

LGFA Quarterly Report to Shareholders

March Quarter 2021

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Quarterly Report

Quarter 2: 2020 - 2021
Period ended: 31 March 2021

A. March quarter highlights

Quarter	Total	Bespoke Maturity	April 2022	April 2023	April 2024	April 2025	April 2026	April 2027	April 2029	April 2033	April 2037
Bonds issued \$m	400	N/A	-	-	100	-	50	60	100	-	90
Term Loans to councils \$m	352.5	228.5	-	-	5.0	10.0	5.0	102.0	2.0	-	-
Term Loans to councils #.	19	9	-	-	1	2	1	5	1	-	-

Financial Year to Date	Total	Bespoke Maturity	April 2022	April 2023	April 2024	April 2025	April 2026	April 2027	April 2029	April 2033	April 2037
Bonds issued \$m	2,300	N/A	450	110	200	60	200	160	360	100	660
Term Loans to councils \$m	2,090	817.1	6.0	49.0	50.8	112.2	329.0	186.5	485.0	4.4	50.0
Term Loans to councils #.	120	62	2	5	11	18	23	19	14	1	1

Key points and highlights for the March quarter:

- The LGFA bond yield curve rose and steepened for the second consecutive quarter. Front end yields rose less than back-end yields e.g. 2023 LGFA bond yields closed the quarter 0.12% higher at 0.54% and 2037 yields were up 0.96% to 2.93%. Global bond markets also experienced similar curve steepening on reflation fears and a more resilient global economic outlook.
- LGFA issued \$400 million of bonds during the quarter across two tenders of \$200 million each. The average term of issuance during the quarter was 8.03 years.
- LGFA borrowing margins were mixed with spreads to swap narrower by 11 bps (2037s) and wider by 4 bps (2027s) during the quarter. LGFA spreads to NZGB widened during the quarter on the improved fiscal outlook implying future reductions in NZGB supply.
- Long dated lending to councils during the quarter of \$352.5 million was less than the December 2020 quarter loans of \$632.3 million, while the average term of lending during the quarter at 5.97 years was also less than the prior quarter's 6.77 years. It was still longer however than the 2019-20 financial year average of 5.42 years.
- LGFA has estimated market share of 81.8% of total council borrowing for the rolling twelve-month period to March 2021 (compared to a historical average since 2012 of 74%).
- Short-term lending to councils has reduced with loans outstanding of \$297.1 million on 31 March 2021. This was a decline of \$50 million over the quarter as councils are more comfortable with holding lower levels of liquidity. The number of councils using this product was unchanged at twenty-six.
- S&P Global Ratings upgraded our long-term domestic currency rating to AAA and the foreign currency rating to AA+.
- LGFA Net Operating Gain (unaudited) for the nine-month period to 31 March 2021 was \$10.583 million which was \$1.815 million above budget, comprising total operating income at \$1.562 million above budget and expenses at \$253k below budget.
- We are meeting seven out of our ten performance objectives with our council loans, market share and number of council visits currently below our target.
- Napier City Council joined LGFA during the quarter bringing total membership to seventy-two while Central Hawkes Bay District Council moved from being a non-guarantor to a guarantor (bringing the number of guarantors to sixty-three). We are expecting a further two councils to join over the next twelve months.

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B. LGFA bond issuance during quarter

LGFA held two bond tenders during the quarter amounting to \$400 million of issuance.

Tender 78: 03 February 2021

\$200 million

Tender 78 - 03 February 2021	15-Apr-24	15-Apr-27	20-Apr-29	15-Apr-37
Total Amount Offered (\$million)	60	60	40	40
Total Amount Allocated (\$million)	60	60	40	40
Total Number of Bids Received	8	10	11	15
Total Amount of Bids Received (\$million)	120	125	73	114
Total Number of Successful Bids	5	5	7	5
Highest Yield Accepted (%)	0.645	1.170	1.505	2.375
Lowest Yield Accepted (%)	0.610	1.115	1.470	2.355
Highest Yield Rejected (%)	0.670	1.205	1.550	2.510
Lowest Yield Rejected (%)	0.645	1.170	1.505	2.375
Weighted Average Accepted Yield (%)	0.631	1.579	1.490	2.374
Weighted Average Rejected Yield (%)	0.654	1.182	1.518	2.402
Amount Allotted at Highest Accepted Yield as Percentage of Amount Bid at that Yield*	50	80	72	81.8
Coverage Ratio	2.00	2.08	1.83	2.85
NZGB Spread at Issue (bps)	17.00	31.00	35.00	48.00
Swap Spread at Issue (bps)	9.25	18.75	27.25	58.25
Swap Spread: AA council (bps)	31.25	45.25	48.75	78.5
Swap Spread: AA- council (bps)	36.25	50.25	53.75	83.5
Swap Spread: A+ council (bps)	41.25	55.25	58.75	88.5
Swap Spread: Unrated council (bps)	51.25	65.25	68.75	98.5
Coverage Ratio	2.00	2.08	1.83	2.85

The tender outcome was a great result with good volume of bids and good price tension. Price support was strong across the curve with the weighted successful average yield of each bond at mid-market yields.

However, the range of successful bids was unusually wide at between 2 bps and 6 bps and this reflected the intraday volatility and the NZDM issuing \$3.5 billion of a new May 2026 NZGB via syndication at the same time as our bond tender. Bidding volume was good with the overall bid coverage ratio of 2.16x acceptable but slightly below the 2.3x average for the past two years. The bid coverage ratios were consistent and ranged between 1.83x (2029s) and 2.85x (2037s).

Spreads to NZGB were tighter by 4 bps on the 2029s and 7 bps tighter on the 2037s compared to the December tender and issuance spreads to swap were 1.7 bps tighter on the 2029s and 3.7 bps tighter on the 2037s.

The tender size of \$200 million has become the new norm with the past ten bond tenders being of this size and reflects both our larger forecast borrowing requirement (\$3.0 billion in the 2020-21 financial year) and the support provided to the market by the RBNZ LSAP programme.

The average maturity of the \$200 million of LGFA bonds issued in the tender was 7.70 years while we on-lent \$149 million to six councils in the with an average term of lending of 6.8 years.

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Tender 79: 10 March 2021

\$200 million

Tender 79 - 10 March 2021	15-Apr-24	15-Apr-26	20-Apr-29	15-Apr-37
Total Amount Offered (\$million)	40	50	60	50
Total Amount Allocated (\$million)	40	50	60	50
Total Number of Bids Received	8	11	8	22
Total Amount of Bids Received (\$million)	85	114	77	133
Total Number of Successful Bids	1	2	4	1
Highest Yield Accepted (%)	0.915	1.495	2.170	2.990
Lowest Yield Accepted (%)	0.915	1.495	2.120	2.990
Highest Yield Rejected (%)	1.010	1.600	2.275	3.200
Lowest Yield Rejected (%)	0.935	1.495	2.190	3.030
Weighted Average Accepted Yield (%)	0.915	1.495	2.133	2.990
Weighted Average Rejected Yield (%)	0.964	1.543	2.227	3.079
Amount Allotted at Highest Accepted Yield as Percentage of Amount Bid at that Yield*	100	90.9	100	100
Coverage Ratio	2.13	2.28	1.28	2.66
NZGB Spread at Issue (bps)	32.00	38.00	55.00	69.00
Swap Spread at Issue (bps)	12.25	24.50	37.00	58.50
Swap Spread: AA council (bps)	34.5	45.75	56.25	73.75
Swap Spread: AA- council (bps)	39.5	50.75	61.25	78.75
Swap Spread: A+ council (bps)	44.5	55.75	66.25	83.75
Swap Spread: Unrated council (bps)	54.5	65.75	76.25	93.75
Coverage Ratio	2.13	2.28	1.28	2.66

The tender result was good with a reasonable number of bids, good price tension and support for all the bonds on offer. Price support was better for the two end points of the curve with the weighted successful average yield of each bond at mid-market yields for the 2024s and 2037s. Demand was softer for the two mid curve bonds with the tender going 3 bps to 4 bps above mid-market.

