Credit Ratings & Research

Credit Rating Report
Police and Families Credit Union Incorporated

Company No: 1802854

Credit Rating Report

Date: 18th December 2025

Prepared for: Police and Families Credit Union Incorporated

Report prepared by: Equifax Australasia Credit Ratings Pty Ltd ("Equifax")

Primary Analyst: Umar Faruqui, CFA, FCCA

Secondary Analyst: Vignesh Srinivasan

Job Number: 406766

Currency used in this report: This report is presented in New Zealand Dollars unless otherwise noted.

Corporate Scorecard
From Equifax

Contents

1. Executive Summary

Police And Families Credit Union Incorporated ('PFCU')

PFCU is a not-for-profit, Non-Bank Deposit Taking (NBDT) organisation that is domiciled and licenced to operate in New Zealand. PFCU receives deposits from, and provides consumer loans to, current and retired police and NZ defence force personnel and their family members. More recently, PFCU has expanded its reach to various ambulance services.

Equifax has assigned PFCU a credit rating of 'BB' at Jun25 (affirmed at Oct25), which is a near-prime classification with a low to moderate level of risk. The rating reflects PFCU's strong capitalisation, funding profile and liquidity, the high quality of its loan assets (benefitting from security positions over NZ Police retirement accounts and access to NZ Police payroll), and the benefits of its strategic investment in financial technology solutions provider Finzsoft Solutions (New Zealand) Limited that supports its overall earnings profile. The rating is constrained by PFCU's subdued core operating performance, competitive pressures and limited franchise, the introduction of equity market risks through its new investment portfolio, increasing exposure to residential mortgages, which has introduced property market risks to its asset portfolio, and the impact of ongoing macroeconomic headwinds.

Strengths

PFCU's Tier 1 capital ratio remains strong and better than the industry average at 25.8% at Oct25 (Jun25: 25.5%), being 3.2 times the minimum regulatory requirement of 8.0%. Capitalisation has remained consistently above average due to limited loan growth in the recent past. This strong buffer provides PFCU the headroom to grow its risk weighted assets/loan portfolio while supporting its capacity to absorb performance volatility.

- The quality of PFCU's loan book remains high, supported by the strength of its client base which primarily comprises government employees who provide essential public services. A large portion of PFCU's gross loan book (~42.0% at Jun25) is secured by a charge over retirement funds in the Police Superannuation Scheme (PSS) and the Government Superannuation Fund (GSF). This collateral, along with PFCU's access to NZ Police payroll, improves the likelihood of repayment and recovery of loans advanced to members.

- PFCU's funding profile and liquidity have been supported by healthy reinvestment rates on term deposits (91.0% at Oct25), coupled with a modest loan portfolio. This is reflected in its above average deposit to loan ratios of 3.2x (Jun25: 3.4x, Jun24: 3.5x, Jun23: 3.7x) and liquid assets, as a proportion of total assets, of 68.3% at Oct25 (Jun25: 69.7%, Jun24: 70.1%, Jun23: 71.8%).

- PFCU's strategic investment in its banking software/financial technology solutions provider Finzsoft Solutions (New Zealand) Limited ('Finzsoft') in partnership with First Credit Union continues to contribute financial and operational benefits. Whilst PFCU's investment was initially a strategic necessity to secure operational capacity, the growth of the Finzsoft investment has provided some diversification to PFCU's earnings profile. Further, PFCU's investment in digitisation using Finzsoft's capabilities to automate a majority of manual tasks is expected to drive operational efficiencies, going forward.

Constraints

- PFCU's core operating performance (excluding Finzsoft) remains subdued by ongoing underlying challenges. However, a marginal profit of $155k (loss - FY25: -$186k, FY24: -$482k) was achieved in the four months ending Oct25, driven primarily by reduced interest expenses following a decrease in rates paid on member term deposits. And while the loan book increased to $35.8m at Oct25 (Jun25: $33.8m) driven by growth in home loans, interest generated on member loans as a proportion of overall interest income remained <40.0% underscoring the reliance of PFCU on managing the favourable spread between interest paid on member deposit and interest generated on bank deposit to meet its operating expense. That said, we note that PFCU maintains strong capitalisation buffers to absorb potential performance volatility, and it operates as a not-for profit credit union, with a mandate to service the needs of its members.

- Faced with stagnant personal loans demand, PFCU has initiated a balance sheet diversification strategy by rotating capital from term deposits into higher-yielding assets. This includes the establishment of an equity and bond portfolio, currently at $5.0m (Oct25) with a target allocation of $10.0m. While this move aims to bolster returns, it introduces exposure to equity and bond market volatility and will likely result in a higher Risk-Weighted Asset profile, the extent of which remains contingent on the specific asset class weighting. We note, a large portion of the investment is currently allocated to New Zealand Registered Banks via its investment partner (as at Oct25).

- The Company's deposit base stabilised during the interim period following a trend of contraction in recent years (Oct25: $115.9m, Jun25: $115.8m, Jun24: $119.0m, Jun23: $128.0m). While the highly conservative Loan-to-Deposit Ratio mitigates immediate liquidity risk, the recent introduction of the depositor compensation scheme may introduce future volatility as enhanced protection is likely to heighten depositor price sensitivity and drive more aggressive yield-seeking behaviour.

- Operating as an NBDT focused on its membership and their families, PFCU's competitive position is influenced by its limited franchise. If PFCU is unable to grow its active membership and provide services desired by members, its competitive position and capacity to operate sustainably will be impacted. That said, we note that PFCU recently launched its services to NZ Defence Force members and their families, and more recently to Wellington Free Ambulance and Hato Hone St Johns, which presents an opportunity to increase its addressable market and grow its operations.

- The NBDT sector players including PFCU face significant macroeconomic headwinds in the short-term, despite the recent cuts in interest rates, due to the lagged effect on the economy and therefore pressures on asset quality will persist, in our view. PFCU's overall exposure to residential mortgages and market risks related to property prices has increased further stemming from lending to traditional mortgages as well as its new product offering – 'First Home Together'.

The outlook for PFCU's credit rating is 'Stable' at Oct25.

A rating upgrade, while unlikely over the near term, would require a sustainable improvement in loan book size and core earnings profile, while sustaining overall balance sheet strength. However, the rating may migrate lower in the following instances on an individual or collective basis if there is:

a. a continued deterioration in core operating profitability and/or a contraction in the loan book,
b. a weakening of current balance sheet strength/asset quality metrics.

Risk Rating

BB

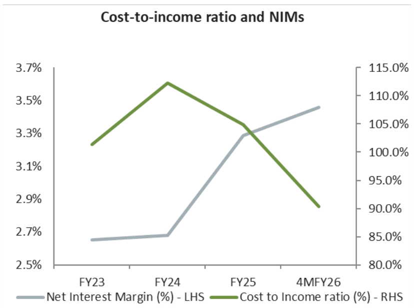
Outlook: Stable

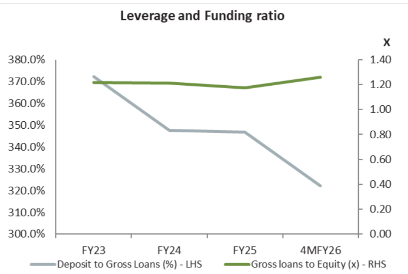
Type: Public, Monitored

Industry Percentiles

Metric	Percentile
Scale:	
Total Assets	42%
Gross Loans	17%
Profitability:	
NIM	42%
ROE	33%
ROA	33%
Efficiency Ratio	8%
Capitalisation:	
Leverage (Gross loans to Equity)	50%
Capital Ratio	92%
Capital to Total Assets	100%
Funding and liquidity:	
Loan to Deposit Ratio	100%
Liquid Assets to Total Assets	100%
Asset Quality:	
Net Charge-offs	42%
Impaired Loans	100%
Provision for Loan Losses	75%

Key Trends





2. Scope of Report

The purpose of this report is to provide a credit rating and associated rationale on Police and Families Credit Union Incorporated (“PFCU”).

We have complied with our rating services guidelines in order to derive the credit rating on Police and Families Credit Union Incorporated. The credit ratings and observations contained herein are solely statements of opinion and not statements of fact or recommendations to purchase, hold, or sell any securities or make any other investment decisions. The details pertaining to this report are outlined below:

Report Details	
Date of Report	**18 December 2025**
Request Type	**Issuer (Self-assessment)**
Assessment Type	**Under Ongoing Monitoring**
Rating Initiation	**Issuer based (solicited)**
Rating Distribution	**Public**
Report Distribution	**Unrestricted**
Purchased by	**Police and Families Credit Union Incorporated**
Report Fee	**Fixed Price**
Ancillary fees	**Nil**
Issuer Name	**Police and Families Credit Union Incorporated**
Issuer First Time Rated	**No**
Issue First Time Rated	**Not Applicable**
Financial Scope	**Consolidated Entity**
Structure	**Credit Union**
Industry	**Financial Services**
Sector	**Non-Bank Deposit Takers**

This Report should be taken as a whole and cannot be abridged or excerpted for any reason.

We have conducted this assessment on the basis of the information provided to us by Police and Families Credit Union Incorporated, publicly available information and from our own enquiries. We have derived a credit rating on PFCU based on the understanding that it has no contingent liabilities, cross guarantees, or other liabilities to any other entity other than as disclosed to us or as detailed in the financial statements. Our duty does not include auditing the financial statements.

Information Sources	
Financial statements	**Management accounts for the four-month interim period to Oct25.** **Audited Financial statements for the years ended Jun25 (FY25), Jun24 (FY24) and Jun23 (FY23).**
Name of auditor	**BDO**
Other Information Sources	**PFCU's response to our requests for information, PFCU website, industry and regulatory websites, management interviews, media articles, adverse searches, and other internet searches.**
Subject participation	**Full**
Material financial adjustments	**None**
Limitations of assessment	**None noted**
Outsourced rating activities	**No**
Confidentiality agreement	**No**
Material client	**No**
Rating amended post issuer disclosure	**No**
Potential conflict of interest	**No**
Rating methodology	**Financial Institution Rating Criteria**

This report should be read within the context of Equifax's Ratings Services Guide.

