Credit Ratings & Research

Credit Rating Report
Xceda Finance Limited

Credit Rating Report

Date: 1 April 2022

Prepared for: Xceda Finance Limited

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

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Currency used in this report:

This report is presented in New Zealand Dollars unless otherwise noted

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1 Executive Summary

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

XFL (earlier known as Asset Finance Ltd) is a New Zealand based Non-Bank Deposit Taking (NBDT) institution licensed by Reserve Bank of New Zealand ('RBNZ') to accept deposits and underwrite loans to public. Equifax Credit Ratings Australasia Pty Ltd ('Equifax') has assigned XFL a credit rating of 'B' at Sep21, which is a sub-prime classification with a moderate level of risk. The outlook for the rating is 'Stable'.

XFL's credit rating is supported by its incumbent market position in the New Zealand NBDT industry, an improving scale and healthy liquidity profile. Notwithstanding the improvements in the loan book characteristics following management's efforts to de-risk the portfolio, the Company's credit rating is constrained by its historically weak asset quality metrics, potential pressure on the capital metrics to support the high forecast growth in operations, competition from inter and intra industry sources and heightened risks to asset quality for the wider sector.

Strengths

- XFL has carved a niche for itself in the secured consumer lending market, thereby enabling the Company to repeatedly attract customers in a segment underserved by traditional banks and profitably manage that customer portfolio. Further, XFL's ability to maintain a high yield on loans enables it to continually raise consumer deposits by offering attractive returns.
- The Company' business profile remains on an improving trajectory supported by an overhaul of its operating and underwriting strategy, which reached pivotal stages during FY21. Since Mar19, XFL's loan book has grown at a CAGR of 17.0%, while its asset quality and profitability have improved.
- The shareholders' have demonstrated willingness to support the growth in scale, evident from the curtailment of dividends during FY22 and recent capital injections. This offers some capacity to support the strong forecast growth in loan book over FY23.
- XFL's favourable asset liability maturity (ALM) profile, underpinned by its strategy to extend short term loans and raise long term deposits, supports its liquidity profile and augurs well for its NIMs given the expectation of continued rise in interest rates. The same, together with a sound 23.4% liquid assets to total assets ratio as at Sep21, also reflects inbuilt conservatism, which enables XFL to manage the relatively higher business risk inherently associated with operating in the upper quadrants of the risk-reward matrix.
- RBNZ is in the process of aligning regulation of all deposit takers under one framework and extending depositor compensation scheme to NDBTs. More stringent regulatory oversight of NBDT's will promote public confidence in the sector, and in turn, enhance XFL's capacity to obtain funding from depositors, in our view. Whilst we acknowledge that the related compliance cost burden could weigh on XFL's profitability, the Company's healthy capitalisation supports its ability to absorb any material impact.

Constraints

- XFL's historically weak asset quality metric is the key constraint to its rating and while the indicator is on the mend, the improvement and its sustainability remain in early stages. In periods prior to FY21, a large loan that represented more than 3/4th of the impaired assets disproportionately impacted asset quality metrics. XFL has also historically operated with a high level of impaired assets and provision levels due to the downward pressure on account of a higher proportion of personal loans than peers, which inherently experience a higher rate of impairment than mortgages and collateral backed loans. Favourably, the Company's asset quality remains on an improving trajectory supported by a strategic overhaul of its operations, that included a tightening of lending criteria and underwriting standards, reducing concentration risks, increasing the share of first mortgages and working towards expediting the recovery of aforementioned large loan due in Jul22. This has substantially reduced the Company's credit costs, thus partially cushioning the impact of softening of NIMs.
- XFL's capital ratio and headroom to regulatory requirements may come under pressure from its high growth forecasts. The recent growth in XFL's portfolio, a contraction in NIMs, high credit costs associated with legacy NPLs and a steady dividend payout up to FY21 meant a significant increase in the Company's RWA requirements coincided with relatively stagnant equity levels. As such, headroom (to the trust deed requirement of 10.0%) historically available under XFL's capital ratio, though remains adequate, has decreased (Jan22:15.8%, Mar21: 15.0%, Mar20: 14.3%, Mar19: 16.4% Mar18: 20.1%). As the Company executes further growth plans, capital ratios may come under pressure without additional capital injection if the RWA requirements move faster than capital accruals.
- The limited product offering of the NBDT sector, and hence its low systemic importance, compared to traditional banks, acts as a ceiling for the sector's (and by extension XFL's) credit rating. In addition to peers, traditional banks and financial intermediaries (FI), NDBTs also face stiff competition from fintech and the rapidly growing Buy Now Pay Later sector. In our view, competitive pressures are likely to remain high and inhibit growth in profitability and scale.
- The expected increase in interest rates may aggravate all or some of the above risk exposures. While an increase in interest rates augurs well for the yields on the loan book, it may put a downward pressure on asset prices and associated LVRs, thus consequently resulting in stretched asset quality metrics. Moreover, rising rates may also mean higher cost of deposits and undermine XFL's ability to maintain/grow its depositor base.

The near-term outlook for the rating is stable. A rating upgrade would require a continued improvement in scale, while maintaining profitability and asset quality. There may be downward pressure on the rating if the Company's asset quality, capital ratio or liquidity positions materially deteriorate, on an individual or a collective basis.

Risk Rating

B

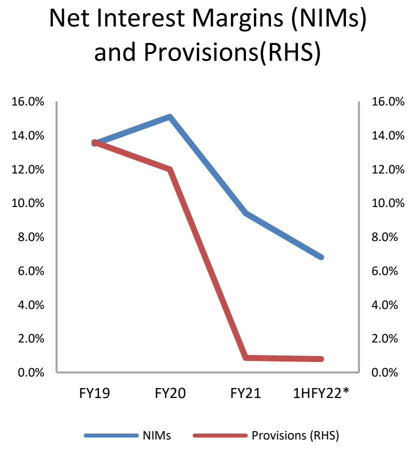
Outlook: Stable

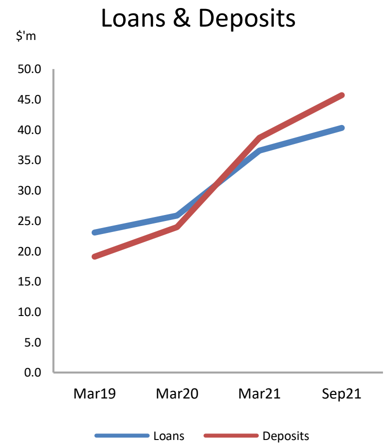
Public, Under ongoing monitoring

Industry Percentiles

Scale:	
Total Assets	46%
Gross loans	54%
Profitability:	
NIM	85%
ROE	77%
ROA	77%
Efficienty Ratio	46%
Capitalisation:	
Leverage (Gross Loans to Equity)	39%
Capital Ratio	46%
Capital to Total Assets	46%
Funding and Liquidity:	
Deposits to Loan Ratio	46%
Liquid Assets to Total Assets	38%
Asset Quality:	
Net Charge-offs	23%
Impaired Loans	31%
Provision for Loan Losses	39%

Key Trends





*NIMS annualised for 1HFY22

2 Scope of Report

The report provides an overview of the credit rating and associated rationale of Xceda Finance Limited ("XFL", "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	**1 April 2022**
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 (Peer Group included on page 33)**

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 2021, 2020, 2019 and 2018. Audited Financial Statements for six months interim period ended Sep 2021. Management Accounts for ten months interim period to Jan2022.**
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 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.

