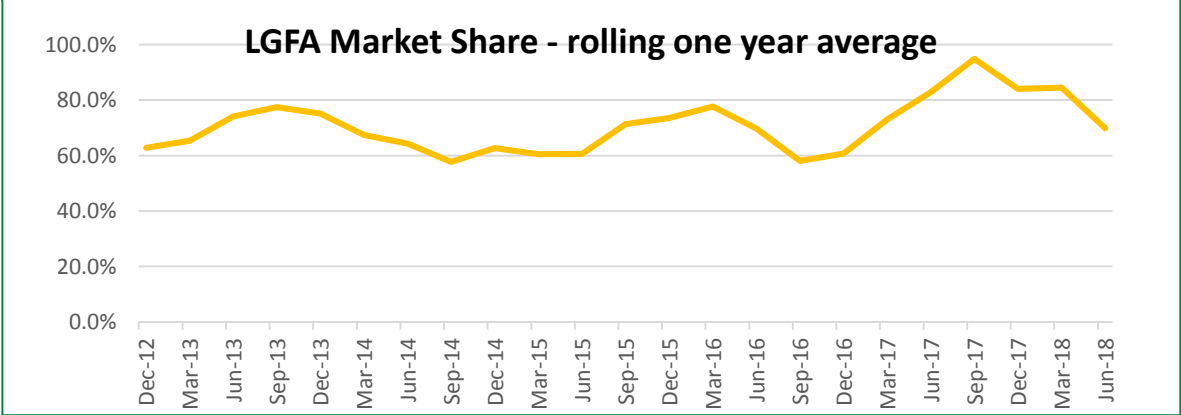
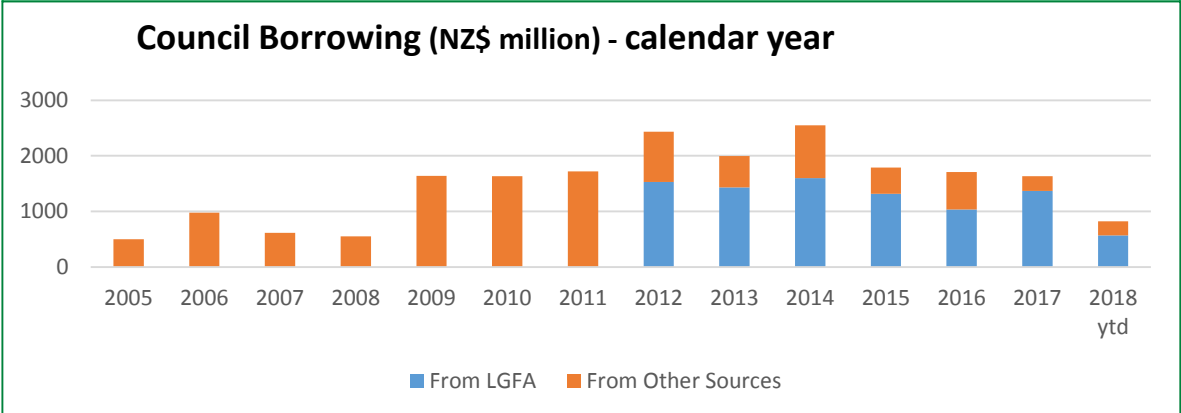
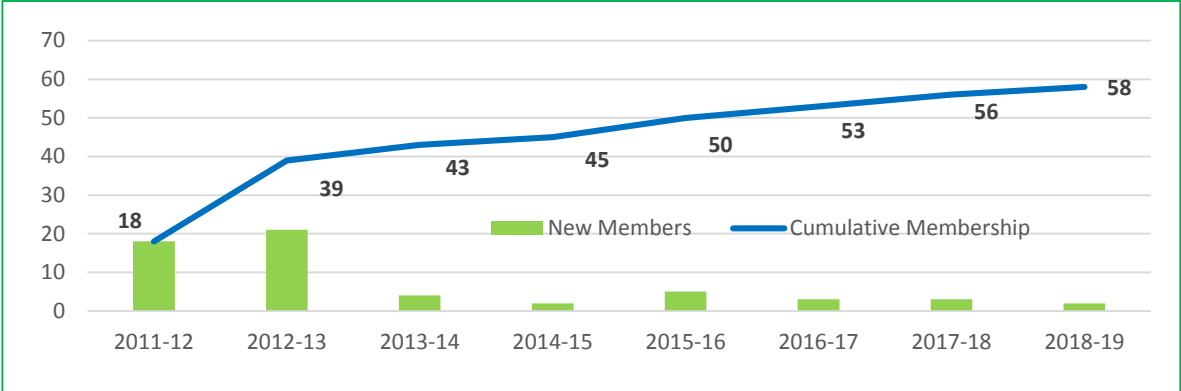
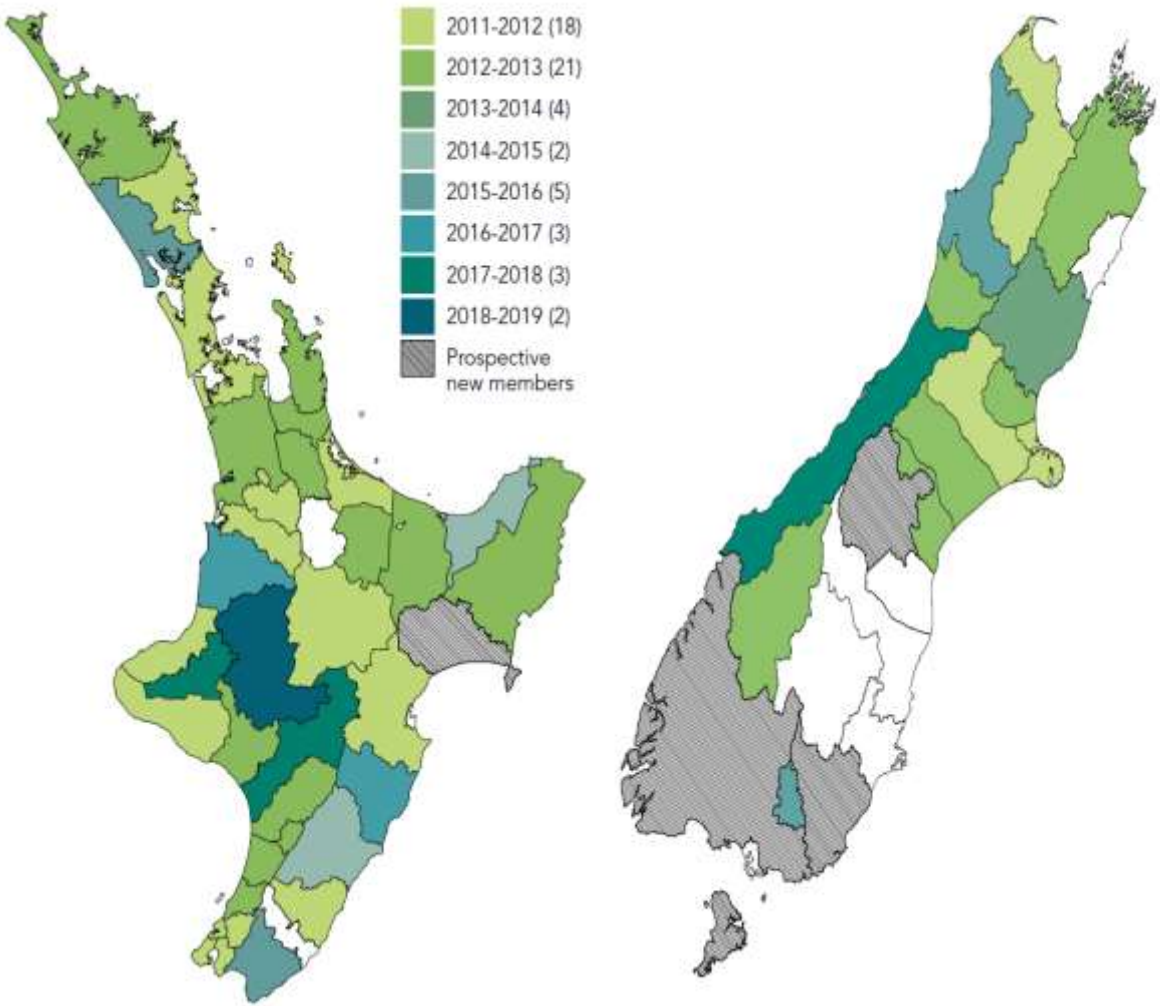


BUSINESS UPDATE





LGFA participating councils highlighted with year of joining



Source: LGFA

WHO DOES LGFA LEND TO AND WHO GUARANTEES LGFA ?

Council Borrower	Amount Borrowed (NZ\$ million)	% of Total Borrowing
Auckland	\$2,082	26.1%
Christchurch City	\$1,643	20.6%
Wellington City	\$394	4.9%
Hamilton City	\$365	4.6%
Tauranga City	\$360	4.5%
Wellington Regional	\$305	3.8%
Kapiti Coast District	\$225	2.8%
Hutt City	\$154	1.9%
Rotorua District	\$149	1.9%
Whangarei District	\$142	1.8%
46 other council borrowers	\$2,152	27.0%

Council Borrowing	Volume (NZ\$ million)
Short Term (loan terms less than 12 months)	\$263.3
Long Term	\$7,707.4
Total	\$7,970.7

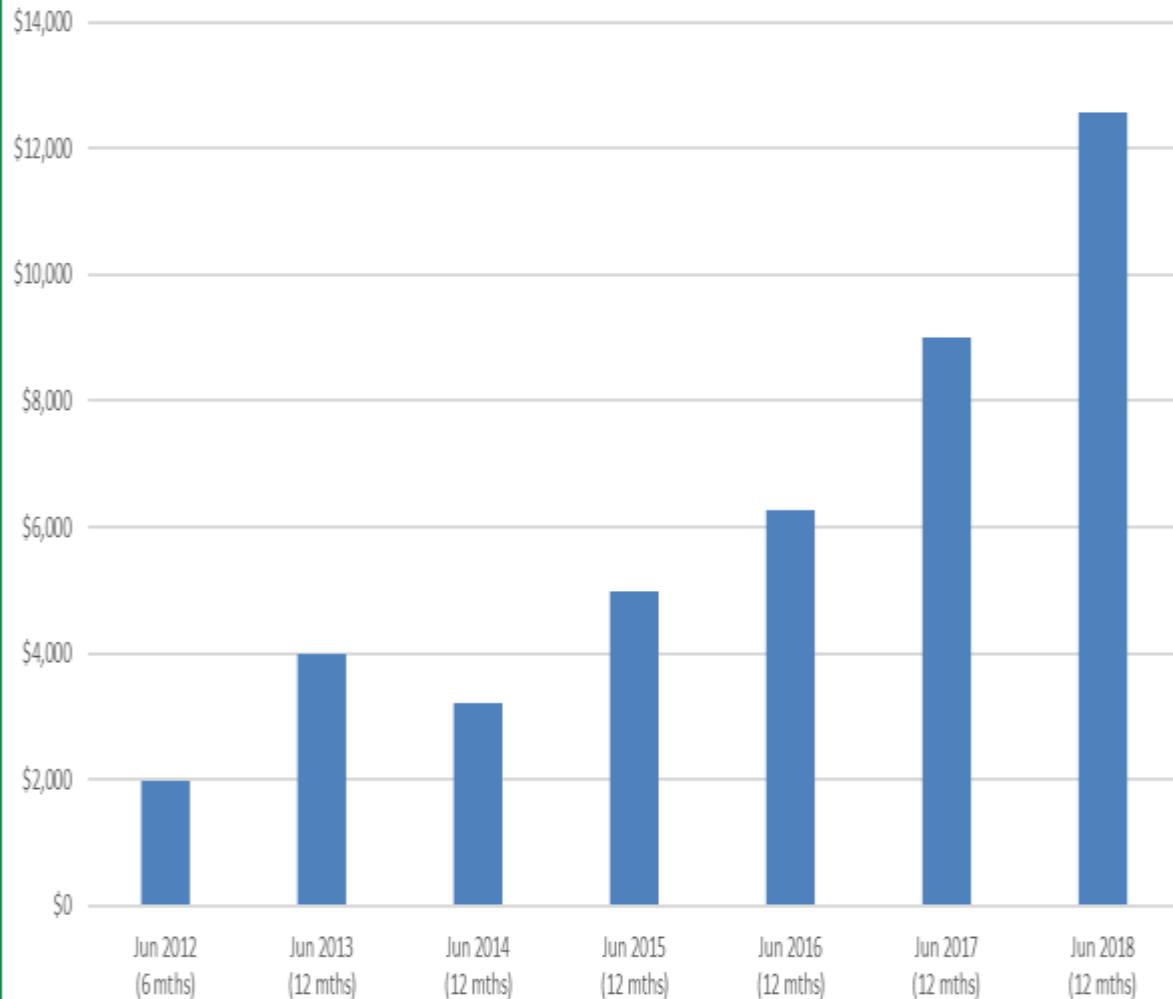
Borrower Type	Number of Councils	Amount Borrowed (NZ\$ million)	% of Total Borrowing
Guarantors	45	\$7,843.9	98.4%
Non Guarantors	11	\$126.8	1.6%
Total	56	\$7,970.7	100%

