



Quarterly Treasury Report

As of 31 December 2025

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BANCORP

BANCORP TREASURY SERVICES LIMITED



Economic Commentary

Global

In Q4 2025, major central banks continued their monetary easing, with a clear focus on supporting growth amid cooling inflation, labour market softening in some regions, and persistent uncertainties from geopolitical tensions and trade policies.

The global environment featured a gradual easing in advanced economies, though at varying paces and with increasing signs of divergence entering 2026. Inflation continued to moderate toward targets in most regions, but remained sticky in services and above target in the US, prompting a more cautious approach.

The Fed pursued a measured easing path in Q4 2025, delivering additional 25 basis point cuts (including in December), bringing the Federal Funds target range to 3.50%–3.75% by year-end. This followed earlier reductions, totalling around 75–100 bps for the year.

Key drivers included a cooling labour market, sticky but declining inflation, and risk management priorities. The December decision was split (e.g., 9-3 or similar), reflecting divisions on the balance between employment risks and inflation persistence. Longer-term yields remained elevated, with the 10-year Treasury closing the year at 4.12%.

Overall, Q4 2025 marked the maturing phase of the global easing cycle: supportive financial conditions supported asset prices, but central banks grew more selective, preparing for potential policy divergence in 2026 amid uncertainties such as trade fragmentation and geopolitical risks.

Global growth remained resilient but modest (IMF projections around 3.2% for 2025), with inflation declining further – setting the stage for more range-bound or status quo policies in early 2026.

New Zealand

	OCR	90 day	1 year swap	2 year swap	3 year swap	5 year swap	10 year swap
30-Sept-25	3.00%	2.80%	2.56%	2.62%	2.78%	3.10%	3.68%
30-Dec-25	2.25%	2.49%	2.61%	2.93%	3.19%	3.56%	4.09%
Change	-0.25%	-0.31%	+0.05%	+0.31%	+0.41%	+0.46%	+0.41%

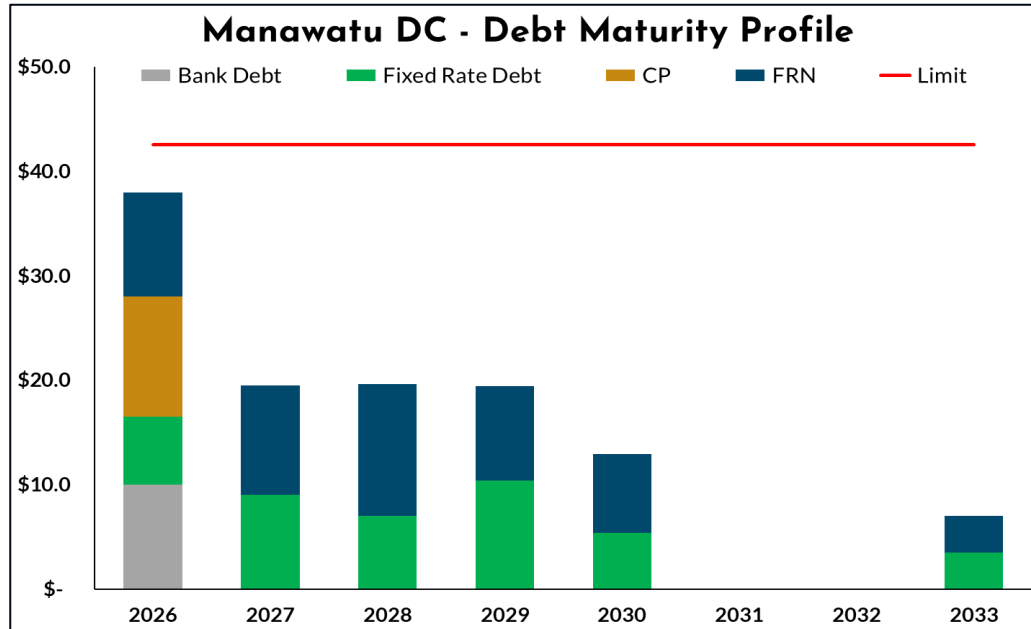
During the December 2025 quarter the Reserve Bank of New Zealand (“RBNZ”) appeared to signal that it had completed its aggressive easing cycle that began in mid-2024, with the Official Cash Rate (“OCR”) reaching a multi-year low. The final move came on 26 November 2025, when the Monetary Policy Committee (“MPC”) voted 5–1 to reduce the OCR by 25 basis points to 2.25% – its lowest level since mid-2022. This followed a larger-than-expected 50 bps cut to 2.50% in October 2025, bringing cumulative reductions since the peak (5.50% in August 2024) to 325 bps. The statement marked the last *Monetary Policy Statement* ahead of the new Governor Anna Breman taking office in December.

