



LGFA  New Zealand
Local Government
Funding Agency

New Zealand Local Government Funding Agency Limited

Half Year Report
31 December 2012

New Zealand Local Government Funding Agency Limited

Half Year Report
31 December 2012

Contents		Page
Directors' Commentary on Operations		2
Performance Against Objectives and Performance Targets		3
Financial statements		9
Directors' declaration		10
Statement of comprehensive income		11
Statement of changes in equity		11
Statement of financial position		12
Statement of cash flows		13
Notes to financial statements		
1	Reporting entity	14
2	Summary of significant accounting policies	14
3	Hedge accounting	14
4	Issuance and on lending expenses	14
5	Operating expenses	15
6	Loans to local government	15
7	Bonds issued	16
8	Borrower notes	17
9	Reconciliation of net profit to net cash flow from operating activities	18
10	Share capital	18
11	Related parties	19
12	Subsequent events	20
Directory		Inside back cover

Directors' Commentary on Operations For the six months ended 31 December 2012



“LGFA has achieved a substantial reduction in funding costs for councils, while at the same time significantly exceeding the financial forecasts set out in our Statement of Intent 2012/13”

Craig Stobo, Chairman LGFA Board

We are pleased to record a number of achievements in the half year ended 31 December 2012 that will provide a strong platform for continued success in 2013.

Strong support from local authorities has contributed greatly to our success, and we are delighted to welcome our 12 new shareholders who joined us on 30 November 2012. They are:

Gisborne District Council
Hauraki District Council
Horowhenua District Council
Hutt City Council
Kapiti Coast District Council
Manawatu District Council
Marlborough District Council
Palmerston North City Council
Thames-Coromandel District Council
Waimakariri District Council
Wanganui District Council
Whakatane District Council

This brings the total number of shareholders in LGFA to 31, comprising 30 participating councils and the New Zealand Government. It is also pleasing to note that eight of these new shareholders borrowed from us at our final bond tender for the year held on 12 December 2012.

A further six councils have joined LGFA as borrowers and guarantors on 18 February 2013, with several others seeking to join before the end of the financial year.

By 31 December 2012, LGFA had lent \$1.53 billion to 24 participating councils. This outcome is more than double the lending volume forecast in our current Statement of Intent (SOI).

It is not only the amount of lending to councils that has exceeded initial expectations. At 31 December 2012, we estimate that LGFA was saving AA rated councils approximately 34 basis points (bps) in annual interest costs on a five year security. For A rated and unrated councils, we estimate the savings in annual interest costs to be around 39 bps and 44 bps respectively.

LGFA has achieved a substantial reduction in funding costs for councils, while at the same time significantly exceeding the financial forecasts set out in our SOI 2012/13.

Our net operating profit for the half year ended 31 December 2012 (\$787,000) exceeds the SOI forecast for full year profit in 2012/13.

Fitch Ratings and Standard & Poor's have both recognised our strong credit fundamentals by affirming LGFA's local currency rating at AA+ and foreign currency rating at AA, both with stable outlooks. These credit ratings are the same as the New Zealand sovereign ratings.

We are delighted that our success has been recognised by KangaNews. In the KangaNews Awards 2012, LGFA won New Zealand Domestic Issuer of the Year.

We also appreciate the Crown's continuing involvement as the largest single shareholder in LGFA, and as provider of operational support and a significant liquidity facility through the New Zealand Debt Management Office (NZDMO).

Performance Against Objectives and Performance Targets For the six months ended 31 December 2012

1 Primary objective

LGFA operates with the **primary objective** of optimising the debt funding terms and conditions for participating local authorities. Among other things this includes:

1.1 Providing debt to participating local authorities at the lowest possible interest rates commensurate with the relevant maturity

LGFA has met its primary objective by continuing to achieve significant improvement in the pricing of our benchmark 15 December 2017 bond. Most of this improvement was obtained in the June quarter, with further solid improvement of 11 bps achieved in the six months ended 31 December 2012.

The December 2017 maturity is regarded as our benchmark bond because it has the largest volume outstanding, the most liquidity and longest history of issuance.

From the inaugural tender held on 15 February 2012 to date, there has been a substantial improvement of 43 bps in the December 2017's margin to swap (as outlined in the table below):

Margins	15 Feb 2012 (bps)	31 Dec 2012 (bps)	Pricing improvement
LGFA margin to NZ Government Bonds	113	66	47
NZGB margin to swap	(24)	(20)	(4)
LGFA margin to swap	89	46	43

This pricing improvement has followed LGFA's ongoing marketing activities, including:

- Speaking as part of a New Zealand presentation series (with NZDMO and the Reserve Bank of New Zealand) at the fifth Annual Australasian Fixed Income Conference in Sydney, organised by the Commonwealth Bank of Australia. This provided an opportunity to highlight LGFA's performance in 2012 to a group of approximately 50 investors from Australia, New Zealand, Asia, Europe and the United States.
- Undertaking regular meetings with investors and intermediaries.