Note that Auckland Council borrowing is capped at 40% of total LGFA lending

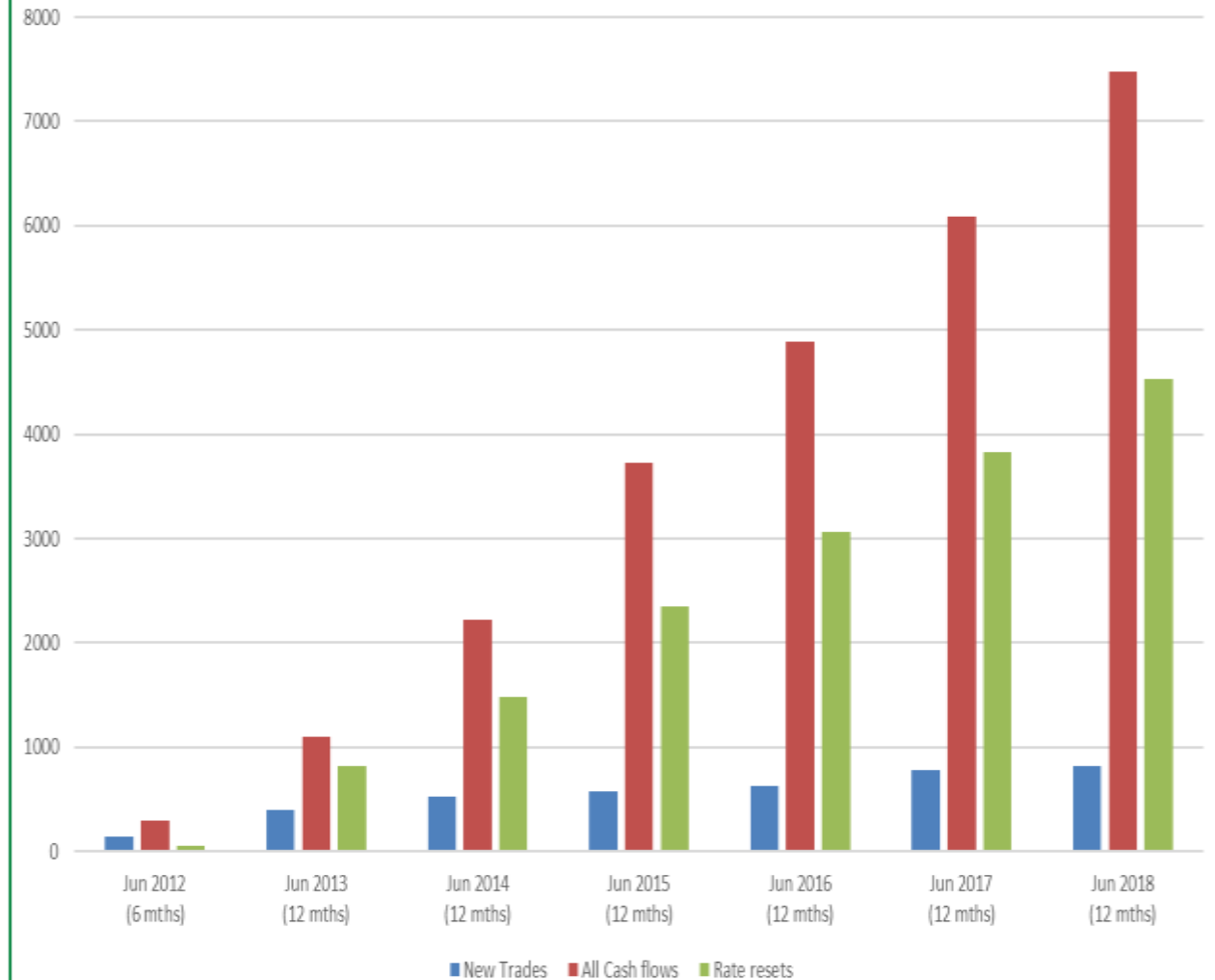
As at 18 June 2018

Council Guarantor	% share of Guarantee
Auckland	33.7%
Christchurch City	8.7%
Wellington City	5.7%
Hamilton City	3.1%
Tauranga City	3.0%
Wellington Regional	3.0%
Canterbury Regional	1.9%
Whangarei District	1.8%
Palmerston North City	1.8%
Rotorua District	1.7%
35 other council guarantors	36.9%

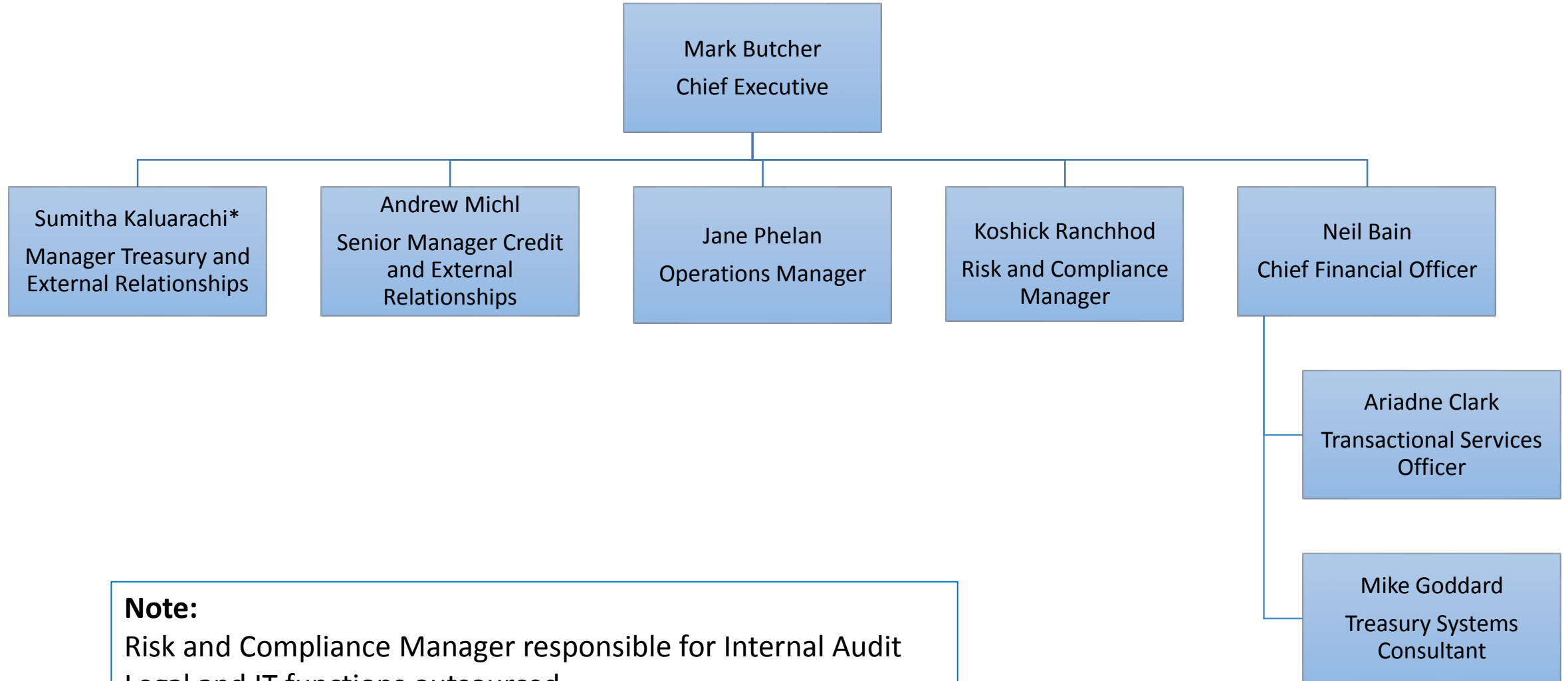
LGFA settlements - total value processed by fiscal year (\$ million)



LGFA settlements - total number of transactions processed by fiscal year



ORGANISATION STRUCTURE CHART



Note:

Risk and Compliance Manager responsible for Internal Audit
Legal and IT functions outsourced

* Sumitha from August 2018

Source: LGFA

❑ **Fitch Ratings - November 2017** (Note: Refer to the full report for a comprehensive analysis of LGFA)

Local Currency AA+ / Stable/ F1+

Foreign currency rating AA / Stable / F1+

Fitch notes:

- strong links to the sovereign – classified as a credit linked Public Sector Entity;
- deemed to be of strategic importance;
- sound underlying asset quality of its shareholders, local councils;
- long-term rating is capped by the ratings of the sovereign;
- support of a joint and several liability guarantee.

