

## **REPLACEMENT PRODUCT DISCLOSURE STATEMENT**

**FOR THE PRODUCT DISCLOSURE STATEMENT DATED 21 March 2019**

**OFFER OF DEPOSITS ISSUED BY STEELSANDS CREDIT UNION**

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**Dated 29 April 2019**

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 [www.business.govt.nz/disclose](http://www.business.govt.nz/disclose). Steelsands Credit Union 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. The call and term accounts are redeemable shares (classified as debt securities) issued by Steelsands Credit Union. You give Steelsands Credit Union money and in return Steelsands Credit Union promises to pay you interest and repay the money at the end of the term. If Steelsands Credit Union runs into financial trouble you might lose some or all of the money you invested.

### About Steelsands Credit Union

Steelsands Credit Union ("Credit Union") is established under the Friendly Societies and Credit Unions Act 1982 ("FCU Act"). Under the FCU 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".

Under the Credit Union's Rules, members elect the board of directors. The assets of the Credit Union are held on trust by the Credit Union's trustees. The trustees are elected by the members from the board of directors.

### Purpose of this offer

The purpose of this offer is to provide a facility for members to deposit money with the Credit Union and to subsequently withdraw that money. Members may make various types of deposits, by opening accounts of different types. The moneys deposited are used to provide loans to other members. The Credit Union uses the term "accounts" to refer to the terms on which the securities are issued.

### 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.
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 <a href="https://nzcusteelsands.co.nz/">https://nzcusteelsands.co.nz/</a>
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	<p>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.</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 withdrawal will be permitted at the discretion of the Credit Union.</p>
Interest rates	<p>Interest rates can be found by telephoning the Credit Union on 09 375 8868 or from the website <a href="https://nzcusteelsands.co.nz/">https://nzcusteelsands.co.nz/</a>The interest rate on a term account will be fixed for the length of the term.</p> <p>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.</p>
Opening and closing dates	<p>The offer opened on 9 November 2016. This is a continuous offer, so there is no closing date.</p>
Dates and frequency of interest payment	<p>The interest on term accounts is paid at the end of the term.</p>
Early withdrawal	<p>If you suffer real financial hardship, the Credit Union has a discretion to allow you to withdraw moneys from your term account early before its ordinary maturity date. In these circumstances a "break" fee is payable, at the discretion of the Credit Union. This fee is determined by the Credit Union's board of directors from time to time.</p>

Further detail about the Credit Union's accounts, fees, charges, terms and conditions and interest rates can be found on the Disclose Register [www.business.govt.nz/disclose](http://www.business.govt.nz/disclose), on the Credit Union's website <https://nzcusteelsands.co.nz/> or from any Credit Union branch.

### No guarantee

The accounts are not guaranteed by the 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 a 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, 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.

### **Where can you find Steelsands Credit Union's financial information**

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

### **Key Risks affecting this investment**

Investments in debt securities have risks. A key risk is that Steelsands Credit Union does not meet its commitments to repay you or pay you interest (credit risk). Section 6 of this document (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. Steelsands Credit Union considers that the most significant risk factors are:

#### **Member concentration risk**

The Credit Union is an industrial credit union which means it operates on sites associated with its members' employers. This imposes certain limitations that are unique. An example would be access to Credit Union premises. This is restricted to employees or authorised contractors of the relevant members' employers.

This concentration is acceptable to the Credit Union as it was formed to service these members and membership of the Credit Union is not restricted to employees in those companies only.

Should members leave the industry their accounts and loans continue.

Any rationalization in the steel making industry would result in job losses for the Credit Union's members and so would have an adverse effect on the Credit Union itself.

#### **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 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 to appeal to this potential membership group.

#### **Provision of banking services risk**

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.

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**

Steelsands Credit Union is exempt from the requirement to have its creditworthiness assessed by an approved rating agency. This is because Steelsands 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 have 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 Act to have a credit rating. This means that Steelsands Credit Union has not received an independent opinion of its capability and willingness to repay its debts from an approved source.

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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.

<b>Call Accounts</b>	
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 FCU 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 <a href="https://nzcusteelsands.co.nz/">https://nzcusteelsands.co.nz/</a> .
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"> <li>• preferential creditors whose claims arise through the operation of law, including wages, taxes and liquidation costs;</li> <li>• permitted prior charges under the Trust Deed in favour of Co-op Money. This can be up to 10% of total tangible assets. At the date of this document there is no prior charge in this category;</li> <li>• Supervisor's fees, costs and disbursements.</li> </ul> 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.
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.

