

Proposal to Create a Nationwide Credit Union of the Future



Introduction

1. Merger Proposal
2. Benefits
3. Process
4. Partners
5. Proposed Timeline
6. Challenging Operating Environment
7. Future State
8. Implications of Proposal if not Approved
9. Summary
10. Disclaimer



Merger Proposal

- Delivers to a New Zealand credit union sector being a sustainable, long-term, viable financial services alternative.
- A common desire exists to be the best, delivering on the credit union mission - 'people helping people' today, and tomorrow.
- The formation of a larger, more resilient credit union will increase opportunities to deliver improved products, services and competitive fees.
- The merger seeks to ensure the credit union option in the financial services market is available to all New Zealanders into the future.
- Upon completion, the merged credit union will be comparable to other notable financial services providers such as SBS and the Cooperative Bank, as leading member owned alternatives to mainstream banking in New Zealand. It will likely be the eighth largest non-bank in the New Zealand market.



Merger Proposal continued

The merger of Credit Union South to Credit Union Baywide is part of a wider merger including three other credit unions – Aotearoa Credit Union, Credit Union Central and Steelsands Credit Union in New Zealand.

The Credit Union South Board of Directors unanimously support and recommend the merger.



Benefits

Increased Geographic Presence

- Convenient branch locations
- Easy access throughout NZ
- Less brand confusion in market place
- Access to new markets

New Levers for Growth

- Leverage strength and capabilities of all merging credit unions
- Scales of efficiency for growth
- Ability to offer new products and services
- Greater marketing spend

Solidifies Financial Strength

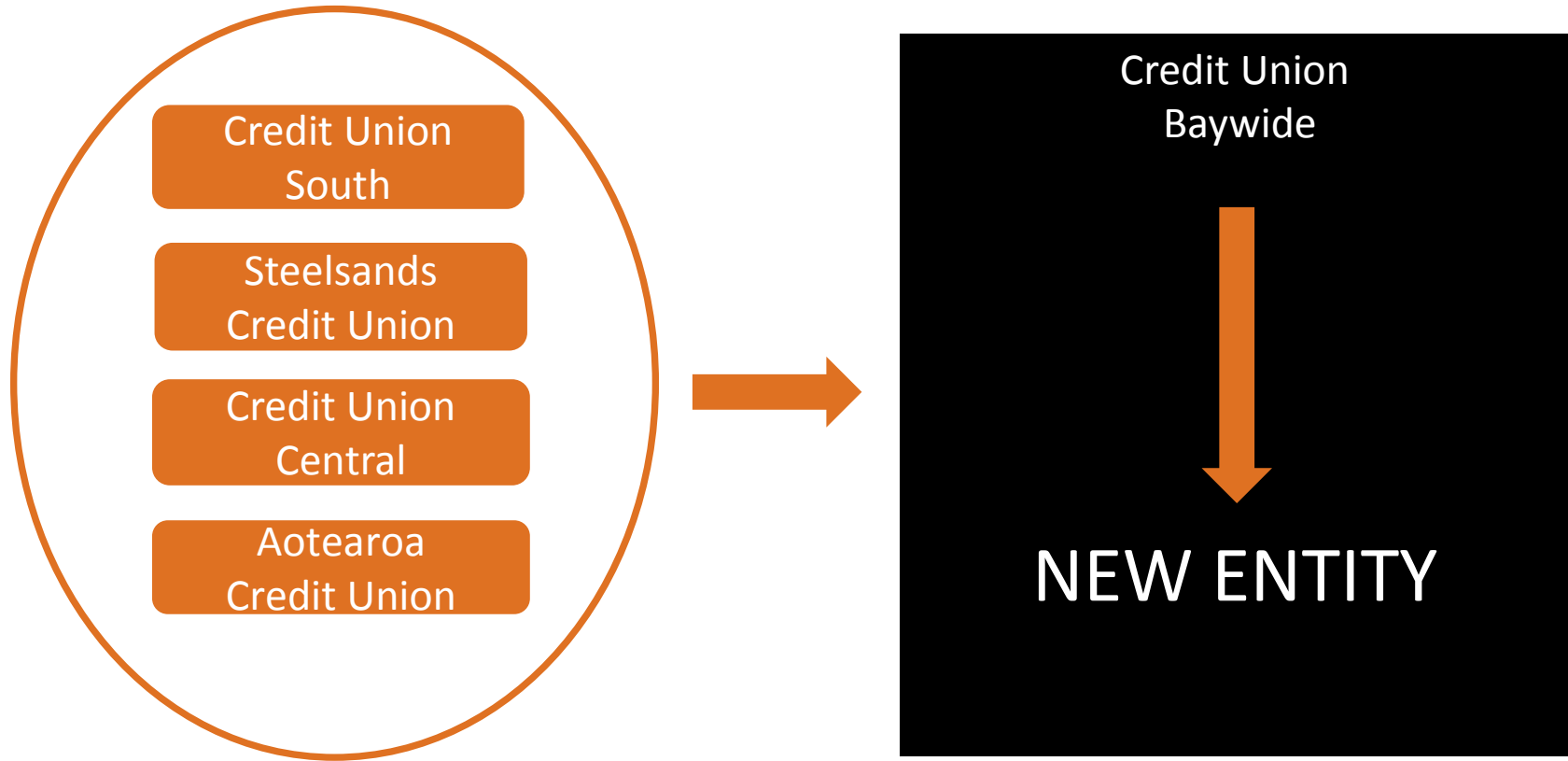
- Stronger cash flow for future investment
- Potential cost savings from efficiencies
- Potential competitive pricing opportunities
- Opportunities for raising capital
- Opportunities to extend funding opportunities e.g. Securitisation