❑ **Standard and Poor's Ratings Services – July 2018** (Note: Refer to the full report for a comprehensive analysis of LGFA)

Local Currency AA+ / Stable / A-1+

Foreign Currency AA / Stable / A-1+

Rated under new methodology for Public Sector Funding Agencies (PSFA)

Strengths:

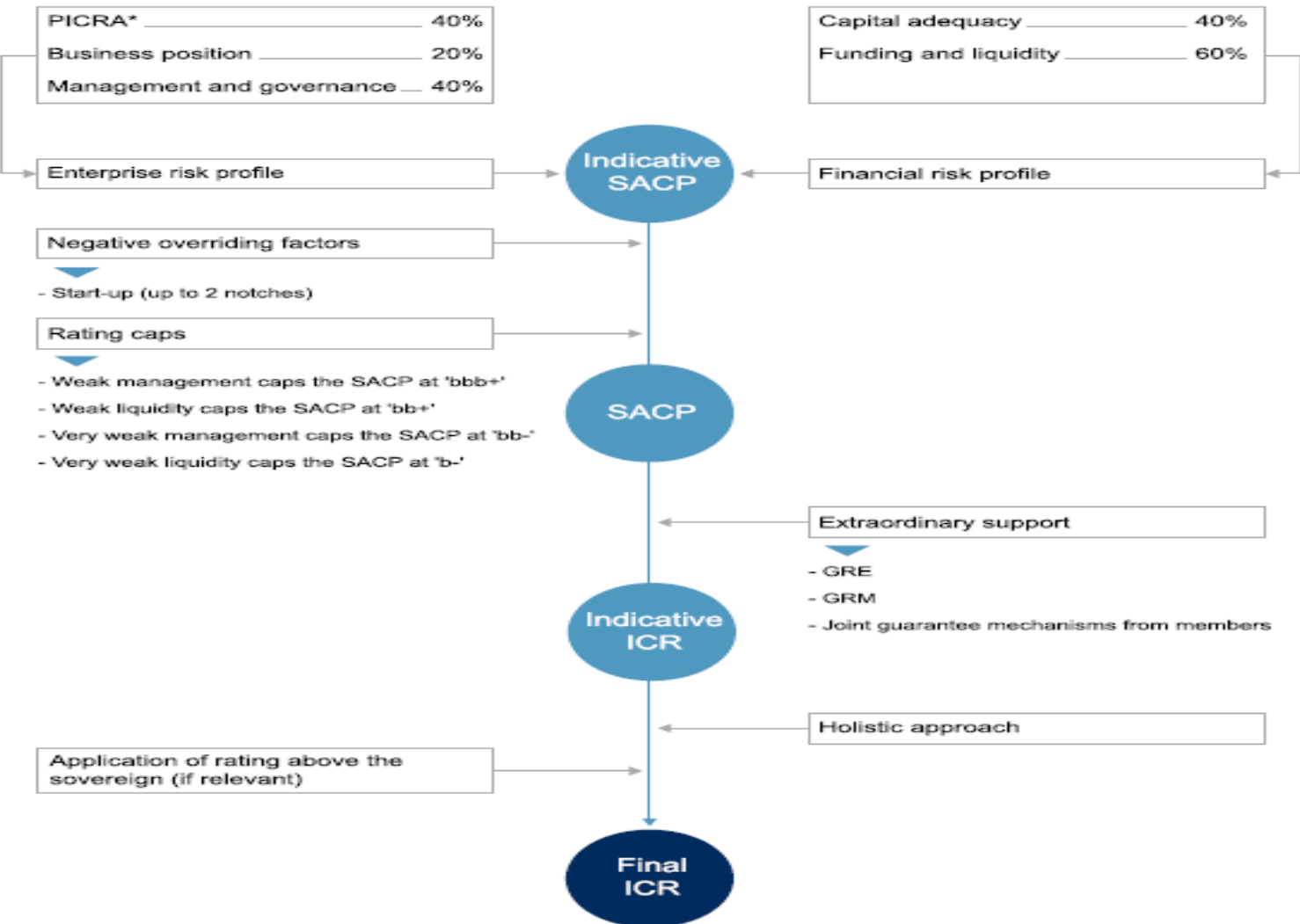
- dominant market position as a lender to New Zealand local government;
- high credit quality of underlying lending;
- extremely high likelihood of extraordinary support from the New Zealand Government in a distress scenario;
- robust and experienced management and governance.

Weaknesses:

- highly concentrated loan portfolio;
- modest capital adequacy;
- reliance upon domestic market funding.

Source: S&P, FITCH , LGFA

Analytical Framework For Public-Sector Funding Agencies



6 POINT SCALE FOR EACH CATEGORY

- 1. Very Strong
- 2. Strong
- 3. Adequate
- 4. Moderate
- 5. Weak
- 6. Very Weak

Source: S&P

*PICRA--Public-Sector Industry And Country Risk Assessment.
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S&P CRITERIA – NON-US PUBLIC SECTOR FUNDING AGENCIES (PSFA)

Criteria announced on 23rd May 2018

Applies to 10 entities – 6 already rated and 4 Under Criteria Observation (UCO)

New drivers of credit rating

- Standalone Credit Profile (SACP) from ERP and FRP
- Extraordinary Support

Enterprise Risk Profile

PICRA (40%)

Institutional framework/industry risk

Economic resilience

Financial system risk

Leverage risk

Business position (20%)

Market position and public policy mandate

Revenue stability

Customer base

Management and Governance (40%)

Management

Governance

Financial Risk Profile

Capital adequacy (40%)

Capital adequacy – risk adjusted capital

Risk position – concentration and diversification

Funding and Liquidity (60%)

Funding – access, diversification and structural stability

Liquidity – gap analysis and access to central bank liquidity

	Enterprise Risk Profile				
	PICRA	Business Position	Management and Governance	Enterprise Risk Profile	ERP Outcome
LGFA (NZ)	2	2	1	1.6	Strong
Muni Fin Authority of BC (Canada)	2	1	1	1.4	Very Strong
Kommuninvest (Sweden)	2	2	1	1.6	Strong
KBN (Norway)	2	2	1	1.6	Strong
GB Social Housing (UK)	2	4	4	3.2	Adequate
MuniFin (Finland)	1	2	1	1.2	Very Strong

	Financial Risk Profile				
	Capital Adequacy	Funding and Liquidity	Funding	Financial Risk Profile	FRP Outcome
LGFA (NZ)	4	2	Neutral	2.8	Adequate
Muni Fin Authority of BC (Canada)	2	1	Neutral	1.4	Strong
Kommuninvest (Sweden)	1	2	Positive	1.6	Strong
KBN (Norway)	1	1	Positive	1.0	Strong
GB Social Housing (UK)	4	3	Neutral	3.4	Adequate
MuniFin (Finland)	1	2	Negative	1.6	Strong

	SACP	Additional		Credit Rating
		Support	Additional Factors	
LGFA (NZ)	AA-	+2		AA+
Muni Fin Authority of BC (Canada)	AA+	0	+1	AAA
Kommuninvest (Sweden)	AA	+1	+1	AAA
KBN (Norway)	AA	+2	0	AAA
GB Social Housing (UK)	A-	0	0	A-
MuniFin (Finland)	AA	+1		AA+

Source: LGFA, S&P

LGFA's policy to minimise financial risks and carefully identify, manage and control all risk.

❑ Market Risk

- PDH limit of NZ\$40,000 and VAR limit of NZ\$400,000

❑ Credit Risk

All Councils that borrow from LGFA are obliged to:

- Provide security in relation to their borrowing from LGFA and related obligations.
- Comply with their own internal borrowing policies.
- Comply with the LGFA financial covenants within either the Lending Policy or Foundation Policy

Auckland Council is limited to a maximum of 40% of LGFA's total Local Authority assets.

No more than the greater of NZ\$100 million or 33% of a Local Authority's borrowings from LGFA will mature in any 12 month period.

❑ Liquidity and Funding Risk

Cash and Investments

- Cash and a portfolio of liquid assets growing in size to meet obligations when they fall due.
- Only invest in NZD senior debt securities, money market deposits and registered certificates of deposits within strict counterparty limits.

DMO standby facility

- The New Zealand Debt Management Office provides a committed liquidity facility up to NZ\$1 billion in size that LGFA can draw upon to meet any exceptional and temporary liquidity shortfall.
- Currently the facility size is set by LGFA at NZ\$600 million (as at 18 June 2018)

Issuance strategy

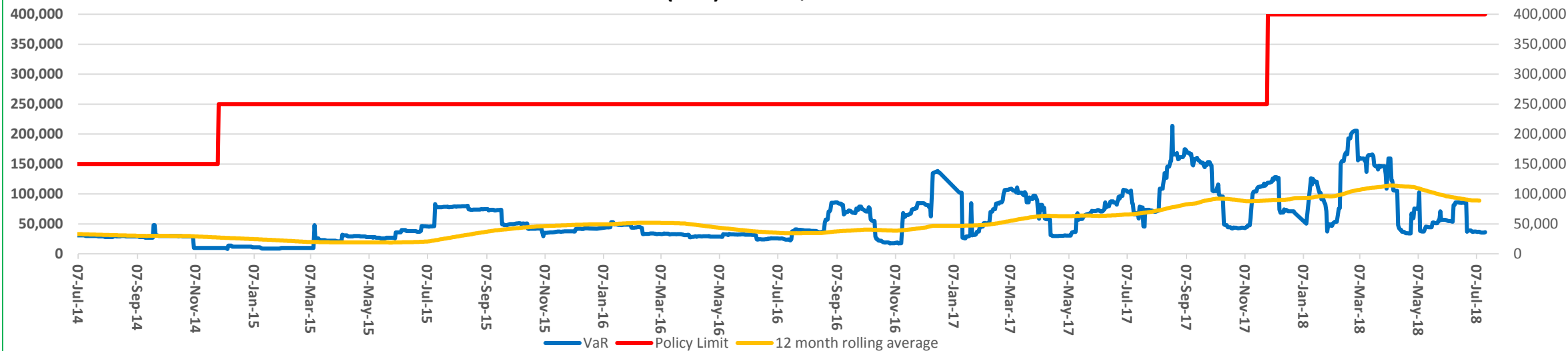
- Large liquid but well diversified spread of maturities
- LGFA Bills
- Australian Notes Programme established

Financial covenant	Lending policy covenants	Foundation policy covenants
Net Debt / Total Revenue	<175%	<250%
Net Interest / Total Revenue	<20%	<20%
Net interest / Annual Rates Income	<25%	<30%
Liquidity	>110%	>110%

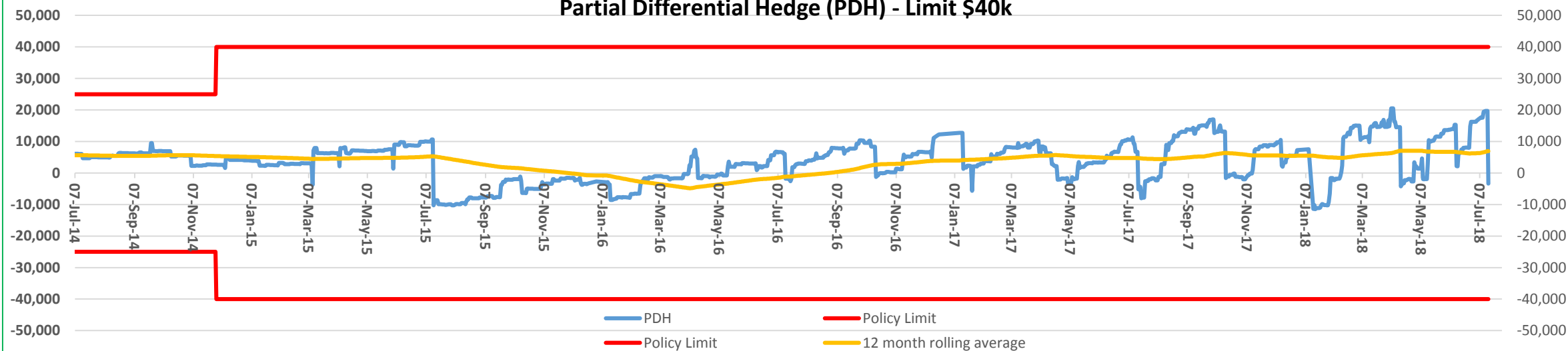
Liquidity position as at 30 June 2018	NZ\$ million
Cash and cash equivalents	\$50.2
Deposits and Marketable Securities	\$432.5
NZDMO Liquidity Facility	\$600.0
Total	\$1,082.7

