Quarterly Report

Quarter 2: 2019 - 2020
Period ended: 31 December 2019

NEW ZEALAND
LOCAL GOVERNMENT
FUNDING AGENCY

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A. December quarter issuance and highlights summary

Quarter	Total	Bespoke Maturity	2020	2021	2022	2023	2024	2025	2027	2029	2033
Bonds issued $m	**485**	N/A	-	-	130		105	30	-	60	150
Term Loans to councils $m	**313.1**	243.1	-	-	3.0	4.0	16.5	-	15.0	7.0	24.5
Term Loans to councils #.	**37**	26	-	-	1	1	3	-	2	2	2

Year to date	Total	Bespoke Maturity	2020	2021	2022	2023	2024	2025	2027	2029	2033
Bonds issued $m	**1,105**	N/A	-	-	190		165	30	-	510	210
Term Loans to councils $m	**732.1**	478.1	-	-	10.5	16.0	73.0	-	46.0	84.0	24.5
Term Loans to councils #.	**83**	51	-	-	2	4	11	-	5	8	2

Key points and highlights for the December quarter:

- The LGFA bond curve steepened and rose over the quarter with yields rising between 28 bps (2021s) and 55 bps (2033s). A softer fiscal outlook, unwinding of market expectations for further cuts in the OCR and equity markets remaining at historic highs were the key drivers for higher bond yields. However, over the past year the yield on the 2021 LGFA bond has declined 77 bps while the 2033 LGFA bond yield has declined 113 bps.
- LGFA issued $485 million of bonds across five maturities during the quarter via three tenders. The average term of issuance during the quarter of 7.56 years was shorter than the previous quarter at 8.85 years (due to the 2029 syndication) but longer than the average term of 6.62 years for the 2018-19 year.
- LGFA received the KangaNews award for NZ Domestic Bond Deal of the Year for the April 2024 syndicated Bond issue.
- LGFA margins to swap narrowed between 2 bps (2029s) and 11 bps (2023s) over the quarter. The reduced amount of issuance, lack of kauri issuance and improved credit market sentiment were the major influences. LGFA spreads to NZGB were mixed and varied between 2 bps wider (2025s) and 9 bps tighter (2033s) over the quarter.
- Long dated lending to council borrowers during the quarter was $313.1 million, including $243.1 million of bespoke maturity loans (78% of total lending). The average term of lending during the quarter at 7.41 years was longer than the 2018-19 financial year average of 6 years.
- LGFA has estimated market share of 87.7% of total council borrowing for the rolling twelve-month period to December 2019 (compared to a historical average since 2012 of 73%). We provided 76% of council borrowing during the December 2019 quarter.
- Short-term lending remains strongly supported by councils with loans outstanding of $525.1 million as at 31 December 2019. This was an increase of $88.5 million over the quarter and the number of councils using this product increased by three to thirty-one.
- LGFA Net Operating Gain (unaudited) for the six-month period to 31 December 2019 was $6.11 million or $598k above budget with Net Interest Income $435k above budget and expenses $163k below budget.

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- One new council joined LGFA over the quarter (Kaikoura District Council), increasing the number of councils to sixty-six councils. There are fifty-three council guarantors as at 31 December 2019. We are expecting a further two councils to join over the next twelve months.

B. LGFA bond tenders during quarter

LGFA held three bond tenders during the quarter.

Tender 66: 2 October 2019 $160 million

Tender 66- 2 October 2019	14-Apr-22	15-Apr-24	14-Apr-33
Total Amount Offered ($million)	50	35	75
Total Amount Allocated ($million)	50	35	75
Total Number of Bids Received	10	13	29
Total Amount of Bids Received ($million)	115	82	175.05
Total Number of Successful Bids	3	2	6
Highest Yield Accepted (%)	1.085	1.235	2.060
Lowest Yield Accepted (%)	1.070	1.215	2.040
Highest Yield Rejected (%)	1.190	1.350	2.195
Lowest Yield Rejected (%)	1.085	1.235	2.060
Weighted Average Accepted Yield (%)	1.081	1.231	2.058
Weighted Average Rejected Yield (%)	1.113	1.283	2.100
Amount Allotted at Highest Accepted Yield as Percentage of Amount Bid at that Yield*	60	80	81.8
Coverage Ratio	2.30	2.34	2.33
NZGB Spread at Issue (bps)	35.00	39.00	81.00
Swap Spread at Issue (bps)	23.75	36.50	71.30
Swap Spread: AA council (bps)	36	49	93
Swap Spread: AA- council (bps)	41	54	98
Swap Spread: A+ council (bps)	46	59	103
Swap Spread: Unrated council (bps)	56	69	113
Coverage Ratio	2.30	2.34	2.33

The tender result was a pleasing outcome with improved bid coverage ratios, all issuance completed at mid rates and tight successful bid ranges (1 to 2 bps). Spreads to both NZGB and swaps on the 2022s and 2024s were unchanged relative to the previous July tender but wider on the 2033s. The large recent decline in yields (note the 2022s were issued just above 1%) and a lack of strong offshore buying had dampened general sentiment, but this was offset by a trader market that was short our 2033 maturity.

The tender size of $160 million was in line with the average tender size ($167 million). Council borrowing demand was strong at $148.5 million with both new borrowing and the refinancing of April 2020 loans by councils (new financial year) increasing demand.

While we issued $160 million of LGFA bonds we lent $148.5 million to ten councils and the average term of lending at 9.08 years (109 months) was long by historical standards.

Tender 67: 6 November 2019 $160 million

Tender 67- 6 November 2019	14-Apr-22	15-Apr-24	15-Apr-25	14-Apr-33
Total Amount Offered ($million)	40	40	30	50
Total Amount Allocated ($million)	40	40	30	50
Total Number of Bids Received	3	11	12	21
Total Amount of Bids Received ($million)	50	59	69	74
Total Number of Successful Bids	1	6	6	18
Highest Yield Accepted (%)	1.300	1.540	1.640	2.440
Lowest Yield Accepted (%)	1.300	1.525	1.625	2.375
Highest Yield Rejected (%)	1.335	1.570	1.670	2.460
Lowest Yield Rejected (%)	1.315	1.540	1.640	2.440
Weighted Average Accepted Yield (%)	1.300	1.531	1.636	2.409
Weighted Average Rejected Yield (%)	1.325	1.553	1.646	2.450
Amount Allotted at Highest Accepted Yield as Percentage of Amount Bid at that Yield*	100	40	60	20
Coverage Ratio	1.25	1.48	2.30	1.48
NZGB Spread at Issue (bps)	40.00	46.00	56.00	83.00
Swap Spread at Issue (bps)	23.30	38.20	43.50	76.80
Swap Spread: AA council (bps)	35.1	50	55.3	88.6
Swap Spread: AA- council (bps)	40.1	55	60.3	93.6
Swap Spread: A+ council (bps)	45.1	60	65.3	98.6
Swap Spread: Unrated council (bps)	55.1	70	75.3	108.6
Coverage Ratio	1.25	1.48	2.30	1.48

The tender result was mixed with an okay pricing outcome but very low bid volumes and a long tail (6 bps) to the 2033s. Spreads to NZGB on the 2022s, 2024s and 2033s were wider relative to the previous October tender but tighter on a spread to swap for the 2022s and 2033s. Offshore investor appetite has reduced while bank interest was subdued following Housing New Zealand issuing $400 million of its 2026 bond the day before the tender.