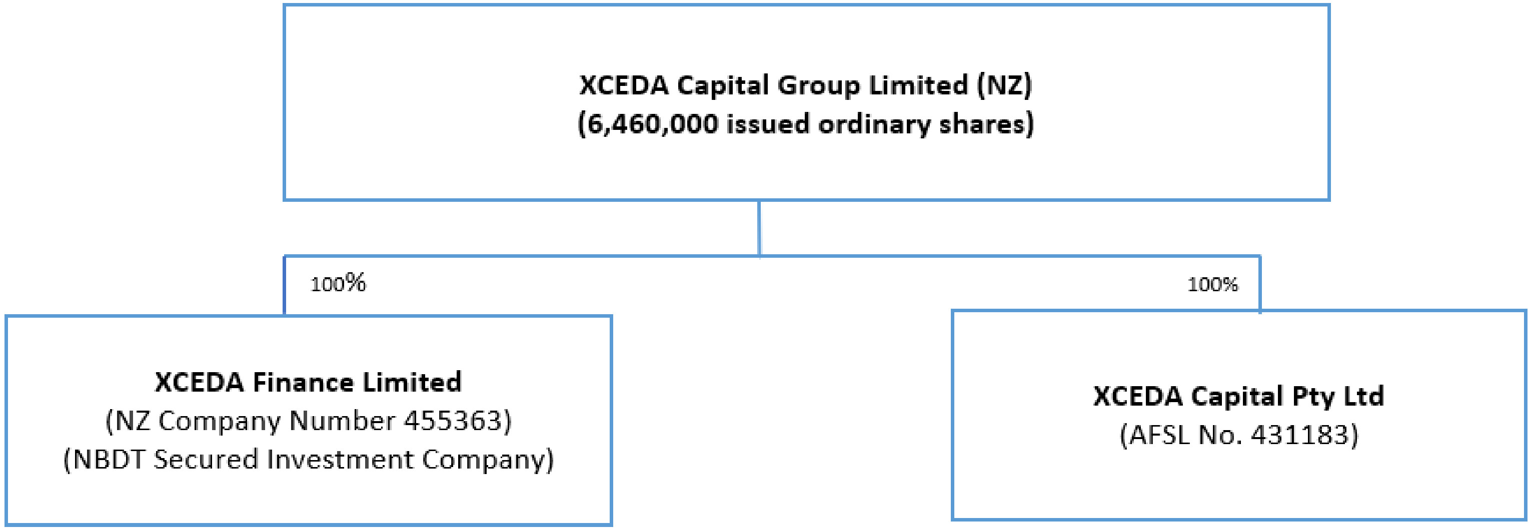
3 General Background of the Subject

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	7 Windsor Street, Parnell Auckland NZ 1052
Date of Incorporation	15 December 1989
Principal Activities	XFL is licensed by the Reserve Bank of New Zealand (RBNZ) to operate as a non-bank deposit taker and raise money from and issue securities to the public. XFL raises funds from the public by offering debt securities (fixed term deposits) and provides business and personal loans to qualified borrowers.
History	Since 1997, the Company has been undertaking the business of lending money to generate yield in investor funds. In March 2015, the Company obtained a licence from the Reserve Bank of New Zealand ("RBNZ") to operate as a Non-Bank Deposit Taker ("NBDT"). 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



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

Heightened economic uncertainty is likely to remain for some time

While health outcomes have improved due to rollout of vaccines worldwide, highly transmissible variants like Delta and Omicron mean that population immunity targets may not be met even with high vaccination rates. Thus, it is becoming highly likely COVID-19 will be a managed, endemic disease over the medium term in most countries. The transition from 'pandemic' to 'endemic' creates financial stability risks, although the magnitude of these is still hard to gauge.

As global economic activity has recovered, ongoing supply chain issues, labour shortages, and high energy prices have contributed to higher inflation. The outlook for inflation and activity is uncertain due to conflux of factors like recent escalation of geopolitical tensions and the risk of further variants developing or a return to tighter restrictions. Increasing inflationary pressure is causing some central banks to start reducing monetary stimulus, while others are assessing these trends as largely transitory and maintaining current levels of support.

In response to above emerging risks, the Monetary Policy Committee (MPC) has decided to works towards reducing the level of monetary stimulus by pausing its Large Scale Asset Purchase programme (LSAP), and increasing the Official Cash Rate over time, with future moves contingent on the medium term outlook for inflation and employment. In its meeting in February 2022, the Committee decided to increase the OCR to 1 percent, not reinvest the proceeds of any upcoming LSAP bond maturities and hold the Local Government Funding Agency bonds until maturity. In addition, the Committee directed the Reserve Bank to sell nominal New Zealand Government Bonds and Inflation-indexed New Zealand Government Bonds to New Zealand Debt Management at a rate of $5 billion per fiscal year, commencing in July 2022, provided it remained consistent with the Bank's monetary policy objectives, and subject to market conditions.

[1] RBNZ Financial Stability Report November 2021, RNBZ Monetary Policy Statement February 2022, RBNZ Website and various of Publications of RBNZ.

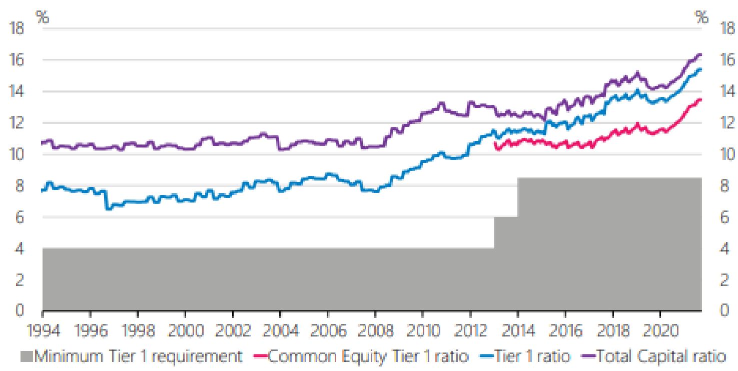
Asset prices have reached unsustainable levels

While in aggregate the household sector has endured the pandemic quite well, the level and trajectory of house prices is unsustainable and this is creating risks. Housing demand has been underpinned by low mortgage interest rates over the past 18 months and re-leveraging of earlier equity gains as existing owners trade up. High-LVR borrowers are vulnerable to a decline in prices from their current levels. Also, while current debt servicing costs are quite low, higher mortgage rates could see debt servicing costs rise substantially. Moreover, while construction pipeline remains high, labour, material supply, and logistical constraints are raising costs and pushing out completion timelines.

Financial systems remain sound and financial institutions robust

Banks remain well placed to support household and businesses. The banking system's earnings have increased over the past year. Coupled with dividend restrictions and lower risk-weighted asset growth, this has contributed to banks' capital ratios increasing to their highest levels since the current risk-based approach to capital regulations was introduced (Figure 1).

Figure 1: Capital ratios of banks



Source: Registered banks' *Disclosure Statements*, RBNZ *Capital Adequacy survey*.

Note: Minimum Tier 1 requirement includes a 2.5 percent conservation buffer from 2014.

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. As a result, a study of economic cycles and its phases is vital to accurately assess the financial institutions exposure to various market risks.

Strong balance sheets and accommodative policy settings support economic recovery

Households and most businesses have seen a strong recovery in demand since mid-2020. The economy has been supported by accommodative fiscal and monetary policy settings and strong balance sheets. For households who were existing mortgage borrowers, recent house price growth has increased their equity. The tight labour market and low mortgage rates are supporting overall debt servicing capacity. Most businesses outside of industries affected by the decline in international arrivals saw their incomes recover to or exceed pre-pandemic levels prior to August 2020. Business investment had recovered somewhat, while tightness in the labour market was reported as the most limiting factor to business expansion.

Market Risk

Market risk refers to the impact on profitability due to adverse changes in interest rates, assets prices, commodity prices and exchange rates. Interest rates remain the key and most direct source of market risk to financial institutions due to the nature of their operations and the strong interplay between interest and currency rates and interest rates and asset prices.

NBDTs primarily faces interest rate risk given their limited appetite for transactions denominated in foreign currency and relatively small scale of operations. As a result, paragraphs below discuss the recent movements in the prevailing interest rates and asset prices in New Zealand.

Interest rate movements

In Feb22, the Monetary Policy Committee ('MPC' or 'the Committee') increased the Official Cash Rate (OCR) to 1 percent. The Committee also agreed to commence the gradual reduction of the Reserve Bank's bond holdings under the Large Scale Asset Purchase (LSAP) programme - through both bond maturities and managed sales.
The above decisions were taken in the light of the robust recovery of global economic activity experienced in 2021. The pace of growth is ,however, expected to slow, weighed down by resource and production constraints. Global inflation is expected to peak during 2022 and then moderate, as supply disruptions are gradually resolved.

Asset Price Movements

Due to large uncertainty in the global economic and policy environment asset mispricing risks remain high. Equities and other income-producing assets have experienced continued growth in valuations as interest rates have declined. However, there are increasing concerns about potential mismatches between asset prices and their corresponding long-term earnings potential. Vulnerability to a sharp correction remains high should growth prospects disappoint. Increasing inflationary pressure is causing some central banks to start gradually reducing monetary stimulus, which could prompt a faster increase in interest rates. Coupled with weaker growth, such a scenario could lead to declines in asset valuations and lead to a sudden tightening in financial conditions. In addition, the quality and quantum of fiscal spending and supply-side responses poses a question for the sustainability of governments' long-term fiscal position.

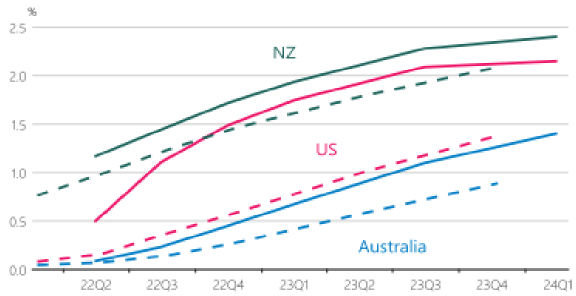
Foreign Currency Risks

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 has fallen as overseas central bank policy rates increase. Expectations for higher policy interest rates are increasing for New Zealand's trading partners (Figure 2). Interest rate differentials between New Zealand and the US have fallen for terms greater than one year, due to growing expectations that the US Federal Reserve will tighten monetary policy faster than was expected in November 2021.