Bidding volume was moderate with a coverage ratio of 2.05x (below the 2.16x last month and the 2.3x average for the past two years). The bid coverage ratios were mixed and ranged between 1.28x (2029s) and 2.66x (2037s). The number of successful bids were one each for the 2024s and 2037s and two for the 2026s and four for the 2029s.

Issuance conditions were more difficult than usual with the selloff in yields, steepening in the curve and a large amount of global bond market volatility. The RBNZ had stopped buying LGFA bonds in the LSAP the prior fortnight and most high-grade spreads (including LGFA) had widened.

The average maturity of the LGFA bonds issued was 8.36 years which was in line with the average for financial year to date of 8.41 years (that includes the 2037 syndication) but much longer than the 6.74 years in the prior 2019/20 financial year.

While we issued \$200 million of LGFA bonds we on-lent \$98.5 million to seven councils with an average term of lending of 6.0 years (72 months). Our issuance term was again longer than the term of our lending.

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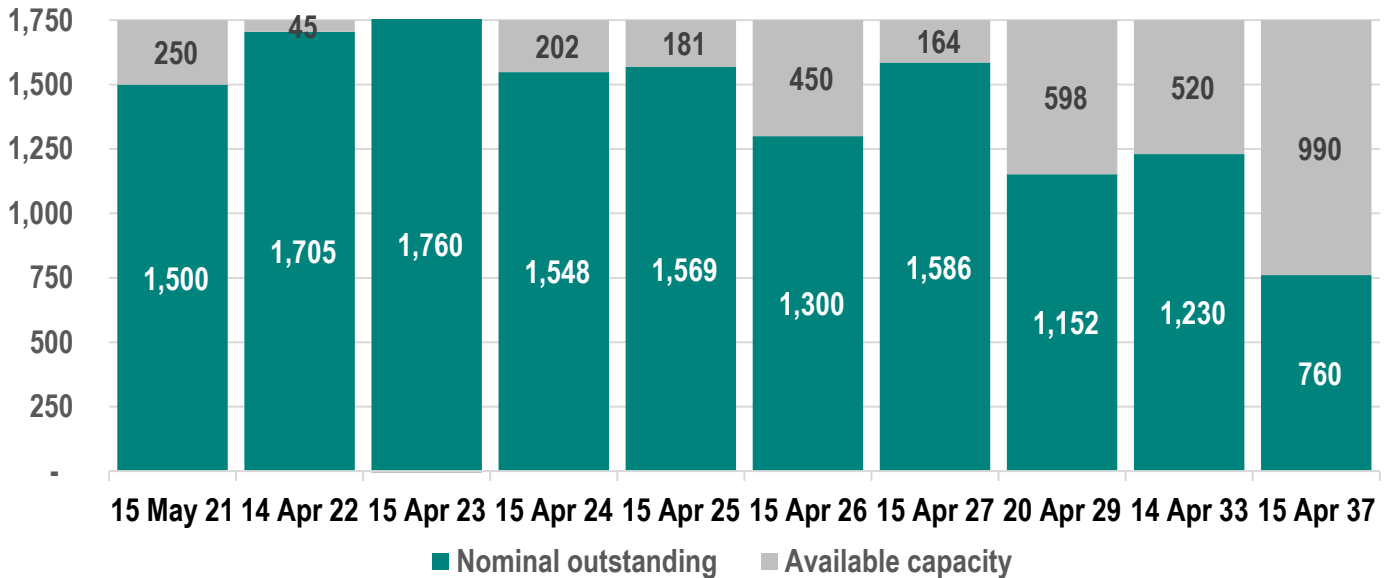
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Bonds on issue as of 31 March 2021 were \$14.11 billion (including \$950 million of Treasury Stock) across ten tranches. We currently have a soft cap per maturity of \$1.75 billion.

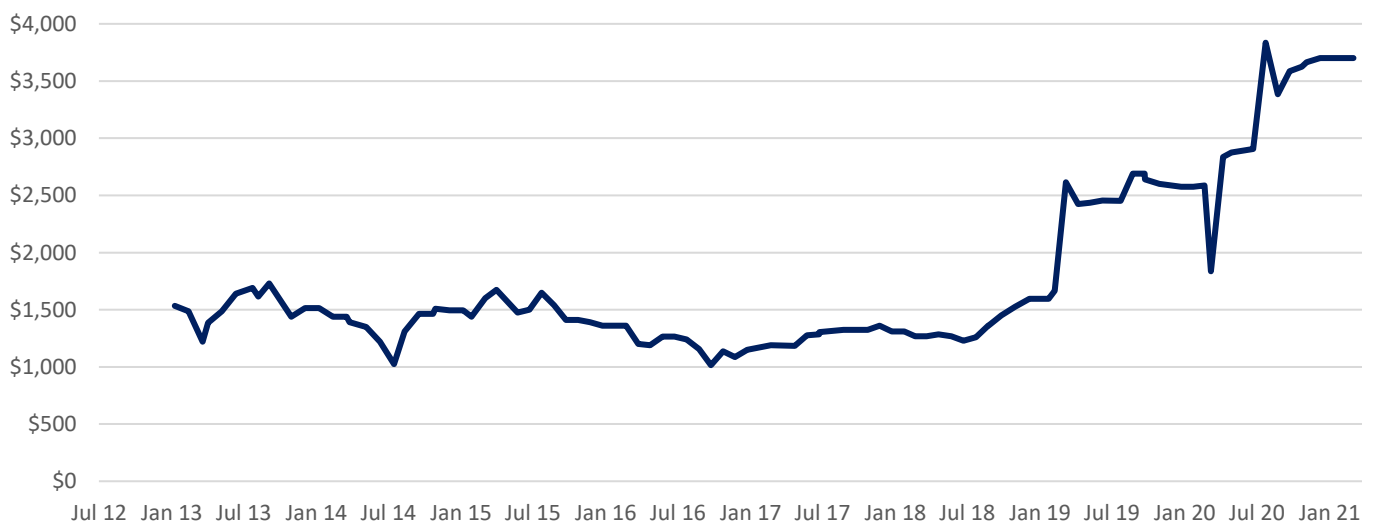
LGFA retail bonds on issue (NZ\$ million)

As 31 March 2021: NZ\$ 14,110 million
 Includes NZ\$950 million treasury stock



In addition to the retail bonds listed on the NZDX, LGFA has NZ\$130 million of Wholesale Floating Rate Notes on issue. Our issuance volume on a rolling 12-month basis of \$3.6 billion remains near historic high levels.

