

# BOND OFFER PRESENTATION



This presentation contains the key terms of the offer by New Zealand Local Government Funding Agency Limited ("**LGFA**") of fixed rate bonds maturing on 20 April 2029 ("**Bonds**") under its master trust deed dated 7 December 2011 (as amended from time to time) ("**Master Trust Deed**") as supplemented by a supplemental deed dated 15 February 2012 (as amended from time to time) (together, the "**Trust Documents**") entered into between LGFA and Trustees Executors Limited ("**Supervisor**"). The Bonds are "Retail Notes" for the purposes of the Trust Documents.

The offer of debt securities by LGFA is made in reliance upon the exclusion in clause 19 of schedule 1 of the Financial Markets Conduct Act 2013 ("**FMCA**").

The offer referred to in this presentation is an offer of Bonds that will have identical rights, privileges, limitations and conditions (except for the interest rate and maturity date) as LGFA's:

- (a) fixed rate bonds maturing on 15 April 2020 with an interest rate of 3.00% per annum, which are quoted on the NZX Debt Market under the ticker code LGF030;
  - (b) fixed rate bonds maturing on 15 May 2021 with an interest rate of 6.00% per annum, which are quoted on the NZX Debt Market under the ticker code LGF040;
  - (c) fixed rate bonds maturing on 15 April 2023 with an interest rate of 5.50% per annum, which are quoted on the NZX Debt Market under the ticker code LGF050;
  - (d) fixed rate bonds maturing on 15 April 2027 with an interest rate of 4.50% per annum, which are quoted on the NZX Debt Market under the ticker code LGF060;
  - (e) fixed rate bonds maturing on 15 April 2025 with an interest rate of 2.75% per annum, which are quoted on the NZX Debt Market under the ticker code LGF070;
  - (f) fixed rate bonds maturing on 14 April 2033 with an interest rate of 3.50% per annum, which are quoted on the NZX Debt Market under the ticker code LGF080;
  - (g) fixed rate bonds maturing on 14 April 2022 with an interest rate of 2.75% per annum, which are quoted on the NZX Debt Market under the ticker code LGF090; and
  - (h) fixed rate bonds maturing on 15 April 2024 with an interest rate of 2.25% per annum, which are quoted on the NZX Debt Market under the ticker code LGF100,
- (together the "**Quoted Bonds**").

Accordingly, the Bonds are of the same class as the Quoted Bonds for the purposes of the FMCA and the Financial Markets Conduct Regulations 2014.

LGFA is subject to a disclosure obligation that requires it to notify certain material information to NZX Limited ("**NZX**") for the purpose of that information being made available to participants in the market. That information can be found by visiting <https://www.nzx.com/companies/LGF>.

The Quoted Bonds are the only debt securities of LGFA that are currently quoted and in the same class as the Bonds.

Investors should look to the market price of the Quoted Bonds referred to above to find out how the market assesses the returns and risk premium for those bonds.

This presentation has been prepared by New Zealand Local Government Funding Agency Limited (“**LGFA**”) for general information purposes only. By listening to the presentation, or reading the presentation materials, you acknowledge and agree to the contents of this disclaimer.

To the maximum extent permitted by law, neither LGFA nor any of its affiliates, directors, officers, partners, employees or agents make any representation, recommendation or warranty, express or implied as to the accuracy, completeness or currency of any of the information in this presentation and accept no responsibility or liability therefore. Data is indicative and approximate only, and all information is subject to change. Some information may be taken from publicly available sources and has not been verified by LGFA. This presentation is intended as a snapshot view of LGFA only, and LGFA has no obligation, and does not undertake or accept any responsibility or obligation, to update, expand or correct anything in this presentation or inform you of any matter arising or coming to its notice, after the date of this presentation, which may affect any matter referred to in this presentation.

This presentation contains forward-looking statements including information regarding LGFA’s future bond issuances and forecast financial performance based on current information, estimates and forecasts. Those statements are subject to risks, uncertainties, and assumptions which are hard to predict or anticipate, and therefore actual outcomes and performance may differ materially from the statements. Any opinions expressed in this presentation reflect the judgement of LGFA as the date hereof, and do not bind LGFA.

This presentation is not a product disclosure statement, disclosure document or other offer document under New Zealand law or any other law. This presentation is not, and does not constitute financial advice. All reasonable care has been taken in relation to the preparation and collation of this presentation. Except for statutory liability which may not be excluded, no person, including LGFA or any person mentioned in this presentation accepts responsibility for any loss or damage howsoever occurring resulting from the use or reliance on this presentation by any person. Past performance is not indicative of future performance and no guarantee or future rights are implied or given.

A series notice dated 20 August 2019 (“**Series Notice**”) has been prepared in respect of the offer of the Bonds. You should read the Series Notice before deciding whether to purchase the Bonds.

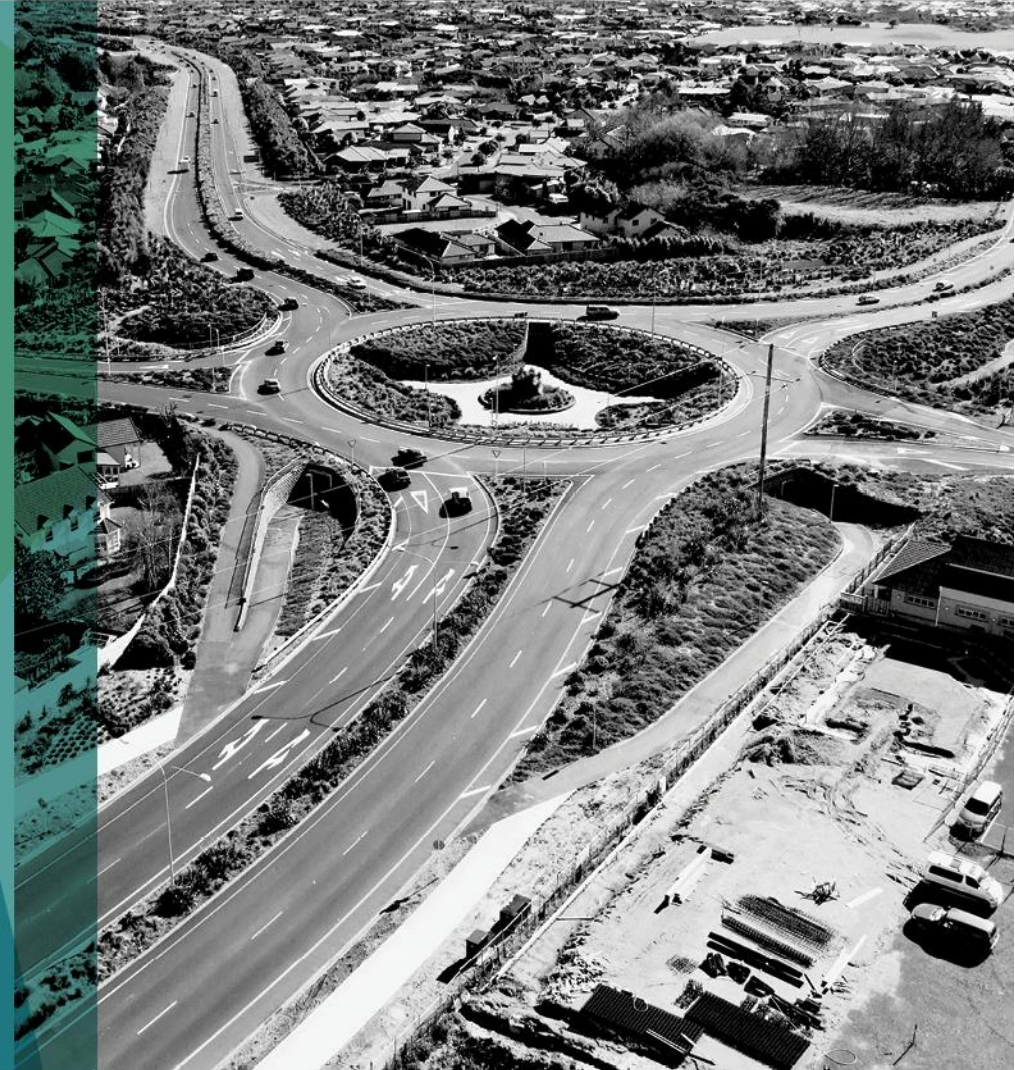
Nothing in this presentation is an offer to sell, or solicitation of an offer to purchase, any securities. This presentation must not be relied upon by any person for making any investment decision and will not form part of any investment contract. The information provided in this presentation is not investment advice and does not take into account the investment objectives, financial situation or particular needs (including financial and taxation issues) of any particular investor. Any person considering investing in LGFA securities must refer to any relevant offer documents and disclosures provided expressly in connection with those securities and should take their own independent financial and legal advice on their proposed investment. LGFA securities have not been and will not be registered under the United States Securities Act of 1933 (**U.S Securities Act**) or the securities laws of any state or other jurisdiction of the United States. LGFA securities may not be offered or sold, directly or indirectly, in the United States or to, or for the account or benefit of, any person in the United States except in transactions exempt from, or not subject to, the registration requirements of the U.S. Securities Act and any other applicable U.S. state securities laws.

None of the Arranger, Joint Lead Managers nor any of their respective directors, officers, employees and agents: (a) accept any responsibility or liability whatsoever for any loss arising from this presentation or its contents or otherwise arising in connection with the offer of Bonds; (b) authorised or caused the issue of, or made any statement in, any part of this presentation; and (c) make any representation, recommendation or warranty, express or implied regarding the origin, validity, accuracy, adequacy, reasonableness or completeness of, or any errors or omissions in, any information, statement or opinion contained in this presentation and accept no liability (except to the extent such liability is found by a court to arise under the FMCA or cannot be disclaimed as a matter of law).

This presentation is proprietary to LGFA and may not be copied, distributed, disclosed or used without LGFA's express written consent.

NZX Limited accepts no responsibility for any statement in this investor presentation. NZX Limited is a licensed market operator and the NZX Debt Market is a licensed market under the Financial Markets Conduct Act 2013. Application has been made to NZX for permission to quote the Bonds on the NZX Debt Market and all the requirements of NZX relating thereto that can be complied with on or before the distribution of this presentation have been duly complied with.

- Important Notice and Disclaimer
- LGFA Structure
- LGFA Debt Market Activity
- Key Terms of the Offer
- Appendices



## SHAREHOLDERS

- ❑ Central Government largest shareholder at 20%
- ❑ 30 councils hold 80% shareholding
- ❑ Can only sell shares to Central Government or local authorities (“councils”)

## GOVERNANCE

- ❑ Board of six directors with 5 Independent and 1 Non Independent
- ❑ Bonds listed on NZX so under listing rules
- ❑ Independent Trustee
- ❑ Issue of securities under the Financial Markets Conduct Act
- ❑ Audited by Audit NZ

## GUARANTORS

- ❑ 52 guarantors of LGFA
- ❑ Guarantors comprise:
  - All shareholders except the NZ Government
  - Any non shareholder who may borrow more than NZ\$20 million
- ❑ Security granted by each of the guarantors is over their rates income (property taxes)
- ❑ Guarantors cannot exit guarantee until
  - Repaid all their borrowings
  - Wait for longest outstanding LGFA bond to mature (currently 2033)

## LIQUIDITY

- ❑ NZ\$1 billion standby facility from NZ Government
- ❑ NZ\$448 million liquid assets portfolio
- ❑ NZ\$400 million of Treasury Stock for repo

