



**This is a replacement Product Disclosure Statement. It replaces the Product Disclosure Statement dated 27<sup>th</sup> March 2018 relating to an offer of Secured Redeemable Shares in New Zealand Employees Credit Union (trading as NZCU Employees)**

Dated 23rd May 2018

This document gives you important information about this investment to help you decide whether you want to invest. There is other information about this offer on <http://www.business.govt.nz/disclose>

NZCU Employees has prepared this document in accordance with the Financial Markets Conduct Act 2013.

You can also seek advice from a financial adviser to assist you in making an investment decision.

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

### 1.1 Description of the debt securities

This is an offer of debt securities called Credit Union shares (**Shares**) issued by New Zealand Employees Credit Union, trading as NZCU Employees (**NZECU**). The Credit Union's Shares are not like shares in a company but are more like a savings account.

You give money to NZECU, and in return NZECU promises to pay you any interest that you may be due (depending on your accounts held) and repay your money when you want to withdraw it or at the end of the term of your deposit.

The offer of Shares in NZECU is made to a section of the public that falls within the NZECU's membership criteria (**Members**) - its "common bond", being:

- (a) Employees, whether paid or voluntary, including former employees (and their immediate families) of such companies or other organisations that the Board of Directors may from time to time decide, including any such person aged 16 years or younger;
- (b) Any person who is, in Tertiary studies, Trades education, Trades apprenticeship, Universities, Polytechnics and Private Training Establishments (PTEs);
- (c) Any person who is retired from employment because of eligibility for retirement;
- (d) Any person who is, or has been, a member of the same household as, and is a relative of, a person who has been admitted to membership and who continues to qualify for admission to membership, of the paragraph (a) hereof;
- (e) Charitable entities as defined by the Charities Act 2005; and
- (f) Incorporated societies registered under the Incorporated Societies Act 1908 and amendments.

Shares rank behind other creditors on a liquidation of the Credit Union. On a liquidation of NZECU, your rights and claims under the Shares would rank:

- **after** all creditors preferred by law (e.g. the Inland Revenue for unpaid PAYE and employees for holiday pay), the Supervisor, and any permitted prior security interests;
- **equally** with all other existing and potential Members;
- **ahead** of any lesser ranking secured and unsecured creditors (if any). This includes any 'credit union securities' that have been issued by NZECU as subordinated debt.

## 1.2 Products offered

<b><u>On-call Accounts</u></b>	
<b><i>S1 e-Cash Account</i></b>	
All adult members must have this account in conjunction with another savings account	
Rate of Return:	0%
Minimum Deposit:	\$1 in either the Loan Provider or Christmas Club Account
Timing of Repayments:	On demand
Method of Withdrawal:	Counter withdrawal, debit card, automatic payment, cheque, direct debit or internet banking
<b><i>S3 Money Management Account</i></b>	
Rate of Return:	0%
Minimum Deposit:	\$1 in either the Loan Provider or Christmas Club Account
Timing of Repayments:	On demand
Method of Withdrawal:	Counter withdrawal, automatic payment, direct debit or cheque
<b><i>S4 Insurance Account</i></b>	
This account is mostly used for payment of insurance premiums to Tower Insurance	
Rate of Return:	0%
Minimum Deposit:	\$1 in either the Loan Provider or Christmas Club Account
Timing of Repayments:	On demand.
Method of Withdrawal:	Counter withdrawal, direct debit or cheque.
<b><i>S6 Target Account</i></b>	
Rate of Return:	2% p.a. calculated on the daily balance, paid annually on 30 June.
Minimum Deposit:	\$1 in either the Loan Provider or Christmas Club Account
Timing of Repayments:	On demand.
Method of Withdrawal:	Counter withdrawal or cheque
<b><u>Notice of Withdrawal Accounts</u></b>	
<b><i>S5 Loan Provider Account</i></b>	
Rate of Return:	2% p.a. calculated on the daily balance, paid annually on 30 June.
Minimum Deposit:	\$1
Timing of Repayments:	On 14 working days' notice of withdrawal or closure*
Method of Withdrawal:	Counter withdrawal or cheque
<b><i>S8 Mortgage Account</i></b>	
This account is used for payment of mortgage protection insurance and other related costs	
Rate of Return:	0%
Minimum Deposit:	\$1
Timing of Repayments:	On receipt of notice of mortgage protection insurance*
Method of Withdrawal:	Cheque

