



NEW ZEALAND
LOCAL GOVERNMENT
FUNDING AGENCY



HALF YEAR REPORT

31
DECEMBER
2017



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Cover: Winding road leading to Mount Cook Village, Canterbury, South Island, New Zealand. Getty Images.

Left: Opening of the Memorial Avenue Gateway Bridge, November 2017. Christchurch City Council.

CHAIR'S REPORT

FOR THE SIX MONTHS ENDED 31 DECEMBER 2017

“LGFA has consolidated its position both as the leading provider of cost-effective funding to New Zealand councils and one of the largest issuers of New Zealand dollar fixed income securities that offer investors a highly rated, higher yielding alternative to New Zealand Government Bonds and Kauri issues.”

Craig Stobo, Chair LGFA Board



Directors would like to highlight the following developments at LGFA for the six-month period to December 2017:

1. Strong Financial and Operational Performance in line with the Statement of Intent (SOI) forecasts

LGFA total interest income for the six-month period of \$178.145 million was a 14.4% increase over the 2016-17 comparable period of \$155.711 million while Net Operating Profit of \$6.036 million was a 13.6% increase on the 2016-17 comparable period of \$5.312 million.

The financial strength of LGFA was reaffirmed by credit rating agencies Standard & Poor's and Fitch Ratings who maintained our credit rating at AA+. Our credit rating is the same as the NZ Government.

2. Borrowing activity

Over the past six months, LGFA has issued \$619 million of long-dated bonds. While this is in line with SOI forecast, it is one of the lowest issuance amounts over a six-month period, reflecting reduced borrowing demand from our council members. Average term of issuance of 5.7 years was the shortest average borrowing term since LGFA commenced borrowing in early 2012.

LGFA has \$7.5 billion of bonds (including Treasury stock used for bond lending purposes) on issue across seven maturities from 2019 to 2033. LGFA is one of the largest issuer of New Zealand dollar (NZD) securities after the NZ Government and our bonds are amongst the largest and most liquid NZD debt instruments available for investors. The amount of LGFA bonds outstanding has declined from \$7.9 billion as at 30 June 2017 due to the maturity of the December 2017 LGFA bonds. The council loans matching these bonds were successfully refinanced by council borrowers ahead of the maturity that resulted in an orderly repayment to investors.

3. Lending to the sector

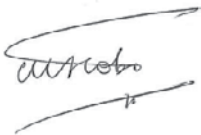
LGFA was established in late 2011 to provide long-dated borrowing, certainty of access to markets and to reduce the borrowing costs for the local government sector. It is pleasing to note the following achievements over the past six months:

- We admitted Rangitikei District Council as a new member in December 2017, bringing total membership to 54 councils. Horizons Regional Council also moved from being a non-guarantor to a guarantor in July 2017.

- Long-dated lending of \$518 million for the six-month period was slightly below our SOI forecast and reflected a preference for offshore borrowing by our largest borrower, Auckland Council and reduced borrowing demand from the rest of the sector. We also experienced a shortening in average tenor of council borrowing of 7.2 years compared to 8.1 years in the 2016-17 financial year.
- Bespoke lending continues to be popular for councils in that it provides flexibility for maturity dates of borrowing and the date of drawdown. LGFA lent \$452 million on a bespoke basis to councils during the six-month period. This was approximately 87% of our total lending over that period. Bespoke loans outstanding are now \$1.6 billion or approximately 22% of our total loan book.
- Short-dated lending (less than 365-day terms) to councils has been very successful with loans to 25 councils of \$332 million as at December 2017. This compares to \$240 million lent to 17 councils as at December 2016.
- The underlying credit quality of the sector continues to improve with all member councils remaining compliant with the LGFA lending covenants and three councils in the 2017 calendar year either receiving an upgrade to their credit ratings or a positive outlook change to their rating.

At the November 2017 AGM, Abby Foote retired from the LGFA Board. Abby was a founding director and I would like to acknowledge the valued contribution made by Abby to the success of this organisation since 2011 as both a director and Chair of the Audit and Risk committee. Anthony Quirk was elected a director at the AGM to fill the vacancy.

On behalf of my fellow directors I am pleased to be part of the continued success of this organisation and wish to thank our council shareholders, guarantors and borrowers as well as our financial intermediaries and investors for their continued support.



Craig Stobo
Chair, LGFA Board



STATEMENT OF SERVICE PERFORMANCE

Opening of the splash pad at Aotea Lagoon,
December 2017. Porirua City Council.

The statement of service performance details LGFA's performance against the objectives and targets set out in the LGFA Statement of Intent 2017-18.

1 2017-18 PERFORMANCE OBJECTIVES

The Statement of Intent 2017-18 (SOI) set out two primary performance objectives and eight complementary performance objectives for LGFA for the year ended 30 June 2018:

| Primary objectives | Additional objectives |
|---|--|
| <p>1. LGFA will operate with the primary objective of optimising the debt funding terms and conditions for Participating Local Authorities. Among other things this includes:</p> <ul style="list-style-type: none"> i. Providing savings in annual interest costs for all Participating Local Authorities on a relative basis to other sources of financing; ii. Making longer-term borrowings available to Participating Local Authorities; iii. Enhancing the certainty of access to debt markets for Participating Local Authorities, subject always to operating in accordance with sound business practice; and iv. Offering more flexible lending terms to Participating Local Authorities. <p>2. LGFA will monitor the quality of the asset book so that it remains of a high standard by ensuring it understands each Participating Local Authority's financial position and the general issues confronting the Local Government sector. This includes:</p> <ul style="list-style-type: none"> i. LGFA will review each Participating Local Authority's financial position, its financial headroom under LGFA policies and visit each Participating Local Authority on an annual basis; ii. LGFA will analyse finances at the Council group level where appropriate; iii. LGFA will work closely with the Department of Internal Affairs (DIA), Office of the Auditor General (OAG) and Local Government New Zealand (LGNZ) on sector and individual council issues; and iv. LGFA will take a proactive role to enhance the financial strength and depth of the local government debt market | <ul style="list-style-type: none"> 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; 2. Provide at least 50% of aggregate long-term debt funding to the Local Government sector; 3. Ensure its products and services are delivered at a cost that does not exceed the forecast for issuance and operating expenses set out in section 4; 4. Take appropriate steps to ensure compliance with the Health and Safety at Work Act 2015; 5. Maintain LGFA's credit rating equal to the New Zealand Government sovereign rating where both entities are rated by the same Rating Agency; 6. Achieve the Financial Forecasts (excluding the impact of AIL) set out in section 4; 7. Meet or exceed the Performance Targets outlined in section 5; and 8. Comply with its Treasury Policy, as approved by the Board. |

1 PERFORMANCE AGAINST PRIMARY OBJECTIVES

This section sets out LGFA's performance for the six-months ended 31 December 2017 against the two primary objectives set out in the 2017-18 Statement of Intent.