1.2 Making longer-term borrowings available to participating local authorities

We continued to offer two maturities in excess of five years to participating councils:

- 15 December 2017 bond (five years), first issued at the inaugural bond tender held on 15 February 2012.
- 15 March 2019 bond (just over six years), first issued at the fourth bond tender held on 6 June 2012.

It is also interesting to note that council demand has been very strong for these longer-term maturities. During the 2012 calendar year, our December 2017 and March 2019 bonds accounted for 89% of total issuance.

1.3 **Enhancing the certainty of access to debt markets for participating local authorities, subject always to operating in accordance with sound business practice**

Access to debt markets has been enhanced by the consistently strong cover ratios achieved at all LGFA bond tenders held in 2012. Our cover ratio (ie ratio of total amount bid to total amount offered) for each tender has been:

Tender	Volume bid (\$m)	Volume offered (\$m)	Cover ratio (times)
1 15 February 2012	1,320	300	4.4
2 21 March 2012	959	265	3.6
3 2 May 2012	855	140	6.1
4 6 June 2012	752	130	5.8
5 11 July 2012	546	145	3.8
6 22 August 2012	245	75	3.3
7 3 October 2012	922	275	3.4
8 7 November 2012	648	130	5.0
9 12 December 2012	327	75	4.4

From the table, it is important to note that for the period July to December 2012:

- Total bids received amounted to \$2.7 billion.
- The average cover ratio has been 3.8 times.
- Our lowest cover ratio is 3.3 times.
- LGFA's average cover ratio compares favourably to the average of 3.4 times achieved by NZDMO over the same period.

2 Additional objectives

LGFA has a number of additional objectives which complement the primary objective. These additional objectives are to:

2.1 **Operate with a view to making a profit sufficient to pay a dividend in accordance with its stated Dividend Policy set out in section 6 of the Statement of Intent**

Two key factors have contributed to LGFA performing ahead of budget in the first six months of 2012/13:

- Bond issuance (\$1.535 billion) and on-lending activity (\$1.530 billion) were significantly higher than forecast.
- Overheads have been well contained.

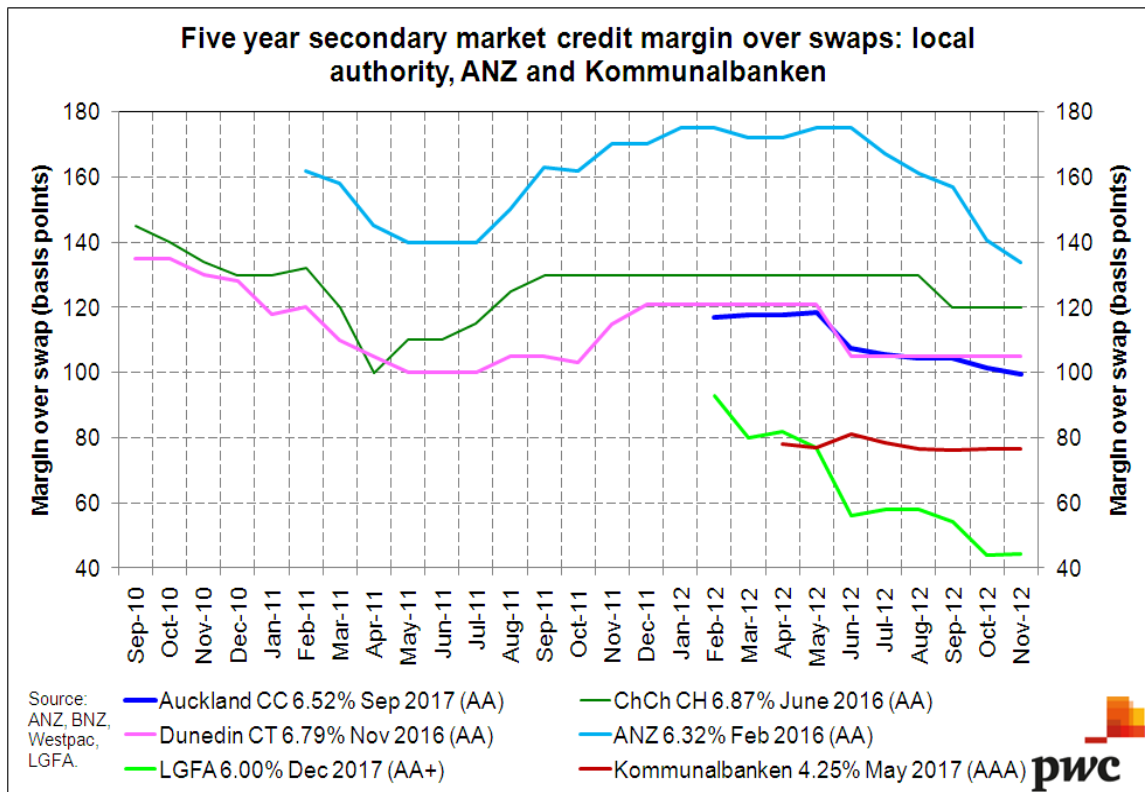
As a result, LGFA anticipates being in a position to consider a larger first dividend payment than forecast in the SOI.