Figure 2: Market central bank rate expectations

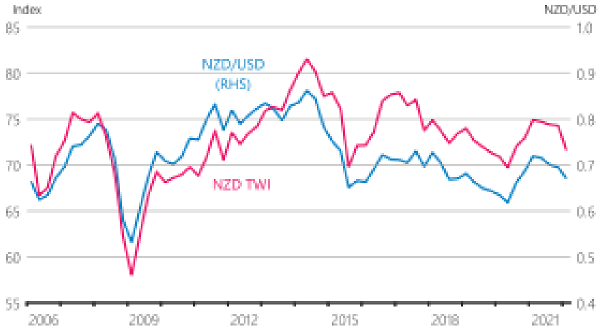


Source: Bloomberg.

Note: Solid lines are the overnight indexed swap rate pricing at 17 February 2022, representing the average expected future policy rates across time for each country. For example, the rate at the end of 2023 represents the expectation of the average policy rate between 17 February 2022 and the end of 2023. Dotted lines represent the same expectations from the date of the November *Statement*.

Figure 3: New Zealand dollar exchange rates

(quarterly average)



Source: Reuters, RBNZ.

Level of Competition and Market Structure

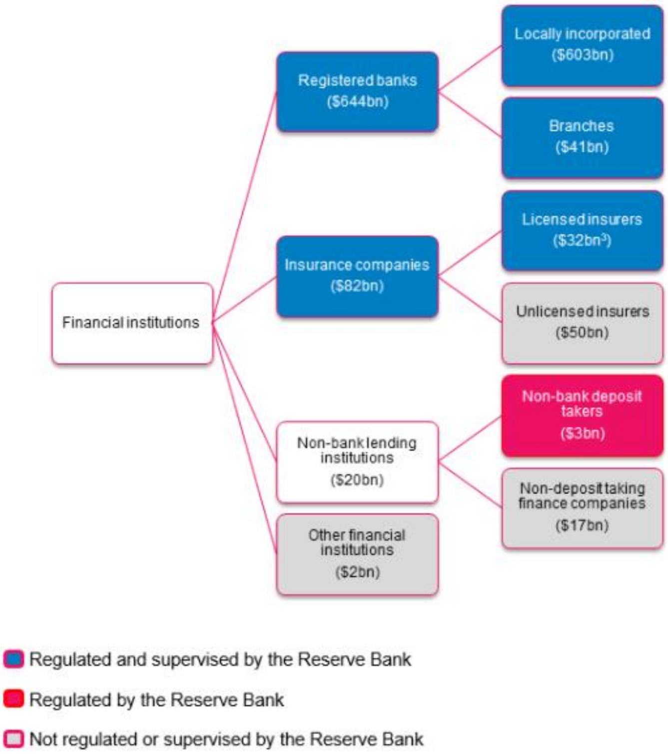
The financial institutions face stiff competition on an ongoing basis to attract capital and funding. In addition to peers, the financial institutions must compete with other finance intermediaries like managed funds, insurance companies and other intermediaries that offer alternative avenues for households 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.

Overview of Competitive Landscape in New Zealand

The New Zealand financial system is dominated by the banking sector, with banking assets accounting for a very large share of overall financial system assets (Figure 4). Structural entry barriers benefit the systemically relevant banks and offer them a competitive advantage in attracting customers and pricing, lending and savings products. These advantages allow these large scale financial institutions to access a diversity of liquidity pools including retail deposits and wholesale funding. This diversity offers them the flexibility to absorb shocks to funding costs and to partly insulate their earnings from capital market volatility. Moreover, top tier banks offer a broad range of products like savings, deposit and transaction accounts, superannuation, trading accounts, financial advice, wealth management and a network of branch and ATM services providing a level of convenience, range and quality.

In contrast, equity and debt capital markets are relatively less developed in New Zealand, with the total market capitalisation of equities listed on the New Zealand Stock Exchange at ~$182bn, while the domestic bond market is estimated at ~$165bn (excluding government debt). The managed funds industry is also small compared to banks, with around $185bn of assets under management.

Figure 4: Market Overview New Zealand Financial Services Industry



Source: Source: RBNZ Bank Balance Sheet (BBS), RBNZ Standard Statistical Return (SSR), RBNZ Non-Bank Deposit Taker Prudential Return (NBDTPR), Individual Insurer Financial Statements.

Direct capital market funding (issuance of corporate bonds) and non-bank lending institutions (NBLIs) together account for only 6% of non-financial private sector borrowing. NBLIs account for just over 3% of intermediated credit since they have a limited offering and specialise in raising deposits to lend to higher risk consumer and business segments underserved by the traditional banks. NBLIs include non-bank deposit-taking institutions (NBDTs) and non-deposit-taking finance companies. While the Reserve Bank of New Zealand regulates NBDTs it does not regulate or supervise non-deposit-taking finance companies.

Legal and Regulatory Framework

The financial institutions are highly regulated due to their vital role and high failure costs. The scope of regulations extends to various aspects of the FI's business including but not limited to capital and liquidity requirements, risk management and governance controls.

Regulatory landscape in New Zealand

Part 5 of the Reserve Bank of New Zealand Act 1989 (the Act) gives the Reserve Bank of New Zealand ('RBNZ' or 'the Reserve Bank') the powers to register and supervise banks 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 a registered bank. The Reserve Bank has a responsibility to promote the integrity of the financial system as a whole, and, accordingly, also has responsibilities in relation to non-bank deposit takers, insurance companies and the payments system. While the Reserve Bank monitors registered banks' compliance with banking supervision policies, neither it nor the government guarantees that a registered bank will not get into difficulty or fail.

Macro Prudential Policy

The purpose of macroprudential policy is to reduce the risk that the financial system amplifies a severe downturn in the real economy. An unsustainable boom in credit and asset prices can result in a bust that creates losses for banks, businesses and households, and hampers the ability of banks to continue lending to the economy. This is important because financial instability – a disruption to the supply of essential services provided by the financial system – can have significant and lasting economic and social costs. Macroprudential policy aims to reduce the likelihood and severity of these costs. To achieve objectives of its macro prudential policy the RBNZ uses tools like Countercyclical Capital Buffer, Sector Capital Requirement, Core Funding Ratio and Loan-to-value ratio (LVR) restrictions. The limits prescribed under above are revised from time to time.

LVR restrictions are the main tool currently used to address financial system risks related to the housing market. In May 2021, RBNZ tightened LVR restrictions on new lending to investors above 60 percent. In addition, the maximum share of new lending to owner-occupiers with LVRs over 80 percent was reduced from 20 percent to 10 percent from 1 November 2021. By limiting a build-up of homeowners at risk of a fall in house prices, these adjustments will further support financial stability.

Prudential Requirements applicable to NBDTs are discussed in the section 5 – Prudential Framework.

5 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 the Bank 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 [2]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.

[2] RBNZ

6 Business risks

6.1 Market Risk Exposures and Controls

Interest Rate Risk

The Company's primary business is raising deposits and making loans denominated in New Zealand dollar. Thus, adverse interest rate movements remains the key source of market risk as XFL has no direct exposure to other components of market risks like foreign exchange rates and commodity prices. To mitigate this risk the Company only enters into fixed borrowing and lending agreements, and regularly monitors its Asset Liability Maturity Profile (ALM). The tables and commentary below summarise the Company's ALM profile at Sep21. The Company's ALM profile at Jan22 remains materially unchanged since Sep21.

Sep21 – Interest Rate Repricing Profile of Monetary Items

Non-derivative Financial Assets and Financial Liabilities ($'000)	Weighted Average Interest Rate % p.a.	Total	Within 6 Months	Between 6 - 12 Months	Between 1 - 2 Years	Between 2 - 5 Years	Over 5 Years	Non-Interest Bearing
Cash and Cash Equivalents	0.15%	12,734	12,734	-	-	-	-	-
Loans and Advances	12.39%	39,981	20,419	9,489	7,863	2,181	30	-
Total Assets	**-**	**52,715**	**33,153**	**9,489**	**7,863**	**2,181**	**30**	**-**
Employee Entitlements	-	126	-	-	-	-	-	126
Secured Debenture Stock	5.10%	45,691	7,210	8,754	17,874	11,854	-	-
Accounts Payables	-	366	-	-	-	-	-	366
Total Liabilities	**-**	**46,183**	**7,210**	**8,754**	**17,874**	**11,854**	**-**	**491**
Total	**-**	**6,532**	**25,943**	**735**	**(10,011)**	**(9,673)**	**30**	**(491)**

Mar21 – Interest Rate Repricing Profile of Monetary Items

Non-derivative Financial Assets and Financial Liabilities ($'000)	Weighted Average Interest Rate % p.a.	Total	Within 6 Months	Between 6 - 12 Months	Between 1 - 2 Years	Between 2 - 5 Years	Over 5 Years	Non-Interest Bearing
Cash and Cash Equivalents	0.57%	8,736	8,736	-	-	-	-	-
Loans and Advances	13.49%	36,272	12,853	16,915	3,736	2,768	-	-
Total Assets	-	**45,008**	**21,589**	**16,915**	**3,736**	**2,768**	**-**	**-**
Employee Entitlements	-	102	-	-	-	-	-	102
Secured Debenture Stock	5.34%	38,659	4,387	6,960	15,335	11,967	10	-
Accounts Payables	-	242	-	-	-	-	-	242
Total Liabilities	-	**39,003**	**4,387**	**6,960**	**15,335**	**11,967**	**10**	**344**
Total	-	**6,005**	**17,203**	**9,955**	**(11,599)**	**(9,199)**	**(10)**	**(344)**

The favourable balance in the near-term maturity buckets indicates that the Company's assets mature earlier and are repriced more frequently relative to its liabilities. In a falling interest rate environment, the above is negative as interest income from loans falls faster than cost of deposits. The same is also partly evidenced from a 110bps decrease in the weighted average interest rate on loans, compared to only a 24bps decrease in the weighted average interest cost on deposits during 6 months to Sep21.