Source: LGFA

Value at Risk (VaR) - Limit \$400k



Partial Differential Hedge (PDH) - Limit \$40k

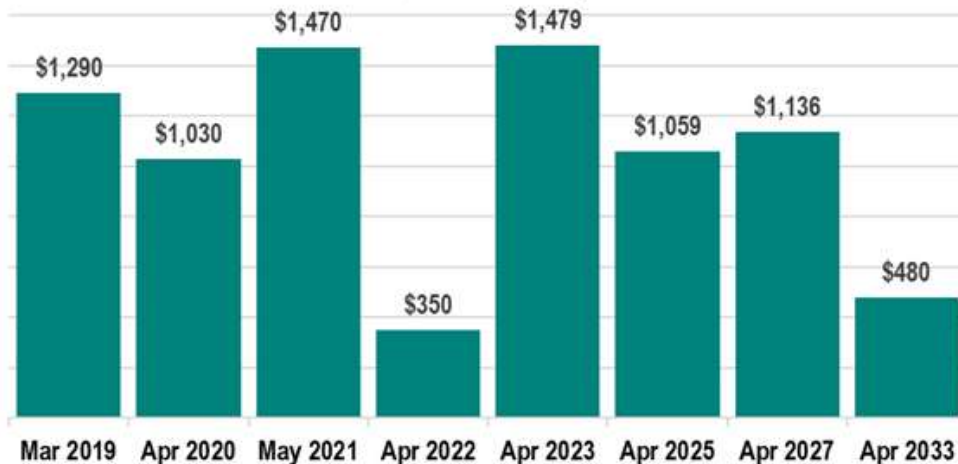


Issuance Strategy

- Match NZ Government where possible - Maturities, Coupons, Tenders, AIL paid on behalf of offshore holders.
- Issued a new April 2022 maturity that does not match NZGB yield curve in April 2018
- Liquidity important – objective of NZ\$1 billion tranches
- NZD issuance only
- All LGFA bonds listed on NZX
- Tenders every five weeks of NZ\$125 million to NZ\$175 million in size and at least three maturities tendered

LGFA bonds on issue (NZ\$ million)

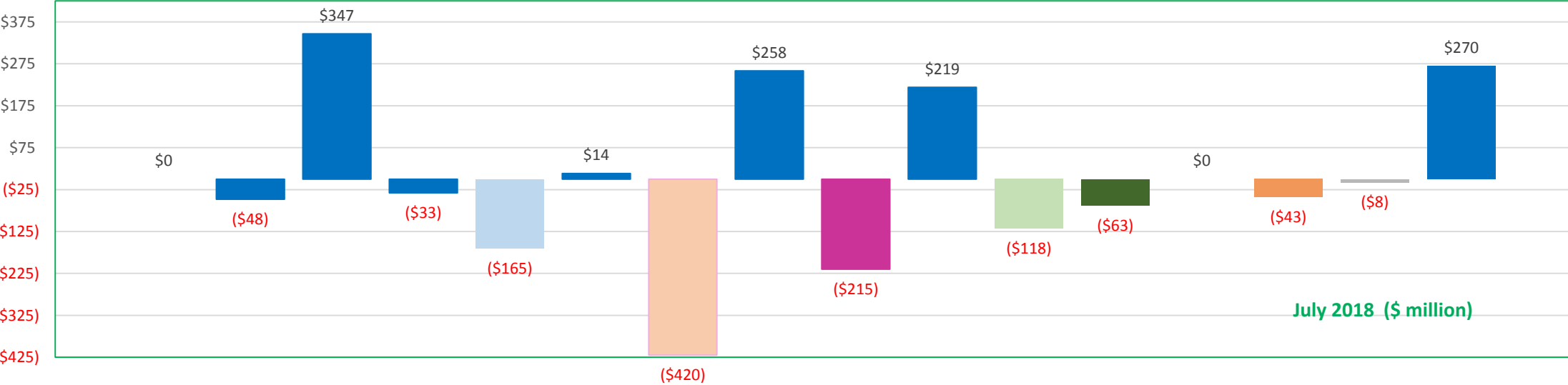
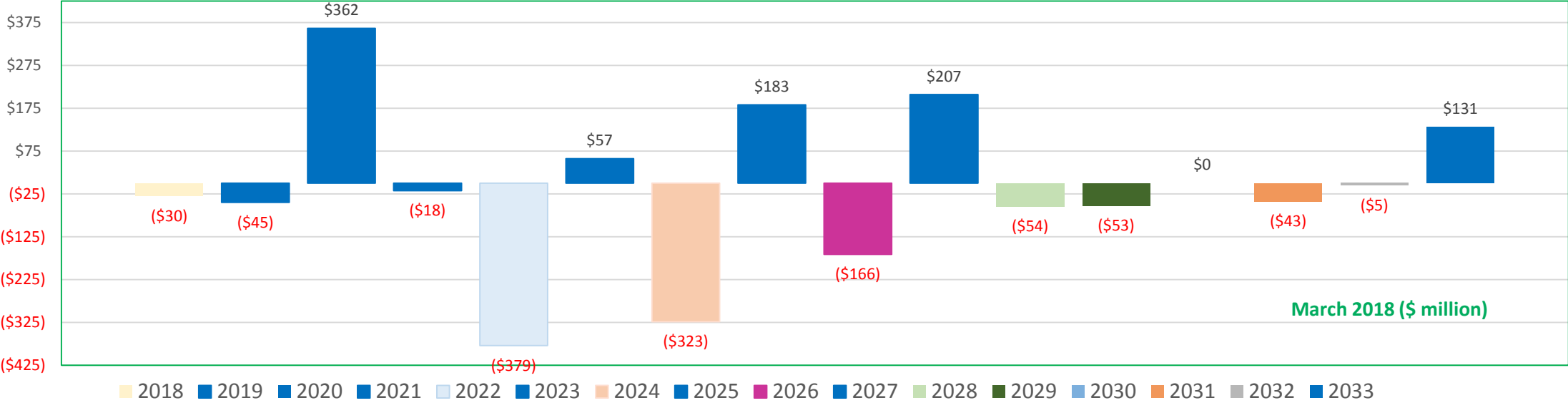
As 23 Jul 2018 : NZ\$8,294 million
Includes NZ\$400 million treasury stock



LGFA Bonds Issued by June Financial Year (NZ\$ million)

Maturity	2011-12 (5 months)	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
15-Apr-15	155	10	75				
15-Dec-17	605	245	110	55			
15-Mar-19	75	900	95	40	70	20	40
15-Apr-20				365	200	190	225
15-May-21		445	625	100	150	30	70
14-Apr-22							270
15-Apr-23			355	655	275	65	79
15-Apr-25					100	560	309
15-Apr-27				285	470	205	96
14-Apr-33						215	130
Total Volume (NZ\$ million)	835	1600	1260	1500	1265	1285	1229
Average Bond Tender Size (NZ\$ million)	209	182	153	188	141	143	137
Average Issuance Term (years)	5.34 years	6.57 years	7.04 years	7.92 years	8.10 years	8.28 years	6.07 years

WHY THE APRIL 2022 BOND - LGFA MISMATCHES BY CALENDAR YEAR

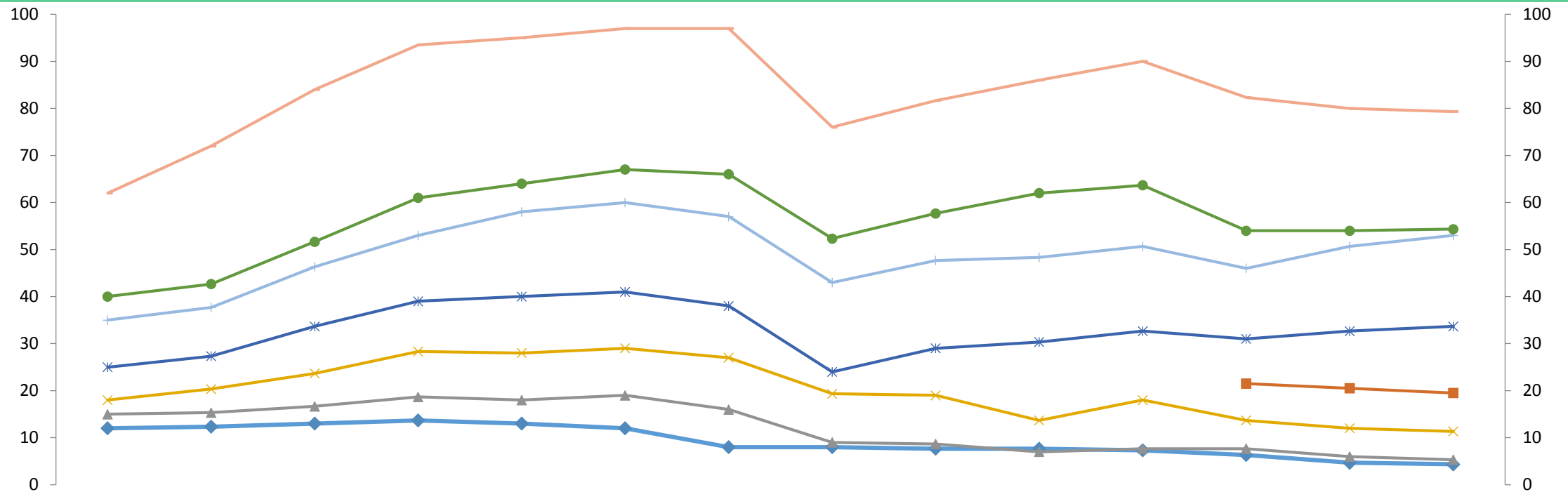


LGFA is largest individual issuer and has six out of the top fifteen largest individual tranches of NZD bonds (excluding NZ Government)

	Issuer	Total Amount Outstanding (NZ\$)
1	LGFA (AA+)	\$7,969,000,000
2	World Bank (AAA)	\$7,551,300,000
3	BNZ Bank Group (AA-)	\$5,144,450,000
4	ASB and CBA Bank Group (AA-)	\$5,063,000,000
5	ANZ Bank Group (AA-)	\$5,009,687,000
6	Westpac Bank Group (AA-)	\$3,992,110,000
7	Asian Development Bank (AAA)	\$3,434,158,000
8	Rentenbank (AAA)	\$3,115,000,000
9	Rabobank Group (A+)	\$2,762,600,000
10	Nordic Investment Bank (AAA)	\$2,750,000,000
11	KFW (AAA)	\$2,425,000,000
12	Toyota Motor Finance Group (AA-)	\$2,390,752,000
13	Auckland Council (AA)	\$1,990,000,000
14	Kommunalbanken (AAA)	\$1,860,956,000
15	International Finance Corp (AAA)	\$1,663,426,000
16	Inter-American Development Bank (AAA)	\$1,350,000,000
17	Transpower New Zealand (AA-)	\$1,350,000,000
18	Export-Import Bank of Korea (AA)	\$1,172,100,000
19	Infratil Ltd (unrated)	\$1,001,546,000
20	Fonterra Co-operative Group Ltd (A-)	\$985,084,000

