

REPLACEMENT PRODUCT DISCLOSURE STATEMENT

OFFER OF DEPOSITS ISSUED BY AOTEAROA CREDIT UNION

Dated 01 November 2018

Replacing a Product Disclosure Statement dated 17 October 2018

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. Aotearoa 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.

Important Notice – Capital Ratio Breach

Aotearoa Credit Union (Credit Union) has recorded a substantial unaudited operating loss of \$2,050,000 for the year ended 30 September 2018 (this figure is subject to any changes required by the audit of the accounts currently being undertaken). See section 5 of this document for further details. This puts us in breach as at 30 September 2018 of our minimum capital ratio of 11% under our Trust Deed and also in breach of section 32 of the Non-bank Deposit Takers Act 2013. The Credit Union now calculates its capital ratio as at 30 September 2018 to be 3.86%. The Credit Union has notified the Reserve Bank and the Supervisor of these details. The Credit Union 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 the Credit Union breaching its capital ratio, the Credit Union's Supervisor declared an Event of Default and an Event of Review under the Credit Union's Trust Deed on 16 October 2018 and reserved its right to appoint a Receiver to the Credit Union at any time. The Supervisor reserved its right to exercise this power for the time being provided that the Credit Union took the following steps. First, it forthwith engaged with any credit union that was willing and able to accept a transfer of engagements from the Credit Union in order to rectify the default (ToE). Secondly, the Credit Union 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, the Credit Union was required to cease accepting new members. The Credit Union is in the process of complying with these requirements. Nevertheless, and notwithstanding compliance with these requirements, the Supervisor has reserved its rights under the Credit Union's Trust Deed, including the right to appoint a Receiver if it considers it is in the best interests of members.

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

SECTION 1: KEY INFORMATION SUMMARY

What is this?

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

About Aotearoa Credit Union

Aotearoa 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" to members: Access Account, Bill Payee Account, Christmas Club Account, Education Account, Home Deposit Account, Insurance Account, Junior Saver Account, Loan Disbursal Account, Loan Provider Account, Special Savings Account, Serious Saver Account, Staff Account, Student Account, and Super Account.
Interest rates	Interest rates on call accounts are published by the Credit Union and are subject to change from time to time. At the date of this document no interest is paid on the Access Account or the Loan Disbursal Account. Interest rates can be found by telephoning the Credit Union on 0800 240 200 or 09 2778244. Rates and a copy of our Investment Statement are also available from the website www.acu.nz
Offer opening and closing dates	The offer opened on 15 November 2016. This is a continuous offer, so there is no closing date.
Dates and frequency of interest payments	The interest (if any) 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 secured redeemable shares, called "term accounts" with terms of 1, 3, 6, 9, 12, 18, 24 and 36 months to members.</p> <p>The Credit Union also offers the following term accounts to members - Christmas Club Account and Home Deposit Account. The Christmas Club Account is repayable between 1 December and 31 January each year. Earlier withdrawals are payable, but incur a \$10 withdrawal fee. The Home Deposit Account is repayable only when used towards a deposit on a house purchase.</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 is calculated and paid in arrears either monthly, quarterly, 6 monthly, annually or upon maturity, at the member's option. The return may be paid to another share or bank account.</p> <p>Interest rates on the term accounts are published by the Credit Union and are subject to change from time to time. The rates of returns are tiered, based on the minimum monthly balance held.</p> <p>Interest on the Christmas Club Account is set immediately prior to maturity (1 December) per market conditions.</p> <p>Interest rates can be found by telephoning the Credit Union on 0800 240 200 or 09 2778244. Rates are also available from the website www.acu.nz.</p> <p>The interest rate on a term account will be fixed for the length of the term. On expiry of the term the deposit will be reinvested for an equivalent term at the then current interest rate, unless a member has, prior to the expiry of the term, given written notice to the Credit Union requesting that the funds be placed in a call account. No notice of reinvestment needs to be given to the member.</p>
After opening and closing dates	<p>The offer opens on 15 November 2016. This is a continuous offer, so there is no closing date.</p>
Dates and frequency of interest payment	<p>Interest on term accounts is paid at intervals as described above. Interest on the Christmas Club Account is paid on withdrawal. Interest on Home Deposit Accounts is paid at the end of each month and on withdrawal.</p>
Early withdrawal	<p>Withdrawals from a Christmas Club Account prior to 1 December incur a \$10 withdrawal fee. One withdrawal per year is permitted from a Home Deposit Account, and this attracts a withdrawal fee of \$10. If a member requires more than one withdrawal in any year, the Home Deposit account may be closed and the funds transferred to an Access Account or a Serious Saver Account.</p>