## BORROWERS

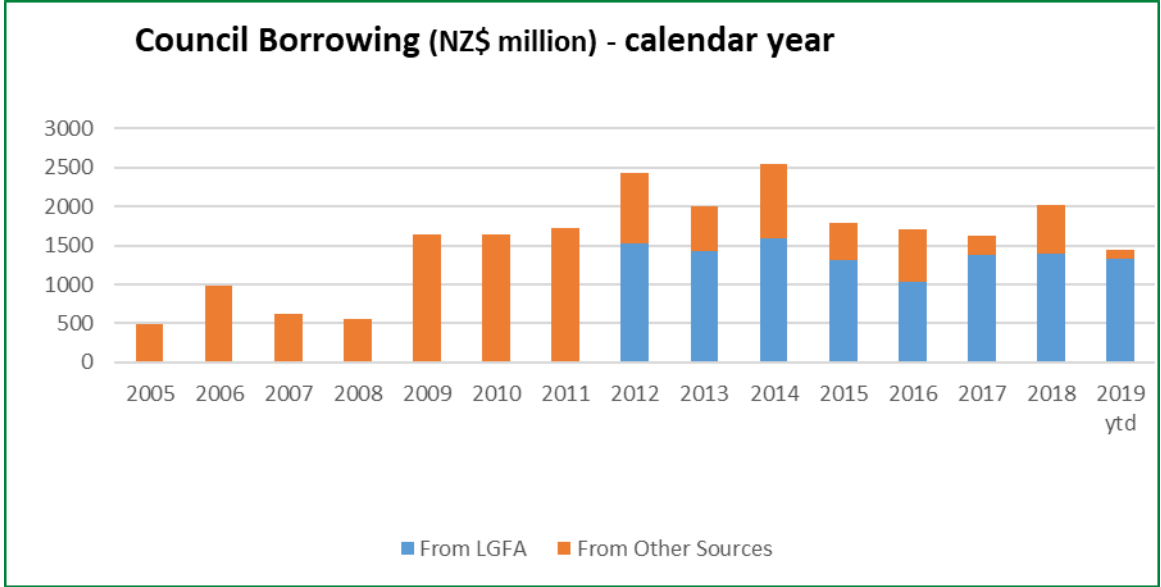
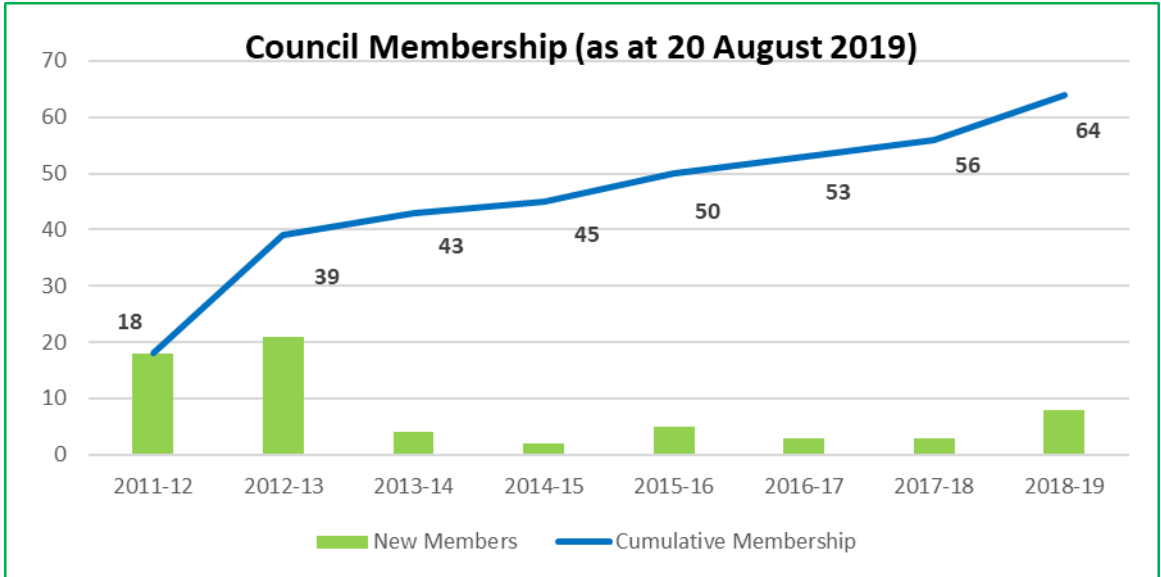
- ❑ 64 member councils
- ❑ Approx. 92% market share
- ❑ Under Local Government Act 2002 councils must manage finances prudently – implies must run balanced operating surplus and only borrow for capital expenditure
- ❑ Councils borrow secured against rates
- ❑ Must meet LGFA financial covenants

## CAPITAL STRUCTURE

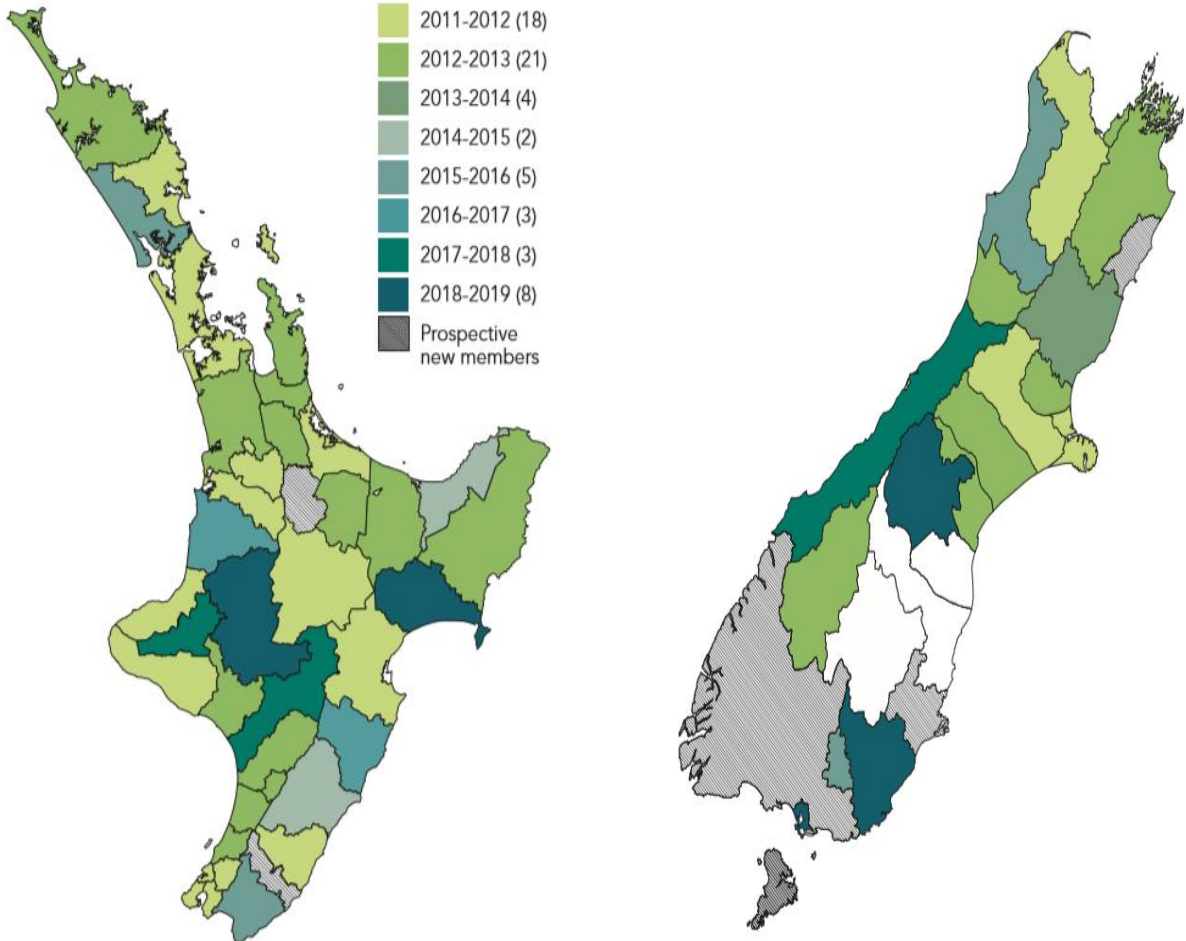
- ❑ NZ\$25 million paid in capital
- ❑ NZ\$20 million uncalled capital
- ❑ NZ\$49 million retained earnings
- ❑ NZ\$154 million Borrower Notes that can be converted to equity
- ❑ Current capital ratio of 2.20% with policy of 2% minimum and target of 3%

As at 30 June 2019

Source: LGFA



LGFA member councils highlighted with year of joining



Note there are 14 councils not currently members of LGFA. Some of these (notably Regional Councils) may overlap on this map.

- Credit ratings
  - S&P Global Ratings
    - placed long term local (AA+) and foreign currency (AA) credit ratings of LGFA on positive outlook (February 2019) due to the New Zealand Government credit rating being placed on positive outlook
    - placed long term credit ratings of seven councils with AA credit rating on positive outlook (February 2019)
    - methodology change for rating local and regional governments outside of the U.S. (July 2019) – one council upgraded 2 notches
  - Fitch
    - introduced new ratings methodology for international local and regional governments - placed two councils on ratings watch negative (April 2019)
- Increase in short term lending to councils - June 2018 (NZ\$280 million) to June 2019 (NZ\$451 million)
- Record amount of long term lending to councils (NZ\$2.446 billion) and LGFA bond issuance (NZ\$2.455 billion) for twelve month period to 30 June 2019
- Eight new member councils between July 2018 and June 2019
  - Clutha District, Hawke’s Bay Regional, Invercargill City, Mackenzie District, Ruapehu District, Waikato Regional, Wairoa District and West Coast Regional Councils
- Council Long Term Plans (“LTP’s”) released in June 2018
  - significant increase in capex investment, forecast debt levels and rates revenue over next ten years
- Productivity Commission released draft report into Local Government funding and financing on 4 July 2019
  - Recommended several new funding tools to deal with pressure points such as tourism growth
- Department of Internal Affairs currently reviewing regulation and supply of the 3 waters
  - A new dedicated water regulator will be established to oversee the regulatory regime
- LGFA issued a new April 2024 bond maturity by syndication on 15 March 2019

# WHO DOES LGFA LEND TO AND WHO GUARANTEES LGFA?

Council Borrower	Amount Borrowed (NZ\$ million)	% of Total Borrowing
Auckland	\$2,407	25.1%
Christchurch City	\$1,752	18.3%
Wellington City	\$531	5.5%
Tauranga City	\$480	5.0%
Wellington Regional	\$400	4.2%
Hamilton City	\$385	4.0%
Kapiti Coast District	\$215	2.2%
Bay of Plenty Regional	\$192	2.0%
Rotorua District	\$187	1.9%
Hutt City	\$184	1.9%
54 other member councils	\$2,850	29.7%

Council Borrowing	Volume (NZ\$ million)
Short Term (loan terms less than 12 months)	\$451
Long Term	\$9,131
<b>Total</b>	<b>\$9,582</b>

Borrower Type	Number of councils	Amount Borrowed (NZ\$ million)	% of Total Borrowing
Guarantors	52	\$9,458	98.7%
Non guarantors	12	\$124	1.3%
<b>Total</b>	<b>64</b>	<b>\$9,582</b>	<b>100%</b>

**Note:**

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

**One member council has yet to borrow from LGFA**

**Guarantee is joint and several but obligations of each guarantor is based upon their relative share of total rates revenue of all guarantors. A council's obligation under the guarantee is secured against rates revenue.**

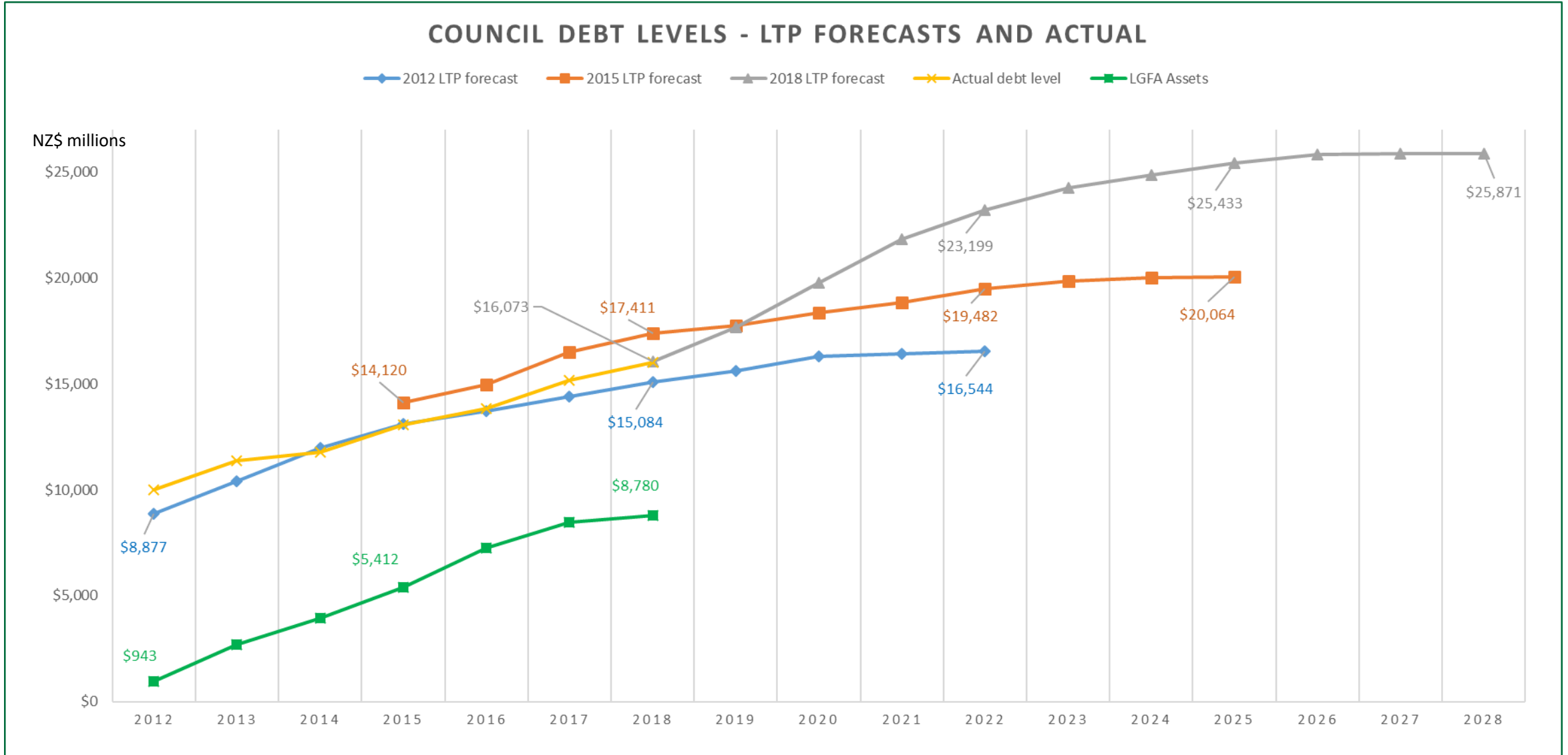
Council Guarantor	% share of Guarantee
Auckland	31.9%
Christchurch City	8.6%
Wellington City	5.5%
Hamilton City	3.0%
Tauranga City	2.9%
Wellington Regional	2.9%
Hutt City	2.0%
Canterbury Regional	1.8%
Whangarei District	1.7%
Palmerston North City	1.7%
42 other council guarantors	38.0%

