

LGFA Quarterly Report to Shareholders

December Quarter 2020

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Quarterly Report

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

A. December 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	600	N/A	-	110	-	60	100	50	160	50	70
Term Loans to councils \$m	632.2	346.1	2.0	17.0	10.5	24.7	45.5	18.5	168.0	-	-
Term Loans to councils #.	54	24	1	3	4	4	7	6	5	-	-

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	1,900	N/A	450	110	100	60	150	100	260	100	570
Term Loans to councils \$m	1,737.5	638.6	6.0	49.0	45.8	102.2	324.0	84.5	483.0	4.4	50.0
Term Loans to councils #.	120	45	2	5	10	15	21	10	11	1	1

Key points and highlights for the December quarter:

- The LGFA bond yield curve rose and steepened during the quarter, rising from the historic lows in the September quarter and reversing the previous movements in the yield curve. Front end yields rose less than back end yields e.g. 2022 yields closed the quarter 0.16% higher at 0.38% and 2037 yields were up 0.47% to 1.97%. Investors unwound expectations of a negative Official Cash Rate as the domestic economy proved more resilient than expected, the housing market performed strongly, and global bond yields rose.
- LGFA issued \$600 million of bonds during the quarter across three tenders of \$200 million each. The average term of issuance during the quarter was 7.53 years.
- LGFA borrowing margins to swap narrowed between 3 bps (2022s) and 10 bps (2033s) during the quarter and continued the tightening evident in the September quarter. LGFA spreads to NZGB also narrowed during the quarter and all spreads narrowed to set new historic lows.
- Long dated lending to councils during the quarter of \$632.2 million was less than the record \$1.1 billion in the September quarter, while the average term of lending during the quarter at 6.77 years was also less than the prior quarter's 7.22 years. It was still significantly longer 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 December 2020 (compared to a historical average since 2012 of 74%).
- Short-term lending remains supported by councils with loans outstanding of \$343.4 million as at 31 December 2020. This was an increase of \$59.8 million over the quarter and the number of councils using this product was unchanged at twenty-six.
- We entered into our first Standby Facility Agreement with a council during the quarter and this was a pleasing start to a new product that will help reduce overall financing costs for councils.
- LGFA Net Operating Gain (unaudited) for the six-month period to 31 December 2020 was \$5.948 million which was \$673k above budget, comprising total operating income at \$643k above budget and expenses at \$30k below budget.
- We are meeting (or on track to meet) eight out of our ten performance objectives with only our market share and number of council visits currently below our target.
- We had three councils join LGFA during the quarter bringing total membership to seventy-one. Waitaki and Central Otago District Councils joined as guarantors and Kawerau District Council joined as a non-guarantor. 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 three bond tenders during the quarter amounting to \$600 million of issuance.

Tender 75: 7 October 2020

\$200 million

Tender 75 - 07 October 2020	15-Apr-23	15-Apr-26	20-Apr-29	14-Apr-33
Total Amount Offered (\$million)	50	50	50	50
Total Amount Allocated (\$million)	50	50	50	50
Total Number of Bids Received	9	11	22	12
Total Amount of Bids Received (\$million)	155	144	186	122
Total Number of Successful Bids	1	2	2	7
Highest Yield Accepted (%)	0.190	0.415	0.815	1.180
Lowest Yield Accepted (%)	0.190	0.410	0.810	1.170
Highest Yield Rejected (%)	0.220	0.500	0.900	1.250
Lowest Yield Rejected (%)	0.200	0.415	0.815	1.180
Weighted Average Accepted Yield (%)	0.190	0.415	0.815	1.174
Weighted Average Rejected Yield (%)	0.206	0.446	0.835	1.234
Amount Allotted at Highest Accepted Yield as Percentage of Amount Bid at that Yield*	100	90	90	62.1
Coverage Ratio	3.10	2.88	3.72	2.44
NZGB Spread at Issue (bps)	20.00	33.00	48.00	50.00
Swap Spread at Issue (bps)	13.00	25.50	41.00	51.00
Swap Spread: AA council (bps)	36	48.25	64.5	85.25
Swap Spread: AA- council (bps)	41	53.25	69.5	90.25
Swap Spread: A+ council (bps)	46	58.25	74.5	95.25
Swap Spread: Unrated council (bps)	56	68.25	84.5	105.25
Coverage Ratio	3.10	2.88	3.72	2.44

The tender result was very good with strong volume of bids and price tension. While spreads to NZGB were wider by 8bps compared to the September tender result (following the recent outperformance by NZGBs on reduced supply from NZDM), LGFA issuance spreads to swap were 1 to 2 bps tighter and made new lows as did issuance yields.

The tender size of \$200 million was the same size as the other tenders held this calendar year and we tendered four tranches in order to capture as much demand as possible. Price support was strongest for the 2023, 2026 and 2029 maturities with the weighted successful average yield of each bond at or slightly below mid-market yields.

Bidding volume was strong with the overall bid coverage ratio of 3.04x the third highest in eighteen months and only one successful bid for the 2023s and two each for the 2026s and 2029s.

While we issued \$200 million of LGFA bonds we on-lent \$187 million to nine councils. The average maturity of the LGFA bonds issued was 7.27 years while the average term of lending to councils was 7.3 years so our issuance and lending terms were matched.