Enhanced Technology

- Stronger opportunities to invest and leverage technology to improve member access and experience
- Increased online presence



Process



Partners

Credit Union Baywide

- Started 1971
- 28,400 Members
- 14 Branches
- Head Office in Hastings
- Mission: Helping everyday Kiwis achieve their financial goals.

Credit Union South

- Started 1962
- 22,200 Members
- 4 Branches
- Head Office in Dunedin
- Mission: Helping New Zealanders achieve their financial goals.

Steelsands Credit Union

- Started 1978
- 4,000 Members
- 4 Branches
- Head Office in NZ Steel Ltd at Glenbrook
- Industrial based credit union.

Credit Union Central

- Started 1967
- 8,400 Members
- 6 Branches
- Head Office in Rotorua

Aotearoa Credit Union

- Started 1990
- 11,600 Members
- 7 Branches
- Head Office in Manukau, Auckland
- ACU serves the Maori and Pasifika community.



Partners

Powerful Combination

- Circa +\$600 million in assets
- Circa 75,000 member owners
- Circa 300 employees

Strong Financial Profile

- Opportunity for further funding and liquidity
- Improved scale and efficiency

Competitive

- Lead position within the credit union sector
- Scale will promote future growth opportunities
- Greater opportunities to invest in technology
- Strong and consistent national brand



Proposed Timeline

1	Member Notice of Special Meeting	25 February 2019
2	Credit Union South Special Meeting	13 March 2019
3	Other Credit Unions Special Meetings	11 - 14 March 2019
4	Credit Union Baywide Special Meeting	15 March 2019
5	Proposal takes effect	01 May 2019



Challenging Operating Environment

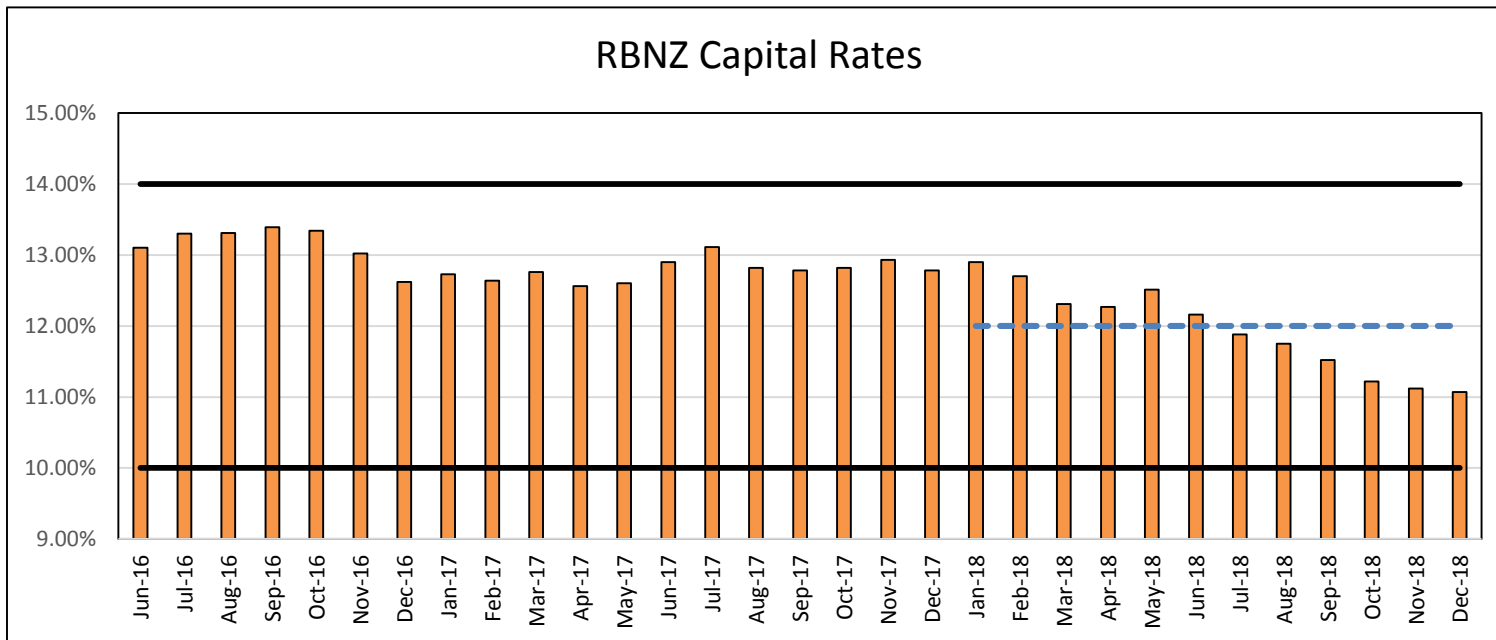
- In 1998 there were over 70 credit unions in New Zealand. In 2008 there were 30. Today there are 12.
- The reasons for consolidation of these credit unions are no different from the operating conditions that we face today.
- Some of these challenges are:
 - Capital limitations and limited access to new capital.
 - Limited access to new funding opportunities.
 - Growth constraints.
 - Difficulty to deliver existing and new products at competitive prices.
 - Lack of scale to grow.
 - Difficulty to leverage technology in a fast paced environment.
 - Profitability challenges – increased operating costs including compliance costs.



