



Peer-to-peer Lending Investment Retail Investor Booklet

Squirrel Money Limited



ISSUED BY SQUIRREL MONEY LIMITED

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This Investor Booklet for Retail Investors replaces the Investor Booklet dated June 2018.

This document gives you important information about investing in peer-to-peer Loans to help you decide whether you want to invest. You can also seek advice from a financial adviser to help you to make an investment decision.

1. Key Information Summary

What is this?

This is a peer-to-peer (P2P) lending investment suite of Products.

Squirrel Money Limited (**Squirrel, we, our, or us**) operates a licensed P2P lending service through its lending Platform (the **Platform**) that allows Investors to lend to qualified Consumer Finance Borrowers.

The types of investments offered by Squirrel for Retail Investors, the risks associated with these investments and the fees you will be charged are described in this document.

Unless the context otherwise requires, capitalised words and phrases have the meanings given to them under the heading "Key Terms" in this booklet.

What will your money be invested in?

Squirrel's P2P lending Platform enables an eligible Borrower to raise a Personal Loan which is funded by Investors using the Platform. Loans may be Secured or Unsecured, depending on lending Product and Loan value.

The service includes a Reserve Fund that helps protect investments in the event of a late borrower repayment or Borrower Default. For further details on this, see the section titled "Reserve Fund" in this booklet.

Who manages this P2P lending service?

Squirrel is the manager of the P2P lending service. The Platform's lender of record is Squirrel P2P Trustee Limited (the **Trustee**).

What are the returns?

The return on your investment comes from interest paid by the Borrower and is determined by the Investment Term and Investor Interest Rate selected when you bid for an investment.

Investor returns may be affected by the non-payment of Loans by Borrowers across the entire portfolio of Consumer Finance Loans in the Platform and/or the ability of our Reserve Fund to cover Arrears and Borrower Defaults.

Interest is accrued daily and paid to you either fortnightly or monthly, depending on the borrowers preferred repayment frequency.

See section 2 of this booklet, "How does this investment work?" for more information.

How can you get your money out?

You can request (in writing) to have the cleared funds in your Investor Account i.e. funds not currently invested in Loans and which are not required in respect of any outstanding Bids, transferred to your Nominated Bank Account. Transfers will be transacted the next Business Day following the receipt of your request.

You can also put your active investments up for sale on our Secondary Market at any time. The sale of your investments on the Secondary Market is dependent on there being another Investor willing to take on your investments for the remainder of the Investment Term with the same Investor Interest Rate as the investment was originated with. For further details on this, see the section titled "Secondary Market" in this booklet.

How will your investments be taxed?

We (as the Trustee's agent and on the Borrower's behalf) will deduct resident withholding tax (RWT) from interest paid to you in respect of a Loan, at the rate you select when applying to be an Investor or subsequently notified by you to us (or at such higher rate as the law may require).

For further details on this, see the section titled "What taxes will you pay?" in this booklet.

Where can you find out more information?

You may contact us at any time to obtain further information or to request an electronic copy of any of the Platform Documents free of charge. Further information is also available on our [website](#) and the Platform.

Table of contents

	Page
1. Key Information Summary	2
2. How does this investment work?	4
3. Description of your investment options	8
4. What are the risks of investing?	9
5. Credit decisioning processes	10
6. Reserve Fund	11
7. Secondary Market	13
8. What are the fees for Investors?	14
9. What taxes will you pay?	14
10. Who's involved?	15
11. How to complain	16
12. Where you can find more information	17
13. How to apply	17
14. Key terms	18

2. How does this investment work?

In summary...

The diagram below depicts a P2P Loan facilitated through our Platform and illustrates the aggregated transactions between the various parties/entities involved. The example is based on:

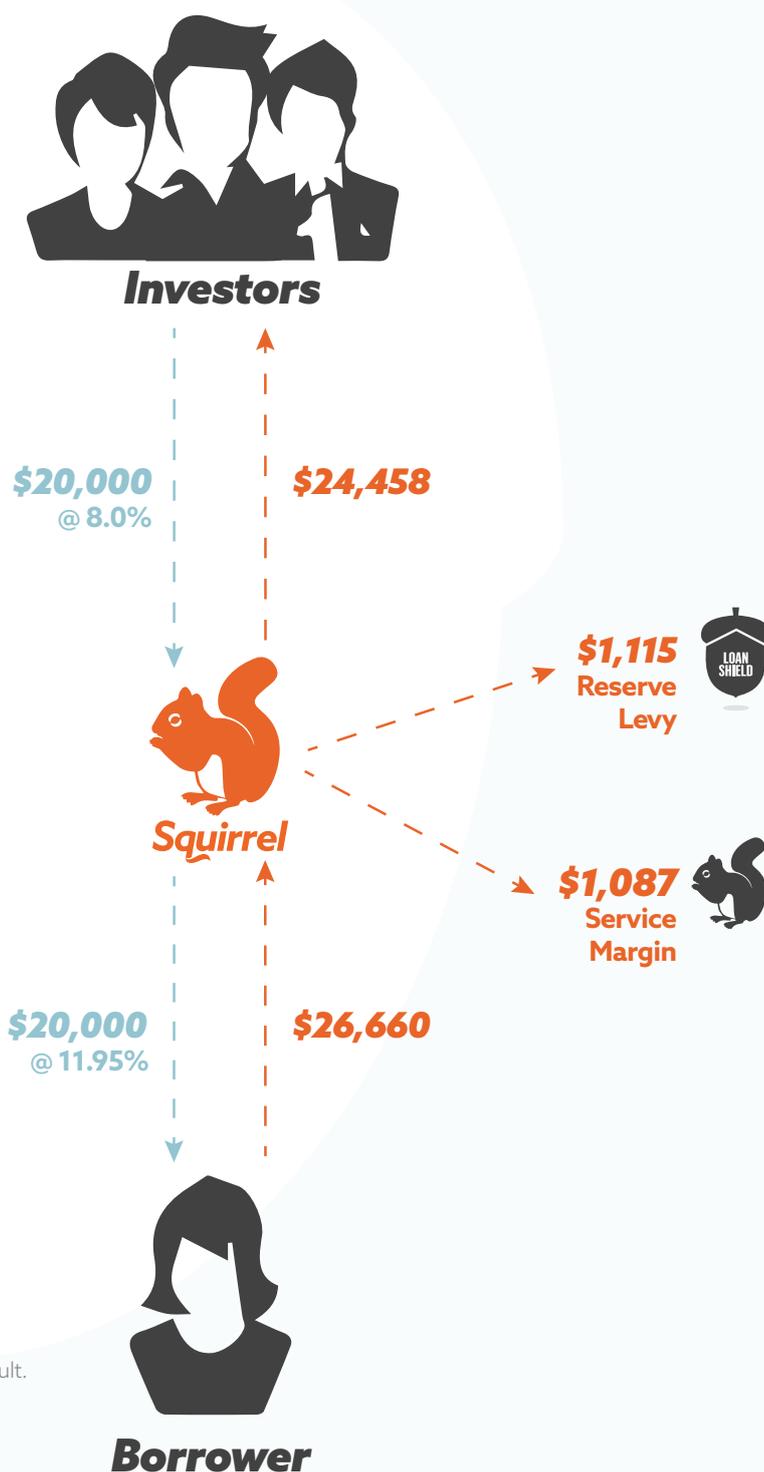
- » 5-year Loan for \$20,000 with monthly repayments of principal and interest¹;
- » Borrower Interest Rate of 11.95% p.a.;
- » Service Margin of 1.95% p.a.;
- » Reserve Levy of 2.00% p.a.; and
- » Investor Interest Rate of 8.00% p.a.

