LGFA
New Zealand Local Government Funding Agency
Te Pūtea Kāwanatanga ā-rohe

LGFA Quarterly Report to Shareholders

September Quarter 2021

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A. September quarter highlights

Quarter	Total	Bespoke Maturity	April 2022	April 2023	April 2024	April 2025	April 2026	April 2027	April 2029	May 2031	April 2033	April 2037
Bonds issued $m	**655**	N/A	-	90	50	100	100	45	100	80	90	-
Term Loans to councils $m	**833.1**	316.6	-	7.7	79.0	27.0	10.3	61.5	190.0	141.0	-	-
Term Loans to councils #.	**56**	28	-	1	4	2	2	5	9	5	-	-

Key points and highlights for the September quarter:

- The LGFA bond yield curve rose and flattened over the quarter as markets brought forward estimates of the first tightening in monetary policy by the RBNZ. LGFA 2034 bond yields rose 61 bps while the 2037 yields rose 21 bps.
- LGFA issued a larger than normal $655 million of bonds during the quarter across three tenders in a more difficult issuance environment. The average term of issuance during the quarter was a shorter than normal 5.64 years.
- LGFA borrowing margins were mixed with spreads to swap narrower by 4 bps on the long dated (2031s through 2037s) maturities but wider by 3 bps on the short dated (2023s to 2027s) maturities during the quarter. LGFA spreads to NZGB widened as there was strong demand for both short dated NZGBs and the new 30-year NZGB from offshore investors.
- Long dated lending to councils during the quarter of $833.1 million was in line with the previous period but higher than the long run averages. The average term of lending at 6.18 years was slightly shorter than the previous quarter's (and financial years) average of 6.65 years.
- LGFA has estimated market share of 90.6% of total council borrowing for the rolling twelve-month period to September 2021 compared to a historical average of 75% since 2012.
- Short-term lending to councils has increased by $127 million to $414 million of loans outstanding on 30 September 2021 to twenty-seven councils and one CCO.
- LGFA Net Operating Gain (unaudited management estimate) for the three-month period to 30 September2021 was $3.79 million which was $732k above budget, comprising total operating income at $658k above budget and expenses at $74k below budget.
- We have achieved or on track to achieve nine out of our ten performance objectives over the financial year with only the number of council visits tracking below our target.
- Southland District and Otago Regional Councils joined as guarantors during the quarter and we also welcomed Invercargill City Holdings as our first CCO member. We now have seventy-four councils and one CCO as members and are expecting another two councils to join in the 2021-22 year.
- We held an investor workshop with DIA and S&P Global Ratings on Three waters Reform and responded to the Shareholders Council request for our views on aspects of the Three Waters Reform programme. We held another successful LGFA Shareholder-Borrower Day in July.
- We made four external appointments to our Sustainability Committee and are in the process of introducing a new sustainable loan product for members.
- We undertook a brand refresh to coincide with the release of the 2020-21 Annual Report and relaunched our website during the quarter.

B. LGFA bond issuance during quarter

LGFA held three bond tenders during the quarter amounting to $655 million of issuance.

Tender 82: 7 July 2021 $220 million

Tender 82 - 7 July 2021	15-Apr-25	15-Apr-26	20-Apr-29	15-Apr-33
Total Amount Offered ($million)	50	60	60	50
Total Amount Allocated ($million)	50	60	60	50
Total Number of Bids Received	12	12	17	24
Total Amount of Bids Received ($million)	99	115	173	182
Total Number of Successful Bids	2	1	3	3
Highest Yield Accepted (%)	1.275	1.465	1.870	2.235
Lowest Yield Accepted (%)	1.270	1.465	1.865	2.230
Highest Yield Rejected (%)	1.325	1.515	1.950	2.320
Lowest Yield Rejected (%)	1.275	1.470	1.870	2.235
Weighted Average Accepted Yield (%)	1.275	1.465	1.868	2.233
Weighted Average Rejected Yield (%)	1.298	1.498	1.898	2.260
Amount Allotted at Highest Accepted Yield as Percentage of Amount Bid at that Yield*	90	100	100	75
Coverage Ratio	1.98	1.92	2.88	3.64
NZGB Spread at Issue (bps)	30.00	33.00	42.00	43.00
Swap Spread at Issue (bps)	8.50	12.25	23.75	36.75
Swap Spread: AA council (bps)	25	28.75	39.5	59.25
Swap Spread: AA- council (bps)	30	33.75	44.5	64.25
Swap Spread: A+ council (bps)	35	38.75	49.5	69.25
Swap Spread: Unrated council (bps)	45	48.75	59.5	79.25
Coverage Ratio	1.98	1.92	2.88	3.64

The first tender of the new financial year was very well bid with all four bond maturities issued 1 bps to 2 bps through prevailing mid-rates on strong demand despite the tender size being larger than usual.