<b>Term Accounts</b>	
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. 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	<p>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.</p>
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 <a href="https://nzcusteelsands.co.nz/">https://nzcusteelsands.co.nz/</a> or from the website [add website link]. 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	<p>The offer opened on 9 November 2016. This is a continuous offer, so there is no closing date.</p>
Dates and frequency of interest payments	<p>The interest on term accounts is paid at the end of the term.</p>



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"> <li>• preferential creditors whose claims arise through the operation of law, including wages, taxes and liquidation costs;</li> <li>• permitted prior charges under the Trust Deed in favour of the Co-op Money. This can be up to 10% of Total Tangible Assets. At the date of this document there is no prior charge in this category;</li> <li>• Supervisor's fees, costs and disbursements.</li> </ul> <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 a 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 [www.business.govt.nz/disclose](http://www.business.govt.nz/disclose), on the Credit Union's website <https://nzcusteelsands.co.nz/> or from any Credit Union branch.

### Trust Deed

The accounts are opened subject to and governed by and in accordance with an amended and restated trust deed dated 28 October 2016 between the Supervisor and the Credit Union. The trust deed as modified and restated is called the "Trust Deed".

A full copy of the Trust Deed can be obtained from the Credit Union or on the Disclose Register [www.business.govt.nz/disclose](http://www.business.govt.nz/disclose).

### Rules

The Credit Union operates in accordance with its Rules, which are registered under the FCU 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 [www.business.govt.nz/disclose](http://www.business.govt.nz/disclose). 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 New Zealand Steel Limited, 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.

### *Trustees*

The Rules require that there be 3 trustees of the Credit Union who are elected by the members from the board of directors. Under the FCU Act, all property belonging to the Credit Union is held by the trustees, for the use and benefit of the members, and all persons claiming through the members, according to the Rules.

## **SECTION 3: STEELSANDS CREDIT UNION AND WHAT IT DOES**

### **Overview**

The Credit Union was established under the FCU Act on 3 August 1978.

Under the FCU Act, a credit union can only act in accordance with its statutory objects, which are 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.

Since its establishment the Credit Union has operated in the finance industry sector. 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 New Zealand Steel, Refinery NZ and NZME. It also has some members employed at the Invercargill premises of Alliance Group 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).

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

### **Aspects of the business that are key to generating income**

Other Products and New Markets

The proposed merger through transfers of engagements under the Heads of Agreement described below would further expand our national presence.

### **Merger of Participating Credit Unions**

Steelsands Credit Union, together with NZCU South, NZCU Central and Aotearoa Credit Union and NZCU Baywide ("Participating Credit Unions") entered into a Heads of Agreement on 17 December 2018 ("Heads of Agreement") and a Transfer Agreement on 14 January 2019 ("Transfer Agreement"). In conjunction with the entry into the Heads of Agreement and the Transfer Agreement, Steelsands Credit Union entered into a Liquidity Facility Agreement on 20 December 2018 with the other Participating Credit Unions, that enables Aotearoa Credit Union to borrow up to \$1,250,000 from the other Participating Credit Unions ("Liquidity Facility Agreement") in order to provide it with the funding it expects will be required in the period leading up to completion of the Transfer of Engagements. All moneys drawn by Aotearoa Credit Union under the Liquidity Facility Agreement are therefore repayable by 1 May 2019. Moneys payable under the Liquidity Facility Agreement are

unsecured, ranked behind, and are subordinated to, the moneys payable under the trust deed of Aotearoa Credit Union.

At the meeting of 14<sup>th</sup> March 2019, the members of Steelsands Credit Union considered the Transfer of Engagements, and elected not to pass the special resolution necessary to approve the Transfer of Engagements and authorise the board of directors of Steelsands Credit Union to implement the merger. Accordingly, Steelsands Credit Union will not proceed with the Transfer of Engagements contemplated by the Heads of Agreement and Transfer Agreement.

**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.

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

**SECTION 4: KEY FEATURES OF THE ACCOUNTS**

**Ranking and security**

The call and term accounts are secured by a security interest which the Credit Union has granted over all of its assets in favour of the Supervisor. The 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 [www.business.govt.nz/disclose](http://www.business.govt.nz/disclose).

The Credit Union is permitted under the Trust Deed to create a security interest, in favour of Co-op Money, over its assets which ranks in priority to the security interest granted in favour of the Supervisor. The prior ranking charge would be to secure any borrowing or money owed to the Co-op Money. The amount secured by any such prior ranking security interest may not exceed 10% of the Credit Union's total tangible assets. At the date of this document no such prior ranking charge has been granted.

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 security interest granted to the Supervisor.