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Tender 76: 12 November 2020

\$200 million

Tender 76 - 12 November 2020	15-Apr-25	15-Apr-27	20-Apr-29	15-Apr-37
Total Amount Offered (\$million)	60	50	60	30
Total Amount Allocated (\$million)	60	50	60	30
Total Number of Bids Received	15	14	11	25
Total Amount of Bids Received (\$million)	176	136	93	99
Total Number of Successful Bids	5	2	2	6
Highest Yield Accepted (%)	0.615	0.830	1.140	1.930
Lowest Yield Accepted (%)	0.595	0.820	1.135	1.890
Highest Yield Rejected (%)	0.690	0.950	1.250	2.020
Lowest Yield Rejected (%)	0.615	0.840	1.150	1.940
Weighted Average Accepted Yield (%)	0.609	0.825	1.138	1.919
Weighted Average Rejected Yield (%)	0.634	0.864	1.186	1.973
Amount Allotted at Highest Accepted Yield as Percentage of Amount Bid at that Yield*	42.9	100	100	100
Coverage Ratio	2.93	2.72	1.55	3.30
NZGB Spread at Issue (bps)	24.00	28.00	41.00	55.00
Swap Spread at Issue (bps)	21.25	25.25	38.35	68.30
Swap Spread: AA council (bps)	26.5	52	61	72
Swap Spread: AA- council (bps)	31.5	57	66	77
Swap Spread: A+ council (bps)	36.5	62	71	82
Swap Spread: Unrated council (bps)	46.5	72	81	92
Coverage Ratio	2.93	2.72	1.55	3.30

The tender result was pleasing with good volume of bids (despite a NZ Debt Management bond tender of \$600 million of NZ Government Bonds (NZGBs) at the same time), good price tension and support for all the bonds on offer.

Spreads to NZGB were wider by 7bps on the 2029s compared to the October tender following the recent outperformance by NZGBs on reduced supply from NZDM while the RBNZ LSAP was still providing positive ongoing support for lower yields. Market conditions were volatile with a 20 bps rise in yields following the previous days RBNZ Monetary Policy Statement, so it was going to be a more difficult environment to issue into.

Price support was strongest for the 2025, 2027 and 2037 maturities with the weighted successful average yield of each bond 0.5bps above mid-market yields while the 2029 issue yield was 1.5 bps above mid-market.

Bidding volume was good with the overall bid coverage ratio of 2.52x below the previous two record months but still well above the 2.3x average for the past two years. The bid coverage ratios were consistent and ranged between 1.55x (2029s) and 3.3x (2037s).

The average maturity of the LGFA bonds issued was 7.93 years so it was another tender of both larger volume and longer duration compared to previous years.

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While we issued \$200 million of LGFA bonds we on-lent \$258 million to eight councils with an average term of lending of 5.3 years (64 months) so our issuance term was significantly longer than our lending.

Tender 77: 16 December 2020

\$200 million

Tender 77 - 16 December 2020	15-Apr-23	15-Apr-26	20-Apr-29	15-Apr-37
Total Amount Offered (\$million)	60	50	50	40
Total Amount Allocated (\$million)	60	50	50	40
Total Number of Bids Received	7	13	22	25
Total Amount of Bids Received (\$million)	120	135	170	138
Total Number of Successful Bids	1	3	8	7
Highest Yield Accepted (%)	0.390	0.690	1.090	1.940
Lowest Yield Accepted (%)	0.390	0.680	1.070	1.890
Highest Yield Rejected (%)	0.450	0.750	1.175	2.040
Lowest Yield Rejected (%)	0.410	0.695	1.090	1.940
Weighted Average Accepted Yield (%)	0.390	0.683	1.084	1.929
Weighted Average Rejected Yield (%)	0.435	0.713	1.109	1.967
Amount Allotted at Highest Accepted Yield as Percentage of Amount Bid at that Yield*	100	100	100	100
Coverage Ratio	2.00	2.70	3.40	3.45
NZGB Spread at Issue (bps)	18.00	28.00	39.00	55.00
Swap Spread at Issue (bps)	9.90	18.10	28.90	61.90
Swap Spread: AA council (bps)	32.5	40.5	51.5	85.5
Swap Spread: AA- council (bps)	37.5	45.5	56.5	90.5
Swap Spread: A+ council (bps)	42.5	50.5	61.5	95.5
Swap Spread: Unrated council (bps)	52.5	60.5	71.5	105.5
Coverage Ratio	2.00	2.70	3.40	3.45

The tender size of \$200 million was the same size as the other nine tenders over the 2020 calendar year and reflected our larger borrowing requirement (\$2.83 billion in the 2020-21 financial year) but also the depth to the market assisted by the RBNZ LSAP programme.

We tendered four tranches in order to capture as much demand as possible. Price support was strong across the curve with the weighted successful average yield of each bond at or just above mid-market yields. Bidding volume was good with the overall bid coverage ratio of 2.82x the third highest for the past eighteen months and above the 2.3x average for the past two years. The bid coverage ratios were consistent across the four maturities.

The average maturity of the LGFA bonds issued was 7.39 years compared to the average for financial year to date of 8.49 years and 6.74 years in the prior 2019/20 financial year. We choose to issue more 2023s in the tender as they become less popular when they become a two-year or shorter maturity.

While we issued \$200 million of LGFA bonds we on-lent \$57.2 million to six councils with the average term of lending to councils of 7.7 years, so our issuance term was just slightly shorter than the term of our lending.