Rolling 12 month Issuance (\$ millions)



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C. Summary financial information (provisional and unaudited)

Financial Year (\$m)	YTD as at Q1	YTD as at Q2	YTD as at Q3	YTD as at Q4
Comprehensive income	30-Sep-20	31-Dec-20	31-Mar-21	30-June-21
Interest income	93.38	190.41	287.12	
Interest expense	82.22	180.52	271.24	
Net interest revenue	4.16	9.89	15.88	
Other operating Income			0.07	
Total operating income	4.16	9.89	15.96	
Issuance and On-lending costs	0.73	1.40	1.95	
Approved issuer levy	Nil	0.59	0.59	
Operating expenses	0.93	1.95	2.84	
Issuance and operating expenses	1.66	3.94	5.38	
Net Profit	2.51	5.95	10.58	

Financial position (\$m)	30-Sep-20	31-Dec-20	31-Mar-21	30-Jun-21
Retained earnings + comprehensive income	60.25	63.69	68.32	
Total assets (nominal)	13,317.68	13,852.05	14,285.22	
Total LG loans (nominal)	11,906.65	12,289.67	12,349.38	
Total LGFA bills (nominal)	594.50	612.50	620.00	
Total LGFA bonds (nominal)	12,290.00	12,890.00	13,290.00	
Total borrower notes (nominal)	195.92	207.10	210.91	
Total equity	85.24	88.69	93.32	

D. Key performance indicators (Section 5 of SOI)

Section 5 of the SOI sets out the ten key performance targets for LGFA.

We are meeting seven out of our ten performance targets and are optimistic on meeting one further target (council lending) by June 2021. Our market share is lower than expected due to Auckland Council, Christchurch City Holdings and Dunedin City Treasury issuing bonds over the past nine-month period. COVID disruptions and council focus on finalising annual reports for the June 2020 year and working on the draft LTPs has meant that we have not been able to meet with as many council members as expected.

Measure	Prior full year to June 2020	Q1 30 Sept 2020	Q2 31 Dec 2020	Q3 31 Mar 2021	Q4 30 June 2021
LGFA net interest income for the period to June 2021 will be greater than \$18.8 million	Target (\$)	\$4.6 m (YTD as at Q1)	\$9.2 m (YTD as at Q2)	\$14.4 m (YTD as at Q3)	\$18.8 m (FULL YEAR)
	Actual (\$)	\$18.28 m ✗	\$9.9 m ✓	\$15.89 m ✓	
Annual issuance and operating expenses	Target (\$)	\$1.63 m (YTD as at Q1)	\$3.4 m (YTD as at Q2)	\$5.0 m (YTD as at Q3)	\$6.8 m (FULL YEAR)

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(excluding AIL) will be less than \$6.30 million	Actual (\$)	\$6.28 m	\$1.65 m On track	\$3.35 m ✓	\$4.79 m ✓	
Total nominal lending (short and long term) to participating councils to be at least \$11.66 billion	Target (\$)		\$11.45 b (YTD as at Q1)	\$12.19 b (YTD as at Q2)	\$12.62 b (YTD as at Q3)	\$11.66 b (FULL YEAR)
	Actual (\$)	\$10.899 b	\$11.91 b ✓	\$12.33 b ✓	\$12.35 b On track	
Conduct an annual survey of councils and achieve 85% satisfaction score as to the value added by LGFA to council borrowing activities	Target (\$)		Annual Survey in August each year			
	Actual (%)	100%	August 2020 survey outcome of 98.8% ✓			
Meet all lending requests from PLAs	Target (%)		100%	100%	100%	100%
	Actual (%)	100%	100% ✓	100% ✓	100% ✓	
Achieve 85% market share of all council borrowing in New Zealand	Target (%) Rolling annual average		>85%	>85%	>85%	>85%
	Actual (%)	85.7%	76.5% ✗	81.8% ✗	81.8% ✗	
Review each PLA financial position, its headroom under LGFA policies and arrange to meet each PLA at least annually	Target (number)		Council visits to total 67 over one year Financial Position + Headroom Review Undertaken in December Quarter			
	Actual	31	no council visits due to COVID travel difficulties ✗	22 council visits but behind plan due to COVID travel difficulties ✗	35 council visits but behind plan due to COVID travel difficulties ✗	
No breaches of Treasury Policy, any regulatory or legislative requirements including H&S	Target (zero breaches)		nil	nil	nil	nil
	Actual	Two	Nil ✓	Nil ✓	Nil ✓	
Successfully refinance of existing loans to councils and LGFA bond maturities as they fall due	Target (%)		100%	100%	100%	100%
	Actual (%)	100%	100% ✓	100% ✓	100% ✓	
Maintain a credit rating equal to the New Zealand Government rating where both entities are rated by the same credit rating entity	Target (equivalence)		AA+/AA+			
	Actual	AA+/AA+	AA+/AA+ ✓	AA+/AA+ ✓	AAA/AA+ ✓	

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E. Performance against SOI objectives

Primary objectives (Section 3 of SOI)

Primary Objective:

LGFA will optimise the debt funding terms and conditions for Participating Borrowers. Among other things, this includes:

- Providing interest cost savings relative to alternative sources of financing;
- Offering flexible short and long-term lending products that meet Participating Borrowers' borrowing requirements;
- Delivering operational best practice and efficiency for its lending services;
- Ensuring certainty of access to debt markets, subject always to operating in accordance with sound business practice.

LGFA lending base margins are 20 bps for all borrowing terms. The base margin covers our operating costs and provides for capital to grow in line with the growth in our balance sheet. There is an additional credit margin added to the base margin depending upon whether a council has a credit rating or is a guarantor or non-guarantor of LGFA.

LGFA continues to borrow at very competitive spreads compared to the AAA rated SSA issuers (who borrow in the New Zealand debt capital markets), the domestic banks and our closest peer issuer Kainga Ora.

As at 31 March 2021	Comparison to other high grade issuers - secondary market spread to swap (bps)													
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2035	2037
LGFA (AA+)	3	6	11	16	21	23	27	31	33	36	38	40	47	53
Kainga Ora (AA+)		7		19	26		28		37				53	
Asian Development Bank (AAA)		4	11	15	20									
IADB (AAA)		6	11	17			36							
International Finance Corp (AAA)		6	11	17		23								
KBN (AAA)		8	13	20					39					
Rentenbank (AAA)	5	5	11	19										
World Bank (AAA)	5	4	10	16	21	25			36					
Nordic Investment Bank (AAA)		6		18										
ANZ (AA-)		26	30											
BNZ (AA-)		23		39										
Westpac Bank (AA-)	17	26	40	46	57									
SSA Average	5	6	11	17	21	24	36		38					
Bank Average	17	25	35	43										

During the quarter LGFA continued to issue long dated bonds (April 2033s and 2037s) providing councils with the opportunity to extend their borrowing if desired. Both bond tenders were successful.