Price support was strong for the three short dated maturities but weak for the 2033s. Bidding volume was poor with the overall bid coverage ratio of 1.58x being the equal lowest on record (compared to an average of 2.4x for the past twelve months).

The average maturity of the LGFA bonds issued was 6.94 years compared to the average for the current 2019/20 financial year of 8.4 years, so the tender was average in terms of volume and shorter in terms of duration.

While we issued $160 million of LGFA bonds we lent $57.5 million to five councils with the average term of lending at 7.8 years (94 months). This was slightly longer by historical standards but not as long as the August and October tenders.

Tender 68: 11 December 2019 $165 million

Tender 68- 11 December 2019	14-Apr-22	15-Apr-24	20-Apr-29	14-Apr-33
Total Amount Offered ($million)	40	30	60	35
Total Amount Allocated ($million)	40	30	60	35
Total Number of Bids Received	7	8	19	19
Total Amount of Bids Received ($million)	54	63	109	76
Total Number of Successful Bids	1	1	8	11
Highest Yield Accepted (%)	1.470	1.680	2.260	2.555
Lowest Yield Accepted (%)	1.470	1.680	2.220	2.530
Highest Yield Rejected (%)	1.530	1.730	2.345	2.685
Lowest Yield Rejected (%)	1.490	1.680	2.260	2.555
Weighted Average Accepted Yield (%)	1.470	1.680	2.251	2.543
Weighted Average Rejected Yield (%)	1.512	1.701	2.296	2.611
Amount Allotted at Highest Accepted Yield as Percentage of Amount Bid at that Yield*	100	75	88.5	23.1
Coverage Ratio	1.35	2.10	1.82	2.17
NZGB Spread at Issue (bps)	39.00	42.00	74.00	81.00
Swap Spread at Issue (bps)	23.25	35.75	60.75	69.00
Swap Spread: AA council (bps)	35.25	47.75	69.5	87.5
Swap Spread: AA- council (bps)	40.25	52.75	74.5	92.5
Swap Spread: A+ council (bps)	45.25	57.75	79.5	97.5
Swap Spread: Unrated council (bps)	55.25	67.75	89.5	107.5
Coverage Ratio	1.35	2.10	1.82	2.17

The tender result was a good result given the underlying market background (the HYEFU was at 1pm of the day of the tender) and was the first tender of $60 million of 2029s (since the August syndication).

While bidding strength wasn't large in terms of volumes (with low bid coverage ratios) the weighted average yields were 1bps to 1.5 bps above prevailing mid rates. Spreads to NZGB on the 2022s, 2024s and 2033s were all slightly tighter by up to 2bps compared to the November tender and unchanged to 1 bps tighter on a spread to swap.

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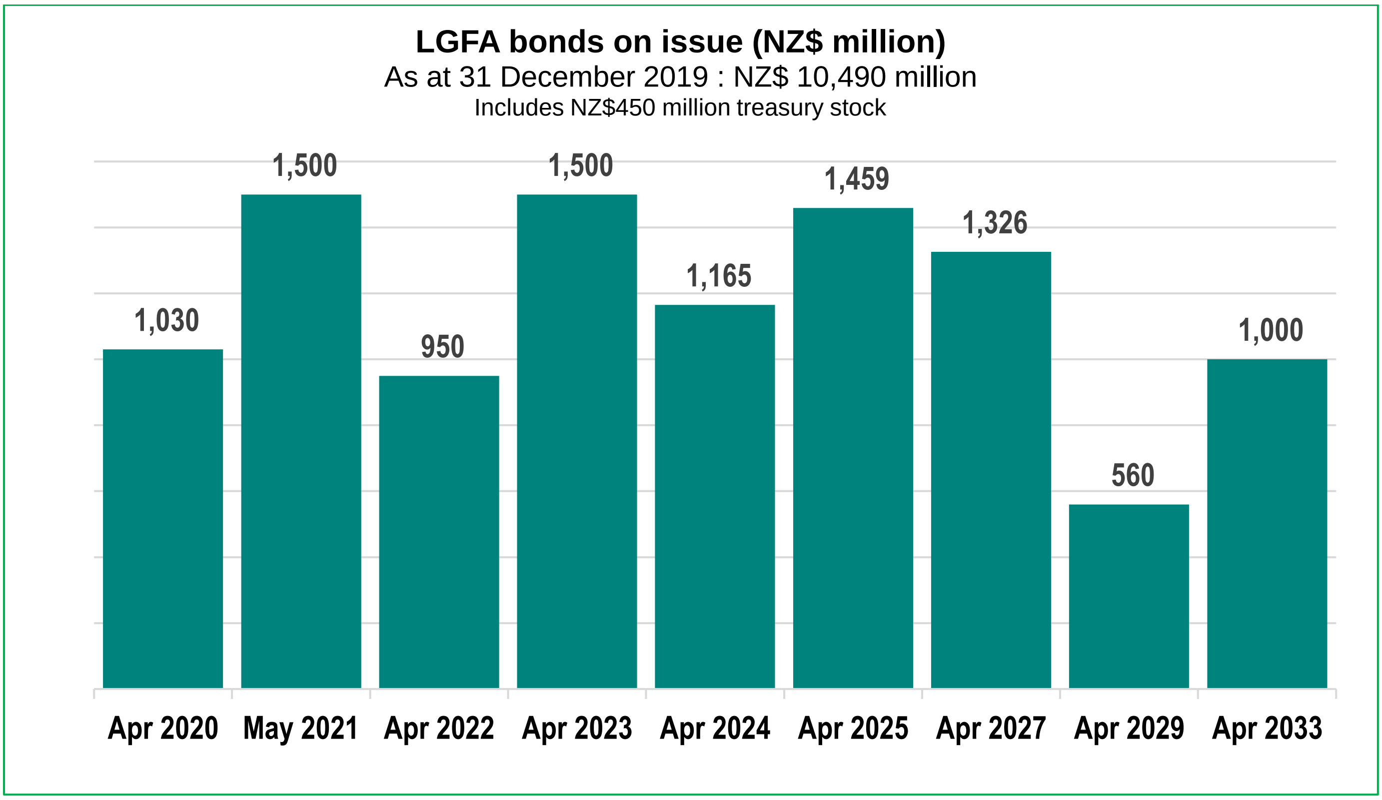
The sharp rise in yields over the previous four months is highlighted by the successful tender yield of 2.25% on the April 2029 bond compared to the syndication yield of 1.69% in August 2019.