The market reaction to the unexpectedly hawkish cut was extreme, with the 5-year swap rate up from 3.14% on the day of the OCR announcement to 3.77% on 15 December. The extent of the movement prompted the new Reserve Bank Governor to issue a statement that essentially said the markets had gone too far, stating that “*Financial market conditions have tightened since the November decision, beyond what is implied by our central projection for the OCR.*” As a consequence of the statement, 5-year swap rates retreated to 3.52%. Overall during the quarter the yield curve steepened considerably with the spread between the 90 day rate and the 5 year swap rate increasing from 0.30% on 1 October to 1.04% on 31 December.

The consensus view is that the new Governor will be cautious around inflation and would need to see a material surge in growth to contemplate any change in the OCR until 2027, which is when we see the first hike.



Liquidity and Funding



External Council Core Debt

\$105.0m

External Council Drawn Debt (excludes on-lending to Manawatu Community Trust)

Total LGFA Debt

\$106.4m

Funds Drawn from LGFA (includes on-lending to Manawatu Community Trust)

Liquidity = cash in bank, term deposits and undrawn bank facility

\$16.06m

Liquidity Ratio (must be >110%)

115.09%

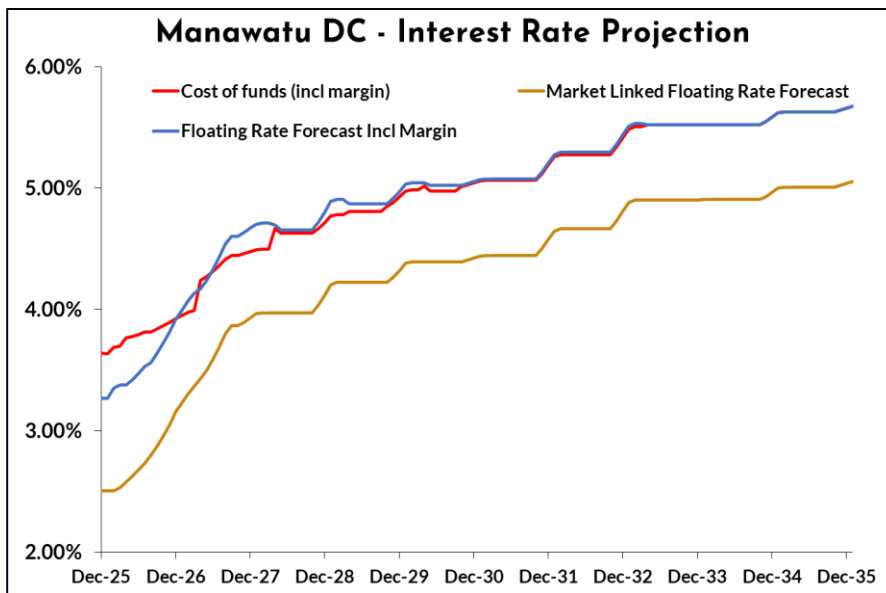
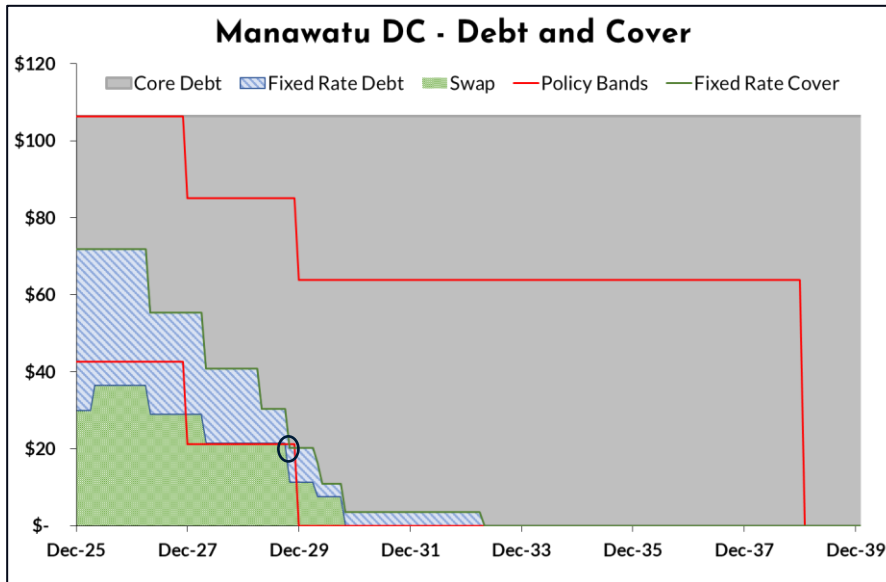
Definition: (Cash Reserves + Lines of Credit + Drawn Debt)/Drawn Debt \$106.4m)

Cost of Funds as at 31 December 2025

3.63%

Policy Compliance	Compliant
Have all transactions been transacted in compliance with policy?	Yes
Is fixed interest rate cover within policy control limits?	No
Is the funding maturity profile within policy control limits?	Yes
Is liquidity within policy control limits?	Yes
Are counterparty exposures within policy control limits?	Yes