<b><u>Special Share Accounts</u></b>	
<b>S2 Christmas Club Account</b>	
Rate of Return:	3% p.a. calculated on the daily balance, paid annually on 31 October.
Minimum Deposit:	\$1
Timing of Repayments:	Open for withdrawals on demand only from the first banking day in November to the last banking day in January each year*
Method of Withdrawal:	Counter withdrawal, internet banking (when introduced) or cheque. Christmas gift vouchers supplied.
<b>S9 Kids Club Account</b>	
This account is for children under 15 years of age and is usually signed for by the parent or guardian	
Rate of Return (or method of calculation):	2% p.a. calculated on the daily balance, paid annually on 30 June.
Minimum Deposit:	\$1
Timing of Repayments:	No withdrawals until after 3 <sup>rd</sup> anniversary of opening account*
Method of Withdrawal:	Counter withdrawal and cheque.
<b>S7 Retirement Savings Account</b>	
Rate of Return (or method of calculation):	2% p.a. calculated on the daily balance, paid annually on 30 June.
Minimum Deposit:	\$1
Timing of Repayments:	When the Member has reached the age of 60*
Method of Withdrawal:	Cheque.

<b><u>Term Share Accounts</u></b>	
<b>Term Investment Accounts</b>	
Term:	3, 6, 9, or 12 months
Rate of Return (or method of calculation):	Rates of return are based on current market rates. The rates are set throughout the year according to market conditions at commencement of the term.
Minimum Shareholding:	\$500 - \$10,000 depending on the account
Timing of Repayments:	At the end of the term*
Method of Withdrawal:	Counter withdrawal

\*Early withdrawals are permitted by application to NZECU - see section 1.3 of this PDS.

### **1.3 Withdrawals**

On call share account shares are usually available to be withdrawn at call, however, NZECU has the right under its rules and applicable law to require a 60-day notice period for withdrawal at any time. The Credit Union is not legally able to consent to any withdrawals when the Credit Union is unable to meet its debts as they fall due.

The methods of withdrawal that may be available in respect of each share account, as at the date of this PDS, are set out in the chart above.

For all other share accounts, you may make written application to NZECU for early withdrawal. No fees will be charged for early withdrawal. For Term Share Accounts, the rate of return may be adjusted for early withdrawals.

### **1.4 Terms of offer and other information**

You can find the terms of the offer and more information about fees and charges applicable to all accounts under the "Terms of Offer" document on NZECU's website:

<http://www.nzcuemployees.co.nz>, and on the Disclose register: [www.business.govt.nz/disclose](http://www.business.govt.nz/disclose).

## Section 2 NZECU and what it does

### 2.1 About NZECU

NZECU is a financial co-operative registered as a credit union under the Friendly Societies and Credit Unions Act 1982 (**FSCU Act**). NZECU was registered on 11 January 1972 (registration number 1802896). The FSCU Act, and all other legislation referred to in this document, are available on the New Zealand legislation website at <http://www.legislation.govt.nz>. NZECU is also registered on the Financial Service Providers Register under registration number FSP38064 and has a non-bank deposit taker licence (licenced on 22/12/14) under the Non-Bank Deposit Takers Act 2013 - details can be found on the Reserve Bank of New Zealand's (**RBNZ**) website <http://www.rbnz.govt.nz>. NZECU operates under rules prepared in accordance with the FSCU Act (**Rules**) which are registered with the Registrar of Friendly Societies and Credit Unions (**Registrar**) and lodged on the Disclose Register (<http://www.business.govt.nz/disclose>).

NZECU offers products and services such as savings accounts, loans, and insurance. NZECU is owned by the Members. This means that Members' funds are pooled together and are used to provide loans to all Members, but not to people who are not Members. Credit unions are not registered banks, but they are called "non-bank deposit takers". Non-bank deposit takers are regulated and monitored by the RBNZ and supervised by licensed supervisors. NZECU's supervisor, for the purposes of the Financial Markets Conduct Act 2013 and as defined under the Financial Markets Supervisors Act 2011, is Covenant Trustee Services Limited (**Supervisor**).