1.1 LGFA will operate with the primary objective of optimising the debt funding terms and conditions for Participating Local Authorities. Among other things this includes:

i. Providing savings in annual interest costs for all Participating Local Authorities on a relative basis to other sources of financing

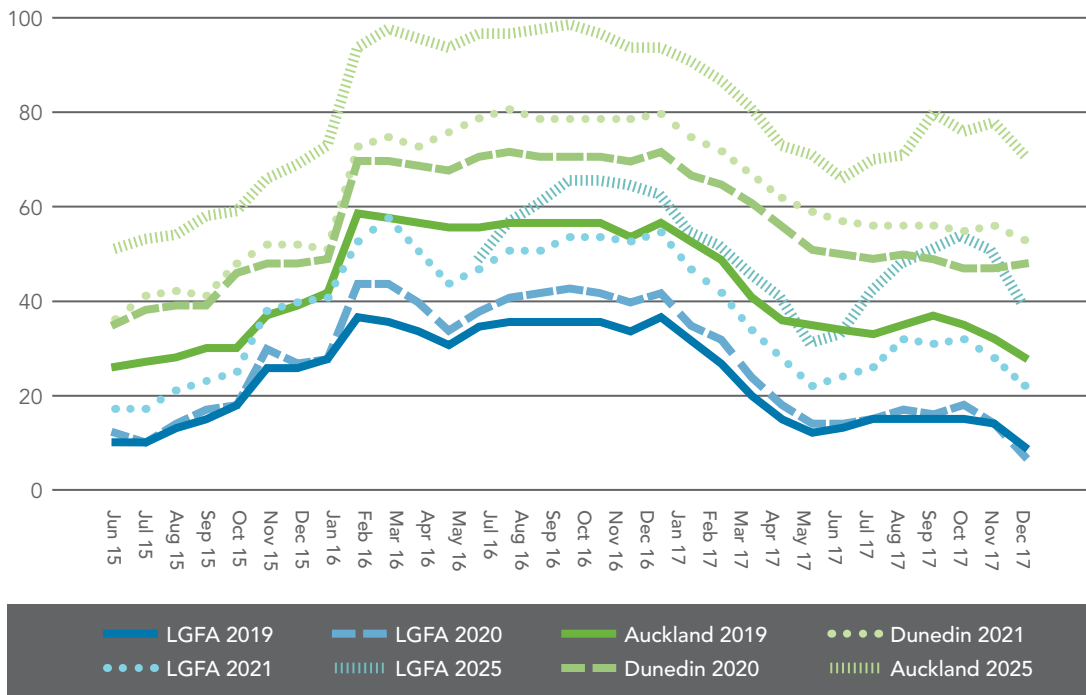
LGFA aims to minimise its issuance margin over swap rates to provide cost-effective funding to councils. The LGFA margin to swap will depend upon many factors including the relative demand and supply of high grade bonds, general credit market conditions, performance of New Zealand Government bonds and swap rates, investor perceptions of LGFA and the issuance volume and tenor of LGFA bonds. Given that LGFA tends to match fund its on-lending to councils, i.e. tends to issue bonds in similar tenors and volumes as its on-lending, then LGFA only has influence over investor perception amongst the above factors that determine LGFA spreads to swap. There will be periods within the interest rate and credit market cycles when LGFA bonds will outperform its benchmarks (spread narrowing) and there will be periods of time when LGFA bonds underperform (spread widening).

Our estimated annual savings to councils based upon the secondary market levels at 31 December 2017 of LGFA bonds compared to NZD domestic bonds issued by Auckland and Dunedin councils is between 10 basis points (bps) and 22 bps depending upon the term of borrowing. While borrowing spreads for all borrowers have narrowed over the past six months, LGFA spreads have not narrowed as much as those of Auckland and Dunedin councils. This underperformance by LGFA has been due to the relative supply of borrowing by each entity – over the past six months LGFA has borrowed \$619 million in the domestic market while Dunedin has borrowed \$80 million and Auckland Council has not borrowed in the domestic market.

| Savings comparison | Savings to AA-rated councils (bps) | | | | |
|----------------------------------|------------------------------------|--------------|--------------|---------------|---------------|
| | Auckland 2019 | Dunedin 2020 | Dunedin 2021 | Auckland 2022 | Auckland 2025 |
| AA rated councils margin to swap | 27 | 41 | 47 | 47 | 68 |
| Less LGFA margin to swap | (8) | (9) | (19) | (22) | (43) |
| LGFA Gross Funding Advantage | 19 | 32 | 28 | 25 | 25 |
| Less LGFA Base Margin | (9) | (10) | (10) | (10.5) | (11) |
| Total Saving | 10 | 22 | 18 | 14.5 | 14 |

Note that from 30 June 2017 we have removed the implied 'LGFA effect' of 10 bps of savings in borrowing costs from the analysis. The LGFA effect was the assessment of immediate savings to councils when LGFA first commenced lending to councils in February 2012 and this has become increasingly irrelevant given the passage of time.

The following chart shows the spread to swap (in basis points) in the secondary market of LGFA, Auckland Council and Dunedin City Treasury bonds.

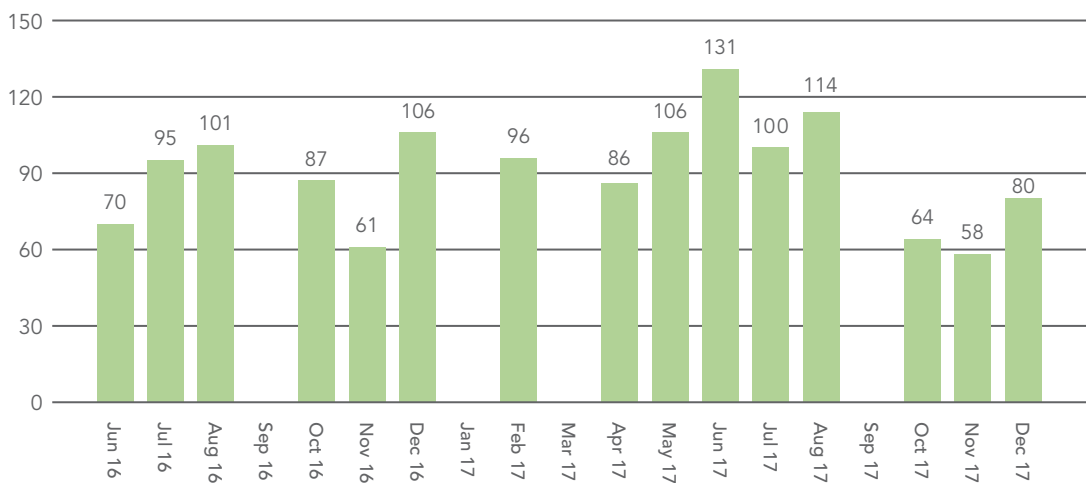


ii. Making longer-term borrowings available to Participating Local Authorities

The average borrowing term (excluding short-dated borrowing) for the six-month period to December 2017 by council members was 7.2 years and this was significantly shorter than the average borrowing term of 8.1 years for the 2016-17 year. The shortening in term was due to councils reacting to the recent widening of borrowing margins in the longer-dated maturities. Also, many councils had taken advantage of the tighter margins in early 2017, using the opportunity to extend longer when the 2033 maturities were first made available in April 2017.

Average total months to maturity – On-lending to councils at each tender

Last 15 tenders to 31 December 2017



While LGFA can provide councils with the ability to borrow from LGFA for terms from one month to 15 years, it is up to the councils to determine their preferred term of borrowing.

iii. Enhancing the certainty of access to debt markets for Participating Local Authorities, subject always to operating in accordance with sound business practices

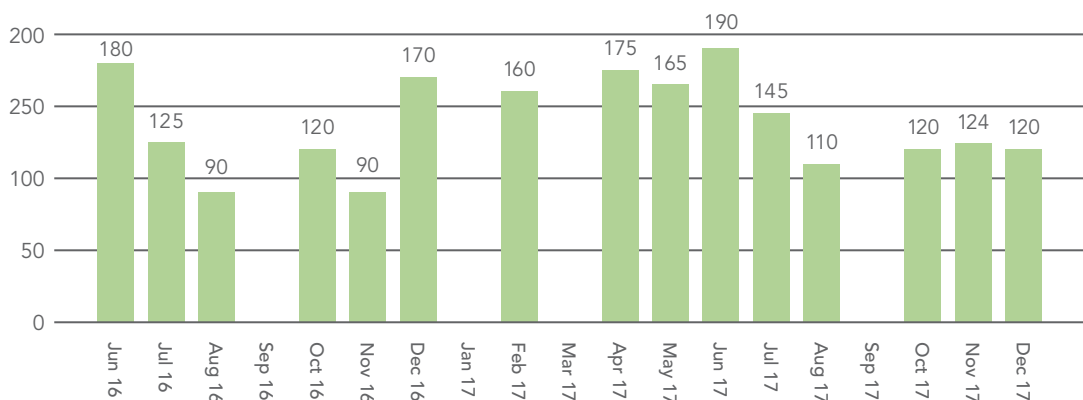
LGFA began issuing 3-month and 6-month LGFA Bills and commenced short-dated (less than one year) lending to councils in late 2015. LGFA has short-term loans to 25 councils of \$332 million outstanding as at 31 December 2017.

