FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms New Zealand's LGFA at 'AA+'; Outlook Stable

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Fitch Ratings - Sydney/Singapore - 29 Sep 2025: Fitch Ratings has affirmed New Zealand Local Government Funding Agency Limited (LGFA)'s Long-Term Foreign- and Local-Currency Issuer Default Ratings (IDRs) at 'AA+' with a Stable Outlook. Fitch has also affirmed LGFA's Short-Term IDR at 'F1+', senior unsecured bonds at 'AA+' and short-term debt programmes at 'F1+'.

LGFA is a government-related entity (GRE) under Fitch's GRE rating criteria and is credit-linked to the New Zealand sovereign (AA+/Stable). LGFA's IDR reflects the government's significant responsibility and incentive to provide financial support, given the agency's key policy role in providing most of the local government financing. LGFA's ratings are equalised with those of New Zealand accordingly.

KEY RATING DRIVERS

Support Score Assessment 'Virtually certain'

We believe extraordinary support from the New Zealand government to LGFA would be 'Virtually Certain' if needed, as reflected in a support score of 55 out of a maximum 60 under our GRE criteria. This is based on our assessment of the government's responsibility and incentive to provide support.

Responsibility to Support

Decision Making and Oversight 'Very Strong'

LGFA's strategic role as New Zealand's primary lender to local governments is reinforced by tight government oversight and operational influence. The central government owns a minority share but exercises strong oversight through legislative mandates, regular reporting to the Department of Internal Affairs, and representation on the shareholders' council. LGFA's alignment with national priorities — such as water reform and emergency response — demonstrates its function as a key policy instrument, operating under close government scrutiny to deliver public sector financing.

Precedents of Support 'Strong'

LGFA benefits from a strong record of government support, reinforcing its strategic role in public sector financing. A NZD1.5 billion committed liquidity facility — currently under review for expansion — acts as a financial backstop, ensuring LGFA's financial stability. Past policy responses, including the Reserve Bank of New Zealand's asset purchases and legislative provisions for direct lending, highlight the government's readiness to act. LGFA has not required substantial financial support to date, but its central role and robust guarantee structure underpin our strong expectation of extraordinary support if needed.

Incentives to Support

Preservation of Government Policy Role 'Very Strong'

Local councils' sector-wide reliance on LGFA for long-term funding makes it integral to the delivery of essential public services across New Zealand. A default would severely disrupt infrastructure projects and undermine economic stability and living standards. Councils have alternative funding options, but these are less favourable and insufficient to fully replace LGFA's role. Its centrality to public service delivery and economic continuity creates a very strong incentive for the government to ensure LGFA's uninterrupted operation.

Contagion Risk 'Very Strong'

LGFA's position as New Zealand's second-largest New Zealand dollar bond issuer after the sovereign underscores its systemic importance in domestic capital markets. This visibility and its deep integration into both local and offshore debt markets make LGFA a reference issuer in New Zealand's capital markets. Any default would trigger investor concern over the government's willingness or ability to support public-sector entities. Such an event could severely impair broader market access and funding conditions. Legislative provisions for government support reinforce our expectation of intervention to safeguard financial stability.

Financial Performance

LGFA reported net operating profit jumped 89% yoy to NZD19.0 million in the financial year ended June 2025, driven by lower offshore borrowing costs and increased liquid-asset holdings. Loans outstanding rose 10% to NZD22.7 billion, reflecting LGFA's central role in financing local infrastructure. Equity strengthened to NZD122 million, supporting resilience, while borrower notes increased to NZD669 million, enhancing loss-absorbing capacity and supporting long-term capital stability.

LGFA continues to manage concentration risk and prepare for water sector reform, with new exposure to water council-controlled organisations mitigated by council guarantees and financial covenants. Its stable profitability and prudent capital management underpin its robust credit profile.

Short-Term Ratings

LGFA's Short-Term IDRs are equalised with those of the sovereign, given the equalisation of the Long-Term IDRs.

Debt Ratings

LGFA's long-term debt obligations are rated in line with its Long-Term IDR. Its short-term programme ratings are aligned to its Short-Term IDR.

PEER ANALYSIS

Peer analysis highlights varying degrees of government support across financial GREs. Entities assessed in the highest support category, including LGFA, typically exhibit tight sovereign linkage, strong contagion risk implications, and direct oversight. Lower support categories reflect diluted ownership structures, narrower policy roles, or substitutability of services. Equalisation to sponsor government ratings is generally driven by explicit guarantees or robust support frameworks. Differences in legal obligations, ownership concentration and strategic importance influence the assessment of support strength across peers.

Issuer Profile

LGFA is a centralised financing entity for New Zealand's local government sector. Its primary objective is to raise debt for local authorities to optimise their debt funding terms and conditions.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

LGFA's ratings could be downgraded on negative rating action on the New Zealand sovereign or a weaker assessment of the government's responsibility or incentive to provide support that leads to a support score of less than 45 under our GRE criteria.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

Positive rating action on the New Zealand sovereign would result in the same action on LGFA's ratings.

Criteria Variation

A variation to the Government-Related Entities Rating Criteria was applied to the "Issuers with no SCPs" provision, under which Fitch determined that assigning a Standalone Credit Profile (SCP) to LGFA is unnecessary for the analysis, even though the specific conditions to consider an SCP "not meaningful" defined in the criteria were not strictly met.

Government support, underpinned by a clear policy mandate, is assessed as 'Virtually Certain'. This, along with our assessment that the entity is not in financial distress (where default is a real possibility) and the supporting government would have ample access to the cash or assets of the GRE such that the rating would be constrained by that of the New Zealand government, leads to our conclusion there is no risk that the IDR would differ if an SCP were assigned, nor would an assessment of an SCP enhance the analysis at this stage.

ESG Considerations

Fitch does not provide ESG relevance scores for LGFA. Where Fitch does not provide ESG relevance scores in connection with the credit rating of a transaction, programme, instrument or issuer, Fitch will disclose any ESG factor that is a key rating driver in the key rating drivers section of the relevant rating action commentary. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/topics/esg/products

PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

The ratings of LGFA are directly linked to those of New Zealand.

References for Substantially Material Source Cited as Key Driver Rating

The principal sources of information used in the analysis are described in the Applicable Criteria.

RATING ACTIONS

ENTITY / DEBT	RATING			PRIOR
New Zealand Local Government Funding Agency Limited (LGFA)	LT IDR	AA+ Rating Outlook Stable	Affirmed	AA+ Rating Outlook Stable
	ST IDR	F1+	Affirmed	F1+
	LC LT IDR	AA+ Rating Outlook Stable	Affirmed	AA+ Rating Outlook Stable
	LC ST IDR	F1+	Affirmed	F1+
senior unsecured	LT	AA+	Affirmed	AA+
senior unsecured	ST	F1+	Affirmed	F1+

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Public Policy Revenue-Supported Entities Rating Criteria (pub. 13 Jan 2024) (including rating assumption sensitivity)

Government-Related Entities Rating Criteria (pub. 19 Jul 2025)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

New Zealand Local Government Funding Agency Limited (LGFA)	EU Endorsed, UK Endorsed

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