Investors

- » The Loan is funded by one or more Investors who receive an Investor Interest Rate of 8.0% p.a. for their respective investments over the next 5 years.
- » The Investor(s) receive interest payments of \$4,458 (collectively) over the life of the Loan.
- » Investors receive monthly repayments of principal and interest into their Investor Accounts directly via the Borrowers repayment
- » Over the life of the Loan, it also generates \$1,115 of Reserve Levy and \$1,087 of Service Margin.

Borrower

- » Is approved and draws down a Personal Loan for \$20,000 with a Loan term of 5-years and a Borrower Interest Rate of 11.95% p.a.
- » The Borrower makes 60 monthly repayments of \$444 (rounded).
- » Over the life of the Loan, the Borrower pays \$6,660 in interest.

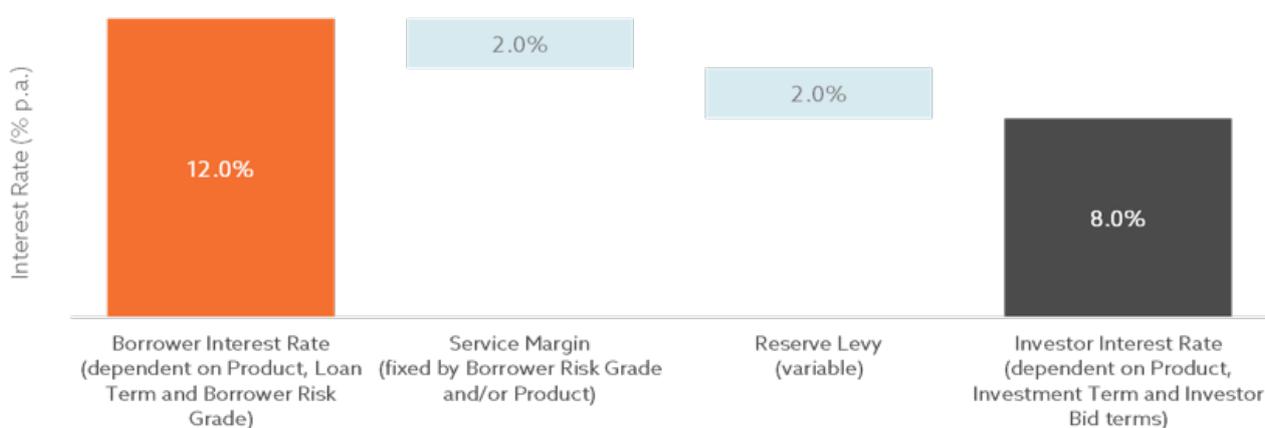


¹This example assumes no late Borrower payment or Borrower Default.

Difference between the investor rate and the borrower rate

When we lend money from the Platform, the difference between the rate that is paid to Investors and the rate that the Borrower pays is made up of the following components¹:

- » **Borrower Interest Rate** – the interest rate offered to the Borrower. It is determined during the risk grading process. The offer to the Borrower is made before the Loan is matched to Investment Orders. The rates currently offered to Borrowers range from 7.95% to 18.95% p.a.;
- » **Service Margin** – the margin paid to Squirrel on each Loan. It is a fixed rate per Borrower Risk Grade or Product and can vary from 0.95% p.a. for A grade Loans up to 2.95% p.a. for D and E grade Loans;
- » **Reserve Levy** – the residual rate remaining after deducting the Service Margin and the Investor Interest Rate from the Borrower Rate;
- » **Investor Interest Rate** – the maximum bid rate on the Investment Order(s) utilised to fulfil the Loan.



¹Rates shown in the chart above are for illustrative purposes only, actual rates vary by Product, Investment Term, Borrower Risk Grade and Investor Interest Rates Bid into the Platform.

As described above, given that the Borrower Interest Rate is established first and the Service Margin is a fixed rate by Borrower Risk Grade and Product, any extra margin created in the lending process is absorbed into the Reserve Fund via a higher Reserve Levy – for the benefit of all Investors.

A choice of investment products

Squirrel has a choice of two retail Products for you to invest in via our Platform. The two products are described below. The products have slightly different repayment characteristics, terms and investment returns that you should become familiar with. Loans made under either Product may be Secured or Unsecured, although it should be noted that due to our Reserve Fund model, any Borrower Defaults on the Platform from retail funded Consumer Finance Loans are effectively socialised across all Retail Investors in the Platform, meaning whether an individual Loan is Secured or not makes very little difference to the Investor(s) with an interest in that particular Loan.

What services do Squirrel and the Trustee provide?