We issued $220 million of bonds with a forecast $2.9 billion borrowing requirement over 2021-22. The tender size of $220 million was the largest amount tendered (excluding syndications) since September 2014 and we had typically tendered $200 million per tender over recent years. We issued more bonds than normal due to July always being a strong month for council borrowing.

We issued tranches of 2025s, 2026s, 2029s and 2033s to match investor demand but did not issue 2037s as both investor feedback was muted and the longest council loan was out to 2031. Issuance spreads to NZGB were unchanged on the 2029s but 2.5 bps tighter on the 2033s compared to the June bond tender while LGFA issuance spreads to swap were 0.5 bps to 0.75 bps wider after setting historic lows in June.

Bidding volume was good given the increased volume with a coverage ratio of 2.3x (compared to 3.41x last tender and the 2.3x average for the past two years). The number of successful bids were between one (2026s) and three (2033s).

The average maturity of the LGFA bonds issued was a moderate 6.96 years compared to the average for the previous 2020-21 financial year of 8.67 years. This reflected the shorter term of council borrowing and lack of 2037 issuance.

While we issued $220 million of LGFA bonds we on-lent $275.5 million to sixteen councils. The average term of lending to councils was 6.28 years (75 months) so our issuance term continued to be longer than the term of our lending.

Tender 83: 12 August 2021 $265 million

Tender 83 - 12 August 2021	15-Apr-23	15-Apr-25	15-Apr-27	15-May-31
Total Amount Offered ($million)	90	50	50	80
Total Amount Allocated ($million)	90	50	45	80
Total Number of Bids Received	9	9	12	16
Total Amount of Bids Received ($million)	240	86	45	110
Total Number of Successful Bids	2	1	12	11
Highest Yield Accepted (%)	1.280	1.615	1.930	2.220
Lowest Yield Accepted (%)	1.280	1.615	1.850	2.170
Highest Yield Rejected (%)	1.345	1.665		2.300
Lowest Yield Rejected (%)	1.280	1.640		2.220
Weighted Average Accepted Yield (%)	1.280	1.615	1.870	2.190
Weighted Average Rejected Yield (%)	1.293	1.656		2.240
Amount Allotted at Highest Accepted Yield as Percentage of Amount Bid at that Yield*	54.5	100	100	18.2
Coverage Ratio	2.67	1.72	0.90	1.38
NZGB Spread at Issue (bps)	29.00	36.00	43.00	46.00
Swap Spread at Issue (bps)	0.00	7.00	16.00	22.00
Swap Spread: AA council (bps)	18.75	24	36	41.5
Swap Spread: AA- council (bps)	23.75	29	41	46.5
Swap Spread: A+ council (bps)	28.75	34	46	51.5
Swap Spread: Unrated council (bps)	38.75	44	56	61.5
Coverage Ratio	2.67	1.72	0.90	1.38

The tender was going to be a struggle with the largest tender size ($270 million) since August 2014 and competing against a $450 million IADB Kauri 5-year trade that priced at the same time and ahead of the RBNZ MPS the following week.

The tender result was mixed with two bond maturities issued at mid-rate and the other two maturities were 2 bps back from mid-rate but we were unable to issue the full amount required ($265 million out of $270 million).

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We issued tranches of 2023s, 2025s, 2027s and 2031s to capture recent demand for 2023s from offshore investors and to tender 2031s for the first time since their syndication in May. We issued more bonds than normal (for the second consecutive month) due to July-August being strong months for council borrowing.

The 2031s went 2bps above market which was a good result given the size tendered and the long-dated term of the bond. The 2027s struggled with insufficient bids ($45 million for the $50 million offered) and an 8-bps tail. However the weighted average successful yield was only 2 bps above mid-market on the 2027s and there was no widening in our spreads post the tender result.

Bidding volume was average but reflected the increased volume with a coverage ratio of 1.8x (compared to the 2.3x average for the past two years). The number of successful bids were between one (2025s) and twelve (2027s).