Since the interest rates are expected to increase going forward due to inflationary pressures as indicated by RBNZ, we expect the Company's net interest margins to benefit over the short term. Moreover, the Company has excess liquidity, which was shored up over the periods, as XFL significantly reduced its lending operations in response to COVID-19. As the above funds get converted into loan assets, we expect it to offset some of the downward pressure on the Company's NIMs.

Liquidity Risk

To manage its liquidity risk, the Company monitors its forecasted and actual cash flows on an ongoing basis to ensure the maturity profiles of financial assets and liabilities remain favourably matched. The tables below summarise the maturity profile.

Sep21 – Maturity Profile

Non-derivative Financial Assets and Financial Liabilities ($'000)	Total	Contractual Cash Flows	Within 6 Months	Between 6 - 12 Months	Between 1 - 2 Years	Between 2 - 5 Years	Over 5 Years
Cash and Cash Equivalents	12,733	12,733	12,733	-	-	-	-
Loans and Advances	39,981	44,912	23,049	10,605	8,694	2,534	29
Total Assets	**52,714**	**57,645**	**35,783**	**10,604**	**8,694**	**2,533**	**29**
Employee Entitlements	125	125	125	-	-	-	-
Secured Debenture Stock	45,691	49,558	8,280	9,622	18,935	12,720	-
Accounts Payables	366	366	366	-	-	-	-
Total Liabilities	**46,182**	**50,049**	**8,771**	**9,622**	**18,935**	**12,720**	**-**
Total	**6,532**	**7,595**	**27,011**	**982**	**(10,240)**	**(10,187)**	**29**

Mar21 - Maturity Profile

Non-derivative Financial Assets and Financial Liabilities ($'000)	Total	Contractual Cash Flows	Within 6 Months	Between 6 - 12 Months	Between 1 - 2 Years	Between 2 - 5 Years	Over 5 Years
Cash and Cash Equivalents	8,736	8,736	8,736	-	-	-	-
Loans and Advances	36,271	41,309	15,353	18,098	4,620	3,238	-
Total Assets	**45,007**	**50,046**	**24,089**	**18,098**	**4,620**	**3,238**	**-**
Employee Entitlements	102	102	102	-	-	-	-
Secured Debenture Stock	38,658	42,330	5,367	7,779	16,425	12,748	10
Accounts Payables	319	319	319	-	-	-	-
Total Liabilities	**39,079**	**42,750**	**5,787**	**7,779**	**16,425**	**12,748**	**10**
Total	**5,928**	**7,295**	**18,301**	**10,319**	**(11,804)**	**(9,510)**	**(10)**

At Sep21, the Company's exposure to liquidity risks remains muted as ~66.7% of its deposits mature later than 12 months and XFL's near-term ALM profile remains favourably matched. As a result, the Company's liquid assets represented 27.2% of total liabilities which was largely in line with industry median and reflective of XFL's healthy liquidity profile.

Thus, the Company's ALM profile suitably positions it to withstand liquidity shocks and benefit from the expected increase in interest rates.

6.2 Credit Risk Exposures and Controls

The Company primarily faces credit risk on its loan portfolio and cash deposits held with other financial institutions. With regard to its cash and cash equivalents, XFL faces low credit risk given majority of its cash holdings are primarily held with tier I banks – Bank of New Zealand and ASB Bank. With regard to the loan portfolio, the Company manages counterparty risks on its loan portfolio through adherence to its credit policy, portfolio level underwriting standards and controls, and management of concentration risks and loan asset quality.

Credit Approval Process

The Company has a well-structured credit policy and approval process that includes conducting credit checks, obtaining security in the form of charges on residential property, commercial and industrial property, other assets (including but not limited to buildings, plant and motor vehicles) and debenture charges including personal guarantees. The Company also ensures its loans adhere to following LVR limits as outlined in its credit policy.

Particulars	Consumer Loans	Business Loans
Maximum Unsecured Loan	$5,000	$50,000
Maximum LVR Limits for Asset Classes:		
• Motor Vehicles	90.0%	90.0%
• Commercial Vehicles	80.0%	80.0%
• Trucks	80.0%	80.0%
• Machinery	70.0%	70.0%
• Residential Property	80.0%	80.0%
• Commercial Property	70.0%	70.0%
• Bare Land	70.0%	70.0%

The above LVR limits may be exceeded for small token loans or, for larger loans, by obtaining requisite approvals from the board or the trustee as prescribed in the credit policy. In addition to the above, XFL also obtains general

PPSR and personal guarantees depending on specific case circumstances and for its invoicing financing book – it obtains a charge on the entire trade receivables register of the borrower, irrespective of invoice purchased.

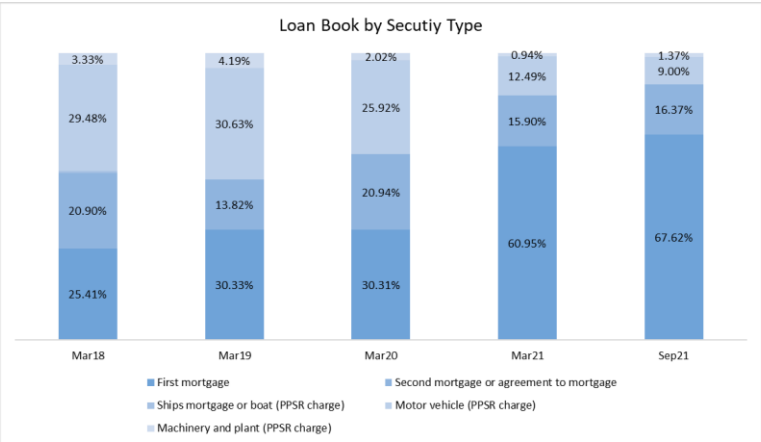
Concentration Risks

XFL's loan portfolio faces moderate concentration risks. At Jan22, XFL's exposure to single borrower was 7.4% (Mar20: 8.5%). Further at Jan22, the top 10 loans represented ~39.0% of the total loan book with each of them individually representing more than 1.0% of the loan book, thereby making the Company's financial performance somewhat susceptible to a deterioration in credit profile of a few borrowers. A substantial portion of XFL's business loan book remains exposed to construction sector (approx. one fifth of the loan-book at Jan22), thereby increasing the vulnerability of its earnings to adverse changes in property market conditions. The above risks are partially offset by the skewness of the loans assets towards Auckland, which continues to be New Zealand's economic powerhouse.

Asset Quality

Only a low proportion of the Company's total loan book at Sep21 constituted of loans with monthly principal repayment obligations. While XFL's loan portfolio remains well collateralised, it remains vulnerable to adverse changes in property market conditions – asset price and liquidity risks. The above, coupled with relatively moderate degree of concentration risks alluded to previously, increase the likelihood of impairments on an ongoing basis, in our view.

Positively, the change in the ownership during 2018 has prompted a more conservative approach to and a tightening in XFL's underwriting standards. This is evident from an increase in the proportion of loans secured by first and second mortgages to 84.0% at Sep21 (Mar21: 76.9%, Mar20: 51.2%, Mar19: 44.15% Mar18: 46.31%) and a reduction in the proportion of loans secured against motor vehicles and machinery assets (that generally depreciate faster than the loan amortisation rate) to 9.0% (Mar21: 12.55, Mar20: 25.9%, Mar19: 30.3%, Mar18: 29.5%).



6.3 Structure and Service Delivery Platform

Structure

Xceda Finance Limited is governed by a four-member board consisting of two independent non-executive directors. In order to accept term deposits, the Company entered into a Trust Deed with Covenant Trustee Services Limited ("the Supervisor") as per Debenture Trust Deed dated 15 March 2004 as amended and restated on 3 December 2018 (together referred to as the "Trust Deed"). Under the terms of the Trust Deed, term deposits are secured by a security interest over all of the Company's present and future assets and undertakings, in favour of Covenant Trustee Services Limited, as the Supervisor. The security interest secures all amounts payable by the Company on the term deposits and all other moneys payable under the terms of the Trust Deed and prevents the Company from creating any higher ranking charge on assets in excess of 2.0% to total tangible assets.

The Supervisor reviews, on a monthly basis, the management reports of the Company to determine whether the total value of the assets subject to the security interest are in excess of the amount of the liability secured by the security interest. The Company is also required to provide the Supervisor, on a monthly basis, with a liquidity report, a capital adequacy report and a Trust Deed financial ratio compliance report.