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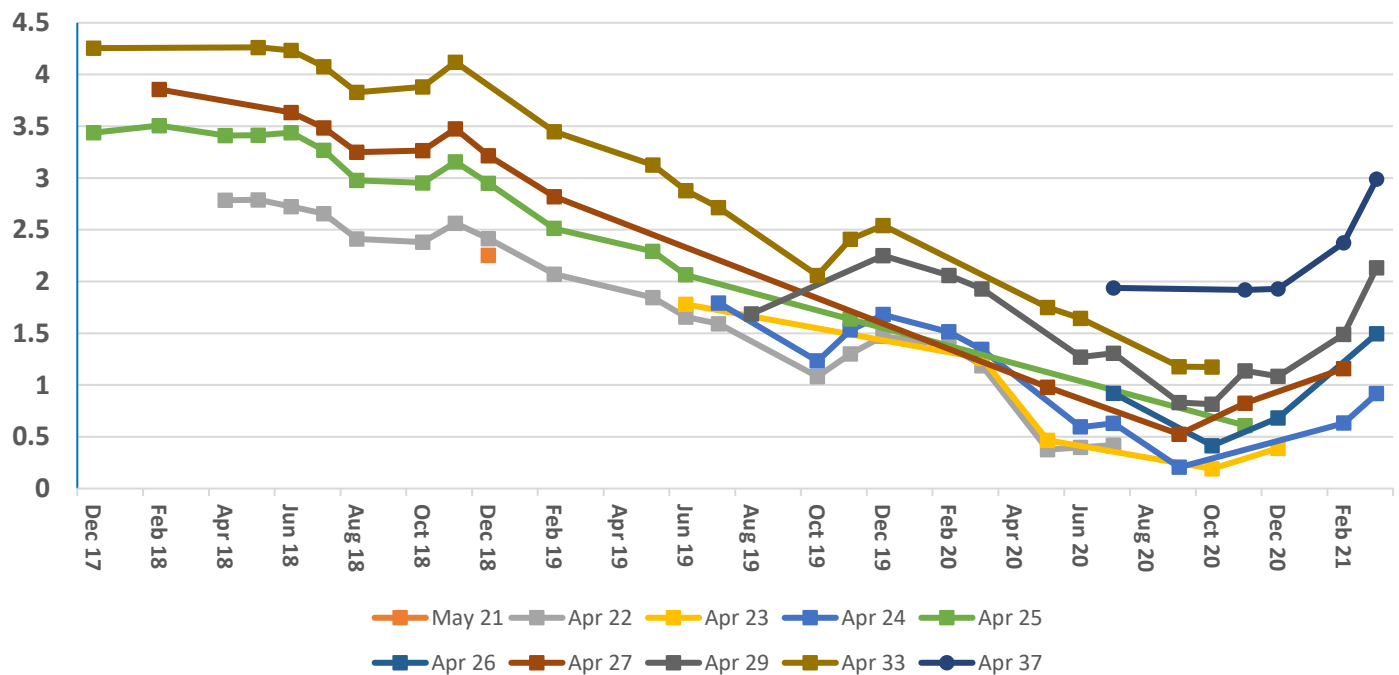
LGFA entered into standby facility agreements of \$100 million during the quarter, bringing total standby facilities outstanding to \$200 million.

The LGFA bond yield curve rose and steepened for the second consecutive quarter. Front end yields rose less than back-end yields e.g., 2023 LGFA bond yields closed the quarter 0.12% higher at 0.54% and 2037 yields were up 0.96% to 2.93%. Global bond markets also experienced similar curve steepening on reflation fears and a more resilient global economic outlook.

LGFA borrowing margins to swap narrowed between 11 bps (2037s) and widened by 4 bps (2027s) during the quarter due to ongoing demand for the very long dated bonds. LGFA spreads to NZGB widened during the quarter on the improved fiscal outlook implying further reductions in NZGB supply. The RBNZ reduced its weekly purchases of LGFA bonds through the Large-Scale Asset Purchase (LSAP) programme over the January-February period to zero by the end of February.

We closely monitor the Kauri market for ongoing supply and price action as this other high-grade issuance by “AAA” rated Supranational issuers such as the International Finance Corporation (IFC), Inter-American Development Bank (IADB) and the Asian Development Bank (ADB) influences LGFA demand and pricing. These borrowers are our peer issuers in the NZD market and have the most influence on our pricing. The March quarter was another very quiet period for Kauri bond issuance except for Asian Development Bank issuing \$700 million of a seven year and KBN (our Norwegian peer agency) issuing \$125 million of a nine- and half-year bond. Issuance activity by global issuers in New Zealand is subdued as they can achieve more favourable borrowing terms in currency markets other than the NZD. Kauri bond maturities in the quarter were \$2.65 billion with a further \$2.2 billion in the June quarter.

