Credit Ratings & Research

Credit Rating Report
Xceda Finance Limited

NZBN: 9429039261922

Credit Rating Report

Date: 6 July 2026

Prepared for: Xceda Finance Limited

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

Primary Analyst: Girish Jethani, CFA

Secondary Analyst: Amna Sohaib

Currency used in this report:

This report is presented in New Zealand Dollars unless otherwise noted

Corporate Scorecard
From Equifax

Contents

1 Executive Summary

Xceda Finance Limited ('XFL' or 'the Company')	Risk Rating

Xceda Finance Limited ('XFL' or 'the Company') is a New Zealand-based Non-Bank Deposit Taking (NBDT) institution licensed by the Reserve Bank of New Zealand ('RBNZ') to accept deposits and underwrite loans to the public.

Equifax Credit Ratings Australasia Pty Ltd ('Equifax') has upgraded XFL's credit rating to 'BB-' at Mar26, which is a near-prime classification with a low to moderate level of risk. The rating upgrade to 'BB-' at Mar26 from 'B+' at Mar25, is supported by the steady growth in scale, strengthened treasury management team and fresh capital injection(s). The outlook for the rating is 'Stable' over the next 12 months.

XFL's credit rating is supported by its incumbent market position in the New Zealand NBDT sector, improving scale, healthy capitalisation and potential tailwinds from the implementation of Deposit Takers Act, 2023 in 2028. The risks to XFL's credit rating arise from its ALM position, the Company's relatively small scale of operations and macroeconomic headwinds.

Strengths

- XFL's competitive profile benefits from its niche offerings in the secured residential property lending market, thereby enabling the Company to attract repeat customers in a segment underserved by traditional banks. Furthermore, recent product additions such as a savings account, mortgages etc. have enabled the Company to tap new borrower and depositor segments.

- The Company's scale has steadily increased over the period under review, evidenced by a five-year (Mar21- Mar26) compound annual growth rate ('CAGR') of 37.8% in its total asset base, 39.3% in the gross loan book and 40.8% in its deposit base with healthy underlying profitability.

- The Company's capital has been supported by an active capital raise campaign, which increased XFL's equity by $5.2m from FY24 to FY26, with further capital raises expected in the near to medium term. Together they suitably position the Company for the next phase of planned growth which involves converting into a Bank, executing a technological uplift and expanding the gross loan book.

- The quality of the Company's loan book has improved during the period under review, with impaired loans decreasing to 2.9% of the gross loan portfolio (Mar25: 6.6%; Mar24: 8.4%; Mar23: 6.2%). This improvement was driven by a mix of increased share of less than 70% LVR loans, and transfer of a legacy non-performing loan to a ring-fenced related entity easing pressures on the Company's provisioning and asset quality metrics.

- RBNZ's measures to regulate all deposit takers under the Deposit Takers Act 2023 ('DTA'), by 2028, is a positive sector tailwind. The implementation of DCS ('Depositor's Compensation Scheme') as part of this transition has already yielded tangible funding benefits for the Company, channelling new deposit inflows to the non-banking sector at compressed pricing premium over traditional banks as per RBNZ's May26 Financial Stability Report. Also, RNBZ is expected to introduce granular risk weights potentially lowering capital requirements for non-banking deposit takers significantly, and free up capital for asset growth.

Constraints

- The Company's ALM profile reflects a structural maturity mismatch between long-term loan commitments and shorter-duration funding instruments / deposits. This is driven by shifting of ~27% of the portfolio into long-term mortgages creating potential liquidity and rollover risks that may compound the impact of sudden shifts in depositor sentiments given the Company's relatively small size and concentration risk(s) detailed below. Positively, the Company's deposit reinvestment rate of 65%, higher fixed-interest deposits, mortgage repricing over the next 12 months and recently established Asset and Liability Committee (ALCO) offer partial mitigation against above risks.

- XFL's rating is constrained by its relatively small - albeit growing size and franchise, its focus on the upper quadrants of the risk-reward matrix and its retail deposit funding base. Combined with a high proportion of interest-only loans, and 10 largest borrowers at Mar26 representing 17.5% of the entire portfolio (FY25: 22.6%), it may undermine the Company's ability to manage depositor / borrower churn rates.

- Ongoing global geopolitical volatility and uncertainty may stall the recovering New Zealand economy from disruptions to oil supplies. As a result, high input costs may cascade through the New Zealand economy lifting inflation, denting business and household sentiment and slowing the softening the housing market. Given the Company specialises in property backed lending, these systemic headwinds may impact loan growth, LVR deterioration and/or increase likelihood of defaults on existing portfolio. Positively, this risk is actively managed by proactive portfolio stress-testing and increased provisioning buffers.

The outlook for the rating is 'Stable' over the next 12 months. The rating may be revised upward with a sustainable growth in the business combined with a stabilisation of interest margins. There may be downward pressure on the rating if the Company's asset quality, capital ratio or liquidity materially deteriorate, on an individual or a collective basis.

BB-

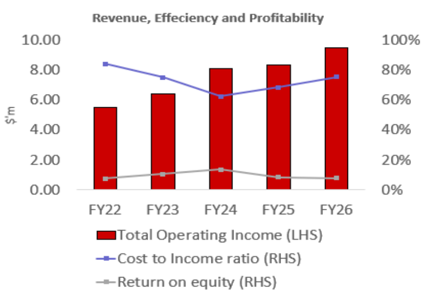
Stable

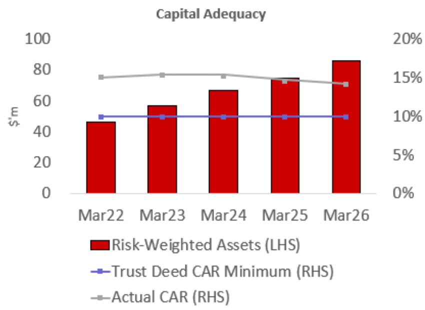
Public, Monitored

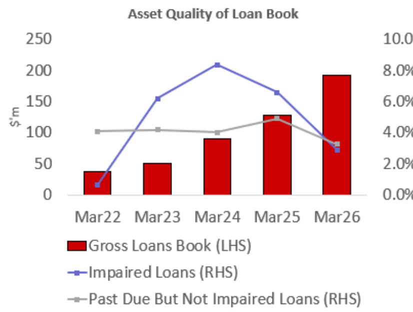
Industry Percentiles (based on Mar26 Financials)

Scale:	**Percentile**
Total Assets	68%
Gross Loans	77%
Profitability:	
NIM	29%
ROE	64%
ROA	61%
Efficiency Ratio	53%
Capitalisation:	
Leverage (Gross loans to Equity)	8%
Capital Ratio	38%
Capital to Total Assets	18%
Funding and liquidity:	
Loan to Deposit Ratio	42%
Liquid Assets to Total Assets	7%
Asset Quality:	
Net Charge-offs	1%
Impaired Loans	13%
Provision for Loan Losses	81%

Key Trends







2 Scope of Report

The report provides an overview of the credit rating and associated rationale of Xceda Finance Limited ('XFL' or 'the Company').