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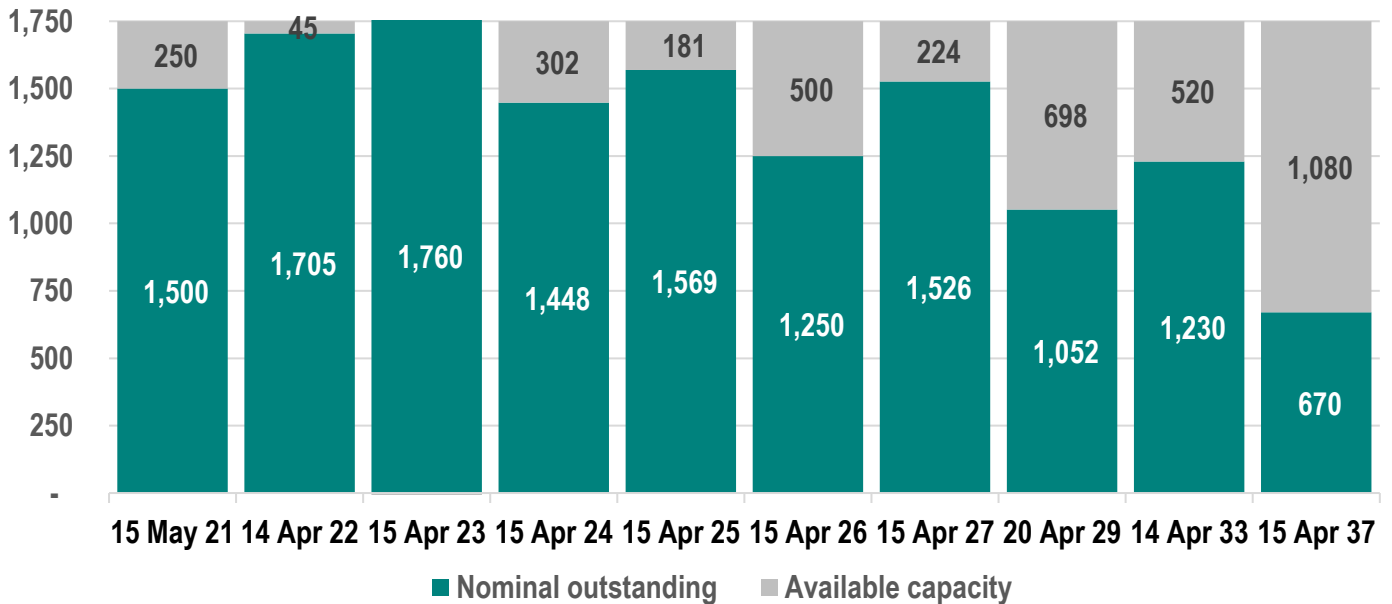
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Bonds on issue as at 31 December 2020 were \$13.710 billion (including \$950 million of Treasury Stock) across ten tranches. We have a soft cap per maturity of \$1.75 billion.

LGFA retail bonds on issue (NZ\$ million)

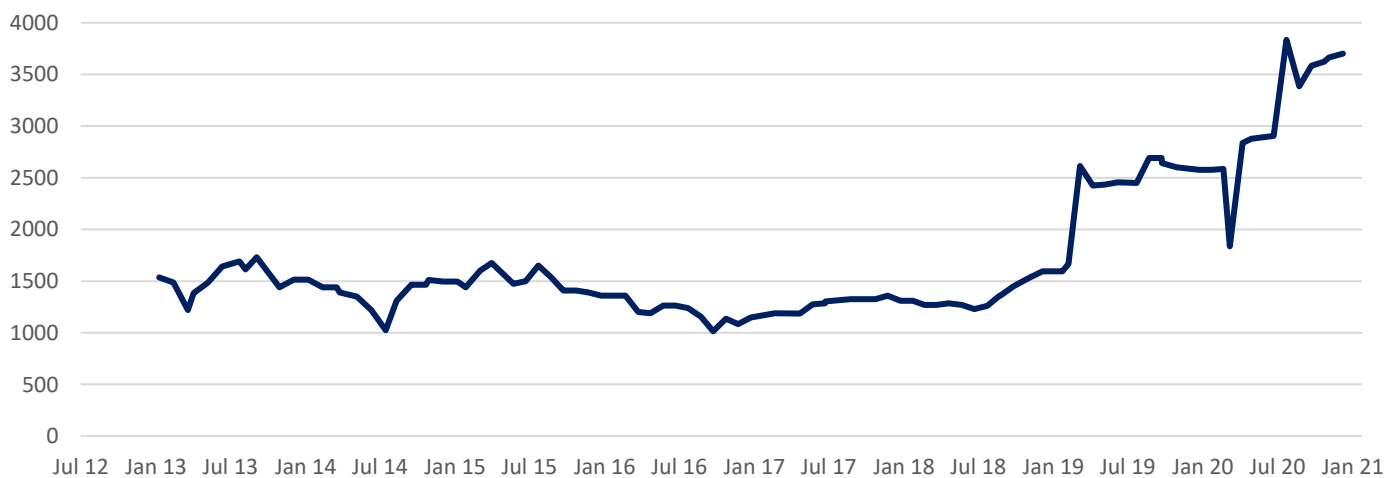
As 31 December 2020: NZ\$ 13,710 million
 Includes NZ\$950 million treasury stock



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		
Interest expense	82.22	180.52		
Net interest revenue	4.16	9.89		
Issuance and On-lending costs	0.73	1.40		
Approved issuer levy	Nil	0.59		
Operating expenses	0.93	1.95		
Issuance and operating expenses	1.66	3.94		
Net Profit	2.51	5.95		

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

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 eight out of our ten performance targets and are optimistic on meeting the remaining two targets by June 2021. Our market share is lower due to Auckland Council issuing a \$500 million bond during the September quarter. 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	\$4.2 m ✗	\$9.9 m ✓	
Annual issuance and operating expenses (excluding AIL) will be less than \$6.30 million	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)
	Actual (\$)	\$6.28 m	\$1.65 m On track	\$3.35 m ✓	

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Total nominal lending (short and long term) to participating councils to be at least \$9.79 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 ✓		
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% ✓		
Achieve 85% market share of all council borrowing in New Zealand	Target (%)		>85%	>85%	>85%	>85%
	Rolling annual average					
	Actual (%)	85.7%	76.5% ✗	81.8% ✗		
	Target (number)		Council visits to total 67 over one year			
Review each PLA financial position, its headroom under LGFA policies and arrange to meet each PLA at least annually			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 ✗		
No breaches of Treasury Policy, any regulatory or legislative requirements including H&S	Target (zero breaches)		nil	nil	nil	nil
	Actual	Two	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% ✓		
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+ ✓		

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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 December 2020	Comparison to other high-grade issuers - secondary market spread to swap (bps)												
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
LGFA (AA+)	6	12	12	14	16	19	19	24.5	30	33	35	38	40
Kainga Ora (AA+)			13		22	28		32		40			
Asian Development Bank (AAA)	5		10	14	19	22							
IADB (AAA)	6		10	16	21			42					
IFC (AAA)	7		10	16	21		28						
KBN (AAA)	10		12	17	25					43			
Rentenbank (AAA)	7	8	11	17	24								
World Bank (AAA)	6	7	9	14	19	22	25			38			
Nordic Investment Bank (AAA)	5		11		21								
ANZ (AA-)	7		26	29									
BNZ (AA-)			20		34								
Westpac Bank (AA-)		15	21	30	34								
SSA Average	7	8	10	16	21	22	27	42		41			
Bank Average	7	15	22	30	34								

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. All tenders were successful.