3. General Background of the Subject

Subject Name	Police and Families Credit Union Incorporated
Type of Entity	Credit Union – licenced as an NBDT with the RBNZ, and registered as number 610 under Part III of the Friendly Societies and Credit Unions Act 1982
Head Office Address	Level 11, 57 Willis Street Wellington 6011 New Zealand
Date of Incorporation	11 Feb 1974
Principal Activities	PFCU provides secured and unsecured personal loans, residential mortgages, transactions and savings accounts, and term deposit services to its members. More recently, PFCU has broadened its membership eligibility to include Defence Force personnel and their families, as well as staff from various emergency ambulance services. Members can use PFCU-issued Debit MasterCard to access their funds through ATMs and carry out transactions.
History	Police and Families Credit Union Incorporated is a Non-Bank Deposit Taking (NBDT) institution licensed with the Reserve Bank of New Zealand. PFCU is a not-for-profit credit union with membership open to current and retired police employees and their families, defence force personnel as well as staff from various ambulance services. PFCU was established initially to meet the borrowing needs of police employees and their families and has since evolved into a provider of a comprehensive range of banking services to meet the needs of its members. Pursuant to legislative changes, PFCU amended its rules to become an incorporated entity, effective 1 Jan 2020.

4. Industry Risks

Systemic risks factors (GDP, unemployment, economic cycles, interest rates etc), level of competition, market structure and the regulatory framework are key sources of industry risks that determine the operating environment of financial institutions (FIs). A summary[1] of the above risk factors and their outlook in the context of the New Zealand economy is included in paragraphs below.

Systemic Risk Factors

The Reserve Bank of New Zealand ('RBNZ') characterised the domestic economy as weak but turning a corner, highlighting a distinct two-speed divergence where strong export prices for dairy and meat are buoying the rural sector while domestic industries like retail, construction, and hospitality continue to struggle. RBNZ emphasized that significant spare capacity remains, noting that while lower interest rates are beginning to free up household cash flow, consumers remain cautious, resulting in flat house prices and muted spending growth. Additionally, RBNZ assessed that the labour market has likely reached its lowest with unemployment at 5.3%, forecasting that economic activity is now stabilising enough to support a gradual recovery in hiring and investment heading into 2026.

The RBNZ observed that the global economy has been surprisingly resilient, buoyed significantly by heavy investment in Artificial Intelligence (AI) technologies, particularly in the US. This tech-driven boom has helped offset weakness in other sectors. Interestingly, RBNZ remarked that the impact of trade tariffs and barriers has so far been less damaging to global growth than initially feared. However, RBNZ forecast that this momentum will slow in 2026 as the initial burst of AI investment normalises and broader trade frictions continue to weigh on international activity.

Official Cash Rate: RBNZ cut the Official Cash Rate (OCR) by 25 basis points in Nov25, bringing it down to 2.25%. This move was largely expected by the market, though the decision was not unanimous. The Monetary Policy Committee voted 5–1 in favour of the cut, with one member voting to keep rates on hold, signalling growing caution about further easing.

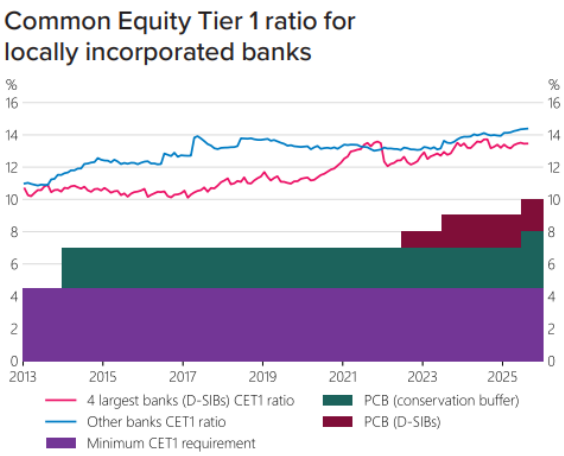
Inflation: RBNZ noted a temporary spike in annual inflation to 3.0% (the top of its target band) in the September quarter, driven largely by volatile tradable items like fuel and food, alongside high local council rates. However, RBNZ remains confident that significant spare capacity in the economy will naturally suppress price pressures, forecasting a return to the 2.0% midpoint by mid-2026.

Labor Market: Employment conditions were described as weak but stabilising. The unemployment rate has risen to 5.3%, a level RBNZ expects to be near the peak. RBNZ anticipates job ads and hiring to gradually improve as economic activity picks up over the coming year.

[1] RBNZ Financial Stability Report Nov 2024, RNBZ Monetary Policy Statement August 2024, RBNZ Monetary Policy Media Release Oct 2024, RBNZ Website and various of Publications of RBNZ.

New Zealand’s financial institution display financial resilience with divergent performances, particularly within non-bank and insurance sectors

New Zealand's financial institutions remain resilient, with the banking sector maintaining strong capital and liquidity buffers well above regulatory minimums and demonstrating the ability to withstand severe geopolitical shocks in recent stress tests. While bank profitability remains robust supported by elevated margins, the Non-Bank Deposit Taker (NBDT) sector shows divergent performance; finance companies remain relatively profitable and are growing, whereas credit unions and building societies continue to struggle with low returns due to a lack of scale, though the sector has seen helpful deposit inflows following the launch of the Depositor Compensation Scheme. The insurance sector paints a similarly mixed picture, where general insurers have returned to strong profitability amid fewer large weather claims, while health insurers face significant financial strain and operating losses due to rapidly escalating medical claims costs. Finally, Financial Market Infrastructures (FMIs) have maintained 100% availability, with supervisors currently focusing on cyber resilience and the management of critical third-party service providers.



Source: *RBNZ Financial Stability Report- Nov25*

Significant regulatory changes underway

Regulatory transformation driven by the ongoing implementation of the *Deposit Takers Act 2023* (DTA), which features a phased consultation on new prudential standards and the establishment of an 18-month licensing window commencing in June 2027 is creating significant changes in the regulatory environment. A strong emphasis is placed on fostering competition, evidenced by the publication of new Competition Assessment Guidelines and a proposal to authorise all licensed deposit takers to use restricted terms such as "bank" in their names. Concurrently, the Reserve Bank is finalising a review of capital settings for deposit takers with decisions expected by the end of 2025, while also advancing amendments to the *Insurance (Prudential Supervision) Act 2010* to modernise the insurance regulatory regime by 2028. These policy reforms are complemented by active supervisory measures, including the 2025 bank solvency stress test and ongoing thematic reviews of risk management practices.

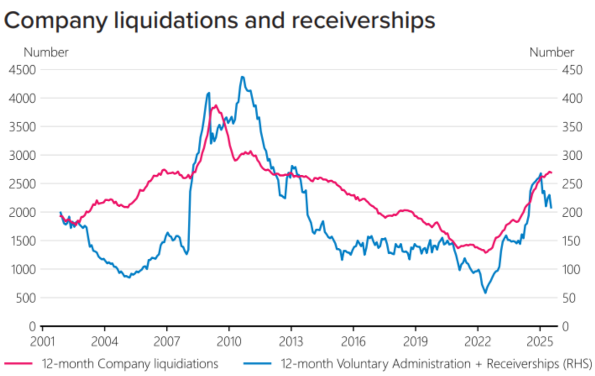
Cyclicality

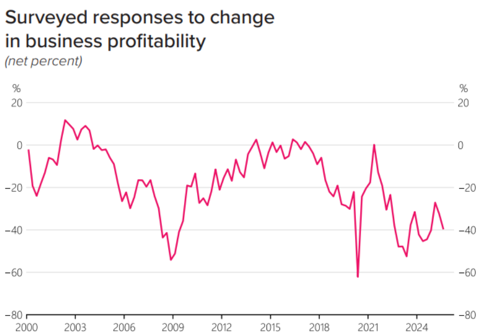
Due to strong linkage between economic activity and interest rates financial institutions remain vulnerable to vagaries of economic cycles. During recessionary times interest rates drop and business sentiment remains weak, thus undermining the ability of financial institutions to raise deposits and make loans. Similarly, during periods of inflation, interest rates usually rise and purchasing power of households dwindles thereby exposing financial institutions to asset quality risks.

NBDTs' strong reliance on retail deposits for funding, limited product range, geographically concentrated operations, and smaller scale makes them more susceptible to the adverse operating and financial impacts of cyclicality compared to systemically important banks and other tier-2 banks. As a result, a study of economic cycles and its phases is vital to accurately assess the exposure to various market risks

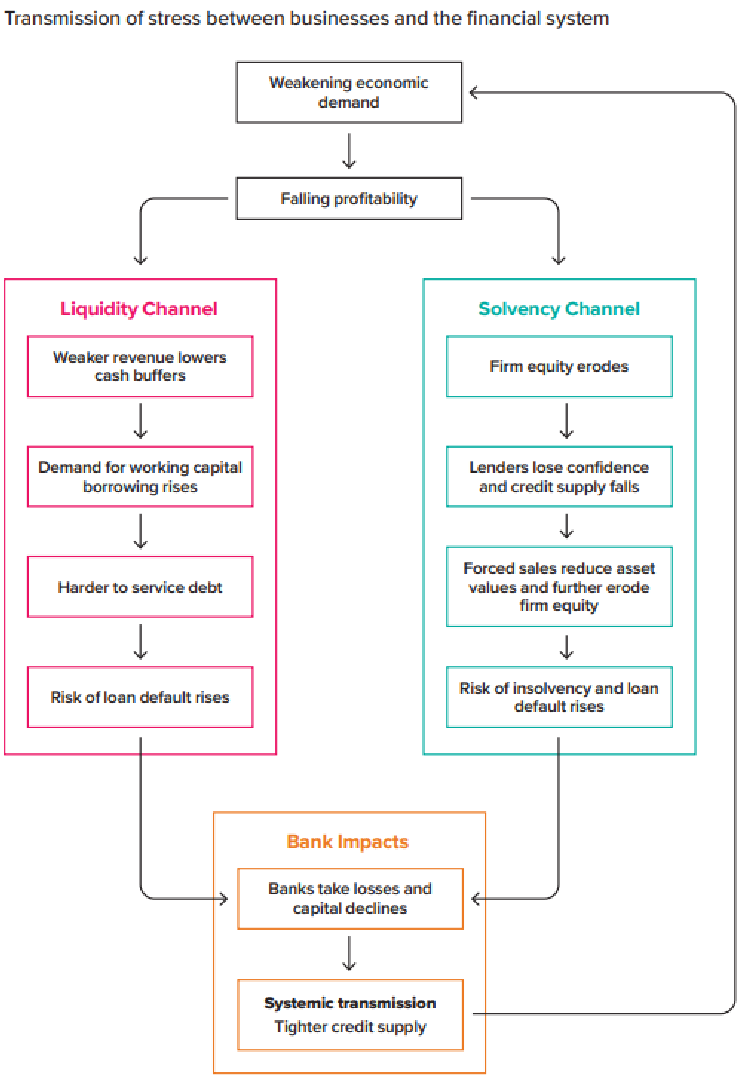
Financial stress in business sector has intensified

Financial stress in the New Zealand business sector has intensified, with profitability falling to levels last seen during the Global Financial Crisis and pandemic-era cash buffers largely depleted, particularly among small and medium enterprises. This stress has driven company liquidations above historical averages, with Inland Revenue initiating a significant portion of these insolvencies as firms increasingly rely on unpaid tax for working capital. However, the impact is uneven; while sectors reliant on discretionary spending, such as retail, hospitality, and construction, face acute pressure, the agriculture sector remains a notable bright spot, buoyed by high export prices and effective deleveraging. Despite rising non-performing loans, the risk to the broader banking system remains contained due to prudent lending standards and elevated provisioning, with conditions expected to improve gradually as falling interest rates aid debt servicing and economic demand recovers.