The objectives of NZECU are essentially:

- the promotion of thrift amongst its members by the accumulation of their savings,
- the use and control of the members' savings for their mutual benefit, and
- the training and education of the members.

NZECU's primary activity since its registration has been to provide a co-operative savings facility for members to form a loan fund and to make loans to members from that fund.

### 2.2 Industry Overview

NZECU operates in the finance industry and in particular the Savings and Loans sector. A Savings and Loans business is different from a bank or finance company in that it exists primarily to allow individuals to create a pool of funds to lend to each other. With a bank or finance company you can be just an investor or just a borrower but all credit union members are savers and borrowers.

The main operators in the savings and loans sector are credit unions and building societies with a total of approximately 200,000 customers and assets of \$1.4 billion.

### 2.3 Security Interest in Personal Property

The principal assets of NZECU consist of loans to members (approximately 98% of NZECU's loans are secured by Members' vehicles, savings and residential properties), furniture and fittings, office equipment, and computer equipment. The principal assets are used solely for the purpose of furthering NZECU's objectives. The principal assets are subject to a security interest in favour of the Supervisor. There is also a bond provided to the New Zealand Association of Credit Unions trading as Co-op Money NZ (**Co-op Money NZ**) pursuant to the Agency Banking and Card Services Exhibit between NZECU and Co-op Money NZ. NZECU has not granted any other charges over the principal assets.

### Breakdown of loan book as at 06 November 2017

Loan Type	Percentage	Security type	Percentage
Home loans	14%	Real property	12%
Personal loans	27%	Members' savings	44%
Car loans	56%	Motor vehicle	43%
Unsecured loans	3%	Unsecured	1%

## 2.4 Key Drivers of Returns

NZECU generates income from interest margins generated by lending to Members, commissions it receives on arranging loans and insurance for the Members, and also fees on financial transactions such as card payments. The current fees and charges are available through the Disclose Register <http://www.business.govt.nz/disclose> or on NZECU's website <http://www.nzcuemployees.co.nz>.

## 2.5 Other material matters

### *Breach of Trust Deed*

Under its Trust Deed, NZECU has covenanted to ensure that the maximum aggregate exposure of NZECU to related parties will not exceed 15% of NZECU's capital. Directors are related parties to the Credit Union. This ratio was breached when Mrs Ida Thomas was elected to the Board on 30 October 2013. Mrs Thomas had a mortgage with NZECU and, as a result of her Board appointment the aggregate related party exposure rose to 18.06%. The breach has since been rectified as Mrs Thomas retired from her position as director. The breach of Trust Deed was addressed and rectified in November 2013.

The breach of the related party ratio also put NZECU in breach of clause 5.2 (b) of its Trust Deed at the time. That clause provided that NZECU could not issue securities when in breach of any other provisions of that deed without consent from the Supervisor. In December 2013, the Supervisor granted approval for NZECU to continue issuing securities from 30 October 2013 until Mrs Thomas' retirement as a director, notwithstanding the breach described above.

### *Breach of condition of licence*

In May 2015 Mrs Ida Thomas was appointed to the Board as a Director of NZECU. The Director and Senior Officer notice was only submitted to the RBNZ in November 2015 thereby breaching NZECU's condition of licence. The RBNZ decided not to refer this likely breach to NZECU's Enforcement unit. The breach of the licence conditions was addressed and rectified on the 14<sup>th</sup> January 2016.



### **Section 3 No Credit Rating**

NZECU is exempt from the requirement to have its creditworthiness assessed by an approved rating agency. This is because it is operating under an exemption from the requirement of section 23 of the Non-bank Deposit Takers Act 2013 to have a credit rating, meaning that the creditworthiness of NZECU is not rated by a rating agency approved by the RBNZ under section 86 of the Non-bank Deposit Takers Act 2013. The exemption applies as NZECU has liabilities less than \$20 million, making it unduly onerous and burdensome to comply with the requirement under the Non-bank Deposit Takers Act 2013 to have a credit rating. This means that NZECU has not received an independent opinion of its capability and willingness to repay its debts from an approved source.