Issuer	Maturity	Tranche Size (NZ\$)
World Bank (IBRD)	22/01/2021	\$2,025,000,000
LGFA	15/04/2023	\$1,479,000,000
LGFA	15/05/2021	\$1,470,000,000
World Bank (IBRD)	10/02/2020	\$1,400,000,000
World Bank (IBRD)	26/02/2019	\$1,350,000,000
LGFA	15/03/2019	\$1,290,000,000
Westpac New Zealand Ltd	20/09/2018	\$1,129,310,000
International Finance Corp (IFC)	20/05/2020	\$1,125,000,000
LGFA	15/04/2027	\$1,106,000,000
KFW	29/05/2020	\$1,100,000,000
World Bank (IBRD)	6/10/2021	\$1,050,000,000
LGFA	15/04/2020	\$1,030,000,000
Rentenbank	23/04/2024	\$1,000,000,000
LGFA	15/04/2025	\$969,000,000
Asian Development Bank (ADB)	6/03/2019	\$950,000,000
World Bank (IBRD)	25/01/2022	\$900,000,000
Rentenbank	12/03/2019	\$800,000,000
Nordic Investment Bank (NIB)	22/01/2019	\$800,000,000
Nordic Investment Bank (NIB)	19/01/2023	\$775,000,000

LGFA SPREADS TO SWAP (bps)

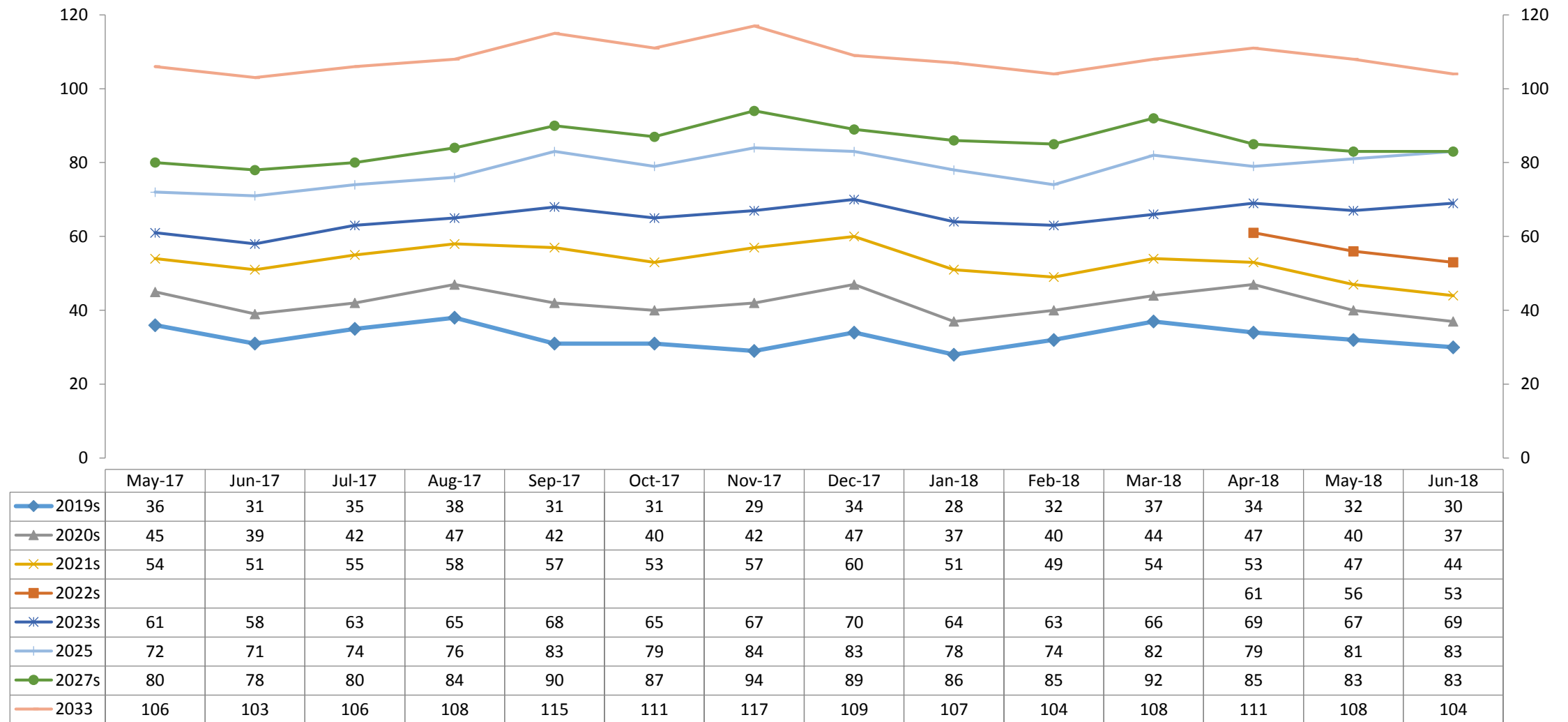


	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18
2019s	12	12	13	14	13	12	8	8	8	8	7	6	5	4
2020s	15	15	17	19	18	19	16	9	9	7	8	8	6	5
2021s	18	20	24	28	28	29	27	19	19	14	18	14	12	11
2022s												22	21	20
2023s	25	27	34	39	40	41	38	24	29	30	33	31	33	34
2025s	35	38	46	53	58	60	57	43	48	48	51	46	51	53
2027s	40	43	52	61	64	67	66	52	58	62	64	54	54	54
2033s	62	72	84	94	95	97	97	76	82	86	90	82	80	79

Secondary market levels as at end of each month

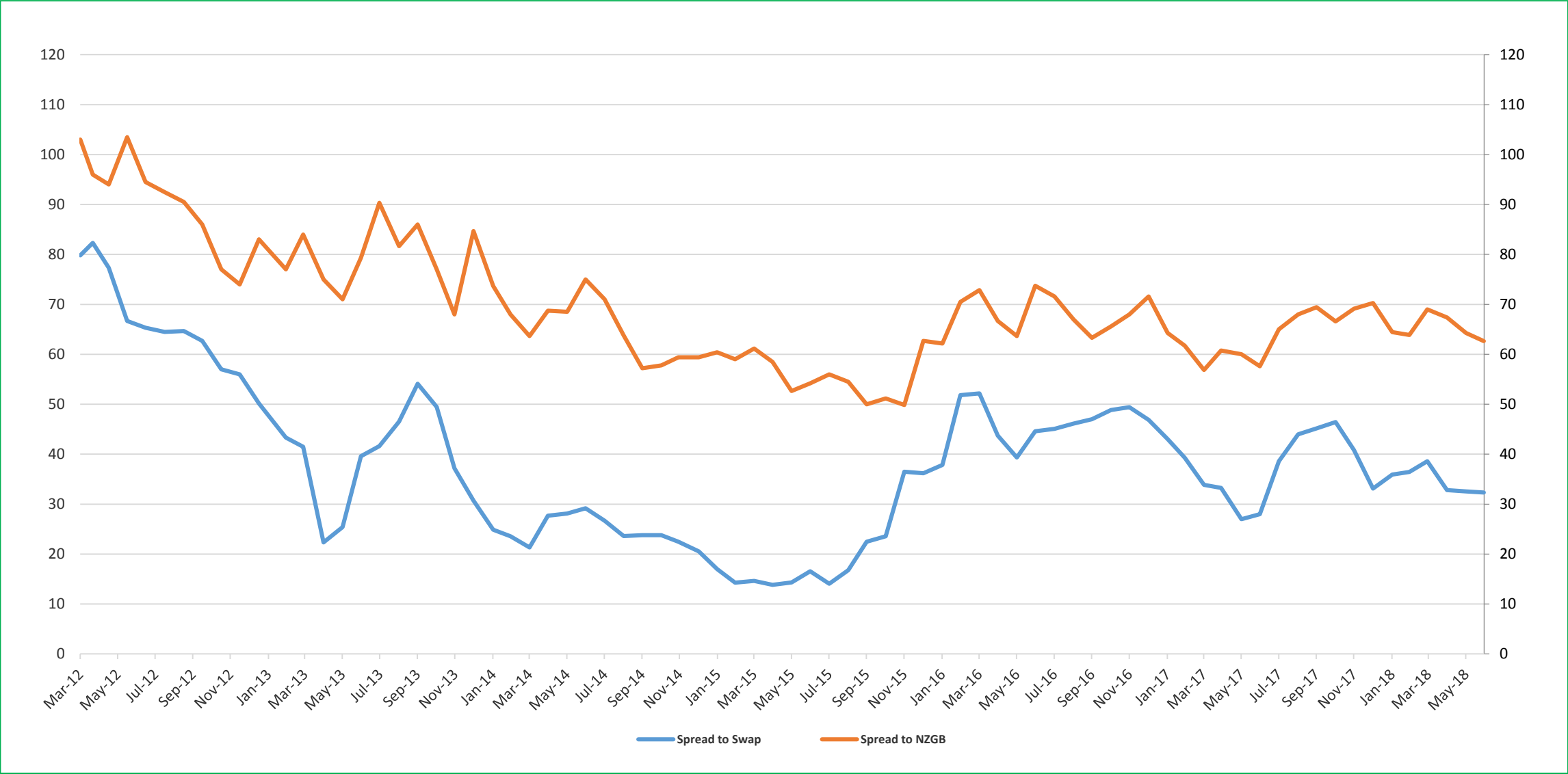
Source: LGFA

LGFA SPREADS TO NZGB (bps)