Interest Rate Risk Management



Current % of Debt Fixed	67.5%
Current % of Debt Floating	32.48%
Value of Fixed Rate (m)	\$71.8
Weighted Average Cost of Fixed Rate Instruments	3.49%
Value of Floating Rate (m)	\$34.5
Current Floating Rate	2.50%
Current Floating Rate (incl margin)	3.27%
All Up Weighted Average Cost of Funds	3.63%
Total Facilities In Place	\$116.3

Fixed Rate Hedging Bands			
	Minimum	Maximum	Policy
0 - 2 years	40%	100%	Compliant
2 - 4 years	20%	80%	Non - Compliant
4 - 13 years	0%	60%	Compliant

The policy breach in the 2-4 year timeframe was miniscule (depicted by the circle in the graph on the top left) with the cover percentage at 19.24% compared to the minimum requirement of 20%. The breach was for two months in October 2029 and December 2029. Subsequent to the end of the quarter the breach was rectified with an additional \$4 million of debt raised using a Fixed Rate Bond which increased the cover percentage to 22.2%.

LGFA Funding Rates as at 31 December

Listed below are the credit spreads and applicable interest rates as at 31 December for Commercial Paper (“CP”), Floating Rate Notes (“FRN”) and Fixed Rate Bonds (“FRB”), at which Manawatu DC could source debt from the Local Government Funding Agency (“LGFA”).

Maturity	Margin	FRN (or CP Rate)	FRB
3 month CP	0.15%	2.64%	N/A
6 month CP	0.15%	2.70%	N/A
April 2027	0.38%	2.87%	3.06%
May 2028	0.48%	2.97%	3.46%
April 2029	0.52%	3.01%	3.74%
May 2030	0.54%	3.03%	3.96%
May 2031	0.68%	3.17%	4.25%
May 2032	0.75%	3.24%	4.46%
April 2033	0.80%	3.29%	4.62%
May 2035	0.91%	3.40%	4.92%
April 2037	0.95%	3.44%	5.10%



Manawatu DC Funding as at 31 December

As at 31 December 2025, MDC had \$106.4 million of total debt (including the on-lending to MCT) , all of which is sourced from the LGFA using Commercial Paper ("CP"), Floating Rate Notes ("FRN's") and Fixed Rate Bonds ("FRB's"), details contained below.

Instrument	Maturity	Yield	Margin	Amount
LGFA CP	27-Feb-26	2.56%	N/A	\$11,574,205
LGFA FRN	15-Apr-26	3.45%	0.91%	\$4,000,000
LGFA FRB	15-Apr-26	3.89%	N/A	\$4,000,000
LGFA FRN	15-Apr-26	3.43%	0.88%	\$2,000,000
LGFA FRN	15-Apr-26	3.34%	0.79%	\$2,500,000
LGFA FRB	15-Apr-26	2.90%	N/A	\$2,500,000
LGFA FRN	15-Apr-26	3.13%	0.58%	\$1,400,000
LGFA FRB	15-Apr-27	1.11%	N/A	\$7,000,000
LGFA FRB	15-Apr-27	1.95%	N/A	\$2,000,000
LGFA FRN	15-Apr-27	3.20%	0.66%	\$3,000,000
LGFA FRN	15-Apr-27	3.20%	0.65%	\$3,500,000
LGFA FRN	15-Apr-27	3.31%	0.76%	\$4,000,000
LGFA FRN	15-Apr-28	3.44%	0.89%	\$2,000,000
LGFA FRB	15-Apr-28	3.12%	N/A	\$2,000,000
LGFA FRB	15-Apr-28	2.20%	N/A	\$3,000,000
LGFA FRB	15-Apr-28	2.12%	N/A	\$2,000,000
LGFA FRN	15-May-28	3.46%	0.96%	\$7,000,000
LGFA FRN	15-May-28	3.39%	0.89%	\$3,600,000
LGFA FRB	20-Apr-29	2.42%	N/A	\$1,000,000
LGFA FRB	20-Apr-29	2.41%	N/A	\$2,500,000
LGFA FRN	20-Apr-29	3.16%	0.63%	\$2,000,000
LGFA FRN	20-Apr-29	3.39%	0.86%	\$2,000,000
LGFA FRB	20-Apr-29	5.45%	N/A	\$5,500,000
LGFA FRB	20-Apr-29	4.77%	N/A	\$1,400,000
LGFA FRN	20-Apr-29	3.58%	1.05%	\$3,000,000
LGFA FRN	20-Apr-29	3.49%	0.96%	\$2,000,000
LGFA FRN	15-Apr-30	3.24%	0.69%	\$4,500,000
LGFA FRB	15-May-30	5.51%	N/A	\$5,400,000
LGFA FRN	15-May-30	3.64%	1.14%	\$3,000,000
LGFA FRN	14-Apr-33	3.49%	0.94%	\$3,500,000
LGFA FRB	14-Apr-33	4.72%	N/A	\$3,500,000



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