	Early withdrawals from term accounts must be requested in writing by a member and incur a break cost as described below under "How you can get your money out early".
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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, on the Credit Union's website www.acu.nz or from any Credit Union branch.

No guarantee

The accounts are not guaranteed by the Credit Union, 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

Funds in call accounts can generally be withdrawn at call. However, the Notice of Withdrawal Accounts require 14 days' prior notice of withdrawal (to avoid the \$10 withdrawal fee). The Christmas Club Accounts also attract a \$10 fee if a withdrawal is requested before 1 December. The Home Deposit Accounts attract a \$10 withdrawal fee on any withdrawal and may be converted to an Access Account or a Serious Saver Account if there is more than one withdrawal in any year.

Early withdrawals from term accounts must be requested in writing by a member and incur a break rate of 2% which is applied to the actual term the investment was held for. For example, if an investment had been made for 12 months at 4.25% p.a. and an early redemption request was made 9 months into the term, the rate of interest payable is reduced to the 9-month rate of 4.00% p.a. less the break rate reduction of 2%. Accordingly, the gross interest would be 2% p.a.

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 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 Aotearoa Credit Union's financial information?

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

Key Risks affecting this investment

Investments in debt securities have risks. A key risk is that Aotearoa 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. Aotearoa Credit Union considers that the most significant risk factors are:

- **Credit Risk:** This is the risk of people to whom the Credit Union has lent money not repaying their loans or making interest payments on time or the failure of organisations with which the Credit Union has deposited funds. Management of this risk includes assessment of the creditworthiness of borrowers and the value of any security given to support lending. The

Credit Union has an unsecured exposure to the New Zealand Association of Credit Unions ("Co-op Money"). See Section 6 of this document for further detail.

- **Liquidity Risk:** This is the risk that the Credit Union may encounter difficulties meeting its repayment obligations (e.g. to members wanting to withdraw money) because of a lack of available liquid assets. Traditionally members' funds at call and payable within one month exceed loans repayable within the same timeframe. The methods that the Credit Union uses to manage this risk are described in Section 6 of this document (Risks of Investing).

This summary does not cover all of the risks of investing in the accounts. You should also read Section 6 (Risks of Investing).

No Credit Rating

Aotearoa Credit Union is exempt from the requirement to have its creditworthiness assessed by an approved rating agency. This is because Aotearoa Credit Union is exempted under the Non-Bank Deposit Takers (Credit Ratings Minimum Thresholds) Exemption Notice 2016 ("Exemption Notice"). The Exemption Notice applies because Aotearoa Credit Union has liabilities of less than \$20 million, making it unduly onerous for it to comply with the requirement under the Non-Bank Deposit Takers Act to have a credit rating, and Aotearoa Credit Union maintains a capital ratio of at least 10%. This means that Aotearoa 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.