Investors appoint the Trustee to act as bare trustee under a separate bare trust in relation to the Investor's interest in each Loan in which the Investor is participating. An Investor will not deal directly with the Borrower and all correspondence and actions in respect of the Borrower and/or the Loan are undertaken by the Trustee or by us on your or the Trustee's behalf.

Investors and the Trustee appoint us to act as agent for a number of services provided in relation to the Platform including entering into agreements on behalf of Investors, opening and administering bank accounts, transferring funds and settling Loans and administering and enforcing the terms of the Loans.

How do you get investment returns?

Interest is paid to the Investor(s) with an interest in a Loan each time the Borrower associated with that Loan makes a scheduled repayment, or when the Borrower makes an early repayment on the Loan. Scheduled repayments are either fortnightly or monthly and are determined by the Borrower when they apply for their Loan but can be changed at any time during the Investment Term at their request.

If the Borrower misses a repayment, the Reserve Fund will step in to cover any principal and interest scheduled to be repaid on that Loan. We will then seek collection of any Loan arrears from the Borrower, with any recoveries repaid into the Reserve Fund. The ability of the Reserve Fund to cover Arrears and Borrower Default is reliant on there being sufficient funds available in the Reserve Fund. See the section titled "Reserve Fund" in this booklet for further details on the Reserve Fund.

The applicable Service Margin fee will be deducted from the Borrower repayment at the same time the Investor interest is paid. Investor interest payments will be made after deducting the applicable amount of RWT at the rate prescribed by the Investor.

Investment orders

To make funds available for investment on the Platform, an Investor must create an Investment Order, also known as a Bid. The Investment Order contains the following details:

- » which Product and/or Investment Term the Investor would like to invest into;
- » the minimum Investor Interest Rate they are willing to accept for their investment; and
- » the maximum amount they are wanting to invest.

Active Investment Orders can be partially allocated to Loans by the Platform. Up until funds on an Investment Order have been fully matched to a Loan, it can be withdrawn by the Investor with any unmatched funds on that Investment Order returned to the Investor Account (the Investors 'on-call' account) immediately.

Funds matching

The Platform facilitates matching Investment Orders to Loans awaiting funding every 30 minutes. For every Loan awaiting funding, the Platform searches for available Investment Orders with the same Product and Investment Term, with an Investor Interest Rate at or below the Loan seeking funding. The available Investment Orders are sequenced by:

- » the Investor Interest rate specified by the Investor on each Investment Order (lowest to highest); and then by
- » the date/time the Investment Order was created (oldest to newest) i.e. on a first in, first matched basis.

Once this sequence is determined, the Platform matches off as many Investment Orders (sequentially, in full or partially) as are required to fulfil the Loans awaiting funding.

A Loan must be 100% funded before Investment Orders are allocated to that Loan e.g. if a \$10,000 Loan requires funding and you have placed a \$6,000 Investment Order which is top of the Investment Order queue, we would need a further \$4,000 worth of Investment Orders before matching occurs. If multiple Investment Orders are required to fulfil a Loan awaiting funding, and there is a difference in the Investor Interest Rate on those Investment Orders, all Investor's will receive the highest interest rate on those Investment Orders. For example, in our \$10,000 Loan scenario above, if it consumed two Investment Orders – one with a bid interest rate of 7.50%, and another with an interest rate of 7.60% – both Investor's would receive 7.60% for the portion of their Investment Orders that are matched to that Loan.

The investor rate bid on an Investment Order is effectively the lowest rate that you're willing to accept, but the actual rate achieved could be higher, as in the scenario above.

Bid size

The minimum bid amount for an investment is \$500. The maximum you can invest through our platform is \$2 million. An eligible Investor is free to bid anywhere within that range. Due to the 'funds matching' process described above an Investment Order could be allocated to one or more Loans. With the Reserve Fund model employed by Squirrel, the benefit of diversifying risk by investing small amounts across many Loans is diminished. Any losses incurred on the Platform are either absorbed by the Reserve Fund or, if the losses exceed the funds available in the Reserve Fund, they should still be socialised across all Investors in proportion to their active investments.

How your money is received and dealt with by us

We have an Investor Account in the name of the Trustee which is held on a separate bare trust by the Trustee for each Investor who has transferred funds into, and to the extent to which such funds remain in, the Investor Account.

Once an Investment Order has been matched to a Loan, Investors authorise us and the Trustee to transfer the value of the Bid (or part there-of) matched with the relevant Loan, from the Investor Account to the Borrower and to otherwise take such steps to settle the Loan under the terms of the Loan Agreement. Bids may be matched with an existing Loan via the Secondary Market. In this case, Investors authorise us and the Trustee to transfer the value of the Bid, or part of the Bid matched with the relevant Loan, from the Investor Account to the relevant Investor(s) selling the Loan. Any interest earned on funds held on an Investor's behalf in the Investor Account will be held by the Trustee as bare trustee for the Investor.

Squirrel bids in the platform

Sometimes it's necessary for us to make Bids on the Platform. We typically don't bid on any Loans for the first 24 hours after they are offered to the Platform to allow regular Investors a chance to Bid on the Loan. If the Loan remains unfilled after that point, we may Bid in at the maximum Investor Interest Rate for that Investment Term to enable the Loan to settle. The Squirrel investments into Loans are immediately put up for sale on the Secondary Market. Essentially, we only Bid when there is a shortage of Investor funds in the Platform to get Loans settled in a timely fashion.

Wholesale bids in the platform

We may permit Wholesale Investors to fund whole Loans to provide liquidity to the Platform and the Secondary Market. Retail Investors will, however, be prioritized over Wholesale Investors. Wholesale Investors may take priority over Retail Investors where there are insufficient Bids by Retail Investors to meet the full value of the Loan.

Reporting

We will provide transaction information to you in accordance with the requirements of the Financial Markets Conduct Act 2013 (FMCA) and the regulations made under it. You will receive transaction information and all other relevant reports and information (including disclosure documents) through the Platform. We will provide you with a record of all transactions made on the Platform on a continuous basis, including the value of the Loans you are invested in and the dates the Loans were entered into.

Withholding Tax Certificates are available on the Platform at the completion of each tax year.

We do not disclose to Investors whether security or a guarantee has been provided in relation to the Loan before it is entered into. Investors should be aware that all Loans may be unsecured.

