

01 November 2018

IMPORTANT NOTICE

Dear Investor

RE: 2018 ANNUAL RESULTS – SUBSTANTIAL LOSS

We are writing to report on a very important matter that you should seriously consider when deciding whether to make an investment with ACU. This notice supersedes and replaces our notice dated 17 October 2018.

If you are in any doubt about the contents of this notice, then we strongly recommend you seek advice from a financial advisor.

Substantial Loss

For the year ended 30 September 2018, ACU has recorded a substantial unaudited operating loss of \$2,050,000 (this figure is subject to any changes required by the audit of the accounts currently being undertaken).

The main contributors to the loss are:

- a) Reduced loan fee income of approximately \$1,000,000;
- b) Reduced income from other business activities, i.e. EFTPOS and ATM fees of approximately \$350,000;
- c) Reduced interest income of approximately \$150,000;
- d) Increases in staff and administration costs of approximately \$330,000;
- e) Increase in provisioning of approximately \$400,000.

The loss is after:

- a) New overdraft fees income of approximately \$200,000 expected to be earned on a recurring basis.

ACU considers that the loss is primarily due to:

- a) ACU losing customers as a result of teething difficulties associated with its transfer to a new banking platform which meant that ACU was unable to serve customers as quickly as previously;
- b) These difficulties also resulting in management reports being produced that proved to be less reliable than what was previously produced and which have caused ACU to underestimate the extent of its loss.

ACU will make an operating loss of approximately \$60,000 for October 2018 but expects to break even or do slightly better in subsequent months.

ACU is now serving customers as quickly as previously and considers that the teething difficulties with its transfer to a new banking platform have now largely been resolved, but there remains a significant risk that they might not have been, or that they might re-occur in the future.

Solvency Capital

While the loss is substantial, ACU remains solvent and continues as a going concern, although it is in breach as at 30 September 2018 of its minimum capital ratio of 11% under its Trust Deed and also in breach of section 32 of the Non-bank Deposit Takers Act 2013. ACU now calculates its capital ratio as at 30 September 2018 to be 3.86%. ACU has notified the Reserve Bank and the Supervisor of these details. ACU needs to raise additional capital of approximately \$2,000,000 to comply with the capital ratio prescribed by its Trust Deed.

As a result of ACU breaching its capital ratio, the Supervisor declared an Event of Default under ACU's Trust Deed on 16 October 2018 and reserved its right to appoint a Receiver to ACU at any time. The Supervisor

reserved its right to exercise this power for the time being provided that ACU took the following steps. First, it forthwith engaged with any credit union that was willing and able to accept a transfer of engagements from ACU in order to rectify the default (ToE). Secondly, ACU was required to provide the Supervisor with an action plan of any actual or potential ToE as soon as possible and in any event no later than 31 October 2018. Thirdly, ACU was required to cease accepting new members. ACU is in the process of complying with these requirements. Nevertheless, and notwithstanding compliance with these requirements, the Supervisor has reserved its rights under ACU's Trust Deed, including the right to appoint a Receiver if it considers it is in the best interests of members.

ACU is actively trying to remedy the breach by seeking to transfer its engagements to another credit union, which ACU is actively pursuing, or by raising the necessary capital pursuant to a capital raising initiative which ACU is also pursuing.

Further details are provided in our latest Product Disclosure Statement.

If you have any questions relating to this notice, then please feel free to contact me – my details are listed below.

Yours sincerely

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