## Section 4 NZECU's Financial Information

NZECU is required by law and its trust deed to meet certain financial requirements. This table shows how NZECU is currently meeting those requirements. These are minimum requirements. Meeting them does not mean that NZECU is safe. The section on specific risk of investing sets out risk factors that could cause its financial position to deteriorate. The offer register provides a breakdown of how the figures in this table are calculated, as well as full financial statements.

### 4.1 Key ratios table and selected financial information

As this is a continuous offer, the Disclose Register contains NZECU's key ratios table as required by the Trust Deed and selected financial information. All are contained in the single document referred to as "Key Ratio and Other Financial Information" found on the Disclose Register website <http://www.business.govt.nz/disclose>.

### 4.2 Other Limitations, Restrictions and Prohibitions

#### *Other financial covenants*

Under the Trust Deed, NZECU has agreed, subject to the terms and conditions contained in the Trust Deed, to:

- (a) **Borrow money** - not borrow money or lend other than as permitted by the Trust Deed and the Rules;
- (b) **Liabilities** - not at any time permit NZECU's Creditor Liabilities to exceed 10% of Total Liabilities (terms as defined under the Trust Deed); and
- (c) **Base Capital Notes** - NZECU may, from time to time subscribe to Base Capital Notes, as defined in the rules of the New Zealand Association of Credit Unions trading as Co-op Money New Zealand (**Co-op Money NZ**), issued by Co-op Money NZ provided that such subscription is without prejudice to NZECU's obligations under clauses 7.1 (e) and 7.2 of the Trust Deed.

#### *Permitted security*

Although NZECU may borrow money from Co-op Money NZ for the sole purpose of managing cash flows or to cover NZECU's settlement obligations to Co-op Money NZ, such borrowing must not cause a breach of the Trust Deed's minimum capital, related party and liquidity restrictions or any laws to which NZECU may be subject or Rules and provided the principal amount outstanding at any time does not exceed 10% of NZECU's Total Tangible Assets at that time.

#### *Find out more*

The Trust Deed gives the Supervisor wide ranging powers to enforce NZECU's obligations under the Trust Deed, including the ability to appoint a receiver in certain circumstances. Depositors requiring further information as to NZECU's covenants and the enforcement powers of the Supervisor are referred to the Trust Deed, a copy of which can be found on the Disclose Register website: <http://www.business.govt.nz/disclose>.

## **Section 5   Guarantors**

Neither the Supervisor, Trustees, Directors nor any other party guarantee the repayment of the Shares, or the payment of any returns payable on Shares held in NZECU.

## **Section 6 Specific risks of investing**

Risk, in terms of your investment with NZECU, relates to the risk that the Credit Union may default on any of its obligations to you including not paying your investment back, or paying a lower return than you expected. All investments have some level of risk.

The main risk of you not getting your principal money back from NZECU is where it becomes insolvent. The principal risks that may significantly affect the solvency of NZECU and consequently any investment with the Credit Union are set out below.

The main risk of you receiving a lower return than expected is where NZECU does not make enough money to be able to pay the returns you may have expected. The principal risks that may affect the profitability of NZECU are also set out below.

### **6.1 Liquidity risk**

#### **Description of circumstance**

This is the risk that NZECU may not have sufficient levels of liquid assets to meet its obligations as they fall due, in a wide range of operating circumstances including unknown and unforeseen events and time of extreme liquidity pressure.

#### **Why circumstance is of significance**

This risk is significant to NZECU because any large group of Members could and may withdraw their on-call account at any time (or with relatively short notice)- there might not be enough funds to meet NZECU payment obligations.

#### **Likelihood of impact**

NZECU aims to manage liquidity risk by:

- (a) Continuously monitoring forecast and actual daily cash flows;
- (b) Reviewing the maturity profiles of financial assets and liabilities;
- (c) Maintaining adequate reserves, liquidity support facilities and reserve borrowing facilities;
- (d) Regularly monitoring loan repayments and comparing to forecast cash flows; and
- (e) Maintaining a liquidity coverage ratio of at least 1.4 at any time so NZECU has sufficient funds available to meet any short term funding deficit. The ratio was 2.4 as at 30 June 2017.

NZECU also has an \$85,500 standby facility with Co-op Money and a capital reserve of over \$600,000.00. The likelihood of impact of this risk under well managed circumstances is therefore low.