LGFA Bond Issuance Yields (%)
 last 30 tenders

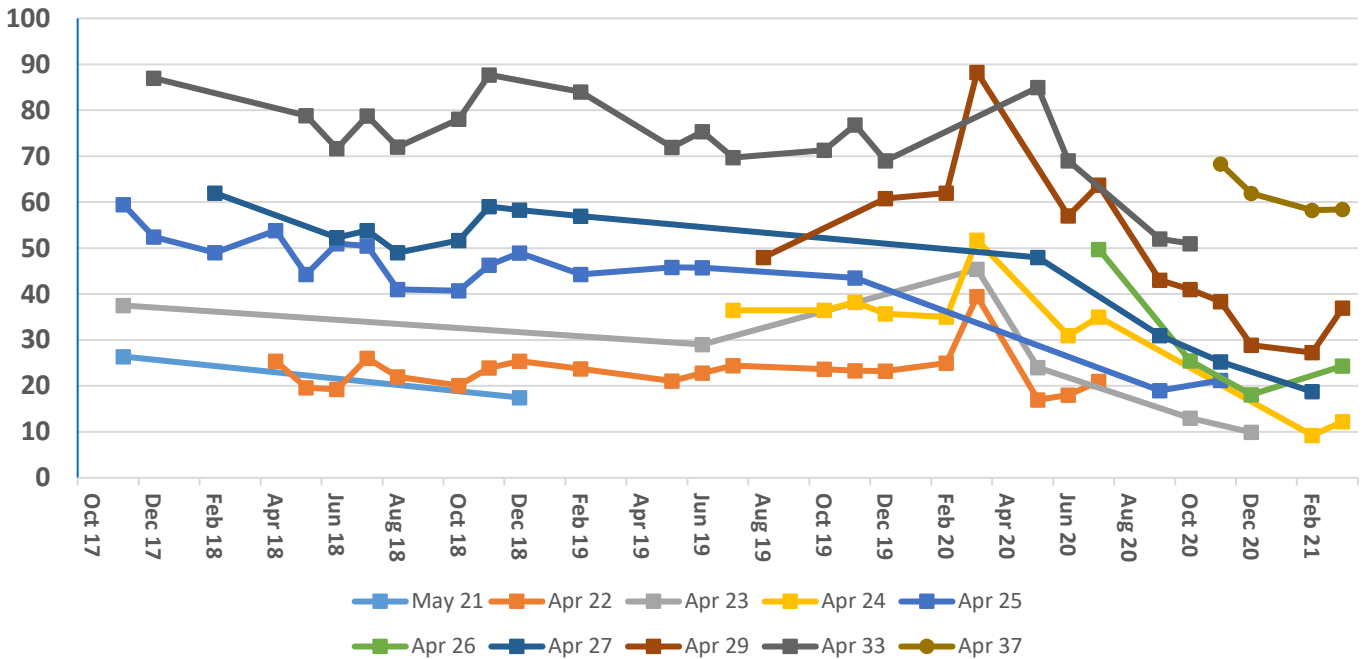


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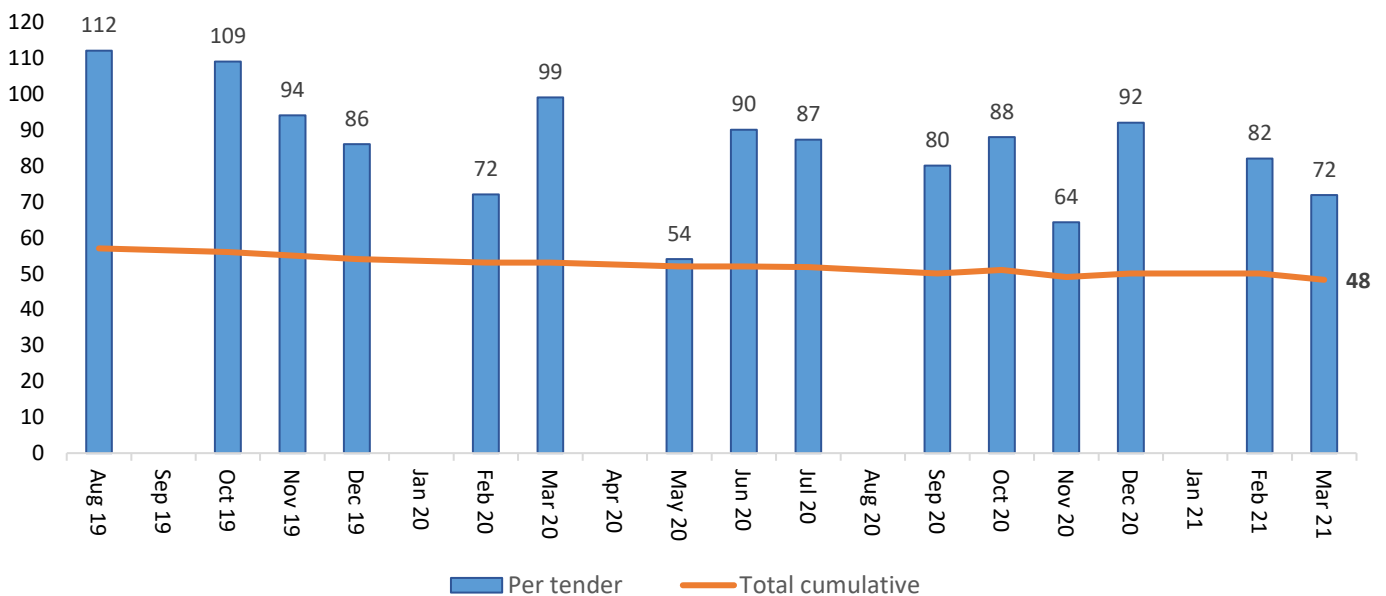


Spread to Swap at Tenders (bps)
 last 30 tenders



The average borrowing term (excluding short-dated borrowing) for the March quarter by council members was 5.97 years which was longer than the average term of 5.42 years for the year to June 2020 but shorter than the prior two quarters. Councils for several reasons remain reluctant to borrow beyond ten years despite tight credit spreads.

Average total months to maturity - On-lending to councils
 Last 15 tenders



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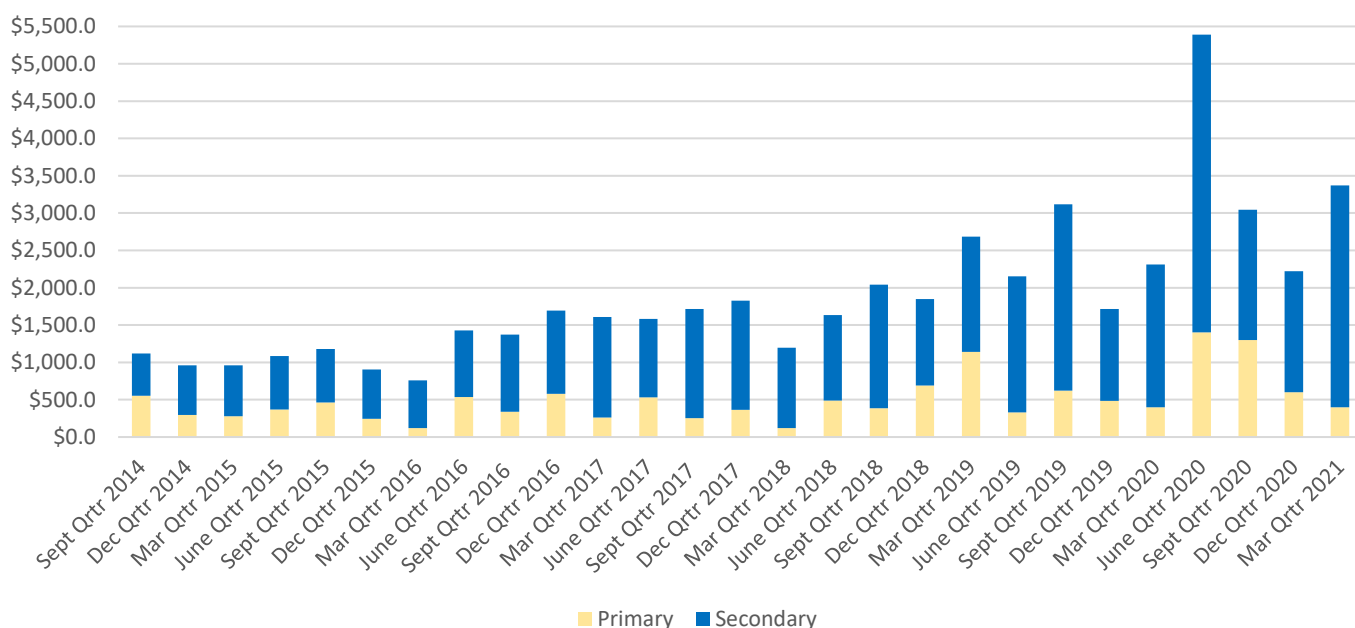
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Short-term borrowing by councils with loan terms of between one month and 12 months remains well supported with \$297 million outstanding as at 31 March 2021 to twenty-six councils. The number of councils using this product was unchanged over the quarter while the total amount outstanding decreased by \$50 million.

For LGFA to provide certainty of access to markets for our council borrowers we need to have a vibrant primary and secondary market in LGFA bonds. The primary market is the new issuance market and we measure strength with participation by investors at our tenders through bid-coverage ratios and successful issuance yield ranges. The secondary market is the trading of LGFA bonds following issuance and a high turnover implies a healthy market.