LGFA documented an Australian Medium-Term Notes Programme in November 2017 to provide the ability to issue in currencies other than NZD. It is not our intention to use this programme but to have it established to provide some flexibility in case of the unlikely scenario of a significant market disrupting event in the future.

The five LGFA bond tenders during the six-month period were supported by the market with the coverage ratios across the five tenders ranging between 1.61 times and 3.94 times with a weighted average of 2.54 times. We continue to offer three or four LGFA maturities at each tender and try to maintain the volume offered within the \$120 million to \$170 million range to ensure ongoing price tension.

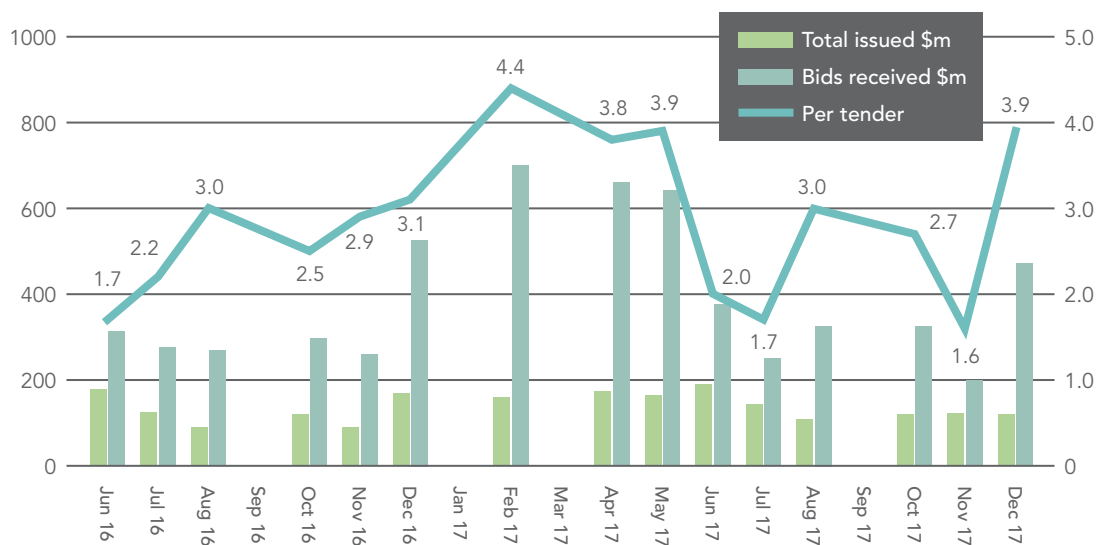
LGFA bond issuance by tender (\$ million)

Last 15 tenders to 31 December 2017. Excludes issuance of treasury stock



Tender bid/offer summary

Last 15 tenders to 31 December 2017



Councils can borrow on a bespoke basis from LGFA and are therefore not restricted to borrowing at the time of each LGFA bond tender. This has become increasingly popular for councils who can now borrow when the timing suits them.

iv. **Offering more flexible lending terms to Participating Local Authorities**

Bespoke lending continues to be a popular borrowing option for council members. Since we introduced the ability for councils to choose their preferred maturity and date of drawdown in February 2015, we have lent \$1.645 billion in bespoke transactions. During the six-month period to 31 December 2017, we lent \$452 million on a bespoke basis across 47 transactions to 21 councils. This comprised 87% of total term lending by LGFA to its members during the six-month period.

Short-term borrowing by councils continues to be well supported by councils with loan terms to date of between three months and 12 months on \$332 million of loans outstanding as at 31 December 2017.

1.2 **LGFA will monitor the quality of the asset book so that it remains of a high standard by ensuring it understands each Participating Local Authority's financial position and the general issues confronting the Local Government sector. This includes:**

i. **LGFA will review each Participating Local Authority's financial position, its financial head-room under LGFA policies and visit each Participating Local Authority on an annual basis**

The review of each council's financial position is undertaken for all councils on an annual basis and all councils were compliant with the LGFA financial covenants as at 30 June 2017. A copy of each council's borrowing position and compliance with LGFA covenants was provided to LGFA shareholders and non-shareholder guarantors with the December 2017 quarterly report. LGFA management met with 27 councils over the six-month period.

ii. **LGFA will analyse finances at the Council group level where appropriate**

While all councils must be compliant with LGFA covenants at the parent level, we also analyse each participating member council's financial position at the Group level. This is undertaken as part of the annual review process.

iii. **LGFA will work closely with the Department of Internal Affairs (DIA), Office of the Auditor General (OAG) and Local Government New Zealand (LGNZ) on sector and individual council issues**

LGFA management met representatives from Crown Irrigation Investments Limited, Ministry of Business, Innovation and Employment, DIA, Treasury and OAG to discuss the local government sector in general and issues relating to specific councils. We provided input into the proposed Housing Infrastructure Fund and Crown Infrastructure Partners initiatives. The LGFA Board met with the Local Government Commission. We presented at both LGNZ quarterly media presentations on the financial position of the sector and LGFA.

iv. **LGFA will take a proactive role to enhance the financial strength and depth of the local government debt market**

LGFA management meet with the management team of each council at least once a year. We also presented to elected officials at councils prior to them joining LGFA to remind them of their obligations.

We have been involved in discussions between Central Government agencies and the Housing Infrastructure Fund (HIF) councils regarding the structuring of the HIF loans to ensure the interests of councils, ratepayers and LGFA are protected.

LGFA presented at various capital market conferences and met with banks and investors on a regular basis.

2 PERFORMANCE AGAINST ADDITIONAL OBJECTIVES

In addition to the two primary performance objectives, LGFA has eight performance objectives which complement the primary objectives. This section sets out LGFA's performance for the six-months ended 31 December 2017 against the additional objectives set out in the 2017-18 Statement of Intent.