Call Accounts	
Description of Securities	The Credit Union offers the following call accounts: Access Account, Bill Payee Account, Christmas Club Account, Education Account, Home Deposit Account, Insurance Account, Junior Saver Account, Loan Disbursal Account, Loan Provider Account, Special Savings Account, Serious Saver Account, Staff Account, Student Account, and Super Account.
Minimum investment amount	The minimum investment amount, as at the date of the document, is \$10 and the maximum, as at the date of this document, is \$250,000.
Term	Call accounts are generally repayable at call. However, the Loan Provider Account requires 14 days' prior notice of withdrawal. Also, 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 0800 240 200 or 09 2778244. Rates are also available from the website www.acu.nz . Returns on Junior Saver and Serious Saver Accounts are tiered (based on amounts in those accounts). The Loan Provider Account has a single interest rate. The Access Account is a transactional account and the Loan Disbursal Account is an administrative account for loans. No interest is payable on the Access Account or the Loan Disbursal Account. Interest on all call accounts is paid on the minimum monthly balance (MMB).
Offer opening and closing dates	The offer opens on 15 November 2016. This is a continuous offer, so there is no closing date.
Dates and frequency of interest payments	The interest on call accounts (if any) is paid monthly in arrears and on closure of the accounts.
Ranking on liquidation	Call accounts are secured by a first ranking security interest over all the assets of the Credit Union in favour of the Supervisor, which is subject to the following potential prior charges: <ul style="list-style-type: none"> • preferential creditors whose claims arise through the operation of law, including employer wages, taxes and liquidation costs; • permitted prior charges under the Trust Deed in favour of the Co-op Money. This can be up to 10% of total tangible

	<p>assets. At the date of this document there is no prior charge in this category;</p> <ul style="list-style-type: none"> • Supervisor's fees, costs and disbursements. <p>Call accounts rank equally with all other call accounts and with all term accounts with the Credit Union. Call accounts rank ahead of unsecured creditors, to the extent permitted by law.</p>
Transfer rights	<p>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.</p>
Term Accounts	
Description of securities	<p>The Credit Union offers term accounts of 1, 3, 6, 9, 12, 18, 24 and 36 months. There is also a Christmas Club Account which is only repayable between 1 December and 31 January in each year and the Home Deposit Account, which is only repayable when the funds are used towards a house purchase.</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 investment amount for ordinary term deposits is \$500. The minimum amount for the Christmas Club Account and the Home Deposit Account is \$10.</p> <p>The maximum amount, at the date of this document, for any term account is \$250,000. 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>There are term accounts of 1, 3, 6, 9, 12, 18, 24 and 36 months and the Christmas Club Account and Home Deposit Account, as referred to above.</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 0800 240 200 or 09 2778244. Rates are also available from the website www.acu.nz. 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 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 opens on 15 November 2016. This is a continuous offer, so there is no closing date.</p>
Dates and frequency of interest payments	<p>Interest is calculated and paid either monthly, quarterly, 6 monthly, annually or upon maturity, at the member's option. The return may be paid to another share or bank account.</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"> • preferential creditors whose claims arise through the operation of law, including employer wages, taxes and liquidation costs;
	<ul style="list-style-type: none"> • 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; • Supervisor's fees, costs and disbursements. <p>Term accounts rank equally with all other term accounts and with all call accounts with the Credit Union. Term accounts rank ahead of unsecured creditors, to the extent permitted by law.</p>
Transfer rights	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.
Early withdrawal	<p>Withdrawals from a Christmas Club Account prior to 1 December incur a \$10 withdrawal fee. One withdrawal per year is permitted from a Home Deposit Account, and this attracts a withdrawal fee of \$10. If a member requires more than one withdrawal in any year, the Home Deposit account may be closed and the funds transferred to an Access Account or a Serious Saver Account.</p> <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 may be adjusted.</p> <p>Early withdrawals from term accounts must be requested in writing by a member and incur a break rate of 2% which is applied to the actual term the investment was held for. For example, if an investment had been made for 12 months at 4.25% p.a. and an early redemption request was made 9 months into the term, the rate of interest actually payable is reduced to the 9-month rate of 4.00% p.a. less the break rate reduction of 2%. Accordingly, the gross interest would be 2% p.a.</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, on the Credit Union's website www.acu.nz or from any Credit Union branch.

Trust Deed

Accounts are opened subject to and governed by the provisions of a trust deed between the Supervisor and the Credit Union, a deed of amendment and restatement dated 1 November 2016 (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.

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. Copies are also available at the Credit Union's website www.acu.nz and upon request at any branch of the Credit Union.