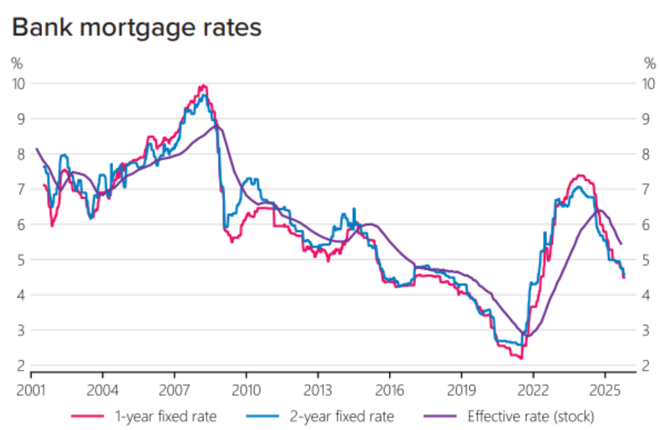
Source: NZIER *Quarterly Survey of Business Opinion.*
Note: Net percentage of firms that experienced an increase in profitability in the past quarter.

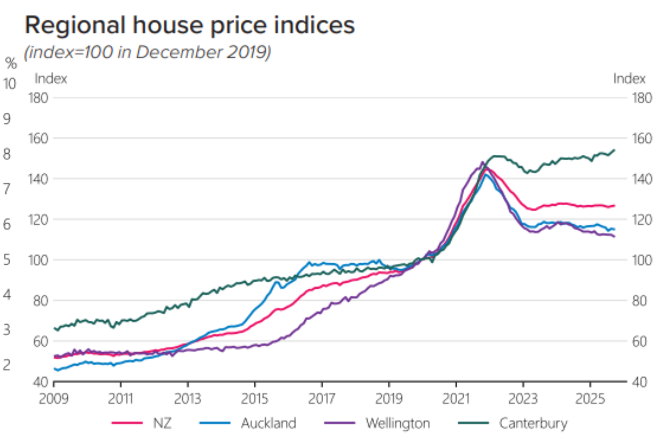


Asset Movement

<u>House prices have increased from recent lows, but housing activity remains weak</u>

Despite the significant reduction in mortgage rates throughout the year, RBNZ noted that house prices have remained largely stable rather than surging, reflecting a cautious consumer mindset. National house prices have been broadly flat over the past three years and remain approximately 12.0% below their 2021 peak, weighed down by high inventory levels and a soft labour market despite falling interest rates.

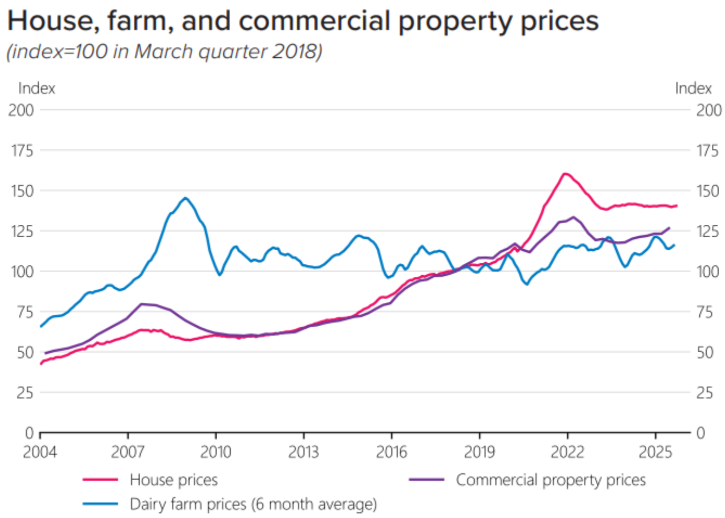




Source: *RBNZ Financial Stability Report-Nov25*

Commercial property on path to recovery

Commercial property values have begun to increase over the past year following varying corrections, with industrial assets outperforming secondary office and retail spaces. Meanwhile, rural asset prices have remained broadly stable, supported by strong export commodity prices and improved farmer cashflows, despite low sales turnover in the sector.



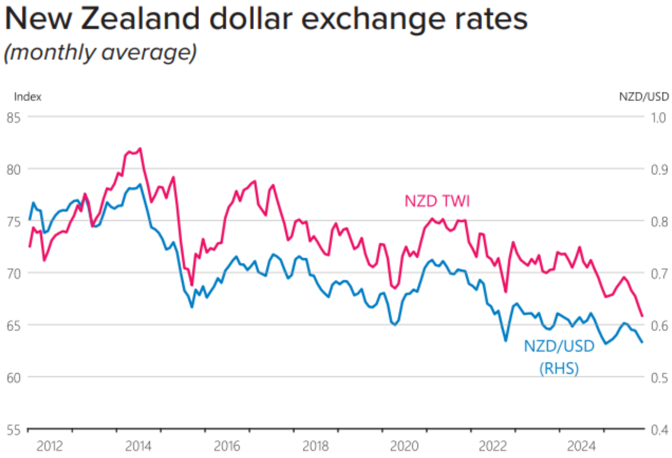
Source: *RBNZ Financial Stability Report- Nov25*

Foreign Currency Risks

The adverse movement in exchange rate poses direct and indirect risks to financial institutions depending on its balance sheet and contribution of foreign trade to overall economy. For economies highly reliant on foreign trade adverse changes in exchange rates can affect overall GDP levels and business profitability thus heightening the financial institutions vulnerability to asset quality risks. Further financial institutions may raise capital from or lend to foreign investors / borrowers and hence adverse movement in the exchange rates may impact the financial institutions borrowing costs / lending incomes.

New Zealand Exchange Rate

The New Zealand dollar (NZD) Trade Weighted Index (TWI) has depreciated by 4.4% since the August Statement, a broad-based decline largely driven by falling domestic interest rates. This downward pressure on the currency reflects weaker-than-expected domestic economic data and a subsequent reduction in market expectations for the Official Cash Rate, which has narrowed interest rate spreads between New Zealand and key counterparts like the United States and Australia. This depreciation is providing a buffer for the export sector; while global prices for some commodities have softened, the lower exchange rate is boosting the New Zealand dollar returns for exporters, particularly in the dairy and meat sectors. Reflecting these developments, the Reserve Bank's projections now assume the TWI will average around 66 over the projection period, approximately 3% lower than assumed in the August Statement.



Source: NZFMA, RBNZ.

Level of Competition and Market Structure

The financial institutions face stiff competition on an ongoing basis to attract capital and funding. In addition to peers, the financial institutions must compete with other finance intermediaries like managed funds, insurance companies and other intermediaries that offer alternative avenues for households and businesses to park savings or borrow funds. Further, the advent of fintech, payment banks and rise of buy now pay later sector has heightened competition in the short-term lending segment.

Regulations to structurally level the playing field

The Reserve Bank has elevated competition to a central policy objective, formalising this shift with the release of new Competition Assessment Guidelines and a legislative mandate under the Deposit Takers Act to consider competitive neutrality and barriers to entry. To structurally level the playing field, the Bank is consulting on allowing all licensed deposit takers to use the term "bank" and has implemented the Depositor Compensation Scheme (DCS), which is already narrowing funding cost spreads and boosting deposits for non-bank entities. Simultaneously, weak credit demand has intensified active market competition, compelling banks to compete more aggressively on price for a limited pool of high-quality mortgage and business borrowers, while a new proportionality framework ensures that regulatory compliance costs do not unduly hinder smaller market participants.

5. Market Overview

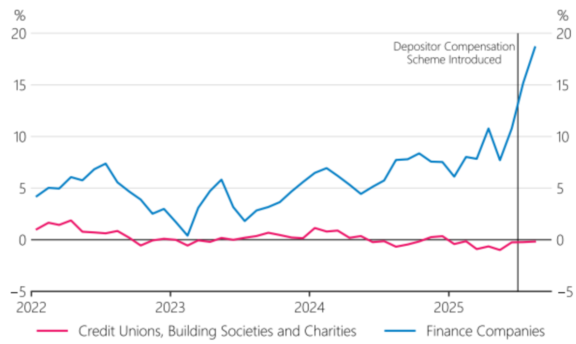
There are 14 NBDTs operating in New Zealand, which include building societies, credit unions, and deposit-taking finance companies. They have diverse business models, asset sizes, geographic concentrations and product mixes. Total lending by NBDTs was around $2.30bn or 0.4% of total bank lending, the sector is very small in total lending but provides services to relatively larger number of customers compared to the banking sector.

NBDTs are diverse in terms of asset size, however the lack of economies of scale continues to weigh on profitability for many. This has been a long-standing challenge in parts of the sector where operating costs tend to be high relative to income, and the capacity to raise capital is limited. The business models of individual lenders tend not to be well diversified in terms of geographic exposure and products. These factors contribute to lower resilience in the NBDT sector compared to the banking sector. The sector has consolidated in recent years, particularly for credit unions and further consolidation and/or changes to the business model may happen. However, the NBDT sector remains diverse, with some building societies and finance companies better able to build resilience in the long term.

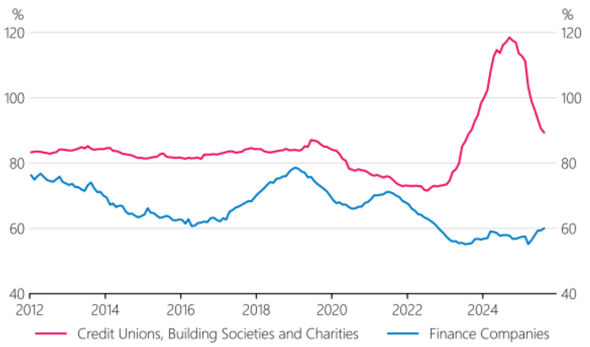
Financial resilience and performance vary significantly between these sub-sectors. Finance companies remain relatively profitable with a return on assets of 1.7% and have seen their non-performing loan ratios improve to 2.6%. In contrast, the mutual sector (credit unions and building societies) is under pressure, reporting a return on assets of just 0.1% and elevated non-performing loans of 3.1%. This underperformance largely reflects a lack of scale, which continues to impact their cost structures and profitability.

