Quarterly Report

Quarter 1: 2019 - 2020
Period ended: 30 September 2019

NEW ZEALAND LOCAL GOVERNMENT FUNDING AGENCY

Contents		Page

Quarterly Report

Quarter 1: 2019 - 2020
Period ended: 30 September 2019

NEW ZEALAND LOCAL GOVERNMENT FUNDING AGENCY

A. September quarter issuance and highlights summary

Quarter	Total	Bespoke Maturity	2020	2021	2022	2023	2024	2025	2027	2029	2033
Bonds issued $m	**620**	N/A	-	-	60		60	-	-	450	50
Term Loans to councils $m	**419**	235	-	-	7.5	12	56.5	-	31	77	-
Term Loans to councils #.	**46**	25	-	-	1	3	8	-	3	6	-

Year to date	Total	Bespoke Maturity	2020	2021	2022	2023	2024	2025	2027	2029	2033
Bonds issued $m	**620**	N/A	-	-	60		60	-	-	450	50
Term Loans to councils $m	**419**	235	-	-	7.5	12	56.5	-	31	77	-
Term Loans to councils #.	**46**	25	-	-	1	3	8	-	3	6	-

Key points and highlights for the September quarter:

- The LGFA bond curve continued to flatten and fall over the quarter with yields declining between 39 bps (2021s) and 57 bps (2033s). Over the past year the yield on the 2020 LGFA bond has declined 88 bps while the 2033 LGFA bond yield has declined 179 bps closing at historic lows.
- LGFA issued $620 million of bonds during the quarter via one tender of $170 million and a syndicated $450 million offer of a new April 2029 bond. The average term of issuance during the quarter of 8.85 years was longer than both the previous quarter and the average term of 6.62 years for the 2018-19 year.
- LGFA margins to swap were slightly wider by between 4 bps and 6 bps over the quarter. The large amount of issuance and narrowing in swap spreads to NZGB were the major influences. LGFA spreads to NZGB narrowed between 3 bps (2020s) and 17 bps (2025s) over the quarter.
- Long dated on-lending to council borrowers during the quarter was $419 million, including $235 million of bespoke maturity loans (56% of total lending). The average term of on-lending during the quarter at 6.39 years was longer than the 2018-19 financial year average of 6 years.
- LGFA has market share of 87.1% of total council borrowing for the rolling twelve-month period to September 2019 (compared to a historical average since 2012 of 73%). We provided 100% of council borrowing during the September 2019 quarter.
- Short-term lending remains supported by councils with loans outstanding of $436.6 million as at 30 September 2019. This was an increase of $74 million over the quarter and the number of councils using this product reduced by two to twenty-eight.
- LGFA Net Operating Gain (unaudited) for the three-month period was $2.61 million or $729k below budget with Net Interest Income $714k below budget (due to unrealised swap losses of $677k) and expenses $15k above budget.
- One new council joined LGFA over the quarter (Taranaki Regional Council), increasing the number of councils to sixty-five councils. There are fifty-three council guarantors as at 30 September 2019. We are expecting a further two councils to join over the next twelve months.

B. LGFA bond tenders during quarter

LGFA held one bond tender and one syndication during the quarter.

Tender 65: 17 July 2019 $170 million

Tender 65- 17 July 2019	14-Apr-22	15-Apr-24	14-Apr-33
Total Amount Offered ($million)	60	60	50
Total Amount Allocated ($million)	60	60	50
Total Number of Bids Received	12	12	14
Total Amount of Bids Received ($million)	155	206.8	87
Total Number of Successful Bids	6	2	11
Highest Yield Accepted (%)	1.600	1.795	2.730
Lowest Yield Accepted (%)	1.585	1.785	2.690
Highest Yield Rejected (%)	1.645	1.860	2.765
Lowest Yield Rejected (%)	1.600	1.795	2.730
Weighted Average Accepted Yield (%)	1.593	1.794	2.732
Weighted Average Rejected Yield (%)	1.611	1.891	2.737
Amount Allotted at Highest Accepted Yield as Percentage of Amount Bid at that Yield*	10	88.7	12
NZGB Spread at Issue (bps)	42.50	58.00	93.00
Swap Spread at Issue (bps)	24.50	36.50	69.00
Swap Spread: AA council (bps)	36.25	48	86
Swap Spread: AA- council (bps)	41.25	53	91
Swap Spread: A+ council (bps)	46.25	58	96
Swap Spread: Unrated council (bps)	56.25	68	106
Coverage Ratio	2.58	3.45	1.74

The tender result was an improvement on the previous tenders with slightly better bid coverage ratios, improved pricing relative to market (but still at a concession to mid yields) and tighter spreads to both NZGB and swaps on the 2033s but slightly wider on the 2022s. The large decline in yields and a $550 million 5-year Kauri issue by IFC in the previous twenty-four hours dampened investor sentiment.

Bank balance sheets and trading books were the buyers with some institutional investor buying assumed. Over the previous week there had been selling from offshore investors following the outperformance of LGFA bonds on a spread to NZGB and the recent rise in the NZD.

The tender size of $170 million was in line with the average tender size ($167 million). Council borrowing demand remained strong at $163.5 million with both new borrowing and the commencement of refinancing of April 2020 loans by councils (new financial year) increasing demand.

Price support was stronger for the 2022s and 2024s but weaker again for the 2033s. Bidding volume was average with the overall bid coverage ratio of 2.64x. The bid coverage ratio was highest for the 2024s (3.45x) and lowest for the 2033s (1.74x). Bidding volumes were again muted with eleven successful bids (out of fourteen submitted) for the 2033s. The successful bid ranges were between 1 bps (2024s) and 4 bps (2033s).

The spread to NZGB compared to the June 2019 tender was 3.5 bps wider on the 2022s and 7 bps tighter on the 2033s.The spread to swap widened by 1.75 bps on the 2022s but 6 bps tighter on the 2033s. It was the first time we tendered the 2024s since their syndication in March 2019 (at slightly tighter spreads to both swap and NZGB than this tender).

The average maturity of the LGFA bonds issued was 6.69 years compared to the average for the 2018/19 financial year of 6.62 years. Average term of lending at 5.33 years (64 months) was the shortest since November 2017 and just above our 57-month average term of issuance.