While we issued $165 million of LGFA bonds we lent $58 million to eight councils with an average term of lending at 7.2 years (86 months) which was slightly shorter by historical standards.



C. Key performance indicators (Section 5 of SOI)

Section 5 of the SOI sets out the ten key performance targets

We have met (or on track to meet) all ten performance targets.

Measure		**Prior full year to June 2019**	**Q1 30 Sept 2019**	**Q2 31 Dec 2019**	**Q3 31 Mar 2020**	**Q4 30 June 2020**
LGFA net interest income for the period to June 2020 will be greater than $17.88 million	Target ($)		**$4.79 m (YTD as at Q1)**	**$9.38 m (YTD as at Q2)**	**$14.14 m (YTD as at Q3)**	**$17.88 m (FULL YEAR)**
	Actual ($)	$18.76 m	$4.08 m	$9.81 m		

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Annual issuance and operating expenses (excluding AIL) will be less than $6.30 million	Target ($)		**$1.45 m (YTD as at Q1)**	**$3.08 m (YTD as at Q2)**	**4.70 m (YTD as at Q3)**	**$6.30 m (FULL YEAR)**
	Actual ($)	$5.85 m	$1.47 m	$3.05		
Total lending (short and long term) to participating councils to be at least $9.79 billion	Target ($)		**$9.63 b (YTD as at Q1)**	**$9.90 b (YTD as at Q2)**	**$10.04 b (YTD as at Q3)**	**$9.79 b (FULL YEAR)**
	Actual ($)	$9.26 b	$9.737 b	$10.106 b		
Conduct an annual survey of councils and achieve 80% satisfaction score as to the value added by LGFA to council borrowing activities	Target ($)		**Annual Survey in July each year**			
	Actual (%)	80%	July 2019 survey outcome of 100%			
Meet all lending requests from PLAs	Target (%)		**100%**	**100%**	**100%**	**100%**
	Actual (%)	100%	100%	100%		
Achieve 75% market share of all council borrowing in New Zealand	Target (%) Rolling annual average		**>75%**	**>75%**	**>75%**	**>75%**
	Actual (%)	87.3%	87.1%	87.7%		
Review each PLA financial position, its headroom under LGFA policies and arrange to meet each PLA at least annually	Target (number)		**Council visits to total 65 over one year Financial Position + Headroom Review Undertaken in December Quarter**			
	Actual		2 council visits but on track to achieve annual target In progress	29 council visits year to date and on track to achieve annual target In progress		
No breaches of Treasury Policy, any regulatory or legislative requirements including H&S	Target (zero breaches)		**nil**	**nil**	**nil**	**nil**
	Actual	One	Nil	Nil		
	Target (%)		**100%**	**100%**	**100%**	**100%**

Successfully refinance of existing loans to councils and LGFA bond maturities as they fall due	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+ ✓		

D. 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-19**	**31-Dec-19**	**31-Mar-20**	**30-June-20**
Interest income	90.86	185.07		
Interest expense	86.78	175.26		
Net interest revenue	**4.08**	**9.81**		
Issuance and On-lending costs	0.61	1.20		
Approved issuer levy	Nil	0.65		
Operating expenses	0.86	1.86		
Issuance and operating expenses	**1.47**	**3.70**		
Net Profit	**2.61**	**6.11**		

Financial position ($m)	**30-Sep-19**	**31-Dec-19**	**31-Mar-20**	**30-Jun-20**
Retained earnings + comprehensive income	50.61	54.10		
Total assets (nominal)	10,310.80	10,705.14		
Total LG loans (nominal)	9,737.23	10,110.90		
Total LGFA bills (nominal)	463.00	403.5		
Total LGFA bonds (nominal)	9,555.00	10,040.0		
Total borrower notes (nominal)	148.81	153.31		
Total equity	75.61	79.10		

E. Performance against SOI objectives and performance targets

Primary objectives (Section 3 of SOI)

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

LGFA lending base margins are 10 bps for all borrowing terms between April 2020 and April 2033 following our change to a flat margin structure in June 2018. The base margin charge covers our operating costs and provides for our capital to grow in line with the growth in our balance sheet to maintain a capital buffer. 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 no guarantor.

Our estimated annual savings to councils that are based upon the secondary market levels at 31 December 2019 of LGFA bonds compared to bonds issued by Auckland and Dunedin councils are between 2 bps and 7 bps depending upon the term of borrowing. The amount of savings is relatively unchanged over the quarter. The LGFA borrowing margins to swap have moved slightly tighter over the past six months while both Auckland Council and Dunedin City Treasury have issued relatively small amounts of bonds in their own name and their spreads have also tightened. LGFA bonds are priced over New Zealand Government Bonds (NZGB) and it has been unhelpful that the spread between swap and NZGB has narrowed. LGFA borrowing spreads have narrowed to NZGB over the past six months by between 7 bps to 19 bps and we have passed these benefits onto our council borrowers.

31-Dec-19	**Savings to AA rated councils (bps)**			
	Dunedin 2020	Dunedin 2021	Auckland 2022	Auckland 2025
AA rated councils' margin to swap (bps)	24	29	36	52
Less LGFA margin to swap (bps)	-7	-15	-23	-40
LGFA gross funding advantage (bps)	17	14	13	12
Less LGFA base margin (bps)	-10	-10	-10	-10
Total savings (bps) *	7	4	3	2

Note that from 30 June 2017 we removed the implied "LGFA effect" of 10 bps of additional savings in borrowing costs from the above analysis. The LGFA effect was the assessment of immediate savings to councils when LGFA first commenced lending to councils in February 2012.

LGFA continues to borrow at very competitive spreads compared to the AAA rated SSA issuers who borrow in the New Zealand debt capital markets and to the domestic trading banks.