We have complied with our rating services guidelines in order to derive the credit rating on Xceda Finance Limited. 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	**06 July 2026**
Request Type	**Issuer**
Assessment Type	**Under ongoing monitoring**
Rating Initiation	**Issuer based (solicited)**
Rating Distribution	**Public Rating**
Report Distribution	**Unrestricted**
Purchased by	**Xceda Finance Limited**
Report Fee	**Fixed Price**
Ancillary fees	**Nil**
Subject First Time Rated	**No**
Issuer Name	**Xceda Finance Limited**
Issue Name	**Not Applicable**
Issue First Time Rated	**Not Applicable**
Financial Scope	**Standalone Entity**
Structure	**Limited Company**
Industry	**Financial Services**
Sector	**NZ Non-Bank Deposit Takers**

This report should be read within the context of Equifax's Rating Services Guide. 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 Xceda Finance Limited, publicly available information and from our own enquiries. We have derived a credit rating on the Company based on the understanding that Xceda Finance Limited 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	**Audited Financial Statements for the years ended 31 March 2025, 2024, 2023 and 2022.** **Management Accounts for the year ended 31 March 2026.**
Name of auditor	**Grant Thornton New Zealand Audit Limited**
Other Information Sources	**The Company's response to our Request for Information, the Company website, industry and regulatory websites, management interviews, media articles, adverse searches and internet searches.**
Subject participation	**Full**
Material financial adjustments	**None**
Limitations of assessment	**None**
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**

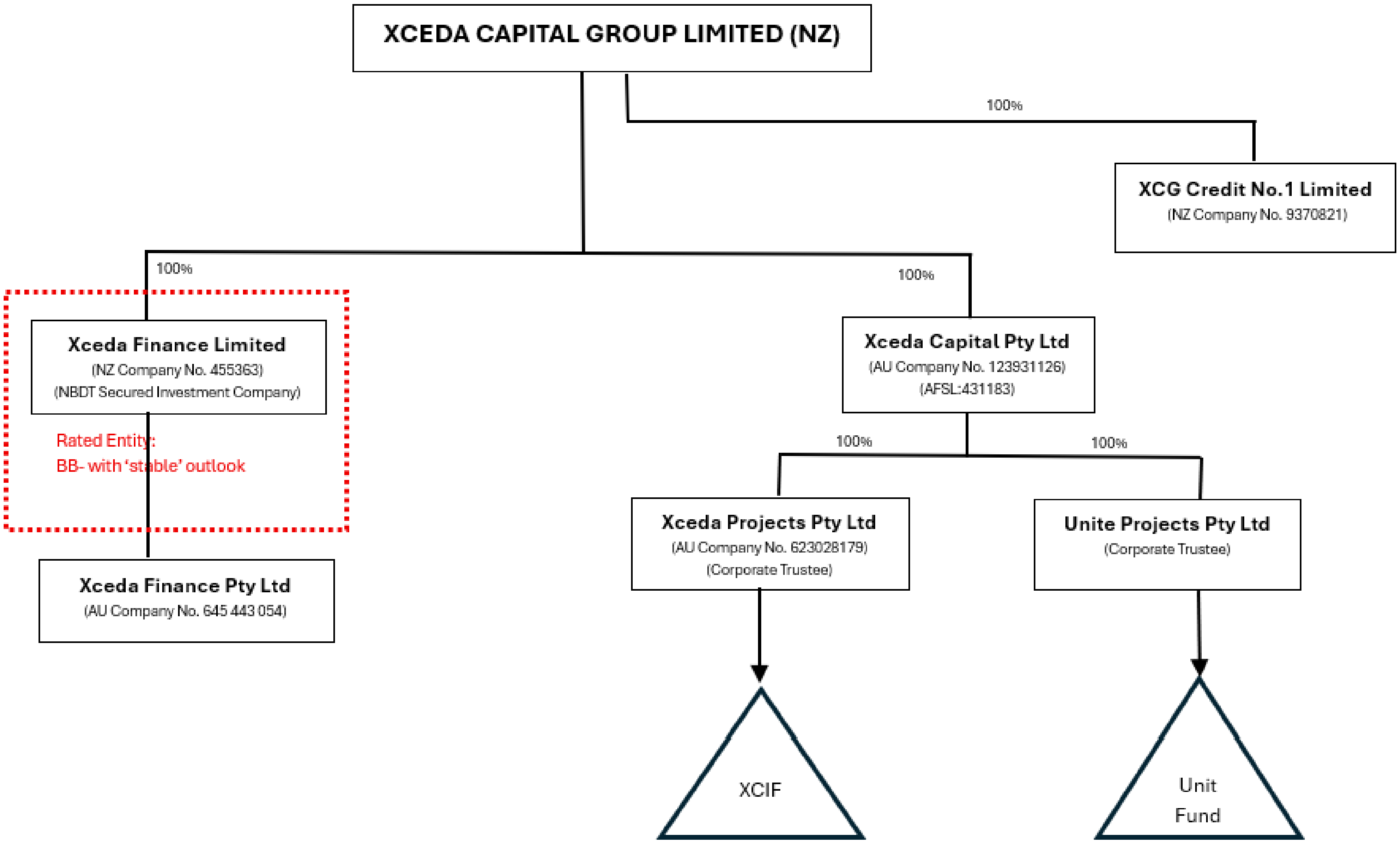
This report should be read within the context of Equifax's Ratings Services Guide.

3 General Background of the Subject

3.1 Subject Overview

Subject Name	Xceda Finance Limited
Previous Name	Asset Finance Limited
Type of Entity	Licensed Non-Bank Deposit Taker ('NBDT')
Head Office Address	Level 17, QBE Centre, 125 Queen Street, Auckland, 1010, NZ
Date of Incorporation	15 December 1989
Principal Activities	XFL is licensed by the Reserve Bank of New Zealand to operate as a non-bank deposit taker and raise money from and issue securities to the public. XFL primarily raises funds from the public by offering debt securities (fixed term deposits) and provides property (residential and commercial) and business loans to qualified borrowers.
History	Since 1997, the Company has been undertaking the business of lending money to generate yield on investor funds. In March 2015, the Company obtained a licence from the Reserve Bank of New Zealand to operate as a Non-Bank Deposit Taker. In September 2018, the majority ownership of the Company was acquired by Clare Investments NZ Limited (formerly named Blackstar Finance Limited), a company jointly controlled by Daniel McGrath (the current Chief Executive Officer of the Company). The RBNZ gave consent for the restructure on 17th December 2019 and Covenant Trustee Services Ltd (appointed Supervisor) also gave its consent on 17th February 2020. Further, on 25th April 2020, the Company underwent a reorganisation whereby the major shareholders (Clare Investments NZ Limited and other shareholders holding 98.98% of the total shares) transferred their shareholdings to a new holding company, Xceda Capital Group Limited (Refer '3.2 – Corporate Structure' for ownership tree). Pursuant to the restructure, on 11th May 2020, the largest shareholder Clare Investments NZ Limited was wholly acquired by Clare Investment Management Pty Ltd, an Australian private company controlled by the current CEO Daniel McGrath. In Oct21, the Company changed its trading name and style to Xceda Finance Limited.

