Credit Ratings & Research

# Credit Rating Review
# Police and Families Credit Union Incorporated
NZCO: 9429043039197

## Credit Rating Synopsis

**Date:** 10 August 2026

**Prepared for:** Police and Families Credit Union Incorporated

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


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**Job Number:** 412361

**Currency used in this report:**

This report is presented in New Zealand Dollars ('$') unless otherwise noted.

Corporate Scorecard
From Equifax

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# 1. Synopsis for Comprehensive Credit Rating Report

## Police and Families Credit Union Incorporated ('PFCU' or 'the Credit Union')

PFCU is a not-for-profit, non-bank deposit taking (NBDT) entity domiciled and licenced to operate in New Zealand. The Credit Union receives deposits from and provides consumer loans to current and retired NZ 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 Jun26, 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 reliance on favourable term deposit rates to maintain profitability, 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.

**Key Strengths**

- PFCU's Tier 1 capital ratio remains strong, providing substantial headroom above minimum regulatory requirements. Despite broader downward pressure driven by a recovering loan book and higher risk weightings associated with the investment portfolio, the ratio stood at 17.8% in Jun26 (Jun25: 25.5%), representing 2.2 times the 8.0% regulatory minimum. This strong buffer provides PFCU the headroom to grow its risk weighted assets/loan portfolio while supporting its capacity to absorb performance volatility. Management advised that upcoming regulatory changes in Oct26 may temporarily boost the capital buffer via lower risk weightings on specific assets. However, this benefit is expected to be largely neutralised by 2028, as further regulatory provisions—specifically higher weightings for bank term deposits—are implemented.
- The Company returned to loan book growth in FY26, surpassing the $40.0m mark for the first time since Jun20 (Jun26: $46.8m, Jun25: $33.4m, Jun24: $34.2m). This growth was driven by an expanded addressable market—notably the inclusion of NZ Defense Force members—which boosted home loan originations. Profitability also surged in FY26, after a period of muted operating performance, due to cost savings and a lower cost of deposits, although this level of profitability is not expected to be sustained in FY27.
- 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 (Jun26: 36.9%, Jun25: 42.3%, Jun24: 58.2%) 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. However, we note the overall declining trend. The loan book growth remains heavily driven by home loans, while the personal loan segment struggles to grow amidst cost-of-living pressures and a sluggish macroeconomic environment.
- PFCU has maintained a healthy funding profile and liquidity. Despite a decrease in term deposit rates, the deposit base has remained relatively stable (Jun26: $115.1m, Jun25: $115.8m), reflecting a sticky depositor base. This stability is further evidenced by consistently high reinvestment rates on term deposits (Jun26: 90.0%; Oct25: 91.0%; Jun25: 87.0%) and above average deposit to loan ratios of 2.5x (Jun25: 3.4x, Jun24: 3.5x) and liquid assets, as a proportion of total assets, of 59.9% at Jun26 (Jun25: 69.7%, Jun24: 70.1%).
- PCFU's strategic investment in its banking software/financial technology solutions provider Finzsoft Solutions (New Zealand) Limited ('FINZSOFT'), in partnership with First Credit Union Incorporated ('FCU'), have continued to contribute financial and operational benefits. Although PFCU's investment was initially a strategic necessity to secure operational capacity, FINZSOFT has provided some diversification in PFCU's earnings profile. Further, PFCU's investment in digitisation using FINZSOFT's capabilities to automate majority of manual tasks is expected to drive operational efficiencies, going forward.

**Key Constraints**

- While the loan book increased at Jun26 relative to Jun25 driven by growth in home loans, interest generated on member loans as a proportion of overall interest income remained <50.0% 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. Looking ahead, potential regulatory changes to short-term bank liquidity could drive adverse movements in term deposit rates. Consequently, the balance sheet diversification initiatives discussed below will become increasingly important to offset pressures on profitability.
- 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 $8.3m (Jun26) with a target allocation of $10.0m. While this move aims to bolster returns, it introduces exposure to equity and bond market volatility and has resulted in a higher Risk-Weighted Asset profile, as evidenced by the recent decline in Capital Adequacy Ratio. We note that a large portion of the investment is currently allocated to New Zealand Registered Banks via its investment partner (as at Jun26).
- 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.
- Although the New Zealand economy is showing signs of recovery, persistent inflationary pressures and geopolitical tensions and the potential for further interest rate hikes—following the Jul26 increase—could stall this momentum. This could lead to diminished borrower capacity stifling loan growth and potential depreciation of collateral values. These macroeconomic headwinds are particularly relevant given the Company's rapid structural shift toward property-related lending. Exposure to residential mortgages has expanded significantly to 58.5% of gross loans (FY25: 37.2%), driven by traditional mortgages and the new ' product offering – 'First Home Together' which may lead to exacerbated asset-liability duration gaps going forward.

The outlook for PFCU's credit rating is 'Stable' at Jun26. A rating upgrade, 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: (1) a deterioration in core operating profitability and/or a contraction in the loan book; (2) a weakening of current balance sheet strength/asset quality metrics.

## Risk Rating

**BB**

**Outlook: Stable**

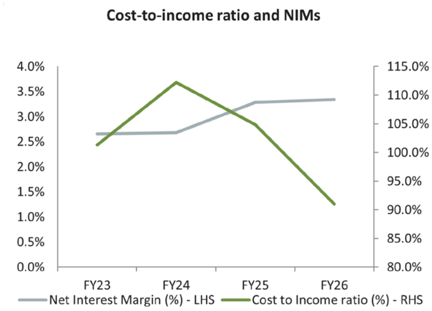
**Type: Public, Monitored**

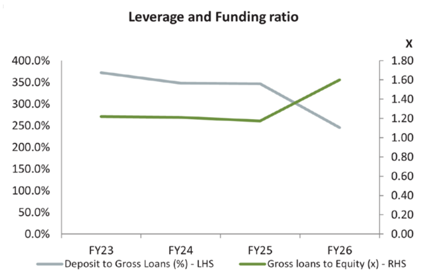
## Industry Percentiles

(based on FY25 financials)

| Scale: | Percentile |
| --- | --- |
| 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 Synopsis on Police and Families Credit Union Incorporated ('PFCU' or 'the Credit Union').

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 | **10 August 2026** |
| 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 Name | **Not Applicable** |
| Issue First Time Rated | **Not Applicable** |
| Financial Scope | **Consolidated Entity** |
| Entity Structure | **Credit Union** |
| Issuer Industry | **Financial Services** |
| Issuer 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 the Credit Union 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 | - **Unaudited management accounts for the year ended Jun26.**<br>- **Audited financial accounts for the years ended Jun25 and Jun24.** |
| Name of Auditor | **BDO** |
| Other Information Sources | **- Supplementary information provided by the Company**<br>**- Searches with the relevant authorities in New Zealand**<br>**- Other publicly available information**<br>**- The Credit Union's website and other internet searches** |
| Issuer Participation | **Full** |
| Material Financial Adjustments | **None** |
| Limitations of Assessment | **None** |
| Outsourced Assessment Activities | **No** |
| Confidentiality Agreement | **No** |
| Material Client | **No** |
| Rating Amended Post Issuer Disclosure | **No** |
| Potential Conflict of Interest | **None** |
| Rating Methodology | **Financial Institutions Rating Criteria** |

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

# 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

## 2. Regulatory Disclosures and Disclaimer

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Equifax Credit Ratings also holds an Australian Financial Services License (AFS License no. 341391) which licenses it to provide credit ratings to wholesale clients in Australia.

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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