Secondary market levels as at end of each month

Source: LGFA

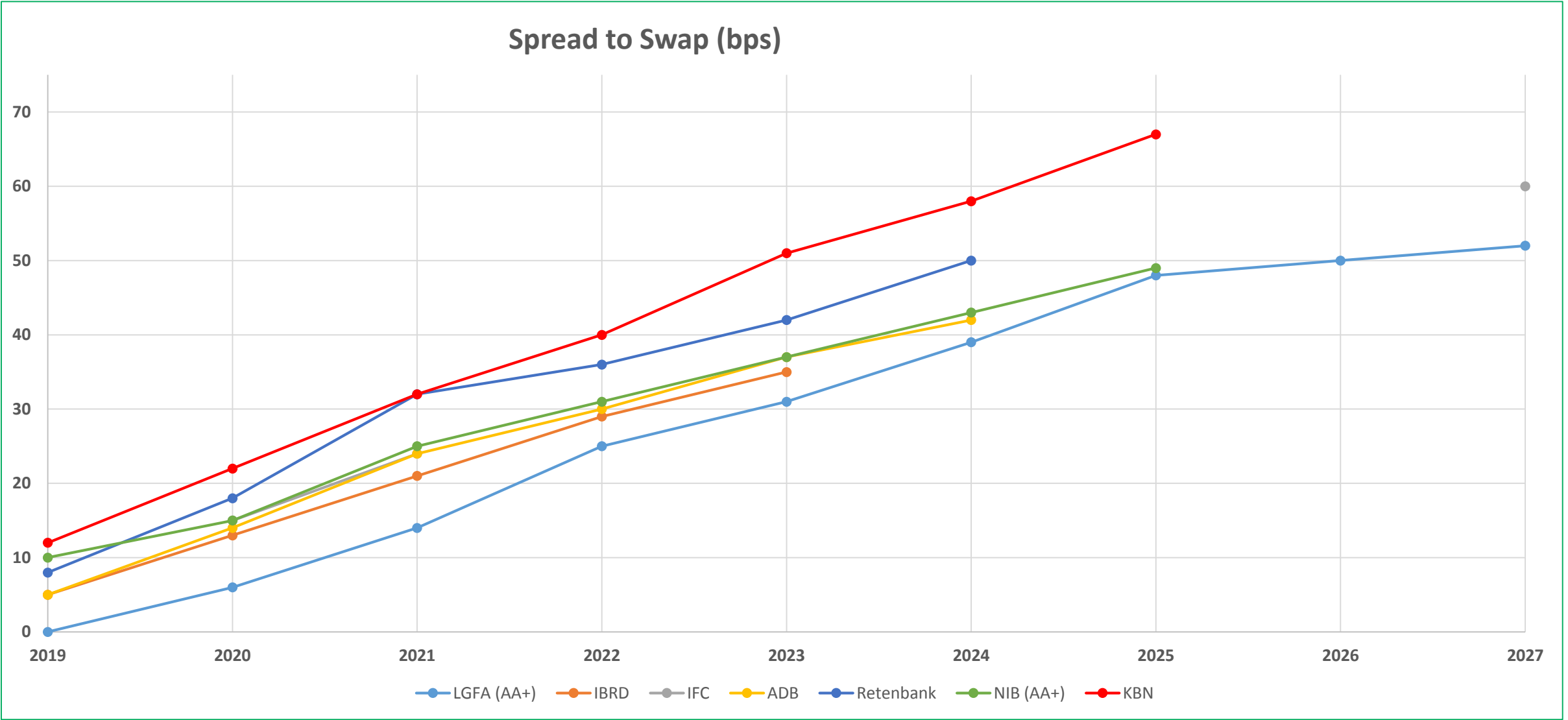


Secondary market levels as at end of each month

Average of all LGFA Bonds outstanding

Source: LGFA

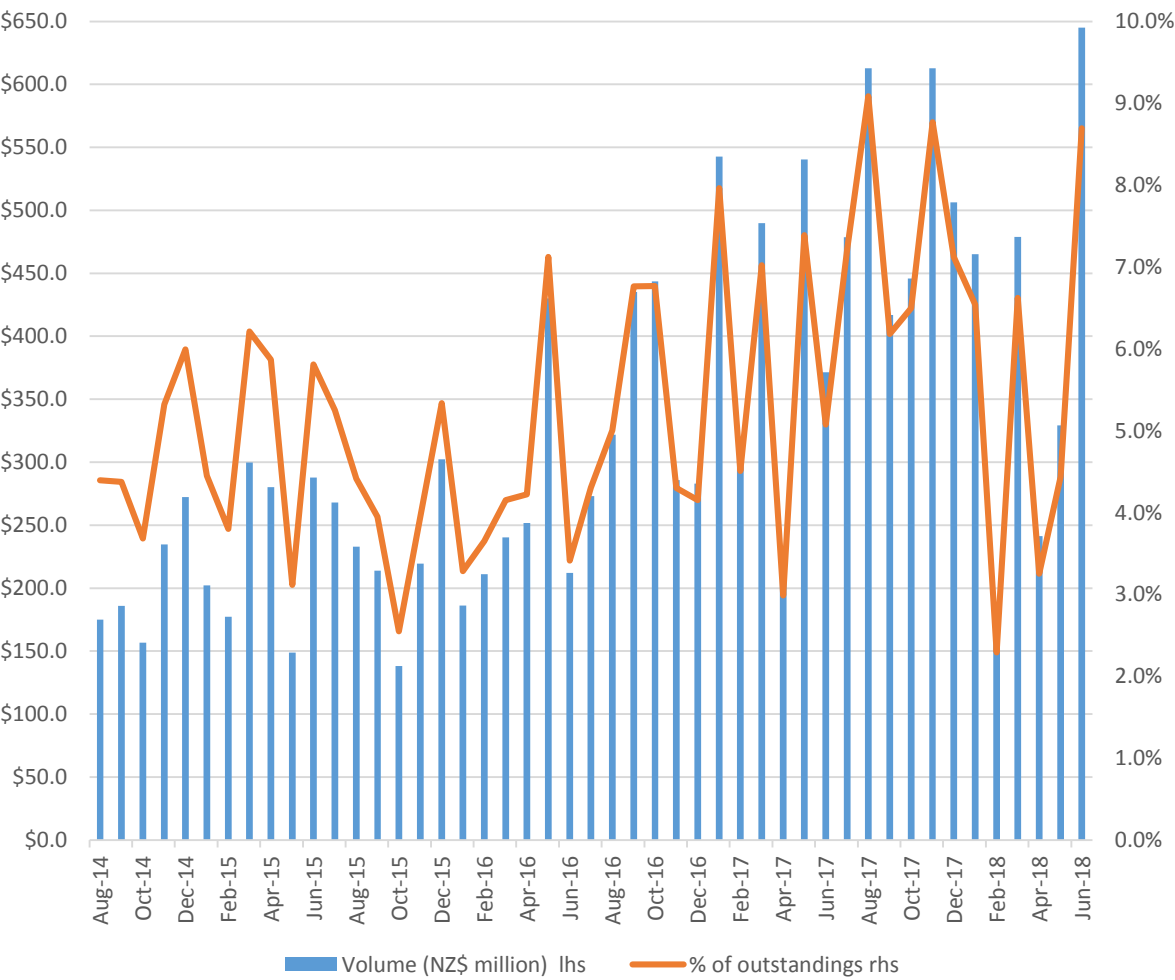
BORROWING AT TIGHTER SPREADS THAN AAA RATED SSAs



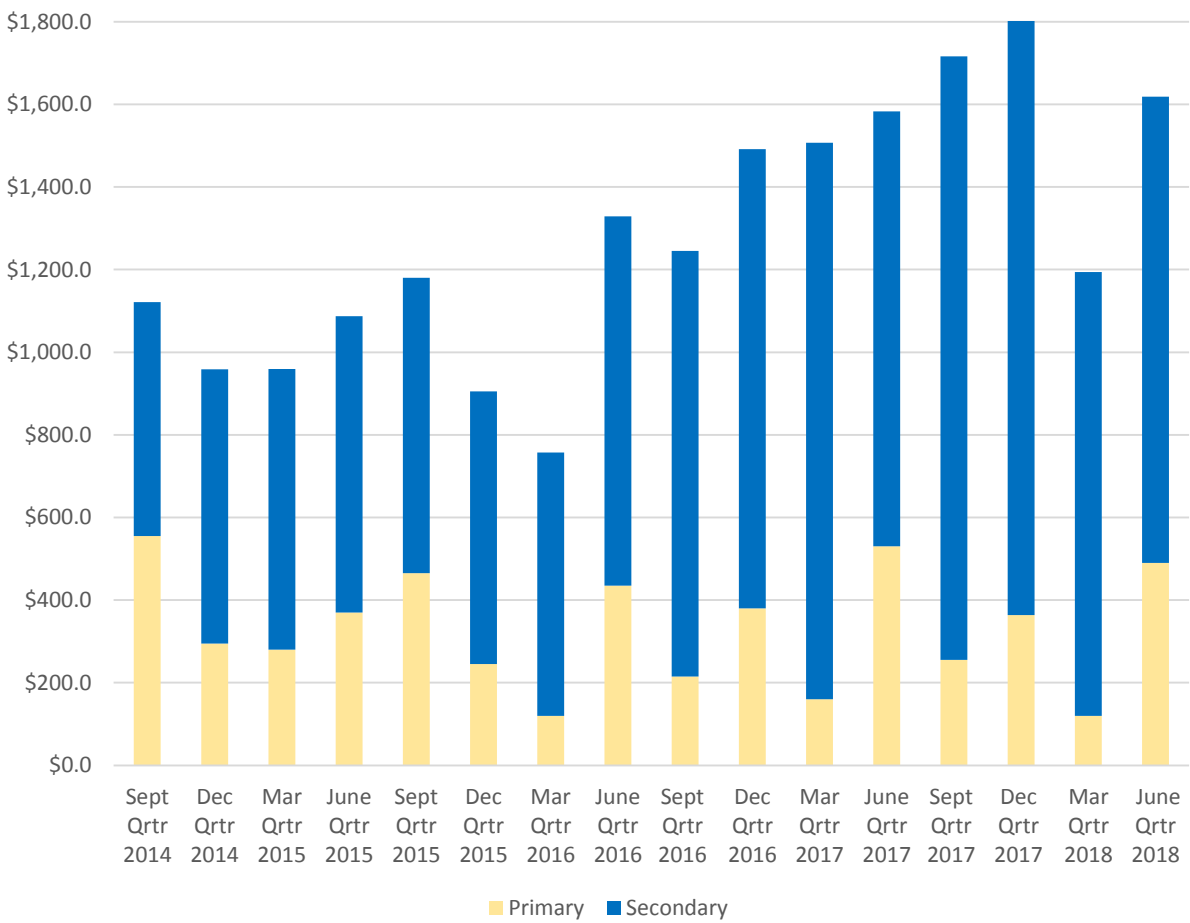
Note: Secondary market levels and interpolated if no exact maturity : As at 20 July 2018