#### **Nature & potential magnitude of impact**

If a significant number of Members withdraw their money around the same time NZECU may face liquidity difficulties and thereby increases the risk of NZECU defaulting on its repayment obligations to Members. NZECU manages and reviews Members and borrowers by reporting to management on a daily and weekly basis. It also reports to the Supervisor on a monthly basis.

The potential magnitude of impact of this risk is mitigated by the 60 days' notice of withdrawal requirements under the FSCU Act. The relevant provision allows NZECU to demand notice from Members for any withdrawals and is allowed a maximum of 60 days to meet its repayment obligation. The impact on NZECU's ability to repay its Members as a result

of any liquidity issues will therefore be lowered by this requirement as NZECU does not have to repay Members immediately.

## 6.2 Credit risk

### Description of circumstance

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

### Why circumstance is of significance

If a significant number of Members fail to repay loans on time and the value of the asset(s) secured against the loan is insufficient to cover the outstanding payments (or where the loan is unsecured), or if such loans being defaulted on constitute a significant amount, NZECU may suffer loss and may not be able to meet its repayment obligations as they fall due. NZECU's profitability may also be affected. This risk is therefore significant.

### Likelihood of circumstance

NZECU has a large number of Members to whom loans are made. NZECU's credit policy is that loans are only made to Members who are creditworthy so the likelihood of a significant number of Members defaulting on their loans around the same time is relatively low.

### Nature & potential magnitude of impact

If a significant amount or number of loans are in default, NZECU may incur additional costs (e.g. legal and debt recovery costs) in order to recover outstanding debts. This may affect NZECU's profitability and if debts cannot be recovered in a timely manner, NZECU's ability to meet its repayment obligations to Members may also be affected. NZECU loan portfolio is made up of a majority of small (average loan is under \$5000) short term (under 5 years) personal loans with a small number of mortgages on residential properties. By keeping individual loan amounts low, the magnitude of impact on NZECU should one or more of the borrowers default is mitigated.

Mortgages are always secured so NZECU will likely recover most if not all of the monies defaulted. For home loans, NZECU requires first ranking security interest over the property as the mortgagee. As NZECU only has a small number of mortgages, any fluctuation or sudden drop in the property market will unlikely affect NZECU's ability to meet repayment obligations to Members as they fall due. As at 06 November 2017, NZECU's security make up is shown below:

Loans secured by mortgages	12%
Loans secured by motor vehicle	43%
Loans secured by savings	44%
Unsecured loans	1%

While residential properties have the potential to increase in value over time, motor vehicles are likely to decrease in value. As car loans make up the majority of NZECU's loan portfolio, its ability to repay Members will likely be impacted if a significant number of borrowers default on their car loans. This risk is mitigated by lending only to creditworthy Members and offering shorter repayment terms to minimise depreciation of motor vehicle over time. Furthermore vehicles being offered as security cannot be older than 15 years old.

## **6.3 Counterparty Risk**

### **Description of circumstance**

Counterparty risk is the risk that the other party to a financial instrument fails to discharge its obligation resulting in NZECU incurring a financial loss. This usually occurs when a counterparty fails to settle its obligations to NZECU.

### **Why circumstance is of significance**

There is a concentration of counterparty risk with respect to investment receivables, as investments are primarily with Co-op Money NZ and registered banks.

The Registrar of Friendly Societies and Credit Unions has recently formed the view that the current rules of Co-op Money do not comply with the requirements of section 143 of the FSCU Act. Co-op Money is appealing this decision in the High Court. Consequently, there is a significant risk that if Co-op Money is restricted from providing services to third party non-members, this is likely to cause financial difficulties for Co-op Money in the short to medium term which could affect NZECU's investments in Co-op Money and/or increase the cost of the services it provides to its member credit unions. If the cost of services increased significantly or NZECU investments were impaired then this may have a negative impact on NZECU financial position and profitability.

On the 16<sup>th</sup> November 2017 Justice Thomas issued a judgment regarding whether the Rules of Co-Op Money comply with section 143 of the FSCU Act. Justice Thomas issued her judgment allowing the appeal and overturning the decision of the Registrar. This means that Co-op Money NZ is not required to amend its Rules and that it can continue to provide services to both Associates and third parties.