3. Description of your investment options

Product	Homeowner's Loan	Other Personal Loan												
Description	A Loan for homeowners (only) to fund renovations and significant purchases for the home from \$1,000 to \$70,000. For Loans above \$20,000, Squirrel may take a security interest over the homeowner's property.	Loans to consolidate debt, fund the purchase of a motor vehicle or other items such as holidays and weddings.												
		<table border="1"> <thead> <tr> <th>Loan Type</th> <th>Max. loan</th> <th>Term (years)</th> </tr> </thead> <tbody> <tr> <td>Debt Consolidation</td> <td>\$50k</td> <td>2-5</td> </tr> <tr> <td>Vehicle</td> <td>\$70k</td> <td>2-7</td> </tr> <tr> <td>Other</td> <td>\$20k</td> <td>2-3</td> </tr> </tbody> </table>	Loan Type	Max. loan	Term (years)	Debt Consolidation	\$50k	2-5	Vehicle	\$70k	2-7	Other	\$20k	2-3
		Loan Type	Max. loan	Term (years)										
		Debt Consolidation	\$50k	2-5										
Vehicle	\$70k	2-7												
Other	\$20k	2-3												
Features	Interest only for the first year. Loan converts to principal and interest (P&I) on a 5-year term after 12 months. Investors' interest in the Loan will automatically be put up for sale on the Secondary Market (at no cost to the investor) after 12 months ¹ .	All Other Personal Loans are amortising principal and interest Loans.												
Reserve Fund cover	Yes – Reserve Fund available to Retail Investors.													
Gross Investor Return^{3,4}	Returns (pre-tax) to investors after the deduction of Service Margin: <ul style="list-style-type: none"> » 6.0% p.a. for the first year, then » 8.0% p.a. after 12 months. 	Returns (pre-tax) to investors after the deduction of Service Margin: <ul style="list-style-type: none"> » 6.5%-7.5% p.a. for Investment Terms of 2-3 years » 7.5%-8.5% p.a. for Investment Terms of 5-7 years 												
Security	Able to be secured over borrower's home for Loans above \$20,000.	Secured over physical property (vehicle or house) for Loans over \$20,000 ⁷ .												
Fee: Service Margin⁵	0.95% p.a. of the Loan balance.	Between 0.95% and 2.95% p.a. of the Loan balance.												
Fee: Secondary Market⁶	If the Investor chooses to sell their interest in a Loan, a fee of 1% of the Loan balance transferred (up to a maximum of \$50 per investment) will be charged to the Investor once the Loan is sold. This fee will be deducted from the net proceeds from the transfer of the Loan to another Investor.													

¹The ability to sell an investment on our Secondary Market is dependent on another Investor being willing to take over that investment for the remainder of its Investment Term on the same terms as you signed up to. The original Investor will remain invested in that Loan until another Investor can be found. Investors should be prepared for the possibility that they will be required to remain invested in that Loan for a period up to its full term. Investors can manually cancel the automatic sell order on the Platform up until the point another Investor has accepted the investment offer.

²See the section titled 'What are the fees for Investors?' below for more information.

³Rates shown are the current Rates, the actual rate of return will be determined by the Investor bidding process and the maximum rates in-force on the Platform at the time of allocating Investor funds to Loans.

⁴Squirrel has the ability to divert up to 100% of Investor interest payments into the Reserve Fund if the Reserve Fund is depleted. For more information on how the Reserve Fund works, see the section titled 'Reserve Fund' below.

⁵Service Margin is charged to the Investor by deducting from the Borrower's gross interest repayments.

⁶Secondary Market fees do not apply to the Homeowners Loans sold automatically at the end of the initial 12-month interest only period..

⁷Vehicle Loans are always secured over the motor vehicle.

4. What are the risks of investing?

The following risk factors should be considered when investing in P2P Loans:

Credit risk

The risk of Borrower Default is one of the most significant risks for Investors in P2P Consumer Finance Loans. Borrower Default can occur for a variety of reasons including the borrower falling on hard times, death or serious illness and on occasion fraudulent behaviour. Broader environmental (macro) factors such as recessions etc. can also influence the prevalence of Borrower Default. The factors that help mitigate this risk include our Reserve Fund model and our Credit decisioning processes. See details for these two items in the sections below.

Loans can be secured or unsecured (depending on product and Loan value). Secured Loans are secured over an asset which provides some opportunity for recovery in the case of Borrower Default. For the current ratio of Secured Loans, please refer to the current borrower profile on our website. The life-to-date Borrower Default Rate for Loans originated on our Platform can be viewed [here](#).

No Reserve Fund protection

The Reserve Fund has been put in place help protect your investment in the event of a late borrower repayment or Borrower Default. It is funded by applying a Reserve Levy to the Borrower Interest Rate which is aligned to their risk grade and corresponding probability of default at the 99% probability of adequacy level.

The Reserve Fund is however not an insurance product and we cannot guarantee or warrant that it will have sufficient funds available to enable you to be compensated in either of these events.

For further detail about how the Reserve Fund operates, including what would happen if the Reserve Fund was depleted, see the section titled "Reserve Fund" below.

Liquidity risk

Investments into P2P Loans are term investments and as such the ability for an Investor to liquidate an investment at will is inherently more limited than an on-call investment.

Squirrel provides Investors with a Secondary Market that gives Investors an opportunity to sell their investments to other Investors. The ability to sell your investment(s) on our Secondary Market and withdraw your cash is dependent on another Investor being willing to take over that investment for the remainder of its Investment Term on the same Investor Interest Rate as you signed up to.

If no willing Investors are available, the original Investor may not be able to transfer their interests in a Loan and may be required to remain invested

in that Loan for its full term. You therefore need to ensure you can afford to have your money tied-up for the period of the Loan that you commit to in the event that your investment cannot be on-sold to another Investor.

Loan availability risk

Your ability to make an investment into a P2P Loan is restricted by the:

- » availability of approved Borrowers;
- » level of other Investor monies awaiting investments; and
- » Investor Interest Rate you select on your Investment Order(s).