**As at 20 August 2019**

**Source: LGFA**



# 2018-28 LTP FORECAST DEBT LEVELS OF SECTOR HIGHER THAN PREVIOUS LTPs



Source: LGFA with underlying data sourced from each councils Long Term Plan (LTP)

# WHAT IS THE CREDIT QUALITY OF THE LENDING BOOK ?

- 89.7% of LGFA loans to councils with credit ratings
- 68.1% of LGFA loans to AA- rated councils or better
- Average credit quality is above AA-
- Improving trend in underlying credit quality of local government sector over the past five years
  - 9 councils on positive outlook = NZ\$3.3 billion (34.8% loan book)
  - 3 council on negative outlook = NZ\$635 million (6.6% loan book)
- Not all councils have credit ratings due to cost of obtaining a rating vs benefits
  - Average total lending to unrated councils is NZ\$28 million per council
  - NZ\$45 million of debt is approximate breakeven for a borrower to obtain a credit rating
- LGFA undertakes detailed credit analysis of all member councils separate to the external credit rating process performed by S&P, Fitch and Moody's
- Unrated councils are assessed by LGFA as having, in general, better credit quality than those councils with credit rating

External Credit Rating (S&P, Fitch)	Lending (NZ\$ million)	Lending (%)	Number of Councils
AA+	\$15	0.2%	1
AA	\$5,109	53.3%	19
AA-	\$1,397	14.6%	7
A+	\$2,076	21.7%	2
Unrated	\$984	10.3%	35
<b>Total</b>	<b>\$9,582</b>	<b>100%</b>	<b>64</b>

As at 20 August 2019

Source: LGFA

Note: One member council has yet to borrow from LGFA (includes long and short term lending)

# NEW ZEALAND COUNCILS WITH CREDIT RATINGS

Council	S&P	Fitch	Moody's
Auckland Council	AA		Aa2
Bay of Plenty Regional Council	AA		
Christchurch City Council	A+ (pos outlook)		
Dunedin City Council	AA		
Wellington Regional Council	AA (pos outlook)		
Hamilton City Council		AA- (neg outlook)	
Hastings District Council	AA		
Horowhenua District Council	A+		
Hutt City Council	AA		
Invercargill City Council		AA	
Kapiti Coast District Council	AA		
Marlborough District Council	AA (pos outlook)		
Nelson City Council	AA		
New Plymouth District Council	AA (pos outlook)		
Palmerston North City Council	AA (pos outlook)		
Porirua City Council	AA		
Queenstown-Lakes District Council		AA- (neg outlook)	
Rotorua District Council		AA-	
South Taranaki District Council	AA- (pos outlook)		
Selwyn District Council		AA+	
Tasman District Council	AA		
Taupo District Council	AA (pos outlook)		
Tauranga City Council	AA-		
Timaru District Council		AA-	
Waimakariri District Council	AA (neg outlook)		
Waipa District Council		AA-	
Whanganui District Council	AA		
Wellington City Council	AA (pos outlook)		
Western Bay of Plenty District Council	AA		
Whangarei District Council	AA (pos outlook)		

30 councils in New Zealand have credit ratings – 29 are members of LGFA

Over the past five years:

- Nelson and Tauranga City Councils and Kapiti Coast, South Taranaki, Tasman, Taupo, Western Bay of Plenty (twice), Whanganui and Whangarei District Councils were upgraded
- No council ratings were downgraded

Seven councils with “AA” credit rating placed on positive outlook in February 2019

As at 20 August 2019

Source: S&P, Fitch, Moody's, LGFA

LGFA undertakes its own internal credit assessment and rating process for all member councils using most recent annual reports (June 2018)

## Primary Criteria

- Debt levels relative to population – affordability
- Debt levels relative to asset base
- Ability to repay debt
- Ability to service debt – interest cover
- Population trend

## Secondary Criteria

- 30 Year Infrastructure Strategy
  - Quality of Assets
  - Capital Expenditure Plan
- Risk Management
  - Insurance
- Governance
- Financial flexibility
- Cashflow
- Budget performance (balanced budget)
- Affordability of rates / Deprivation Index
- Natural hazards
- Group activities (CCOs)

LGFA member councils by internal rating category as at 20 August 2019

LGFA Internal Ratings	2012	2013	2014	2015	2016	2017	2018
AA+	1	2	2	4	4	6	7
AA	12	12	12	10	12	13	19
AA-	13	13	16	15	19	17	19
A+	8	6	3	11	10	12	13
A	6	10	11	6	6	3	4
A-	5	2	1	1	0	2	2

Source: LGFA

## LGFA Financial Covenants – member councils as at 30 June 2018 with an external credit rating (26)

Foundation Policy Covenant	Net Debt / Total Revenue <250%	Net Interest / Total Revenue <20%	Net Interest / Rates <30%
Range of councils' compliance	-160.5% to 190.3%	-7.5% to 9.6%	-17.1% to 16.6%

## LGFA Financial Covenants – member councils as at 30 June 2018 without an external credit rating (29)

Lending Policy Covenant	Net Debt / Total Revenue <175%	Net Interest / Total Revenue <20%	Net Interest / Rates <25%
Range of councils' compliance	-52.8% to 127.4%	-1.5% to 5.4%	-3.1% to 8.6%

- Note some negative outcomes due to some councils having negative Net Debt i.e. financial assets and investments > borrowings
- LGFA councils operating within financial covenants
- Ranges highlight the differences between councils
- Sufficient financial headroom for most councils
- Improvement from 2013 for most councils
  - Revenue increased
  - Interest rates lower
  - Capex and debt constrained

Source: LGFA using data from individual council annual reports

# PERFORMANCE UNDER LGFA COVENANTS

LGFA member councils with an external credit rating (26 in 2018, 23 in 2017, 22 in 2016, 20 in 2015 and 17 in both 2014 and 2013)

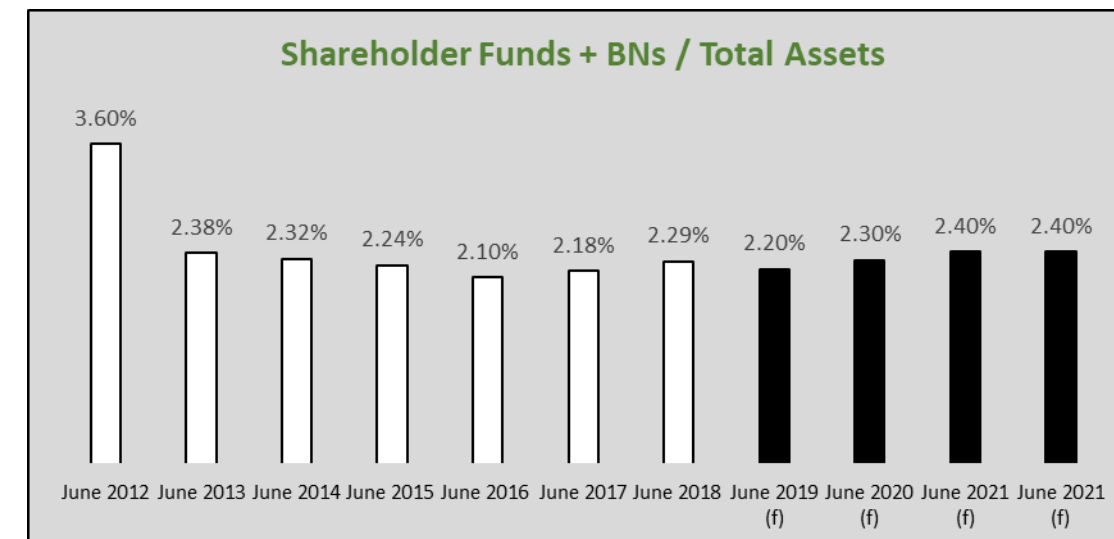
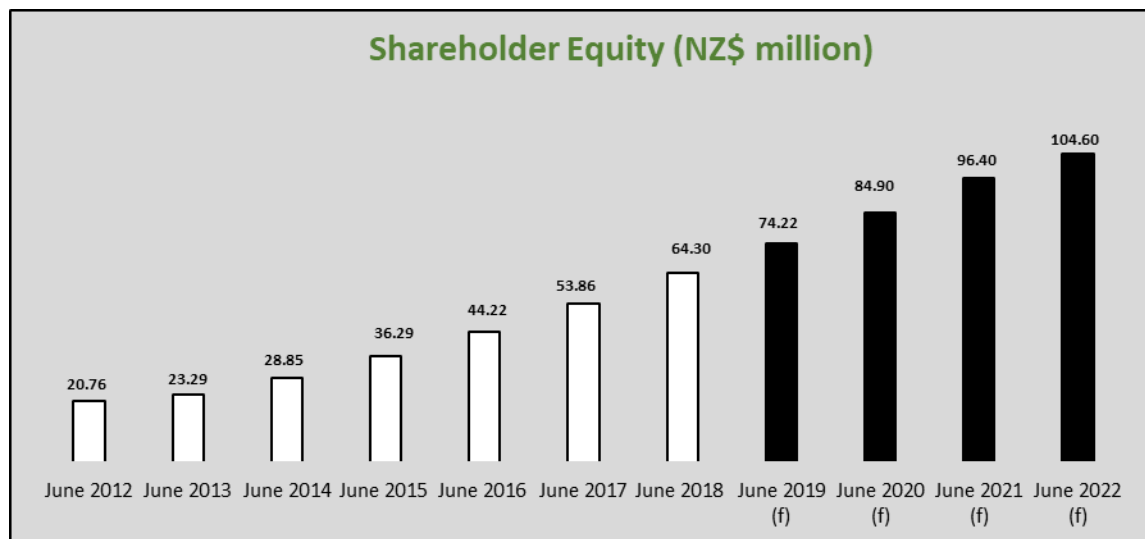
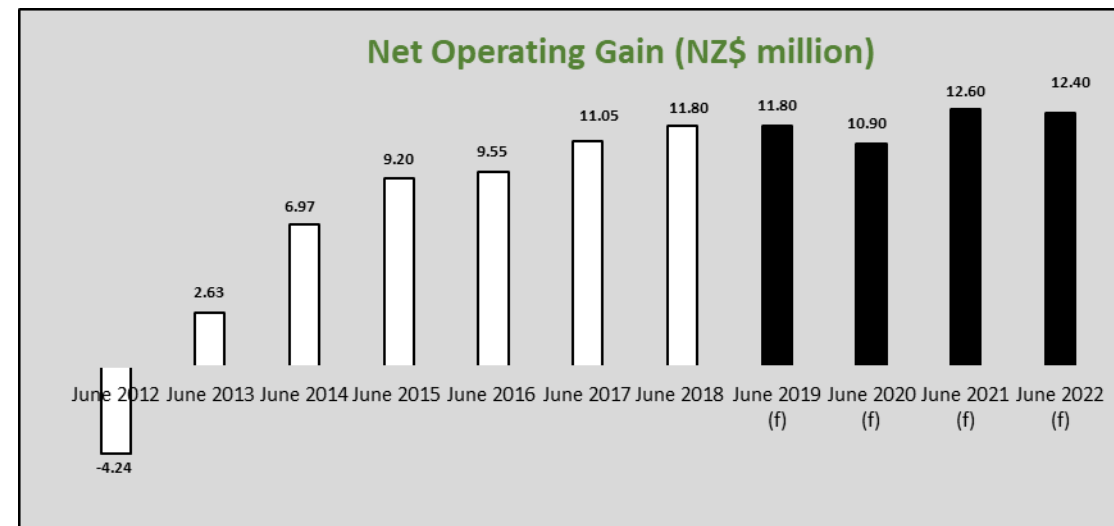
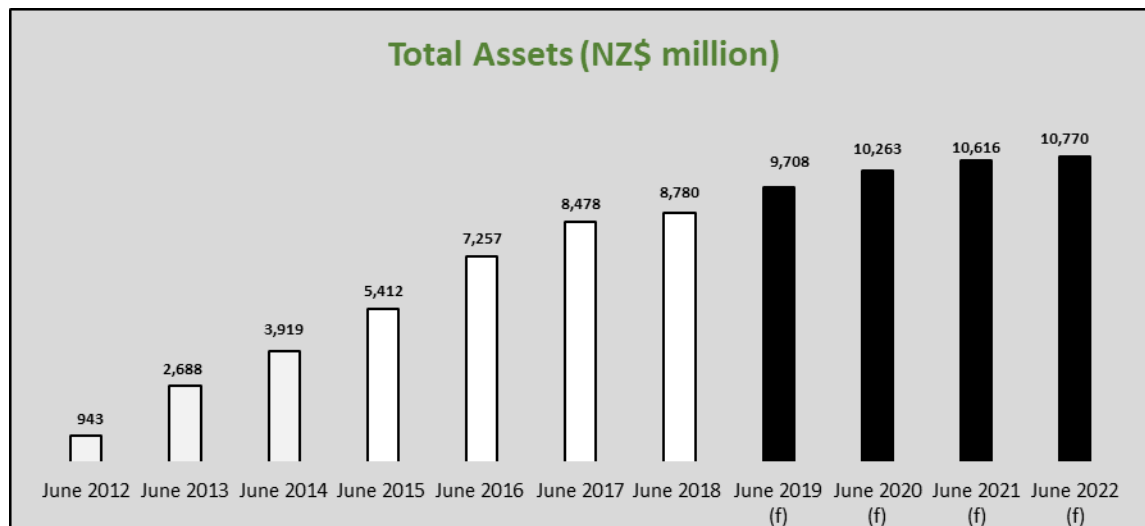
Financial Covenant	2018	2017	2016	2015	2014	2013
Net Debt to Revenue <250%	76.0%	86.0%	87.9%	96.4%	104.7%	111.8%
Net Interest to Revenue <20%	4.0%	5.3%	6.1%	6.8%	6.6%	7.3%
Net Interest to Rates <30%	6.1%	8.1%	9.1%	10.0%	9.6%	11.1%