Co-op Money is reliant upon maintaining 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 some services from Co-op Money and have indicated further planned reductions thus reducing Co-op Money's future revenue streams. There is a risk that this will cause significant financial difficulties for Co-op Money which could affect NZECU investments in Co-op Money and/or significantly increase the cost of services.

With the positive decision and outcome of the High Court this will allow Co-op Money to continue with its existing associates and third party business.

### **Likelihood of circumstance**

NZECU continually monitors Co-Op Money's financial performance and the need to impair its investments with Co-Op Money particularly in the circumstances described above. At the date of this PDS, NZECU considers the likelihood of this risk is low NZECU monitors and receives regular reporting from Co-op Money which also has an extensive business continuity programme and is regularly tested and audited.

### **Nature of impact & Potential magnitude of impact**

If Co-op Money defaults on its obligations, NZECU will lose a relatively significant amount of its assets which will affect its ability to meet repayment obligations to its Members.

Approximately 6.76% of the Credit Union's total assets (as at 30 June 2017) are with Co-op Money in the form of base capital notes and term deposits. There are no security or trust arrangements governing these assets. If Co-op Money NZ defaults on its obligations, NZECU's capital reserve will be reduced by \$121,000. NZECU may also lose some or all of its term deposits invested with Co-op Money NZ. This could adversely affect the confidence

Members have with NZECU and NZECU's ability to meet repayment obligations to its Members.

In addition to Co-Op Money, NZECU has an alternative investment with a registered bank which is separate from Co-Op Money.

#### **6.4 Security Realisation Risk**

##### **Description of circumstance**

Security realisation risk is where the value of security fluctuates due to changing market conditions.

##### **Why circumstance is of significance**

NZECU takes security over a range of assets, including personal property and real property. Security against property could be affected by a downturn of house prices. Personal property such as motor vehicles depreciates over the term of the loan.

Generally where motor vehicle loan security has to be realised, the proceeds from the disposal of those vehicles by way of auction have not been sufficient to cover the amount outstanding under the loan. When provisioning for bad debts NZECU does not take into account the value of vehicles held as security.

##### **Likelihood of circumstance**

The value of the vehicles is likely to depreciate over the period of the loans whereas property value may increase or decrease in value. Therefore there is a likelihood that NZECU may not realise full original value of the assets over time.

##### **Nature of impact**

If a significant number of Members fail to repay loans on time and the value of the asset(s) secured against the loan is insufficient to cover the outstanding payments (or where the loan is unsecured), or if such loans being defaulted on constitute a significant amount, NZECU may suffer loss and may not be able to meet its repayment obligations as they fall due.

##### **Potential magnitude of impact**

Before making a loan NZECU assesses the debt servicing ability of the member and any security offered by him or her for a loan advance. Furthermore, all of NZECU's loan accounts have a compulsory savings component, which is used as part of the Member's loan security and therefore the potential magnitude of any impact will be low.

#### **6.5 IT System Risk**

##### **Description of circumstance**

If any unforeseen technical issues arise causing NZECU's IT system to crash or if Co-op Money failed, the services that NZECU is able to provide to its Members would be restricted and limited.

##### **Why circumstance is of significance**

NZECU relies on Co-op Money's IT system to access vital information and ensure timely repayment of Shares to its Members. In the event that Co-op Money failed the immediate

short term availability of IT services to NZECU, then NZECU'S ability to provide services to its Members will be impeded.

#### **Likelihood of circumstance**

The likelihood is low, NZECU monitors the financial performance of Co-Op Money and receives regular reporting from Co-op Money. Co-op Money also has an extensive business continuity program that is regularly monitored, tested, and audited. NZECU also has plans in place in the event that Co-op Money was unable to provide IT services.

#### **Nature of impact**

NZECU may be unable to meet its repayment obligations to Members in a timely manner if its IT system unexpectedly fails.

#### **Potential magnitude of impact**

If the duration of an IT system failure is less than 24 hours the impact will be low. NZECU has in place a daily back up system with Co-op Money which is held off site in a cloud form and is therefore accessible from any member branch of Co-op Money.

If Co-Op Money failed, NZECU could move to an alternative provider, but this would be costly and involve a time delay. As at the date of this PDS, NZECU considers the likelihood of this risk low but the impact would be high.