Service Delivery Platform

The Company uses an inhouse software developed with assistance from Lentune Software Solutions (Lentune) to perform and manage custodian functions associated with term deposits. The inhouse software performs all the functions performed by other commonplace software like Finpower. Further, exclusive license rights of the software along with Lentune assures ongoing tech support.

The Company's lending services are primarily delivered through its network of branches, digital marketing initiatives and distribution partnerships. Recently XFL has partnered with broker network and an accounting franchisee firms to widen its customer acquisition net. Loan origination is done by the Company's staff as part of the loan approval process, and to adhere with AML-CFT, identification for the client is sought and verified according to the Company's policy on combating fraud arising from identity theft.

6.4 Strategic Vision

XFL is committed to generating sustainable returns to investors by providing short- and medium-term lending products and services that help New Zealanders and their businesses achieve their respective goals. The Company's goal is to lead the way in providing loans in a manner which is easy, hassle free and well-aligned with responsible lending practises.

6.5 Execution of Strategy

The Company primarily specialises in providing short-to-medium term business and personal loans backed by collateral. The loan products offer a mixture of principal and interest (amortising) payment loans, interest only loans and capitalised interest loans. The lending policy of the Company imposes caps on the amount of interest only loans and capitalised interest loans to ensure optimal liquidity of the overall loan book. For funding, the Company sources investment term deposits from the public. The Company's acquisition strategy includes utilising its branch network and customer referrals together with digital marketing activities. Over the last 18 months the Company has initiated a wider distribution strategy including partnerships with broker networks and accounting firms to source term deposits and loans.

6.6 Management

Board Member	Position	Date Appointed
Scott Weenink	Chairman	11 Dec 2018
Daniel McGrath	CEO	16 Aug 2018
Bryan Heapy	Independent Director	10 May 2005
John Whittfield	Independent Director	1 Feb 2015

Scott Weenink (BA/LLB, Mstud (Oxon))

Independent Director, Chairman

Scott is an experienced M&A and corporate finance lawyer, with broad corporate governance experience. His current board roles include being a director of Generate KiwiSaver Funds Management (a KiwiSaver funds manager), Enable Networks (an Ultra-Fast Broadband provider) and also the New Zealand Cricket Players Association. Scott has also previously held directorships in the telecommunications industry in Asia and was formerly the General Counsel at Auckland International Airport Limited. Scott is admitted to the Bar in NZ, UK and NSW, has a Masters in Law from Oxford University.

Daniel McGrath (BA/LLB,MA)

Executive Director & CEO

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.

Bryan Heapy

Independent Director

Bryan has 25 years' experience in the finance and business banking industry and has held several senior positions in a number of leading financial institutions. These positions have covered a spectrum of roles, including client relationship management, lending, credit, and regional management. These roles have exposed Bryan to a broad range of industry sectors including finance, manufacturing, fishing, tourism, commercial property, vehicle retailing, heavy equipment and civil engineering. In recent years Bryan has been an executive of one of NZ's largest private companies. More recently he has been CEO of Admark Visual Imaging Ltd, a significant printing company; and Manager of Precision Component Machining Ltd, an engineering company based in Hamilton.

John Whittfield

Independent Director

John is currently Managing Director of Corporate Solutions and Management Limited, a company that primarily operates in the field of business recovery. Prior to the formation of this company he was managing partner of McDonald Vague (Auckland) from 2005 -2010 where he had been a partner since 2002. Before taking up the position at McDonald Vague, John had held a significant number of directorships in the dairy industry and had been involved in mergers and acquisitions that lead to the formation of Fonterra. John has also taken directorships to assist and facilitate the sale of assets or amalgamation of trading entities.

In addition to the board, the Company's leadership team also includes the below key personnel.

Nicola Andresen,

General Manager and Investor Relations

Nicola started at Xceda Finance in 1992 when the company was operating under its former name Asset Finance Limited. Nicola has worked in a wide variety of roles in the Company, and therefore has a comprehensive understanding of all aspects of operations. Nicola is primarily responsible for Investor Relations for secured term deposit products, as well as managing the general day-to-day running of the operations team in Whakatane.

Graeme O'Leary

Chief Financial Officer (CFO)

Graeme was appointed as Chief Financial Officer (CFO) in November 2020. Graeme started working with Xceda Finance in the 18 months prior to his appointment as one of our external accountants at Ernst & Young. Graeme holds a Bachelor of Commerce (BCom) in Accounting & Commercial Law from the University of Otago, a Graduate Diploma of Chartered Accounting (GradDipCA) and is a member of the Chartered Accountants Australia & New Zealand (CA ANZ). Graeme works in the Company's Auckland office alongside Daniel (the CEO), Darryl (the CCRO) and the commercial lending team.

Darryl French

Chief Credit Risk Officer (CCRO)

Darryl was appointed as Chief Credit Risk Officer (CCRO) in October 2021. He was previously Head of Consumer Credit and Head of Asset Management at Heartland Bank. Having worked in several senior management teams, Darryl has managed projects creating policy, procedures, loan assessment scorecards and has experience in business development, business analysis, staff management and establishing governance. Darryl works in XFL's Auckland office alongside Daniel (the CEO) and Graeme (the CFO).

Nicole Awhimate

Systems Manager

Nicole started at Xceda Finance as a Loans Officer in 2012, fresh from completing her degree at Victoria University. She has worked in a wide variety of roles within the company and as such has a great depth of understanding of Xceda. Most recently Nicole has been working as Systems Manager, taking on the task of managing IT System upgrades. Nicole holds a BCA in Management and Commercial Law from Victoria University. Nicole works in XFL's Whakatane office alongside Nicola (General Manager) and the rest of the Loan Operations Team.

Bri Thoms

Marketing Manager,

Bri was appointed as Marketing Manager in September 2021. Bri has experience working within large government sectors as well as privatised marketing agencies (specialising in FMCG and Retail). Bri brings a vast amount of experience with Loyalty Marketing, Investor Marketing and Lifecyle Marketing. Bri looks after all marketing initiatives and strategy as well as XFL's strategic partnerships. Bri holds a BCS in Public Relations and Human Resource Management from Waikato University.

6.7 Governance and Oversight

Internal

XFL's risk management system uses principles and definitions included in AS/NZS ISO 31000:2009. The four key components of the Company's risks management system include the risk management program overview, the risk register, policy documents and operation manuals. The above documents serve as primer for its core risk management processes and are reviewed periodically. Changes, if any, to the processes mentioned in the above documents require the trustee's approval.

The Board of Directors is responsible for the overall risk oversight and approving the reporting requirements, policies, procedures and controls for XFL, monitoring XFL's risk exposure to ensure that it is consistent with established risk tolerances and ensuring that any exposures to, and transactions with, related parties are on arm's length terms and conditions. The CEO is responsible for risk oversight including conduct of the risk management process periodically, review of the risk management control results in the context of identified risks, determination of broad plans for action; and reporting to the Board of Directors. The management team is responsible for development and implementation of corporate risk management policies, controls and action plans; and the conduct and operation of risk management processes periodically for its area/s of responsibility. The team leaders are responsible for supporting the managing director and management team in carrying out their risk management role, identifying risk incidents/events that have or may occur and reporting them to the management team; and performance of periodic reviews of the risk management process as it pertains to their area of operation.

The components of the Company core's risks management process are identify, analyse, respond, monitor and report. Using the above core processes as template the Company has developed detailed and comprehensive policies and processes to manage credit risk, liquidity risk, operational risk, market risk and anti money laundering and countering financing of terrorism risk.

Credit Risk Policy

Identification and analysis of credit risk are particularly relevant during the origination, evaluation, approval; and documentation & settlement phases of the credit process cycle. The identification is undertaken at the 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. The outcome of the above process is a written strategy document to be approved by the board. Once approved, the above document serves as the primer for identification of acceptable and unacceptable level of risk exposures and development and implementation of risk management policies. The polices once formulated are reviewed quarterly and changes if any are ratified by board prior to submitting to the Trustee for approval. As part of ongoing monitoring, various reports as detailed below are produced and are kept on file for a period of twelve months.

Report Name	Freq.	Description	Report to
Management Accounts	Monthly	Financial accounts – Profit and Loss and Balance Sheet, shows bad debts written off.	**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	**Management, Board, Trustee**
Account Collection Review Report	As required	Shows details about significant loans that are in default, so decisions can be made on future collection action.	**Management**
Trust deed reporting	Per Trustee Requirements	The monthly trustee reporting has information on loan quality and write offs.	**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.	**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	**Public, Shareholders, Investors, Trustee**

Breaches of the policies are reported to CEO and the Board of Directors, who may or may not ratify the breach in accordance with the Company's risks management policy. A risk register is also maintained to document adherence to above policies and is updated regularly.