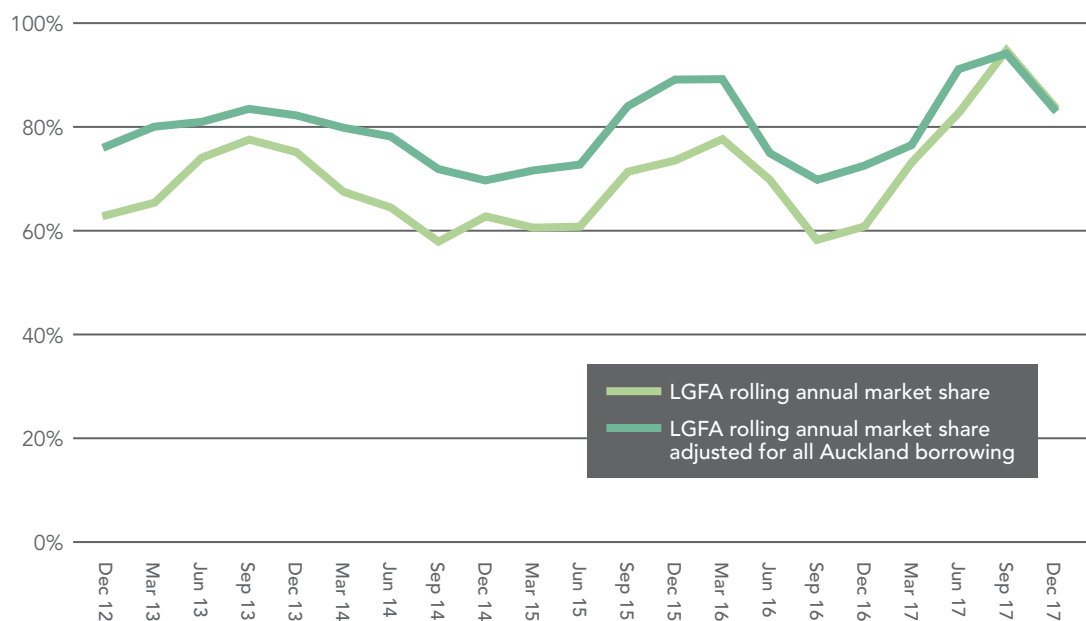
2.1 Operate with a view to making a profit sufficient to pay a dividend in accordance with its stated Dividend Policy set out in section 6 of the SOI

LGFA's Net Operating Gain of \$6.036 million for the six months to 31 December 2017 was slightly above the management forecast of \$5.892 million. The average cost of funds for the six months was 3.10% which is lower than the 3.56% for the 2016-17 financial year due to lower interest rates and much shorter term of LGFA bond issuance than the previous financial year. The LGFA Board has the sole discretion to set the annual dividend which is considered following the full year financial outcome.

2.2 Provide at least 50% of aggregate long-term debt funding for Participating Local Authorities

LGFA estimates market share from the PwC Local Government Quarterly Debt Report and the most recent report is for the December 2017 quarter. LGFA market share of total sector borrowing for the six-month period to December 2017 was 76% and for the year to December 2017 was 84%. Our market share remains high compared to our global peers but will be influenced by the amount of borrowing undertaken by Auckland Council and Dunedin City Council in their own name.

LGFA Market Share – rolling one-year average



Source PwC

Rangitikei District Council joined LGFA as a non-guarantor in December 2017, bringing the total number of participating local authorities to 54. We expect a small number of councils to join LGFA in the coming year.

2.3 Ensure its products and services are delivered at a cost that does not exceed the forecast for issuance and operating expenses set out in section 4 of the SOI

Expenses for the six-month period to 31 December 2017 were \$3.58 million which is \$130k below budget. This variance is the consequence of:

- Issuance and on-lending costs (excluding Approved Issuer Levy) at \$1.088 million were \$82k below budget. There were lower fees than budgeted relating to the NZDMO facility offset by higher registry costs and legal costs than forecast. The larger amount of short-term lending and establishment of an Australian MTM programme also increased legal costs.
- Operating costs at \$1.475 million were \$40k below budget and reflected lower overheads and personnel costs than forecast.
- Approved Issuer Levy payments of \$1.02 million were in line with our forecast of \$1.03 million.

2.4 Take appropriate steps to ensure compliance 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 six-month period.

Following the November 2016 Kaikoura earthquake, LGFA staff were unable to access the LGFA Wellington CBD office. Following repairs and refurbishment we relocated back into the building in December 2017.

2.5 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 credit ratings from Standard and Poor's (S&P) and Fitch Ratings (Fitch) and meets with both agencies in September and October each year.

Meetings have been held in 2017 with both rating agencies and S&P affirmed the long-term rating of LGFA at AA+ (stable outlook) on 25 September 2017 and Fitch affirmed the rating at AA+ (stable outlook) on 10 November 2017.

2.6 Achieve the Financial Forecasts (excluding the impact of AIL) set out in section 4 of the SOI

LGFA's financial results for key items set out in Section 4 of the SOI for the 12-month period to 30 June 2018 are

| In \$ million | 31 December 2017 actual | 31 December 2017 half year forecast | 30 June 2018 full year SOI forecast |
|--|----------------------------|---|---|
| Net interest revenue | \$9.62 | \$9.60 | \$18.22 |
| Issuance and operating expenses excluding Approved Issuer Levy (AIL) | \$2.56 | \$2.69 | \$5.45 |
| Approved Issuer Levy (AIL) | \$1.02 | \$1.02 | \$1.89 |
| Net Profit | \$6.04 | \$5.89 | \$10.88 |

2.7 Meet or exceed the Performance Targets outlined in section 5 of the SOI

LGFA achieved two out of its four performance targets in the six-month period to 31 December 2017

| Current performance targets | Target | Result for six-month period to 31 December 2017 | Outcome |
|--|---|---|--|
| Average margin above LGFA's cost of funds charged to the highest rated Participating Local Authorities for the period | <= 0.10% | 0.097% | Met |
| Annualised annual issuance and operating expenses (excluding AIL) | <= \$5.45 million | \$2.563 million | Met on annualised basis and on track to meet for full year |
| Lending to Participating Local Authorities | <= \$8.128 billion | \$7.418 billion | Not met but remains close to being met on a full year basis (depending upon the level and timing of pre-funding of the March 2019 council loans) |
| Savings on borrowing costs for council borrowers relative to other sources of financing and compared to previous years | Improvement since prior year end relative to borrowing by councils directly | As at 30 June 2017 2019s 12 bps, 2021s 20 bps and 2025s 17 bps As at 31 December 2017 2019s 10bps, 2021s 18 bps and 2025s 14 bps | Not met. The lack of single name issuance by councils has reduced supply and hence tightened spreads |

2.8 Comply with its Treasury Policy, as approved by the Board

LGFA was compliant at all times with the Treasury Policy during the six-month period ended 31 December 2017.



FINANCIAL STATEMENTS

Shared path and safety improvements to Raumati Road on the Kapiti Coast aim to improve pedestrian and cycling connections to and from the Mackays to Peka Peka expressway, cycleway, walkway and bridleway. Kapiti Coast District Council

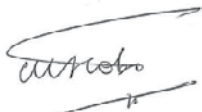
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In the opinion of the directors of the New Zealand Local Government Funding Agency Limited, the financial statements and notes on pages 20 to 35:

- 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 2017, 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
28 February 2018



L. Robertson, Director
28 February 2018

Statement of comprehensive income

For the six months ended 31 December 2017 in \$000s

| | Note | Unaudited six months ended 31 December 2017 | Unaudited six months ended 31 December 2016 |
|-----------------------------------|------|---|---|
| Interest income from | | | |
| Cash and cash equivalents | | 291 | 272 |
| Loans to local government | | 118,416 | 109,752 |
| Marketable securities | | 1,434 | 1,304 |
| Deposits | | 2,424 | 1,548 |
| Derivatives | | 55,580 | 42,835 |
| Fair value hedge ineffectiveness | 2 | - | - |
| Total interest income | | 178,145 | 155,711 |
| Interest expense on | | | |
| Bills | | 3,671 | 2,582 |
| Bonds | | 163,057 | 142,988 |
| Borrower notes | | 1,699 | 1,584 |
| Bond repurchases | | 100 | 46 |
| Total interest expense | | 168,527 | 147,200 |
| Net interest income | | 9,618 | 8,511 |
| Operating Expenses | | | |
| Issuance and on-lending expenses | 3 | 2,107 | 1,764 |
| Operating expenses | 4 | 1,475 | 1,435 |
| Total expenses | | 3,582 | 3,199 |
| Net operating profit | | 6,036 | 5,312 |
| Total comprehensive income | | 6,036 | 5,312 |