Whilst we offer an automatic re-investment facility, the factors above will ultimately determine how long it takes to get your monies invested and therefore generating a return. The consequence of a limited availability of Loans that meet your investment criteria is that your uninvested money may remain in your Investor Account not generating an investment return for an extended period.

Early repayment risk

Consumer Finance Loans typically come with a prepayment rate in the vicinity of 30-40% per annum, meaning you should expect a proportion of the investments you make to fully repay before the original Investment Term is reached. Borrowers on the Platform can repay their Loans at any time without penalty. If a Loan is repaid early, the outstanding principal and interest (accrued up until the day of repayment) is transferred to the Investor(s) in that Loan once the early repayment is received.

The consequence of early repayments is that the Investor(s) in those Loans have their principal returned before the original Investment Term expires and they therefore do not receive the amount of interest income that they expected when originally investing in the Loan.

Cyber risk

Our Platform is entirely online and as such this exposes us to threat of cyber fraud.

In recognition of this risk our IT team have gone to great lengths to make the Platform secure, including undertaking an external IT security audit with KPMG. Should a cyber-attack actually manage to breach our walls, your money still has some protection as all funds in the Platform are held in a Trust and can only be transferred out of the Platform using ASB Fast-Net with dual signing authority.

As part of our license to operate, we also maintain a disaster recovery and termination plan and we have insurances in place to protect against both cyber-crime and fraud.

Regulatory and/or Operational risk

There are a number of conditions that Squirrel must satisfy to maintain its license to operate as a P2P lender. Failure to comply with those conditions could see Squirrel's license removed or its conditions changed. We have however put a strong governance framework in place and are regularly audited to ensure we do not breach any of our licencing conditions.

In the event that Squirrel was placed into receivership, we have set aside funds to help run-off the Loan book by way of a bank bond (underwritten by ASB Bank) for the benefit of the Trustee. This bond (plus access to the ongoing Squirrel margin on Loan repayments) is in place to ensure an appointed third party can continue to administer the collection of borrower repayments and payments to Investors until such time the Loan book is wound up.

P2P new regulation risks

The peer-to-peer industry and legislation in New Zealand are still relatively new and regulators such as the Financial Markets Authority and Commerce Commission, and the Courts, are still developing their positions on how to apply the law. Where they take a position which is inconsistent with our current practice, it could affect how we are able to operate our business and, in some cases, such as in relation to consumer credit legislation, the ability to enforce loans.

5. Credit decisioning processes

Our lending decisions are based on structured credit processes which include the following steps:

Identity verification

Identities are verified online against a New Zealand driver's licence or passport and we run checks to ensure potential borrowers are not on a watchlist or have registered stolen identification.

Credit checks

We use credit bureaus Centrix and Equifax to provide us with a summary of a potential borrower's prior credit history and ensure there are no registered credit defaults. We participate in comprehensive credit reporting which means we share and receive a borrower's monthly repayment information with all other subscribing credit providers including banks, finance companies and utilities providers (e.g. phone and power companies). Essentially, this means if an applicant has missed current or past repayments, it should now be listed on their credit file and reflected in their credit score.

Credit risk modelling

In combination with the credit check, the credit bureaus provide us with a credit score which indicates the likelihood of a borrower meeting their repayment obligations based on their previous credit history. We have developed a predictive credit risk model in collaboration with analytics company Datamine, which estimates a borrower's probability of default based on a combination of credit history and census data.

Debt servicing ability

A borrower's income and expense information are verified against their last 3 months of bank statement activity to ensure they meet minimum debt servicing requirements and have satisfactory bank account conduct.

Risk grading

Approved Borrowers are allocated a Borrower Risk Grade based on their strength across each of the criteria outlined above. This risk grade will help determine the level of Reserve Levy that applies to the Loan and therefore contributes to the overall Borrower Interest Rate.

6. Reserve Fund

Reserve Fund purpose

The Retail Reserve Fund is a trust fund held for the benefit of Retail Investors in Consumer Finance Loans originated on the Platform, to help meet missed payments or losses from Borrower Default. It is held by the Trustee as bare trustee in relation to Loans funded by Retail Investors made via the Platform.

We may establish one or more additional Reserve Funds as set out in the Reserve Fund Policy, for example, by having Reserve Funds which have different amounts deducted from the interest payments received from Borrowers to differentiate between personal and business lending via the Platform or for Wholesale Investors.

The Reserve Fund model effectively socialises lending losses across the overall Loan portfolio to which it applies, meaning individual Investors do not bear the full credit risk of the individual Loan or Borrower to which they are matched.

To be clear however, the Reserve Fund is not a guarantee nor is it an insurance product.

How is it funded?

We apply a risk premium (known as a Reserve Levy) of between 0% and 7% per annum to each borrower's interest rate based on their risk grade and corresponding probability of default at the 99% probability of adequacy level. We then deduct the applicable Reserve Levy from all interest payments received from Borrowers and deposit those funds into the Reserve Fund. In addition, all default charges e.g. Default Fees and Default Interest payable by Borrowers under Loan Agreements covered by the Reserve Fund will also be paid into the applicable Reserve Fund.

In addition to the Reserve Levies collected, we have contributed \$200,000 into the Reserve Fund via a Loan to the Trustee. This Loan will only be repayable to us if the Reserve Fund Coverage Ratio exceeds 4% and remains above 4% immediately after the repayment of the Loan. The current Reserve Fund Coverage Ratio can be found [here](#).

If you are investing in Loans covered by a Reserve Fund, you acknowledge that a proportion of each interest payment received (on your behalf) by the Trustee under a Loan Agreement will be paid into the Reserve Fund in accordance with the terms of the Reserve Fund Policy.

Sufficient funds available

Payment from the Reserve Fund is subject to there being sufficient funds available in the applicable Reserve Fund at the relevant time. Neither we nor the Trustee guarantees that there will be sufficient funds in the Reserve Fund to meet any overdue Loan repayments or any claims in respect of the Reserve Fund at any time.

Our 'modelled' expected average life time loss rate on Loans originated through our Platform (based on the profile of our existing Loan book) is circa 1.8-1.9%¹.