April 2029 Syndication: 21 August 2019 $500 million (including $50 million of Treasury Stock)

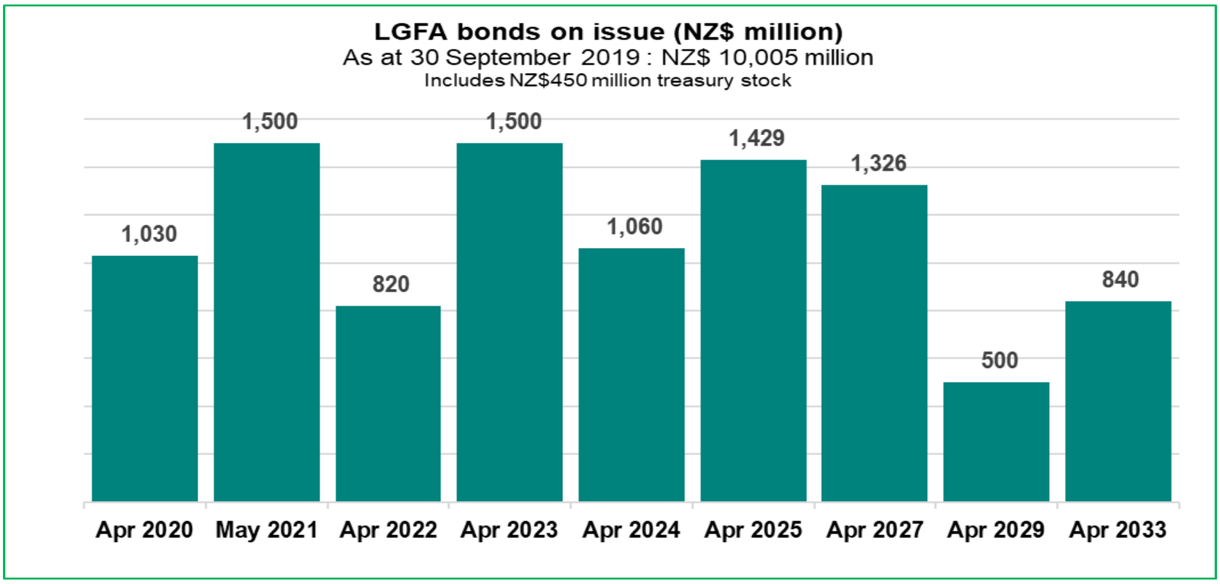
Syndication- 21 August 2019	20-Apr-29
Total Amount Offered ($million)	450
Total Amount Allocated ($million)	450
policy	
Total Amount of Bids Received ($million)	450
Total Number of Successful Bids	
Highest Yield Accepted (%)	1.687
Lowest Yield Accepted (%)	1.687
Highest Yield Rejected (%)	1.687
Lowest Yield Rejected (%)	1.687
Weighted Average Accepted Yield (%)	1.687
Weighted Average Rejected Yield (%)	1.687
Amount Allotted at Highest Accepted Yield as Percentage of Amount Bid at that Yield*	100
NZGB Spread at Issue (bps)	63.00
Swap Spread at Issue (bps)	48.00
Swap Spread: AA council (bps)	58
Swap Spread: AA- council (bps)	63
Swap Spread: A+ council (bps)	68
Swap Spread: Unrated council (bps)	78
Coverage Ratio	1.00

The syndication of $500 million of a new 20 April 2029 bond was the second syndication undertaken (following the April 2024s in March 2019). The $500 million of issuance included $50 million of treasury stock allocated to LGFA. We received $530 million of orders into the book from 32 investors of which we estimated the allocations on the $450 million net amount issued were $167 million (37.1%) from offshore,

$173 million (38.5%) from bank trading books and balance sheets and $110 million (24.4%) from domestic investors.

The issuance yield was 1 bps above prevailing implied mid rates and the outcome was successful in terms of a new maturity available for issuance (rather than wait until April 2020 to issue a new maturity), more term funding at attractive spreads, additional cash for Liquid Asset Portfolio and we tested market capability and capacity for a 10-year bond (vs the 5-year syndication in March 2019)

We on-lent $163.5 million of the proceeds to ten councils and the average term of lending at 9.33 years (112 months) was the longest since April 2017 and well above our 57-month average term of issuance.



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) eight out of the ten performance targets.

The two performance targets we are not currently meeting are

- Issuance and operating expenses (excluding AIL) are above budget by approximately $15k for the three-month period to 30 September 2019. Higher legal and NZX listing costs than budget was associated with the 2029 LGFA bond syndication in August as well as legal costs relating to the CCO lending proposal have contributed to these costs exceeding budget.
- Net interest income is below budget by $714k due to the unrealised valuation movement on swaps that are not in a hedged relationship of $677k. The remainder of the underperformance relative to budget of $37k is due to the impact from lower interest rates resulting in lower than expected interest income on the invested share capital and retained earnings.

Quarterly Report

Quarter 1: 2019 - 2020
Period ended: 30 September 2019

NEW ZEALAND LOCAL GOVERNMENT FUNDING AGENCY

Measure		Prior full year to June 2019	Q1 30 Sept 2019	Q2 31 Dec 2018	Q3 31 Mar 2019	Q4 30 June 2019
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 ✗			
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 ✗			
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	$9.737 b ✓			
Conduct an annual survey of councils and achieve 80% satisfaction score as to the value added by LGFA to council borrowing activities	Target ($)		**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% ✓			
Achieve 75% market share of all council borrowing in New Zealand	Target (%) Rolling annual average		**>75%**	**>75%**	**>75%**	**>75%**
	Actual (%)	87.3%	87.1% ✓			
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**			

No breaches of Treasury Policy, any regulatory or legislative requirements including H&S	Target (zero breaches)		**nil**	**nil**	**nil**	**nil**
	Actual	One	Nil			
Successfully refinance of existing loans to councils and LGFA bond maturities as they fall due	Target (%)		**100%**	**100%**	**100%**	**100%**
	Actual (%)	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+			

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			
Interest expense	86.78			
Net interest revenue	**4.08**			
Issuance and On-lending costs	0.61			
Approved issuer levy	Nil			
Operating expenses	0.86			
Issuance and operating expenses	**1.47**			
Net Profit	**2.61**			

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

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 on-lending base margins are 10 bps for all 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 30 September 2019 of LGFA bonds compared to bonds issued by Auckland and Dunedin councils are between 3 bps and 4 bps depending upon the term of borrowing. The amount of savings has reduced over the past quarter by between 4 bps and 5 bps. The LGFA borrowing margins to swap have moved out over the past twelve months on our record issuance volume while both Auckland Council and Dunedin City Treasury have issued relatively small amounts of bonds in their own name. 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 year by between 2 bps to 18 bps and we have passed these benefits onto our council borrowers.