*Financial Covenants*

In addition to the above prior charge restriction, the Trust Deed imposes the following financial restrictions on the Credit Union:

- > 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

**LR** means expected loan receivables within that month

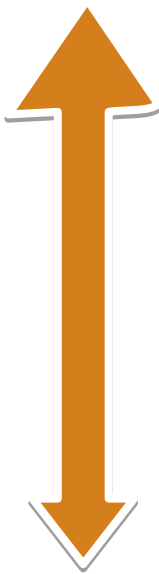
**SC** means expected gross share contributions within that month; and

**SR** means expected gross share redemptions within that month.

- > 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.

	<b>Ranking on liquidation of Steelsands Credit Union</b>	<b>Examples of Liabilities</b>	
 <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 (<a href="http://www.business.govt.nz/disclose">www.business.govt.nz/disclose</a>)</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'S FINANCIAL INFORMATION

On the online Disclose Register ([www.business.govt.nz/disclose](http://www.business.govt.nz/disclose)) 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's creditworthiness**

#### ***Industrial credit union risk***

The Credit Union is an industrial credit union which means it operates from the sites of NZ Steel Limited, Refining NZ Limited and NZME Limited ("NZ Steel Group"). This imposes certain limitations that are unique. An example would be access to Credit Union premises, which is restricted to employees or authorised contractors of the NZ Steel Group. This has resulted in a concentration in retail lending for members who are employees of NZ Steel Group with a further concentration of members and activity in Waiuku, Pukekohe, Marsden Point areas. This concentration is acceptable to the Credit Union as it was formed to service these members. Also membership of the Credit Union is not restricted to employees of the NZ Steel Group alone. For example, the Credit Union also has some members employed at the Invercargill premises of Alliance Group Limited. Should members leave the industry their accounts and loans continue.

As there is a concentration of members employed by the NZ Steel Group, the Credit Union is vulnerable to factors which might adversely impact on members of the NZ Steel Group and so on the Credit Union members' employment.

Any rationalisation in the NZ Steel Group would have a serious impact on the Credit Union if there were significant redundancies.

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 the NZ Steel Group. 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 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. The biggest risk at present is the Credit Union's commitment to a major IT Infrastructure Project. Should that materially exceed budget the Credit Union is contractually obligated to meet a call for further funds. Currently there have been some higher than forecasted costs and the Credit Union has been required to meet additional costs.

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. The Credit Union and the Supervisor have agreed a new liquidity ratio, which is referred to in Section 4 of this document, under "Ranking and Security" "Financial Covenants".

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 using a stand by facility the Credit Union has with Co-op Money. The Board has also actively sought facilities from other financial institutions as contingencies to any reliance on Co-op Money.

### ***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.

### ***Provision of banking services risk***

The Credit Union relies on 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.

The Credit Union, along with a number of other member credit unions, propose to enter into a step-in agreement which would allow the Credit Union, together with the other member credit unions, to take over performance of key Co-op Money services or to source certain services directly from the current suppliers to Co-op Money. It is envisaged that these rights would be exercised in the event that Co-op Money became or is likely to become insolvent and in certain other limited circumstances.

The step-in agreement is not currently in force, but is intended to be executed by all relevant parties in mid 2019

### **Banking Services Risk - General investment risk**

Our Credit Union has funds invested "at call" and holds Base Capital Notes issued by Co-op Money . These investments are unsecured and the Base Capital Notes are subordinated to rank behind other debt of Co-Op Money . There are no trust or security arrangements for these investments. Accordingly, there is a concentration of credit risk in relation to the Credit Union's investments in Co-Op Money . If Co-op Money should encounter financial difficulties and defaulted in its obligations, we could experience losses which may adversely affect our ability to meet our payment obligations to members. This would elevate the risk of our investments with Co-op Money and may require us to amend the valuation of these investments. This position is under monthly review and is assessed against the impact of initiatives being implemented by Co-op Money NZ to restore both profitability and a resumption of dividends. The position of Co-op Money remains questionable

following a sustained decline in financial performance, including weakening capitalisation and an increased likelihood that Co-op Money's core operations will remain unprofitable over the short term.

Accordingly, given the weak financial position of Co-op Money, there is a liquidity risk that Co-op Money may be unable to repay the Credit Union (and other credit unions) the investments held with Co-op Money including the Base Capital Notes.

Co-op Money has a financial plan in place, which has forecasted improved cash flow and a return to profitability in the 2020 financial year.

Our Board reviews monthly any possible adverse impact on our financial performance.

#### Banking Services Risk – Regulatory risk

There are currently a number of matters concerning Co-op Money which some of its members are unhappy about. Some members have withdrawn from Co-op Money, causing an adverse impact on its underlying profitability and its consequent ability to pay dividends, commissions and rebates to its members. This may have a negative impact on our financial position and profitability.