The average Reserve Levy is circa 2.2%¹ per annum (applied to the active Loan balances) which is forecast to generate Reserve Levies of circa 3.1%¹ of the originated Loan amounts over the life of those Loans. Reserving at that level provides more than 1.6x coverage over the expected life time loss rate.

Whilst the Reserve Fund does not guarantee your investment, it does provide a buffer to help protect your investments from expected credit losses (and then some) and it provides investors greater predictability of investment repayments.

Active Management

If we determine that the Reserve Fund does not have sufficient funds to cover any payment to be made to Investors under the terms of the Reserve Fund policy, we may decide to place the Reserve Fund into Active Management by diverting an additional proportion (as determined by us, up to 100%) of the interest payable under each of the Loans covered by the Reserve Fund to the Reserve Fund. We will not, however, divert payments of principal into the Reserve Fund.

In this situation, we will provide Active Management of the Reserve Fund with the following principles governing the consideration of claims submitted to the Fund:

- » To provide the most equitable use of the reserve funds available in the interests of all affected Investors; and
- » Repayment of affected Investors' principal will take precedence over payment of interest to other Investors in the Platform.

The Reserve Fund will remain in Active Management until such time as we decide that a sufficient balance has been paid into the Reserve Fund to enable its operation in accordance with the Reserve Fund policy.

How would the Reserve Fund respond in the case of a credit downturn?

If the actual Borrower Default Rate experienced was above the modelled loss rate, the following scenario (based on the current Loan book²) would play out:

- » Up until the Borrower Default Rate (life to date) reaches circa 4.9%, the Reserve Fund (including our \$200k held within the fund) and the future Reserve Levies³ would be sufficient to cover all losses;
- » Once the Reserve Fund and the future Reserve Levies are fully consumed, future Investor Interest would be required to cover any further losses. Future Investor Interest will be able to cover further losses up until a Borrower Default Rate of 15.2%;
- » If Borrower Default Rates exceed that level, Investors would face the prospect of losing principal from their investments. For example, a Borrower Default Rate of 20% would see Investors lose circa 4.9% of their invested principal.



¹As of 30 June 2018

²Modelling based on an Active Loan Book of \$13.3m and Reserve Fund balance of \$283k (including Squirrel's contribution) as at 30 June 2018 and the modelled future Reserve Levies (discounted at 40%) at that date.

³Future Reserve Levies are generated over the life of Loans on the Platform. They have been discounted by 40% to reflect the likely prepayment rate experienced on the Platform.

Current balance

The balance of the Reserve Fund and the Reserve Fund Coverage Ratio can be accessed [here](#).

7. Secondary Market

Secondary Market purpose

We provide a Secondary Market which gives Investors the opportunity to seek to sell an investment at any time. If an investment is put onto the Secondary Market, we attempt to match the investment with other Investors who are happy with the existing investment terms of that investment i.e. interest rate, remaining term and borrower behaviour, and are keen to take it on.

Once the investment is sold, the outstanding principal and any remaining interest will be repaid to the investor less any fees payable for the sale of the investment. For a description of the fees that will be payable on the Secondary Market, refer to the section titled "What are the fees for Investors?".

Please note that the Secondary Market relies on other willing Investors taking up the Loans put up for sale. If no willing Investors are available, the original Investor may not be able to transfer their interests in a Loan and may be required to remain invested in that Loan for its full term.

Investment amount

Investments that are transferred via the Secondary Market are done so on a one-to-one basis only which means an existing investor sells their whole investment to a new investor. Therefore, in order for an Investment Order to be matched, a new investor must have an Investment Order with an available amount that is equal to or greater than the investment that is for sale.

Investor Interest Rate

A new Investor must have an Investment Order with an interest rate that is less than or equal to the interest rate of the investment being sold. In this regard, a matched Investor that had an Investment Order with a lower interest rate will benefit by receiving the higher interest rate on the investment being sold.

Investment Term

An Investor will automatically be matched to and transferred into an investment that is being sold if their Investment Order matches the amount (greater than or equal to) and interest rate (less than or equal to). The Investment Term remaining on the investment to be sold must be within 3 months of their requested term for 24-month and 36-month Investment Orders or 12 months for 60-month Investment Orders. For example, an Investor with an Investment Order for 36 months will automatically be matched to an investment being sold with 34 months remaining (assuming the Investor Interest Rate criteria is met). An email will be sent to a new investor to accept or decline an investment when the remaining term on an investment that is for sale is outside this tolerance.

Loans that have experienced a credit event

Investments being sold where the underlying Loan has suffered a Credit Event (i.e. missed repayment(s), hardship, default) will not be automatically matched to an Investment Order and instead an email will be sent to the new Investor disclosing the details of the Credit Event associated with the Loan and providing an opportunity to accept or decline the investment on that basis. Under this scenario, a new Investor continues to benefit from the protection offered by the Reserve Fund and does not directly bear the credit risk of the underlying Loan to which they are investing.

Further information regarding the Secondary Market can be found in the Secondary Market Rules accessed [here](#).

8. What are the fees for Investors?

Service Margin

We deduct a Service Margin of between 0.95% and 2.95% per annum of the outstanding Loan balance from gross interest payments made by the Borrower under the Loan Agreement. Service Margins vary between products and borrowers and can be dependent on borrower Risk Grade.

We disclose the actual Service Margin that will apply to a particular Loan on the Platform.

Secondary Market Transfers

Investors will be required to pay a Transfer Fee of 1% of the outstanding principal amount of the Loan (up to a maximum of NZ\$50) on the transfer of an interest in a Loan via the Secondary Market.

We will deduct the Transfer Fee from the amount paid by the replacement Investor on the transfer of their interest in the Loan.

Interests in the Homeowners Loan transferred at the end of the 12-month interest only period will not incur Secondary Market transfer fees.

Further details of the fees payable by Investors and Borrowers are disclosed on the Platform and can be accessed [here](#). We may alter the fees payable by Investors by providing notice of the amendments on the Platform. Any amendments we make to the fees payable by Investors will only apply in relation to new Loans entered into following the date which the amendments are made.

9. What taxes will you pay?

We (as the Trustee's agent and on the Borrower's behalf) will deduct RWT from the interest paid to you in respect of your investments into Loans, at the rate you selected when you applied to be an Investor (or at such higher rate as the law may require).