Offer made to members

This offer is only open to members, who are:

- Those persons residing or working within the territory of the Te Tai Tokerau, Tamaki Makaurau, Hauraki-Waikato, Waikato, Te Tai Hauauru or Ikarua Rawhiti electoral districts and the main centres of the Te Tai Tonga electorate;
- 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

The Rules require that there are not less than 5 nor more than 7 directors. Directors are elected by the members at the annual general meeting. The directors are to determine and implement the policies of the Credit Union and are responsible for the general management of the affairs of the Credit Union.

Trustees

The Rules require that there be 2 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.

Transferring shares and nomination

Shares in the Credit Union are not transferable.

However, you may nominate in writing that on your death a person is to receive up to \$2,000 of your accounts in the Credit Union.

Non-Qualifying members

If a member ceases to meet the membership criteria that member will become a non-qualifying member.

A non-qualifying member may, subject to the provisions of the FCU Act and the Rules, subscribe for shares and receive loans. A loan to a non-qualifying member may not exceed the shares held by that member.

The number of non-qualifying members must not exceed 10% of the total membership of the Credit Union. If the number of non-qualifying members exceeds 10% of the total membership of the Credit Union, the Credit Union will terminate the membership of the number of non-qualifying members necessary to ensure it meets this level in accordance with the Rules.

For further detail on the above, please refer to the Rules, a copy of which can be found on the Offer Register, at www.business.govt.nz/disclose or at www.acu.nz and upon request at the registered office of the Credit Union.

SECTION 3: AOTEAROA CREDIT UNION AND WHAT IT DOES

Overview

The Credit Union was established under the FCU Act on 26 January 1990.

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.

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

Since its establishment the Credit Union has operated in the finance industry sector, by taking deposits and making loans. Members deposit money into one or more accounts with the Credit Union. The Credit Union uses the moneys deposited into the accounts to make loans to its members. The interest paid to the Credit Union on the loans (less the Credit Union's costs, expenses and reserves) is passed back to members by way of interest paid on members' accounts.

Money not lent out to members is held in deposits with registered banks and with Co-op Money.

Under the terms and conditions of our banking arrangements with Co-op Money, we provide a settlement bond that is held for us by Co-op Money on term deposit. In the event that members of Co-op Money are unable to settle their interbank requirements the settlement bonds posted by members provide security to Co-op Money in respect of obligations which it settles on behalf of its members.

We also maintain a current account with Co-op Money.

Recently, the Friendly Societies and Credit Unions (Regulatory Improvements) Amendment Act 2018 (the *Amendment Act*) was passed. The Amendment Act will have some implications on our operation as a credit union including:

- providing a process for us to become incorporated;
- permitting financing of small to medium enterprises where the small and medium sized enterprise is related to a member within specified thresholds, if authorised under our Rules;
- allowing Co-op Money to provide a wide range of services to any non-member entity, if authorised under their Rules; and
- enabling us to have all of the powers of a natural person in pursuance of our objects described above.

There is currently no implementation date for the Amendment Act. However, the changes are currently expected to come into force progressively over the next 12 to 18 months.

Relevant Action – Trust Deed and NBDT Act

The maximum aggregate exposure of the Credit Union to related parties must not exceed 15% of the Credit Union's capital. In October 2017, this exposure increased to 17.7% due to one of the Credit Union's Board members becoming the holder of substantial interests in both the Credit Union and Manukau Urban Maori Authority (MUMA), one of the Credit Union's borrowers. This caused the Credit Union to inadvertently breach the 15% threshold. This was brought to the Credit Union's notice on 1 June 2018, and the breach was rectified by the relevant Board member resigning his position with (and therefore ceasing to have a substantial interest in) the Credit Union on 8 June 2018. On 1 July 2018, the relevant Board member was appointed Chief Executive Officer of the Credit Union, which resulted in MUMA again becoming a related party of the Credit Union. However, at the same time, MUMA partially repaid its loan from the Credit Union to bring the Credit Union's aggregate exposure to related parties within the 15% threshold.