30-Sep-19	**Savings to AA rated councils (bps)**			
	Dunedin 2020	Dunedin 2021	Auckland 2022	Auckland 2025
AA rated councils margin to swap (bps)	23	30	38	54
Less LGFA margin to swap (bps)	-9	-17	-24	-41
LGFA gross funding advantage (bps)	14	13	14	13
Less LGFA base margin (bps)	-10	-10	-10	-10
Total savings (bps) *	4	3	4	3

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 Capital Markets and the domestic trading banks.

Quarterly Report

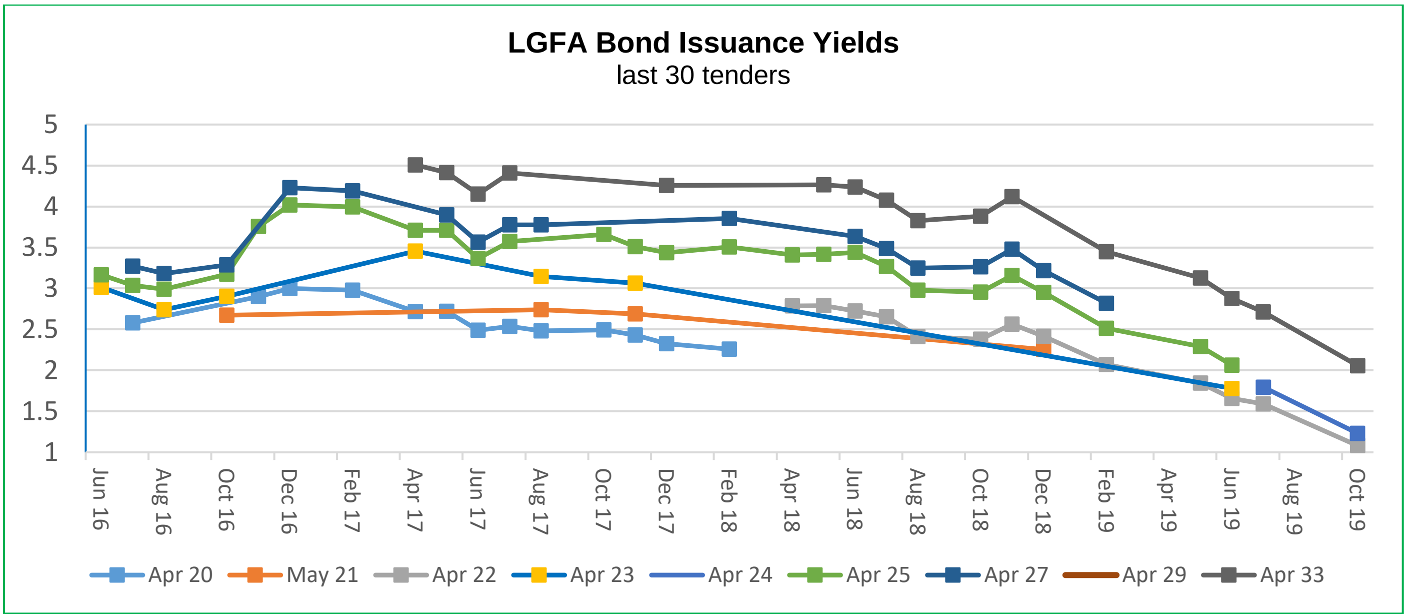
Quarter 1: 2019 - 2020
Period ended: 30 September 2019

NEW ZEALAND
LOCAL GOVERNMENT
FUNDING AGENCY

As at 30 September 2019	Comparison to other borrowers - Secondary Market Spread to Swap (bps)									
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
LGFA (AA+)	9	17	24	29	37	41		49		59
Asian Development Bank (AAA)	10	20		32	36		43			
Inter American Development Bank (AAA)		21		33	39				58	
International Finance Corp (AAA)	11	18		35	39			47		
KBN (AAA)		24		38	42	47				
Rentenbank (AAA)	18	24	31	35	40					
World Bank (AAA)	8	19	26	30	35					
Nordic Investment Bank (AAA)										
ANZ (AA-)	31	44		78	85					
BNZ (AA-)	19			69						
Westpac Bank (AA-)			60	71	87					