The average maturity of the LGFA bonds issued was a short 5.17 years but this was due to us anticipating that the extra volume was going to be a struggle so we deliberately weighted the issuance to the 2023s.

While we issued $265 million of LGFA bonds we on-lent $366.6 million to sixteen councils. The average term of lending to councils was longer than usual at 7.6 years (91 months) while our issuance was 5.2 years so for the first time for a while, we borrowed shorter than our term of our lending.

Tender 84: 08 September 2021 $170 million

Tender 84 - 08 September 2021	15-Apr-24	15-Apr-26	20-Apr-29	15-Apr-33
Total Amount Offered ($million)	50	40	40	40
Total Amount Allocated ($million)	50	40	40	40
Total Number of Bids Received	11	15	19	17
Total Amount of Bids Received ($million)	140	111	96	68
Total Number of Successful Bids	3	8	4	6
Highest Yield Accepted (%)	1.580	1.970	2.245	2.590
Lowest Yield Accepted (%)	1.570	1.945	2.230	2.565
Highest Yield Rejected (%)	1.650	2.040	2.320	2.650
Lowest Yield Rejected (%)	1.580	1.970	2.250	2.590
Weighted Average Accepted Yield (%)	1.578	1.958	2.235	2.579
Weighted Average Rejected Yield (%)	1.601	1.983	2.279	2.614
Amount Allotted at Highest Accepted Yield as Percentage of Amount Bid at that Yield*	66.7	23.8	100	37.5
Coverage Ratio	2.80	2.78	2.40	1.70
NZGB Spread at Issue (bps)	24.00	39.00	43.00	45.00
Swap Spread at Issue (bps)	7.25	19.75	28.50	41.75
Swap Spread: AA council (bps)	24	35.75	43.5	62.5
Swap Spread: AA- council (bps)	29	40.75	48.5	67.5
Swap Spread: A+ council (bps)	34	45.75	53.5	72.5
Swap Spread: Unrated council (bps)	44	55.75	63.5	82.5
Coverage Ratio	2.80	2.78	2.40	1.70

The tender result was mixed but overall was a better result than the August tender in what were still rather difficult market conditions. The uncertainty around the RBNZ and next steps in monetary policy combined with caution/market positioning ahead of a $2 billion syndication of a new 2051 NZGB and light secondary market volumes for LGFA bonds meant that primary issuance was difficult.