The number of member credit unions in Co-op Money reduced to ten on 31 July 2018. As a result our exposures to Co-op Money became related party exposures from 31 July 2018 as defined in section 6 of the Non-Bank Deposit Takers Act 2013 due to each credit union having 10% or more of the voting rights in Co-op Money. Excluding our settlement bond (which is not treated as a related party exposure) this means our related party exposures to Co-op Money as at 31 July 2018 were \$1,452,222. There is work underway to mitigate or remedy in full these exposures. However, in the interim this put us in breach of our related party exposure ratio as from 31 July 2018 as it increased this ratio above the permitted 15% threshold to an estimated 64% (this estimate is calculated based on our related party exposures as at 31 July 2018 and our capital as at 30 June 2018 which was the end date of the period of our latest Quarterly Report filed on the Disclose Register).

Co-op Money member credit unions have received a no action letter from the Reserve Bank of New Zealand ("Reserve Bank") to cover the period from the end of 31 July 2018 to 30 September 2018, while the Reserve Bank continues to consider the exemption application for certain exposures to Co-op Money. The no action letter is subject to the conditions that we:

- do not take any new types of exposures to Co-op Money (noting that the size of the existing exposures will fluctuate for ordinary business reasons); and
- comply with any notice issued under section 47 of the Non-bank Deposit Takers Act 2013 requiring information on related party exposures to be reported to the Reserve Bank.

In addition to notifying the Reserve Bank, we have also notified our Supervisor. The Supervisor has given permission for us to continue to issue securities from 31 July 2018 to 30 September 2018 and will not treat this as an Event of Default. The Supervisor has agreed to this subject to the following conditions:

- we, at all times, meet the conditions imposed by the Reserve Bank in their no action letter;
- we will not materially increase related party exposures (other than Co-op Money) without the permission of the Supervisor;
- the monthly report to the Supervisor will set out an analysis of the related party exposures (particularly to Co-op Money); and
- information related to the breach and the No Action Letter from the Reserve Bank and the Supervisor's consent and no-Event of Default is disclosed in this PDS, our directors quarterly certificates and the Reserve Bank monthly report.

We continue to research available options with the Co-op Money member credit unions to reduce this exposure.

The Credit Union has recorded a substantial unaudited operating loss of \$2,050,000 for the year ended 30 September 2018 (this figure is subject to any changes required by the audit of the accounts currently being undertaken). See section 5 of this document for further details. This puts us in breach as at 30 September 2018 of our minimum capital ratio of 11% under our Trust Deed and also in breach of section 32 of the Non-bank Deposit Takers Act 2013. The Credit Union now calculates its capital ratio as at 30 September 2018 to be 3.86%. The Credit Union has notified the Reserve Bank and the Supervisor of these details. The Credit Union 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 the Credit Union breaching its capital ratio, the Supervisor declared an Event of Default and an Event of Review under the Credit Union's Trust Deed on 16 October 2018 and reserved its right to appoint a Receiver to the Credit Union at any time. The Supervisor reserved its right to exercise this power for the time being provided that the Credit Union took the following steps. First, it forthwith engaged with any credit union that was willing and able to accept a transfer of engagements from the Credit Union in order to rectify the default (ToE). Secondly, the Credit Union 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, the Credit Union was required to cease accepting new members. The Credit Union is in the process of complying with these requirements. Nevertheless, and notwithstanding compliance with these requirements, the Supervisor has reserved its rights under the Credit Union's Trust Deed, including the right to appoint a Receiver if it considers it is in the best interests of members. The Credit Union is actively trying to remedy the breach by seeking to transfer its engagements to another credit union, which the Credit Union is actively pursuing or by raising the necessary capital pursuant to a capital raising initiative which ACU is also pursuing.

Relevant Action – AML/CFT Programme

The Reserve Bank of New Zealand ("RBNZ") conducted an on-site inspection of the Credit Union's Anti-Money Laundering and Countering Financing program in February 2015. Following this a further investigation was undertaken by RBNZ in October 2015.

In September 2016 RBNZ advised the Credit Union it had reasonable grounds to believe that between June 2013 and February 2015 the Credit Union did not comply with certain of its obligations under the Anti-Money Laundering and Countering of Financing and Terrorism Act 2009 ("Act").