2.2 **Become the primary source of debt funding for participating local authorities**

Councils have strongly supported LGFA to date. During 2012, 16 (out of 18) inaugural participating councils borrowed from LGFA. Following the Second Opening on 30 November 2012, at the end of the calendar year, a further eight of the twelve new shareholders had borrowed from LGFA. In all, 24 out of 30 participating councils had borrowed from LGFA by 31 December 2012.

2.3 **Operate in a manner to ensure LGFA is successful and sustainable in the long-term**

The key to LGFA's long-term sustainability is to ensure that it can always fund councils at lower rates than they can fund themselves. To provide evidence of LGFA's performance against this objective, we have included the chart below (produced by PricewaterhouseCoopers). This chart compares LGFA's spread to swap against a number of other issuers for five year maturities.



From the chart above, we estimate that as at 31 December 2012, LGFA was saving AA rated councils approximately 34 bps in annual interest costs on a five year security.

The basis for this estimate is set out in the table below:

Margins on 15 December 2017 bond	31 December 2012 (bps)
AA rated councils margin to swap	100
Less: LGFA margin to swap	(46)
LGFA Funding Advantage	54
Less: LGFA Base Margin	(30)
LGFA Net Funding Advantage	24
Add: 'LGFA Effect' *	10
Total saving for AA rated councils	34

* *The 'LGFA effect' represents the estimated conservative reduction in AA rated councils margin to swap as a result of LGFA operations. From May to June 2012, the margin to swap for AA rated councils fell by 10 bps, with no corresponding move in swap spreads for other borrowers. This suggests that potential access to cost effective LGFA funding has enabled these councils to reduce their borrowing margin by around 10 bps.*

Using similar analysis, we estimate that as at end December 2012, LGFA was saving A rated councils approximately 39 bps and unrated councils around 44 bps in annual interest costs on a five year borrowing.

2.4 Educate and inform all local authorities (both participating and non-participating) on matters within the scope of LGFA's operations

During the six months ended 31 December 2012, LGFA:

- Issued a press release (13 December) to inform all local authorities that 12 new shareholders had joined LGFA (with eight of them borrowing at the December bond tender), and that LGFA won New Zealand Domestic Issuer of the Year at the KangaNews Awards 2012.
- Participated in a Fiscal Thresholds Working Party convened by LGNZ, as part of the Better Local Government reform programme.

- Supported the work of the recently established Local Government Infrastructure Expert Advisory Group (with one of our Directors also appointed as a member of the Advisory Group).
- Responded to media reports that Kaipara District Council intended to join LGFA by clarifying the terms and conditions of membership, and the responsibility that LGFA has to lend to participating councils on a prudent basis.
- Organised a New Borrowers Forum held in Wellington on 31 July, attended by 18 councils (and their advisors) to learn about the process involved in becoming a new borrower from LGFA.
- Wrote to non-participating councils seeking interest from those wishing to join LGFA as a shareholder in the Second Opening on 30 November 2012.

2.5 Become a leading participant in the New Zealand capital markets

The LGFA featured in four articles from KangaNews. These articles provide evidence of the considerable interest in LGFA's activities from both the domestic and international investor base. The articles are:

- A New Zealand update featuring NZDMO and LGFA, published in the December 2012 Supplement edition of KangaNews.
- Write-ups on the winners of the KangaNews Awards 2012, featuring LGFA as the New Zealand Domestic Issuer of the Year. These were published in the December 2012/January 2013 edition of KangaNews.
- KangaNews' coverage of a roundtable discussion between corporate and local government issuers, and investors, in its September 2012 edition.
- A feature article on LGFA's performance during its first six months of operation, also in the September 2012 edition of KangaNews.

2.6 Provide excellent service to participating local authorities

Following completion of the Second Opening on 30 November 2012, eight of the twelve new shareholders chose to participate in the bond tender held on 12 December 2012. Seven of these eight councils were borrowing from LGFA for the first time. In all, a record nine councils participated in the last bond tender of the 2012 year. Our operational processes have been fine-tuned throughout 2012, to the point where no issues were reported during settlement on 17 December.