Source: LGFA

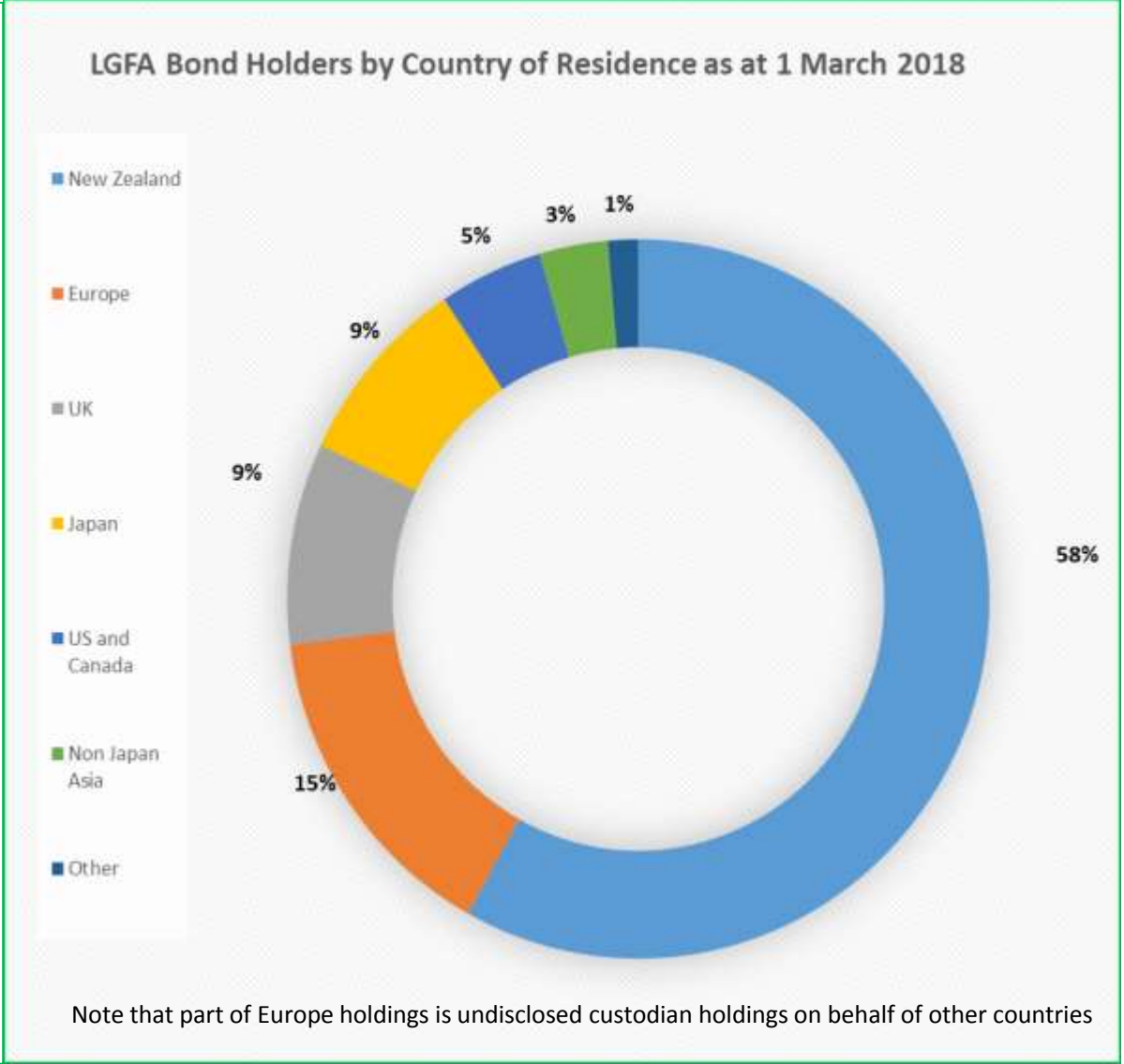
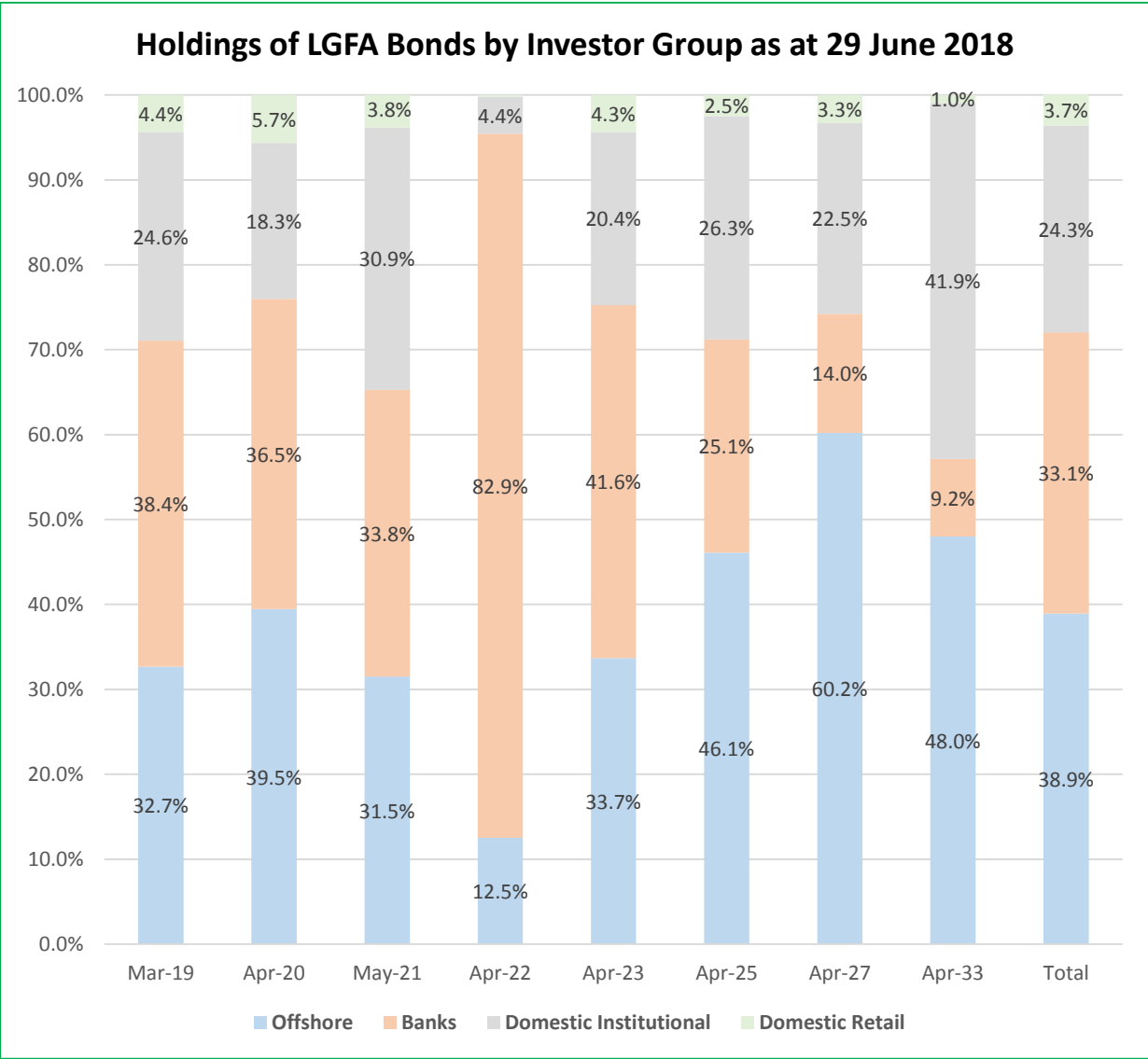
Secondary Market Turnover - Monthly (NZ\$ million)



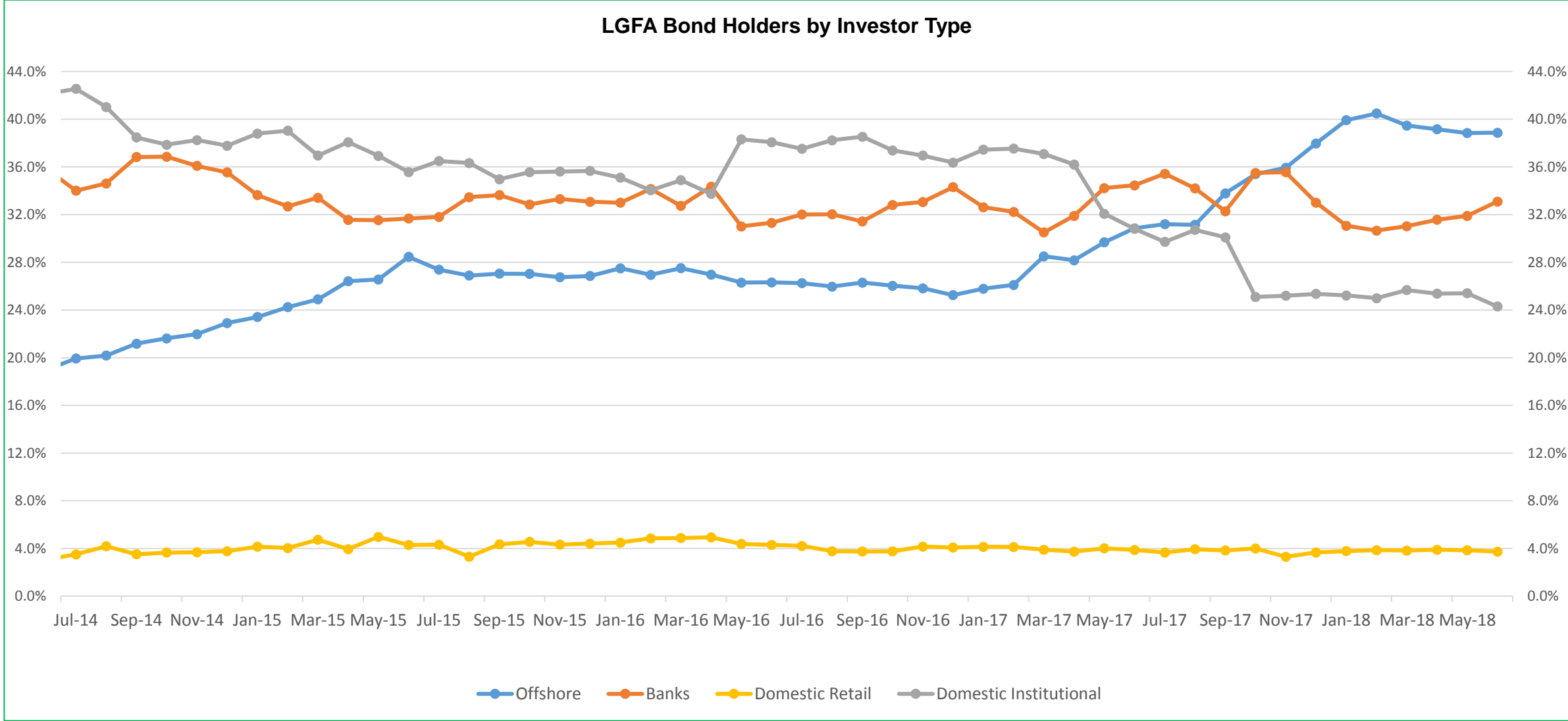
LGFA Primary and Secondary Market Activity - Quarterly (NZ\$ million)



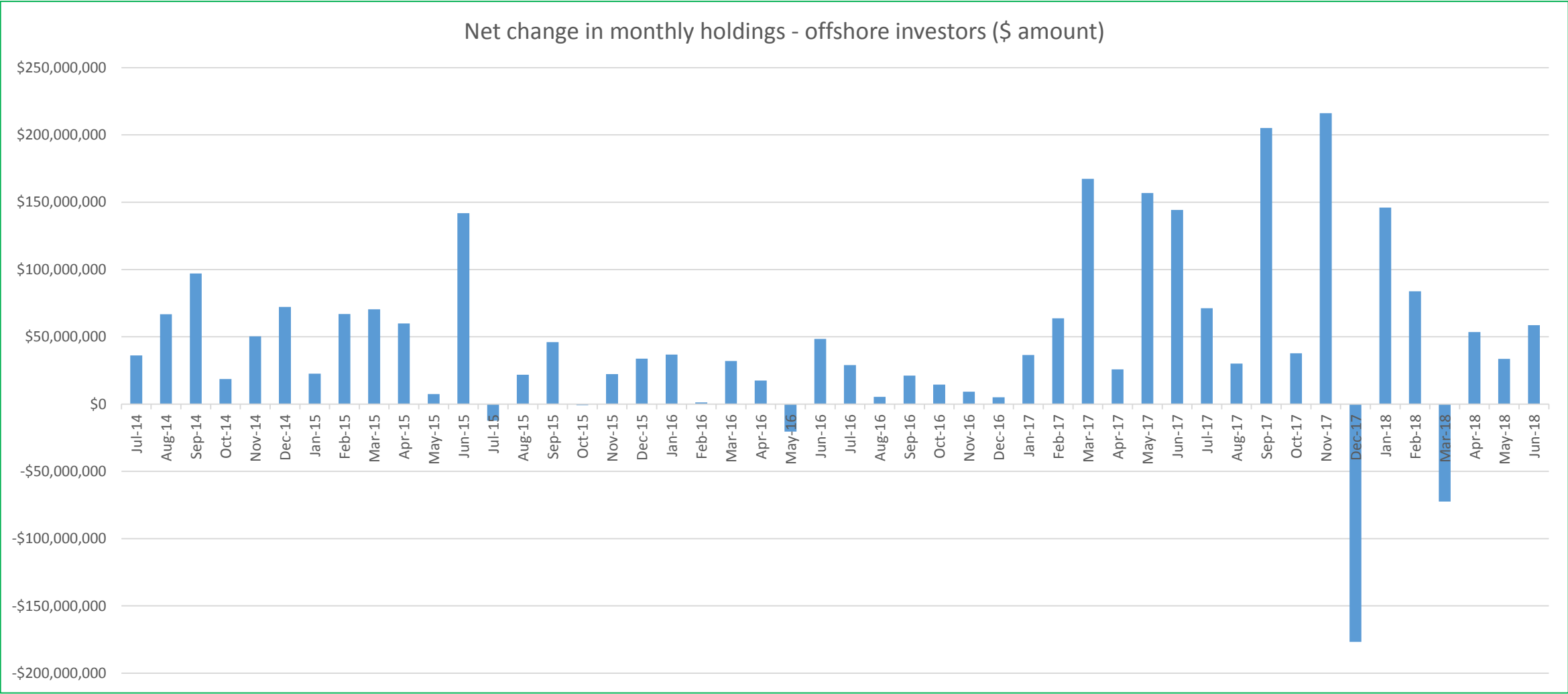
Note: LGFA data Buy side only, does not capture intra day activity or tender activity. Activity in December 2017 LGFA Bonds excluded from June 2017 turnover data onwards.