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As at 31 December 2019	Comparison to other borrowers - Secondary Market Spread to Swap (bps)									
	2020	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**
LGFA (AA+)	7	15	23	27	34	40		46		59
Asian Development Bank (AAA)	9	17		28	32		39			
Inter American Development Bank (AAA)		17		29	35				55	
International Finance Corp (AAA)	12	17		32	34			44		
KBN (AAA)		21		34	39	44				
Rentenbank (AAA)	17	21	27	30	35					
World Bank (AAA)	8	16	24	27	31					
Nordic Investment Bank (AAA)	10	17		28		39				
ANZ (AA-)	27	40		70	76					
BNZ (AA-)	19			64						
Westpac Bank (AA-)			60	67	76					

During the quarter, outright yields rose by between 28 bps (2021s) and 55 bps (2027s) as risk on sentiment prevailed across most asset classes and the bond yield declines of the previous quarter were reversed. The interest rate curve steepened on expectations for additional borrowing by Central Government to fund infrastructure investment while expectations are for the RBNZ to maintain monetary policy settings at the current accommodative levels throughout 2020. Despite the quarterly rise in bond yields, they remain significantly lower than a year with the 2021 LGFA bond yield 77 bps lower and the 2033 bond yield 113 bps lower than December 2018.

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 quiet period for Kauri bond issuance with no issuance and the $3.3 billion of issuance over the 2019 calendar year was down 46% on the 2018 calendar year issuance of $6.1 billion. Reduced offshore investor demand for NZD product as well as more attractive borrowing spreads for issuers in the US and European markets has led to the fall in issuance activity. This has assisted LGFA to issue a greater volume but has not led to significant margin improvement.

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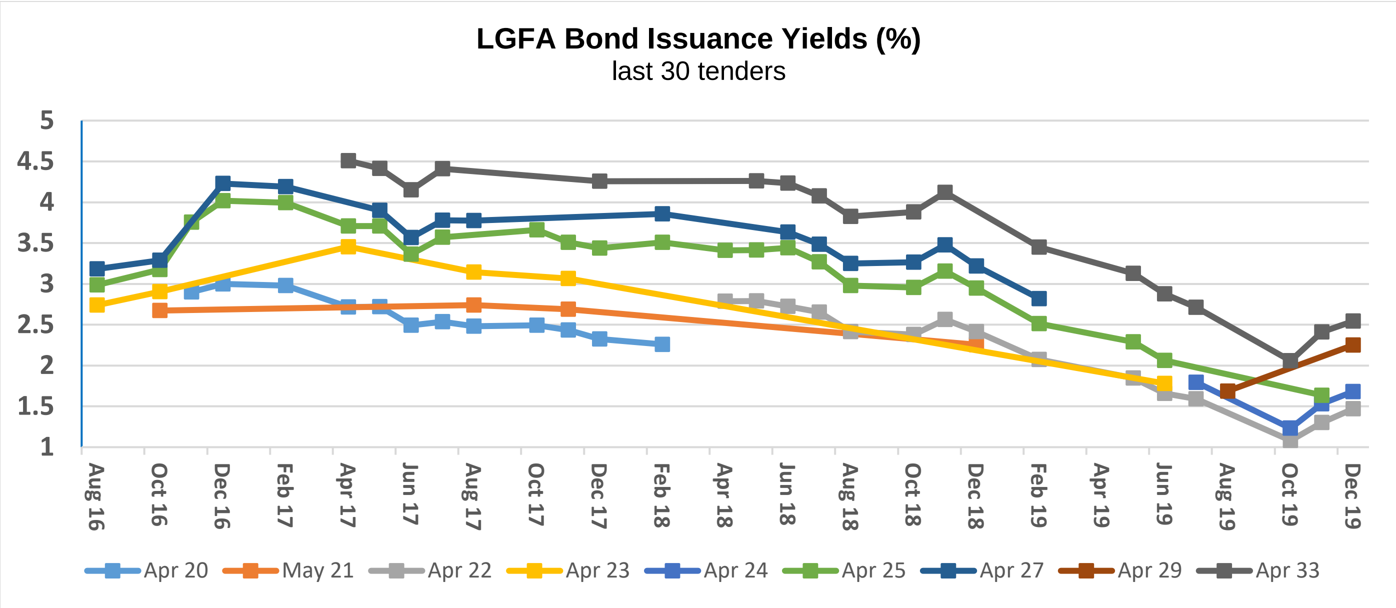
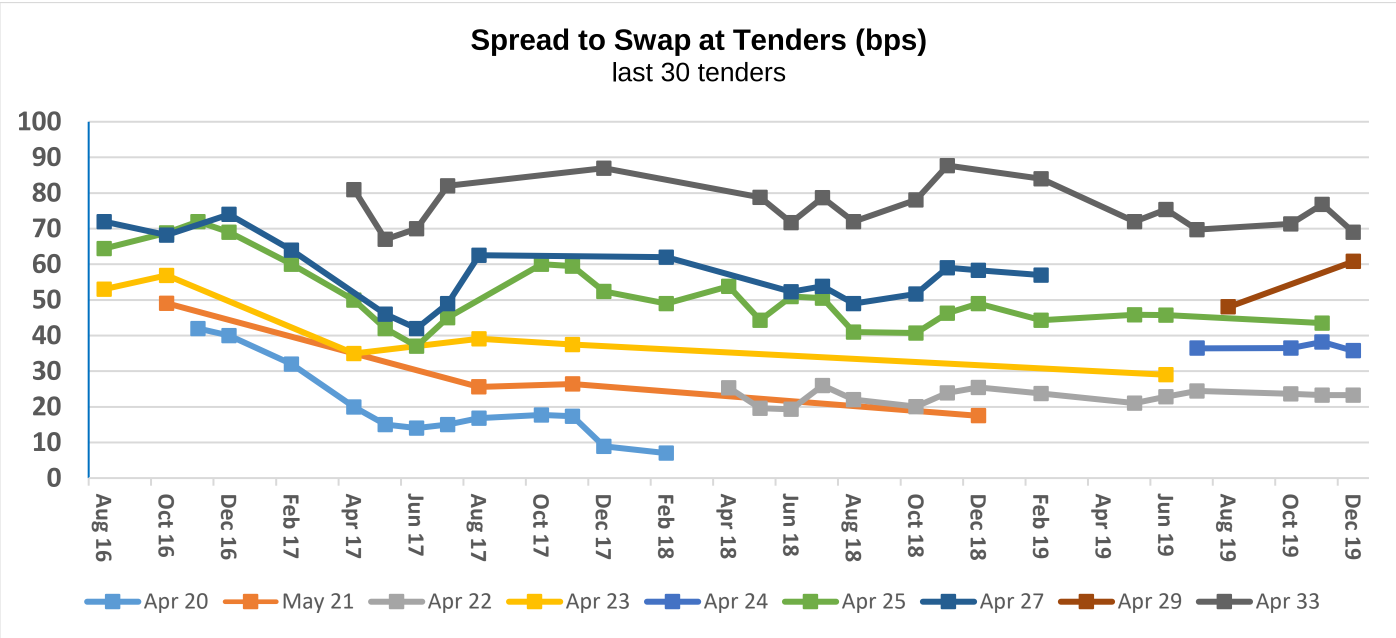
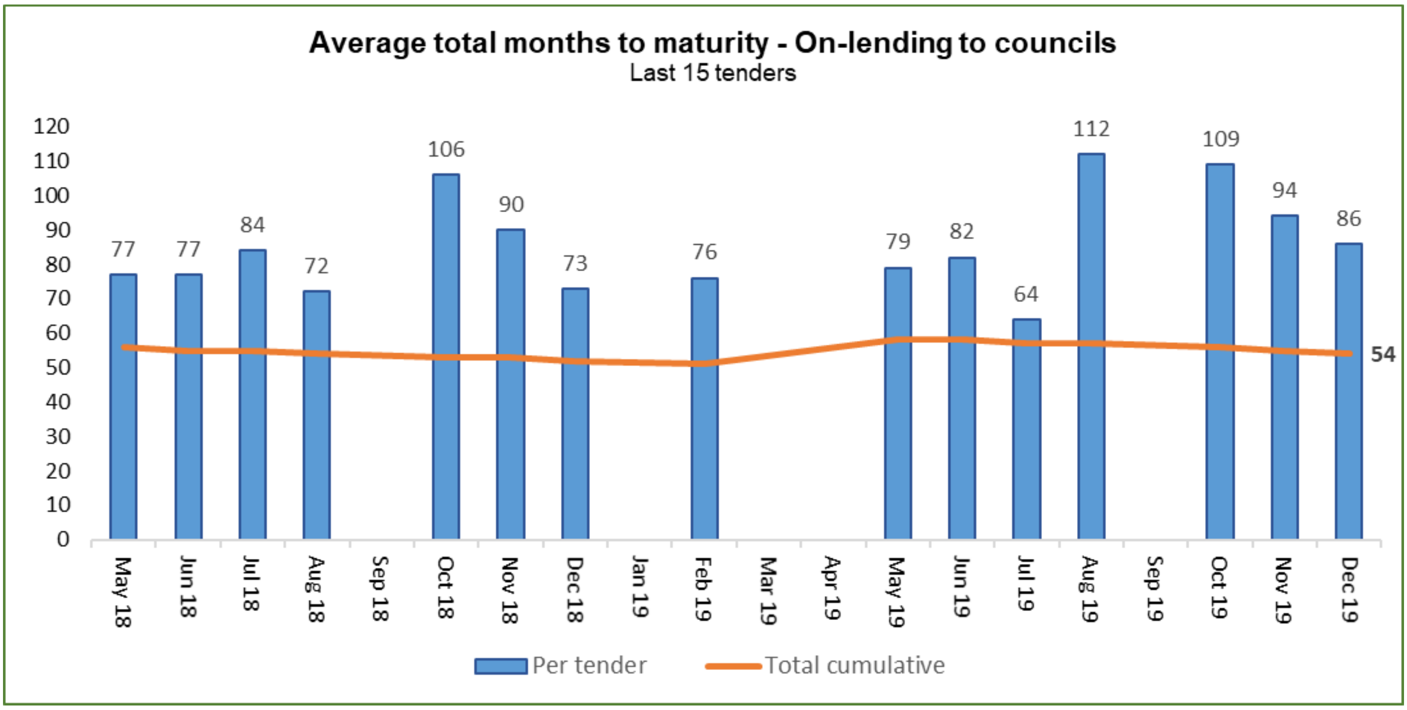