LGFA launched the Standby Facility Agreement as a new product during the quarter and entered into one agreement with a council for \$100 million.

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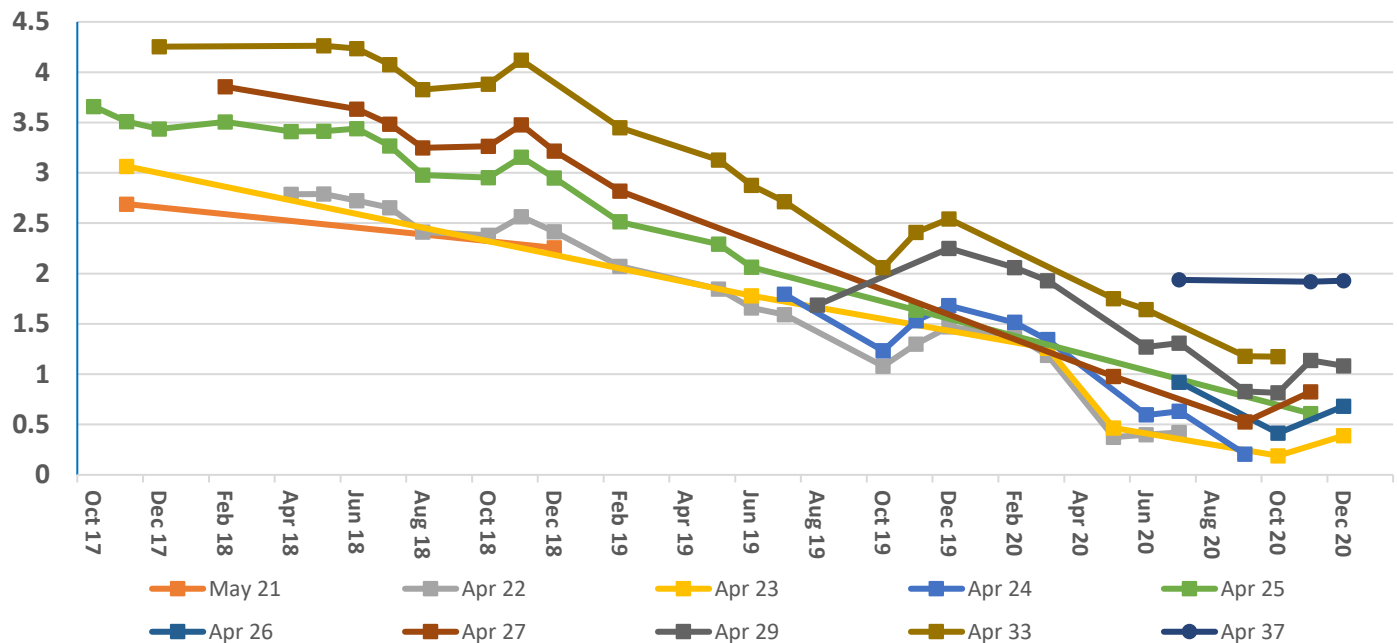


The LGFA bond yield curve steepened and rose during the quarter with front end yields (2022s) rising 0.16% and back-end yields (2033s) rising 0.47%. These moves reversed the September quarter movements. Global bond yields rose over the quarter as the short-term negative economic impact from COVID is less than expected and equity markets rallied strongly to reach historic highs. Local banks and investors have reduced their expectations for a negative Official Cash Rate amidst rising house prices and a resilient domestic economy.

LGFA margins to swap narrowed between 3 bps (2022s) and 10 bps (2033s) over the quarter continuing the September quarter tightening and LGFA bond issuance spreads to swap are now at their historic lows. LGFA spreads to NZGB also tightened between 3 bps and 8 bps over the quarter as investors sought additional yield in a low interest rate environment and the RBNZ continued to buy LGFA bonds through its Large-Scale Asset Purchase (LSAP) programme.

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 December quarter was a relatively quiet period for Kauri bond issuance except for the World Bank issuing \$1 billion of a six year and \$300 million of a ten-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.