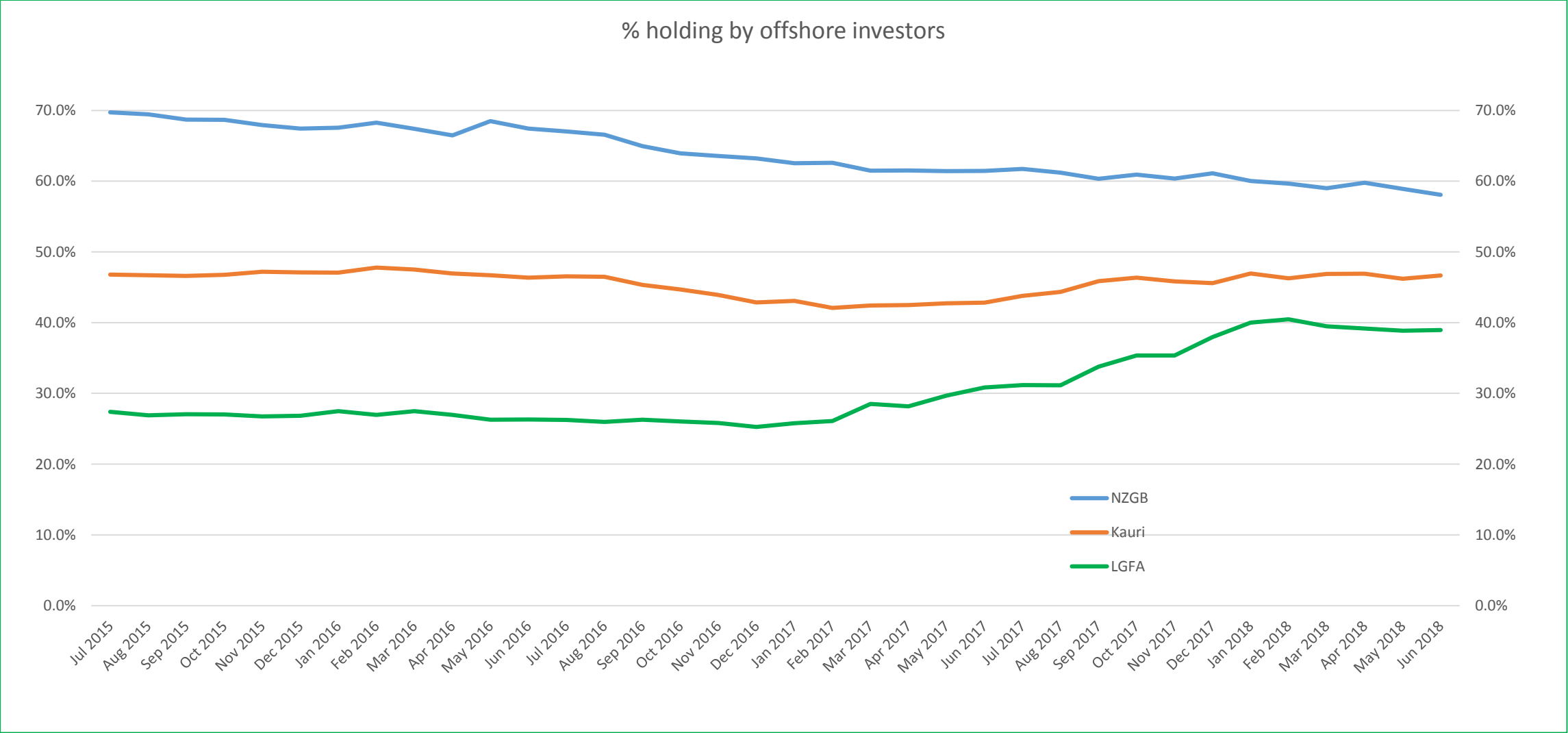
Growing presence of offshore investors – largest holding group



OFFSHORE INVESTOR MONTHLY CHANGES



Note: December 2017 decline in nominal holdings due to maturity of LGFA December 2017 bond



Source: RBNZ and LGFA

Financials (NZ\$ million)	2012	2013	2014	2015	2016	2017	2018
Interest Income	\$10.9	\$73.7	\$149.1	\$222.8	\$278.2	\$320.7	\$342.8
Interest Expense	\$9.9	\$68.1	\$138.9	\$208.9	\$262.6	\$303.2	\$323.9
Net Interest Income	\$1.0	\$5.7	\$10.2	\$13.9	\$15.5	\$17.5	\$18.9
Total Income	\$1.0	\$5.7	\$10.2	\$13.9	\$15.5	\$17.5	\$18.9
Operating Expenses	(\$5.2)	(\$3.0)	(\$3.2)	(\$4.7)	(\$6.0)	(\$6.5)	(\$7.1)
Net Profit	(\$4.2)	\$2.6	\$7.0	\$9.2	\$9.5	\$11.0	\$11.8
Liquid Assets Portfolio	\$52.8	\$66.3	\$101.7	\$107.9	\$266.3	\$327.5	\$482.8
Loans to Local Government	\$832.7	\$2,514.9	\$3,742.5	\$5,031.9	\$6,451.3	\$7,783.9	\$7,975.7
Other Assets	\$57.5	\$107.0	\$74.0	\$271.9	\$539.7	\$380.0	\$321.1
Total Assets	\$943.0	\$2,688.2	\$3,918.2	\$5,411.8	\$7,257.3	\$8,491.4	\$8,779.6
Bonds on Issue	\$908.9	\$2,623.6	\$3,825.3	\$5,247.3	\$6,819.7	\$7,865.4	\$8,101.0
Bills on Issue	\$ nil	\$ nil	\$ nil	\$ nil	\$223.9	\$348.2	\$473.4
Borrower Notes	\$13.2	\$40.7	\$61.9	\$85.1	\$108.4	\$131.6	\$135.1
Other Liabilities	\$0.2	\$0.6	\$2.1	\$16.1	\$61.0	\$92.3	\$5.8
Total Liabilities	\$922.3	\$2,664.8	\$3,889.3	\$5,375.6	\$7,213.0	\$8,437.5	\$8,715.3
Shareholder Equity	\$20.8	\$23.4	\$28.8	\$36.3	\$44.2	\$53.9	\$64.3

Note: As at 30 June each year or for the twelve month period ending 30 June each year. Source: LGFA Annual Reports and management unaudited forecast

Ratios as at 30 June each year	2012	2013	2014	2015	2016	2017	2018
Liquid Assets / Funding Liabilities	5.7%	2.5%	2.6%	2.0%	3.8%	4.1%	5.6%
Liquid Assets / Total Assets	5.6%	2.5%	2.6%	2.0%	3.7%	3.9%	5.5%
Net Interest Margin	0.12%	0.23%	0.27%	0.28%	0.24%	0.23%	0.22%
Cost to Income Ratio	531.2%	53.6%	31.8%	33.8%	38.7%	37.1%	37.6%
Return on Average Assets	-0.45%	0.10%	0.18%	0.17%	0.13%	0.13%	0.13%
Shareholder Equity / Total Assets	2.2%	0.9%	0.7%	0.7%	0.6%	0.6%	0.7%
Shareholder Equity + Borrower Notes / Total Assets	3.6%	2.4%	2.3%	2.2%	2.1%	2.2%	2.3%
Asset Growth	n/a	185.1%	45.8%	38.1%	34.1%	17.0%	13.4%
Loan Growth	n/a	202%	48.8%	34.5%	28.2%	20.7%	2.4%
Return on Equity	n/a	12.7%	29.8%	31.9%	26.3%	25.0%	21.9%
Capital Ratio	18.0%	11.9%	11.6%	11.2%	10.5%	10.9%	10.9%

Note: As at 30 June each year or for the twelve month period ending 30 June each year. Source: LGFA Annual Reports and management unaudited forecast

The Past Year

- ☐ Credit rating affirmed by Fitch and S&P
- ☐ Offshore investor holdings increasing and diversifying
- ☐ Three new council members
- ☐ Quantum system version upgrade commenced
- ☐ April 2022 bond marked slight shift in issuance strategy
- ☐ New Auckland office
- ☐ Australian Notes Programme established
- ☐ Deepening relationship with Central Government
- ☐ December 2017 refinancing of \$1.015 billion of bonds and \$992 million of loans by thirty-five councils
 - ☐ \$661 million refinanced by 31 councils
 - ☐ \$331 million not refinanced by 4 councils (Auckland \$275 million)
- ☐ Long-term lending to councils of \$1.088 billion – approx. \$200 million below forecast
 - ☐ Bespoke lending comprised 67% of total lending
- ☐ Bond issuance programme slightly below forecast and shorter tenor of debt issued
- ☐ Net Operating Gain (unaudited) of \$11.834 million – approx. 7.2% above prior year and \$950k above forecast from
 - ☐ Net Interest Income slightly higher
 - ☐ Expenses lower than budget

Looking Forward

Central Government Policy

- ☐ Focus on regional economic development
- ☐ Focus on high growth areas (Auckland, Hamilton, Tauranga, Waikato, Queenstown)
- ☐ HIF and CIPs finance additional infrastructure – substitution or incremental impact?
- ☐ Review of Local Government revenue and expenditure (Productivity Commission)
- ☐ Review of water infrastructure delivery announced (DIA led)
- ☐ Reintroduced the “four well beings” as focus for Local Government

Council borrowing, credit quality and LGFA bond issuance

- ☐ How much new debt given capacity constraints around infrastructure delivery?
- ☐ Credit quality of councils unlikely to improve from current position
- ☐ Mar 2019, Apr 2020, May 2021, Apr 2022, Apr 2023 loans and bond refinancing

Markets

- ☐ Credit spreads
- ☐ Rising global yields
- ☐ Spread between NZGBs and offshore markets

Changes to LGFA operating model

- ☐ Testing covenants on Group vs Parent basis
- ☐ Lending to CCOs
- ☐ Lending to other entities with a recourse over rates or water charges