2. Offering short and long-term borrowings with flexible lending terms

The average borrowing term (excluding short dated borrowing) for the December 2019 quarter by council members was 7.41 years and this was longer than the 6.0 years average term for 2018-19 year. The lengthening in average borrowing term is explained by councils borrowing into the bespoke 2030 and conventional 2033 maturities.



Bespoke lending continues to be a popular borrowing option for council members. During the quarter we lent $243.1 million into bespoke maturity dates (non LGFA bond dates). Bespoke lending comprised 77.6% of total term lending by LGFA to its members during the December quarter and 65.3% for the 6-month period to 31 December 2019.

Short term borrowing by councils has been well received with loan terms to date of between one month and 12 months on $525.1 million of loans outstanding as at 31 December 2019 to thirty-one councils. This is a large increase compared to June 2019 where we had lent $362 million to thirty councils.

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

LGFA bonds were listed on the NZX Debt Market in November 2015 and average turnover on the NZX Debt market has been $10.6 million per month or 7.9% of the total turnover of the NZX Debt Market. Turnover on the NZX remains light as retail investors are more attracted to high term deposit rates and higher yielding bond issues by lower credit quality borrowers.

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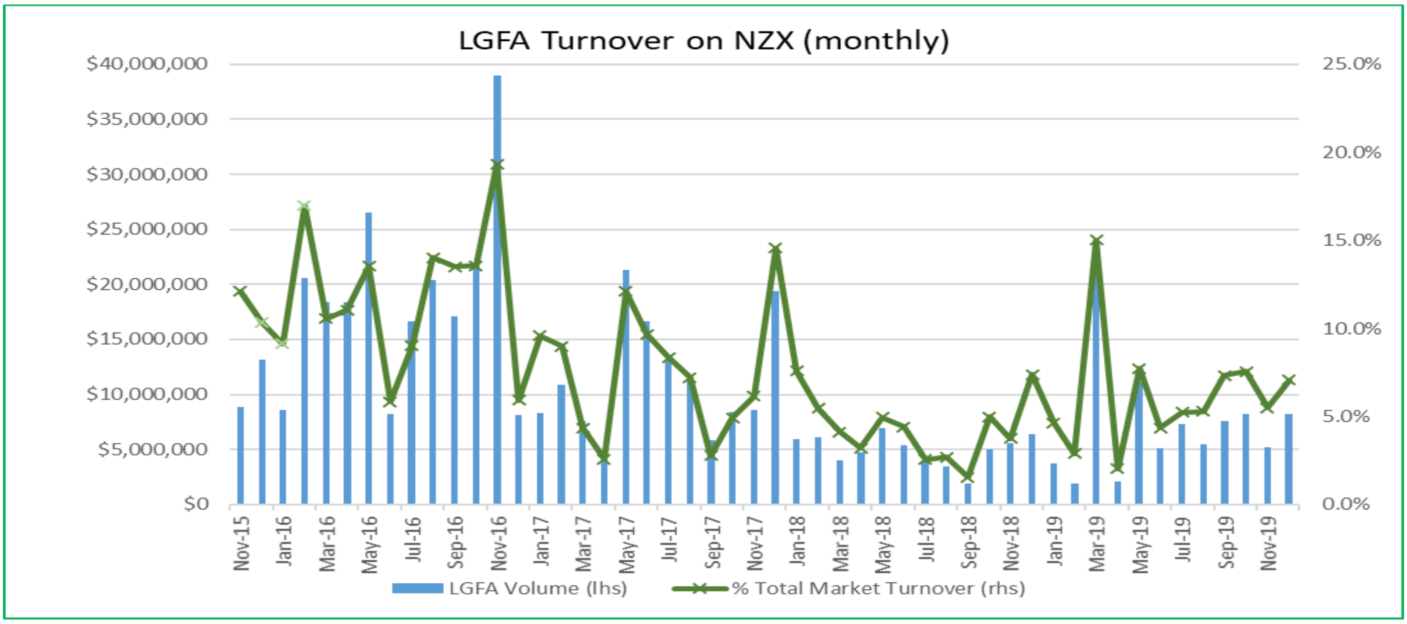
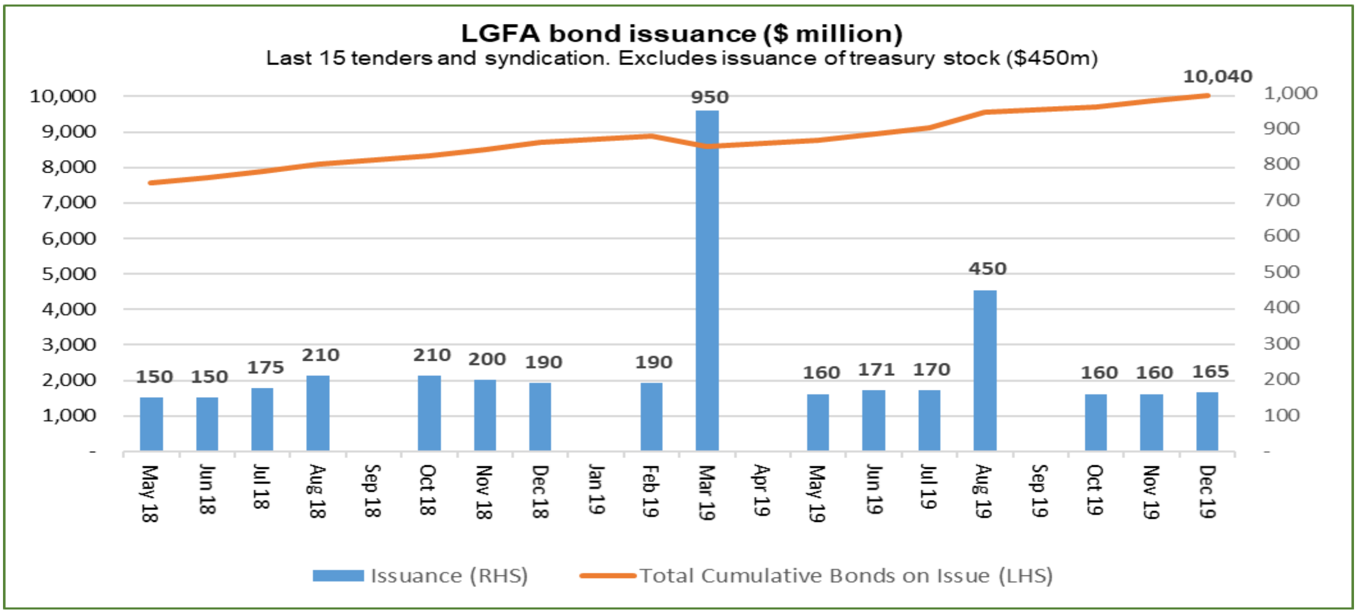
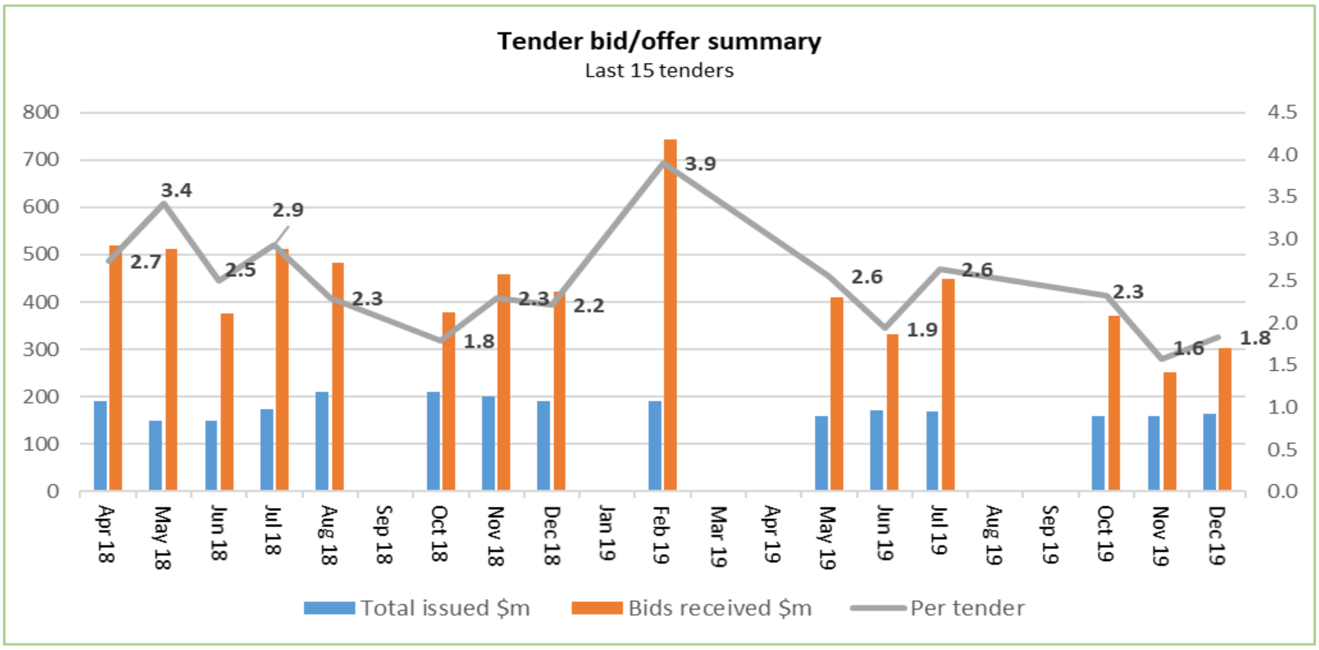


LGFA started issuing LGFA Bills and short dated (less than 1 year) lending to councils in late 2015. As at 30 December 2019 there were LGFA Bills of $403.5 million on issue and short-term loans of $525.1 million.

LGFA documented an Australian Medium-Term Notes Programme in November 2017 to provide the ability to issue in currencies other than NZD. We have no immediate intention to use this programme, but it provides flexibility in case of the unlikely scenario of a significant market disrupting event in the future.