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

Statement of changes in equity

For the six months ended 31 December 2017 (unaudited) in \$000s

| | Note | Share capital | Retained Earnings | Total equity |
|---|-----------|---------------|-------------------|---------------|
| Equity as at 30 June 2017 | | 25,000 | 28,878 | 53,878 |
| Net operating profit | | | 6,036 | 6,036 |
| Total comprehensive income for the year | | | 6,036 | 6,036 |
| Transactions with owners | | | - | - |
| Dividend paid on 20 September 2017 | | | (1,390) | (1,390) |
| Equity as at 31 December 2017 | 13 | 25,000 | 33,524 | 58,524 |

For the six months ended 31 December 2016 (unaudited) in \$000s

| | Note | Share capital | Retained Earnings | Total equity |
|---|------|---------------|-------------------|---------------|
| Equity as at 30 June 2016 | | 25,000 | 19,224 | 44,224 |
| Net operating profit | | | 5,312 | 5,312 |
| Total comprehensive income for the year | | | 5,312 | 5,312 |
| Transactions with owners | | | - | - |
| Dividend paid on 15 October 2016 | | | (1,392) | (1,392) |
| Equity as at 31 December 2016 | | 25,000 | 23,144 | 48,144 |

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

Statement of financial position

As at 31 December 2017 in \$000s

| | Note | Unaudited as at 31 December 2017 | Audited as at 30 June 2017 |
|--|------|--|-------------------------------|
| Assets | | | |
| Financial assets | | | |
| Cash and bank balances | | 29,478 | 49,919 |
| Receivable unsettled bond repurchases | | - | 13,723 |
| Loans to local government | 5 | 7,535,611 | 7,783,932 |
| Marketable securities | | 36,313 | 127,641 |
| Deposits | | 118,960 | 149,949 |
| Derivatives in gain | | 386,030 | 364,953 |
| Non-financial assets | | | |
| Prepayments | | 887 | 544 |
| Other assets | 10 | 685 | 760 |
| Total assets | | 8,107,964 | 8,491,421 |
| Equity | | | |
| Share capital | | 25,000 | 25,000 |
| Retained earnings | | 27,488 | 28,878 |
| Total comprehensive income / (deficit) for the period | | 6,036 | |
| Total equity | | 58,524 | 53,878 |
| Liabilities | | | |
| Financial Liabilities | | | |
| Trade and other payables | | 246 | 453 |
| Accrued expenses | | 412 | 554 |
| Bills | 6 | 368,601 | 348,179 |
| Bonds | 7 | 7,495,647 | 7,865,401 |
| Borrower notes | 8 | 124,922 | 131,614 |
| Bond repurchases | 9 | - | 25,682 |
| Derivatives in loss | | 59,612 | 65,660 |
| Total liabilities | | 8,049,440 | 8,437,543 |
| Total equity and liabilities | | 8,049,440 | 8,491,421 |

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

For the six months ended 31 December 2017 in \$000s

| | Note | Unaudited six months ended 31 December 2017 | Unaudited six months ended 31 December 2016 |
|---|------|---|---|
| Cash flow from operating activities | | | |
| Cash applied to loans to local government | 12 | 247,203 | (662,866) |
| Interest paid on bonds issued | | (188,895) | (166,281) |
| Interest paid on bills issued | | (3,671) | 2,582 |
| Interest paid on borrower notes | | (2,621) | - |
| Interest paid on bond repurchases | | (102) | (44) |
| Interest received from cash & cash equivalents | | 291 | 271 |
| Interest received from loans to local government | | 119,534 | 108,984 |
| Interest received from marketable securities | | 1,567 | 1,142 |
| Interest received from deposits | | 3,413 | 1,630 |
| Net interest on derivatives | | 80,406 | 63,224 |
| Payments to suppliers and employees | | (4,274) | (3,488) |
| Net cash flow from operating activities | 11 | 252,851 | (654,846) |
| Cash flow from investing activities | | | |
| Purchase of marketable securities | | 91,195 | 52,787 |
| Purchase of deposits | | 30,000 | (14,000) |
| Purchase of plant and equipment | | 76 | 69 |
| Net cash flow from investing activities | | 121,271 | 38,856 |
| Cash flow from financing activities | | | |
| Dividends paid | | (1,390) | (1,392) |
| Cash proceeds from borrower notes | 12 | (5,770) | 9,288 |
| Cash proceeds from bonds issued | 12 | (382,465) | 603,386 |
| Cash proceeds from bills issued | | 20,422 | (5,040) |
| Cash applied to bond repurchases | | (11,957) | 3,712 |
| Cash applied to derivatives | | (13,403) | (8,862) |
| Net cash flow from financing activities | | (394,563) | 601,092 |
| Net (decrease) / increase in cash | | (20,441) | (14,898) |
| Cash, cash equivalents and bank overdraft at 1 July | | 49,919 | 37,084 |
| Cash, cash equivalents and bank overdraft at 31 December | | 29,478 | 22,186 |

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

1 Statement of accounting policies

A. 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 Level 8, City Chambers, 142 Featherston Street, Wellington Central, Wellington 6011.

These interim financial statements were authorised for issue by the Directors on 28 February 2018.

B. STATEMENT OF COMPLIANCE

These interim financial statements are for the six-months ended 31 December 2017 and are to be read in conjunction with the annual report for the year ended 30 June 2017. They have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP) and they comply with NZ IAS 34 Interim Financial Reporting. The financial results for the six-month period ended 31 December 2017 are unaudited.

C. BASIS OF PREPARATION

Accounting judgments, estimates and assumptions

The judgements, estimates and assumptions used to prepare these interim financial statements are consistent with those used at 30 June 2017.

Measurement base

The financial statements have been prepared on a historical cost basis modified by the revaluation of certain assets and liabilities.

The financial statements are prepared on an accrual basis.

Functional and presentation currency

The financial statements are presented in New Zealand dollars rounded to the nearest thousand, unless separately identified. The functional currency of LGFA is New Zealand dollars.

Foreign currency conversions

Transactions denominated in foreign currency are translated into New Zealand dollars using exchange rates applied on the trade date of the transaction.

Changes in accounting policies

There have been no changes in accounting policies.

Early adoption standards and interpretations

NZ IFRS 9: Financial Instruments. The first two phases of this new standard were approved by the Accounting Standards Review Board in November 2009 and November 2010. These phases address the issues of classification and measurement of financial assets and financial liabilities.

Standards not yet adopted

LGFA does not consider any standards or interpretations in issue but not yet effective to have a significant impact on its financial statements. Those which may be relevant to LGFA are as follows:

NZ IFRS 9: Financial Instruments (2014) – Effective for periods beginning on or after 1 January 2018. This standard aligns hedge accounting more closely with the risk management activities of the entity and adds requirements relating to the accounting for an entity's expected credit losses on its financial assets and commitments to extend credit.

D. FINANCIAL INSTRUMENTS

Financial assets

Financial assets, other than derivatives, are recognised initially at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest rate method. Cash and cash equivalents include cash on hand; cash in transit, bank accounts and deposits with an original maturity of no more than three months.

Purchases and sales of all financial assets are accounted for at trade date.

At each balance date, an assessment is made whether a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s), and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Financial liabilities

Financial liabilities, other than derivatives, are recognised initially at fair value less transaction costs and subsequently measured at amortised cost using the effective interest rate method.

Derivatives

Derivative financial instruments are recognised both initially and subsequently at fair value. They are reported as either assets or liabilities depending on whether the derivative is in a net gain or net loss position respectively.