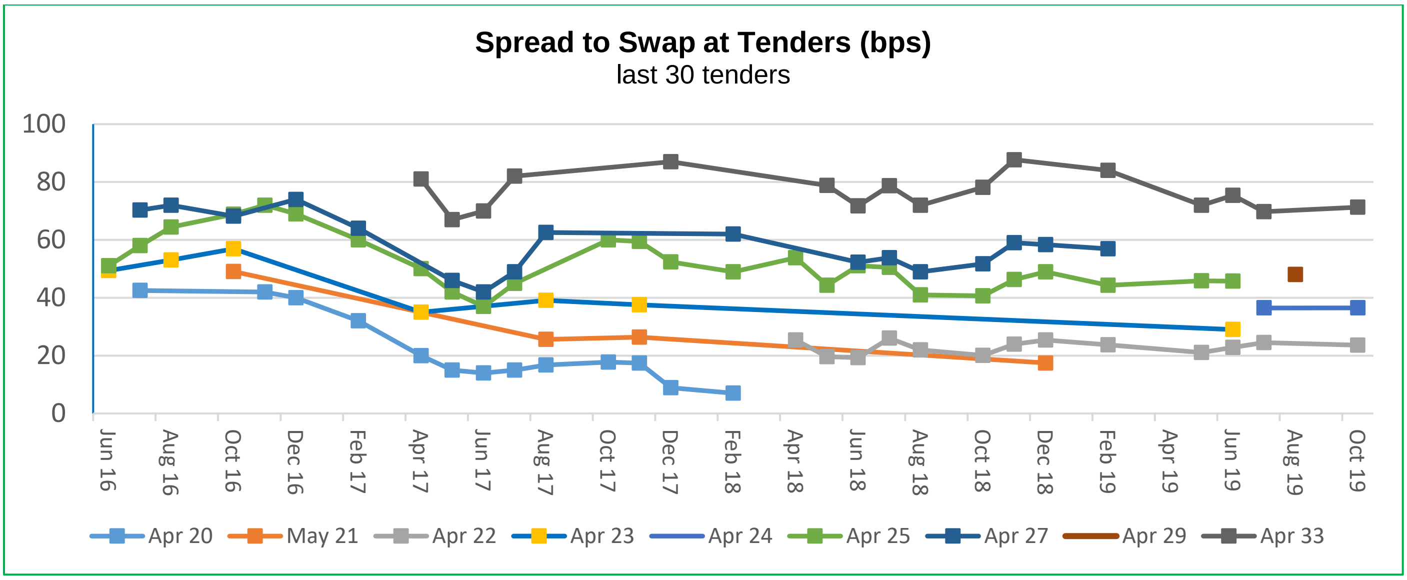
Outright yields declined to historic lows as global central banks (including the RBNZ) softened monetary policy either through lowering interest rates or forecasting additional stimulus. The interest rate curve continued to flatten with yields on short dated LGFA bond yields (2021s) declining by 39 bps over the quarter while long dated LGFA bond yields (2033s) declined by 57 bps. Over the past year the respective yields have declined by 88 bps (0.88%) and 179 bps (1.79%).

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 September quarter was a better period for Kauri bond issuance with $1.445 billion of issuance by IADB, IFC, and ADB compared to $1.85 billion in the first six months of this calendar year. The same theme continues of 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.



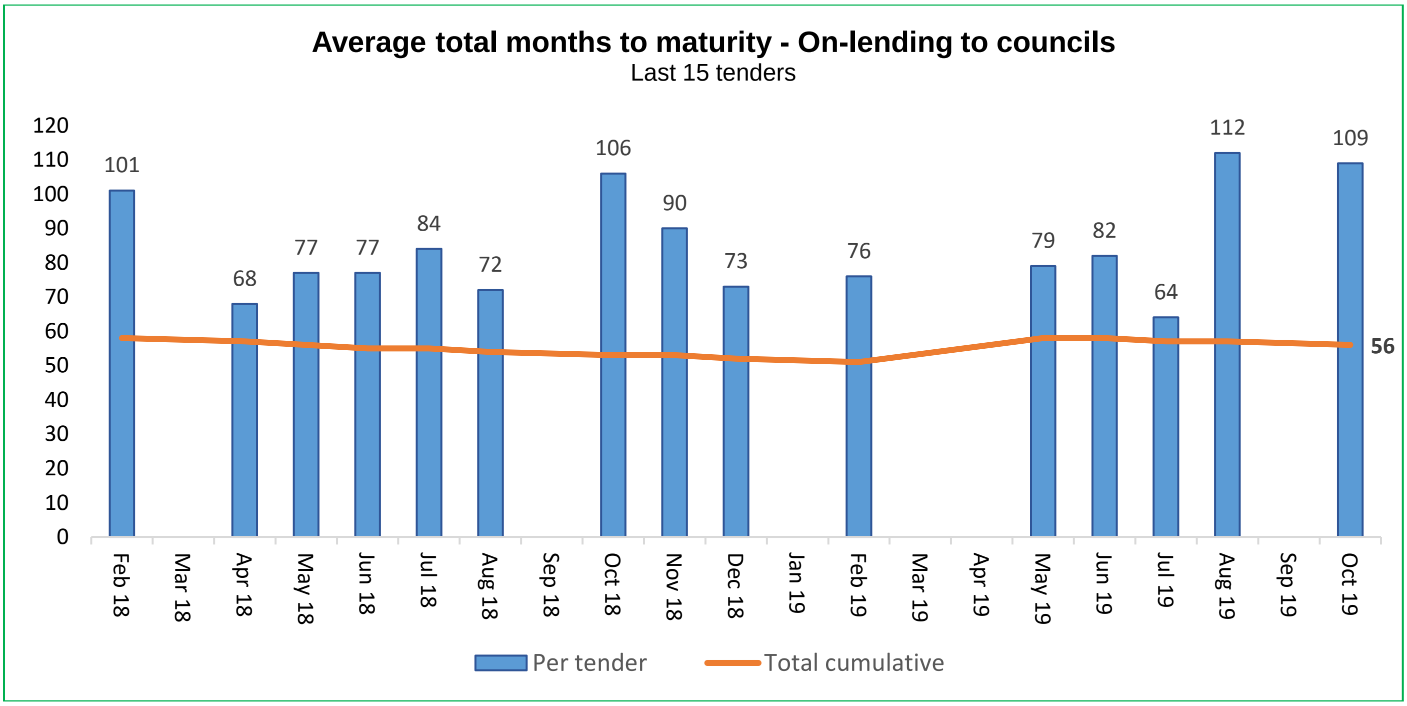
Quarterly Report

Quarter 1: 2019 - 2020
Period ended: 30 September 2019



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

The average borrowing term (excluding short dated borrowing) for the September 2019 quarter by council members was 6.39 years and this was slightly longer than the 6.0 years average term for 2018-19 year. The modest lengthening in average borrowing term is explained by councils borrowing into the 2029 maturity to match the new April 2029 bond that we launched via syndication in August 2019.