We held three LGFA bond tenders during the quarter and market support was more subdued with lower bid coverage ratios and wider bid ranges than in previous quarters. This reflects the expensiveness of NZ bond yields relative to offshore markets and low outright yields.





4. Being the debt funder of choice for New Zealand local government

We use the Local Government Debt Report compiled by PwC as our source of market share. Our estimated market share of council borrowing for the December quarter was 75.8% and for the rolling twelve-month period to 31 December 2019 was 87.7%. This compares to a historical average since 2012 of 73%.

We survey our council members each year and the latest stakeholder survey result in July 2019 was a 100% result to the question "How would you rate LGFA in adding value to your borrowing requirements?". We also received a 99% result to the question "How satisfied are you with the pricing that LGFA has provided to your Council?"

5. 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 headroom under LGFA policies and endeavour to visit each Participating Local Authority on an annual basis

(ii) Implement the changes to the Foundation Policies that were approved at the November 2018 AGM to allow for lending to CCOs. Changes to operational policies and practices need to ensure that no additional risk is borne by lenders, guarantors or the Crown and

(iii) LGFA will analyse finances at the Council group level where appropriate and report to the Shareholder Council and shareholders as to which Participating Local Authorities are measured on a group basis.

LGFA had meetings with twenty-seven councils during the December quarter (and sixty-seven visits to sixty different councils for the twelve-month period to December 2019) to discuss their financial performance and any developments with the underlying council operations. LGFA reviews council agendas and management reports on an ongoing basis for those councils on the LGFA borrower watch-list.

We have received the annual compliance certificates from council members and all councils are compliant with the financial covenants as at June 2019. A list of covenant outcomes for all councils is attached to this quarterly report to shareholders.

LGFA has completed work on credit default assessment analysis of its member councils in preparation for adopting IFRS9 for accounting purposes.

At the November 2019 AGM, shareholders approved the changes to the Shareholder Agreement, Notes Subscription Agreement, Multi Issuer Deed and Guarantee and Indemnity Deed and Foundation Policies to allow for lending to CCOs and to offer standby facilities. LGFA expects to offer these products in early 2020.

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

6. LGFA will take a proactive role to enhance the financial strength and depth of local government debt market and work with key central government and local government stakeholders on sector and individual council issues

During the quarter, LGFA management met representatives from Treasury, investment banks and advisers to discuss both the local government sector in general and how LGFA can play a role in providing solutions to off balance sheet financing.

Additional objectives (Section 3 of SOI)

7. Operate with a view to making a profit sufficient to pay a dividend in accordance with its stated Dividend Policy

LGFA's Net Operating Gain on an unaudited management account basis of $6.11 million for the first six months of the financial year implies that we will be close to achieving the full year SOI financial forecast of $10.016 million. The average cost of funds for the first six months of the current 2019-20 financial year is 1.78%. This is lower than the 2.78% for the prior 2018-19 financial year due to the lower outright level of interest rates. The LGFA Board has the sole discretion to set the dividend.

8. Provide at least 75% of aggregate long-term debt funding for Participating Local Authorities

As noted above, we use the Local Government Debt Report compiled by PwC as our source of market share. Our estimated market share of council borrowing for the rolling twelve-month period to 30 December 2019 was 87.7%. This compares to a historical average since 2012 of 73% and our market share remains strong compared to our global peers.

As at 31 December 2019, there are sixty-six participating local authority members of LGFA. This was an increase of one over the quarter (Kaikoura District Council) and we estimate a further two councils could become members in the next twelve months.

9. Achieve the financial forecasts (excluding the impact of AIL) set out in Section 4

As at the end of the second quarter, Net Interest Income was estimated by management on an unaudited basis to be $435k above budget while expenses are $162k below budget. Net Operating Gain of $6.11 million was $598k above budget. The positive variance is due to a larger amount of assets (council loans and liquid assets) than forecast. The negative valuations on the unrealised mark to market movement in fixed rate swaps that are not designated effective for hedge accounting purposes in the September quarter were unwound in the December quarter as interest rates rose.

10. Ensure its products and services are delivered at a cost that does not exceed the forecast for issuance and operating expenses

Expenses for the six-month period on an unaudited, management basis were $3.703 million which is $163k below budget. This variance is the consequence of:

- Issuance and on-lending costs (excluding AIL) at $1.196 million were $13k above budget. Lower fees than budgeted relating to the NZDMO facility were offset by higher NZX costs and legal costs. A larger amount of bond issuance and short-term lending increased these costs relative to budget.

- Operating costs at $1.858 million were $41k below budget due to lower IT and general overhead costs offset by slightly higher personnel and legal costs relative to budget.

- Approved Issuer Levy (AIL) payments of $650k and were $134k below SOI forecast. We pay AIL on behalf of offshore investors at the time of semi-annual coupon payment. During the six-month period, offshore investor holdings of LGFA bonds were less than forecast.

11. 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 quarter.

12. 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. Meetings were last held in November 2019 with S&P and in September 2019 with Fitch.

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NEW ZEALAND
LOCAL GOVERNMENT
FUNDING AGENCY

On 4 February 2019, S&P placed our long-term credit rating on positive outlook, following their decision to place the long-term credit rating of the New Zealand Government on positive outlook the previous week.

On 18 November 2019, Fitch reaffirmed our long-term 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.

13. Introduce CCO lending by December 2019 and report quarterly, the volume of lending to CCOs to both the Shareholder Council and shareholders

We now expect to commence lending to CCOs in the first half of the 2020 calendar year. The delay has been due to requiring shareholder approval at the November 2019 AGM.

14. Comply with its Treasury Policy as approved by the Board

There were no compliance breaches at any time during the three-month period ending 31 December 2019.