3.2 Corporate Structure



3.3 Management

Board Member	Position	Date Appointed
Ian Hankins	Independent Board Chairman	8 Dec 2022
Daniel McGrath	Chief Executive Officer	16 Aug 2018
Jim Reardon	Independent Board Director	31 Apr 2026

Ian Hankins

Independent Board Chairman

Ian has a 28-year career in retail banking, investment banking and wealth management gained across NZ, Australia and the UK. Over the last 10 years Ian held a number of senior management and internal director roles at Westpac NZ including CFO, Chief Transformation Officer and GM Consumer Bank. In 2022, he joined Forsyth Barr and currently leads their Wealth management division. Ian has a Bachelor of Commerce and Administration majoring in Money and Finance from Victoria University and in 2020 was awarded a Fellow membership of CPA Australia.

Daniel McGrath (BA/LLB,MA)

Chief Executive Officer

Daniel has extensive experience in senior management positions, having worked as a solicitor for major international law firms - Freshfields Bruckhaus Deringer LLP and Shearman & Sterling LLP, representing banks, private equity firms and global corporations. Daniel was also Senior Legal Counsel for ASX-listed Challenger Financial Services Group Ltd, advising on acquisitions and divestments for the Challenger’s funds management group. Daniel holds a BA/LLB from Queensland University of Technology and an MA from Cambridge University.

Jim Reardon

Independent Board Director

Jim is an experienced Chartered Member of the Institute of Directors (CMInstD) holding a BCA and PGDip BA in Finance, bringing over 40 years of expertise in banking, capital markets, and financial risk management. His extensive executive background includes serving as Treasurer for Westpac, New Zealand and Head of Global Derivative Trading at Bank of Scotland and currently leads debt and capital advisory as Managing Director at CDSC Limited. His experience also includes audit and risk oversight, regulatory compliance, and capital strategy, demonstrated through current roles as an Independent Director and Chair of the Finance, Audit & Risk Committee for the Waikato Rugby Union, as well as an Independent External Advisor to Watercare Auckland's Board Capital and Finance Committee.

3.4 Governance and Controls

XFL's core risk management processes include Identify, Analyse, Respond, Monitor, and Report. The processes are applied commensurate with need, across all phases of the credit process cycle lifecycle: origination, evaluation, approval, documentation and settlement, account administration and monitoring; and problem management. The credit process lifecycle is used by XFL to decompose credit risk into a wider range of constituent individual risks for purposes of managing these exposures.

Identify and Analyse

Identification and analysis of credit risk are particularly relevant during the origination, evaluation, approval, and documentation & settlement phases of the credit process cycle:

- At a portfolio level as part of the annual strategic planning process; and
- At an individual borrower level at origination of a loan and periodically thereafter as an integral part of account monitoring, both for performing and non-performing loans.

Respond

Response activities are particularly relevant during the account administration and monitoring, and problem management phases of the credit lifecycle. Response involves developing a plan of an action for treatment of risks assessed as non-acceptable, determination of the person/area of responsibility with the task of implementing the action, the implementation and follow up.

Monitor

Reports are produced which monitor compliance with policy. These reports are kept on file for a period of at least 12 months in order to monitor trends and trigger action should it be deemed necessary. XFL's suite of credit and related reporting is as follows:

Report Name	Freq.	Description	Person Responsible	Report to
Management Accounts	Monthly	Financial accounts – Profit and Loss and Balance Sheet, shows bad debts written off.	CFO	**Management, Board**
Management Reporting to Directors	Monthly	Show loan book breakdown by impairment status, product type, payment type, geographical region, primary collateral type, top exposures, etc	CCRO	**Management, Board, Trustee**
Account Collection Review Report	As required	Show details about significant loans that are in default, so decisions can be made on future collection action.	CCRO	**Management**
Trust deed reporting	Per Trustee Requirements	The monthly trustee reporting has information on loan quality and write-offs.	CFO	**Board, Trustee**
Reserve bank spreadsheet	Per RBNZ requirements	The monthly template for the Reserve Bank that is submitted to the trustee contains loan quality and asset concentration information under the "Assets" heading.	CFO	**Board, Trustee, RBNZ (via the trustee)**
Annual Report and Half Year Financial Accounts	6 Monthly	The asset quality note shows information on loan overdue and impairment status	Ceo & CFO	**Public, Shareholders, Investors, Trustee**

Report

The management team is required to report to the CEO when reports indicate credit risk exposures outside of tolerances or limits or non-compliance with the Company policy. The CEO is required to report to the Board of Directors on all matters which the Board determines require reports. In addition to standard reports shown in the table above, the Board may request such other reports as it sees fit. XFL has requirements to report to its Trustee and to other regulatory bodies. All such reports are completed and submitted by the required dates.

External

The Trust deed and the prudential norms prescribed by RBNZ are key source of external governance measures which XFL must comply with. The details of the RBNZ's prudential requirements are detailed in section 7 and the table below summarise the XFL's compliance with select requirements of the trust deed and RBNZ's prudential norms.

Ratio	Calculation	Mar26	Mar25	Mar24	Trust deed	Regulatory
Risk weighted capital ratio	Tier 1 capital as a percentage of risk weighted assets	14.3%	14.7%	14.4%	10.0% or more	8% or more if rated. 10% or more if unrated.
Related party ratio	Aggregate credit exposures to all the related parties as a percentage of tier 1 capital	3.1%	0.0%	0.0%	<5.0%	<15%