Prior to the ninth bond tender, LGFA also provided additional information to all participating councils. For the first time, detailed pricing results from the previous tender (in terms of LGFA margins to NZGBs and mid-swap, and swap pricing from NZDMO) were included in our tender notification email to all borrowing councils. This enabled participating councils to make informed choices about whether to borrow from LGFA on a fixed or floating rate basis.

2.7 Ensure excellent communication exists and be professional in its dealings with all its stakeholders

During the six months ended 31 December 2012, LGFA:

- Held its inaugural Annual General Meeting on 13 November 2012. At the meeting shareholders approved an amendment to the Shareholders' Agreement to reduce the utilisation commitment period for new shareholders (joining at the Second Opening) to approximately two years (from three years). Useful feedback on LGFA's dividend and margin policies was also received from shareholders.
- Successfully completed the Second Opening on 30 November 2012. At the end of this process, \$1.3 million of LGFA shares were transferred from twelve existing shareholders to twelve new shareholders, with all transactions settled smoothly.
- Conducted regular media interviews (eg interest.co.nz, Bloomberg News) and contributed to KangaNews articles to ensure that markets (both domestically and internationally) are well informed about LGFA's activities and operations.
- Maintained regular communication with intermediaries and investors to review and revise its debt issuance strategies.

2.8 **Ensure its products and services are delivered in a cost-effective manner**

During the six months ended 31 December 2012, LGFA:

- Charged a 'base' margin to councils that averaged 0.30%, well below the maximum permitted of 0.40%.
- Restricted operating costs (for the six month period ended 31 December 2012) to approximately \$250,000 per month, below the monthly target of around \$267,000.

2.9 **Consult with Shareholders regarding the potential requirement for LGFA Borrowers to obtain comprehensive insurance cover**

Following settlement of the ninth bond tender on 17 December 2012, LGFA has now on-lent \$1.530 billion to councils. To date, there has been no requirement for borrowers to obtain or retain comprehensive insurance cover.

- LGFA's current credit assessment approach is to consider insurance cover along with various business interruption risks (including risks to physical assets) as part of an overall credit risk assessment of individual councils. In this regard, LGFA is aware that self-insurance arrangements eg. via the accumulation of financial assets, may be as effective as external insurance cover.
- LGFA will undertake future consultation with shareholders on the appropriate level of insurance cover for borrowers.

2.10 **Review the appropriateness of LGFA's 'broker' business model**

The success of the 'broker' business model is evident from three key factors:

- Overall profitability (ie the retained earnings position) has significantly exceeded budget in the first year of operations.
- Profitability has been achieved without the need for LGFA to take on significant interest rate risk eg. Value-at-Risk¹ is currently running at only 15% of policy limits.
- Significant improvement in the pricing of LGFA bonds has generated estimated savings for AA-rated council borrowers of around 34 bps in annual interest costs (refer 2.3).

2.11 **Maintain LGFA's credit rating equal to the New Zealand Government sovereign rating where both entities are rated by the same Rating Agency**

- On 30 November 2012, Fitch affirmed LGFA's local currency credit rating at AA+ and foreign currency credit rating at AA. The outlook on both ratings is stable.
- On 20 December 2012, Standard & Poor's affirmed LGFA's local currency credit rating at AA+ and foreign currency credit rating at AA. The outlook on both ratings is stable.
- LGFA's credit ratings from both Fitch and Standard & Poor's are the same as the New Zealand sovereign ratings.

2.12 **Achieve the Financial Forecasts set out in section 4 of the Statement of Intent**

LGFA's actual financial results (for key items set out in section 4 of the SOI), for the six month period ended 31 December 2012 are compared with forecast in the table below. For completeness, we have also included the full year forecast for 2012/13.

¹ Value-at-Risk (VaR) is a statistical market risk management tool which seeks to determine the largest dollar loss likely to be suffered by LGFA over a 1 day period with a 95% confidence level.

<i>In \$m</i>	31 Dec 2012 Actual	31 Dec 2012 SOI Forecast	30 Jun 2013 SOI Full Year Forecast
Total Net Income	2.64	1.76	3.9
Overheads	(1.51)	(1.32)	(2.7)
Net Profit	1.13	0.44	1.2
Borrower Notes Interest	(0.34)	(0.20)	(0.5)
Surplus (before dividend)	0.79	0.24	0.7

2.13 Achieve the Dividend Policy set out in section 6 of the SOI

Refer to comments in 2.1

3 Performance Targets

Six performance targets are specified for LGFA in the SOI. Progress against each of these targets is discussed below, including an explanation of any material variances.