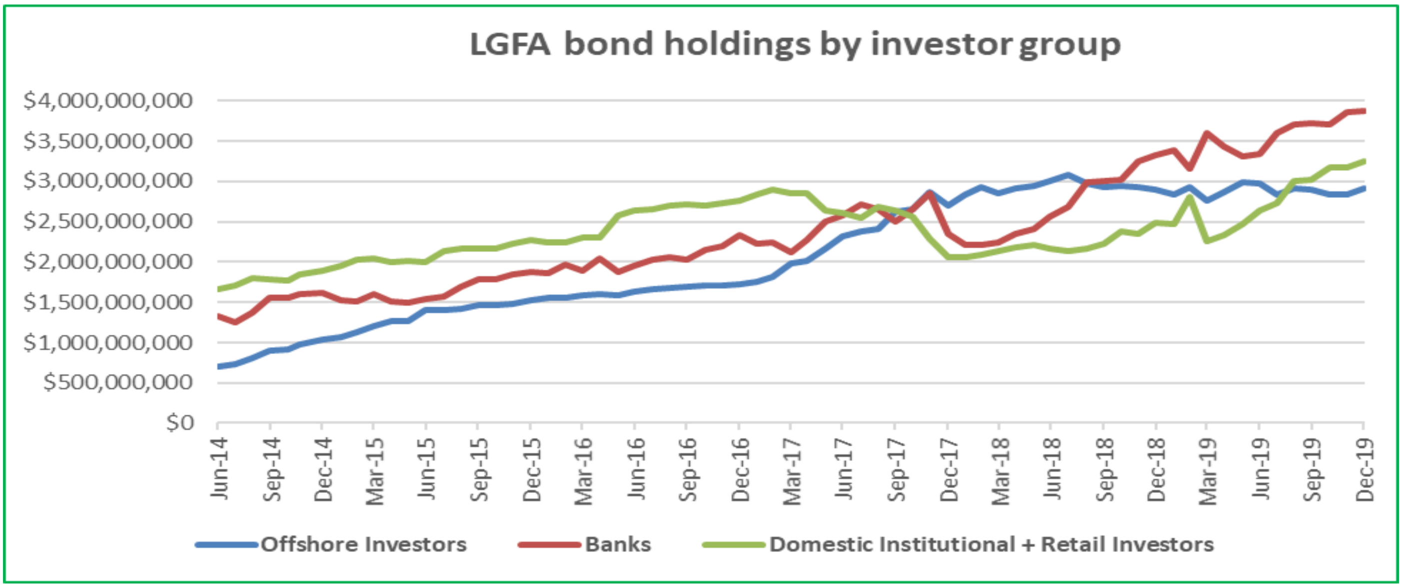
Policy	Limit	Policy page ref	Continuous Compliance
One-month Liquidity Monitor	>120%	S1-1.1	Yes
Three Month Liquidity Monitor	>110%	S1-1.2	Yes
Twelve Month Liquidity Monitor	>110%	S1-1.3	Yes
Council Exposure (any 12-month period)	<10% of Balance Sheet	S1-1.5	Yes
Liquidity Buffer	>110%	S1-1.4	Yes
Partial Differential Hedge (PDH Interest Rate Gap Report	$40,000	S3-4.1	Yes
Value at Risk (VaR)	$250,000	S3-4.2	Yes
Council Maturity (any 12-month period)	$100m or 33% of LGFA borrowing	S1-1.6	Yes
Funding Largest Council Exposure	>100%	S1-1.7	Yes
Foreign Exchange Exposure	Nil	S7-3.1	Yes
NZDMO Facility Utilisation	Report monthly	S8-8.5	Yes
Counterparty Credit Limits	80% of Portfolio $125m Counterparty (category 3)	S4	Yes
Auckland Council Exposure (proportion of total Council exposure)	<40%	S1-1.8	Yes
Balance Sheet Maturity Mismatch	<15% of Balance Sheet	S2-2.1	Yes
Financial Covenants	Various (as set out on p13)	S9	Yes
Authorising Treasury transactions	Two approvers, one signature	S8-8.4	Yes

F. Investor relations / outlook

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 tender issuance. Our focus is on growing and diversifying the offshore investor group as these investors have the most growth potential given that we already receive strong support from the domestic banks and institutional investors.

Domestic banks and domestic institutional investors increased their holdings over the quarter as LGFA bonds remain attractive on a spread to underlying NZGBs and investors chasing yield in the current low interest rate environment. By our estimates

- Offshore investors increased their holdings of LGFA bonds by $19 million over the quarter (and increased by $17 million over the past twelve months). NZ bond yields remain unattractive relative to other global markets and there has been a subsequent decline in the holdings of NZ Government Bonds (NZGB), Kauri bonds over the same periods. The decline in NZGB and Kauri holdings has been significant. While low interest rates are a positive for our council borrowers, it is more difficult to encourage offshore investors to buy LGFA bonds. They are estimated to hold $2.91 billion (29% of outstandings) compared to $2.90 billion (33.2% of outstandings) a year ago.
- Domestic institutional and retail investors increased their holdings by $227 million over the quarter and were estimated to hold $3.25 billion (32.3% of outstandings) compared to $2.49 billion (28.6% of outstandings) a year ago.
- Domestic banks holdings have increased by $160 million over the quarter. Bank holdings of $3.88 billion (38.7% of outstandings) are at record highs and compare favourably to $3.32 billion (38.1% of outstandings) a year ago.



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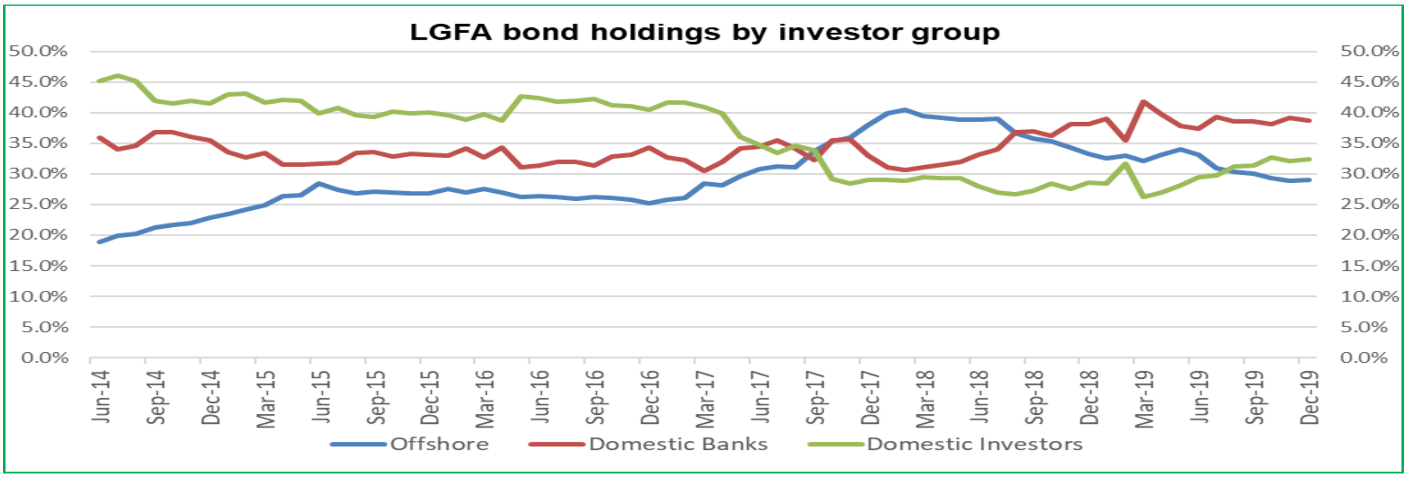

G. Key trends