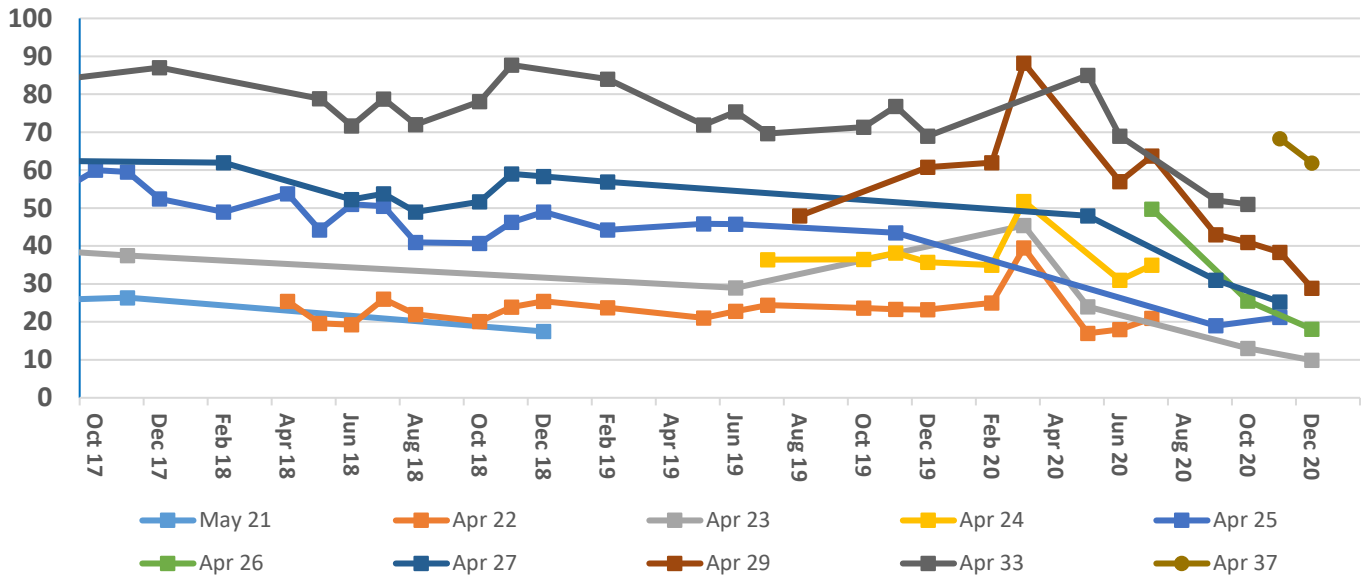
LGFA Bond Issuance Yields (%)
 last 30 tenders



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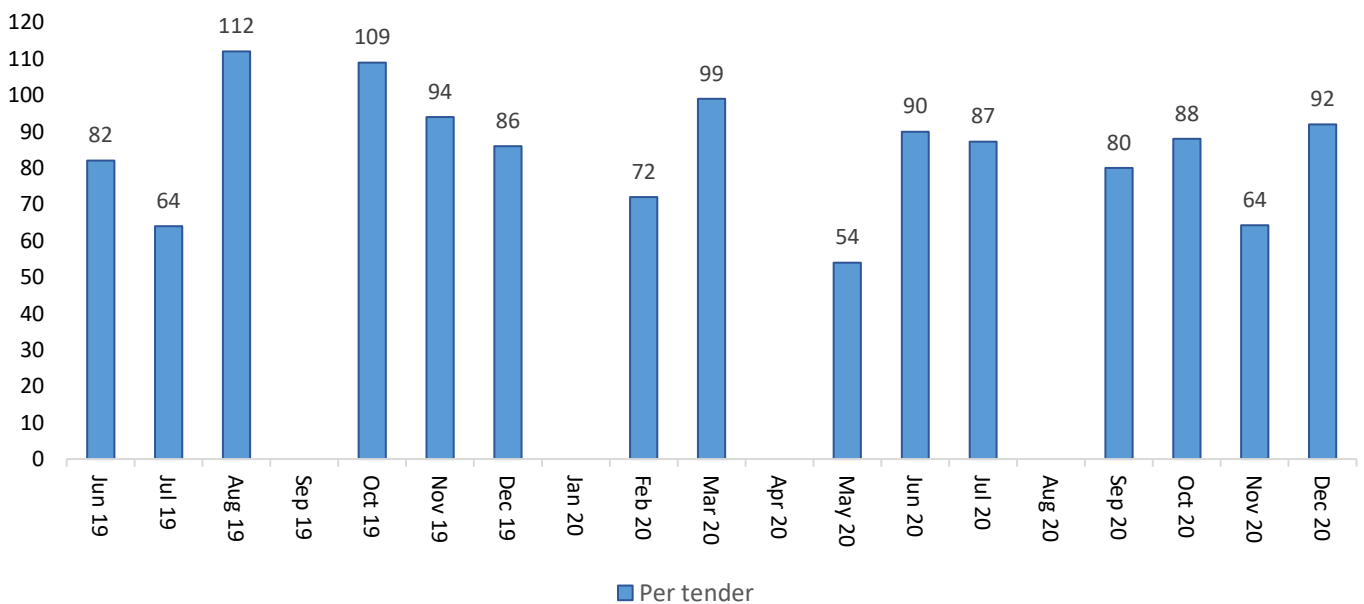
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Spread to Swap at Tenders (bps)
 last 30 tenders



The average borrowing term (excluding short dated borrowing) for the December quarter by council members was 6.77 years which was longer than the average term of 5.42 years for the year to June 2020. This reflected refinancing of the May 2021 loans by councils taking advantage of a recent flattening in the curve, lower outright yields and tighter credit spreads.