LGFA unrated member councils (29 in 2018, 29 in 2017, 28 in 2016, 25 in 2015, 26 in 2014 and 21 in 2013)

Financial Covenant	2018	2017	2016	2015	2014	2013
Net Debt to Revenue <175%	32.3%	29.9%	32.4%	38.2%	42.6%	52.5%
Net Interest to Revenue <20%	1.9%	1.8%	2.2%	2.4%	2.9%	3.2%
Net Interest to Rates <25%	2.9%	2.6%	2.9%	3.1%	4.0%	4.1%

Calculated by simple average of member councils in each group

Source: LGFA using data from individual council annual reports



Forecast performance based upon assumptions outlined in LGFA SOI 2019-20 available at [www.lgfa.co.nz/for-investors/annual-reports-and-statement-of-intent](http://www.lgfa.co.nz/for-investors/annual-reports-and-statement-of-intent)

Note: Based upon nominal values

Source: LGFA Annual Reports and SOI

## ❑ Fitch Ratings - November 2018

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.

## ❑ S&P Global Rating's – February 2019

Local Currency AA+ / Positive / A-1+

Foreign Currency AA / Positive / A-1+

Both long-term ratings placed on “positive outlook” on 4<sup>th</sup> February 2019

### Strengths:

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

### Weaknesses:

- highly concentrated loan portfolio;
- modest risk adjusted capital ratio;
- reliance upon domestic market funding.

Source: S&P, Fitch, LGFA



- ❑ Important Notice and Disclaimer
- ❑ LGFA Structure
- ❑ LGFA Debt Market Activity
- ❑ Key Terms of the Offer
- ❑ Appendices



## Issuance Strategy

- Match NZ Government Bond where possible
  - Maturities, Tenders, AIL paid on behalf of offshore holders
- Issued April 2022 bond that did not match NZGB yield curve (April 2018) and issued April 2024 bond via syndication (March 2019)
- Liquidity important – objective of NZ\$1 billion plus series and soft cap of \$1.5 billion per series
- NZD issuance only to date
- All LGFA bonds listed on NZX
- Objective to target tender issuance every five weeks of NZ\$125 million to NZ\$175 million in size and at least three maturities tendered

## Syndicated Offer – why now and why new maturity?

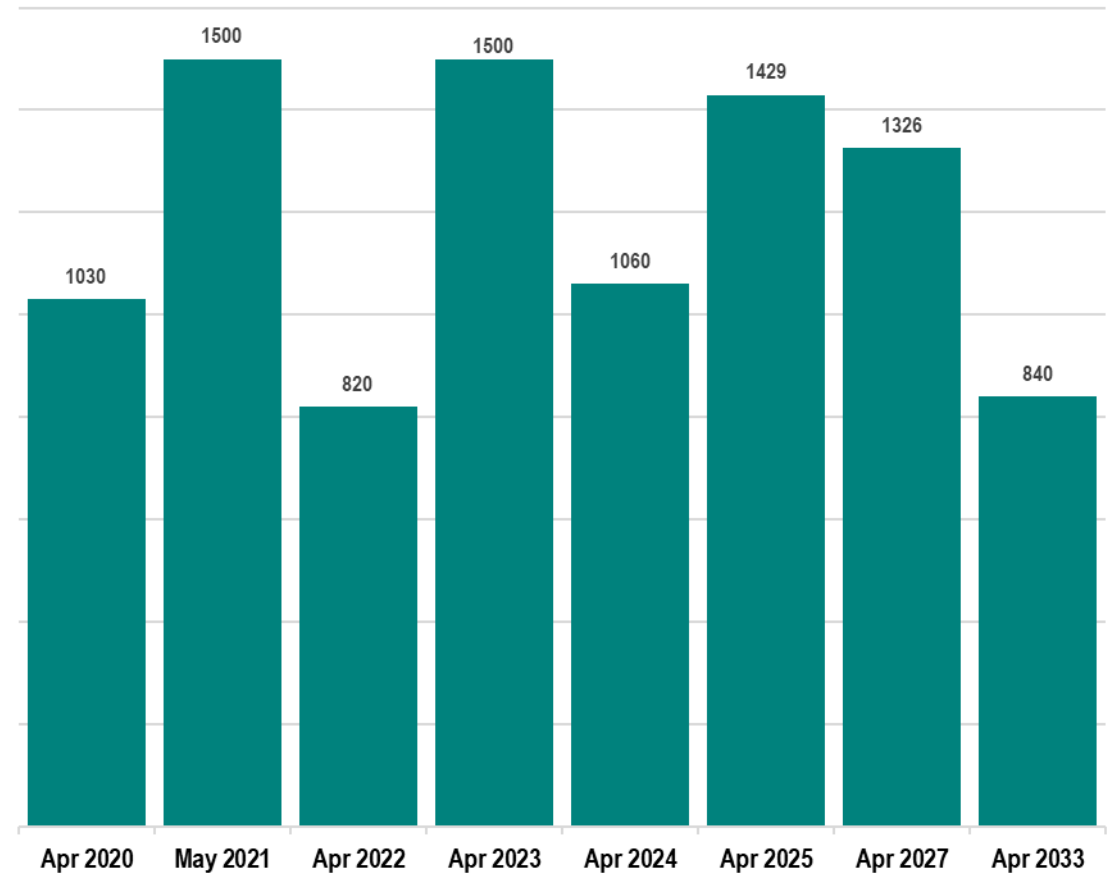
- To fund an increase in amount of liquidity held via Liquid Asset Portfolio (“LAP”)
  - Growing council borrowing requirement
  - Existing LGFA bond maturities all mature late in financial year
  - Relatively small size of LAP vs. size of balance sheet
- To complement ongoing tender issuance not replace
- Assists in growing liquidity in tranches earlier than usual
- Need additional bond issuance maturities as three existing bond maturities at or nearing soft cap

SOI Forecast	Projected Gross Issuance	Projected Net Issuance
2019-20	NZ\$1.64 billion	NZ\$660 million
2020-21	NZ\$1.65 billion	NZ\$200 million
2021-22	NZ\$1.35 billion	NZ\$190 million

Based on assumed council long-term borrowing of NZ\$1.08 billion in 2019-20 year, \$1.72 billion in 2020-21 year and \$1.22 billion in 2021-22 year.

## LGFA bonds on issue (NZ\$ million)

As at 20 August 2019 : NZ\$9,505 million  
Includes NZ\$400 million treasury stock



Source: LGFA and LGFA SOI 2019-20 available at [www.lgfa.co.nz/for-investors/annual-reports-and-statement-of-intent](http://www.lgfa.co.nz/for-investors/annual-reports-and-statement-of-intent)

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

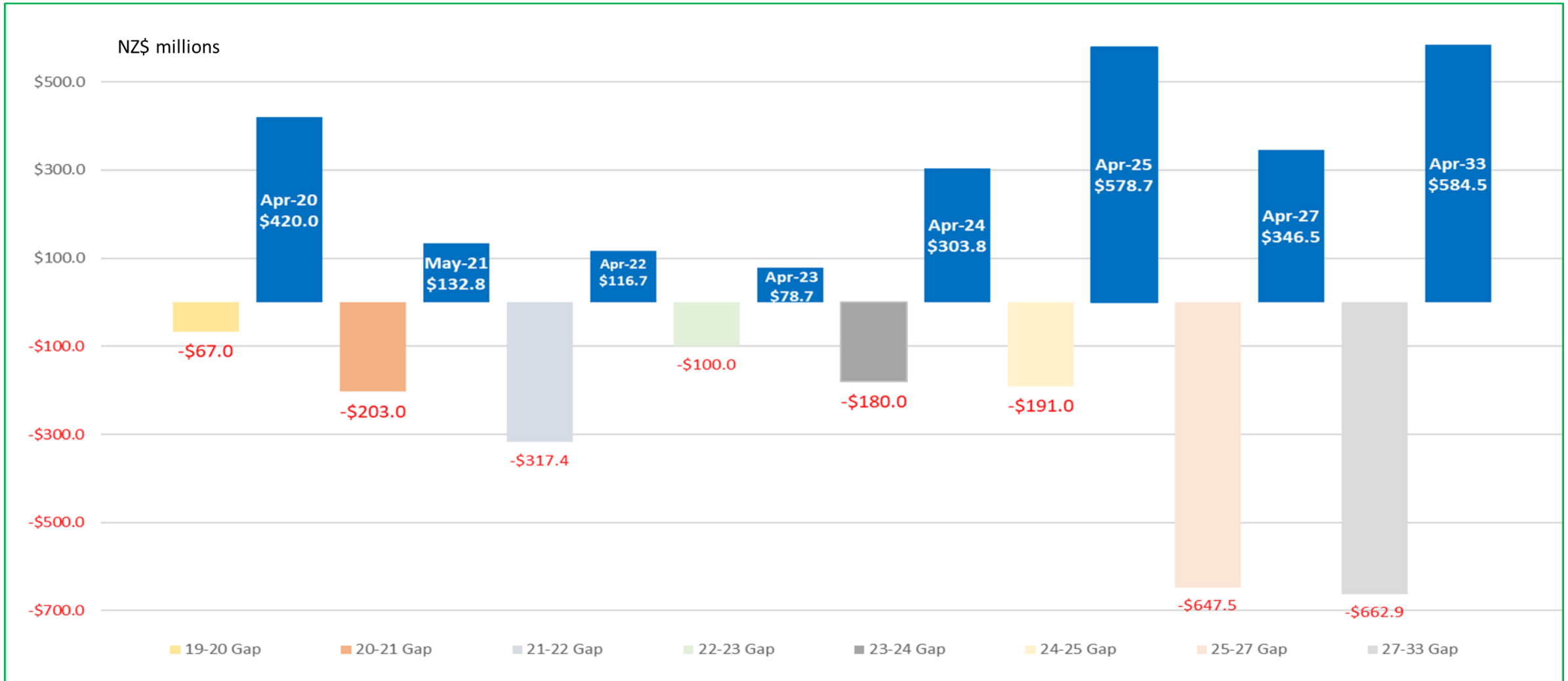
Maturity	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
15-Apr-15	155	10	75						
15-Dec-17	605	245	110	55					
15-Mar-19	75	900	95	40	70	20	40		
15-Apr-20				365	200	190	225		
15-May-21		445	625	100	150	30	70	30	
14-Apr-22							270	440	60
15-Apr-23			355	655	275	65	79	21	
15-Apr-24								950	60
15-Apr-25					100	560	309	410	
15-Apr-27				285	470	205	96	220	
14-Apr-33						215	140	385	50
<b>Total Volume (NZ\$ million)</b>	<b>835</b>	<b>1600</b>	<b>1260</b>	<b>1500</b>	<b>1265</b>	<b>1285</b>	<b>1229</b>	<b>2456</b>	<b>170</b>
<b>Average Bond Tender Size (NZ\$ million)</b>	<b>209</b>	<b>182</b>	<b>153</b>	<b>188</b>	<b>141</b>	<b>143</b>	<b>137</b>	<b>188</b>	<b>170</b>
<b>Average Issuance Term (years)</b>	<b>5.34 years</b>	<b>6.57 years</b>	<b>7.04 years</b>	<b>7.92 years</b>	<b>8.10 years</b>	<b>8.28 years</b>	<b>6.07 years</b>	<b>6.62 years</b>	<b>6.69 years</b>

- Typically a new bond maturity each year
- Historically annual issuance volume NZ\$1.2 billion to NZ\$1.6 billion
- Longer duration of issuance except 2017-18 year
- Average tender size increasing