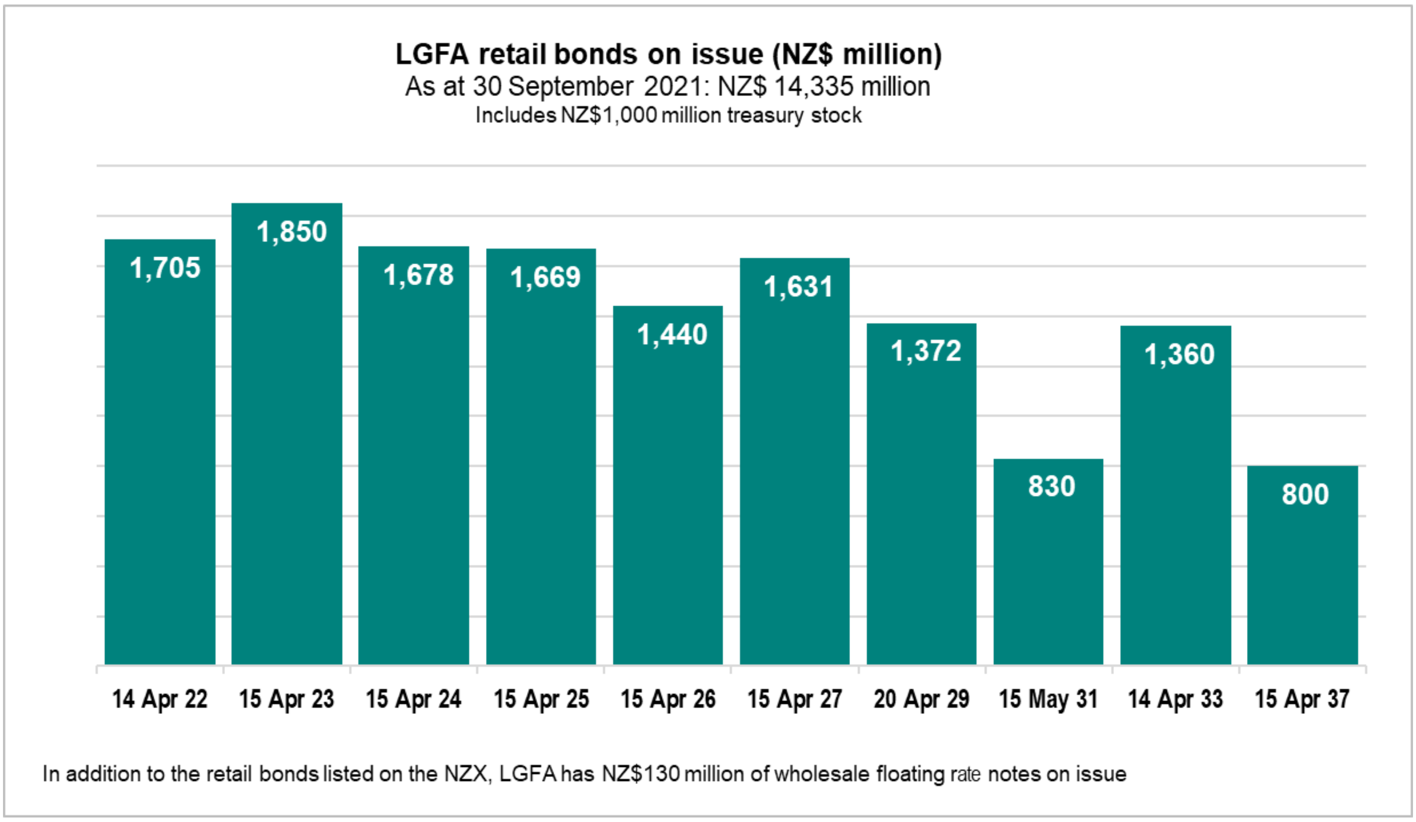
In this context the tender result was good with one bond maturity issued below mid-rate, two maturities 1.5 bps above mid rates and the 2033s were 3 bps above mid-rates. Price support was strong for the 2024s and then gradually weakened the further along the curve we issued out to the 2033s

We were able to issue the full amount on offer but this was not unsurprising given we only tendered $170 million compared to the August tender of $270 million.

The four bonds we issued were all different than the bonds we issued in August to try to keep the market more evenly balanced. The coverage ratio of 2.4x was good and the number of successful bids were between three (2024s) and eight (2026s)

The average maturity of the LGFA bonds issued was 6.4 years compared to the average for the previous 2020-21 financial year of 8.67 years.

While we issued $170 million of LGFA bonds we on-lent $116 million to seven councils. The average term of lending to councils was a normal 6.8 years (82 months) while our issuance was 6.4 years so for the second consecutive month, we borrowed shorter than our term of our lending.



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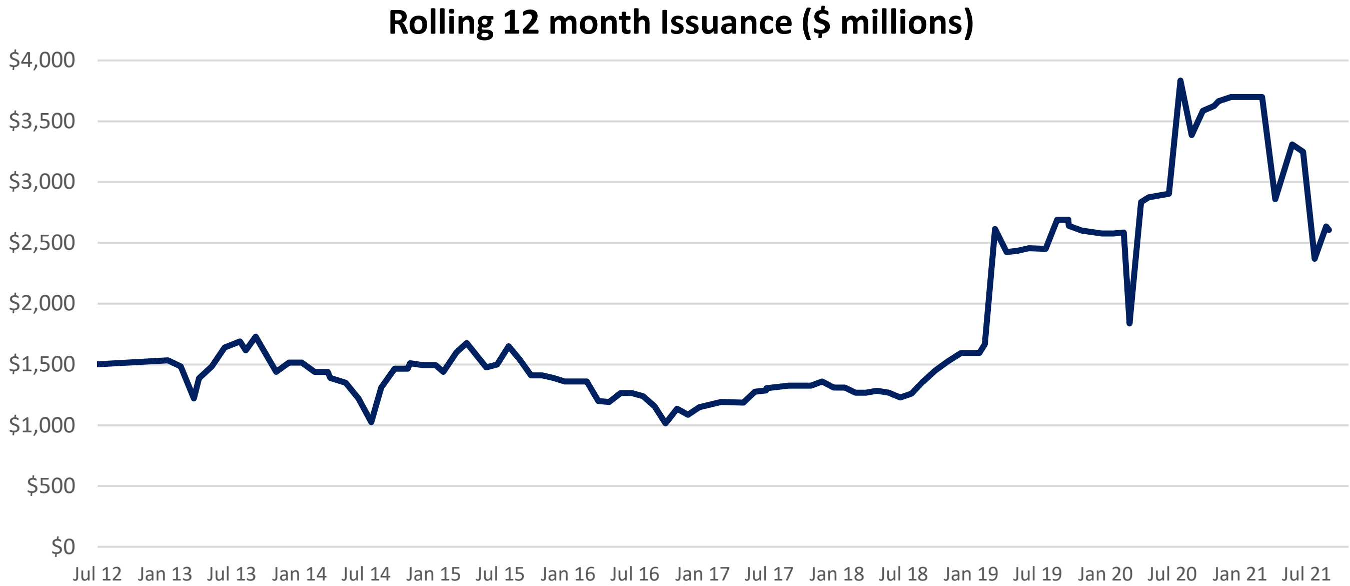
Our issuance volume on a rolling 12-month basis of $2.61 billion has slipped from the record highs as the large syndications undertaken in April and July 2020 have rolled out of the annual number.