Activity in LGFA bonds in both the primary market (tender or syndicated issuance) and secondary market (between banks and investors) during the quarter was the second highest on record. There was \$400 million of primary issuance and \$1.97 billion of secondary market activity in LGFA bonds during the quarter.

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



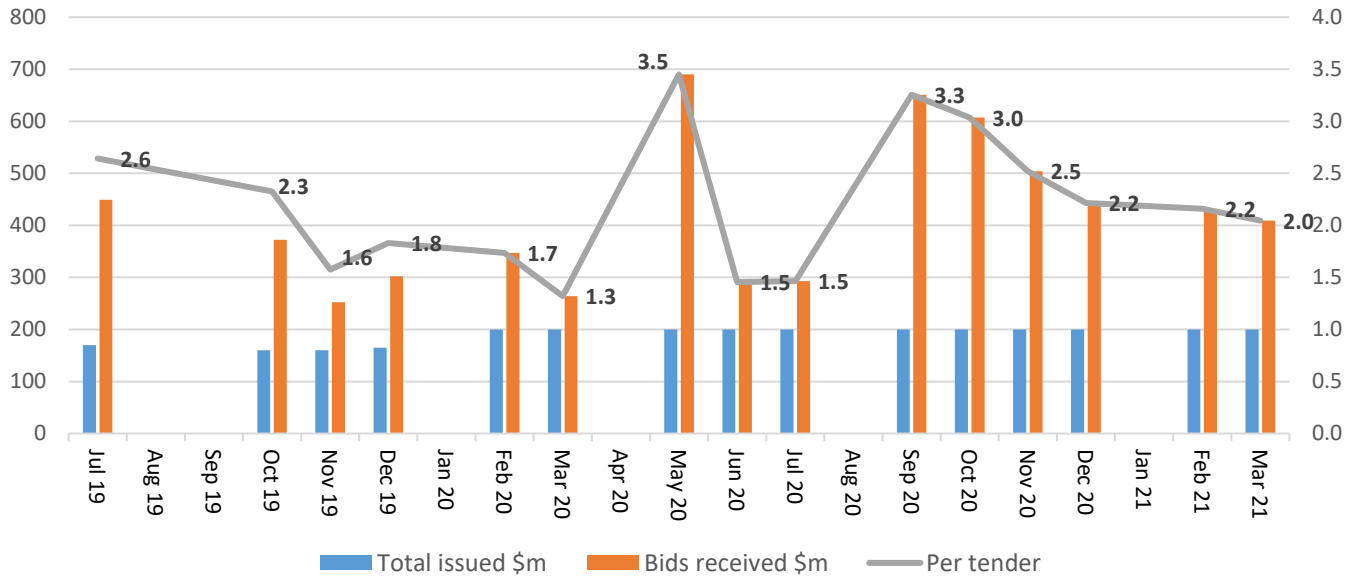
LGFA commenced issuing LGFA Bills and short dated (less than 1 year) lending to councils in late 2015. As at 31 March 2021 there were \$620 million of LGFA Bills on issue. We use proceeds from LGFA bills to fund short term lending to councils and invest the balance in our liquid asset portfolio.

LGFA documented an Australian Medium-Term Notes Programme in November 2017. We have no immediate intention to use this programme, but it provides flexibility if there is a market disrupting event in the future.

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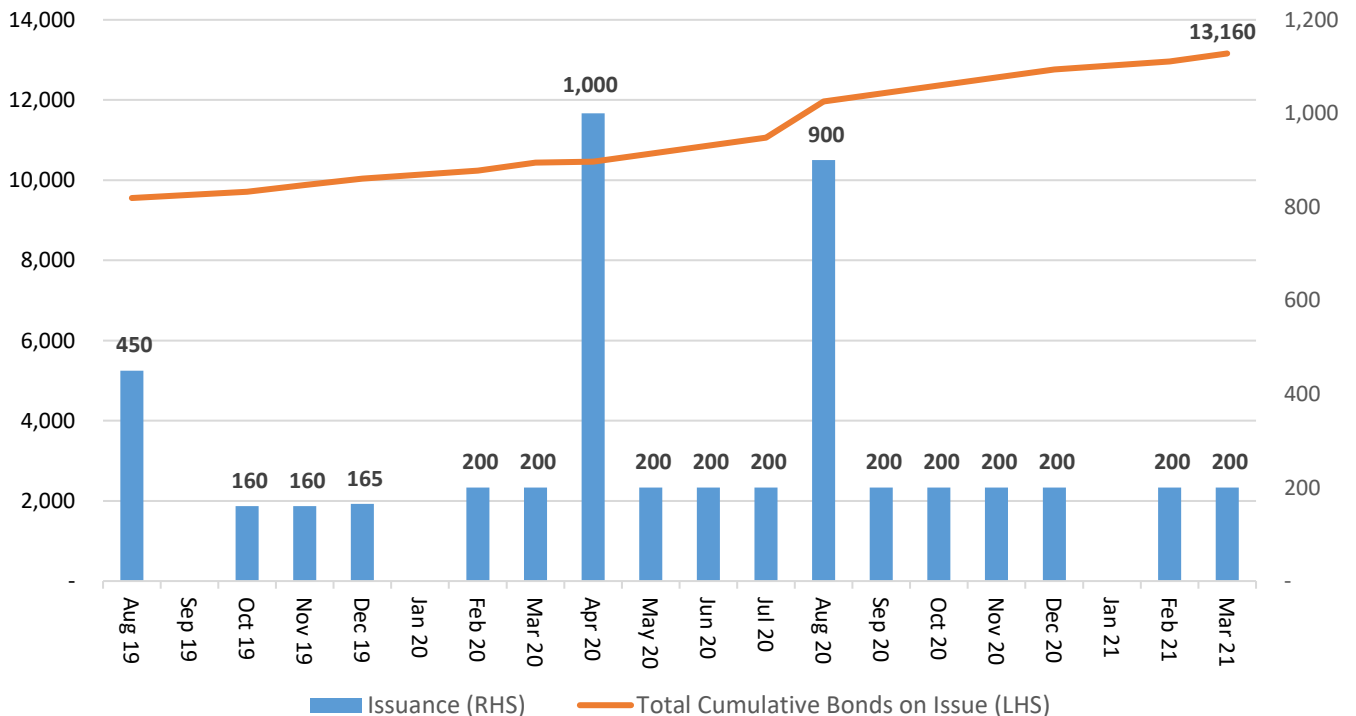
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Tender bid coverage ratio
 Last 15 tenders



LGFA bond issuance (\$ million)

Last 15 tenders and syndications. Excludes issuance of treasury stock (\$950m)



We survey our council members each year on their satisfaction with LGFA and the latest stakeholder survey result in August 2020 was a 99% result to the question “How would you rate LGFA in adding value to your borrowing requirements?”. We also received a 97% result to the question “How satisfied are you with the pricing that LGFA has provided to your Council?”