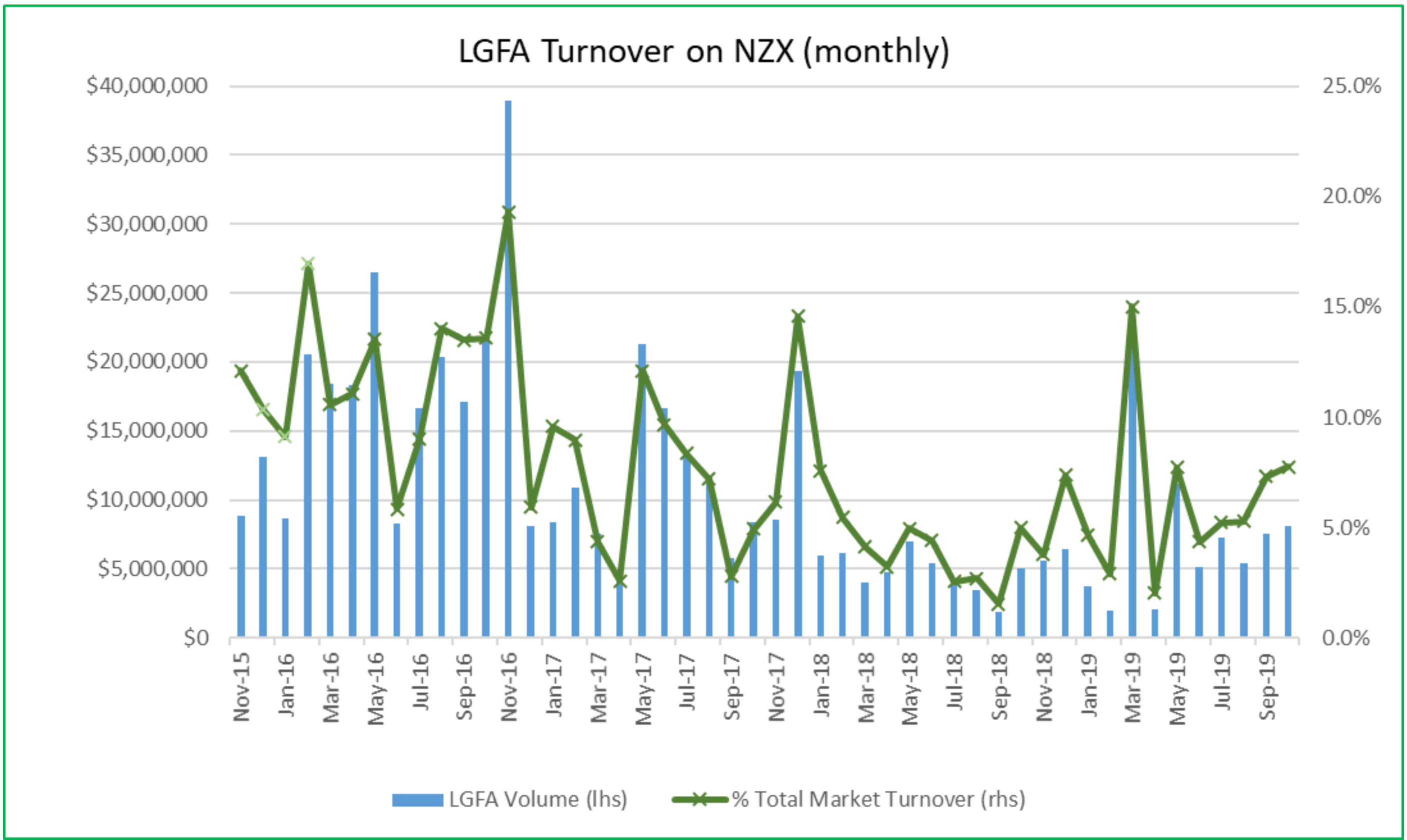


Bespoke lending continues to be a popular borrowing option for council members. During the quarter we lent $235 million into bespoke maturity dates (non LGFA bond dates). Bespoke lending comprised 56% of total term lending by LGFA to its members during the September quarter and 55% for the 12-month period to 30 September 2019.

Short term borrowing by councils has been well received with loan terms to date of between one month and 12 months on $436.6 million of loans outstanding as at 30 September 2019 to twenty-eight councils. This is a modest increase compared to September 2018 where we had lent $414 million to twenty-three 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 $10.7 million per month or 8.0% 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.