Operation Risk Policy

The operational risks are reviewed on an ongoing basis and the Risk Register is updated accordingly. The Risk Register and Obligations Register are the primary means of monitoring / tracking operational risk exposures and regulatory compliance. The trigger for the identification and analysis of new or emerging operational risks can be any combination of management, board or staff meetings and discussion. The Company has policies in place to reduce the likelihood of fraudulent loans, money laundering, mistakes and business disruptions. To ensure compliance with relevant regulatory requirements, the Company has also sought legal advice while devising policies and processes to manage operational risks. Like its credit policy, various reports are produced to monitor compliance, operational risk policies and procedures and any incident involving internal fraud, workplace safety, action by a regulator, damage to physical assets, significant business disruption is reported to the board at the next meeting. The CEO is required to report to the Board of Directors on all matters which the board determines requires a reporting. The CEO shall report at each Board meeting on all instances of risk exposures identified as being outside of Company tolerances and shall advise the Board that no such instances exist where that is the case. These reporting requirements may be altered, as the board sees fit.

The Company's liquidity, market and AML-CFT policies are also developed on similar lines detailed above and include additional policies and procedure to manage special aspects associated with each of the above risks.

In our view, the Company'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.

External

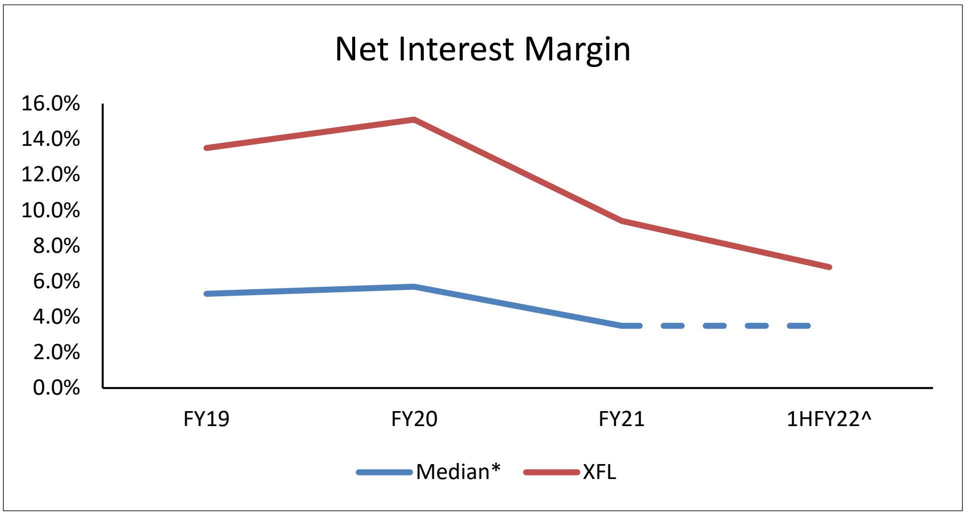
The Trust deed and the prudential norms prescribed by RBNZ are key source of external governance measures which XFL must comply with. The details of the RBNZ's prudential requirements are detailed in section 5 and the table below summarise the XFL's compliance with select requirements of the trust deed and RBNZ's prudential norms.

Ratio	Calculation	Sep-21	Mar-21	Mar-20	Mar-19	Trust deed	Regulatory
Risk weighted capital ratio	Tier 1 capital as a percentage of risk weighted assets	15.8%	15.0%	14.3%	16.4%	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	0.0%	0.0%	0.0%	0.0%	<5.0%	<15%

7 Financial Indicators

7.1 Profitability

Net Interest Margin



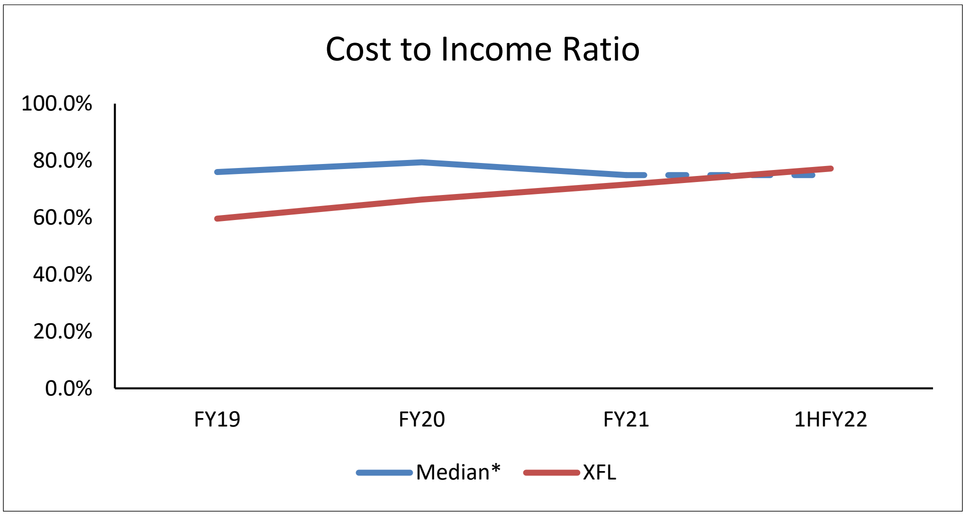
Source: Reported financial statements of Peer Group from FY19 to FY21.

*Median figure for FY21 is based on entities for which financial statements were available at Mar22

^ Annualised

For six months to Sep21, the Company's annualised net interest margin declined to 6.8% (FY21: 9.4%, FY20: 15.1%, FY19: 13.1%) driven by shifts in the Company's lending strategy and the potential lag associated with an increase in income following the Company's growing loan book. XFL's strategic and conscious shift towards higher quality lends backed by residential mortgages and healthy LVRs translates into lower yield on an absolute but potentially a higher yield on a risk adjusted basis. Moreover, while in past the Company's positive ALM profile has weighed on its NIMs, going forward it suitably positions the Company to benefit from the expected increase in interest rates.

Operating Efficiency

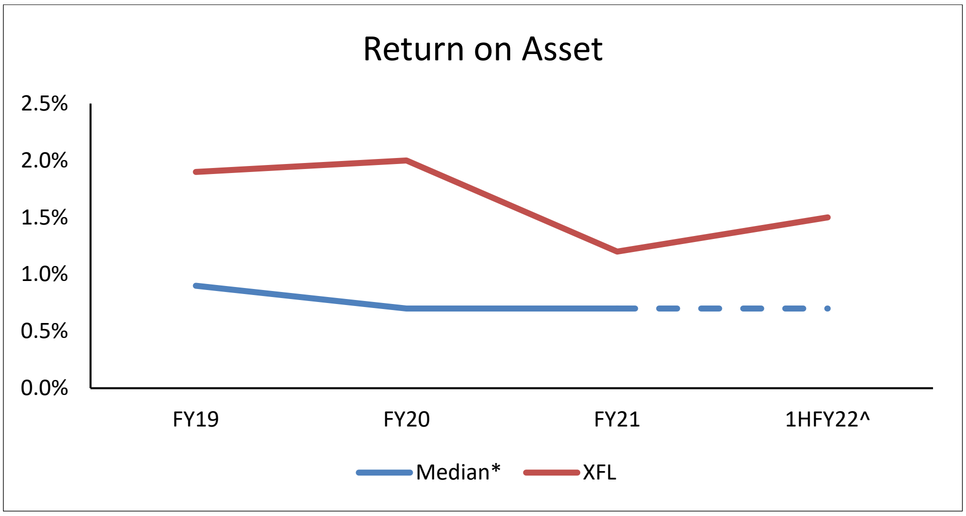


Source: Reported financial statements of Peer Group from FY19 to FY21.

*Median figure for FY21 is based on entities for which financial statements were available at Mar22

The Company's efficiency measured by its cost to income ratio remains largely in line with the industry median. The Company recently undertook a strategic overhaul of its operations that included rebranding its business and hiring additional staff to support future growth. As a result, its operating expenses have trended upwards and combined with the decline in NIMs negatively impacted its efficiency ratio. The same however is not a material risk as the Company's income generating potential, measured by loan book growth and asset quality, remain on an improving trajectory.

Return on Assets (ROA)



Source: Reported financial statements of Peer Group from FY19 to FY21.