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Primary Objective:

LGFA will ensure its asset book remains at a high standard by ensuring it understands each Participating Borrower's financial position, as well as general issues confronting the Local Government sector. Amongst other things, LGFA will:

- **Proactively monitor and review each Participating Borrower's financial position, including its financial headroom under LGFA policies;**
- **Analyse finances at the Council group level where appropriate and report to shareholders;**
- **Endeavour to visit each Participating Borrower annually, including meeting with elected officials as required, or if requested; and**
- **Take a proactive role to enhance the financial strength and depth of the local government debt market and work with key central government and local government stakeholders on sector and individual council issues.**

Following the lifting of COVID-19 travel restrictions that were in place during the previous two quarters, we commenced council visits again in the later months of 2020. We met with thirty-five councils over the past nine months and that number will increase in the June quarter. LGFA continues to review council agendas and management reports on an ongoing basis for those councils on the LGFA borrower watch-list. We have been engaging with councils as they release their Draft Long-Term Plans if we have had concerns with them.

No council has yet to request to LGFA that they be measured on a group basis.

During the quarter, we continued to focus on exploring opportunities in the Green, Social and Sustainable lending to councils. The Board and management met with representatives from Central Government on the proposed water reforms. We held investor conference calls for investors and banks relating to bond issuance and provided updates on the impact on the local government sector from COVID-19.

We continue to assist the sector and their advisers in finding ways for LGFA to play a supporting role in providing solutions to off balance sheet financing for councils. LGFA has been contributing expertise to the proposed Ratepayer Financing Scheme (RFS).

Additional objectives (Section 3 of SOI)

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

LGFA has an annual review process regarding our credit ratings from Standard and Poor's ("S&P") and Fitch Ratings ("Fitch") and meets with both agencies at least annually. Formal review meetings were last held in November 2019 with S&P and in October 2020 with Fitch.

On 22 February 2021, S&P upgraded our long-term local currency credit rating to AAA and our long-term foreign currency credit rating to AA+. Both ratings are the same as the New Zealand Government.

On 4 November 2020, Fitch reaffirmed our long-term local currency credit rating as AA+ and classified LGFA as a corporate mission, government related entity (GRE) under its GRE rating criteria. Fitch equalises our ratings with

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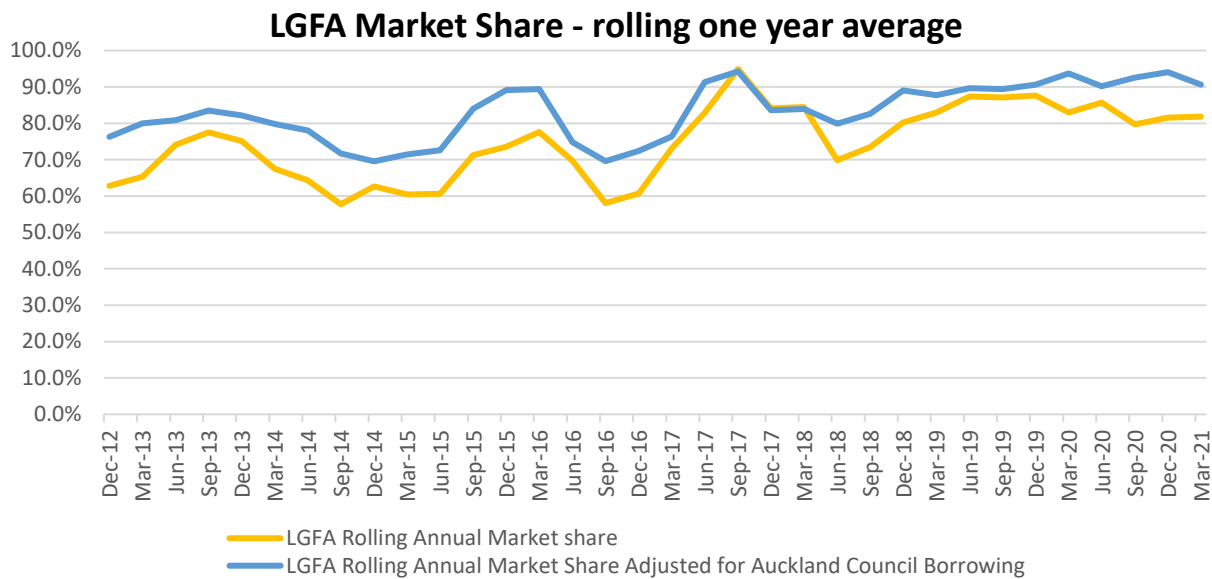
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those of the New Zealand Government. On 28 January 2020 Fitch placed our foreign currency credit rating of AA on positive outlook but left the local currency credit rating unchanged at AA+ with a stable outlook.

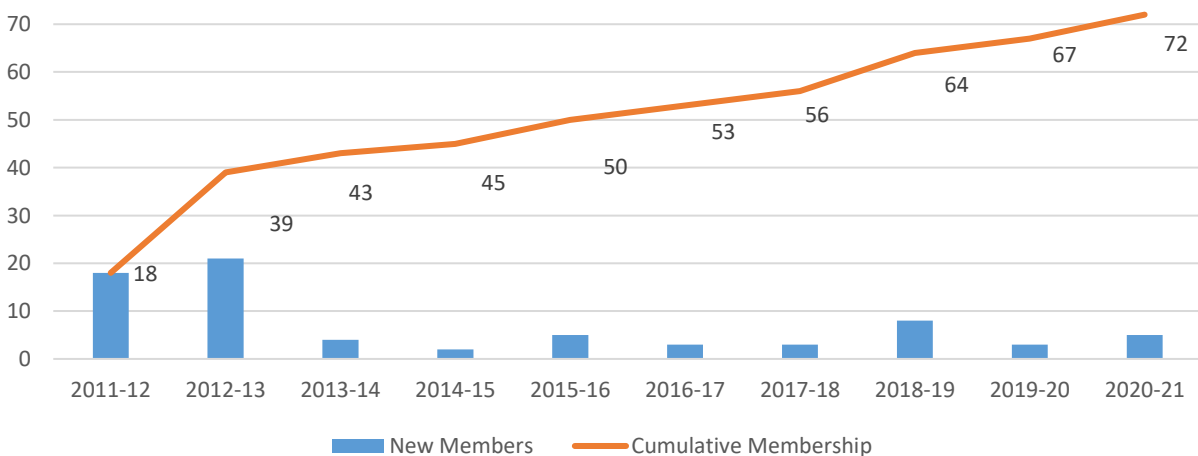
2. Provide at least 85% of aggregate long-term debt funding to the Local Government sector.

We use the PwC Local Government Debt Report as our source of market share. Our estimated market share for the rolling twelve-month period to 31 March 2021 was 81.8%. If we adjust for Auckland Council borrowing, then it increases to 90.6%. This compares to a historical average of 73.7% and our market share is strong compared to our global peers.



As at 31 March 2021, there are seventy-two participating local authority members of LGFA. This was an increase of one over the quarter with Napier City Council joining as a guarantor. We estimate a further two councils could become members in the next twelve months. Hawkes Bay District Council during the quarter moved from being a non-guarantor to a guarantor, bringing the number of guarantors to sixty-three.

Council Membership (as at 31 March 2021)



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3. Achieve the financial forecasts outlined in section 4 for net interest income and operating expenses, including provision for a shareholder dividend payment in accordance with approved dividend policy.