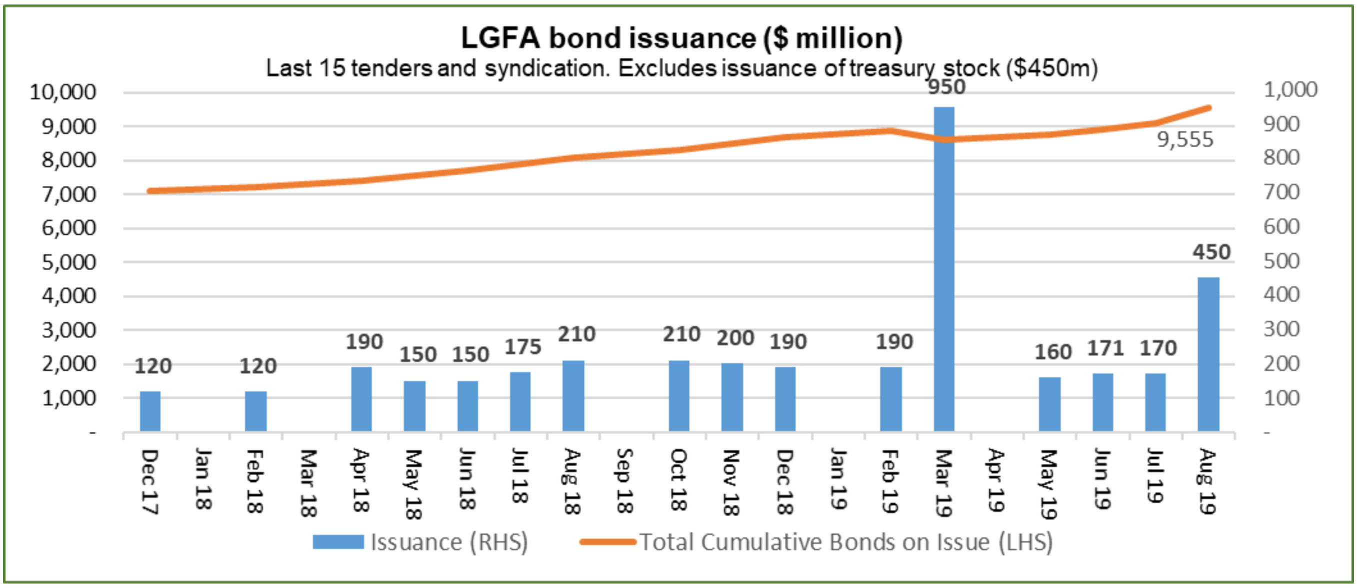
Quarterly Report

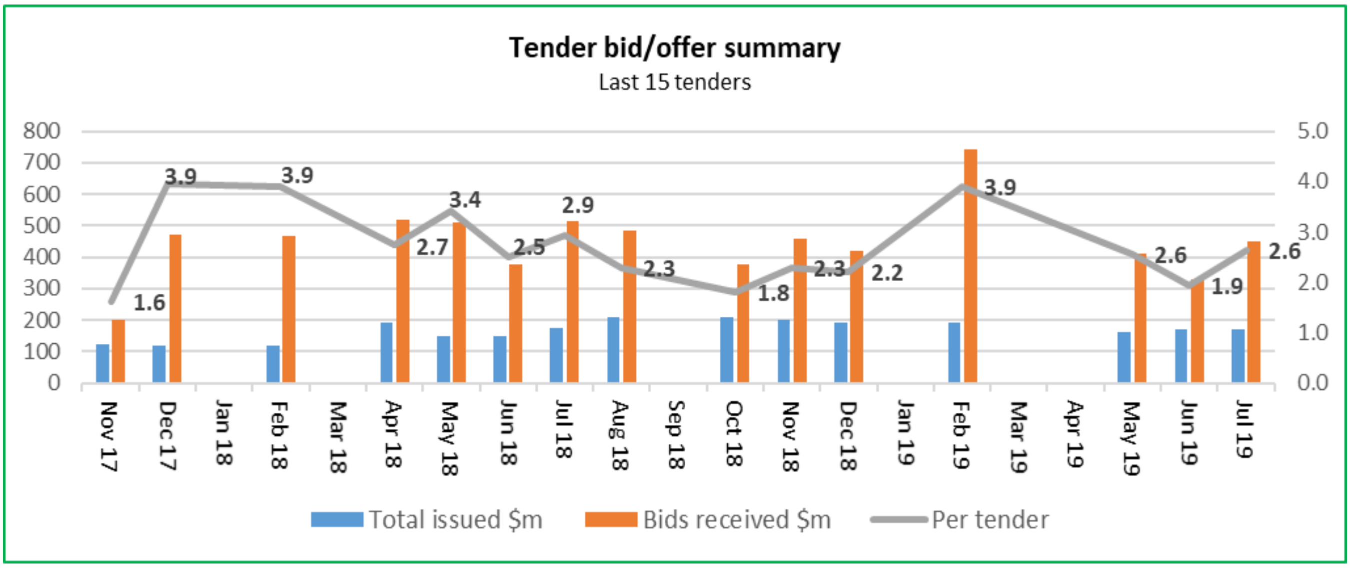
Quarter 1: 2019 - 2020
Period ended: 30 September 2019

LGFA started issuing LGFA Bills and short dated (less than 1 year) lending to councils in late 2015. As at 30 September 2019 there were LGFA Bills of $463 million on issue and short-term loans of $436.6 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 one LGFA bond tender during the quarter and launched a new April 2029 bond maturity via syndication. Market support was strong for both the syndication (issued a large volume of a ten-year maturity at prevailing mid-rates) and the tender with a coverage ratio of 2.74x.





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 market share of council borrowing for the September quarter was 100% and for the rolling twelve-month period to 30 September 2019 was 87.1%. 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 two councils during the September quarter (and sixty-three visits to fifty-two different councils for the twelve-month period to September 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 are currently receiving the annual compliance certificates from council members ahead of the 30 November 2019 deadline and will report to guarantors the outcome of each council’s compliance under the financial covenants in association with the December 2019 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.

We have been working with Russell McVeagh on making changes to the Shareholder Agreement, Notes Subscription Agreement, Multi Issuer Deed and Guarantee and Indemnity Deed and Foundation Policies to take these to the November 2019 AGM for shareholder approval. The Shareholder Council has engaged Simpson Grierson to act on behalf of council members. Subject to shareholder approval we would expect to be able to offer this product 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

LGFA management met representatives from Treasury, Department of Internal Affairs, 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. During the quarter, LGFA hosted its annual Shareholder Borrower Day and representatives attended the LGNZ conference, Infrastructure NZ Building Nations Symposium and SOLGM Annual Summit.

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 $2.61 million for the first quarter 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 four months (including the October 2019 tender) 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 market share of council borrowing for the rolling twelve-month period to 30 September 2019 was 87.1%. This compares to a historical average since 2012 of 73% and our market share remains strong compared to our global peers.

As at 30 September 2019, there are sixty-five participating local authority members of LGFA. This was an increase of one over the quarter (Taranaki Regional 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 first quarter, Net Interest Income was estimated by management on an unaudited basis to be $714k below budget while expenses are $15k above budget. Net Operating Gain of $2.612 million was $729k below budget. The variance is largely due to the unrealised mark to market movement ($679k) in fixed rate swaps that are not designated effective for hedge accounting purposes. The swap valuations have been negatively impacted by the sharp decline in interest rates.

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 three-month period on an unaudited, management basis were $1.467 million which is $15k above budget. This variance is the consequence of:

- Issuance and on-lending costs (excluding AIL) at $0.606 million were $38k 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 $0.861 million were $23k below budget due to lower IT and personnel costs offset by higher than expected general operating overhead and consulting costs.

- Approved Issuer Levy (AIL) payments were nil and were in line with SOI forecast. We pay AIL on behalf of offshore investors at the time of semi-annual coupon payment. During the quarter there were no coupon payments made on LGFA bonds.

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 July 2018 with S&P and in September 2019 with Fitch. We expect to meet with S&P in the coming month.

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 2018, 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 30 September 2019.