The possible rates are: 0%, 10.5% (individuals only) and 17.5%, 30%, or 33% for both individuals and trusts. A rate of 0% can be only used if you provide us with a copy of your RWT Exemption Certificate.

If you do not nominate an RWT rate or provide a valid IRD number, you will automatically have RWT deducted at the maximum rate (currently 33%).

It is important that you choose the RWT rate appropriate to your level of taxable income. This ensures that the correct amount of tax is deducted from the interest you receive on your investments. If you choose a rate that is too low or too high, you may have a tax bill to pay or refund due (respectively) at the end of the income year. To help you determine the appropriate to select, go to:

ird.govt.nz/rwt/receiving/.

If you are still unsure of the appropriate RWT rate to select, we recommend you seek professional advice or contact the IRD. It is your responsibility to tell us your RWT rate when you invest or if your tax situation changes.



10. Who's involved?

Squirrel is licensed under the Financial Markets Conduct Act 2013 by the Financial Markets Authority to provide P2P lending services in New Zealand (FSP354706). Squirrel is also registered on the Register of Financial Service Providers (FSPR) in accordance with the requirements of the Financial Service Providers (Registration and Dispute Resolution) Act 2008 to provide P2P lending services.

As the Platform's lender of record, Squirrel P2P Trustee Limited (as Trustee) is registered on the FSPR to provide credit under a credit contract and to provide a broking service (FSP415167).

Under the regulations, P2P lending service providers are subject to strict criteria and must be able to demonstrate the ability to operate the business effectively with an experienced director and senior management team who are fit for their positions. They are required to meet ongoing reporting requirements, comply with fair dealing obligations in the Financial Markets Conduct Act, provide disclosure statements and easily understood client agreements and be a member of a financial dispute resolution scheme.

Board of directors

The Board of Directors meets monthly, except December. Our financial accounts are audited by KPMG. In addition, we get external legal advice from MinterEllisonRuddWatts.



John Bolton
BCom, MInstD

Non-Independent Executive Director, Chief Executive Officer
(Appointed as a director on 22 October 2015)

John founded Squirrel Mortgages Limited in 2008 and is the Chief Executive Officer of Squirrel Group Limited.

John previously held positions at two major financial institutions being General Manager Products for ANZ Bank and Head of Marketing and Strategy and Head of Business Advisory at Westpac.

John has a Bachelor of Commerce degree from Victoria University, is a director and member of Financial Advice New Zealand and is a Member of the New Zealand Institute of Directors.



Stewart McRobie
BCom, CA, CMInstD, FCPA

Chairman, Independent Non-Executive Director
(Appointed on 12 February 2016)

Stewart is a chartered accountant (CA) and Chief Financial Officer (CFO) at the Ministry of Business, Innovation & Employment.

Stewart has significant senior management experience having held a number of other CFO roles, most recently with the New Zealand Racing Board and previously at ASB, AMP and Westpac.

Stewart has a Bachelor of Commerce degree from the University of Otago, is a CA member of Chartered Accountants Australia and New Zealand, is a Chartered Member of the New Zealand Institute of Directors and a Fellow of CPA Australia.



Vaughan Underwood
MBA

Independent Non-Executive Director
(Appointed on 12 February 2016)

Vaughan is Chief Executive Officer (CEO) of Super Shuttle New Zealand Limited and has previously been CEO at Heartland Bank (Home Equity Release division), Seniors Money International, AXA New Zealand, Sterling Grace Portfolio Management (part of Spicers) and Emerald Group (Food division).

Vaughan holds a Diploma of Business Management and an MBA from Henley Management College.

11. How to complain

Complaints about your investment with Squirrel can be made to any Squirrel representative. If you are still not happy with any problem you have, you should refer your complaint to:

Write to: Squirrel Money Limited
PO Box 911254, Victoria Street West
Auckland 1142

Visit: 20 Beaumont Street, Freemans Bay
Auckland 1010

Email: money@squirrel.co.nz

Phone: 0800 21 22 33

Any complaint which reaches this level will receive the personal attention of a senior member of the Squirrel team. If after raising the matter with Squirrel, you are still not satisfied, you can contact our independent dispute resolution service.

Both Squirrel and the Trustee are members of an independent dispute resolution scheme operated by Financial Services Complaints Limited (FSCL). If Squirrel hasn't been able to resolve your complaint in a way that you think is satisfactory within 40 business days, you can contact FSCL at:

Write to: Financial Services Complaints Limited
PO Box 5967, Lambton Quay
Wellington 6145

Visit: 4th Floor, 101 Lambton Quay,
Wellington 6011

Email: info@fscl.org.nz

Phone: 0800 347 257

Web: www.fscl.org.nz

FSCL will not charge a fee to you to investigate or resolve a complaint.



12. Where you can find more information

Further details regarding the services provided by us are set out in the following Platform Documents which are available on the Platform and our website and which can be accessed through the links below:

- » [Disclosure statement](#)
- » [Terms and conditions](#)
- » [Investor agreement](#)
- » [Borrower agreement](#)
- » [Fair dealing policy](#)
- » [Reserve fund policy](#)
- » [Secondary market rules](#)

Loan agreements:

- » [Homeowners loan agreement - secured](#)
- » [Homeowners loan agreement - unsecured](#)
- » [Other personal loan agreement - secured](#)
- » [Other personal loan agreement - unsecured](#)

13. How to apply

The first step is to apply for membership to the Platform. Any person or corporate entity can apply to be a member and an Investor.

To be accepted as a member of the Platform, the prospective Investor must:

- a. be a permanent New Zealand resident;
- b. be 18 years of age or older at the time of submitting the application;
- c. have a New Zealand domiciled bank account;
- d. fully and completely provide all of the information required in the application form;
- e. complete all verification processes in relation to their identity and personal information to our satisfaction;
- f. not be carrying on the business of being a creditor under a credit contract (as defined in the CCCFA), unless registered to do so on the FSPR; and
- g. meet any other requirements notified by us from time to time.

We may apply different eligibility criteria for Wholesale Investors. In particular, Wholesale Investors must be "wholesale investors" for the purposes of the Financial Markets Conduct Act 2013.