Source: LGFA

As at 20 August 2019

# ASSET LIABILITY MISMATCHES

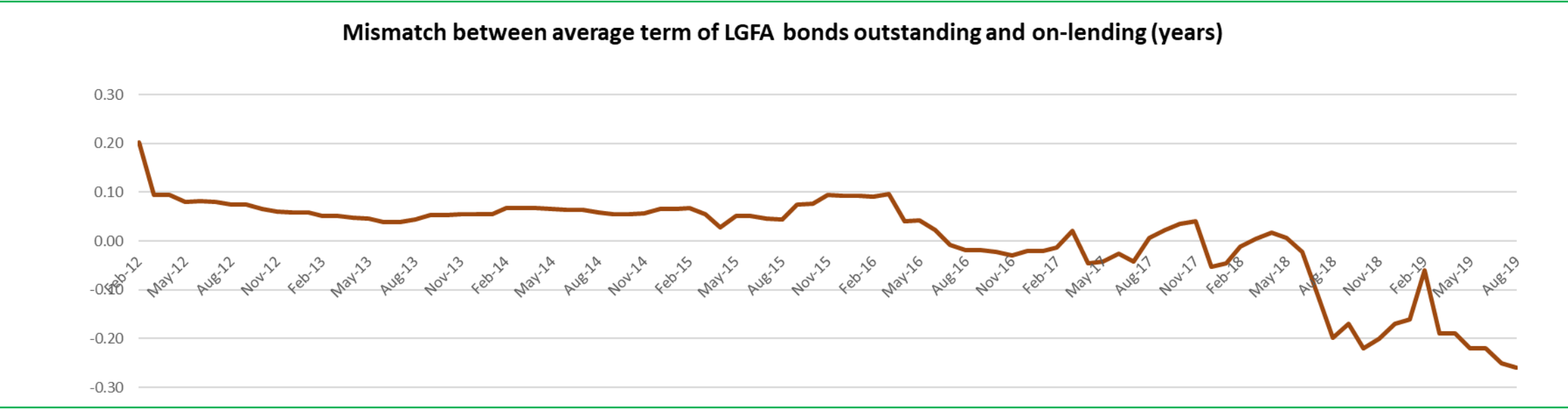
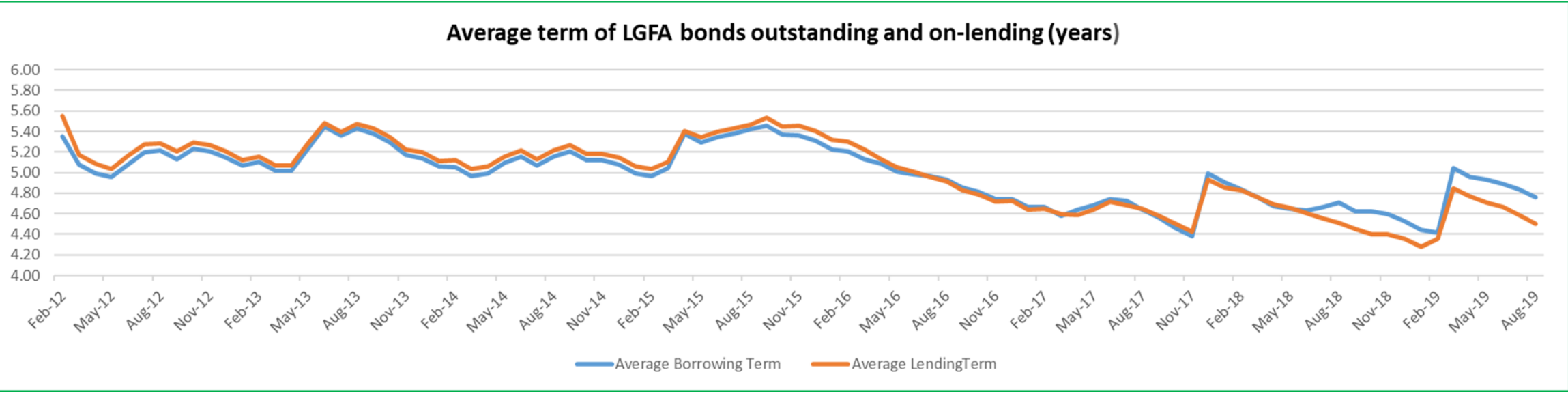


The asset liability mismatch is the difference between LGFA bonds issued and loans to member councils for each date or period. The positive outcomes show more LGFA bonds have been issued than loans made to councils for that date or period. The negative outcomes show loans made to member councils with maturity dates between LGFA bond maturities.

**As at 20 August 2019**

**Source: LGFA**

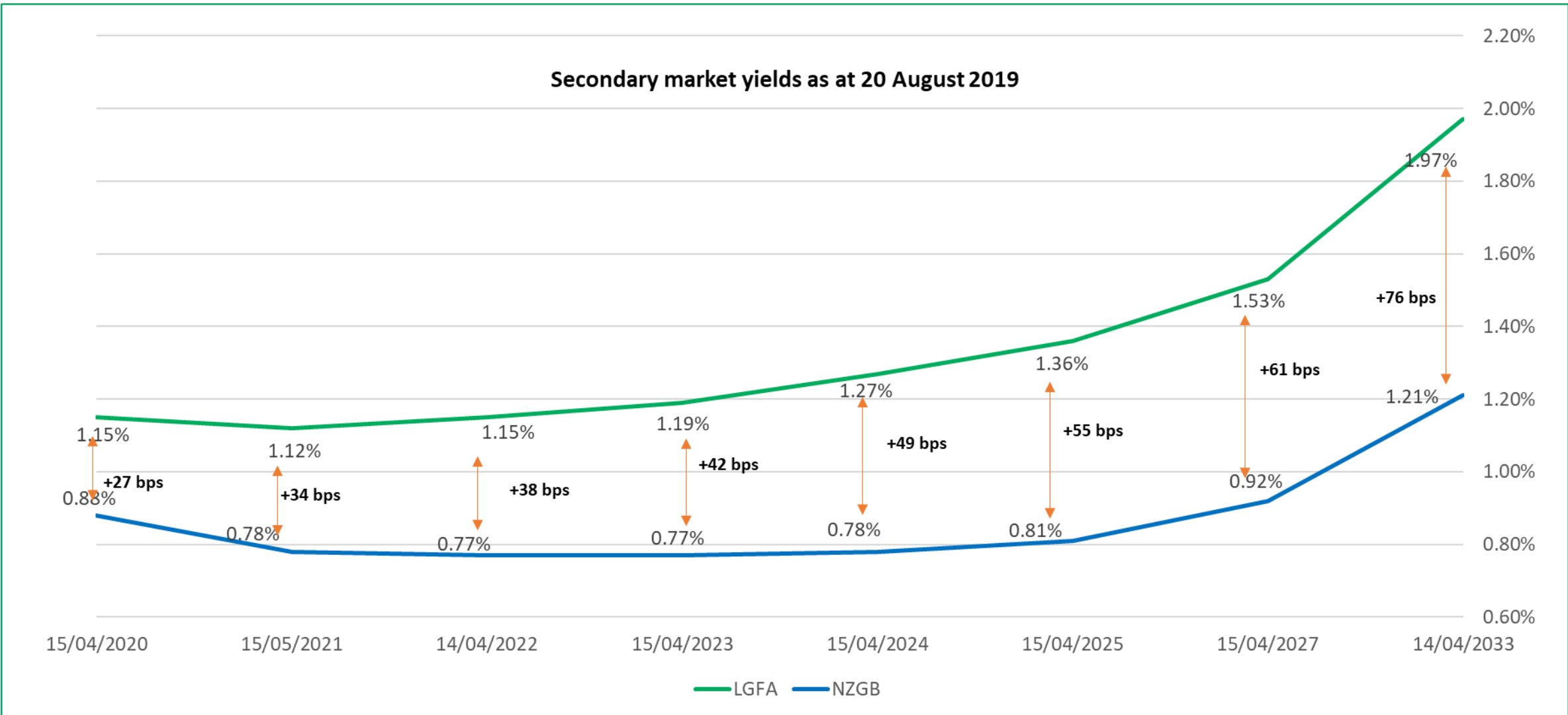
# MINIMAL MISMATCH BETWEEN LGFA BONDS AND LOANS



Negative = longer term of bond issuance than on-lending

Source: LGFA

# YIELD CURVES – NZGB AND LGFA

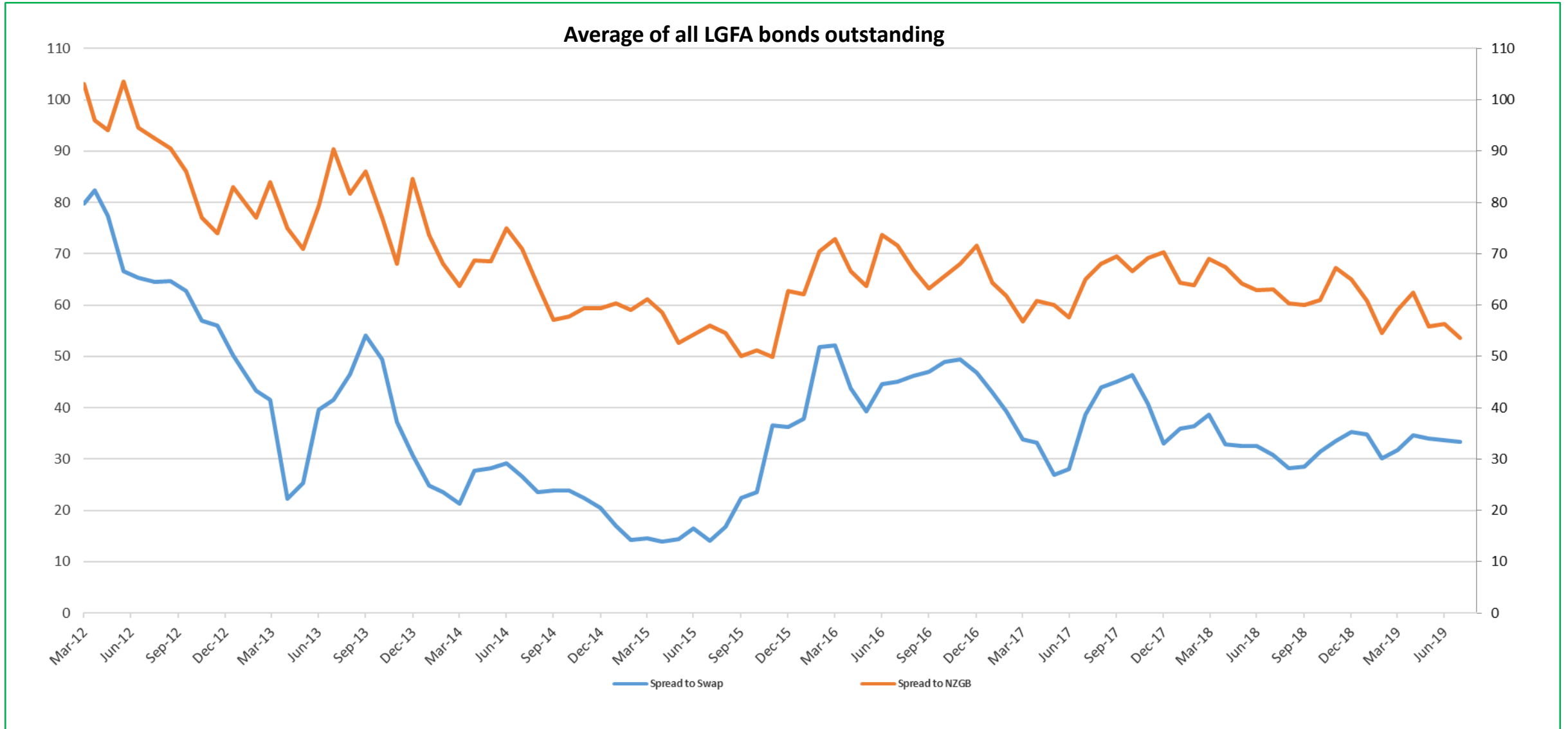


NZLGFA Curve on Bloomberg: GC I737

Secondary market yields

Source: LGFA

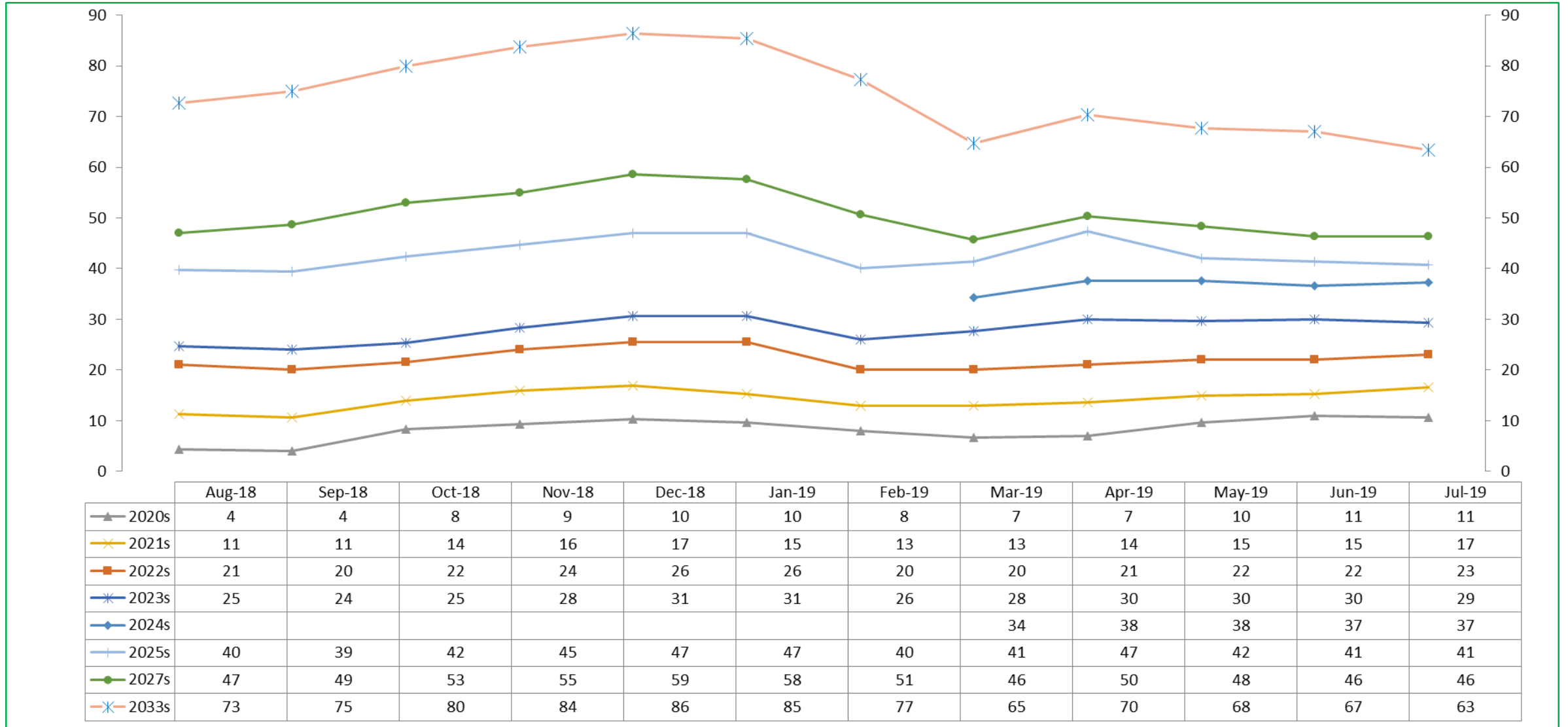
# LGFA SPREADS TO NZGB AND SWAP (bps)