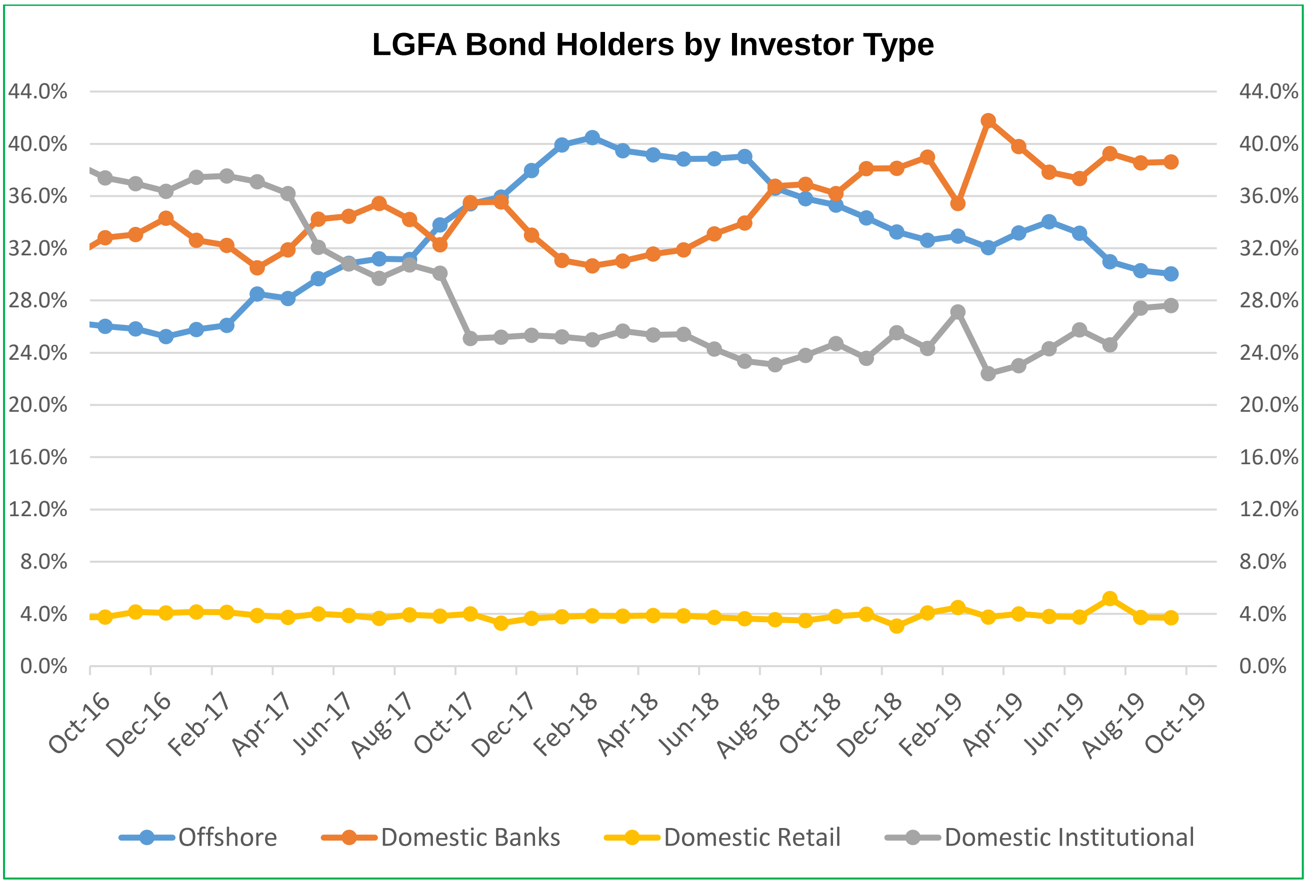
Policy	Limit	Policy page ref	Continuous Compliance
One-month Liquidity Monitor	>120%	S1-1.1	Yes
Three Month Liquidity Monitor	>110%	S1-1.2	Yes
Twelve Month Liquidity Monitor	>110%	S1-1.3	Yes
Council Exposure (any 12-month period)	<10% of Balance Sheet	S1-1.5	Yes
Liquidity Buffer	>110%	S1-1.4	Yes
Partial 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

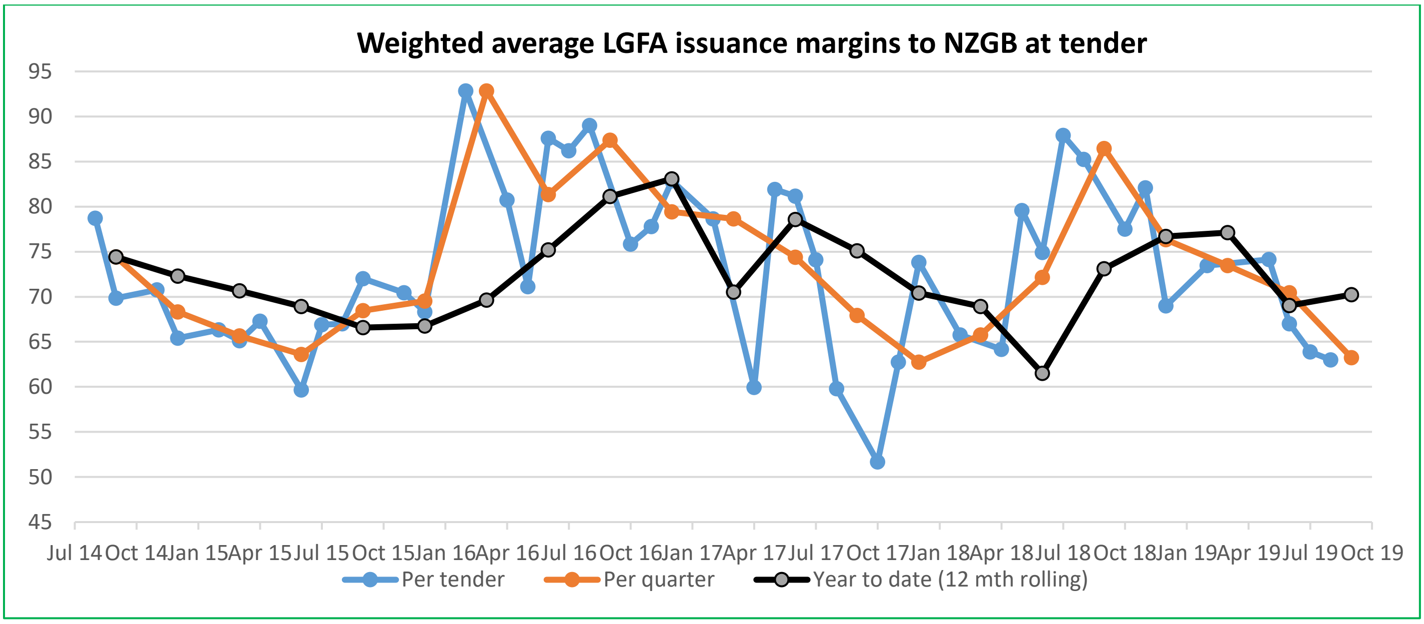
Managing relations with our investor base is very important as the amount of LGFA bonds on issue has yet to peak and we require investors and banks to support our tender issuance. Our focus is on growing and diversifying the offshore investor group as these investors have the most growth potential given that we already receive strong support from the domestic banks and institutional investors.