C. Summary financial information (provisional and unaudited)

The following results are management estimates only and are unaudited.

Financial Year ($m)	YTD as at Q1
Comprehensive income	**30-Sep-21**
Interest income	88.98
Interest expense	83.83
Net interest revenue	**5.15**
Other operating Income	0.26
Total operating income	**5.41**
Issuance and On-lending costs	0.58
Approved issuer levy	Nil
Operating expenses	1.05
Issuance and operating expenses	**1.62**
Net Profit	**3.79**

Financial position ($m)	30-Sep-21
Retained earnings + comprehensive income	72.68
Total assets (nominal)	14,635.29
Total LG loans (nominal)	12,960.37
Total LGFA bills (nominal)	600.00
Total LGFA bonds (nominal)	13,465.00
Total borrower notes (nominal)	233.80
Total equity	97.68

D. Key performance indicators (Section 5 of SOI)

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

We are currently meeting or on track to meet nine out of our ten performance targets with our council visit target the only objective we are currently tracking behind. The COVID related lockdowns has impacted our ability to travel although we did undertake some council meetings by Zoom over the quarter. While we undertook 88 council and CCO visits during the fifteen-month period to September 2021, many will roll off by June 2022 if we are unable to travel.

Measure		Prior full year to June 2021	Q1 30 Sept 2021	Q2 31 Dec 2021	Q3 31 Mar 2022	Q4 30 June 2022
LGFA total operating income for the period to June 2022 will be greater than $19.1 million	Target ($)		**$4.8 m (YTD as at Q1)**	**$9.4 m (YTD as at Q2)**	**$14.8 m (YTD as at Q3)**	**$19.1 m (FULL YEAR)**
	Actual ($)	$19.5 m	$5.2 m			
Annual issuance and operating expenses (excluding AIL) will be less than $7.2 million	Target ($)		**$1.7 m (YTD as at Q1)**	**$3.5 m (YTD as at Q2)**	**$5.3 m (YTD as at Q3)**	**$7.2 m (FULL YEAR)**
	Actual ($)	$6.7 m	$1.6 m			
Total nominal lending (short and long term) to participating councils to be at least $13.294 billion	Target ($)		**$12.6 b (YTD as at Q1)**	**$13.2 b (YTD as at Q2)**	**$13.8 b (YTD as at Q3)**	**$13.29 b (FULL YEAR)**
	Actual ($)	$12.04 b	$12.96 b			
Conduct an annual survey of councils and achieve 85% satisfaction score as to the value added by LGFA to council borrowing activities	Target ($)		**Annual Survey in August each year**			
	Actual (%)	100%	August 2021 survey outcome of 99.2%			
Meet all lending requests from PLAs	Target (%)		**100%**	**100%**	**100%**	**100%**
	Actual (%)	100%	100%			
Achieve 80% market share of all council borrowing in New Zealand	Target (%) Rolling annual average		**>80%**	**>80%**	**>80%**	**>80%**
	Actual (%)	78.8%	90.6%			
Review each PLA financial position, its headroom under	Target (number)		**Council visits to total 73 over one year Financial Position + Headroom Review Undertaken in December Quarter**			

