

29 February 2016

Dear Shareholder

Draft Statement of Intent 2016/17

Please find attached a copy of the Draft Statement of Intent (SOI) for the 2016/17 year.

LGFA continues to focus on delivering strong results for both our council borrowers and shareholders.

For our borrowing councils we seek to optimize funding terms and conditions by

- Achieving savings in borrowing costs
- Provide longer dated funding and
- Provide certainty of access to markets

For our shareholders we are focused on

- Delivering a strong financial performance
- Monitoring asset quality and
- Enhancing our approach to treasury and risk management and

The following points regarding the Draft SOI are worth noting

- Profitability is forecast to be higher in the outer years as a result of higher Net Interest revenue on increased Local Government loans. Expenses are modestly higher in the outer years due to NZX listing fees.
- Net Interest revenue is forecast to be higher in the outer years due to an increase in the value of loans to Local Government. We have increased our forecast for Local Government loans outstanding as at June 2017 to \$7.605 billion and to \$8.226 billion as at June 2018 (from \$7.095 billion and \$7.735 billion in the previous SOI).
- We have made no changes to the on-lending margins given the base lending margin now averages 10bps. Further reductions in the base margin is unlikely as we need to ensure we have sufficient capital to match the growth in the balance sheet. LGFA on-lending margins are the narrowest margins compared with our international peers.
- Compare to the previous SOI, Issuance and on-lending costs are forecast to be higher due to the NZX listing fees and an increase in forecast Approved Issuer Levy (AIL) payments to \$1.75 million as a result of growing offshore investor participation in LGFA bonds. The positive impact from the growth in offshore investors is the diversification of the LGFA investor base. This will have a positive impact on LGFA cost of funds (and council borrowing costs) as we

enter an environment of more challenging market conditions for all borrowers compared to previous years.

- The SOI performance targets are similar to the previous targets except that we now include short dated lending in the volume and pricing measures.
- There is some timing uncertainty within the SOI forecast relating to Local Government loans and LGFA bonds outstanding as we now have to project both the repayment amount and repayment timing of the Local Government loans that are due to mature in December 2017. While the loans and bonds do not mature for another twenty-one months, decisions made by our council members regarding early refinancing will have a phasing impact across the 2016/17 and 2017/18 years.

If you have any questions or wish to provide comments then please feel free to contact myself or any member of the Shareholders Council.

Yours sincerely



Mark Butcher
Chief Executive