For the nine-month period to 31 March 2021, Net Interest Income (“NII”) was estimated on an unaudited basis to be \$1.49 million above budget while expenses are \$253k below budget. Net Operating Gain of \$10.58 million was \$1.82 above budget.

Included in the NII is the unrealised mark to market movement in fixed rate swaps that are not designated effective for hedge accounting purposes. We have used these swaps to reduce exposure to fixed rate loans made outside of the normal tender process and to reduce mismatches between borrowing and on-lending terms in our balance sheet. The unrealised loss increases as interest rates fall but turns to a profit if interest rates rise. Due to a rise in interest rates since June 2020, the year-to-date revaluation is a profit of \$1.08 million.

Expenses for the nine-month period on an unaudited basis were \$5.377 million which is \$253k below budget. This variance is the consequence of:

- Issuance and on-lending costs (excluding AIL) at \$1.95 million were \$70k below budget. A larger amount of bond issuance and short-term lending increased these costs relative to budget, primarily in relation to higher NZX costs and legal costs. These were offset from lower fees than budgeted relating to the NZDM facility.
- Operating costs at \$2.84 million were \$173k below budget due to lower travel and IT consulting costs offset by higher legal costs relative to budget.
- Approved Issuer Levy (AIL) payments of \$593k were \$11k below budget. We pay AIL on behalf of offshore investors at the time of semi-annual coupon payment and offshore investor holdings are in line with our SOI forecasts.

4. Meet or exceed the Performance Targets outlined in section 5.

See Section D on page 6 of this report.

As at 31 March 2021 we were meeting seven out of the ten performance targets but are confident that we will meet another target by 30 June 2021.

5. Comply with the Health and Safety at Work Act 2015

LGFA has a Health and Safety staff committee and reporting on Health and Safety issues are made to the LGFA board on a regular basis by the Risk and Compliance Manager. There were no Health and Safety incidents during the quarter.

6. Comply with Shareholder Foundation Polices and the Board-approved Treasury Policy at all times.

There were no compliance breaches during the nine-month period ending 31 March 2021.

7. Assist the local government sector with their COVID-19 response.

Shareholders on 30 June 2020 approved a change to the Foundation Policy covenants. For the financial year ending 30 June 2021 the net debt/total revenue covenant for council borrowers with an external credit rating of at least ‘A+’

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has been increased from 250% to 300%. This is to provide short term relief from a temporary reduction in revenue and allows councils to coinvest alongside central Government in infrastructure projects in response to COVID-19

As mentioned previously, LGFA has been contributing expertise to the Ratepayer Financing Scheme project that if successful could offer temporary financial relief to ratepayers via rates postponement.

LGFA has introduced a new lending Standby Facility product that will provide greater certainty of access to emergency funding for councils at a lower cost than going to the traditional bank provider.

LGFA has extended the longest dated lending maturity for councils from 2033 to 2037 to enable councils to be better match assets with liabilities and to benefit from record lows in interest rates and borrowings spreads.

F. Investor relations

Managing relations with our investor base is very important as the amount of LGFA bonds on issue has yet to peak and we require investors and banks to support our ongoing tender issuance.

Over the three-month period to 31 March 2021 we issued \$400 million of LGFA bonds and there were no bond maturities. The change in holdings amongst our investor groups during the quarter was

- Offshore investor holdings increased by \$289 million (but reduced by \$169 million from 31 March 2020) and holdings are estimated to be \$3.05 billion on 31 March 2021.
- Domestic bank holdings decreased by \$532 million (but down \$255 million from 31 March 2020), and holdings are estimated to be \$3.90 billion on 31 March 2021.
- Domestic investor (retail and institutional) holdings increased by \$551 million (and up \$1.27 billion from 31 March 2020), and holdings are estimated to be \$4.36 billion as of 31 March 2021.
- The Reserve Bank of New Zealand (RBNZ) increased their holdings by \$113 million over the quarter and held \$1.91 billion as at 31 March 2021.

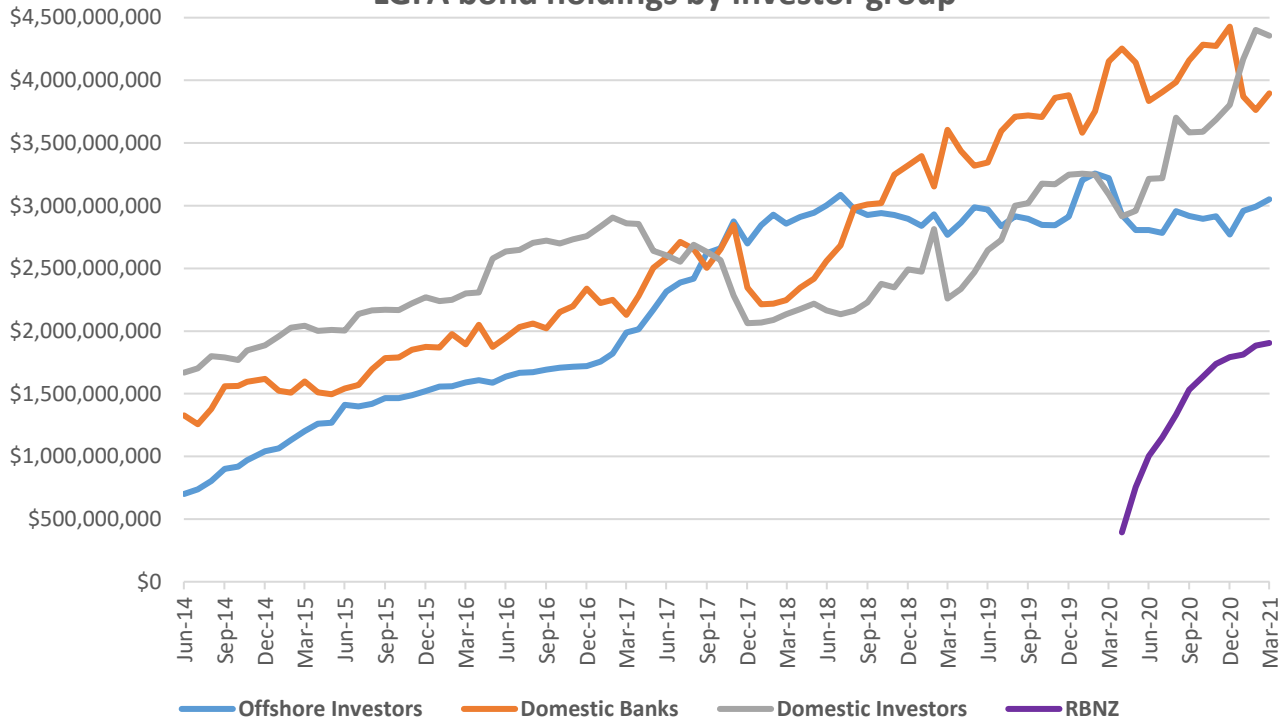
Domestic bank trading books reduced their positions as both offshore and domestic investors purchased high grade NZD bonds following the rise in yields and steeper yield curve. The absence of Kauri issuance over the quarter increased demand for LGFA bonds. The small increase in offshore investor holdings was pleasing given the relative unattractiveness of NZ to other markets.

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LGFA bond holdings by investor group



LGFA Bond Holders by Investor Group