Current performance targets	Target	Result	Outcome
1 Average cost of funds relative to NZGS	<0.50%	0.84%	No ¹
2 Average base on-lending margin above LGFA's cost of funds	<0.40%	0.30%	Yes
3 Annualised operating overheads	<\$3.2 million	\$3.0 million	Yes
4 Lending to participating councils	>\$900 million	\$1,530 million	Yes
5 Number of shareholder councils	≥30	30	Yes
6 Number of eligible borrowers	≥40	30	No ²

- There are two key reasons for LGFA's relative cost of funds averaging 34 bps over the target level of 50 bps:
 - The European debt crisis has increased the margins of all other issuers above sovereign borrowers, particularly in countries like New Zealand where the sovereign is highly rated.
 - Only longer dated bonds (December 2017s and March 2019s) were issued at the three tenders held during the December quarter. While this reflected council demand for funding, longer dated bonds price at a relatively higher margin above NZGS than shorter dated bonds.
- As at the target date of 30 November 2012, no councils were ready to join LGFA as borrowers (other than the new shareholders). Subsequently, six councils joined LGFA as borrowers and guarantors on 18 February 2013, with five of these participating in the bond tender held on 20 February 2013.

A further six councils have indicated a firm intention to join LGFA as borrowers prior to 30 June 2013. Consequently, we are very confident that LGFA will have at least 40 eligible borrowers by the end of the current financial year.

New Zealand Local Government Funding Agency Limited

Financial statements

Contents

Page

Financial statements		
Directors' declaration		10
Statement of comprehensive income		11
Statement of changes in equity		11
Statement of financial position		12
Statement of cash flows		13
Notes to financial statements		
1	Reporting entity	14
2	Summary of significant accounting policies	14
3	Hedge accounting	14
4	Issuance and on lending expenses	14
5	Operating expenses	15
6	Loans to local government	15
7	Bonds issued	16
8	Borrower notes	17
9	Reconciliation of net profit to net cash flow from operating activities	18
10	Share capital	18
11	Related parties	19
12	Subsequent events	20

Directors' declaration

In the opinion of the directors of the New Zealand Local Government Funding Agency Limited, the financial statements and notes on pages 11 to 20:

- comply with New Zealand generally accepted accounting practice and give a true and fair view of the financial position of the Company as at 31 December 2012, and
- have been prepared using appropriate accounting policies, which have been consistently applied and supported by reasonable judgements and estimates.

The directors believe that proper accounting records have been kept which enables, with reasonable accuracy, the determination of the financial position of the Company and facilitates the compliance of the financial statements with the Financial Reporting Act 1993.

The directors consider that they have taken adequate steps to safeguard the assets of the Company, and to prevent and detect fraud and other irregularities. Internal control procedures are also considered to be sufficient to provide a reasonable assurance as to the integrity and reliability of the financial statements.

For and on behalf of the Board of Directors:



C. Stobo
Director
27 February 2013



A. Foote
Director
27 February 2013

NEW ZEALAND LOCAL GOVERNMENT FUNDING AGENCY LIMITED

Statement of comprehensive income (unaudited)

For the six months ended 31 December 2012

in \$000s

	Note	31 Dec 2012
Interest income from		
Cash and cash equivalents		242
Loans to local government		23,938
Marketable securities		133
Deposits		419
Derivatives	3	6,507
Total interest income		31,239
Interest expense on		
Bonds	3	28,601
Borrower notes		345
Total interest expense		28,946
Net interest income		2,293
Operating expenses		
Issuance and on-lending expenses	4	579
Operating expenses	5	927
Total expenses		1,506
Net operating profit (loss)		787
Total comprehensive income (deficit) for the period		787

Statement of changes in equity (unaudited)

For the six months ended 31 December 2012

in \$000s

	Note	Share capital	Retained earnings	Income for period	Total equity
Opening balance at 30 June 2012		25,000	(4,243)		20,757
Income for the period				787	-
Total comprehensive income / (deficit) for the period				787	
Share capital	10	-			
Closing balance at 31 December 2012		25,000	(4,243)	787	21,544

These statements are to be read in conjunction with the notes to the financial statements

NEW ZEALAND LOCAL GOVERNMENT FUNDING AGENCY LIMITED

Statement of financial position (unaudited)

As at 31 December 2012

in \$000s

	Note	31 Dec 2012 Unaudited	30 Jun 2012 Audited
Assets			
Financial assets			
Cash and cash equivalents		22,653	18,363
Trade and other receivables		16	87
Loans to local government	6	1,551,437	832,715
Marketable securities		10,508	10,708
Deposits		23,841	23,693
Derivatives in gain		98,916	57,261
Non-financial assets			
Prepayments		93	179
Property, plant and equipment		13	13
Total assets		1,707,477	943,019
Liabilities			
Financial liabilities			
Trade and other payables		283	79
Accrued expenses		213	98
Bonds	7	1,660,494	908,864
Borrower notes	8	24,943	13,221
Total liabilities		1,685,933	922,262
Equity			
Share capital		25,000	25,000
Current earnings		787	
Retained earnings		(4,243)	(4,243)
Total equity		21,544	20,757
Total equity and liabilities		1,707,477	943,019