Fair value hedge

Where a derivative qualifies as a hedge of the exposure to changes in fair value of an asset or liability (fair value hedge) any gain or loss on the derivative is recognised in profit and loss together with any changes in the fair value of the hedged asset or liability.

The carrying amount of the hedged item is adjusted by the fair value gain or loss on the hedged item in respect of the risk being hedged. Effective parts of the hedge are recognised in the same area of profit and loss as the hedged item.

E. OTHER ASSETS

Property, plant and equipment (PPE)

Items of property, plant and equipment are initially recorded at cost.

Depreciation is charged on a straight-line basis at rates calculated to allocate the cost or valuation of an item of property, plant and equipment, less any estimated residual value, over its remaining useful life.

Intangible Assets

Intangible assets comprise software and project costs incurred for the implementation of the treasury management system. Capitalised computer software costs are amortised on a straight-line basis over the estimated useful life of the software (three to seven years). Costs associated with maintaining computer software are recognised as expenses.

F. OTHER LIABILITIES

Employee entitlements

Employee entitlements to salaries and wages, annual leave and other similar benefits are recognised in the profit and loss when they accrue to employees.

G. REVENUE AND EXPENSES

Revenue

Interest income

Interest income is accrued using the effective interest rate method.

The effective interest rate exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The method applies this rate to the principal outstanding to determine interest income each period.

Expenses

Expenses are recognised in the period to which they relate.

Interest expense

Interest expense is accrued using the effective interest rate method.

The effective interest rate exactly discounts estimated future cash payments through the expected life of the financial liability to that liability's net carrying amount. The method applies this rate to the principal outstanding to determine interest expense each period.

Income tax

LGFA is exempt from income tax under Section 14 of the Local Government Borrowing Act 2011.

Goods and services tax

All items in the financial statements are presented exclusive of goods and service tax (GST), except for receivables and payables, which are presented on a GST-inclusive basis. Where GST is not recoverable as input tax, then it is recognised as part of the related asset or expense.

The net amount of GST recoverable from, or payable to, the IRD is included as part of receivables or payables in the statement of financial position.

The net GST paid to, or received from the IRD, including the GST relating to investing and financing activities, is classified as a net operating cash flow in the statement of cash flows.

Commitments and contingencies are disclosed exclusive of GST.

H. LEASE PAYMENTS

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

I. SEGMENT REPORTING

LGFA operates in one segment being funding of participating local authorities in New Zealand.

J. JUDGEMENTS AND ESTIMATIONS

The preparation of these financial statements requires judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and income and expenses. For example, the present value of large cash flows that are predicted to occur a long time into the future depends critically on judgements regarding future cash flows, including inflation assumptions and the risk-free discount rate used to calculate present values.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Where these judgements significantly affect the amounts recognised in the financial statements they are described below and in the following notes.

2 Hedge accounting

LGFA is exposed to interest rate risk where there is a mismatch between variable and fixed rate borrowing and lending to councils. LGFA uses interest rate swaps to manage this interest rate risk. For hedge accounting purposes, LGFA has designated certain swaps in fair value relationships to its fixed rate borrowing and council loans.

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.

| in \$000s | Gain/(loss) Unaudited six months ended 31 December 2017 | Gain/(loss) Unaudited six months ended 31 December 2016 |
|--|--|--|
| Hedging instruments – interest rate swaps | 202,007 | 134,733 |
| Hedged items attributable to the hedged risk – fixed rate bonds | (202,007) | (134,733) |
| Ineffectiveness recognised in profit or loss from fair value hedges | - | - |

The gains or losses on the hedging instrument (interest rate swaps) and the hedged item (bonds and loans) are mapped to the same fair value account. For this reason, the statement of comprehensive income will only report any ineffectiveness arising from the fair value hedge.

3 Issuance and on-lending expenses

Issuance and on-lending expenses are those costs that are incurred as a necessary expense to facilitate the ongoing issuance of LGFA debt securities.

| in \$000s | Unaudited six months ended 31 December 2017 | Unaudited six months ended 31 December 2016 |
|----------------------------------|---|---|
| NZDMO facility fee | 375 | 200 |
| NZX | 164 | 237 |
| Rating agency fees | 282 | 267 |
| Legal fees for issuance | 93 | 62 |
| Regulatory, registry, other fees | 45 | 18 |
| Trustee fees | 50 | 50 |
| Approved issuer levy | 1,019 | 865 |
| Information services | 79 | 65 |
| | 2,107 | 1,764 |

4 Operating expenses

Operating expenses are all other expenses that are not classified as 'Issuance and on-lending expenses'.

| in \$000s | Unaudited six months ended 31 December 2017 | Unaudited six months ended 31 December 2016 |
|------------------------|---|---|
| Consultants | 68 | 78 |
| Directors' fees | 189 | 174 |
| Insurance | 30 | 30 |
| Legal fees | 53 | 23 |
| Other expenses | 364 | 362 |
| Auditor's remuneration | | |
| Statutory audit | 44 | 46 |
| Advisory | - | 4 |
| Personnel | 727 | 718 |
| | 1,475 | 1,435 |

5 Loans to local government

| in \$000s | Unaudited as at 31 December 2017 | | Audited as at 30 June 2017 | |
|--|-------------------------------------|------------------|-------------------------------|------------------|
| | Short-term loans | Loans | Short-term loans | Loans |
| Ashburton District Council | 10,028 | 25,673 | 10,018 | 25,707 |
| Auckland Council | - | 2,102,637 | - | 2,429,887 |
| Buller District Council | - | 20,004 | - | 20,001 |
| Canterbury Regional Council | - | 30,103 | - | 25,083 |
| Central Hawkes Bay District Council | - | 2,026 | - | - |
| Christchurch City Council | 85,272 | 1,522,509 | 96,280 | 1,485,304 |
| Far North District Council | - | 30,122 | - | 30,121 |
| Gisborne District Council | 4,983 | 32,233 | - | 27,085 |
| Gore District Council | 6,024 | 11,063 | 6,023 | 11,034 |
| Greater Wellington Regional Council | - | 280,853 | - | 280,702 |
| Grey District Council | - | 20,502 | - | 20,551 |
| Hamilton City Council | - | 286,188 | - | 351,028 |
| Hastings District Council | 4,972 | 60,213 | - | 60,211 |
| Hauraki District Council | - | 38,152 | - | 41,139 |
| Horizons Regional Council | - | 15,028 | - | 10,013 |
| Horowhenua District Council | 12,016 | 66,889 | 12,013 | 63,923 |
| Hurunui District Council | - | 23,096 | - | 23,085 |
| Hutt City Council | 4,995 | 127,800 | - | 97,727 |
| Kaipara District Council | - | 40,169 | 8,925 | 43,172 |
| Kapiti Coast District Council | - | 195,641 | - | 210,623 |
| Manawatu District Council | - | 61,112 | - | 58,094 |
| Marlborough District Council | 18,850 | 63,223 | 19,851 | 63,207 |
| Masterton District Council | - | 52,228 | 2,006 | 52,209 |
| Matamata-Piako District Council | - | 24,586 | - | 29,581 |
| Nelson City Council | - | 55,203 | - | 55,201 |
| New Plymouth District Council | - | 70,301 | - | 61,167 |
| Northland Regional Council | - | 2,852 | - | - |
| Opotiki District Council | - | 5,166 | - | 5,180 |
| Otorohanga District Council | - | 6,138 | - | 9,178 |
| Palmerston North City Council | 10,026 | 77,282 | 10,025 | 77,255 |
| Porirua City Council | - | 43,692 | - | 28,608 |
| Queenstown Lakes District Council | 10,099 | 76,067 | 7,070 | 86,177 |
| Rotorua District Council | 20,046 | 104,881 | 1,001 | 114,976 |
| Selwyn District Council | - | 15,022 | - | 35,050 |
| South Taranaki District Council | - | 62,272 | - | 62,267 |
| South Wairarapa District Council | 1,533 | 16,118 | 4,034 | 13,586 |
| Tararua District Council | 3,006 | 11,050 | 1,004 | 10,033 |
| Tasman District Council | 5,004 | 90,398 | - | 90,273 |
| Taupo District Council | - | 125,419 | - | 125,417 |
| Tauranga City Council | 29,911 | 317,076 | - | 347,207 |
| Thames-Coromandel District Council | 12,012 | 23,047 | - | 35,061 |
| Timaru District Council | 7,519 | 62,338 | 10,047 | 67,347 |
| Upper Hutt City Council | 4,989 | 31,635 | 2,997 | 31,628 |
| Waikato District Council | 4,993 | 70,319 | - | 80,265 |
| Waimakariri District Council | 10,011 | 105,839 | 10,010 | 85,797 |
| Waipa District Council | 35,286 | 13,016 | - | 13,015 |
| Waitomo District Council | 10,066 | 25,084 | 5,022 | 25,027 |
| Wellington City Council | - | 349,320 | - | 294,047 |
| Western Bay Of Plenty District Council | - | 85,366 | - | 105,386 |
| Whakatane District Council | 9,043 | 39,170 | 6,021 | 34,129 |
| Whanganui District Council | 5,005 | 61,326 | - | 66,327 |
| Whangarei District Council | 9,973 | 122,499 | 9,972 | 142,522 |
| | 335,663 | 7,199,948 | 222,318 | 7,561,614 |