Funding conditions have improved notably following the launch of the DCS in Jul25. NBDTs have experienced deposit inflows as savers spread funds across institutions to maximise government coverage, allowing the interest rate margin between NBDTs and banks to narrow. Finance companies have utilised this influx of funding to strengthen their liquidity by purchasing government bonds and to expand low-LVR mortgage lending.

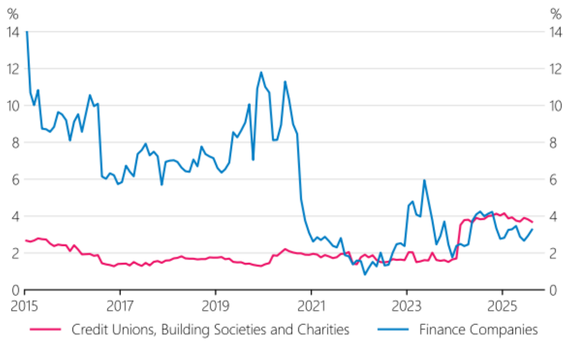
3-month growth in deposit funding by NBDT sector



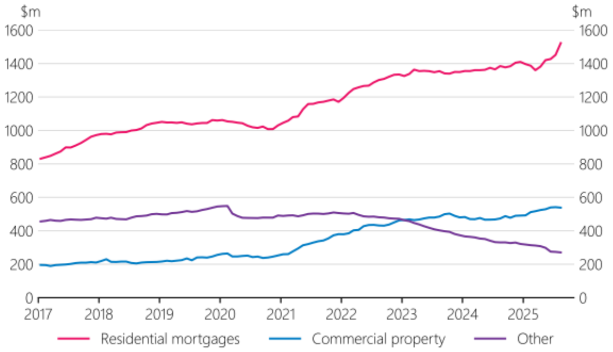
NBDT cost-to-income ratio



NBDT non-performing loan ratio



NBDT lending by sector



***Source:** RBNZ Financial Stability Report- Nov25*

The sector faces a significant period of regulatory transition as the Deposit Takers Act is fully implemented. The Reserve Bank is currently reviewing key capital settings, with final decisions expected by the end of 2025, while policy decisions regarding the proposal to allow licensed entities to use the term "bank" are expected in 2026. Concurrently, the Reserve Bank is finalising a thematic review of risk management practices in the sector, with a report due in early 2026 to help uplift industry capability. These initiatives will pave the way for the new licensing regime, which will open an 18-month application window for existing entities starting on 01 June 2027.

5.1 Prudential Framework

The Reserve Bank regulates non-bank deposit takers (NBDTs) in New Zealand for the purposes of promoting the maintenance of a sound and efficient financial system and avoiding significant damage to the financial system that could result from the failure of an NBDT. NBDTs are entities that make an NBDT regulated offer (as defined in section 5 of the Non-bank Deposit Takers Act 2013) and carry on the business of borrowing and lending money, or providing financial services, or both. The prudential regulation of NBDTs is provided under the Non-bank Deposit Takers Act 2013 and associated regulations. Trustee companies also have obligations under the Act. These include ensuring certain prudential content is included in licensed NBDTs' trust deeds. Trustees must report to RBNZ any non-compliance with the Act and regulations by the licensed NBDT. Trustees are licensed by the Financial Markets Authority under the Financial Markets Supervisors Act 2011. The table summarises certain key prudential requirements [1]for NBDTs currently in force.

Credit Rating	Licensed NBDTs are required to have a local currency (New Zealand dollar), long-term, issuer rating given by approved rating agencies.
Governance	Licensed NBDTs that are companies or building societies must have a chairperson who is not an employee of either the licensed NBDT or a related party and must have at least two independent directors. Licensed NBDTs that are subsidiaries of another person are prohibited from including provisions in their constitutions that would allow directors to act otherwise than in the best interests of the NBDT.
Risk Management	Licensed NBDTs are required to have a risk management programme that outlines how the licensed NBDT identifies and manages its credit, liquidity, market and operational risks. This programme is to be submitted to, and approved by, the licensed NBDT's trustee.
Capital Ratio	A minimum capital ratio (the level of capital in relation to the credit exposures and other risks of the NBDT or its borrowing group) is required to be included in licensed NBDTs' trust deeds. This ratio must be at least 8% for licensed NBDTs with a credit rating from an approved credit rating agency. For licensed NBDTs without a credit rating from an approved rating agency, the minimum capital ratio specified in the trust deed must be at least 10%.
Related party exposure limits	The exposures to related party, as defined in the Act, shall not exceed a maximum limit of 15% of capital.

[1] RBNZ

Liquidity	Liquidity regulations require every licensed NBDT and its trustee to ensure that the licensed NBDT's trust deed include one or more quantitative liquidity requirements that are appropriate to the characteristics of the licensed NBDT's business, and that take into account the liquidity of the licensed NBDT and the liquidity of any borrowing group.
Suitability assessment of certain directors and senior officers	Licensed NBDTs must notify the Reserve Bank when one of its directors or senior officers (or a person who is proposed to be appointed as a director or senior officer) raises a "suitability concern".
Change in ownership	An application must be made to the Reserve Bank to approve a transaction that will result in a person: 1. having the direct or indirect ability to appoint 25% or more of a licensed NBDT's governing body; or 2. having a qualifying interest in 20% or more of the voting securities issued by the licensed NBDT.

The Deposit Takers Act 2023

The Deposit Takers Bill ('DTA') will replace the existing prudential regulatory regime contained in the Banking (Prudential Supervision) Act 1989 and the Non-bank Deposit Takers Act 2013. The integration of these previously separate regimes will create a single, consistent framework for the regulation and supervision of financial institutions that essentially engage in the same activity – the business of taking 'deposits' from the public, and lending to individuals, households, and businesses.

It will take some years for the Reserve Bank to develop and consult on the secondary legislation that will implement the regulatory requirements for the new regime and complete a licensing process for deposit takers to operate under the regime. The parts of the current Reserve Bank Act relating to the regulation and supervision of registered banks and the Non-bank Deposit Takers Act 2013 will remain in force until the remaining parts of the DTA have been fully implemented.

Recent Developments

- The DCS became operational on 01 July 2025, protecting eligible deposits up to $100k per institution, which has already contributed to increased deposit inflows for non-bank deposit takers as customers spread funds to maximise coverage. While the scheme is currently live, the specific DCS Standard is being consulted on further as part of the "Tranche 1" consultation to ensure the regulatory details align with the broader DTA framework.
- The Reserve Bank is consulting on exposure drafts of the new DTA standards in three separate tranches to spread the engagement load, with the first tranche covering Liquidity, the Depositor Compensation Scheme, Lending, and Incorporation, open for feedback from Oct25 to Jan26. Following subsequent consultations on areas like governance and capital throughout 2026, RBNZ intends to issue the final standards in May27, with full commencement scheduled for Dec28.

- To support a more competitive and consistent playing field, the Reserve Bank is consulting until 24 November 2025 on a proposal to authorise all licensed deposit takers, including non-banks like finance companies, to use restricted terms such as "bank" or "banking" in their names. This change is designed to treat similar institutions consistently under the single regulatory regime, with final policy decisions expected to be announced in 2026.
- Regulations are currently being consulted on to define exactly which entities must be licensed under the DTA, with proposals largely seeking to maintain the existing prudential perimeter established by the Non-Bank Deposit Takers Act 2013. The proposed regulations, open for submission until 24 November 2025, would continue to exclude entities currently declared not to be NBDTs and overseas banks that do not maintain a physical place of business in New Zealand.
- In response to inquiries into banking competition, the Reserve Bank initiated a review of capital settings, consulting on the appropriate amount and form of capital for deposit takers in a process that closed on 03 October 2025. RBNZ is currently assessing the feedback alongside independent expert reports and expects to announce final decisions by the end of 2025, which will then be incorporated into the new Capital Standard.
- An 18-month licensing window for existing banks and NBDTs has been scheduled to run from 01 June 2027 to 01 December 2028, during which entities must demonstrate their ability to meet the requirements of the core DTA standards. The assessment framework for these applications will be tailored to suit this timeframe, focusing primarily on the specific regulatory changes introduced by the new core standards rather than re-litigating established practices.
- As part of the DTA implementation, the Reserve Bank is developing an Operational Resilience Standard to formalise expectations for managing cyber and technology-related risks across the sector. This standard will set specific requirements for how deposit takers manage their Information and Communication Technology (ICT) risk, ensuring a consistent approach to operational resilience.

Source: *RBNZ Financial Stability Report*

5.2 NBDT Sector Financial Benchmarks

2025	Sector Median*	Police and Families Credit Union	Percentile
Scale:			
Operating income ($ 000s)	6,091	4,667	33%
Total Assets ($ 000s)	184,089	145,079	42%
Gross loans ($ 000s)	128,730	33,383	17%
Profitability:			
Net Interest Margin (%)	3.3%	3.3%	42%
Non Interest Income to total income (%)	21.4%	1.6%	17%
ROE (%)	2.7%	0.8%	33%
Return on total assets (%)	0.4%	0.1%	33%
Cost to Income (%)	78.9%	104.8%	8%
Capitalisation:			
Leverage (Gross loans to Equity) (x)	5.9	5.9	50%
Capital ratio - risk adjusted (%)	14.7%	25.5%	92%
Capital to total assets ratio (%)	14.1%	19.6%	100%
Funding and liquidity:			
Gross loans as a % of total assets (%)	71.4%	23.0%	0%
Gross loans to deposit (%)	83.9%	28.8%	100%
Liquid assets to total assets (%)	26.0%	69.7%	100%
Asset Quality:			
Write-offs to gross loans (%)	0.0%	0.0%	42%
Impaired loans to gross loans (%)	0.7%	0.0%	100%
Total provision to gross loans (%)	0.8%	0.3%	75%

** Sector Median calculated on the basis of publicly available financial information (financial year 2025 or interim FY25 available) of 13 NBDTs in the sector.*

6. Business Risks

6.1 Market Risk Exposures and Controls

Interest Rate Risk

PFCU controls and manages the impact of interest rate changes by minimising the duration mismatch between its assets (members' loans) and liabilities (members' deposits). The duration gap is measured monthly by the Asset and Liability Committee (ALCO) to identify any large exposures to interest rate movements and any such exposures are rectified through management of or change in interest rates on member deposit accounts and/or member loan accounts.