These statements are to be read in conjunction with the notes to the financial statements

NEW ZEALAND LOCAL GOVERNMENT FUNDING AGENCY LIMITED

Statement of cash flows (unaudited)

For the six months ended 31 December 2012

in \$000s

	Note	2012
Cash flow from operating activities		
Cash applied to loans to local government ¹		(716,903)
Interest paid on bonds issued		(25,666)
Interest received from cash and cash equivalents		243
Interest received from loans to local government		22,119
Interest received from marketable securities		333
Interest received on deposits		471
Net interest on derivatives		5,132
Payments to suppliers and employees		(1,030)
Net cash flow from operating activities	9	(715,301)
Cash flow from investing activities		
Purchase of marketable securities		-
Purchase of deposits		(200)
Purchase of plant and equipment		-
Net cash flow from investing activities		(200)
Cash flow from financing activities		
Cash from equity		-
Cash proceeds from borrower notes		11,376
Cash proceeds from bonds issued ¹		748,695
Cash applied to derivatives		(40,280)
Net cash flow from financing activities		719,791
Net (decrease) / increase in cash		4,290
Cash and cash equivalents at beginning of year		18,363
Cash and cash equivalents at end of year		22,653

1 Cash applied to loans to local government (operating activities) is sourced from cash proceeds from bonds issued (financing activities).

These statements are to be read in conjunction with the notes to the financial statements

Notes to the financial statements

1 Reporting entity

The New Zealand Local Government Funding Agency Limited (LGFA) is a company registered under the Companies Act 1993 and is subject to the requirements of the Local Government Act 2002.

LGFA is controlled by participating local authorities and is a council-controlled organisation as defined under section 6 of the Local Government Act 2002. LGFA is a limited liability company incorporated and domiciled in New Zealand.

The primary objective of LGFA is to optimise the debt funding terms and conditions for participating local authorities.

The registered address of LGFA is c/- Russell McVeagh, Vero Centre, 48 Shortland Street, Auckland.

The financial statements are for the 6 month period ended 31 December 2012.

These financial statements were authorised for issue by the Directors on 27 February 2013.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out in the New Zealand Local Government Funding Agency annual report to 30 June 2012. These policies have been consistently applied to the reporting period to 31 December 2012.

These interim financial statements of the New Zealand Local Government Funding Agency have been prepared in accordance with New Zealand generally accepted accounting practice. They comply with NZ IAS 34 (apart from the requirement to disclose comparative figures as the comparable period was a one month period following the incorporation of the company on 1 December 2011).

3 Hedge accounting

LGFA is exposed to interest rate risk from fixed rate borrowing and variable rate lending to councils. LGFA manages this interest rate risk through the use of interest rate swaps. For hedge accounting purposes, LGFA has designated these swaps in fair value relationships to its fixed rate borrowing.

The gain or loss on the hedging instrument and the hedged item attributable to the hedged risk for fair value hedge relationships is shown in the table below.

For the six months ended 31 December 2012 (unaudited) in \$000s	Note	Gain/(loss)
Hedging instruments – interest rate swaps (derivatives)		15,842
Hedged item attributable to the hedged risk – fixed rate bonds	7	(15,842)
Ineffectiveness recognised in profit or loss arising from fair value hedges		-

4 Issuance and on lending expenses

For the six months ended 31 December 2012 (unaudited) in \$000s	2012
Approved Issuer Levy	8
NZDMO processing fees	70
NZDMO standby facility fee	125
Legal fees for issuance	33
Promotion/Roadshow	2
Rating agencies fees	296
Regulatory, registry, other fees	8
Trustee fees	37
	579

5 Operating expenses

For the six months ended 31 December 2012 (unaudited)
in \$000s

	2012
Auditor's remuneration	
Statutory audit	40
Advisory services	11
Directors fees	162
Insurance	27
Legal fees	161
Other expenses	128
Personnel	398
	927