RBNZ has accepted an enforceable undertaking from the Credit Union under section 81 of the Act, to review its risk assessment and AML/CFT programme and amend the identified deficiencies that contributed to its failure to meet its obligations. The enforceable undertaking is an agreement between the RBNZ and the Credit Union that the Credit Union will take specific steps to amend or correct deficiencies in its risk assessment and AML/CFT programme. If the Credit Union fails to meet the terms of the enforceable undertaking, RBNZ may apply to the Court for an order directing the Credit Union to comply with the agreement.

To meet its undertaking the Credit Union has taken assistance from external third parties to review monitoring and compliance procedures. The Credit Union has also completed an AML/CFT review work programme to address matters raised by RBNZ. This work was reviewed by an RBNZ approved independent auditor. RBNZ subsequently conducted an AML/CFT on site visit at the Credit Union's Head Office in August 2017, focusing on the areas covered by the undertaking. Following that review RBNZ required the Credit Union to update its AML/CFT programme by 31 December 2017 to achieve compliance. The Credit Union has taken this action.

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 interest based on the financial position of the Credit Union at its most recent balance date is incorporated by reference into this document and is available on the on-line Disclose Register www.business.govt.nz/disclose.

The Credit Union is permitted under the Trust Deed to create a security interest 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.

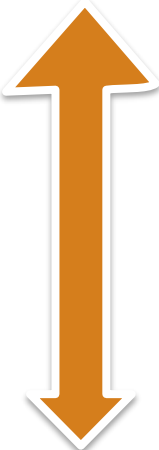
Financial covenants

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

- to maintain its capital ratio at 11% or more. The Credit Union is currently in breach of its capital ratio. See page 1 for further details;
- to ensure the maximum aggregate exposure of the Credit Union to related parties will not exceed 15% of the Credit Union's capital (for further details on the current position, see "Relevant Action – Trust Deed and NBDT Act" in Section 3 of this document);
- 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.

	Ranking on liquidation of Aotearoa Credit Union	Examples of Liabilities	
	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	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 (www.business.govt.nz/disclose)
	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.	
High ranking/priority			
Lower ranking/priority			

SECTION 5: AOTEAROA CREDIT UNION'S FINANCIAL INFORMATION

On the online Disclose Register (www.business.govt.nz/disclose) there is a document filed under the Credit Union's offer information entitled "Aotearoa Credit Union's 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. The Credit Union is currently in breach of its capital ratio. See page 1 for further details.
- Related party exposures
- Liquidity ratio
- Other selected financial information

The Credit Union's financial statements for the year ending 30 September 2017 were required to be audited and provided to the Supervisor and the Registrar of Friendly Societies and Credit Unions by 31 December 2017 and filed on the Disclose Register by 31 January 2018. This did not happen. The incompleteness of the audit was primarily due to the auditor needing to be satisfied that the Credit Union was entitled to capitalise certain costs incurred in configuring the core banking system introduced by Co-op Money as part of its core computer operating system in August 2017 to the Credit Union's needs and also being satisfied that the Credit Union was entitled to capitalise payments made to Co-op Money in relation to that system. Failure to be able to capitalise these costs and payments would have had substantial negative impact on the Credit Union's profitability. With the auditor's approval, the Credit Union commissioned an opinion on the treatment of these costs and payments. That opinion was received and confirmed that subject to satisfaction of certain conditions these costs and payments could be capitalised. All relevant regulatory authorities were alerted to the issue. The failure to file financial statements for the year ending 30 September 2017 meant that the Credit Union breached its Trust Deed. The Credit Union's financial statements have now been filed with the relevant regulatory authorities and the Supervisor has

declared an Event of Review that arose under the Credit Union's Trust Deed as a result of the breach to be at an end. The Credit Union's financial statements for the year ended 30 September 2017 disclose a substantial financial loss of \$804,939 for that year. Details of this loss are set out in a letter that has been posted on the Disclose Register (www.business.govt.nz/disclose) under material information and posted on the Credit Union's website www.acu.nz.

The Credit Union has recorded a substantial unaudited operating of \$2,050,000 for the year ended 30 September 2018 (this figure is subject to any changes required by the audit of the accounts currently being undertaken) (the operating loss for the year ended 30 September 2017 was \$54,877). Details of this loss are set out in a letter that has been posted on the Disclose Register (www.business.govt.nz/disclose) under material information and posted on the Credit Union's website www.acu.nz.