6 Bills on issue

| Unaudited as at 31 December 2017 in \$000's | Face Value | Unamortised premium | Accrued interest | Total |
|---|----------------|---------------------|------------------|----------------|
| 17 January 2018 | 50,000 | (43) | - | 49,957 |
| 26 January 2018 | 25,000 | (38) | - | 24,962 |
| 5 February 2018 | 25,000 | (47) | - | 24,953 |
| 14 February 2018 | 50,000 | (118) | - | 49,882 |
| 22 February 2018 | 25,000 | (69) | - | 24,931 |
| 14 March 2018 | 50,000 | (192) | - | 49,808 |
| 22 March 2018 | 25,000 | (111) | - | 24,889 |
| 29 March 2018 | 25,000 | (113) | - | 24,887 |
| 11 April 2018 | 25,000 | (138) | - | 24,862 |
| 1 May 2018 | 20,000 | (133) | - | 19,867 |
| 16 May 2018 | 25,000 | (182) | - | 24,818 |
| 13 June 2018 | 25,000 | (215) | - | 24,785 |
| | 370,000 | (1,399) | - | 368,601 |

| Audited as at 30 June 2017 in \$000's | Face Value | Unamortised premium | Accrued interest | Total |
|---------------------------------------|----------------|---------------------|------------------|----------------|
| 12 July 2017 | 50,000 | (30) | - | 49,970 |
| 4 August 2017 | 25,000 | (46) | - | 24,954 |
| 16 August 2017 | 50,000 | (129) | - | 49,871 |
| 13 September 2017 | 50,000 | (204) | - | 49,796 |
| 26 September 2017 | 25,000 | (126) | - | 24,874 |
| 11 October 2017 | 25,000 | (143) | - | 24,857 |
| 26 October 2017 | 25,000 | (172) | - | 24,828 |
| 15 November 2017 | 25,000 | (194) | - | 24,806 |
| 27 November 2017 | 25,000 | (223) | - | 24,777 |
| 13 December 2017 | 25,000 | (232) | - | 24,768 |
| 26 January 2018 | 25,000 | (322) | - | 24,678 |
| | 350,000 | (1,821) | - | 348,179 |

7 Bonds on issue

Bonds on issue do not include LGFA bonds subscribed by LGFA and held as treasury stock. However, LGFA bonds listed on the NZX include LGFA bonds subscribed by LGFA and held as treasury stock. Refer note 9: Treasury stock and bond repurchase transactions.

| Unaudited as at 31 December 2017 in \$000's | | Face Value | Unamortised Premium | Accrued Interest | Fair Value Hedge Adjustment | Total |
|---|--------------|------------------|------------------------|---------------------|-----------------------------------|------------------|
| 15 March 2019 | 5% coupon | 1,240,000 | 15,164 | 18,499 | | 1,273,663 |
| 15 April 2020 | 3% coupon | 935,000 | (8,181) | 6,011 | | 932,830 |
| 15 May 2021 | 6% coupon | 1,420,000 | 67,354 | 11,062 | | 1,498,416 |
| 15 April 2023 | 5.5% coupon | 1,429,000 | 73,485 | 16,842 | | 1,519,327 |
| 15 April 2025 | 2.75% coupon | 804,000 | (39,593) | 4,738 | | 769,145 |
| 15 April 2027 | 4.5% coupon | 996,000 | 34,052 | 9,604 | | 1,039,656 |
| 14 April 2033 | 3.5% coupon | 285,000 | (26,562) | 2,165 | | 260,603 |
| Fair value hedge adjustment | | | | | 202,007 | 202,007 |
| Total | | 7,109,000 | 115,719 | 68,921 | 202,007 | 7,495,647 |

| Audited as at 30 June 2017 in \$000's | | Face Value | Unamortised Premium | Accrued Interest | Fair Value Hedge Adjustment | Total |
|---|--------------|------------------|------------------------|---------------------|-----------------------------------|------------------|
| 15 December 2017 | 6% coupon | 1,015,000 | 7,762 | 2,662 | | 1,025,424 |
| 15 March 2019 | 5% coupon | 1,200,000 | 19,488 | 17,609 | | 1,237,097 |
| 15 April 2020 | 3% coupon | 755,000 | (12,471) | 4,765 | | 747,294 |
| 15 May 2021 | 6% coupon | 1,350,000 | 68,236 | 10,345 | | 1,428,581 |
| 15 April 2023 | 5.5% coupon | 1,350,000 | 69,813 | 15,621 | | 1,435,434 |
| 15 April 2025 | 2.75% coupon | 660,000 | (34,201) | 3,818 | | 629,617 |
| 15 April 2027 | 4.5% coupon | 960,000 | 33,450 | 9,089 | | 1,002,538 |
| 14 April 2033 | 3.5% coupon | 215,000 | (20,650) | 1,604 | | 195,954 |
| Fair value hedge adjustment | | | | | 163,460 | 163,460 |
| Total | | 7,505,000 | 131,428 | 65,513 | 163,460 | 7,865,401 |

8 Borrower notes

Borrower notes are subordinated 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, excluding short-term loans, 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.

9 Treasury stock and bond repurchase transactions

Periodically, LGFA subscribes for LGFA bonds as part of its tender process and holds these bonds as treasury stock. LGFA bonds held by LGFA as treasury stock are derecognised at the time of issue and no liability is recognised in the statement of financial position. As at 31 December 2017, treasury stock had been issued in the following maturities (in \$000s):

| in \$000s | | Unaudited as at 31 December 2017 | Audited as at 30 June 2017 |
|---------------|--------------|-------------------------------------|-------------------------------|
| 15 March 2019 | 5% coupon | 50,000 | 50,000 |
| 15 April 2020 | 3% coupon | 50,000 | 50,000 |
| 15 May 2021 | 6% coupon | 50,000 | 50,000 |
| 15 April 2023 | 5.5% coupon | 50,000 | 50,000 |
| 15 April 2025 | 2.75% coupon | 50,000 | 50,000 |
| 15 April 2027 | 4.5% coupon | 50,000 | 50,000 |
| 14 April 2033 | 3.5% coupon | 50,000 | 50,000 |
| Total | | 350,000 | 350,000 |

LGFA makes these treasury stock bonds available to banks authorised as its tender counterparties to borrow under short-term repurchase transactions. The objective of the bond lending facility is to assist with improving secondary market liquidity in LGFA bonds. Bonds lent to counterparties are disclosed as a separate stock lending liability on the face of the statement of financial position.