6 Loans to local government

As at 31 December 2012 (unaudited)
in \$000s

	Face value	Unamortised discount/ premium	Accrued interest	Total
Auckland Council	625,000	14,029	3,664	642,693
Christchurch City Council	175,000	-	249	175,249
Hamilton City Council	130,000	-	373	130,373
Hastings District Council	15,000	-	23	15,023
Hauraki District Council	6,000	-	9	6,009
Horowhenua District Council	4,000	161	16	4,177
Hutt City Council	10,000	512	40	10,552
Kapiti Coast District Council	70,000	-	98	70,098
Manawatu District Council	10,000	314	23	10,337
Masterton District Council	20,000	-	30	20,030
New Plymouth District Council	11,000	-	15	11,015
Otorohanga District Council	3,000	166	8	3,174
Palmerston North City Council	10,000	-	14	10,014
Selwyn District Council	35,000	-	53	35,053
South Taranaki District Council	10,000	-	15	10,015
Tasman District Council	21,000	-	32	21,032
Taupo District Council	80,000	-	284	80,284
Tauranga City Council	90,000	330	330	90,660
Wanganui District Council	10,000	-	14	10,014
Wellington City Council	30,000	-	82	30,082
Wellington Regional Council	50,000	-	226	50,226
Western Bay of Plenty District Council	45,000	-	69	45,069
Whakatane District Council	10,000	-	14	10,014
Whangarei District Council	60,000	-	244	60,244
	1,530,000	15,512	5,925	1,551,437

As at 30 June 2012 in \$000s	Face value	Unamortised discount/ premium	Accrued interest	Total
Auckland Council	350,000	10,627	1,585	362,212
Christchurch City Council	50,000	-	79	50,079
Greater Wellington Regional Council	50,000	-	225	50,225
Hamilton City Council	100,000	-	231	100,231
Hastings District Council	15,000	-	24	15,024
Masterton District Council	10,000	-	17	10,017
Otorohanga District Council	3,000	181	7	3,188
Selwyn District Council	20,000	-	33	20,033
Tasman District Council	16,000	-	26	16,026
Taupo District Council	50,000	-	240	50,240
Tauranga City Council	50,000	-	142	50,142
Wellington City Council	15,000	-	2	15,002
Western Bay of Plenty District Council	45,000	-	74	45,074
Whangarei District Council	45,000	-	222	45,222
	819,000	10,808	2,907	832,715

7 Bonds issued

As at 31 December 2012 (unaudited) in \$000s		Face value	Unamortised discount/ premium	Accrued interest	Fair value hedge adjustment	Total
15 April 2015	6% coupon	165,000	7,926	2,094		
15 December 2017	6% coupon	780,000	57,796	2,057		
15 March 2019	5% coupon	590,000	31,059	8,720		
		1,535,000	96,781	12,871	15,842	1,660,494

As at 30 June 2012 in \$000s		Face value	Unamortised discount/ premium	Accrued interest	Fair value hedge adjustment	Total
15 April 2015	6% coupon	155,000	8,849	1,931		
15 December 2017	6% coupon	605,000	42,253	1,488		
15 March 2019	5% coupon	75,000	4,011	1,090		
		835,000	55,113	4,509	14,242	908,864

8 Borrower notes

Borrower notes are subordinate debt instruments (which are required to be held by each local authority that borrows from LGFA in an amount equal to 1.6% of the aggregate borrowings by that local authority).

LGFA may convert borrower notes into redeemable shares if it has made calls for all unpaid capital to be paid in full and the LGFA Board determines it is still at risk of imminent default.

As at 31 December 2012 (unaudited) in \$000s	Face value	Accrued interest	Total
Auckland Council	10,000	212	10,212
Christchurch City Council	2,800	38	2,838
Hamilton City Council	2,080	45	2,125
Hastings District Council	240	5	245
Hauraki District Council	96	-	96
Horowhenua District Council	64	-	64
Hutt City Council	160	-	160
Kapiti Coast District Council	1,120	8	1,128
Manawatu District Council	160	-	160
Masterton District Council	320	6	326
New Plymouth District Council	176	2	178
Otorohanga District Council	48	1	49
Palmerston North City Council	160	-	160
Selwyn District Council	560	11	571
South Taranaki District Council	160	2	162
Tasman District Council	336	7	343
Taupo District Council	1,280	25	1,305
Tauranga City Council	1,440	27	1,467
Wellington City Council	160	-	160
Wellington Regional Council	800	24	824
Western Bay of Plenty District Council	480	8	488
Whakatane District Council	720	23	743
Wanganui District Council	160	-	160
Whangarei District Council	960	19	979
	24,480	463	24,943

As at 30 June 2012 in \$000s	Face value	Accrued interest	Total
Auckland Council	5,600	54	5,654
Christchurch City Council	800	8	808
Greater Wellington Regional Council	800	10	810
Hamilton City Council	1,600	10	1,610
Hastings District Council	240	0	240
Masterton District Council	160	2	162
Otorohanga District Council	48	0	48
Selwyn District Council	320	2	322
Tasman District Council	256	2	258
Taupo District Council	800	7	807
Tauranga City Council	800	7	807
Wellington City Council	240	-	240
Western Bay of Plenty District Council	720	10	730
Whangarei District Council	720	5	725
	13,104	117	13,221

9 Reconciliation of net profit to net cash flow from operating activities

For the six months ended 31 December 2012 (unaudited)
in \$000s

	2012
Net profit/(loss) for the period	787
Cash applied to loans to local government	(716,903)
Non-cash adjustments	
Amortisation and depreciation	338
Working capital movements	
Net change in trade debtors and receivables	275
Net change in prepayments	87
Net change in accruals	115
Net cash flows from operating activities	(715,301)

10 Share capital

Share capital

As at 31 December 2012 LGFA had 45 million ordinary shares on issue, 20 million of which remain uncalled. All ordinary shares rank equally with one vote attached to each ordinary share.