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



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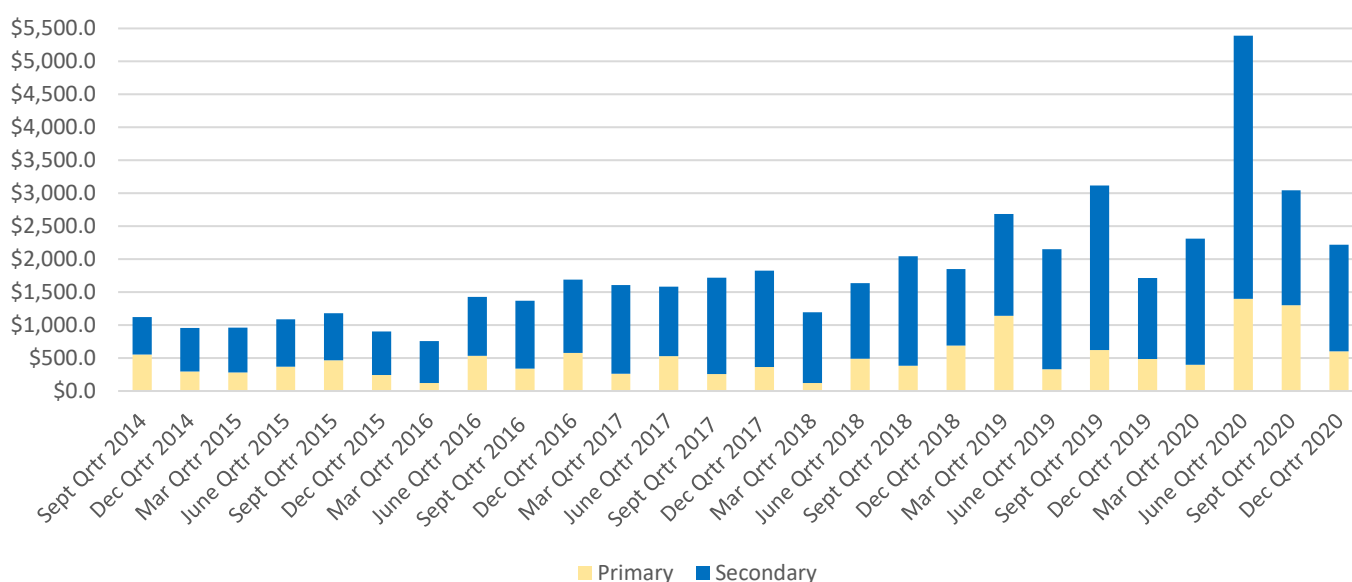
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Short term borrowing by councils remains well supported with loan terms of between one month and 12 months of \$343.4 million outstanding as at 31 December 2020 to twenty-six councils. The number of councils using this product was unchanged over the quarter while the total amount outstanding increased by \$60 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 healthy market implies high turnover.

Activity in LGFA bonds in both the primary market (tender or syndicated issuance) and secondary market (between banks and investors) during the quarter was strong but below the record highs seen in prior quarters. There was \$600 million of primary issuance and \$1.6 billion of secondary market activity in LGFA bonds during the quarter.

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



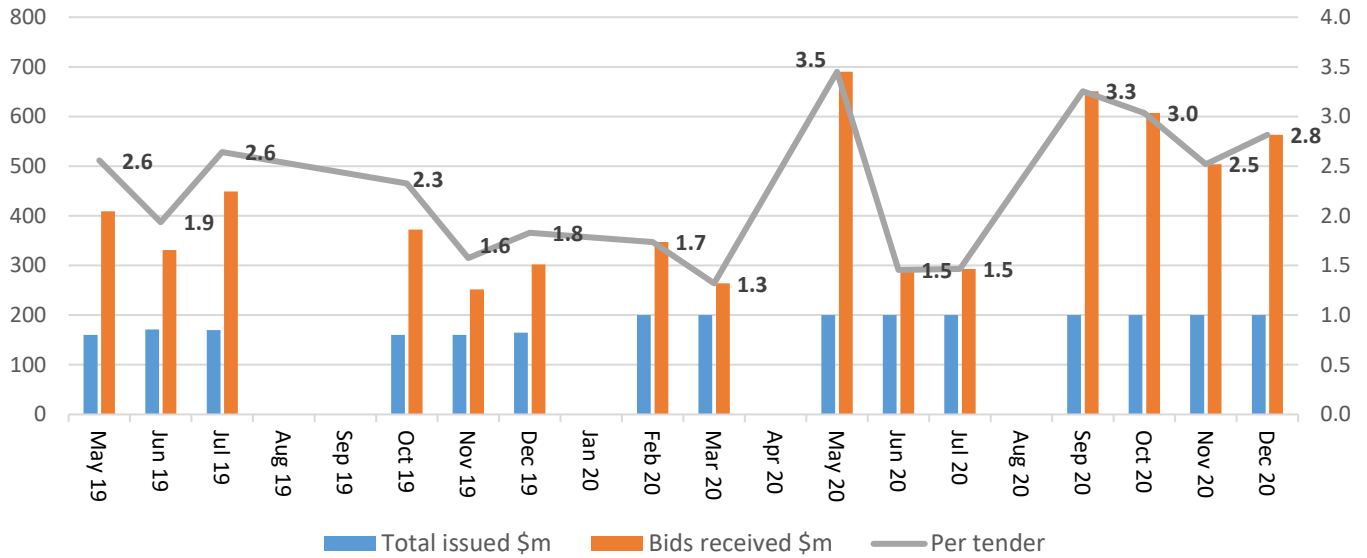
LGFA started issuing LGFA Bills and short dated (less than 1 year) lending to councils in late 2015. As at 31 December 2020 there were \$612.5 million of LGFA Bills on issue. We use proceeds from LGFA bills to fund short term lending to councils and invest the balance in our liquid asset portfolio.