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 Aotearoa Credit Union's creditworthiness

Liquidity risk

Liquidity risk is the risk that the Credit Union may encounter difficulties raising funds to meet commitments, either to advance loans or to repay members' accounts. Many members can withdraw their moneys immediately or on very short notice. However, lending terms are on average 4 years. This means that the financial statements show a liquidity deficiency in relation to members' deposits payable within one month and loan repayments receivable during that time period.

Historically, members have "rolled over" short term investments and not withdrawn money so that the liquidity mismatch has not actually caused liquidity issues. However, if "roll over" or reinvestment rates in term accounts materially reduced there is a risk that the Credit Union would not have enough cash to repay members wanting to withdraw their funds.

The Credit Union aims to manage liquidity risk by:

- Continuously monitoring forecast and actual daily cash flows.
- Reviewing the maturity profiles of financial assets and liabilities.
- Maintaining adequate reserves, liquidity support facilities and reserve borrowing facilities.
- The Credit Union's policy is to maintain at least 10% of its total assets as liquid assets capable of being converted to cash within 7 days.

In addition:

- the Credit Union also has the discretion to defer payment of shares for up to 60 days; and
- the Credit Union must comply with the liquidity coverage ratio, more particularly described under the Trust Deed summary.

Credit risk

Credit risk is the risk of members not repaying their loans or not making interest payments on the due date. Many members are in a lower socio-economic grouping, meaning they may have limited ability to repay loans. Also, the Credit Union has a concentration of members in Auckland.

A Government policy change with respect to welfare benefits could have an adverse impact on members (and result in greater level of delinquency). A downturn in the Auckland economy would likewise have an adverse impact on members.

The Credit Union's predominant form of security is against motor vehicles and boats. The security value of motor vehicles and boats significantly decreases over time. This means that, if there is a loan default, the Credit Union may not be able to realise the full loan amount from the sale of the car or boat over which it has security.

The Credit Union has established policies or procedures to attempt to mitigate the above credit risk. These include:

- Credit assessment and approval of loans and facilities covering acceptable risk assessment and security requirements.
- Limits of exposure over the value to individual borrowers (loans are of small amounts).
- Putting in place geographical limits on lending and also limits on loans to members employed in industries considered to be of high risk.
- Reassessing and review of credit exposures on loans and facilities.
- Strict debt recovery procedures.

Co-op Money credit risk

In addition to its bank deposits, the Credit Union invests through the Co-op Money central banking deposit scheme and holds base capital notes issued by Co-op Money. Base capital notes are subordinated to rank behind other debts of Co-op Money. There are no trust or security arrangements governing these investments. There is also no active market for the base capital notes issued by Co-op Money. The Credit Union is not able to call for repayment of the base capital notes.

There is, accordingly, a concentration of credit risk in relation to the Credit Union's investments in Co-op Money which are unsecured and subordinated. If Co-op Money defaulted in its obligations, the Credit Union would experience losses which could affect payment obligations to members.

In November 2016, the Registrar of Friendly Societies and Credit Unions formed the view that the current rules of Co-op Money did not comply with the requirements of section 143 of the FCU Act. This decision was appealed in the High Court and the High Court reversed the Registrar's decision.

Co-op Money is reliant upon maintaining a certain level of business in order to have the scale to provide its essential services efficiently. 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 significant risk this will cause financial difficulties for Co-op Money which would be likely to significantly negatively affect our investments in Co-op Money and/or significantly increase the costs of services.

An important milestone for Co-op Money is the regulatory approval and completion of the sale of its insurance business to a third party provider in order to release capital to Co-op Money. The sale of Co-op Money's non-life insurance policies has been approved for transfer by the Reserve Bank. Co-op Money is still awaiting approval for the sale and transfer of its life insurance policies which will provide the necessary release of capital.