Challenging Operating Environment

The Capital Adequacy Ratio is a measure of financial strength where available capital is expressed as a percentage of a credit unions risk weighted credit exposure.

- Credit Union South Regulatory Capital Ratio is 8%
- Credit Union South Trust Deed Capital Ratio is 10%
- As at 31 December 2018 our Capital Ratio is 11.06%



Challenging Operating Environment

- There are significant benefits to having a larger stronger credit union with more members and more assets.
- This provides a stable base for a sustainable future.
- Combining all five credit unions is, we believe, in the best interests of all member owners.



Future State

What is our reason for being?

Vision

To work together to be the most responsive and innovative financial cooperative in New Zealand.

How will we recognise success?

Objectives

- Market leading member experience
- Operational excellence
- Employee capability/engagement
- Greater market awareness of credit unions

What are our unique assets?

Sources of competitive advantage

- Service leadership and member loyalty
- Unique distribution models
- Member and community-driven culture
- Innovative products and services

Where will we create value?

Our Markets

- Leveraging unique market positioning
- Locally focused
- Being the financial services provider of choice



Implications of Proposal if not Approved

If less than 75% of members entitled to vote and who vote on the matter do not approve the transfer of engagements, then Credit Union South will not merge with Credit Union Baywide.

If this happens, the current challenges for Credit Union South will remain.

- Capital limitations and limited access to new capital.
- Limited access to new funding opportunities.
- Growth constraints.
- Difficulty to deliver existing and new products at competitive prices.
- Lack of scale to grow.
- Difficulty to leverage technology in a fast paced environment.
- Profitability challenges – increased operating costs including compliance costs.



Summary

- The proposal for members is positive and exciting.
- The creation of a stronger merged credit union benefits all member owners.
- Your credit union grows from \$130m in assets to \$600m and \$20m in capital to \$70m.
- Combining all five credit unions is, we believe, in the best interests of all member owners - delivering improved outcomes in the future.
- The merger provides a stable base for a sustainable future which sees the credit union sector united and better placed to anticipate and meet member needs.

The Credit Union South Board of Directors unanimously recommends this Transfer of Engagements to you.

All Directors will be voting 'YES' and we ask you as members to vote 'YES'.



Disclaimer

The information contained in this presentation has been prepared by Credit Union South.

No representation or warranty, express or implied, is made as to the accuracy, adequacy or reliability of any statements, estimates or opinions or other information contained in this presentation, any of which may change without notice. To the maximum extent permitted by law, Credit Union South, its directors, officers, employees and agents disclaim all liability and responsibility (including without limitation any arising from fault or negligence on the part of Credit Union South, its directors, officers, employees and agents) for any direct or indirect loss or damage which may be suffered by any recipient through use of or reliance on anything contained in, or omitted from, this presentation.

The presentation is not a product disclosure statement or disclosure document.