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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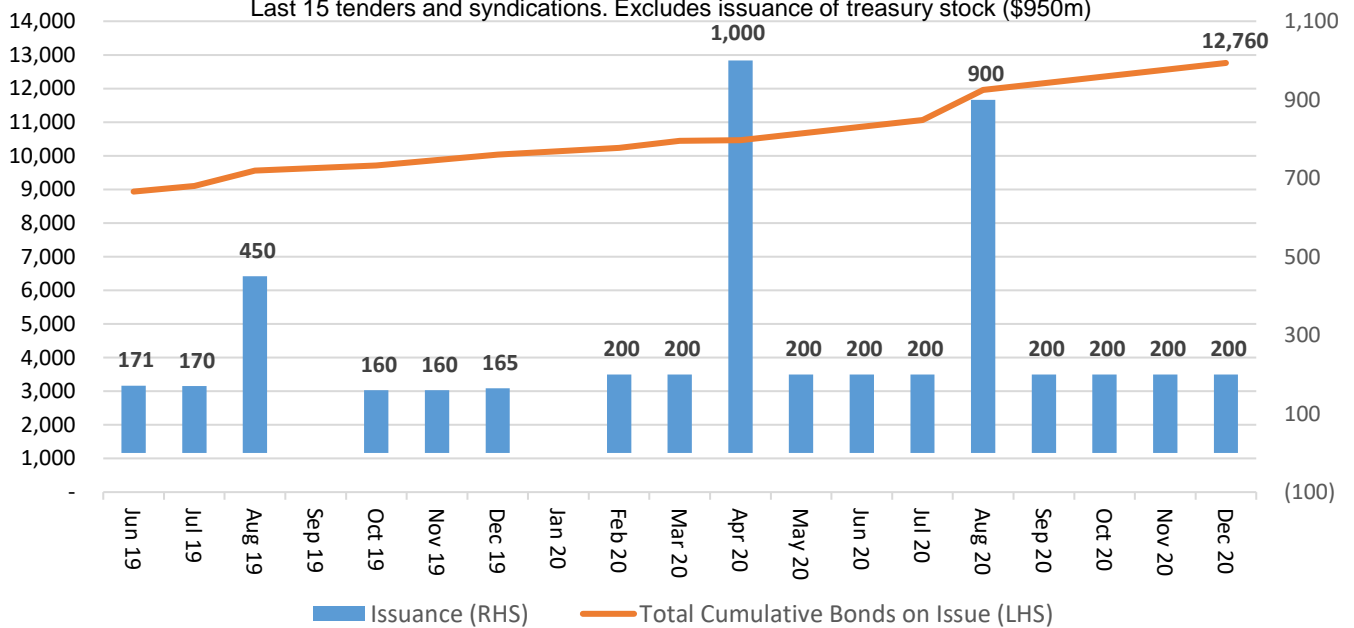
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Tender bid/offer summary
 Last 15 tenders



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 twenty-two councils over the quarter and that number will increase in the second half of the current financial year. LGFA continues to review council agendas and management reports on an ongoing basis for those councils on the LGFA borrower watch-list.

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

During the quarter, LGFA management had a strong focus on exploring further the 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.

In November we held two conferences for investors in Auckland and Wellington to outline the proposed water sector reforms and potential impacts on the sector and LGFA.

We continue to assist the sector and the 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 28 February 2020, S&P affirmed our long-term local currency credit rating (AA+) and our long-term foreign currency credit rating (AA). Both ratings remain on positive outlook and the same as the New Zealand Government.

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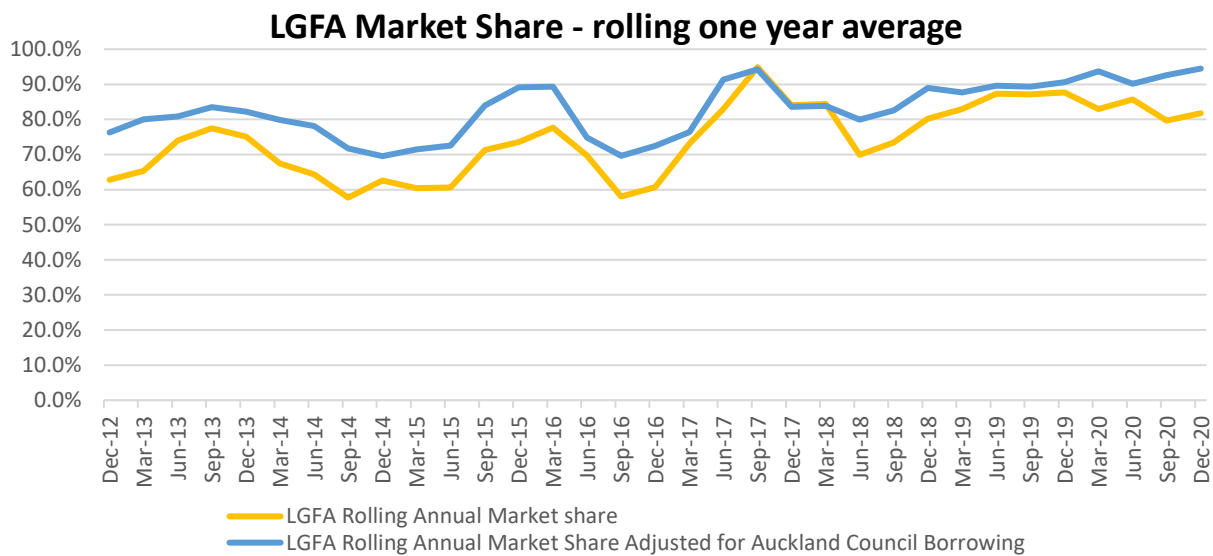
Quarter 2: 2020 - 2021
 Period ended: 31 December 2020



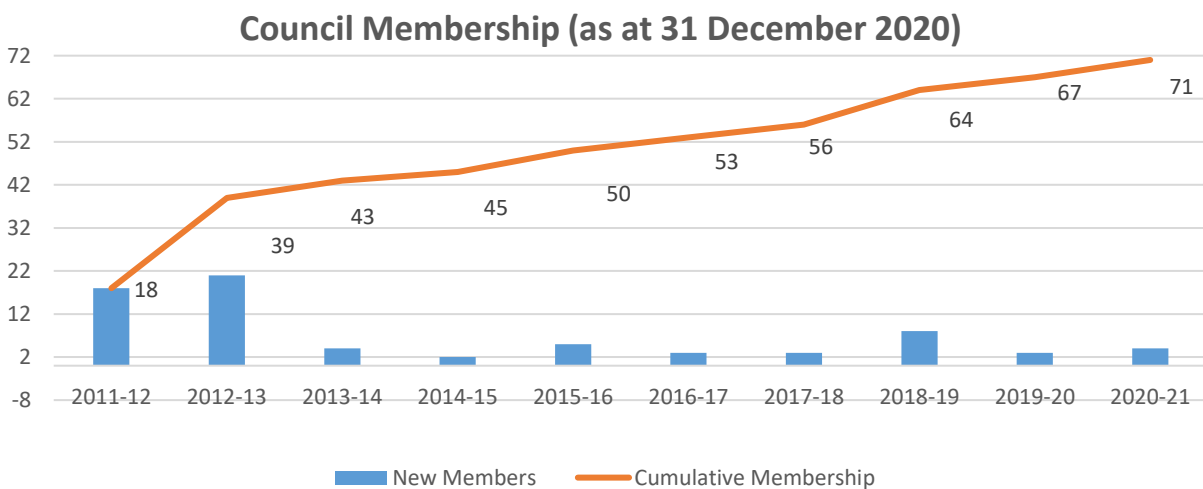
On 4 November 2020, Fitch reaffirmed our long-term local currency credit rating as AA+ and classified LGFA as a corporate mission, government related entity (GRE) under its GRE rating criteria. Fitch equalises our ratings with those of the New Zealand Government. On 28 January 2020 Fitch placed our foreign 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 December 2020 was 81.8%. If we adjust for Auckland Council borrowing, then it increases to 94.5%. This compares to a historical average of 73.7% and our market share is strong compared to our global peers.