4 Financial Overview

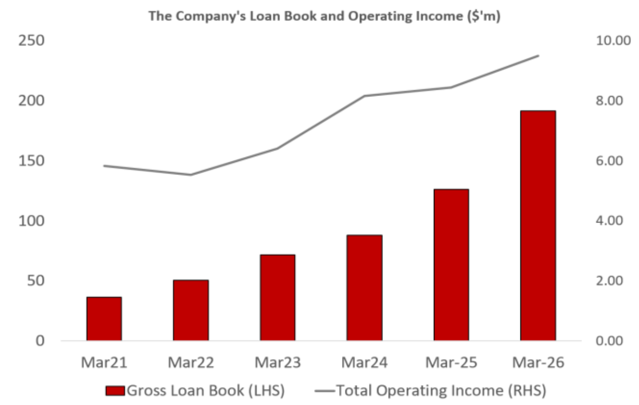
4.1 Summary Financial Data

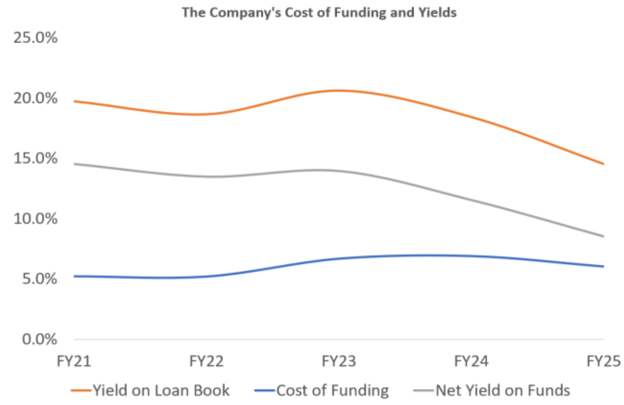
Xceda Finance Limited					
$'000s	Trend				
Income Statement		FY23	FY24	FY25	FY26
Net Interest Income		4,024	5,026	5,053	5,833
Non Interest Income		2,386	3,134	3,391	3,666
Operating Income		6,410	8,160	8,444	9,499
Operating Expense		4,820	5,131	5,780	7,181
Pre Provision Operating Profit		1,574	3,029	2,664	2,318
Credit Impairment Charge / (Reversal)		303	1,178	1,299	871
Operating Profit Before Tax		1,271	1,851	1,365	1,447
Other non Operating Income / (Expense)		- 16	-	-	-
Net Profit		902	1,300	1,367	1,232
Financial Position		Mar23	Mar24	Mar25	Mar26
Total Assets		89,454	125,164	181,610	232,654
Customer Deposits		79,258	113,668	166,079	213,760
Gross Loans		71,819	88,095	126,185	191,604
Liquid Assets		16,381	36,074	54,052	39,220
Ratios					
Profit Before Tax to Operating Income Margin (%)		19.8%	22.7%	16.2%	15.2%
Net Interest Margin (%)		5.5%	4.7%	3.3%	2.8%
Cost to Income (%)		75.2%	62.9%	68.5%	75.6%
Return on Asset (%)		1.2%	1.2%	0.9%	0.6%
Return on Equity (%)		10.5%	13.5%	11.2%	8.0%
Capital Ratio (%)		15.4%	14.4%	14.7%	14.3%
Capital to Total Asset Ratio (%)		10.2%	8.1%	7.9%	7.2%
Leverage Ratio - (Gross Loans / Equity) (x)		7.8	8.7	8.8	11.5
Charges-offs / Gross Loans (%)		0.4%	1.3%	1.0%	0.5%
Neither Impaired or Past Due to Gross Loans (%)		89.4%	87.3%	88.2%	93.8%
Non-Performing Loans to Gross Loans (%) *		6.4%	8.5%	6.7%	2.9%
Loan Loss Provision / Gross Loans (%)		0.5%	1.5%	2.0%	0.3%
Deposits to Gross Loans (%)		110%	129%	132%	112%
Liquid Assets to Total Assets (%)		18.3%	28.8%	29.8%	16.9%

**Non-performing Loans = Impaired loans + Loans past due for more than 90 days*

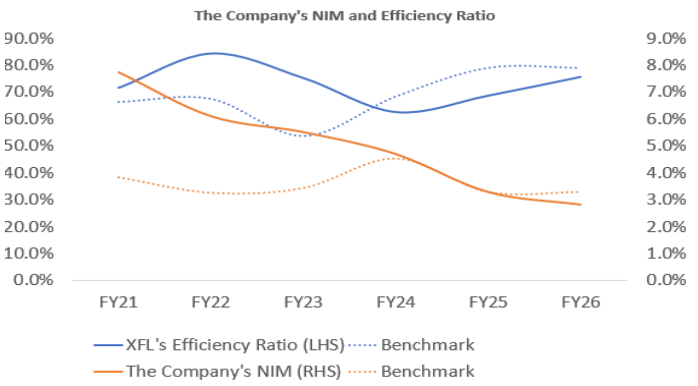
4.2 Revenue and Profitability

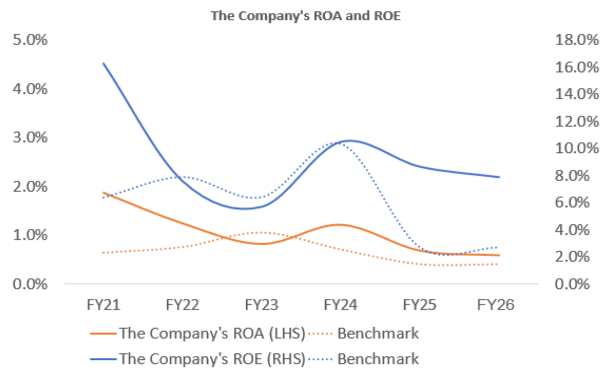
For the year ended Mar26, the Company's operating income increased by 11.1% to $9.5m (FY25: $8.4m; FY24: $8.1m; FY23: $6.4m). The operating income was supported by an increase in the gross loan book (Mar26: $191.6m; Mar25: $128.7m; Mar24: $89.4m; Mar23: $71.8m). Reflecting a deliberate strategic pivot towards lower-risk, higher quality lending, the net yield on funds decreased to 8.5% (FY25: 11.5%; FY24: 13.9%; FY23: 13.5%; FY22: 14.6%), defined as a difference between yield on loan book and cost of funding, and the operating margin adjusted to 5.9% (FY25: 7.9%; FY24: 11.8%; FY23: 10.5%).





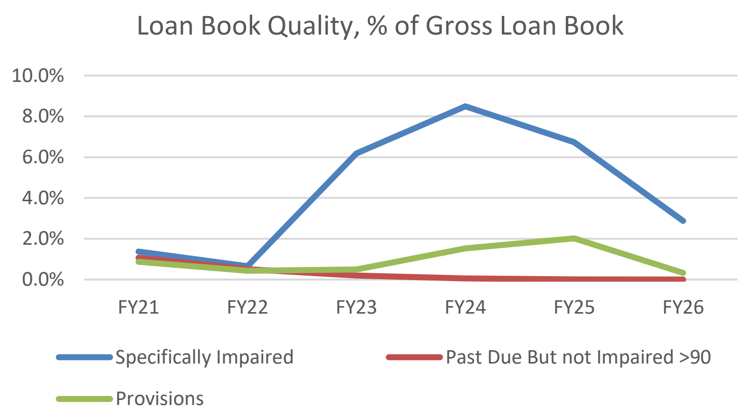
The Company's efficiency measured by its cost to income ratio is broadly in line with the sector average (refer to the left-hand-side (LHS) graph below). However, XFL's net interest margin has gradually converged to the sector average while the Company's Return on Equity (ROE) ratio is largely in line with the benchmark.