Shareholder information

On 30 November 2012, the following councils joined LGFA as new shareholders, bringing to 30 the total number of shareholding councils:

Gisborne District Council	Kapiti Coast District Council	Thames-Coromandel District Council
Hauraki District Council	Manawatu District Council	Waimakariri District Council
Horowhenua District Council	Marlborough District Council	Wanganui District Council
Hutt City Council	Palmerston North City Council	Whakatane District Council

Registered holders of equity securities as at 31 December 2012

	31 Dec 2012 Unaudited		30 Jun 2012 Audited	
New Zealand Government	5,000,000	11.1%	5,000,000	11.1%
Auckland Council	3,731,960	8.3%	4,000,000	8.9%
Christchurch City Council	3,731,960	8.3%	4,000,000	8.9%
Hamilton City Council	3,731,960	8.3%	4,000,000	8.9%
Bay of Plenty Regional Council	3,731,958	8.3%	4,000,000	8.9%
Tasman District Council	3,731,958	8.3%	4,000,000	8.9%
Tauranga City Council	3,731,958	8.3%	4,000,000	8.9%
Wellington City Council	3,731,958	8.3%	4,000,000	8.9%
Wellington Regional Council	3,731,958	8.3%	4,000,000	8.9%
Western Bay of Plenty District Council	3,731,958	8.3%	4,000,000	8.9%
Whangarei District Council	1,492,784	3.3%	1,600,000	3.6%
Hastings District Council	746,392	1.7%	800,000	1.8%
Marlborough District Council	400,000	0.9%		
Selwyn District Council	373,196	0.8%	400,000	0.9%
Gisborne District Council	200,000	0.4%		
Hauraki District Council	200,000	0.4%		
Horowhenua District Council	200,000	0.4%		
Hutt City Council	200,000	0.4%		
Kapiti Coast District Council	200,000	0.4%		
Manawatu District Council	200,000	0.4%		
Masterton District Council	200,000	0.4%	200,000	0.4%
New Plymouth District Council	200,000	0.4%	200,000	0.4%
Otorohanga District Council	200,000	0.4%	200,000	0.4%
Palmerston North City Council	200,000	0.4%		
South Taranaki District Council	200,000	0.4%	200,000	0.4%
Taupo District Council	200,000	0.4%	200,000	0.4%
Thames-Coromandel District Council	200,000	0.4%		
Waimakariri District Council	200,000	0.4%		
Waipa District Council	200,000	0.4%	200,000	0.4%
Wanganui District Council	200,000	0.4%		
Whakatane District Council	200,000	0.4%		
	45,000,000	100%	45,000,000	100%

11 Related parties

Identity of related parties

The Company is related to the local authorities set out in the Shareholder Information by shareholding.

The Company operates under a Statement of Intent with the respective local authorities that requires the Company to provide debt to them at the lowest possible interest rates and to enhance their certainty of access to debt markets.

Shareholding local authorities, and non-shareholder local authorities who borrow more than \$20 million, are required to enter into a guarantee when they join or participate in LGFA. The guarantee is in respect of the payment obligations of other guaranteeing local authorities to the LGFA (cross guarantee) and of the LGFA itself.

Council employees, Paul Anderson (Christchurch City Council) and Mark Butcher (Auckland Council) are directors of LGFA.

Related party transactions

LGFA was established for the purpose of raising funds from the market to lend to participating councils. The lending to individual councils is disclosed in note 6, and interest income recognized on this lending is shown in the Statement of Comprehensive Income.

The purchase of LGFA borrower notes by participating councils is disclosed in note 8, and the interest expense on these is shown in the Statement of Comprehensive Income.

LGFA has contracted the NZDMO to provide outsourced treasury services for LGFA. Services include operational processing associated with debt issuance, lending to local authorities, settlement services, investments, hedging and measuring risk. In addition, NZDMO provide some accounting services.

12 Subsequent events

There have been no significant events after balance date that have affected the accuracy of these financial statements.

Subsequent to balance date, LGFA has issued \$250 million in bonds through a tender on 20 February 2013.

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