As at 31 December 2020, there are seventy-one participating local authority members of LGFA. This was an increase of three over the quarter with Waitaki and Central Otago District Councils joining as guarantors and Kawerau District Council joining as a non-guarantor. We estimate a further two councils could become members in the next twelve months.



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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 six-month period to 31 December 2020, Net Interest Income (“NII”) was estimated by management on an unaudited basis to be \$638k above budget while expenses are \$30k below budget. Net Operating Gain of \$5.948 million was \$673k 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 \$317k.

Expenses for the six-month period on an unaudited basis were \$3.938 million which is \$30k below budget. This variance is the consequence of:

- Issuance and on-lending costs (excluding AIL) at \$1.4 million were \$14k above 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 to some extent from lower fees than budgeted relating to the NZDM facility.
- Operating costs at \$1.945 million were \$33k below budget due to lower travel and consulting costs offset by higher legal and personnel 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 just below our SOI forecasts.

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

See Section D on page 7 of this report.

As at 31 December 2020 we were meeting eight out of the ten performance targets but are confident that we will meet all targets 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 six-month period ending 31 December 2020.

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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 borrowers with an external credit rating of at least 'A+' 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 December 2020 we issued \$600 million of LGFA bonds and there were no bond maturities. The change in holdings amongst our investor groups during that time was

- Offshore investor holdings reduced by \$149 million (and reduced by \$143 million from 31 December 2019) and holdings are estimated to be \$2.70 billion as at 31 December 2020
- Domestic bank holdings increased by \$270 million (and up \$577 million from 31 December 2020) and holdings are estimated to be \$4.43 billion as at 31 December 2020
- Domestic investor (retail and institutional) holdings increased by \$221 million (and up \$528 million from 31 December 2020) and holdings are estimated to be \$3.85 billion as at 31 December 2020
- The Reserve Bank of New Zealand (RBNZ) increased their holdings by \$261 million over the quarter and now hold \$1.79 billion as at 31 December 2020.

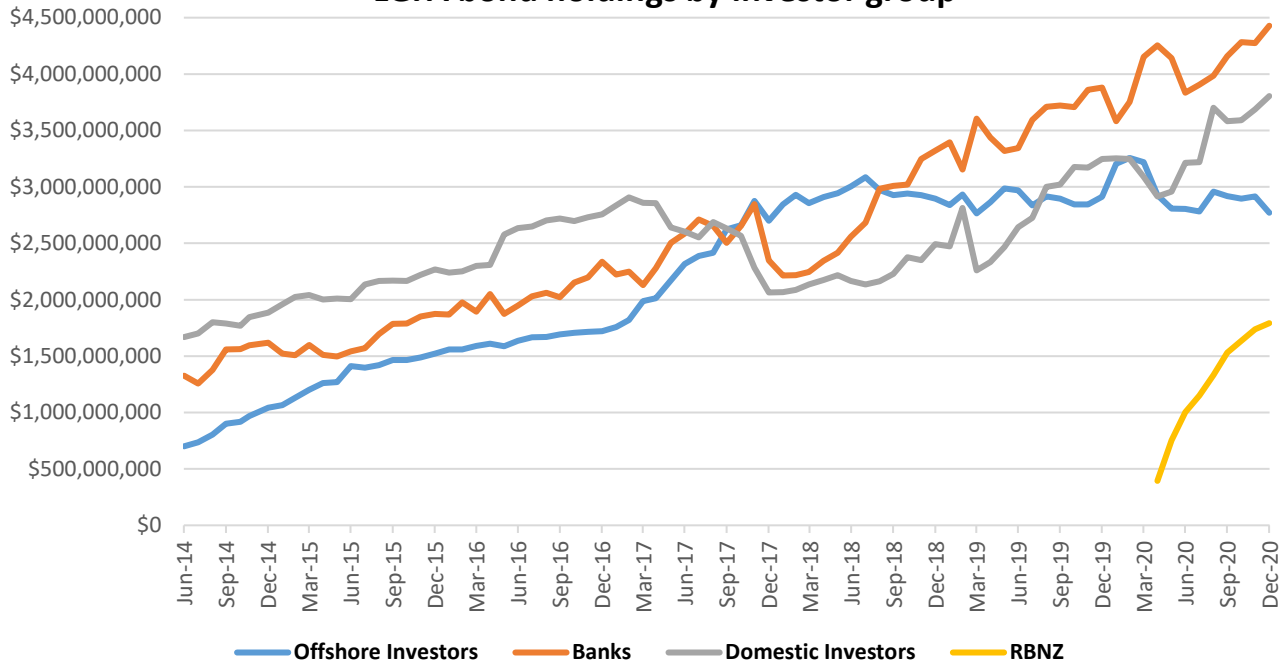
Domestic banks continue to buy the short to mid curve LGFA bonds for their liquid asset books given the low interest rate environment and subdued outlook for lending. While offshore investors have reduced their holdings, they do remain supportive of LGFA bonds despite the relative unattractiveness of NZ to other markets.

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LGFA bond holdings by investor group



LGFA bond holdings by investor group