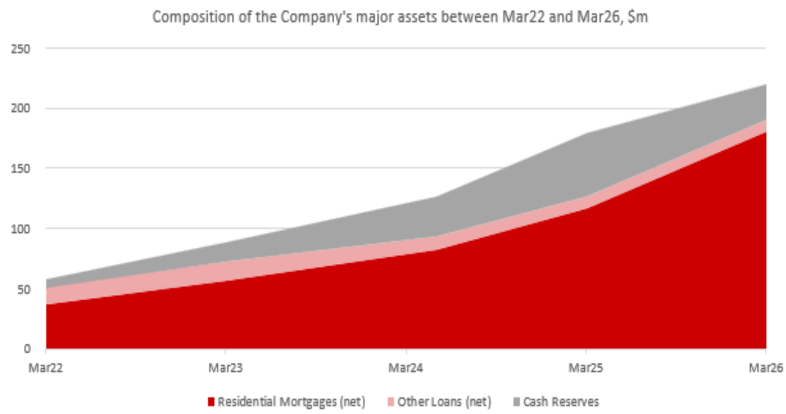


4.3 Asset Quality

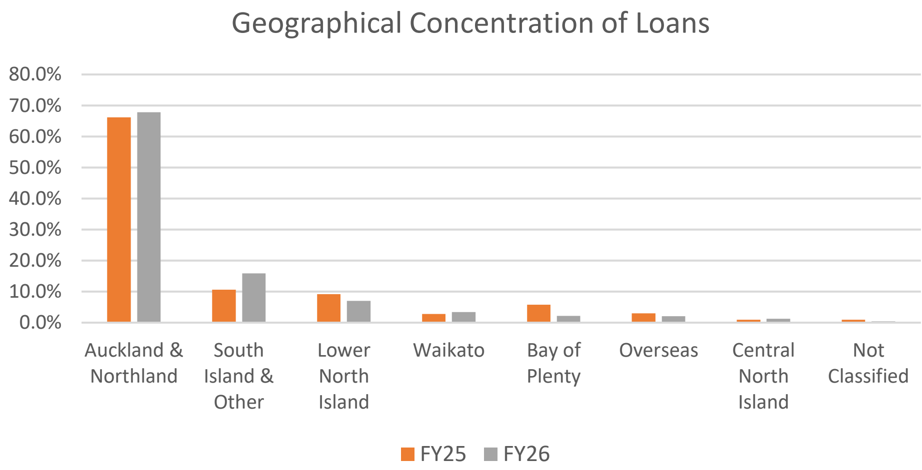
The quality of the Company's loan book experienced deterioration up to Jul24 with non-performing loans (NPL) peaking ~8.5% of the gross loan book. However, as loan growth accelerated, asset quality metrics improved, leading to a reduction in NPL's to 2.9% of the gross loan portfolio at Mar26 (Mar25: 6.6%). This improvement was also driven by the transfer of a major impaired legacy loan to a related group entity, which reduced absolute impaired loans to $5.5m in FY26 (FY25: $8.5m) and facilitated provision reversals.



Asset quality is further support by an improving collateral profile of the loan portfolio as 94.6% of the net loan book is now secured by residential properties (Mar26: 94.6%; Mar25: 91.6%; Mar24: 86.3%; Mar23: 79.1%; Mar22: 73.1%), most of which have LVR <= 70.0%, accounting for 80.5% of net loan book at Mar26 (Mar25: 71.9; Mar24: 89.3%; Mar23: 92.1%; Mar22: 61.8%). Structurally, the Company has extended its asset duration by focusing on long term mortgages (upto 30 years)—now comprising 27.6% of the book—thereby reducing the proportion of loans maturing within the next 12 months to 43.1% (FY25: 62.1%).

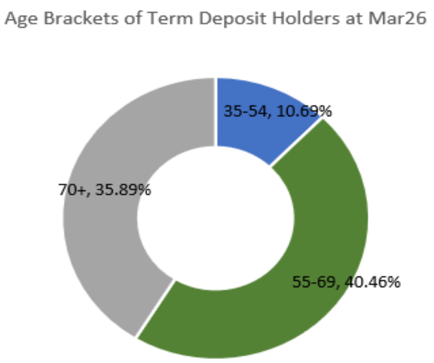


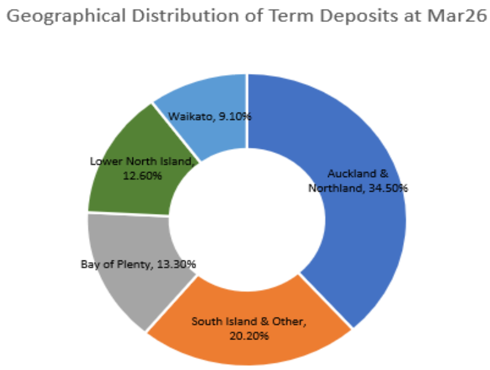
Due to the Company's relatively small scale, performance of its portfolio is susceptible to concentration risks; as of Mar26, its 10 largest loans accounted for 17.6% of total loan book, with most of the Company's loans being associated with the Auckland & Northland regions.



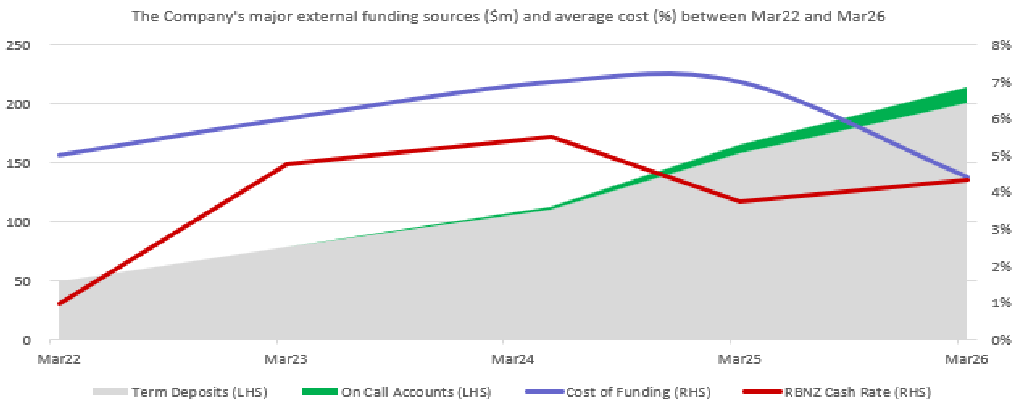
4.4 Funding Sources

Term deposits remain the main source of funding for the Company, being equivalent to 86.1% of total assets at Mar26 (Mar25: 85.9%; Mar24: 87.2%). A significant portion of term deposit funds have been placed by depositors in 55-69 age group, followed by older than 70 age brackets. Both age groups are characterised by longer deposit terms compared to younger clients, which supports the stability of the Company's funding base.



