Complaints Limited ("FSCL"). FSCL will not charge a fee to any complainant to investigate or resolve a complaint.

FSCL's contact details are as follows:

Financial Services Complaints Limited
PO Box 5967
Lambton Quay
Wellington 6145
Telephone: 0800 347257 or (04) 472 FSCL (472 3725)
Fax: (04) 472 3728
Website: www.fscl.org.nz
Email: info@fscl.org.nz

SECTION 10: WHERE YOU CAN FIND MORE INFORMATION

Further information relating to the Credit Union and the accounts is available on the Disclose Register (for example, financial statements). A copy of the Trust Deed may also be obtained from the Disclose Register.

The Disclose Register is at <https://disclose-register.companiesoffice.govt.nz/> and the information can be obtained on request by you to the Registrar of Financial Service Providers.

The Credit Union does provide account statements on a quarterly basis electronically or mail, but the Credit Union does from time to time contact members with news believed to be of interest to them and details of promotional offers.

You are entitled to request from the Credit Union:

- A copy of the most recent financial statements.
- A copy of the current Product Disclosure Statement.
- Certain information concerning your investment(s) (such as its principal amount, maturity date and the next date on which interest is payable).

The information is available to you free of charge by contacting the Credit Union using our contact details listed the Section 9 (How to complain).

SECTION 11: HOW TO APPLY

You may apply to open an account by completing an application form and sending it to the Credit Union. Membership is open to all persons and entities coming within the Credit Union's common bond (see Section 2 (Terms of the offer) in this document). The current version of the application form is attached to this document, but the Credit Union may change the application form from time to time. An up to date application form will always be available to be downloaded from our website <https://nzcusteelsands.co.nz/> and at any Credit Union branch.

Enquires about investing can be made to:

Steelsands Credit Union Incorporated
C/- NZ Steel Ltd
Private Bag 92 121 Victoria St West
Auckland 1142
09 375 8868

SECTION 12: CONTACT INFORMATION

The contact details for the Credit Union are, at the date of this document:

Registered Office: c/- New Zealand Steel Limited, Mission Bush Road, Glenbrook
Postal Address: Private Bag 92121, Victoria Street West, Auckland 1142
Business Hours: 8.00 am to 3.30 pm Monday to Friday (except public holidays)
Contact: Ph (09) 375 8868 or (09) 236 5911 ext 8868 Fax (09) 375 8937