LGFA policies and arrange to meet each PLA at least annually						
	Actual	72	Not on track to meet due to COVID related travel disruption ✗			
No breaches of Treasury Policy, any regulatory or legislative requirements including H&S	Target (zero breaches)		**nil**	**nil**	**nil**	**nil**
	Actual	Nil	Nil ✓			
Successfully refinance of existing loans to councils and LGFA bond maturities as they fall due	Target (%)		**100%**	**100%**	**100%**	**100%**
	Actual (%)	100%	100% ✓			
Maintain a credit rating equal to the New Zealand Government rating where both entities are rated by the same credit rating entity	Target (equivalence)		**AAA/AA+**			
	Actual	AAA/AA+	AAA/AA+ ✓			

E. Performance against SOI objectives

We have two primary and eight secondary objectives outlined in our Statement of Intent (SOI)

Primary objectives (Section 3 of SOI)

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

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

LGFA reduced the base lending margin by 5 bps from 1 July 2021 to 15 bps for all borrowing terms. The base margin covers our operating costs and provides for capital to grow in line with the growth in our balance sheet. There is an additional credit margin added to the base margin depending upon whether a council has a credit rating or is a guarantor or non-guarantor of LGFA.

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

30-Sep-21	Comparison to other high-grade issuers - secondary market spread to swap (bps)												
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2033	2035	2037
LGFA (AAA)	-1	4	5	10	17	19		24	27	29	36		47
Kainga Ora (AAA)		5		14	21		24		27			44	
Asian Development Bank (AAA)		1	1	9	12		21			30			
IADB (AAA)		1	1	9	13		27						
International Finance Corp (AAA)		1	3	9	11	17							
KBN (AAA)		2	6	12					35				
Rentenbank (AAA)	0	1	4	10									
World Bank (AAA)	0	1	2	8	12	19	23		30				
Nordic Investment Bank (AAA)		0		10									
ANZ (AA-)		16	23										
BNZ (AA-)		13		29	42								
Westpac Bank (AA-)	10	18	28	34	43								
SSA Average	0	1	3	10	12	18	24	31	33	30			
Bank Average	10	16	26	32	43								

During the quarter LGFA issued across eight bond maturities from 2023 to 2033 to increase liquidity in these lines and to meet investor demand. We did not issue any 2037s as council borrowing was concentrated in the 2023 to 2031 maturities. Our LGFA bond issuance was only via three tenders with no syndications undertaken.

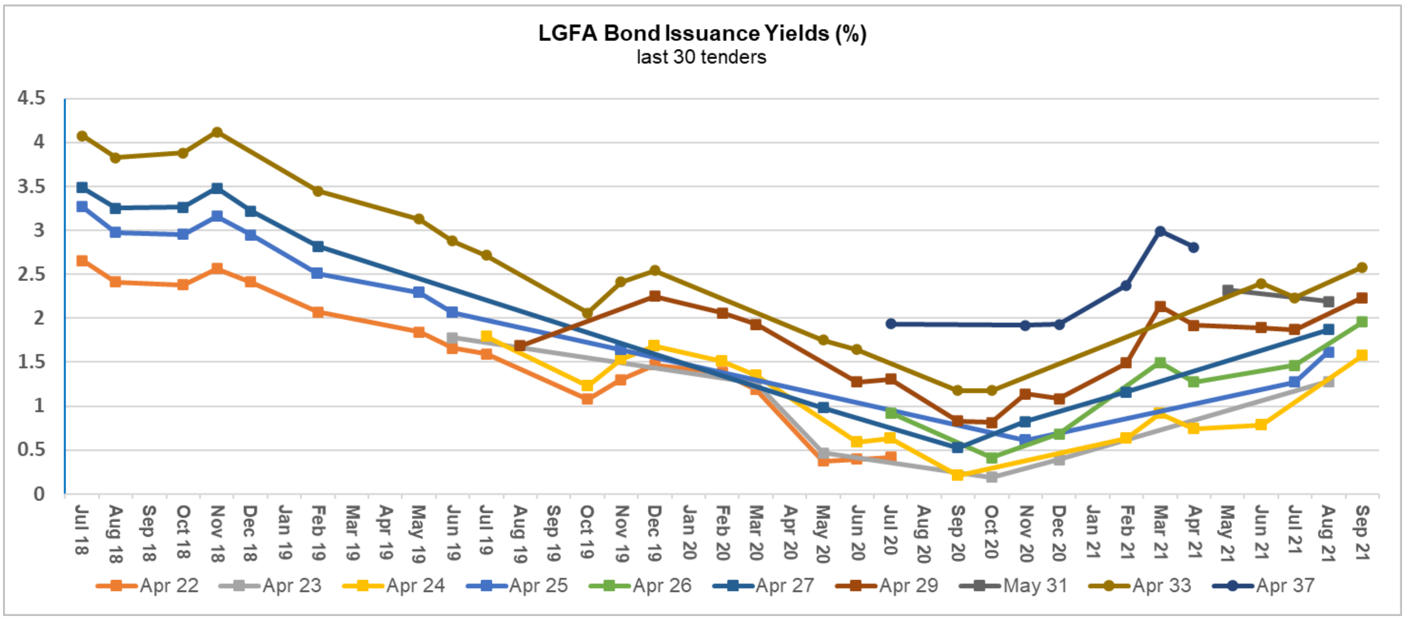
LGFA entered into a further $2 million of standby facility agreements during the quarter, bringing total standby facilities outstanding to $522 million.