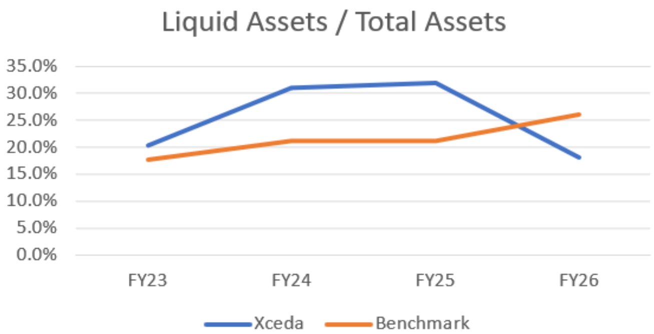


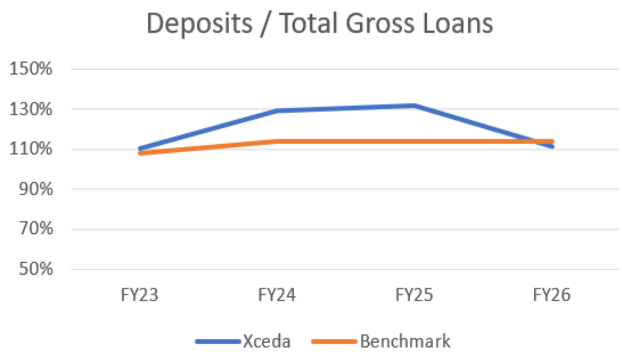
As of Mar26, only 10.2% of term deposits had more than 12 months to maturity (Mar25: 13.3%; Mar24: 31.3%; Mar23: 42.6%; Mar22: 54.5%), which reflects a significant reduction in duration. The Company noted that it has been targeting short-term deposits to reduce the duration of its deposit book. In addition to term deposits, the Company has recently introduced on-call accounts that have been steadily growing since Sep23 and were equivalent to 5.4% of total assets at Mar25 (Mar25: 4.8%). These accounts represent a lower cost of funding for the Company and somewhat mitigates its exposure to market risks.



4.5 Liquidity and Maturity Profile

The Company's deposits to loans ratio decreased marginally to 112% (Mar25: 129%) at Mar26 and was slightly lower (worse) than its peers. XFL reported 51.8% growth in the loan book, and a 28.7% increase in deposit funding, which meant that the Company's liquid assets to total assets ratio decreased to 16.9% at Mar26 (Mar25: 29.4%), however, remained largely in line with the sector median.



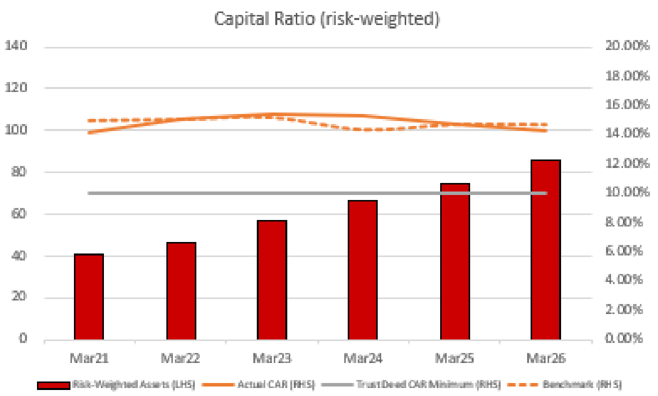


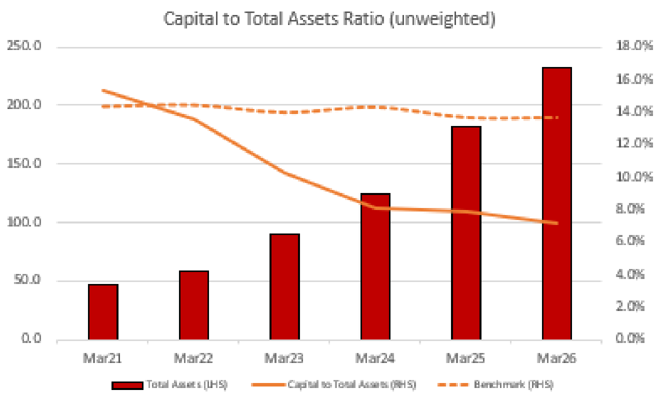
Benchmark figures for FY26 are extrapolations of FY25 data, as there was insufficient FY25 financial information available to form a reliable data-set at May26.

We note the liquid assets to total liabilities ratio decreased to 18.2% at Mar26, driven by decrease in cash and cash equivalents to $39.2m, due to disbursement of loans. Based on the asset liability maturity (ALM) profile, the Company has a liquidity mismatch for up to one year with $138.7m of assets due within one year versus $193.5m for maturity of liabilities for the same period. Positively, most of the deposits are considered stable with a reinvestment ratio of 65%, indicating stable deposit roll-overs to continue, and combined with mortgage repricing over the next 12 months provide adequate buffer to liquidity position.

4.6 Capital Adequacy

XFL's total assets grew with a CAGR of 41.0% between Mar22 and Mar26, which exceeded the CAGR of equity (+20.0%) over the same period, which led to its capital to total assets ratio (unadjusted for risk weights) reducing to 7.2% at Mar26 from 13.6% at Mar22. This, however is not a risk, as a combination of new capital infusion and a strategic decision to focus on residential mortgages with LVR <= 70.0%, which carries a lower risk weight, has enabled XFL to maintain a relatively stable and healthy capital ratio (Mar26: 14.3%; Mar25: 14.7%; Mar24: 14.4%).





At Mar26, the Company transferred its single largest legacy non-performing loan from the portfolio into a related entity, improving its balance sheet health and releasing pressure off its equity position as overall impaired loans reduced to $5.5m (Mar25: $8.4m) and impaired loan allowances dropped to $0.4m at Mar26 (Mar25: $2.3m). We note that the two largest loans in arrears are secured by first mortgages:

- Loan 1 with net amount of $3.3m and a reported LVR 67.4%; recovery of this loan is largely dependent on a successful sale of a collateral asset either by the borrower or the Company,
- Loan 2 with net amount of $1.1m and a reported LVR 82.8%; As per Management, this loan stands fully paid in Apr26.