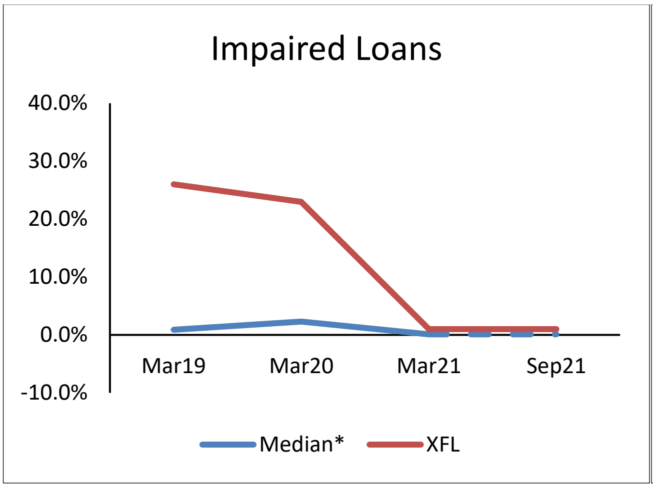
*Median figure for FY21 is based on entities for which financial statements were available at Mar22

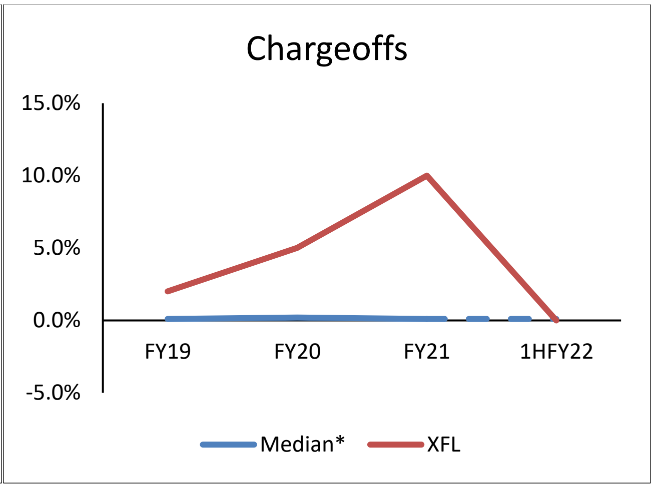
^ Annualised

An increase in operating costs, downward pressure on NIMS and increasing asset size has led to a decrease in the Company's return on assets (ROA) over the periods reviewed. The Company's total assets increased to $54.4m at Sep21 (Mar20: $34.2m) and its after tax profits remained largely steady (on an annualised basis) at $0.5m for 1HFY22 from $0.9m in FY20. The decline in profit is primarily attributable to declining NIMs for reasons highlighted above.

7.2 Asset Quality

Impaired Loans





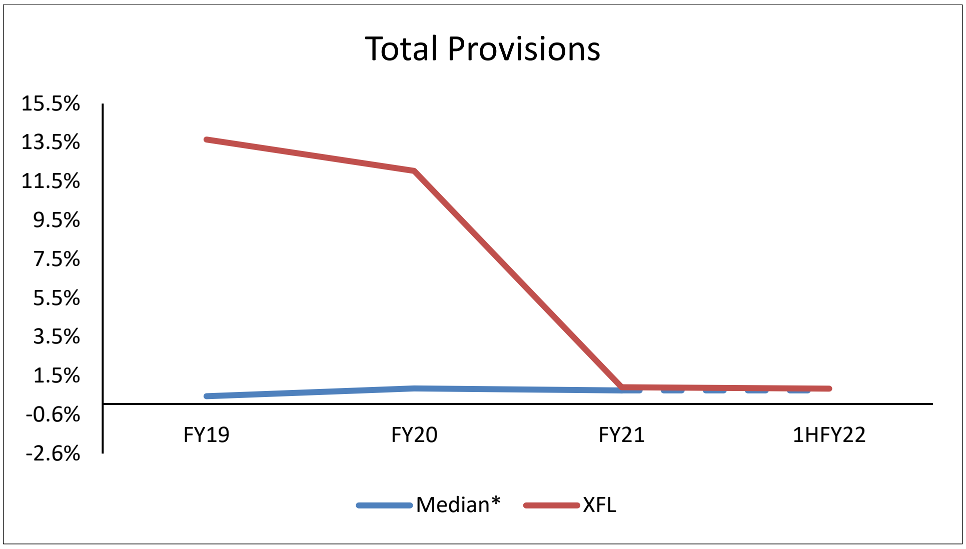
Source: Reported financial statements of Peer Group from FY19 to FY21.

*Median figure for FY21 is based on entities for which financial statements were available at Mar22

The Company's asset quality continued to improve during 1HFY22 as the management efforts to deleverage its loan book and tighten underwriting standards reached pivotal stages during FY21. The elevated levels of impaired assets prior to FY21 were primarily due to relatively aggressive underwriting standards adopted by the then existing management, the risks from which crystallised in form of the underperformance of one big-ticket loan to a single borrower that represented more than three fourths of the impaired assets up to Sep20. Positively, since the change in ownership in 2018, XFL tightened its lending policies and subsequent to Sep20, the abovesaid underperforming loan was renegotiated into a performing loan with a new counterparty. Since then, the Company's impaired asset levels have continued to improve supported by the strategic shift of its loan book towards higher quality lends secured by first ranking mortgages.

Due to the impairments as highlighted above, the Company's charge offs also remained elevated relative to its peers. The reversal of accrued interest on the single underperforming loan, upon its renegotiation, contributed to the spike in charge offs in FY21. Positively, adequate provisions made against above interest accruals cushioned the impact on profitability. However, excluding above, we note that the recoveries of impaired loans has historically ranged from 1.6% of opening balance to more than 50.0%, indicating average success of recovery measures.

Total Provisions



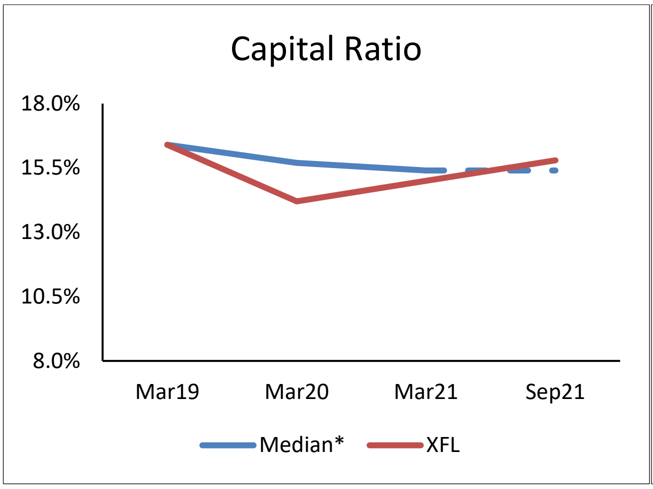
Source: Reported financial statements of Peer Group from FY19 to FY21.

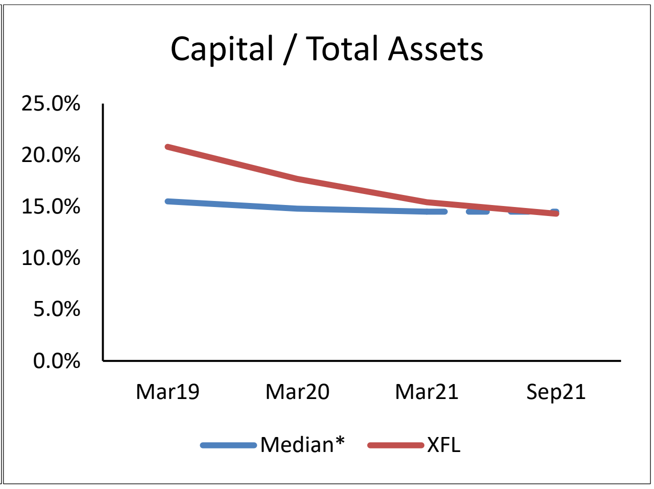
*Median figure for FY21 is based on entities for which financial statements were available at Mar22

The Company's provision for loan impairments has historically represented more than a tenth of its gross loans and ~50.0% of impaired assets. At Sep20, the Company's total impairment provisions stood at $3.4m (Mar20: $2.7m) comprising primarily provisions made against interest accruals on a single big-ticket underperforming loan, alluded to previously. The provisions during FY21 also included additional $0.1m towards collective impairment allowance made by the management as part of conservative measures adopted due to the outbreak of COVID-19. Subsequent to renegotiation of the aforementioned single big-ticket underperforming loan post Sep20, the provisions and corresponding interest accruals related thereto were reversed, thereby contributing to the decrease in the provision ratio.

In general, XFL's asset quality metrics are expected to vary to a higher degree than its NBDT peers, reflective of higher credit counterparty/repayment risks that correspond to the high returns on its diversified lending products portfolio.

7.3 Capitalisation





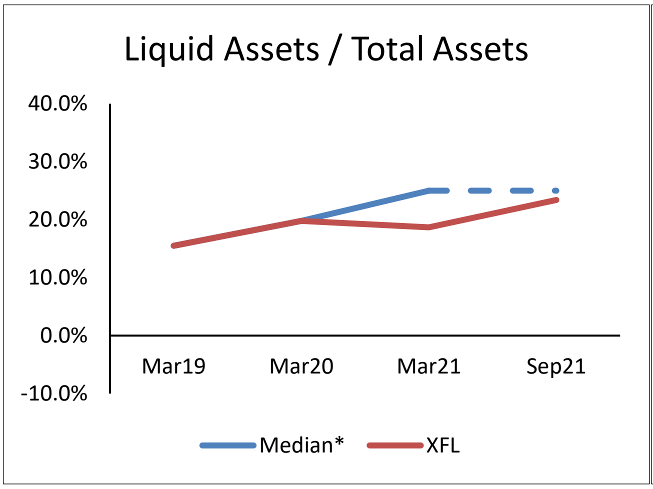
Source: Reported financial statements of Peer Group from FY19 to FY21.