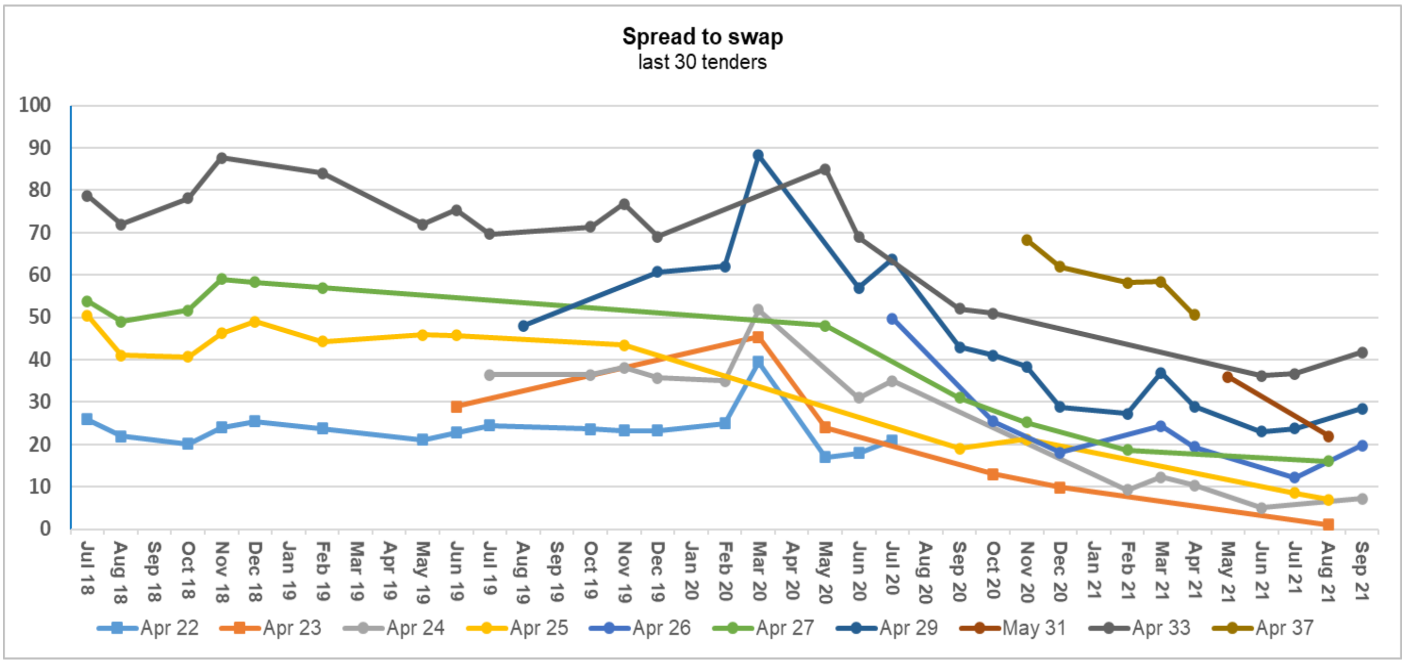
The LGFA bond yield curve flattened over the September quarter for the second consecutive quarter. Front end yields (2024s) rose by 61 bps while long dated yields (2037s) rose by 21 bps. The front end of the curve rose aggressively in expectation of OCR hikes by the RBNZ as the domestic economy remains strong despite the COVID lockdown. The rise in yields and curve flattening trend is common across global bond markets as central banks begin tapering Quantitative Easing and markets begin pricing in rate hikes by Central Banks.