The Credit Union continually monitors Co-op Money's performance and the need to impair its investments with Co-op Money. \$220,230 of the loss of \$804,939 for the year ended 30 September 2017 was due to the write-down of the Credit Union's investments with Co-op Money. There is still a significant risk that further write-downs of these investments have to be made in the future.

Co-op Money 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. Co-op Money has upgraded its core computer operating system and in August 2017 the Credit Union transferred on to the new platform, which serves as the Credit Union's banking platform. 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 withdrawal and reinvestment rates and severely affect the Credit Union's ability to meet its payment obligations to its members.

By way of mitigation against this risk, Co-op Money has advised that it has a business continuity and disaster recovery programme that is regularly tested and audited.

Core Computer Operating System

The Credit Union has experienced teething difficulties with its transfer to a new banking platform which has resulted in:

- a) ACU losing customers as a result of it being unable to serve customers as quickly as previously;
- b) ACU receiving management reports that have proved to be less reliable than what was previously provided and which have caused ACU to underestimate the extent of its losses.

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.

Continuation of losses

The Credit Union suffered an operating loss for the year ended 30 September 2017 and has now sustained a substantial operating loss of \$2,050,000 for the year ended 30 September 2018 (see page 14) (this figure is subject to any changes required by the audit of the accounts currently being undertaken). The Credit Union considers that the losses are primarily due to teething difficulties with the transfer to a new banking platform and that they have now largely been resolved. However, there remains a significant risk that the difficulties might not have been resolved or that they might re-occur in the future, and lead to continued losses. The Credit Union will make an operating loss of approximately \$60,000 for October 2018 but expects to break even or do slightly better in subsequent months.

Capital ratio risk

This is the risk that the Credit Union's capital ratio is not sufficient to enable it to absorb any further significant losses without risking insolvency. Under its Trust Deed the Credit Union is required to maintain a capital ratio of 11%. As a result of reporting a substantial operating loss for the year ended 30 September 2018, the Credit Union's capital ratio has fallen to 3.86%, which puts it in breach of its Trust Deed and section 32 of the Non-bank Deposit Takers Act 2013 (see page 1 for further details). This poses a significant risk that the Credit Union does not have sufficient reserves to absorb further significant losses.

Going concern risk

The Credit Union is solvent and continues as a going concern. However, it recorded a substantial operating loss for the year ended 30 September 2018 which put it in breach of its capital ratio (see page 1). Should the Credit Union be unable to remedy this breach during the remainder of this year by the initiatives it is currently pursuing (see page 1), or the Credit Union sustain further significant losses, then that may cast significant doubt on the Credit Union's ability to continue as a going concern.

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.

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

SECTION 8: WHO IS INVOLVED?

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

SECTION 9: HOW TO COMPLAIN

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

In the first instance complaints should be made to the manager or chief executive officer of the Credit Union or, if you still have problems, to the board of Aotearoa Credit Union at:

Unit B/123
Ormiston Road
Botany Junction
Auckland 2016

Telephone: (09) 277 8244

If you are still not satisfied, you may raise concerns with the Supervisor - Covenant Trustee Services Limited.

Level 6, 191 Queen Street
PO Box 4243, Shortland Street
Auckland 1140

Telephone: (09) 302 0638

As a financial service provider registered under the Financial Service Providers (Registration and Dispute Resolution) Act 2008 Aotearoa 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

Email: info@fscl.org.nz

SECTION 10: WHERE YOU CAN FIND MORE INFORMATION

Further information relating to the 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 not presently provide information to investors on an annual basis, however, *account statements* are posted to members every 6 months and maturity letters for term shares are posted prior to maturity.

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 band (see section 1 of this document). The current version of the application form is attached to this document, but the Credit Union may change the form from time to time. An up to date application form will always be available to be downloaded from our website www.acu.nz and at any Credit Union branch. Enquires about investing can be made to:

ACU Investment Line 0800 442 860 or by emailing info@acu.nz or any Credit Union Branch.

SECTION 12: CONTACT INFORMATION

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

Aotearoa Credit Union
Unit B, 123 Ormiston Road
Botany Junction
Auckland 2016

Phone: (09) 277 8244

Fax: (09) 279 8244

Email: info@acu.nz