Secondary market levels as at end of each month taken from end of month closing rate sheets published by NZ banks

Source: LGFA

# LGFA SPREADS TO SWAP (bps)

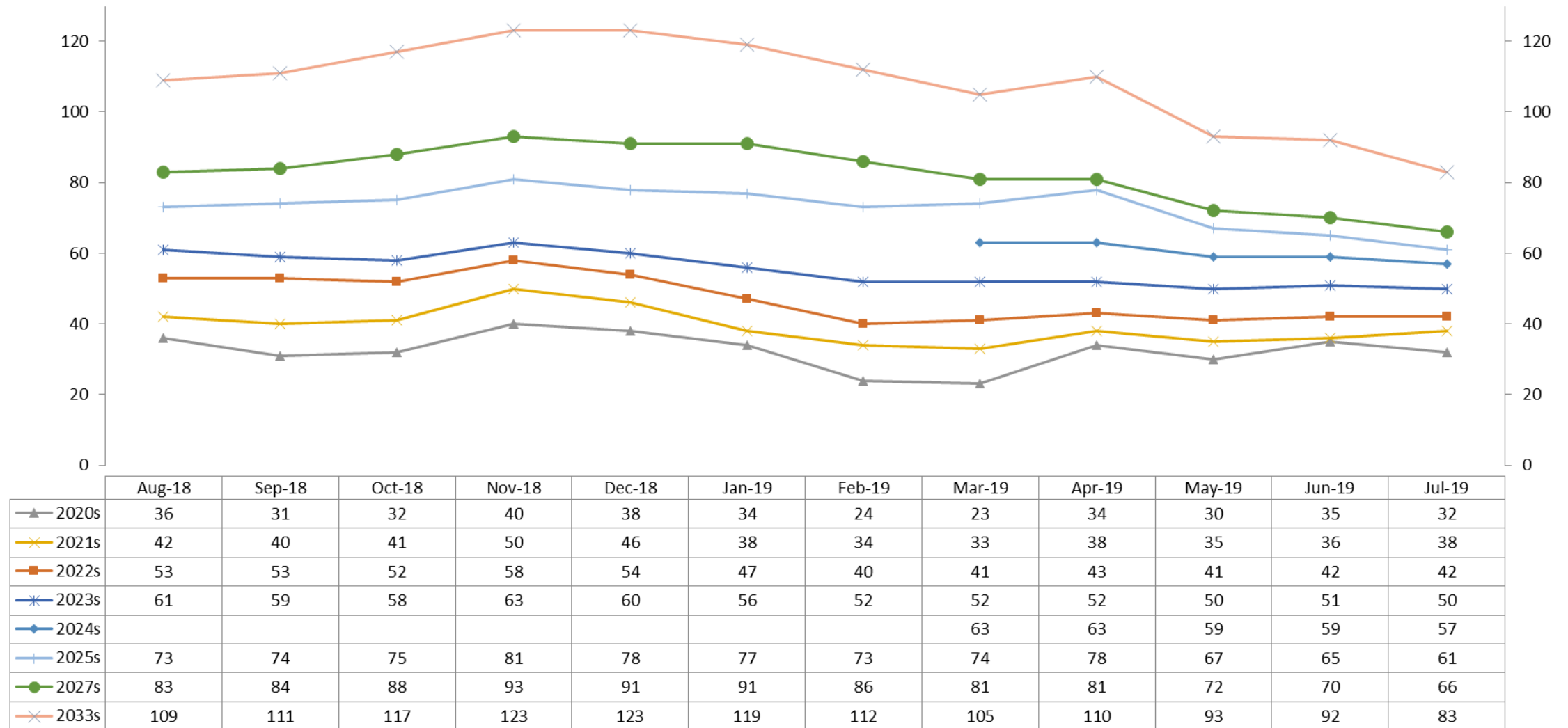


Secondary market levels as at end of each month taken from end of month closing rate sheets published by NZ banks

Source: LGFA



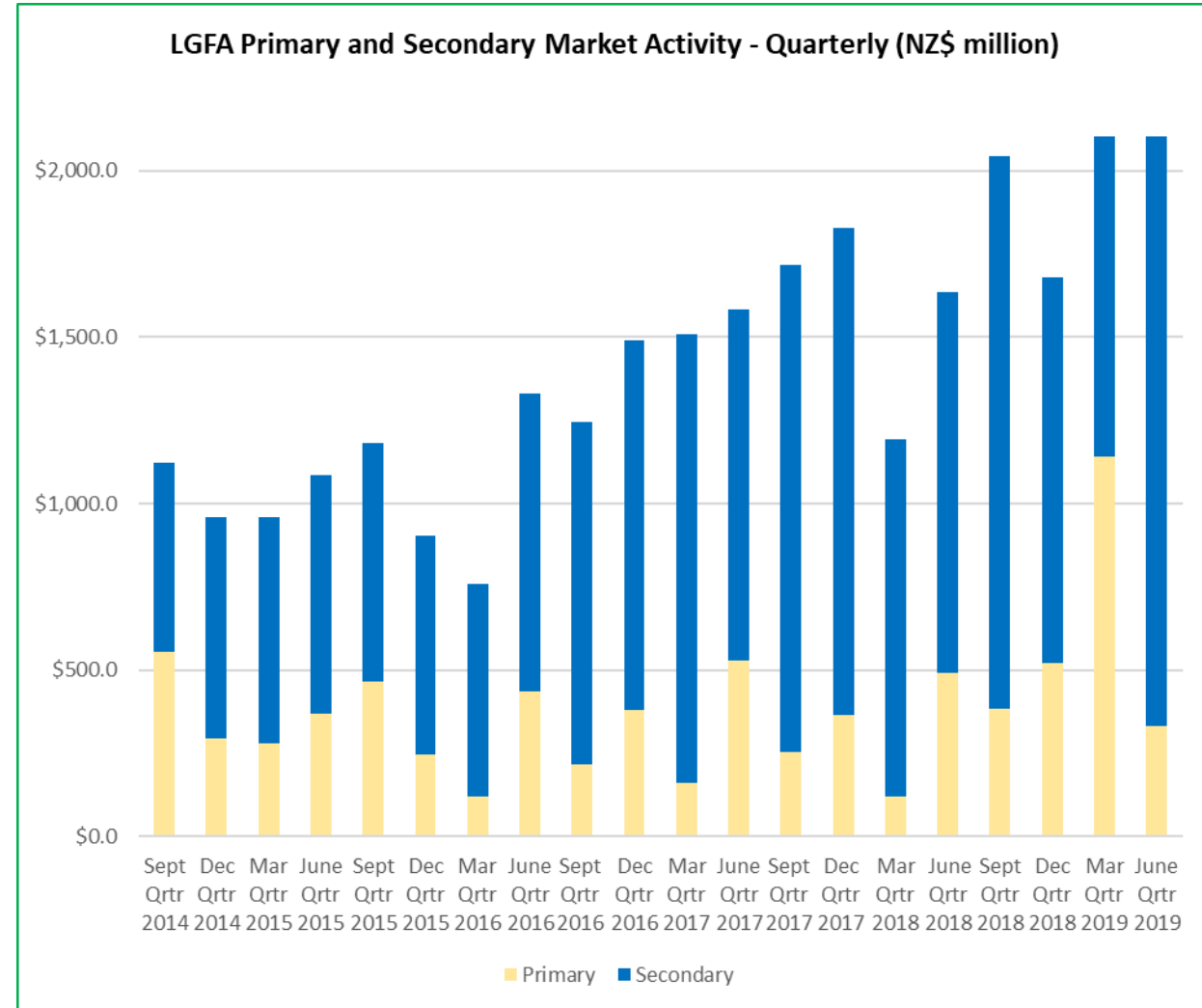
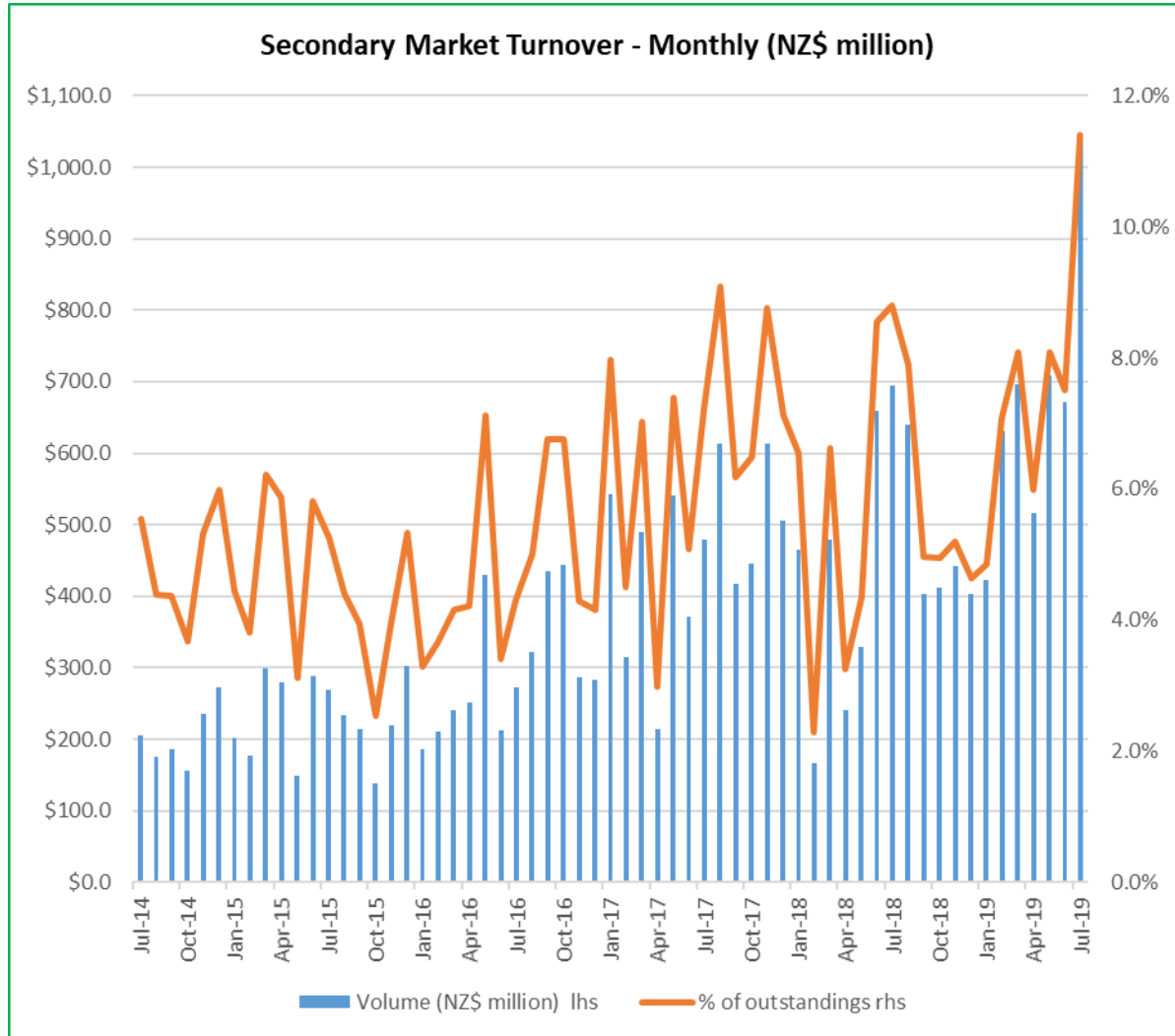
# LGFA SPREADS TO NZGB (bps)