PFCU offers fixed rate terms only on its home loans and for a maximum period of two years. All other loan facilities are offered on variable interest rates. Residential mortgages accounted for 41.2% PFCU's total loans as at Oct25 (Jun25: 37.2%, Jun24: 31.5%, Jun23: 24.7%).

PFCU has an internal policy in place to maintain a majority of its total term deposits with NZ registered banks with a maturity shorter than 12 months. PFCU monitors this on a regular basis and as at Oct25, they were in-line with the internal policy requirements.

REPRICING GAP ANALYSIS

FINANCIAL ASSETS	**0 to 3 months**	**4 to 6 months**	**7 to 12 months**	**13 to 24 months**	**25 to 60 months**	**60 plus months**
Cash & Cash Equivalents	5,366,079	-	-	-	-	-
Managed Funds	5,015,052					
Bank Term Deposits	22,487,516	19,596,480	29,007,481	18,789,497	-	-
Loans To Members	26,072,965	1,003,010	4,170,611	4,651,222		
	$ 58,941,611	$ 20,599,490	$ 33,178,092	$ 23,440,719	$ -	$ -
FINANCIAL LIABILITIES						
On-Call Shares	64,263,138	-	-	-	-	-
Fixed Term Shares	19,337,299	16,682,684	12,857,943	2,799,948	-	-
	$ 83,600,438	$ 16,682,684	$ 12,857,943	$ 2,799,948	$ -	$ -
Repricing Weights*	0.10%	0.23%	0.45%	1.50%	3.50%	6.00%
Weighted Aggregate Net Value	(24,659)	9,009	91,441	309,612	-	-
Maximum % of Total Reserves as per	**5.00%**	**5.00%**	**5.00%**	**5.00%**	**5.00%**	**5.00%**
% Total Reserves in each category	**-0.09%**	**0.03%**	**0.32%**	**1.08%**	**0.00%**	**0.00%**

As at Jun25, PFCU modelled the sensitivity of its assets and liabilities to a 3.0% fluctuation in interest rates. Based on FY25 audited accounts, the impact on earnings from a 3.0% adverse movement in interest rates on bank deposits would decrease PFCUs surplus and equity by ~$623k (FY24: ~$695k). The same is a sizeable proportion of PFCU's earnings, however, its impact to the credit profile is partially mitigated by PFCU's strong capitalisation and funding profile.

Liquidity Risk

PFCU manages liquidity risk by investing in short-term liquid deposits with NZ registered banks. PFCU monitors its liquidity via a daily cash summary report that aims to highlight any breaches in liquidity policy. PFCU has an internal policy is place which details the necessary steps and contingency plans to be undertaken and implemented by the CFO and CEO should the liquidity ratio fall below an internally set target.

Moreover, PFCU's trust deed stipulates a minimum liquidity ratio of 10.0% (calculated using financial assets maturing within the next 183 days divided by Total Assets). PFCU's calculation of liquidity ratio as per its trust deed is more conservative than the industry standard. PFCU only includes deposits maturing within 183 days in its computation of internal liquidity. Overall liquidity as a proportion of total assets was computed at 68.3% as at Oct25 (Jun25: 69.7%, Jun24: 70.1%, Jun23: 71.8%), and in Equifax's view, it is deemed to be conservative, relative to peers.

Liquidity Management Policies also require that the mix of deposits be controlled for reasons of deposit base stability and minimising average cost of funds. PFCU requires that the amount of deposit by any individual member shall not exceed $250,000 individually or $500,000 jointly across all share accounts to mitigate the concentration risk associated with deposits. Management monitors this on a regular basis and takes suitable action, if required.

6.2 Credit Risk Exposures and Controls

Credit risk is the risk that the counterparty will be unable to meet obligations to PFCU under the terms of any loan or advance (with members), or terms deposits (with banks). PFCU is exposed to credit risk on both term deposits held with NZ registered banks, and loans granted to members in the form of mortgages or personal or other loans. Measures and controls have been adopted by PFCU to minimise risk of loss due to concentration to any individual counterparty.

Term deposits with banks – The policies require that PFCU does not maintain more than more than 60% of its liquid asset investments with any one NZ Registered Bank with a Credit Rating of greater than or equal to A- and to a maximum 30.0% of liquid asset investments with any one NZ Registered Bank with a Credit Rating of BBB or BBB+.

Loans to members – Loans are made in accordance with PFCU's lending policy. Key features of this policy are:

- Fixed rate offerings are only for mortgages and up to two years, and all remaining offerings are on variable rates.
- PFCU has set a maximum limit on the amount of loan and the maximum tenure for the loan offered is 30 years.

- The loan amounts are secured by a charge on PSS/GSF. Deposit ranges and tenures depend upon the security cover provided.
- PFCU has set limits for the maximum tenure and loan amount to purchase a motor vehicle or for any other approved purpose using motor vehicle as security. PFCU also has a minimum-security cover target.
- PFCU has set limits for the maximum tenure and loan amount for unsecured loans.
- PFCU has a very low proportion (less than 0.1% of total loan book as at Oct25) of unsecured loans. Exposure to loans secured by residential mortgages increased to 42.9% as at Oct25 (Jun25: 37.2%, Jun24: 31.9%, Jun23: 24.8%) driven by an increase in lending under this segment, including those in relation to its new product offerings. ~33.0% of PFCU's loan portfolio remains secured by a charge over retirement funds in PSS and GSF for current and former NZ police employees and their family members. PFCU's credit risk for loans secured by PSS and GSF is low.
- Credit risk on the PFCU portfolio is also mitigated by limited concentration to any particular geographic area. Residential mortgages are spread across main cities such as Auckland, Christchurch, Wellington as well as regional towns and areas.

6.3 Structure and Service Delivery Platform

Structure

In Apr17, the Friendly Societies and Credit Unions (Regulatory Improvements) Amendment Bill was introduced to amend the Friendly Societies and Credit Unions Act 1982. This Bill was intended to;

- remove unnecessary operating and compliance costs,
- promote greater efficiency, innovation, and accountability,
- bring credit unions into alignment with other financial service providers in New Zealand, and
- maintain the element of mutuality and the requirement of a common bond between members.

This bill received the Royal Assent on 4 Jul 2018 and the Friendly Societies and Credit Unions (Regulatory Improvements) Amendment Act 2018 was passed with a commencement date of 1 Apr 2019.

Some of the most important changes as a result of the Friendly Societies and Credit Unions (Regulatory Improvements) Amendment Act 2018 are as follows;

- No person, society, or body of persons (whether incorporated or unincorporated) may trade or carry on business as a credit union unless it is registered. Existing credit unions were given 6 months from the commencement date (1 Apr 2019) to apply for incorporation. This eliminated the need for trustees with credit unions becoming entities in their own right.
- Credit unions can extend loans to Small and Medium-sized Enterprises (SME) related to a member (provided the member has the power, directly or indirectly, to exercise, or to control the exercise of, the rights to vote attaching to 25% or more of the voting products) so long as the related SMEs have no more than 19 full-time equivalent employees. The loan is to be used for the purposes of a business being carried on by that SME.
- The minimum number of members of an association of credit unions is reduced from seven to two.

In order to ensure compliance with the new provisions, PFCU held a special general meeting and amended its rules in Jun19. Pursuant to its application for incorporation under the new provisions within the relevant deadline, PFCU's incorporation by the Registrar of Credit Unions was effective from 1 Jan 2020.

PFCU has ownership of itself rather than trustees owning it on behalf of the members. In spite of the above changes, PFCU's structure is considered simple, and the lack of structural complexity improves transparency and reduces operating risks.

PFCU does not carry any external debt and hence, there is minimal risk of structural subordination or double leverage to increase the asset portfolio. PFCU's ability to raise wholesale funding is adversely affected by limitations imposed by its trust deed. PFCU is prohibited by its trust deed from creating security interest over any of its assets. The risk from this limitation is considered quite low in our view, given PFCU has a very strong funding profile with an industry leading deposit to gross loan ratio of 322% as at Oct25. Moreover, PFCU being a not-for-profit entity does not have any return on capital objective and reinvests 100% of its surplus earnings into the business, which further reduces the risk from its inability to access wholesale funding.

Service Delivery Platform

The business offers three main classes of product in the form of accepting deposits from members, granting personal loans (secured and unsecured) including motor vehicle loans, and residential mortgages (comprising traditional residential mortgages, shared home ownership mortgages and reverse mortgages). PFCU's customer segment consisting of NZ Police employees (current and retired), their family members and recently started expansion of its loan portfolio into New Zealand Defence Forces and various ambulance services.

PFCU's members can join PFCU through completion of a web-based form on its website. The website also provides internet banking services for the members to keep track of and manage their funds. Additionally, PFCU provides its members with access to their accounts through a mobile application and personal banking services. PFCU also enables its members to apply for loans using its website and the mobile application. To improve customer experience and shorten the application processing time, PFCU has recently implemented an electronic identification and verification system. Further, PFCU has implemented a system to perform automatic review of members bank statements. PFCU solely uses Westpac for settling transactions of its issued Debit MasterCards which in our view, enables PFCU to better manage operational risks.

6.4 Strategic Vision

PFCU's main strategic objective is to service the financial needs of its members better through competitive pricing and financial health offerings.

PFCU assists its members to save and invest funds with PFCU, which are, in turn, used to make loans to other members in need of borrowing products. PFCU's purpose is not to maximise profitability but to provide value to members while ensuring long-term profitability and solvency of the business.

6.5 Execution of Strategy

PFCU operates and looks to achieve its strategic goals through the implementation of a fairly simple and conservative business model. PFCU aims to provide competitive, above market (but not above the highest) average deposit and below market (but not below the lowest) borrowing rates to its members, and to minimise the interest rate reset gap between its assets and liabilities. With a stagnant loan book, PFCU's management has been proactive and engaged a new marketing platform and launched new product offerings –

- Retire Easy (Reverse Mortgage): A loan for members aged 70+ to free up the cash in their home to help make retirement more comfortable; typically called a "reverse" or "reverse equity" mortgage.
- First Home TOGETHER (shared ownership): A home loan package where PFCU provides a deposit help of up to 10% of the price of the home (interest free for up to 10 years) and the borrower shares ownership of their first home with PFCU.
- PFCU's strategy is to grow its penetration into families of Police with widened criteria for family that qualifies for membership, grow its penetration into civilian and non-civilian Defence Force personnel and their families, and to expand in Emergency Services, and extended family of all members.