Once an application for membership of the Platform has been accepted by us, the prospective Investor may apply to be an Investor on the Platform.

In order to become an Investor on the Platform, the prospective Investor needs to submit an application to become an Investor, meet any additional eligibility requirements for Investors notified by us from time to time and provide all of the information required in the Investor application form.

You can apply for membership to the Platform [here](#).

14. Key terms

Term	Description
Active Management	A process by which the Trustee can decide to divert up to 100% of the Investor Interest payable under each of the Loans covered by the Reserve Fund to the Reserve Fund.
Arrears	Amounts that are owing in respect to active Loans that should have been paid earlier.
Bid	An offer by an Investor to participate in a Loan or Loans via the Platform. The Bid specifies the terms including the maximum amount, the minimum interest rate and the term of the Loan.
Borrower	A person who has been accepted as a borrower by us.
Borrower Agreement	The agreement which applies between the Borrower, us and the Trustee when a Loan is taken out via the Platform.
Borrower Default	A Loan that: <ul style="list-style-type: none"> » is no longer reasonably expected to be paid; and/or » is no longer reported to Investor(s) as due to them, whether or not funds may still be recovered from the Borrower by other means e.g. debt collection procedures; and/or » has been sold pursuant to a debt collection procedure.
Borrower Default Rate	Calculated by dividing the value of Borrower Defaults by the value of Loans originated.
Borrower Interest Rate	The interest rate payable by the Borrower in relation to a Loan, being the aggregate of the Investor Interest Rate, the Service Margin and the Reserve Levy (if any).
Borrower Risk Grade	An internally assessed risk grade applied to each Borrower based their strength across each of our underwriting criteria.
Business Day	A day on which banks are open for business in Auckland other than Saturdays, Sundays or public holidays.
CCCFA	The Credit Contracts and Consumer Finance Act 2003.
Consumer Finance	See the description of 'Personal Loan'.
Credit Event	A Credit Event in relation to a Loan is where: <ul style="list-style-type: none"> » the Borrower has previously missed a payment due under a Loan Agreement (whether or not the default in payment has been covered by the Reserve Fund); or » the Loan is currently in arrears; or » we are aware of a material adverse change in the Borrower's credit profile since the Loan was drawn down.
Default Fees	Fees payable by the Borrower in the event of the non-payment under a Loan Agreement
FMCA	The Financial Markets Conduct Act 2013.
FSPR	The Register of Financial Service Providers.
Investment Order	See the description of 'Bid'.
Investment Term	The length of time for which the investment must be held by the Investor, unless the investment is sold on the Secondary Market or it repays early. Investment Terms offered on the Platform may change from time to time.
Investor	A person who has been accepted as an investor by us, as a Wholesale Investor or a Retail Investor, and includes Squirrel where relevant.
Investor Account	The trust account operated by us on behalf of the Trustee for the benefit of Investors whose funds have been deposited into the account for the purposes of participating in a Loan or pending repayment to the Investor.

Term	Description
Investor Agreement	The agreement which applies between the Investor, us and the Trustee when an Investor participates in funding a Loan via the Platform.
Investor Interest Rate	The rate of interest (pre-tax) paid to an Investor invested in a Loan
IRD	The New Zealand Inland Revenue Department.
Loan	A Loan to a Borrower from the Trustee on behalf of the participating Investors.
Loan Agreement	The Loan agreement between the Borrower and the Trustee, and where relevant, the Guarantor in relation to a Loan.
Nominated Bank Account	The account with a bank in New Zealand which is nominated by the Investor for payment of withdrawals from the Platform.
P2P	Peer-to-peer. In our case, it is applied in the context of P2P lending which is the practice of lending money to individuals through our online lending platform that is used to match Investors with Borrowers.
Personal Loan	A Loan for the purposes of personal spending as offered by us, sometimes also known as 'consumer finance'.
Platform	Our P2P lending platform that is operated as a licensed P2P lending service.
Platform Documents	The suite of legal agreement for the Platform.
Product	A distinct investment option that offers unique repayment characteristics and/or Reserve Fund coverage. A Product may have more than one Investment Term available with differing Investor Interest Rate ranges per Investment Term.
Reserve Fund	The funds held on trust by the Trustee as bare trustee on behalf of Investors to cover non-payment or Borrower Default under the Loan Agreements in accordance with the Reserve Fund Policy and Deed of Bare Trust.
Reserve Fund Coverage Ratio	Calculated by dividing the current Reserve Fund value by the current value of the Active Loan Book.
Reserve Fund Policy	The policy governing the management and operation of the Reserve Fund as amended by us from time to time.
Retail Investor	An Investor other than a Wholesale Investor.
RWT	Resident withholding tax imposed under the RWT rules in the Income Tax Act 2007.
RWT Exemption Certificate	Has the meaning in section YA 1 of the Income Tax Act 2007.
Secondary Market	A market operated by us on the Platform which enables Investors to transfer their interests in relation to Loans to other Investors.
Secondary Market Rules	The rules established by us in relation to the Secondary Market.
Secured	A Secured Loan is a Loan in which the Borrower pledges some asset (e.g. a car or property) as collateral for the Loan. Any security provided will be held by the Trustee in accordance with the terms of the Borrower Agreement and the Loan Agreement and, where the Loan is covered by a Reserve Fund, is taken for the benefit of the Platform and the Reserve Fund and not for any Investor individually.
Service Margin	The amount deducted and paid to us from gross interest payments made by the Borrower under the Loan Agreement.
Squirrel, we, our or us	Squirrel Money Limited (FSP354706).
Terms	Means our Platform and Website Terms and Conditions.
Transfer Fee	A fee payable by the Investor in relation to a transfer of the Investor's interest in relation to a Loan Agreement via the Secondary Market.
Trustee	Squirrel P2P Trustee Limited (FSP415167) and includes any other person appointed by us to act as a trustee of Investors' interests and/or Reserve Funds from time to time.
Unsecured	An Unsecured Loan is a Loan that is issued and supported only by the Borrower's creditworthiness, rather than by any type of collateral.
Wholesale Investor	An Investor we permit to fund Loans as a wholesale lender via the Platform.