Secondary market levels as at end of each month taken from end of month closing rate sheets published by NZ banks

Source: LGFA

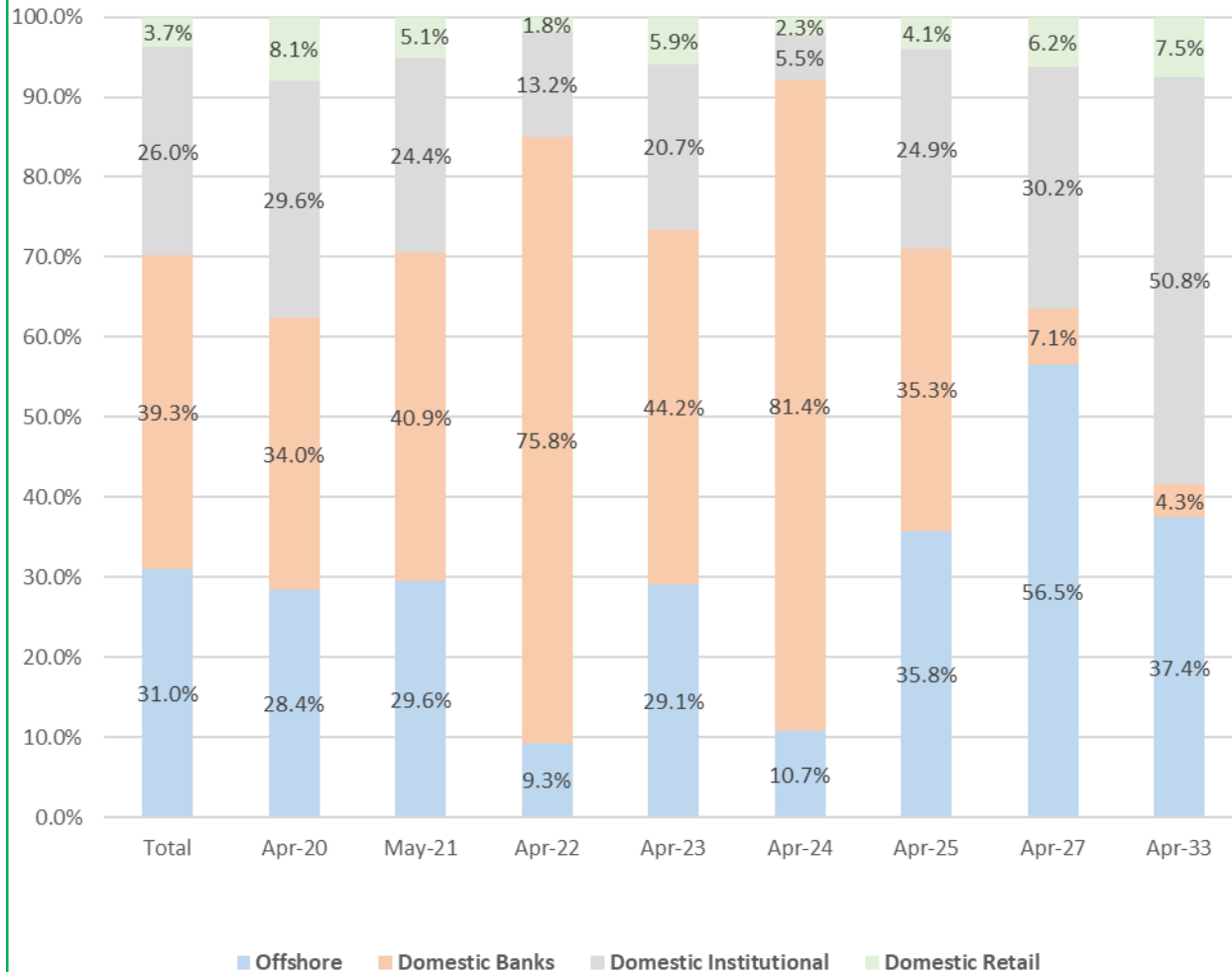
# PRIMARY AND SECONDARY MARKET ACTIVITY



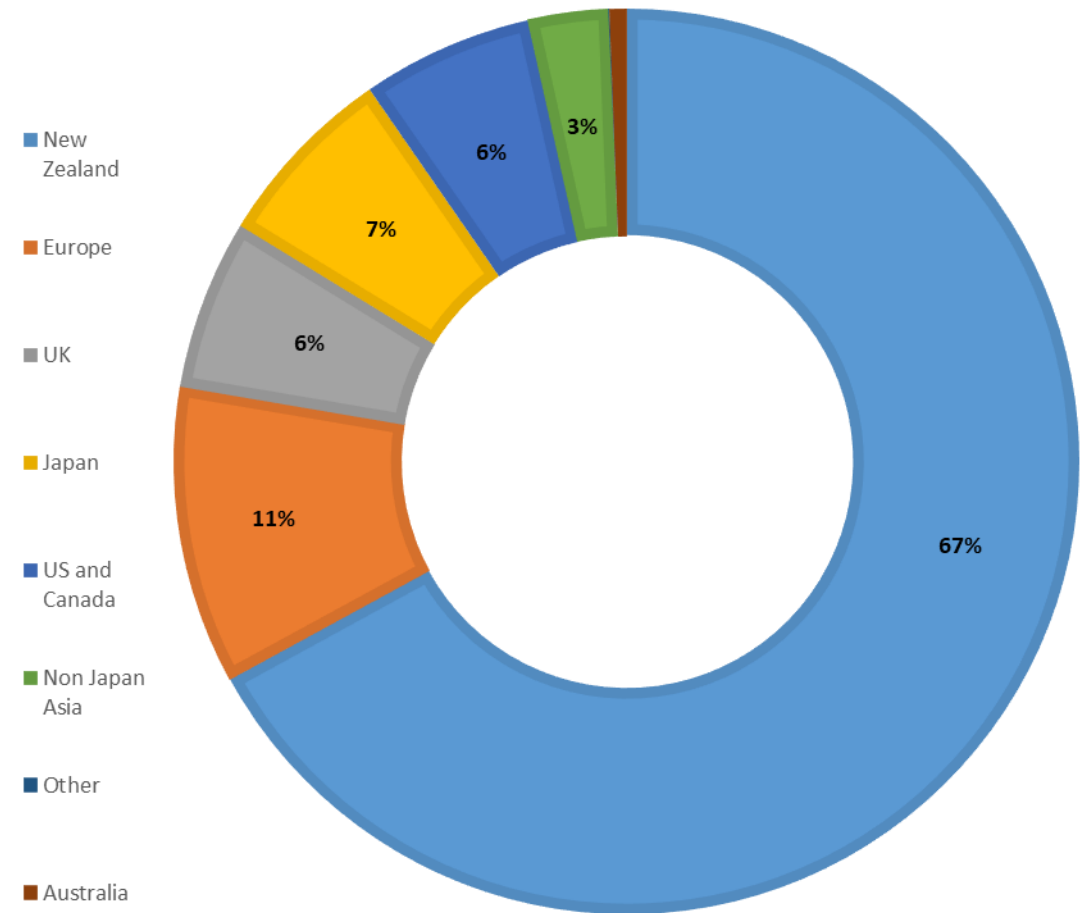
**Note: LGFA analysis of change in investor holdings at Computershare registry. Buy side only, does not capture intra day activity or tender activity. Activity in LGFA bonds excluded six months prior to maturity.**

# WHO HOLDS LGFA BONDS?

**Holdings of LGFA bonds by Investor Group as at 31 July 2019**

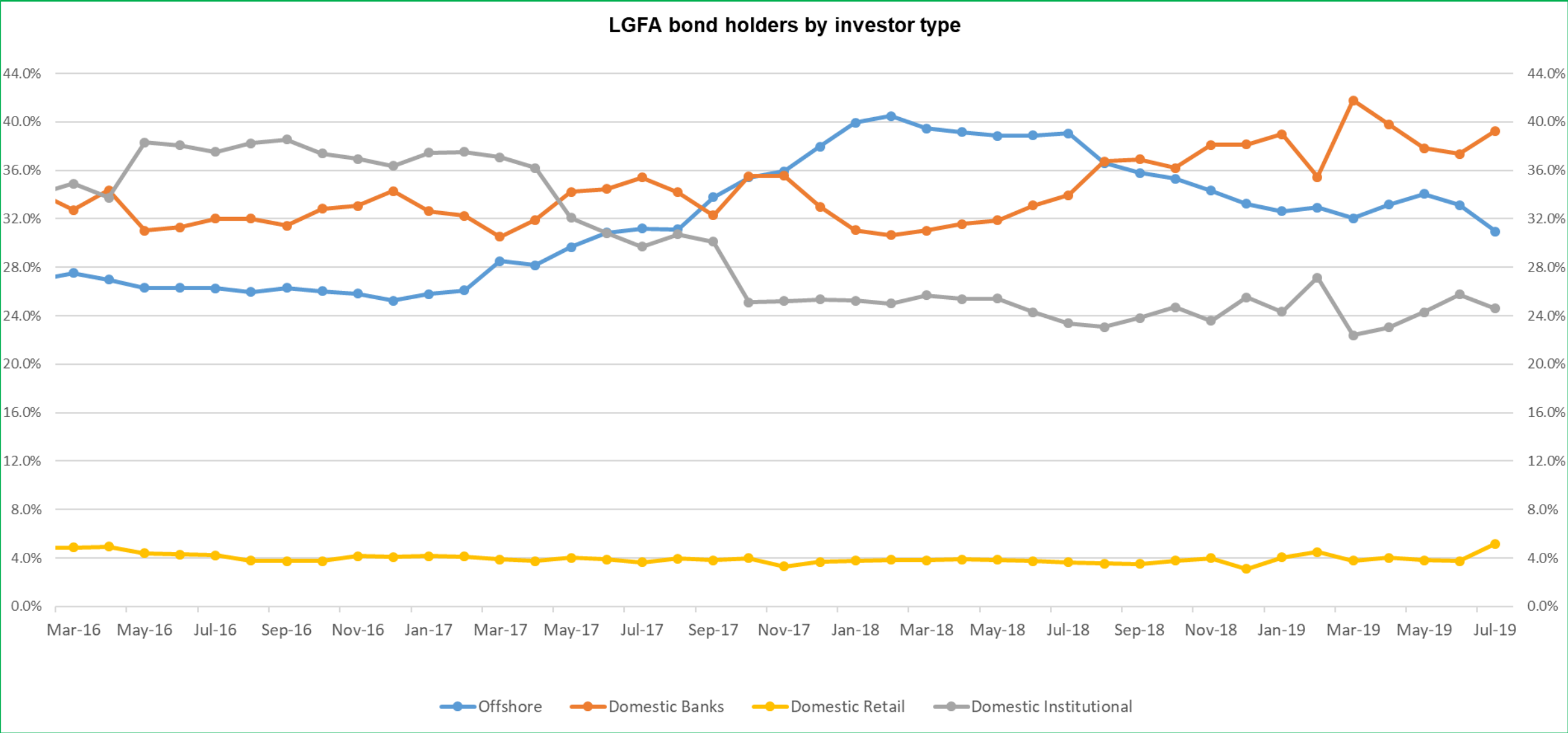


**LGFA BOND HOLDERS BY COUNTRY OF RESIDENCE AS AT 31 MARCH 2019**



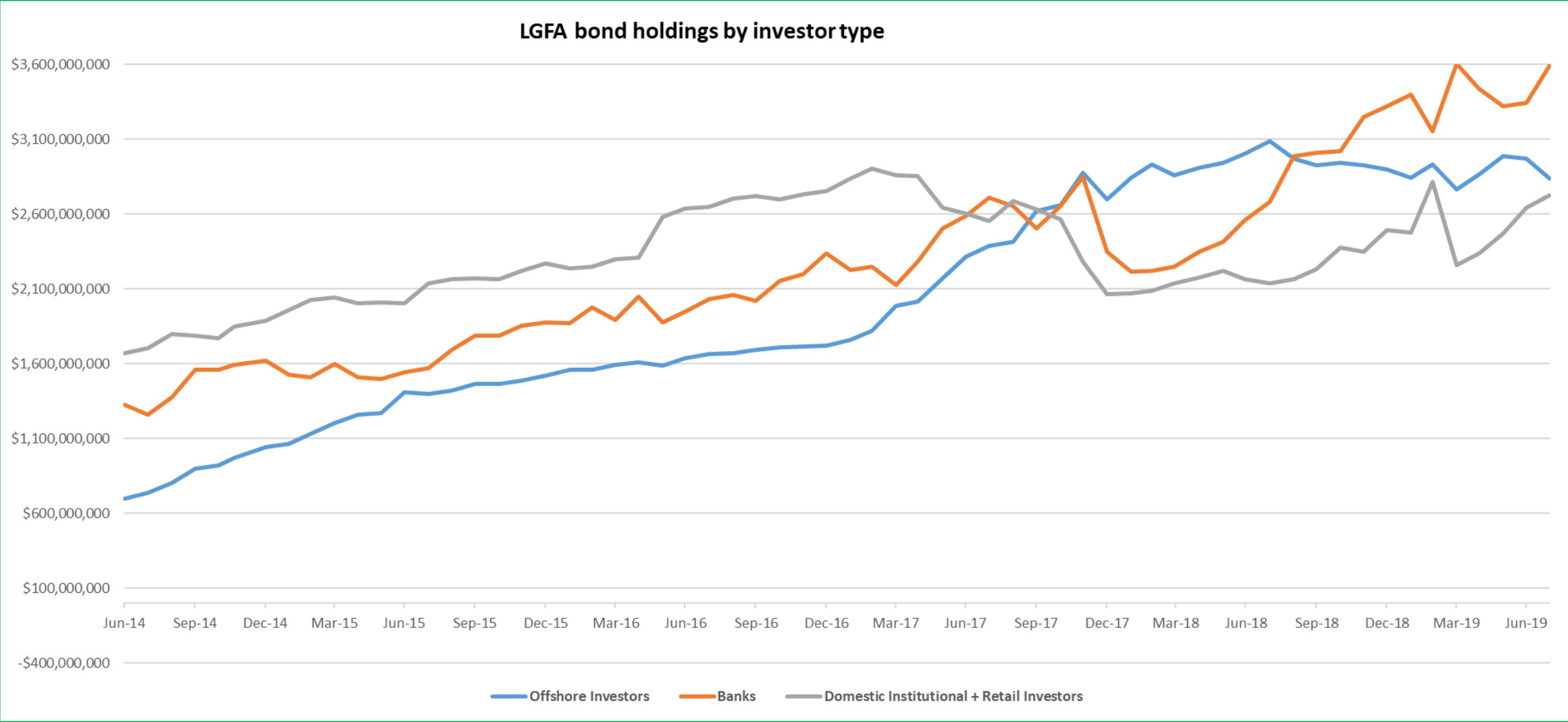
Note that part of Europe holdings are undisclosed custodian holdings on behalf of other countries.