6.6 Management

Name	Position
Lane Todd	Chair and Elected Director
Ian Harris	Vice Chair and Elected Director

Gail Gibson	Elected Director
Natasha Rodley	Elected Director
Stuart Taylforth	Elected Director
Richard Middleton	Elected Director
Amy Linwood	Manager Market and Products
Mike Davy	Chief Executive Officer
Lucy Haberfield	Chief Financial Officer

Following the resignation of Director Helen Hatchard, the Board is currently in the process of appointing a successor to fill the vacancy.

6.7 Governance and Oversight

Internal

PFCU's internal Credit Risk Policy governs the approval parameters for the loans to members. PFCU's exposure to mortgage lending has increased over the recent periods and offers fixed rates for a maximum term of two years on mortgages. PFCU does not offer fixed rate terms on any of the other loan products.

PFCU's board and all employees are responsible for risk management activities, which include –

- The Board reviews upcoming legislative changes through updates from their external lawyers and other material and discuss any impact at Board meetings.
- A checklist of all existing regulatory filing requirements is completed monthly. This is reviewed as part of the Internal Controls program.
- Compliance with AML/CFT policies and procedures is assessed monthly as part of the internal controls program.

In order to manage risk on an ongoing basis and have built-in checks, PFCU has three lines of defence:

- First Line, Business Operations – Risk and control policies in the business lending criteria.
- Second Line, Oversight functions – Internal Controls Programme that monitors lending portfolio on a periodic basis through pricing committee and ALCO.
    - PFCU's pricing committee meets weekly and analyses PFCU's prices for fixed / floating home loans and personal loans, and deposit rates. The rates are compared with the big banks and other banks alike. Changes to the rates are recommended to maintain competitiveness and relative attractiveness to the members.

    - ALCO meets monthly and reviews the funding and liquidity positions with respect to concentration risk to any individual counterparty for term deposits, and member loans and deposits, and liquidity risk in form of proportion of deposits with maturity over 12 months. The committee also assesses the capital ratio, liquidity ratio, retention ratio for matured member deposits, one-month mismatch ratio and one-year funding ratio, against the internal management targets or trust deed mandated levels. In case of a breach or possible risk of significant deviation, measures are suggested to bring the ratio within levels of comfort.

- Third Line, Independent assurance – KPMG as the Internal Auditor and BDO as the External Auditor act as independent assurance providers for the internal control processes and highlighting any significant or material weaknesses.

In our view, PFCU's risk management system prima facies appear to be in line with widely accepted risks management practises and is deemed to be adequate in our view in absence of any information to suggest otherwise.

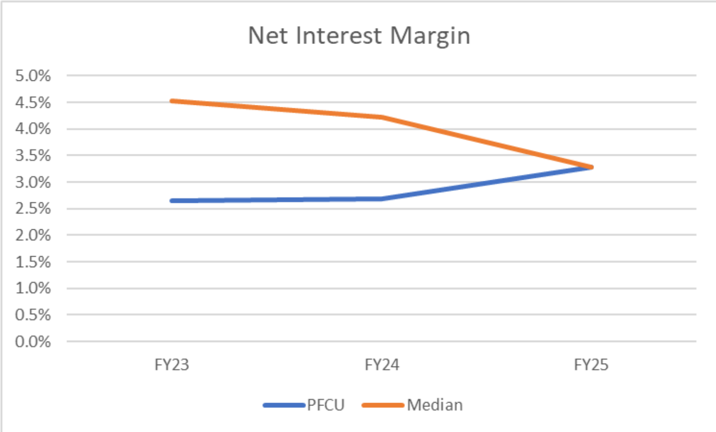
<u>External</u>

BDO, as PFCU's external auditor, acts as an independent assurance provider for the internal control processes and is responsible to highlight any significant or material weaknesses. BDO's latest audit report for FY25 revealed no significant or material weakness.

7. Financial Indicators

7.1 Profitability

<u>Net interest Margin</u>



Source: Reported financial statements of Peer Group from FY23 – FY25.

Most credit unions and NBDTs are largely dependent on retail deposits for funding, and hence, the NIM differences amongst peers is largely a function of variations in asset mix, and differing proportions of unsecured loans, secured personal loans, residential mortgages, and term deposits with banks. Some credit unions have a higher-than-average NIM due to a greater exposure to higher risk personal loans which are advanced at a higher interest rate than traditional mortgages.

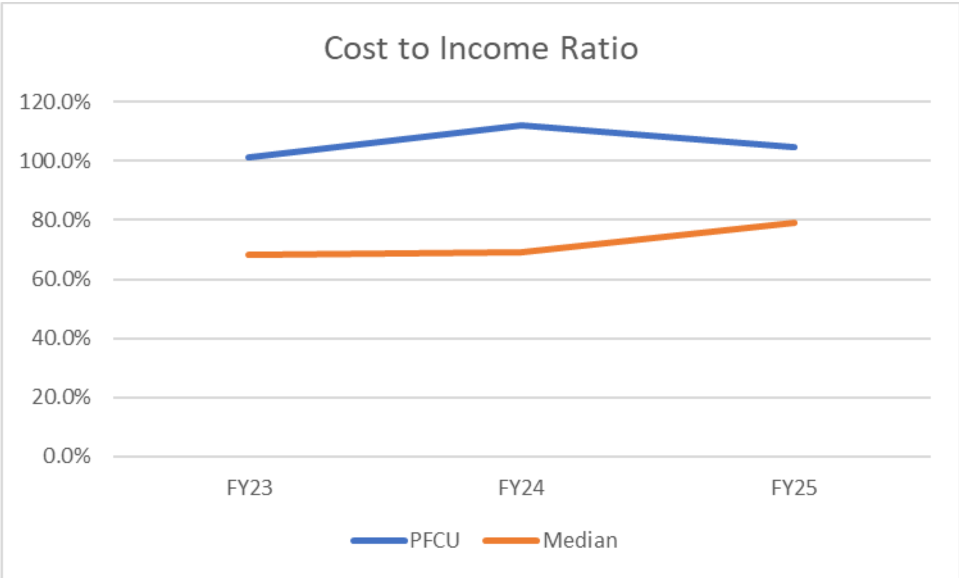
Loans to members (by PFCU) are extended in the form of personal loans secured by a charge on PSS/GSF, motor vehicle loans, unsecured loans, and residential mortgages. PFCU historically did not write many property loans, however, its exposure to residential mortgages has increased more recently and the proportion of personal loan as a percentage of total loan book has reduced to 57.5% at Oct25 (Jun25: 62.8%).

New Zealand's personal loan segment has remained subdued in recent years due to a combination of macroeconomic pressures and intensified competition which has posed a challenge for PFCU to grow its personal loan book. Key factors include the cost-of-living pressures and a consumer preference for lower-interest mortgage redraws. Additionally, the rise of alternative financing, including BNPL (Buy Now Pay Later), P2P (Peer-to-Peer) lending, and manufacturer-subsidised vehicle finance, has constrained traditional personal loan volumes.

PFCU's NIM has converged (refer to the chart above) with the sector median, outperforming peers currently pressured by the falling OCR. While most entities are struggling with compressed spreads, as lending rates fall faster than deposit costs largely due to competition for deposits, PFCU has reduced its deposit rates recently, as it is not compelled to aggressively defend or expand its retail deposit base owing to a more stable funding structure. Furthermore, the asset yields from term deposits and personal loans have remained resilient, providing a 'buffer' that has supported a modest increase in NIMs.

As a result of the increase in net interest income by 2.3% on annualised basis in the four months to Oct24 because of the factors mentioned above and due to streamlining of costs the Company generated a net profit of $155k (excl. share of Finzsoft). For FY25 and FY24, it reported an underlying loss of $237k and $482k respectively (excl share of Finzsoft).

Operating Efficiency

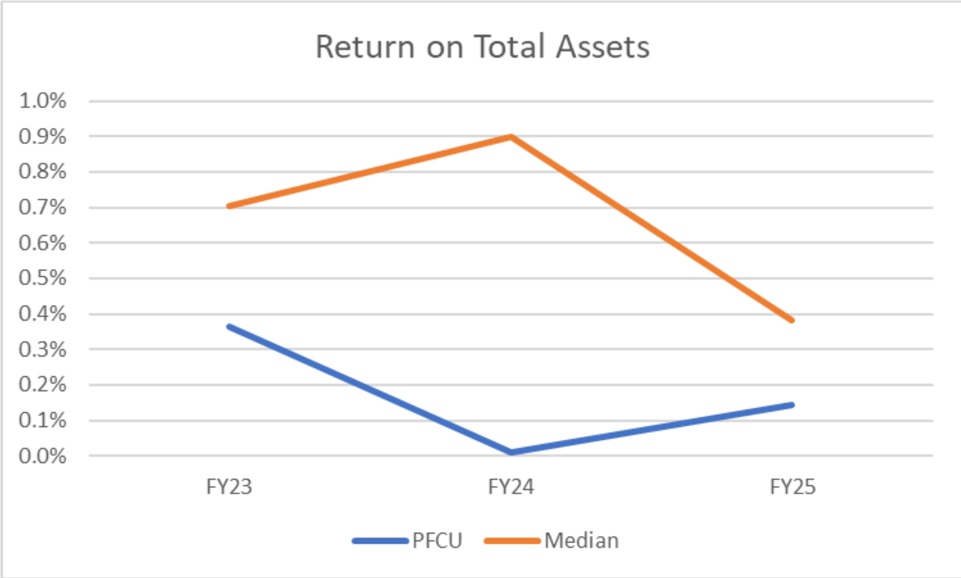


Source: Reported financial statements of Peer Group from FY23 – FY25.

PFCU's cost-to-income ratio remains significantly elevated and consistently weaker than its peers over the review period (sector median of 78.9%). Though, there is an improvement in trend during the review period (4MFY26: 90.4%, FY25: 104.8%, FY23: 112.2%).

This sustained ratio of close to 100% threshold highlights ongoing structural efficiency challenges, where operating expenses continue to form a significant portion of the operating income. Despite the improvement in 4MFY26, the ratio reflects the continued pressure on core profitability, with efficiency expected to remain a key constraint until PFCU can further align its cost base with revenue generation. Positively, the management is currently undertaking initiatives to streamline its cost base.