Each month, LGFA notifies the market the amount of outstanding repurchase transactions and LGFA bonds held as treasury stock.

As at 31 December 2017, there were no bond repurchase transactions outstanding.

| Bond repurchase transactions outstanding in \$000s | | Unaudited as at 31 December 2017 | Audited as at 30 June 2017 |
|--|--------------|-------------------------------------|-------------------------------|
| 15 March 2019 | 5% coupon | - | - |
| 15 April 2020 | 3% coupon | - | - |
| 15 May 2021 | 6% coupon | - | - |
| 15 April 2023 | 5.5% coupon | - | - |
| 15 April 2025 | 2.75% coupon | - | 9,981 |
| 15 April 2027 | 4.5% coupon | - | 15,701 |
| 14 April 2033 | 3.5% coupon | - | - |
| | | - | 25,682 |

10 Other assets

| Property, plant and equipment \$000s | Unaudited as at 31 December 2017 | Audited as at 30 June 2017 |
|--------------------------------------|----------------------------------|----------------------------|
| Intangible assets | 685 | 760 |
| Total other assets | 685 | 760 |

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

| in \$000s | Note | Unaudited six months ended 31 December 2017 | Unaudited six months ended 31 December 2016 |
|---|------|---|---|
| Net profit/(loss) for the period | | 6,036 | 5,312 |
| Cash applied to loans to local government | 12 | 247,203 | (662,866) |
| Non-cash adjustments | | | |
| Amortisation and depreciation | | 304 | 2,999 |
| Working capital movements | | | |
| Net change in trade debtors and receivables | | (207) | 59 |
| Net change in prepayments | | (343) | (292) |
| Net change in accruals | | (142) | (58) |
| Net Cash From Operating Activities | | 252,851 | (654,846) |

12 LGFA December 2017 bond maturity

The nominal value of the 15 December 2017 6% coupon bond maturity was \$1,015 million. Loans to councils with nominal values totalling \$879 million, and associated nominal borrower notes totalling \$14 million, also matured on 15 December 2017.

13 Share capital

As at 31 December 2017 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.

As at 31 December 2017, the shareholding of the New Zealand Government had been fully paid up. For all other shareholders, 50% of the shareholding had been called.

Notes to the financial statements (unaudited)

| in \$000s | 31 December 2017 | | 30 June 2017 | |
|--|-------------------|-------------|-------------------|-------------|
| New Zealand Government | 5,000,000 | 11.1% | 5,000,000 | 11.1% |
| Auckland Council | 3,731,960 | 8.3% | 3,731,960 | 8.3% |
| Christchurch City Council | 3,731,960 | 8.3% | 3,731,960 | 8.3% |
| Hamilton City Council | 3,731,960 | 8.3% | 3,731,960 | 8.3% |
| Bay of Plenty Regional Council | 3,731,958 | 8.3% | 3,731,958 | 8.3% |
| Greater Wellington Regional Council | 3,731,958 | 8.3% | 3,731,958 | 8.3% |
| Tasman District Council | 3,731,958 | 8.3% | 3,731,958 | 8.3% |
| Tauranga City Council | 3,731,958 | 8.3% | 3,731,958 | 8.3% |
| Wellington City Council | 3,731,958 | 8.3% | 3,731,958 | 8.3% |
| Western Bay of Plenty District Council | 3,731,958 | 8.3% | 3,731,958 | 8.3% |
| Whangarei District Council | 1,492,784 | 3.3% | 1,492,784 | 3.3% |
| Hastings District Council | 746,392 | 1.7% | 746,392 | 1.7% |
| Marlborough District Council | 400,000 | 0.9% | 400,000 | 0.9% |
| Selwyn District Council | 373,196 | 0.8% | 373,196 | 0.8% |
| Gisborne District Council | 200,000 | 0.4% | 200,000 | 0.4% |
| Hauraki District Council | 200,000 | 0.4% | 200,000 | 0.4% |
| Horowhenua District Council | 200,000 | 0.4% | 200,000 | 0.4% |
| Hutt City Council | 200,000 | 0.4% | 200,000 | 0.4% |
| Kapiti Coast District Council | 200,000 | 0.4% | 200,000 | 0.4% |
| Manawatu District Council | 200,000 | 0.4% | 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 District Council | 200,000 | 0.4% | 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% | 200,000 | 0.4% |
| Waimakariri District Council | 200,000 | 0.4% | 200,000 | 0.4% |
| Waipa District Council | 200,000 | 0.4% | 200,000 | 0.4% |
| Whakatane District Council | 200,000 | 0.4% | 200,000 | 0.4% |
| Whanganui District Council | 200,000 | 0.4% | 200,000 | 0.4% |
| | 45,000,000 | 100% | 45,000,000 | 100% |

14 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.

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 5, and interest income recognized on this lending is shown in the Statement of Comprehensive Income. The requirement for participating councils to subscribe to LGFA borrower notes is disclosed in note 8, and the interest expense on these is shown in the Statement of comprehensive income.

15 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 \$120 million in bonds through a tender on 14 February 2018.

Credit Rating

As at 31 December 2017, LGFA has the following credit ratings:

| Rating Agency | Local currency | | Foreign currency | |
|------------------|----------------|------------|------------------|------------|
| | Long-term | Short-term | Long-term | Short-term |
| Standard & Poors | AA+ | A-1+ | AA | A-1+ |
| Fitch | AA+ | F1+ | AA | F1+ |

Waivers from NZX Limited (NZX)

LGFA's fixed rate bonds are quoted on the NZX Debt Market (LGFA Bonds). NZX has granted LGFA a number of waivers from the NZX Listing Rules.

Waiver from Rule 5.2.3

NZX has granted LGFA a waiver from NZX Listing Rule 5.2.3 to the extent that this requires the LGFA Bonds to be held by at least 100 members of the public holding at least 25% of the number of securities of that class issued.

The waiver from NZX Listing Rule 5.2.3 was provided on the conditions that:

- LGFA clearly and prominently disclose the waiver, its conditions and its implications in its annual reports and in each profile or Offering Document for the LGFA Bonds;
- LGFA will disclose market liquidity as a risk in each offering document (excluding any offering document referred to in paragraph (f) of the definition of "Offering Document" under NZX Listing Rule 1.6.1) for the LGFA Bonds; and
- the nature of LGFA's business and operations do not materially change from its business and operations as at the date of the waiver decision.

The effect of the waiver is that the LGFA Bonds may not be widely held and there may be reduced market liquidity in the LGFA Bonds.

Waiver from Rule 6.3.2

NZX has granted LGFA a waiver from NZX Listing Rule 6.3.2 so that the deemed date of receipt of notices for a holder of LGFA Bonds who has supplied LGFA with an address outside of New Zealand, will be five working days after that notice is posted to that physical address.

Net Tangible Assets

Net tangible asset per \$1,000 of listed bonds as at 31 December 2017 is \$7.85 (30 June 2017: \$6.86).

Right: The Pocket Park joins the popular Hatea Loop with Port Road in Whangarei. The park provides a place with shade, seating and a playground for residents and visitors to stop and enjoy the view of the Hatea River. Whangarei District Council.

Back cover: Oneroa Beachfront Cycle and Walkway. Gisborne District Council.

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