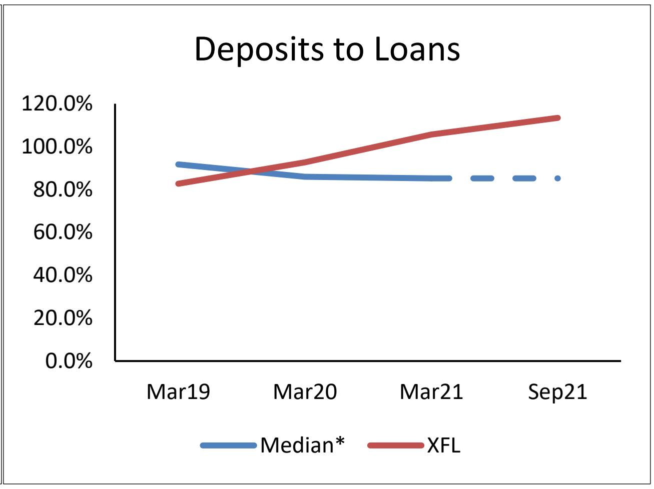
*Median figure for FY21 is based on entities for which financial statements were available at Mar22

The Company's capital ratio offers a moderate headroom for further growth in the loan book, while maintaining an adequate buffer over the capital requirements stipulated by the Debenture Trust Deed (10.0%) and prudential requirements prescribed by RBNZ.

The Company's loan book has increased to $40.3m at Sep21 (Mar21: $36.6m, Mar20: $25.9m, Mar19: $23.1m) and its equity has increased to $7.7m (Mar21: $7.2m, Mar20: $6.1m, Mar19: $6.1m). As a result, over the periods reviewed the Company's capital ratio has varied between 16.4% and 14.2% and remained below the industry median. The increase in loan book, pressure on NIMS due to strategic shifts in underwriting standards, stressed asset quality metrics due to legacy non-performing loans and regular dividend payouts have prevented a higher improvement in the Company's capital ratio. Positively, despite the reduction, the capital ratio has maintained an adequate headroom (>400bps) over the minimum requirement of 10.0% stipulated by the Debenture Stock Trust Deed, thus providing it with some capacity to withstand shocks in the near to medium term.

7.4 Funding and Liquidity





Source: Reported financial statements of Peer Group from FY19 to FY21.

*Median figure for FY21 is based on entities for which financial statements were available at Mar22

Over the periods reviewed the Company has operated with a sound liquidity position. XFL's liquid assets to total assets ratio has largely remained in-line with (or better than the) industry median. The increase in liquid assets during 1HFY22 was supported by an increase in deposits and the lagged growth in loan assets due to conflux of factors that included the COVID-19 pandemic and strategic shift towards conservative underwriting policies. As a result, the rate of growth in the Company's deposits temporarily outpaced the rate of growth in loan assets and led to an increase in the Company's liquid assets to $12.7m at Sep21 (Mar21: $8.7m), representing 23.4% (Mar21: 18.7%) of total assets.

The recent increase in deposits has benefitted from a benign interest rate environment. However, the interest rates have recently trended upwards with further similar increase in the offing due to inflationary pressures currently prevailing across global economies. This may weigh on the Company's ability to grow its deposits at rates similar to past periods and may require an increase in capital to support the Company's growth strategy.

8 Financial Benchmarks

Description	Percentile	CUA	FCU	FPCU	GBFL	MCFL	SSCUI	WBS	LFT	CSL	NZPFCU	GFL	XFL
Financial Year		2021	2021	2021	2021	2021	2021	2021	2021	2021	2021	2021	1HFY22
Scale:													
Operating income ($ 000s)	85%	2,548	19,105	317	2,369	2,597	1,476	4,834	1,180	4,834	4,794	1,965	3,008
Total Assets ($ 000s)	46%	22,021	418,193	5,001	39,153	41,343	33,631	159,396	74,628	239,961	152,232	64,649	54,482
Gross loans ($ 000s)	54%	16,058	276,441	2,253	34,462	39,128	12,028	108,153	45,648	184,550	37,793	53,911	40,302
Profitability:													
Net Interest Margin (%)*	85%	7.1%	3.3%	5.6%	5.6%	6.1%	3.6%	2.5%	1.8%	2.0%	3.3%	2.4%	6.8%
Non Interest Income to total operating income (%)	92%	41.7%	34.2%	14.1%	19.2%	15.4%	21.5%	21.2%	0.0%	8.2%	3.2%	34.4%	44.5%
ROE (%)*	77%	0.0%	0.0%	0.0%	14.3%	13.8%	0.0%	8.7%	5.3%	6.3%	0.0%	3.8%	9.9%
Return on assets (%)*	77%	-0.4%	0.5%	-3.3%	3.1%	2.4%	-0.9%	1.2%	0.6%	0.8%	0.7%	0.4%	1.5%
Cost to Income (%)	46%	100.0%	88.9%	149.8%	41.5%	46.1%	115.5%	47.9%	56.9%	60.3%	78.3%	79.1%	77.2%
Capitalisation:													
Leverage (Gross loans to Equity) (x)	39%	5.1	4.6	2.3	4.7	5.8	3.9	4.7	5.4	5.9	1.4	8.9	5.2
Capital ratio - risk adjusted (%)	46%	14.8%	13.5%	19.7%	16.8%	12.8%	13.7%	15.8%	22.5%	14.9%	20.8%	16.3%	15.8%
Capital to total assets ratio (%)	46%	14.4%	14.2%	19.6%	18.7%	16.2%	9.2%	14.5%	11.3%	13.0%	17.7%	9.4%	14.3%
Funding and Liquidity:													
Gross loans as a % of total assets (%)	62%	72.9%	66.1%	45.1%	88.0%	94.6%	35.8%	67.9%	61.2%	76.9%	24.8%	83.4%	74.0%
Deposits to gross loans (%)	46%	111.4%	127.4%	173.2%	90.3%	85.6%	247.0%	124.0%	143.9%	111.5%	330.3%	107.3%	113.4%
Liquid assets to total assets (%)	38%	23.9%	27.9%	53.5%	11.5%	3.8%	63.3%	26.2%	37.6%	21.0%	68.9%	11.2%	23.4%
Asset Quality:													
Write-offs to gross loans (%)	23%	0.3%	0.5%	0.4%	1.2%	0.0%	0.2%	0.0%	0.0%	0.0%	0.0%	0.0%	0.4%
Impaired loans to gross loans (%)	31%	3.5%	2.5%	0.0%	0.0%	0.1%	6.9%	0.7%	0.0%	0.0%	0.0%	0.0%	0.8%
Impairment provision to gross loans (%)	39%	2.2%	1.0%	0.1%	1.1%	0.7%	3.5%	0.6%	0.7%	0.1%	0.3%	0.3%	0.8%

*Annualised for reported periods not equal to 12 months

9 Summary Financial Data

Xceda Finance Limited						
$'000s	**Trend**	**FY18**	**FY19**	**FY20**	**FY21**	**1HFY22**
Income Statement						
Net Interest Income		4,740	4,655	5,411	5,228	2,775
Non Interest Income		3,340	3,409	4,066	3,510	1,670
Operating Income		6,361	6,073	6,559	5,831	3,008
Operating Expense		3,883	3,619	4,346	4,174	2,323
Pre Provision Operating Profit		2,477	2,466	2,203	1,640	686
Credit Impairment Charge / (Reversal)		689	1,720	1,301	934	169
Operating Profit Before Tax		1,788	746	902	705	516
Other non Operating Income / (Expense)		-	-	-	-	-
Net Profit		1,287	537	640	503	369
Financial Position						
Total Assets		28,828	29,068	34,183	46,744	54,482
Customer Deposits		20,284	19,085	24,272	38,659	45,691
Loans		17,925	23,065	25,867	36,587	40,302
Liquid Assets		9,869	4,492	6,754	8,736	12,734
Ratios						
Profit Before Tax to Operating Income Margin (%)		28%	12%	14%	12%	17%
Net Interest Margin (%)*		13%	13%	15%	9%	7%
Cost to Income (%)		61%	60%	66%	72%	77%
Return on Asset (%)*		4%	2%	2%	1%	1%
Return on Equity (%)*		23%	9%	11%	8%	10%
Capital Ratio (%)		20%	16%	14%	15%	16%
Capital to Total Asset Ratio (%)		21%	21%	18%	15%	14%
Leverage Ratio - (Total Loans / Equity) (x)		3.0	3.8	4.3	5.1	5.2
Charges-offs / Total Loans (%)		4%	7%	5%	3%	0%
Neither Impaired or Past Due to Gross Loans (%)		54%	46%	53%	57%	59%
Non - Performing Loans to Gross Loans (%)		19%	30%	29%	26%	27%
Loan Loss Provision / Loans (%)		11%	14%	12%	1%	1%
Deposits to Loans (%)		113%	83%	94%	106%	113%
Liquid Assets to Total Assets (%)		34%	15%	20%	19%	23%

**Annualised for reported periods not equal to 12 months
**Non-performing Loans = Impaired loans + Loans past due for more than 90 days,

10 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+	28.16	Credit Watch	Very High
Caa2		CCC	CCC	29.90		
Caa3	CCC	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://www.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

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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 (version 6, 2019).

https://www.corporatescorecard.com.au/docs/RatingMethodologyFinancial.pdf

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