Return on Total Assets (ROA)

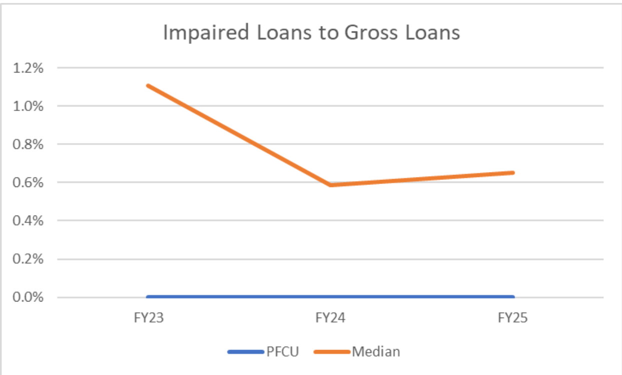


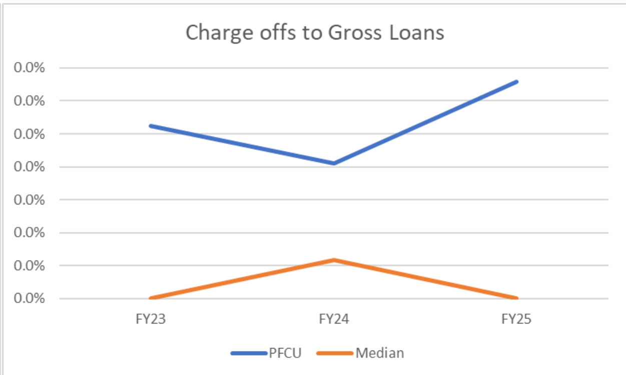
Source: Reported financial statements of Peer Group from FY23 – FY25.

PFCU’s return on total assets remained suppressed in recent periods (4MFY26: 0.3%, FY25: 0.1%, FY24: 0.0%), consistently tracking below the sector median (FY25: 0.4%, FY24: 0.90%). This underperformance reflects the PFCU’s ongoing subdued earnings profile relative to broader industry peers.

7.2 Asset Quality

Impaired Loans

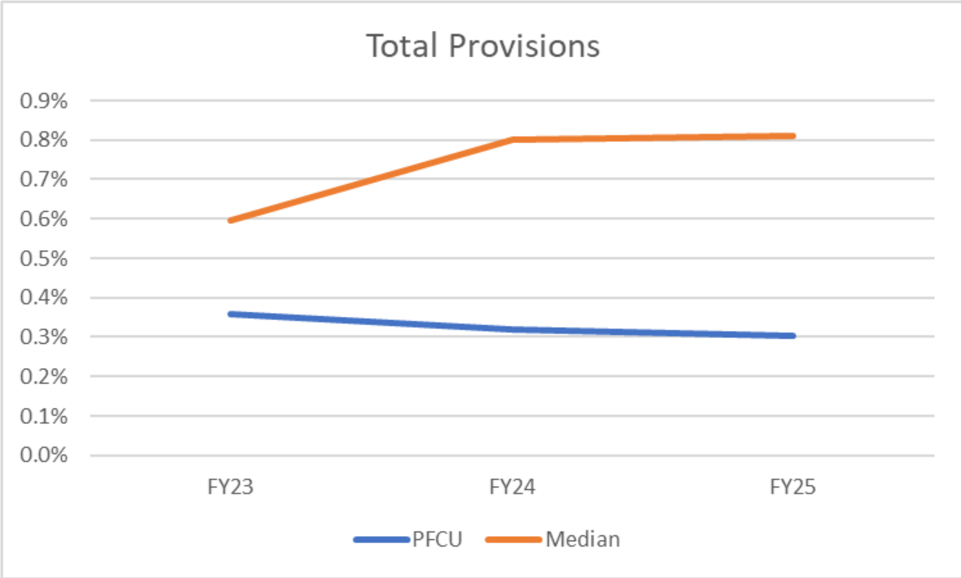




Source: Reported financial statements of Peer Group from FY23 – FY25.

Despite its significant exposure to personal lending products, PFCU’s portfolio currently exhibits low delinquency levels which in our view, reflects the quality of its borrowers and the security position over retirement accounts and access to NZ Police payroll.

Provisioning

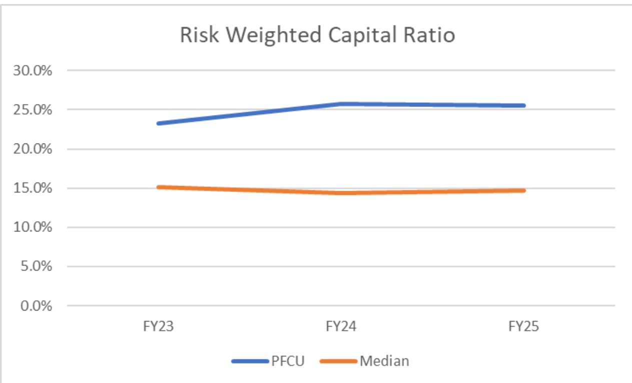


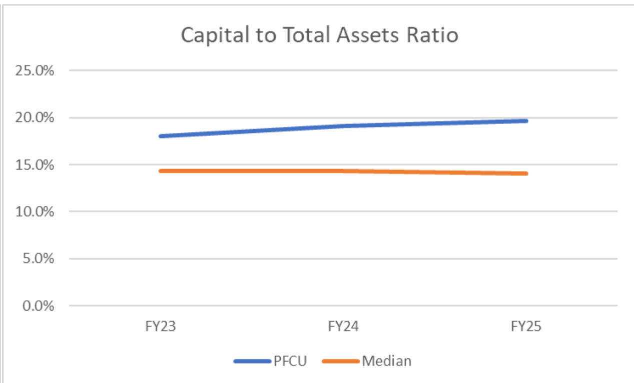
Source: Reported financial statements of Peer Group from FY21 – FY24.

PFCU's loan provisioning (specific and collective provisions) remained stable at 0.3% of gross loans in FY25 (FY24: 0.3%, FY23: 0.4%), consistently tracking well below the sector median of 0.81%. However, the provisions increased to 1.6% at Oct25. The overall provision of $606k comprises $102k of provision for impaired loans and $504k of provision of interest, which the management has deemed temporary and immaterial.

While growing exposure to mortgage lending inherently increases sensitivity to property market risks, in our view, PFCU's borrower base primarily comprises government employees who provide an essential public service. Their stability of employment, and consequently their capacity to repay, is not materially linked to broader macroeconomic volatility.

7.3 Capitalisation



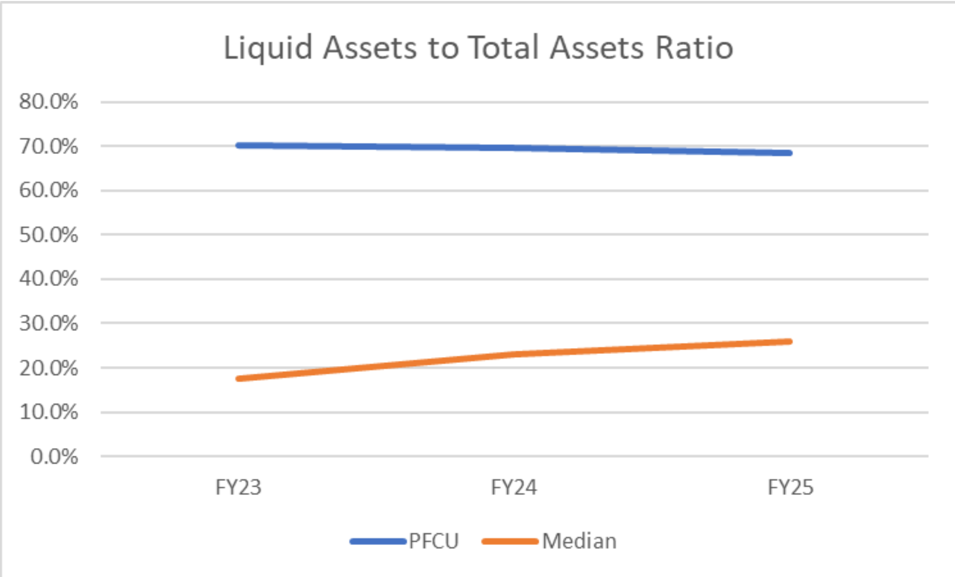


Source: Reported financial statements of Peer Group from FY23 – FY25.

PFCU's Capital ratio (Tier 1 capital to risk weighted assets ratio) is better than benchmark average as a result of its conservative financing (as its trust deed disallows raising of debt) and business strategy. The regulatory capital requirement for PFCU under the RBNZ guidelines is 8% (relates to credit unions that are rated by an RBNZ licenced credit rating agency). PFCU's Tier 1 capital requirement under its trust deed is 10%.

PFCU's tier 1 capital to risk weighted assets ratio remained stable (Jun25: 25.5%, Jun24: 25.8%). PFCU continues to maintain ample headroom above the regulatory/trust deed requirements, enabling it to adapt, in case regulatory changes require it to hold higher capital.

7.4 Funding and Liquidity



Source: Reported financial statements of Peer Group from FY23 – FY25.

PFCU lacks access to wholesale funding. Member deposits, at call and fixed term, constitute more than 80% of the total funding for PFCU, the balance comprises retained earnings. A potential funding risk, posed by PFCU's constitutional prohibition on the use of wholesale funds, is mitigated by its above industry-average deposit to loan ratio.

Deposits in excess of loans are invested in highly liquid term deposits with major NZ registered banks, which provides a substantial liquidity buffer. PFCU's liquidity ratio, when calculated as cash equivalents and short-term deposits as a percentage of total assets, was 68.3% as at Oct25 (Jun25: 69.7% and Jun24: 70.1%), which Equifax deems to be extremely conservative.

PFCU was assessed as having sufficient headroom to trust deed requirements with respect to liquidity, which supports PFCU's capacity to withstand a funding shock. Moreover, PFCU's members' deposits have a consistently healthy reinvestment rate. As of Oct25, the average monthly reinvestment rate and the annual reinvestment rate were sound at ~90% and ~91% respectively.

7.5 Investment Portfolio & Market Risk

PFCU has utilised excess liquidity to establish a diversified investment portfolio comprising equities and bonds managed by Craigs Investment Partners, a strategy that introduces market volatility to the balance sheet. While the current exposure is limited to low-risk assets, management intends to scale this allocation, which will increase the entity's risk-weighted asset density given the significantly higher capital requirements for equity investments compared to standard bank deposits. However, this risk is effectively mitigated by PFCU’s robust capital position; PFCU maintains a Capital Adequacy Ratio significantly above regulatory minimums, providing a substantial buffer to absorb increased capital consumption and potential valuation fluctuations without threatening financial stability.