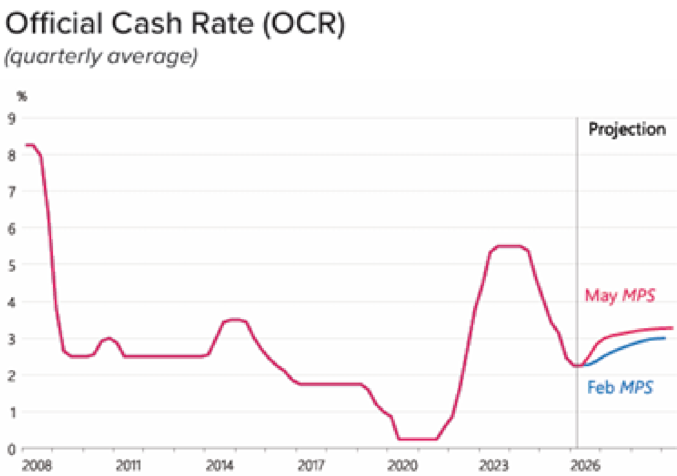
Positively, the Company's capital position is expected to be supported by an active capital raise campaign, which thus far has increased XFL's equity by $5.2m between FY26 and FY24. In addition, management advised that further capital is expected to be raised in the near term. In our view, this is likely to support the stability of the Company's capital adequacy ratio during the active growth phase of its loan book and offset the impact of non-performing loans.

5 Economic Implications

Annual consumers price inflation was 3.1 percent in the March quarter. The Middle East conflict is increasing near-term inflation and weakening economic activity. Inflation is expected to peak at 4.3 percent in the September quarter and to return to the 2 percent target mid-point in mid-2027. Currently, core inflation, wage growth, and medium- to long-term inflation expectations remain consistent with inflation returning to the 2 percent target mid-point over the medium term.

The global economic backdrop remains uncertain. Supply chain disruptions, higher prices for petrochemicals, and a more fragmented global trading environment are impacting the outlook. Growth will vary across countries, reflecting differences in energy intensity, fiscal support, and exposure to AI investment. On balance, New Zealand's trading partners are expected to see weaker growth and higher inflation.

The outlook for medium-term inflation pressures is also uncertain. These could remain elevated if households and businesses expect higher costs in future and build those expectations into price- and wage-setting decisions today. However, weak demand and elevated unemployment will dampen medium-term inflation pressures. The Committee remains focused on ensuring that increased costs do not lead to elevated inflation over the medium term, while avoiding unnecessary economic volatility. On balance, the OCR will most likely need to increase sooner and by more than envisaged in the February Monetary Policy Statement. The pace of OCR increases will depend on the relative influence of persistent wage- and price-setting behaviour versus weaker economic activity on medium-term inflation pressures.



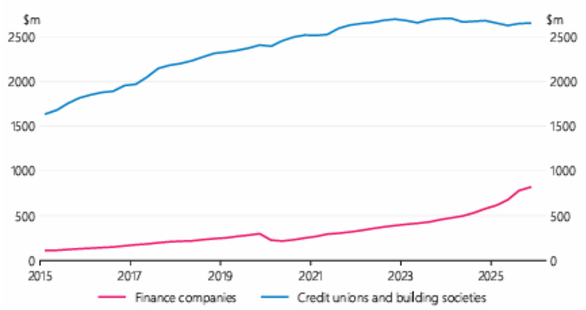
Source: Monetary Policy Statement, RBNZ, May 2026

6 Market Overview

New Zealand's NBDT sector consists of building societies, credit unions and deposit-taking finance companies. With total lending of around $2.3 billion or 0.4 percent of total bank lending, the sector is very small relative to the banking sector but provides services to a relatively large and diverse customer base.

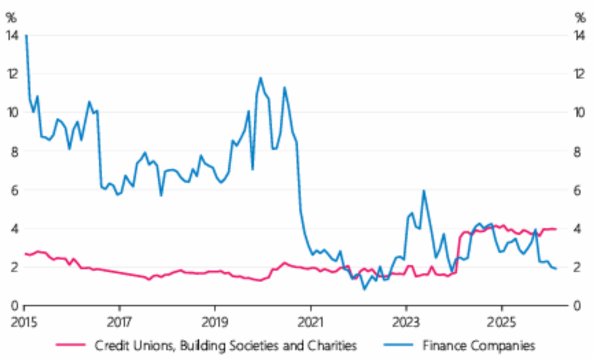
Lending by finance companies has continued to grow during the past six months, supported by increased deposit inflows since the introduction of the Depositor Compensation Scheme (DCS) in July 2025. In contrast, lending by credit unions and building societies has remained subdued due to weak credit demand and strong competition from banks.

NBDT lending by sector



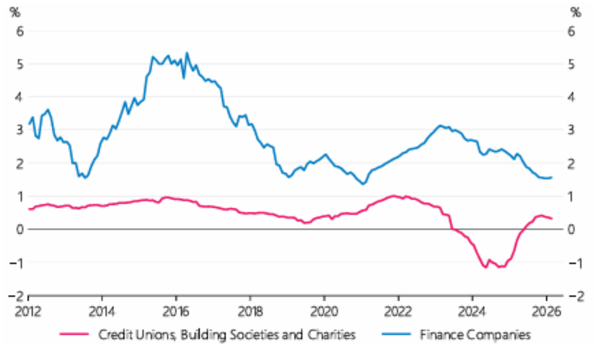
Non-performing loan ratios for building societies, credit unions and charities remain elevated, relative to their historical level, but the ratio for finance companies decreased in recent months. Overall, non-performing loan ratios for the NBDT sector have been higher than for registered banks recently.

NBDT non-performing loan ratio

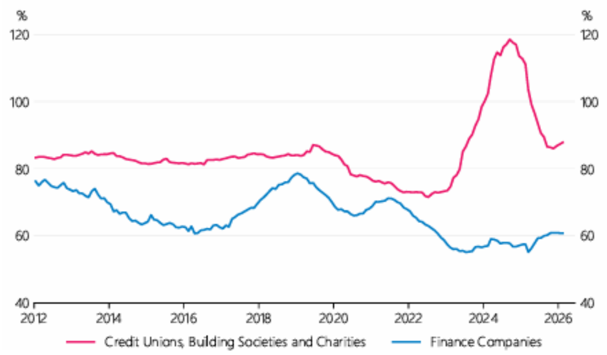


Resilience remains a concern in parts of the NBDT sector. The return on assets has declined for finance companies, while there has been some stabilisation in credit unions and building societies. High operating costs relative to income remain a concern for many entities. During the past six months, costs have stabilised relative to income. This may have been partly driven by a period of consolidation, notably in the credit union sector. The number of credit unions has declined from 15 to 3 over the past decade.

NBDT return on assets ratio



NBDT cost-to-income ratio



Source: RBNZ Financial Stability Report- May26

6.1 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 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.
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.

The Reserve Bank of New Zealand (RBNZ) recently concluded its 2025 Review of deposit taker capital settings, marking a significant step in the transition to a new suite of prudential standards under the Deposit Takers Act 2023 (DTA). The updated framework aims to balance financial stability with operational efficiency, competition, and a proportionate approach to regulation for smaller entities. For NBDTs—which generally fall under the "Group 3" classification (entities with total assets under NZ$2.00bn)—these changes will materially impact risk weighting, capital minimums, and capital composition.