# LGFA INVESTOR HOLDINGS OVER TIME (%)





Source: LGFA

# LGFA INVESTOR HOLDINGS OVER TIME (NZ\$ AMOUNTS)

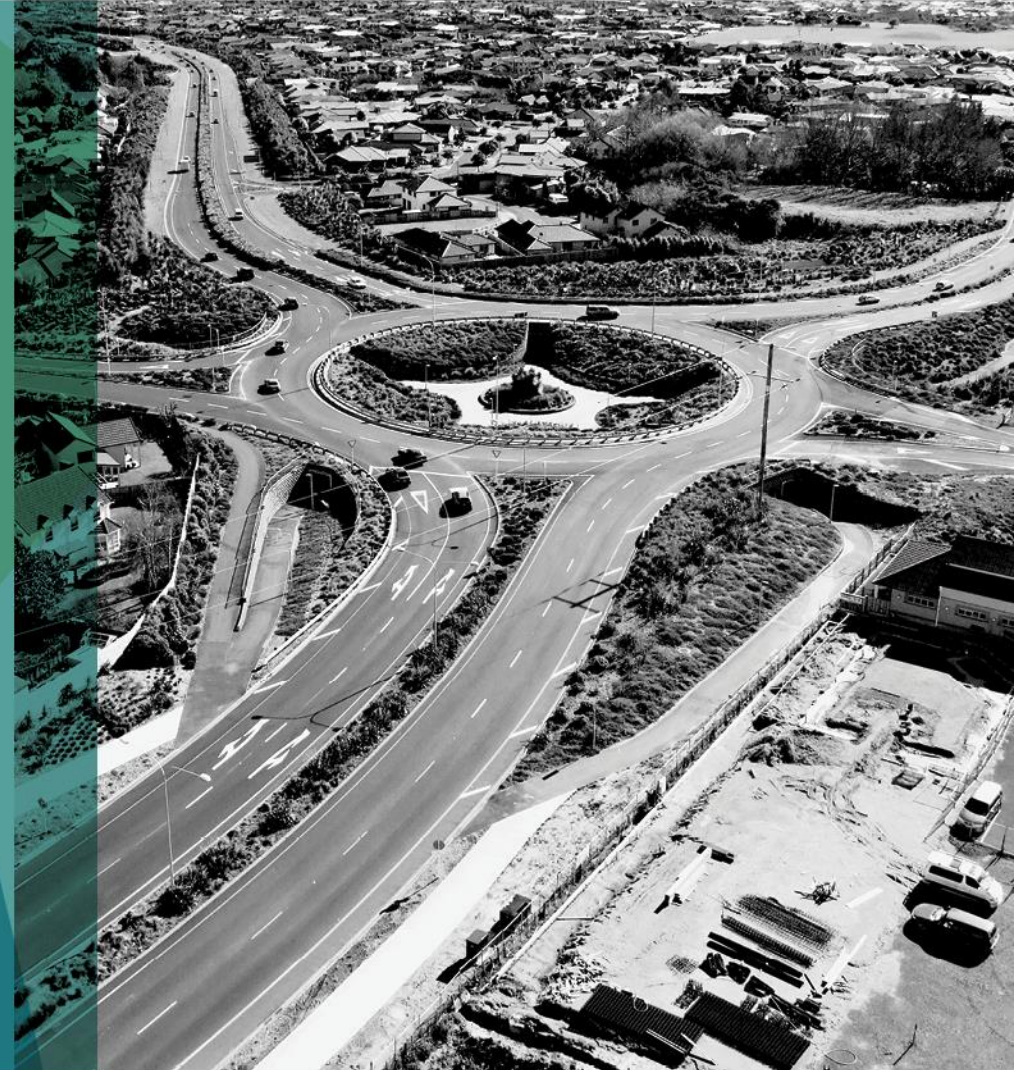


Source: LGFA

- ❑ LGFA in operation since late 2011
- ❑ Primary objective is to optimise debt funding terms and conditions for New Zealand Local Government sector
- ❑ Same credit rating as the New Zealand Sovereign at AA+
- ❑ 31 shareholders, including the New Zealand Government at 20%
- ❑ Strong liquidity position supported by NZ\$1 billion New Zealand Government liquidity facility
- ❑ Experienced and stable management and board
- ❑ Underlying credit quality is the New Zealand Local Government sector
- ❑ LGFA's obligations are guaranteed by 52 local authorities as at 20 August 2019
- ❑ Largest domestic issuer of NZD domestic bonds (excluding New Zealand Sovereign) with current outstandings of NZ\$9.505 billion across eight tranches as at 20 August 2019
- ❑ Objective to have NZ\$1 billion plus size series with soft cap at \$1.5 billion per series
- ❑ 27 to 76 basis point pick up in yield over comparable NZGB maturities

Rating Agency	Domestic Currency	Foreign Currency	Date of Report
	AA+ (positive outlook)	AA (positive outlook)	04 February 2019
	AA+ (stable outlook)	AA (stable outlook)	8 November 2018

- Important Notice and Disclaimer
- LGFA Structure
- LGFA Debt Market Activity
- Key Terms of the Offer
- Appendices

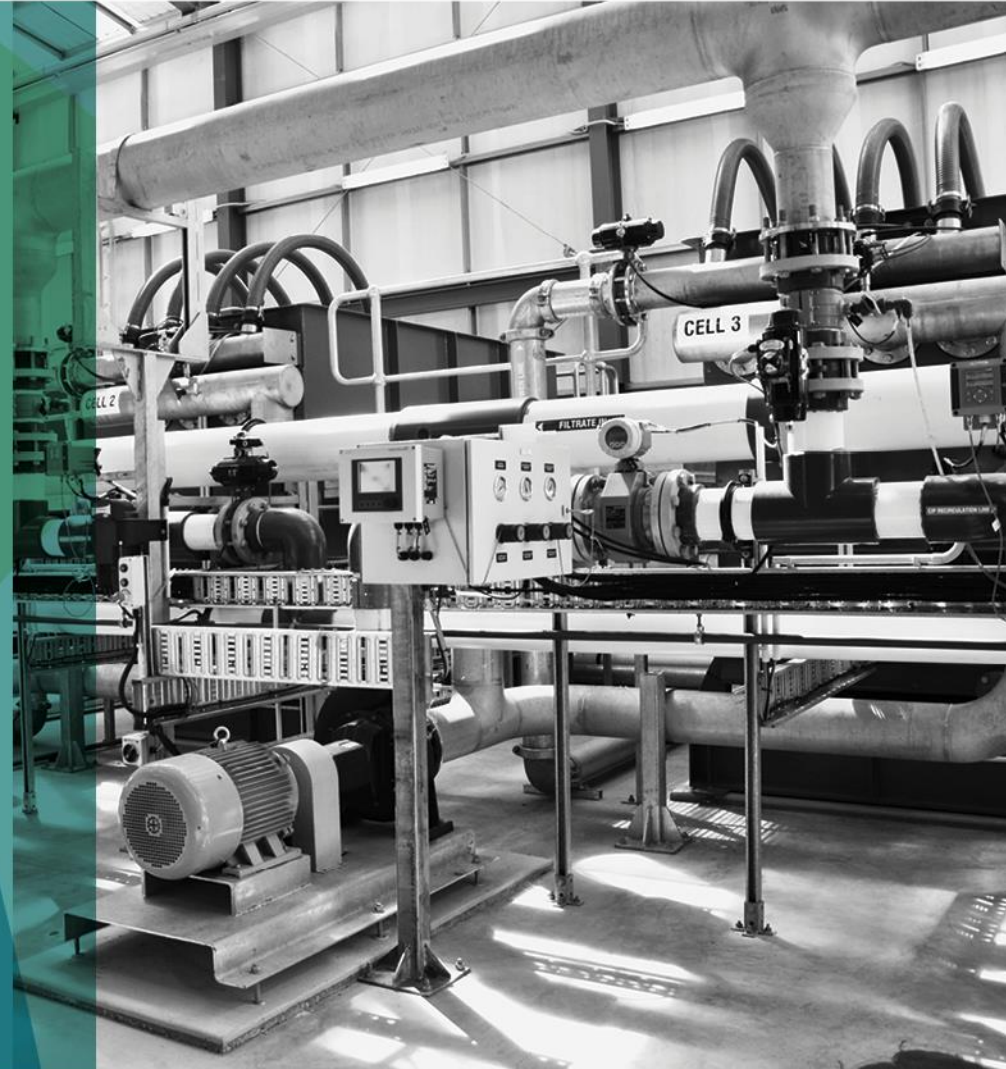


# KEY TERMS OF THE OFFER

Issuer	New Zealand Local Government Funding Agency Limited (“LGFA”)
Description of the Debt Securities	Unsecured, unsubordinated, New Zealand dollar fixed rate bonds with a maturity date of 20 April 2029 (“Bonds”)
Volume	Up to NZ\$350,000,000 with the ability to accept up to a further NZ\$200,000,000 of oversubscriptions at LGFA's discretion. NZ\$50,000,000 of Bonds are reserved for subscription by LGFA, to initially be held as treasury stock for the purposes of its bond lending facility.
Guarantee	A group of 52 New Zealand local authorities as at 20 August 2019 The New Zealand Government does not guarantee any of LGFA’s obligations or liabilities in relation to the Bonds
Maturity Date	20 April 2029
Interest Payments	Semi annual payment in arrear in each year during the term of the Bonds, commencing with a first full coupon / interest payment on 20 October 2019
Minimum Subscription/Transfers	Minimum NZ\$10,000 with multiples of NZ\$1,000 thereafter
Listing	Application has been made to NZX to quote the Bonds on the NZX Debt Market under the code LGF110
Further Issue of Bonds	LGFA does not intend to make a further issue of the Bonds until 6 November 2019
Expected Issue Credit Rating	AA+ (S&P Global Ratings) and AA+ (Fitch)
Approved Issuer Levy (“AIL”)	It is expected that the bonds will be zero rated for AIL



- ❑ Important Notice and Disclaimer
- ❑ LGFA Structure
- ❑ LGFA Debt Market Activity
- ❑ Key Terms of the Offer
- ❑ Appendices



# LGFA HISTORIC FINANCIAL PERFORMANCE

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
<b>Total Income</b>	<b>\$1.0</b>	<b>\$5.7</b>	<b>\$10.2</b>	<b>\$13.9</b>	<b>\$15.5</b>	<b>\$17.5</b>	<b>\$18.9</b>
Operating Expenses	(\$5.2)	(\$3.0)	(\$3.2)	(\$4.7)	(\$6.0)	(\$6.5)	(\$7.1)
<b>Net Profit</b>	<b>(\$4.2)</b>	<b>\$2.6</b>	<b>\$7.0</b>	<b>\$9.2</b>	<b>\$9.5</b>	<b>\$11.0</b>	<b>\$11.8</b>
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
<b>Total Assets</b>	<b>\$943.0</b>	<b>\$2,688.2</b>	<b>\$3,918.2</b>	<b>\$5,411.8</b>	<b>\$7,257.3</b>	<b>\$8,491.4</b>	<b>\$8,779.6</b>
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
<b>Total Liabilities</b>	<b>\$922.3</b>	<b>\$2,664.8</b>	<b>\$3,889.3</b>	<b>\$5,375.6</b>	<b>\$7,213.0</b>	<b>\$8,437.5</b>	<b>\$8,715.3</b>
<b>Shareholder Equity</b>	<b>\$20.8</b>	<b>\$23.4</b>	<b>\$28.8</b>	<b>\$36.3</b>	<b>\$44.2</b>	<b>\$53.9</b>	<b>\$64.3</b>

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

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**