8. Summary Financial Data

Police and Families Credit Union Incorporated						
$'000s	Trend	FY22	FY23	FY24	FY25	4MFY26
Income Statement						
Net Interest Income		3,828	3,840	3,816	4,594	1,567
Non Interest Income		75	72	69	73	42
Operating Income		3,903	3,912	3,885	4,667	1,609
Operating Expense		3,915	3,964	4,360	4,893	1,454
Pre Provision Operating Profit		675	575	20	227	155
Credit Impairment Charge / (Reversal)		3	9	7	11	-
Operating Profit Before Tax		672	566	13	216	155
Other non Operating Income / (Expense)		-	-	-	-	-
Net Profit		672	566	13	216	155
Financial Position						
Total Assets		155,486	156,775	147,777	145,079	145,699
Customer Deposits		126,976	128,026	119,004	115,810	115,941
Gross Loans		31,195	34,404	34,231	33,383	36,003
Liquid Assets		111,331	112,549	103,633	101,074	99,577
Ratios						
Profit Before Tax to Operating Income Margin (%)		17.2%	14.5%	0.3%	4.6%	9.6%
Net Interest Margin (%)		2.7%	2.7%	2.7%	3.3%	3.5%
Cost to Income (%)		100.3%	101.3%	112.2%	104.8%	90.4%
Return on Total Assets (%)		0.4%	0.4%	0.0%	0.1%	0.3%
Return on Equity (%)		2.5%	2.0%	0.0%	0.8%	1.6%
Capital Ratio - Risk weighted (%)		19.4%	23.3%	25.8%	25.5%	25.8%
Capital to Total Asset Ratio (%)		17.8%	18.0%	19.1%	19.6%	19.6%
Leverage Ratio - (Gross Loans / Equity) (x)		1.1	1.2	1.2	1.2	1.3
Charges-offs to Gross Loans (%)		0.0%	0.0%	0.0%	0.0%	0.0%
Neither Impaired or Past Due to Gross Loans (%)		1.3%	0.5%	0.4%	0.6%	0.3%
Non-Performing Loans to Gross Loans (%)		0.0%	0.0%	0.0%	0.0%	0.0%
Loan Loss Provision to Gross Loans (%)		0.4%	0.4%	0.3%	0.3%	1.7%
Deposits to Gross Loans (%)		407.0%	372.1%	347.6%	346.9%	322.0%
Liquid Assets to Total Assets (%)		71.6%	71.8%	70.1%	69.7%	68.3%

APPENDICES

1. Explanation of the Equifax's credit rating

1.1 What is a rating?

Credit ratings provide an Agency's opinion as to the capacity, viability and willingness of an entity, issuer, or counterparty to meet their respective financial commitments. As such, Equifax assigns ratings based on the credit worthiness of an entity, commitment, or product, and provides probabilistic assessments of default over the short, medium, and long-term.

Credit ratings are a critical measure used extensively in commercial, financial, and capital markets to support key business decisions. Equifax's credit ratings are used to support debt and bonding decisions, loan origination and recovery, insurance and warranty, funds management, portfolio management, tendering and procurement, counterparty risk assessments and other commercial contracts.

Equifax provides credit ratings on government and commercial agencies, international conglomerates, infrastructure consortia, financial institutions, publicly listed entities, private corporations, and small-to-medium sized enterprises across a range of industry sectors both domestically and internationally. As such, Equifax is also able to provide detailed industry intelligence, benchmarking reports and analysis across a wide range of sectors.

1.2 Equifax's credit rating

Equifax and other credit rating agencies all attempt to measure the probability of an entity being able to honour its financial commitments as and when they fall due. The most recognised credit rating is that based on Bond Rating Equivalents (BRE) used over the past eighty years to determine the proximity of an entity's securities to default (non-payment of interest or principal). The accuracy of this method has been extensively tested and is accepted worldwide.

The Equifax's database contains more than 100,000 financial years of information spanning more than twenty-five years. As such Equifax is in a unique position, having developed a large and empirical data source on entities across various industry sectors with long data histories covering a range of economic conditions and one or more complete business cycles. Equifax has therefore been able to use a variety of quantitative validation tools and comparisons using this information to adequately verify the stability, accuracy, and consistency of its rating models.

Equifax's rating models have been designed to assess the proximity of an entity to defaulting on its financial commitments and obligations. Proprietary risk analytics are used to evaluate the multivariate interrelationship of key risk indicators using scientifically based and empirically derived risk metrics. These models evaluate the financial performance, position, and profile of an entity in the context of its industry, size, and structure. They have been validated on Australian and international data with the assistance of Professor Edward Altman, an internationally recognised leader in the field of credit risk analysis and bankruptcy prediction.

Equifax uses its comprehensive benchmarking database to evaluate the financial position, performance and credit quality of an agency, institution, corporation, or entity relative to an industry and its peers. This enables the identification of key sensitivities, trends, cautionary alerts, and exception reports based on identified anomalies and/or outliers across key credit indicators of a select benchmarking group.

While there is no single method to discriminate unambiguously between firms that will default and those that will not, Equifax can make probabilistic assessments of default. This requires a large database of actual defaults to enable an assessment of default probabilities and actual default rates from empirical evidence. The Australasian market has a comparatively small number of corporate bond issues and a relatively benign credit climate over recent decades, and as such empirical data on Australian default rates is limited. Therefore, Equifax considers it is more appropriate to apply default probabilities using empirical data from international markets over several economic cycles.

Equifax's default statistics have been derived from nearly twenty years' experience analysing mainly US non-financial, non-utility corporate bond issuers. The analysis covered a relatively large number of companies (approximately 1,000 rated each year) and follows the well-established static pool approach used by Credit Rating Agencies to report their default experience. Static pools were created for bond issuers each year by both notch and grade, and the history of these bond issuers was then analysed over the period. The pools were then combined so that long-term average default experience by duration could be calculated, and both annual and cumulative default experience was calculated from the pools.

Equifax's risk analytics enable analysts to evaluate the most critical and sensitive financial and risk items through the Risk Assessment Platform by analysing key indicators to derive a definitive credit risk score and Bond Rating Equivalent (BRE), providing Probabilities of Default (PoD) over the short-, medium- and long-term horizon.

1.3 Rating Definitions

Credit ratings provide an Agency's opinion as to the capacity, viability, and willingness of an entity to meet their respective financial and contractual commitments. As such credit ratings are assigned in accordance with the entity, commitment, or product's proximity to default. Equifax adheres to internationally recognised grades and are similar to other agency classifications, providing ratings across twenty-two credit notches from 'D' (in default) to 'AAA' (extremely strong).

Moody's	Fitch	S&P	Rating	Default rates (5 years)	Classification	Risk Level
Aaa	AAA	AAA	AAA	0.17	High Grade	Negligible
Aa1	AA+	AA+	AA+	0.31		
Aa2	AA	AA	AA	0.44		
Aa3	AA-	AA-	AA-	0.55		
A1	A+	A+	A+	0.76	Investment Grade	Very Low
A2	A	A	A	0.81		
A3	A-	A-	A-	1.47		
Baa1	BBB+	BBB+	BBB+	2.08		Low
Baa2	BBB	BBB	BBB	3.19		
Baa3	BBB-	BBB-	BBB-	4.37		
Ba1	BB+	BB+	BB+	7.13	Near Prime	Low to Moderate
Ba2	BB	BB	BB	7.49		
Ba3	BB-	BB-	BB-	10.52		
B1	B+	B+	B+	16.34	Sub Prime	Moderate
B2	B	B	B	22.21		
B3	B-	B-	B-	24.16		High
Caa1	CCC	CCC+	CCC+	28.16	Credit Watch	Very High
Caa2		CCC	CCC	29.90		
Caa3		CCC-	CCC-	39.16		
Ca		CC	CC	52.87	Distressed	Extremely High
		C	C	55.00		
C	D	D	D	100.00		

Equifax assigns ratings based on the credit worthiness of an entity or a specific financial commitment, and provides probabilistic assessments of default over the short, medium, and long-term. Every entity or commitment has some probability of default over a period of time, even those assigned with the strongest of ratings. An Investment Grade classification is attributed to credits that exhibit a lower probability of default, while a Sub-Prime classification has a greater expectancy of default.

An Equifax's credit rating may also be assigned additional clarification markers (symbols) to qualify the credit risk assessment. These may include:

Conditional Rating (#)
A Conditional Rating is used where Equifax has rated an entity on the basis of significant risk factors and/or report qualifications, with recommendations providing one or more conditions precedent and/or mitigation action(s) to reduce identified uncertainty and risk.

Provisional Rating (*)
A Provisional Rating is used when the most recent financial figures are based on draft management accounts or are deemed out-of-date. Entities with a provisional rating should be re-evaluated as soon as finalised financial statements become available.

Indicative Rating (^)
An Indicative Rating is used where Equifax is engaged to conduct preliminary analysis only, and as such an official rating assignment would require a more detailed and comprehensive investigation and due diligence assessment prior to the provision of our professional opinion.

1.4 Rating Outlooks

Equifax's forward estimates help ascertain the trajectory of ratings as well as the risks to ratings. Ratings with a positive trajectory are assigned 'Positive Outlooks'. Ratings with a negative trajectory are assigned 'Negative Outlooks'. Where Ratings are expected to remain unchanged, a 'Stable Outlook' assigned.

Rating trajectories are closely related to the outlook for the corporate's earnings. Earnings growth that is within sustainable growth parameters together with an attenuation of earnings volatility provide upward rating pressure and so may warrant the assignment of a Positive Outlook.

Credit Concepts measured

The main credit concepts measured against Australian and New Zealand Standard Industry Classifications (ANZSIC) and specific Peer Groups based on entity size are available in Corporate Scorecard's Rating methodology, which can be found at the below-mentioned links

http://www.corporatescorecard.co.nz/services_credit_ratings.php
https://www.corporatescorecard.co.nz/docs/RatingMethodologyFinancial.pdf

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The credit rating issued by Equifax Credit Ratings reflects our current opinion of the relative credit risk of the institution. This opinion has been formed in accordance with Equifax's published credit ratings methodology - financial institution rating criteria (Issue 8, November 2022).

https://www.corporatescorecard.co.nz/docs/RatingMethodologyFinancial.pdf

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