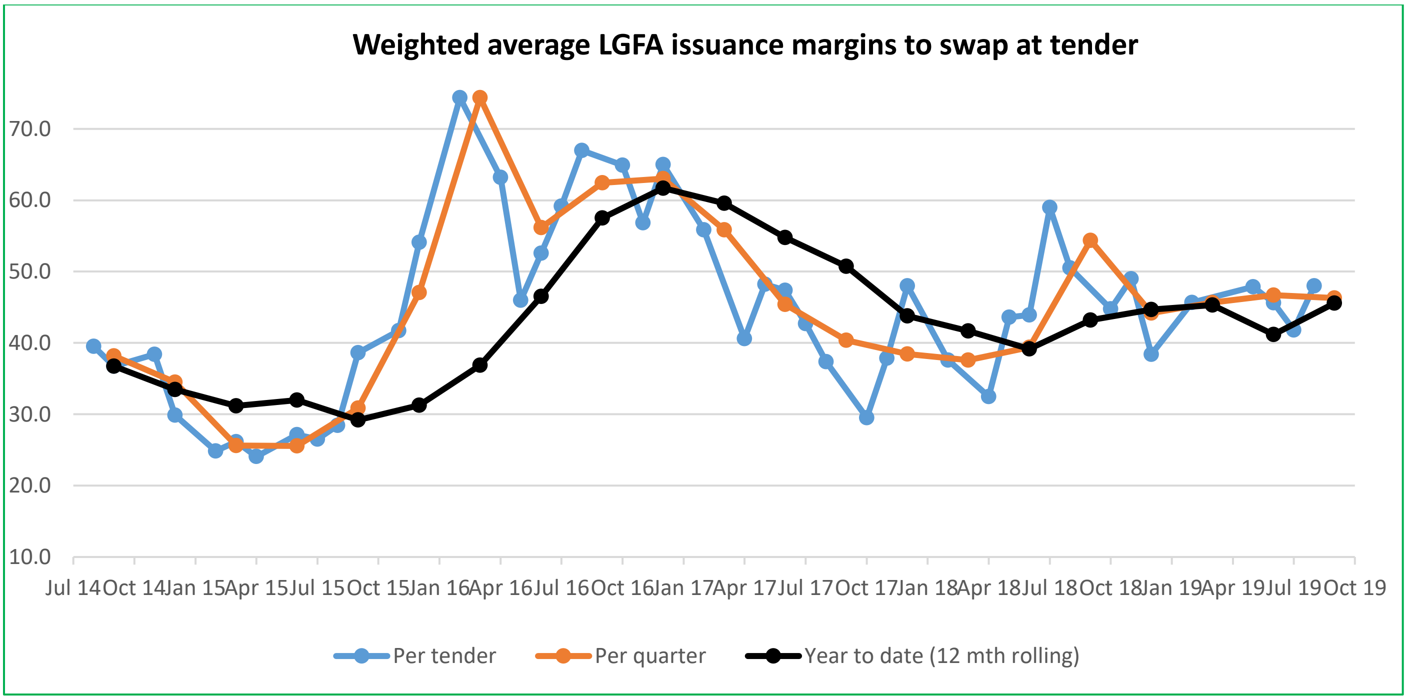
Domestic banks and domestic institutional investors increased their holdings over the quarter as LGFA bonds remain attractive on a spread to underlying NZGBs and investors chasing yield in the current low interest rate environment. By our estimates

- Offshore investors reduced their holdings of LGFA bonds by $75 million over the quarter (and reduced by $33 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 and LGFA bonds. The decline in NZGB and Kauri holdings has been significant relative to the decline in LGFA holdings. 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 $2.89 billion (30% of outstandings) compared to $2.92 billion (35.6% of outstandings) a year ago.
- Domestic institutional and retail investors increased their holdings by $354 million over the quarter and were estimated to hold $2.66 billion (27.6% of outstandings) compared to $2.229 billion (27.3.0% of outstandings) a year ago.
- Domestic banks holdings have increased by $376 million over the quarter following the syndication and modest offshore selling. Bank holdings of $3.72 billion (38.6% of outstandings) are at record highs and compare favourably to $3.01 billion (36.9% of outstandings) a year ago.



G. Key trends


Weighted average LGFA issuance margins to NZGB at tender
95
90
85
80
75
70
65
60
55
50
45
Jul 14 Oct 14 Jan 15 Apr 15 Jul 15 Oct 15 Jan 16 Apr 16 Jul 16 Oct 16 Jan 17 Apr 17 Jul 17 Oct 17 Jan 18 Apr 18 Jul 18 Oct 18 Jan 19 Apr 19 Jul 19 Oct 19
Per tender
Per quarter
Year to date (12 mth rolling)


Weighted average LGFA issuance margins to swap at tender
70.0
60.0
50.0
40.0
30.0
20.0
10.0
Jul 14 Oct 14 Jan 15 Apr 15 Jul 15 Oct 15 Jan 16 Apr 16 Jul 16 Oct 16 Jan 17 Apr 17 Jul 17 Oct 17 Jan 18 Apr 18 Jul 18 Oct 18 Jan 19 Apr 19 Jul 19 Oct 19
Per tender
Per quarter
Year to date (12 mth rolling)