### **6.6 Key Personnel Risk**

#### **Description of circumstance**

NZECU manages a portfolio of 1300 Members and has 5 full time staff and two part-time staff. Within the staff make up there is a General Manager who manages the daily operations of NZECU and reports directly to the Board of Directors. If any of its staff suddenly becomes unable to work, NZECU's business operations may be adversely affected.

#### **Why circumstance is of significance**

NZECU is a small credit union of 6.25 personnel (FTE). If one key person, such as the General Manger, suddenly becomes unable to work, other staff may not be readily trained to take over the role.

#### **Likelihood**

All staff employment contracts state that they are to provide 4 weeks' notice to terminate their employment and all staff are trained to work in multiple areas of NZECU. The likelihood of the risk eventuating is low and will only happen in cases of unforeseen circumstances.

#### **Nature of impact**

Unavailability of vital employees may adversely affect NZECU's business operations. Members may not be repaid in time where staff are unavailable or processes cannot be completed in a timely or competent manner as a result of insufficient staff.

#### **Potential magnitude of impact**



The potential magnitude of impact to the Members is low. NZECU can continue to function and operate its business as usual with minimal staff of 2.5 and with the assistance of Co-op Money for accounting processes.

Furthermore, NZECU currently has ongoing training methods in place where every employee is trained to cover all aspects of the duties of every department. In the case of management this would have to be covered with the help of Board of Directors and Co-op Money until a suitable candidate is found.

The banking service of NZECU's ATM, internet banking including loan applications, and phone banking services will continue to work even in the unlikely event that 5 of NZECU's fulltime staff and 2 of its part-time staff were unable to work.

## **6.7 Service Providers Risk**

### **Description of circumstance**

Currently Co-op Money NZ is the primary service provider to NZECU for the following services listed below. NZECU also has an investment in Co-op Money NZ to the value of \$121,618 and these are issued to NZECU in the form of Base Capital Notes (BCN).

- FACTs core banking services including the switching platform
- Cards services
- Central banking
- IT services
- ATM services

Fitch Ratings has downgraded the Long-Term Issuer Default Rating of Co-op Money NZ to 'BB' from BB+. The rating downgrade reflects that the capitalisation and liquidity positions of Co-op Money NZ are weaker than Fitch had anticipated at its most recent annual review in December 2017, suggesting reduced buffers against potential negative outcomes from the sale of the insurance operations, the roll-out of a new core banking system to members and its strategic business review.

### **Why circumstance is of significance**

In the event that Co-op Money NZ is unable to continue to provide its services to NZECU, this will have a significant adverse effect on NZECU's members and organisation. The immediate impact will restrict the members from having access to their funds for day to day activities and overall have limited access to their savings or deposits.

The impact on NZECU as an organisation will be crippling because it relies on Co-op Money NZ for its core banking services for daily transactions. To have another core banking service provider will be a costly event for NZECU. There is also the impact on NZECU's BCN that it may have to be devalued or have no value on its investment in Co-op Money.

### **Likelihood**

The likelihood is low. There is too much at stake for the credit union members to allow Co-op Money NZ to stop providing core banking services; however most of the other services that they provide can be outsourced to another party.

The likelihood is high that credit members may need to prop up Co-op Money NZ financially to continue operating in the short-term.

**Nature of impact**

If Co-op Money NZ was unable to continue to provide its core banking, cards and ATM services NZECU, it will have an immediate impact to NZECU's members. This will limit the functions of NZECU operations and members will have no access to their funds through the normal channels of transactions until an alternative service provider is found.

**Potential magnitude of impact**

The potential of Co-op Money NZ not being able to provide core banking services to NZECU is considered to be unlikely. Co-op Money NZ reports its financial position and its ability to continue providing its core banking services on a monthly basis to NZECU and to its members; however if Co-op Money NZ continues down the pathway of a negative return NZECU may consider an impairment on their BCNs.

Co-op Money NZ is owned by its members and the members have a vested interest in maintaining Co-op Money NZ as a viable business and its core banking services.

## **Section 7 Register Entry**

Further documents with regard to the debt securities offered by NZECU can be found by searching "New Zealand Employees Credit Union" (as issuer) at the following address:

<http://www.business.govt.nz/disclose>