Co-op Money needs to maintain a certain level of business in order to have the scale to provide its essential services efficiently. Recently some members have reduced the utilisation of services from Co-op Money, thus reducing Co-op Money's future revenue streams. Plans have been presented to its members to redress this situation but unless and until such time as members agree to those strategies, they are put into place and forecasted benefits are delivered, there remains a risk that the cost of us doing business with Co-op Money could increase and thus reduce the level of profits available to our members to sustain benefits.

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.

We are actively monitoring Co-op Money's financial performance and whether any changes require a change to our financial forecasts. To date there have been minor cost and revenue implications that have impacted our underlying performance.

#### **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 Non Bank Deposit Takers Act 2013. (NBDT Act 2013)

The requirements of that licence, NBDT Act 2013, Sections 30 – 35, 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's commitment to the IT Infrastructure Project mentioned under liquidity could place some strain on meeting this statutory obligation.

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 of Participating Credit Unions Risks**

The potential merger of the Participating Credit Unions described in section 3 (Steelsands Credit Union and what it does) under the heading "Merger of Participating Credit Unions" raises some additional risks for Steelsands Credit Union. These risks are addressed below:

#### **Credit Risk**

As part of the Heads of Agreement, Transfer and Liquidity Facility Agreements were signed by the Participating Credit Unions, Steelsands Credit Union has provided an unsecured liquidity support loan to Aotearoa Credit Union.

Aotearoa Credit Union, following discussions with its auditors, has reassessed its accounts and financial information on a realisation basis, rather than on the basis of a going concern. The restatement has not resulted in any material changes to carrying values in the accounts, but it has had a number of other related effects on the accounts including a restatement of its losses for the financial year ending 30 September 2018.

As at the date of this PDS, Aotearoa Credit Union is in breach of its capital ratio requirements provided in its trust deed and under the NBDT Regulations (the Deposit Takers (Credit Ratings, Capital Ratios, and Related Party Exposures) Regulations 2010). Furthermore, Aotearoa Credit Union has also breached section 38 of the NBDT Act and its trust deed by allowing its related party exposures to exceed the maximum permitted limit as a result of loans provided to related parties now forming a greater proportion of its exposures. Due to these and other breaches relating to the financial position of Aotearoa Credit Union, enforcement action could be taken against Aotearoa Credit Union by its supervisor or regulators.

Accordingly, Steelsands Credit Union faces credit risk if Aotearoa Credit Union is unable to discharge its financial obligations pertaining to the liquidity support, resulting in financial loss for Steelsands Credit Union.

For further information relating to the financial and operational status of Aotearoa Credit Union, please see the most recently registered product disclosure statement of Aotearoa Credit Union available on the Offer Register at [www.business.govt.nz/disclose](http://www.business.govt.nz/disclose) by searching offer number OFR11170.

### **Sector reputational risk**

If Aotearoa Credit Union is unable to participate in the Transfer of Engagements planned under the Heads of Agreement and Transfer, or if this does not proceed for any reason, there is a risk that the Supervisor or the regulators could take further action against Aotearoa Credit Union, including commencing liquidation, or appointing a receiver. If regulatory action is taken against Aotearoa Credit Union, this is likely to have an adverse effect on the reputation of the credit union sector, and may lead to a loss of confidence among members.



The approval by the members and the board of directors of Credit Union Baywide on 15 March 2019 represents a major step forward towards the realisation of the Transfer of Engagements. This improves the likelihood that the Transfer of Engagements will be successful, and decreases the risks associated with the Transfer of Engagements not proceeding.

**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 33%, 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](http://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?**

	<b>Name</b>	<b>Role</b>
<b>Issuer</b>	Steelsands Credit Union	The issuer of the call and term accounts and responsible to you for repayment of the accounts
<b>Supervisor</b>	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 chief executive officer of the Credit Union or, if you still have problems, to the board of Steelsands Credit Union at Steelsands Credit Union, c/- NZ Steel Limited, Private Bag 92 121 Victoria Street West Auckland 1142.

If you are still not satisfied, you may raise concerns with the Supervisor, Covenant Trustee Services Limited, PO Box 4243, Shortland Street, Auckland 1140

As a financial service provider registered under the Financial Service Providers (Registration and Dispute Resolution) Act 2008 Steelsands Credit Union 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) 472FSCL (472 3725)  
Fax: (04) 472 3728  
Website: [www.fscl.org.nz](http://www.fscl.org.nz)  
Email: [info@fscl.org.nz](mailto:info@fscl.org.nz)

## **SECTION 10: WHERE YOU CAN FIND MORE INFORMATION**

Further information relating to Steelsands Credit Union and the terms of 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 <http://www.business.govt.nz/disclose> 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, and 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 page 1 of 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  
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 5911ext 8868 Fax (09) 375 8937