Key Regulatory Changes for NBDTs:

- **More Granular Risk Weights:** The RBNZ is introducing more granular, and in many cases lower, standardised risk weights to better align capital requirements with actual lending risks. Key reductions include lower risk weights for low-LVR residential mortgages, SME retail (75%), SME corporate (85%), and agricultural lending (50% to 100% depending on LVR).
- **Increase in Minimum Total Capital Ratio:** Because the updated risk weights are expected to significantly reduce the raw amount of capital certain NBDTs are required to hold, the RBNZ is offsetting this reduction by increasing the minimum total capital ratio for NBDTs from 8% to 9%. (Note: Higher capital minimums of 10% to 12% will continue to apply for NBDTs operating with credit rating exemptions).
- **Removal of Additional Tier 1 (AT1) Capital and Transition for PPS:** To simplify the capital stack, the RBNZ is removing AT1 capital as a recognized form of regulatory capital. For NBDTs that utilise Perpetual Preference Shares (PPS), the RBNZ is implementing a proportional phase-out. When the new Capital Standard takes effect in Dec28, half of an NBDT's existing issued PPS will be recognized as Tier 1 capital, with the remainder recognized as Tier 2. By Dec32, PPS will no longer qualify as Tier 1 capital and will exclusively be treated as Tier 2.
- **Prudential Capital Buffer (PCB) Implementation:** NBDTs will face a phased, slower transition to higher capital ratios. Starting in Dec28, a PCB of 1.0% (which must be met entirely with Common Equity Tier 1 capital) will be introduced for Group 3 deposit takers, scaling up gradually to 4.0% by Dec31.
- **Exemption from the Counter-Cyclical Capital Buffer (CCyB):** Consistent with a proportionate approach to regulation, the RBNZ has decided not to apply the CCyB to Group 3 deposit takers. This limits the macroprudential burden on NBDTs, aligning with their exemption from other tools like strict loan-to-value (LVR) and debt-to-income (DTI) restrictions.

Implementation Timeline: The RBNZ intends to "fast-track" the updated risk weights and the shift to the 9.0% minimum total capital ratio for NBDTs by modifying their conditions of licence, targeted for Oct26. The broader formal requirements, including the phase-out of Tier 1 PPS and the introduction of the PCB, will commence when the final Capital Standard comes into force on Dec28.

Source: *RBNZ 2025 Review of deposit taker capital settings*

6.2 Financial Benchmarks

	Sector Median*	Xceda Finance Limited	Percentile
	FY25	FY26	
Scale:			
Operating income ($ 000s)	6,091	9,499	75%
Total Assets ($ 000s)	184,089	232,654	68%
Gross loans ($ 000s)	128,730	191,613	77%
Profitability:			
Net Interest Margin (%)	3.3%	2.8%	29%
Non Interest Income to total income (%)	21.4%	38.6%	98%
ROE (%)	2.7%	7.9%	64%
Return on total assets (%)	0.4%	0.6%	61%
Cost to Income (%)	78.9%	75.6%	53%
Capitalisation:			
Leverage (Gross loans to Equity) (x)	5.9	12.8	8%
Capital ratio - risk adjusted (%)	14.7%	14.2%	38%
Capital to total assets ratio (%)	13.7%	7.2%	18%
Funding and liquidity:			
Gross loans as a % of total assets (%)	71.4%	82.5%	88%
Gross loans to deposit (%)	83.9%	89.6%	42%
Liquid assets to total assets (%)	26.0%	16.9%	13%
Asset Quality:			
Write-offs to gross loans (%)	0.0%	0.5%	27%
Impaired loans to gross loans (%)	0.7%	2.9%	13%
Total provision to gross loans (%)	0.9%	0.3%	81%

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

7 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

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

Additional indicators used are computed as follows:

Operating Income	Net Interest Income + Non-interest income from operations
Operating profit	Operating income – operating expenses – provisions
Non-performing Loans	Impaired loans + Loans past due for more than 90 days

2. Regulatory Disclosures and Disclaimer

Equifax Australasia Credit Ratings Pty Ltd (Equifax Credit Ratings) is a credit rating agency regulated by the Reserve Bank of New Zealand. The licensing regime addresses a range of matters including the quality and integrity of the ratings process, independence and avoidance of conflict of interest, and responsibilities to the public, clients and assessed entities. The regime also covers confidentiality, communication and disclosure, professional development, document management, and a range of governance related matters. Financial, operational and compliance audits are conducted by external, independent auditors each year.

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 9, November 2025).

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

The credit rating and associated assessments, opinions and observations are solely statements of opinion. They are not statements of fact. They do not constitute advice or a recommendation. The credit rating does not guarantee the performance of the rated issuer or relevant security, and should not be relied on for the purposes of making an investment decision. All information used in the credit rating process is obtained by Equifax from sources believed by it to be accurate and reliable. Equifax adopts all necessary measures so the information used in assigning a credit rating is of sufficient quality and from sources believed to be reliable including, when appropriate, independent third-party sources. However, because of the existence of human or system error, or other factors, all information contained herein is provided 'as is' without warranty of any kind. Equifax is not an auditor and cannot in every instance independently verify or validate information received in the rating process. Use of information contained in this report is at the recipients own risk. To the extent permitted by law, Equifax, its directors, officers, employees and any persons associated with the preparation of the release and our full report are not liable to any person in respect of anything (or the consequences of anything) done or omitted to be done by any person in reliance on any of the contents of the release or our full report; and are not responsible for any errors or omissions in the release or our full report resulting from any inaccuracy, mis-description or incompleteness of the information provided or from assumptions made or opinions reached by the parties providing the Information. All information contained herein is protected by law, including but not limited to copyright law, and this information may not be copied or otherwise reproduced, repackaged, further transmitted, transferred, disseminated, redistributed or resold, or stored for subsequent use for any such purpose, in whole or in part, in any form or manner or by any means whatsoever, by any person without Equifax's prior written consent.

For Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of Equifax Australasia Credit Ratings Pty Ltd [AFSL #341391]. This document is intended to be provided only to 'wholesale clients' within the meaning provided by the Corporations Act 2001. By continuing to access this document from within Australia, you represent to Equifax that you are, or are accessing the document as a representative of, a 'wholesale client' and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to 'retail clients' within the meaning of the Corporations Act 2001. Equifax's credit rating is an opinion as to the creditworthiness of an issuer, not on the equity securities of the issuer or any form of security that is available to retail clients. It would be inappropriate for 'retail clients' to make any investment decision based on Equifax's credit rating, and Equifax recommends you consult with your financial or other professional adviser.

Please refer to http://corporatescorecard.com.au/services_credit_ratings.php for further information and additional regulatory disclosures, including our code of conduct, published ratings, criteria and methodologies.