LGFA borrowing margins to swap were mixed with spreads on the 2023 through 2027 maturities widening by 3 bps to 4 bps but the spread to swap on the longer dated maturities (2031s to 2037s) narrowing by 4 bps over the quarter. Our issuance over the quarter was in the 2023 to 2033 part of the yield curve so this helped explain some of the long end outperformance. LGFA spreads to NZGB widened between 6 bps (2029s) to 14 bps (2024s) over the quarter as offshore investor interest increased for the short part of the NZGB curve on a view that domestic markets are pricing in too many RBNZ rate hikes as well as a strong fiscal position despite the COVID lockdowns.

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 another busy period for Kauri bond issuance with $2.09 billion of issuance with maturities ranging from 2 years to 5 years. Asian

Development Bank (ADB) was the largest issuer of $970 million of bonds during the quarter. Issuance activity however was concentrated in the first six weeks of the quarter and was of a shorter duration than normal.





The average borrowing term (excluding short-dated borrowing) for the September quarter by council members was 6.18 years which was shorter than the average term of 6.89 years for the year to June 2021. While there has been some lengthening in council borrowing over the past two years, councils in general remain reluctant to borrow beyond ten years despite tight credit spreads.

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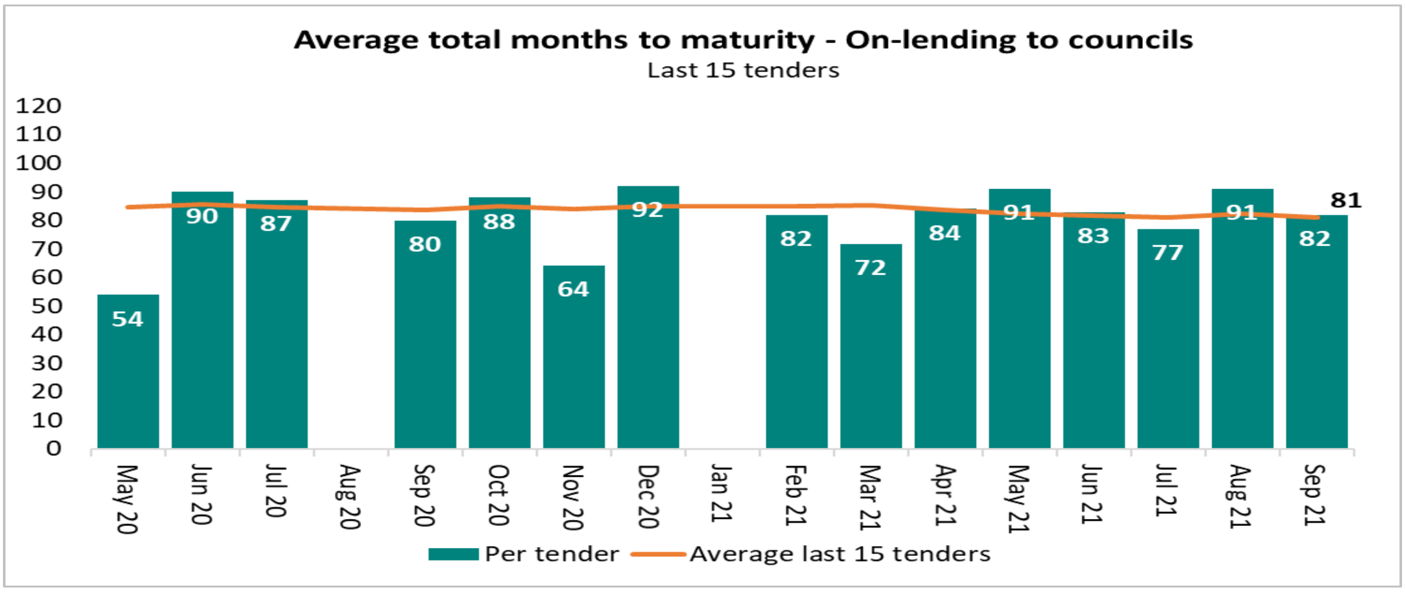
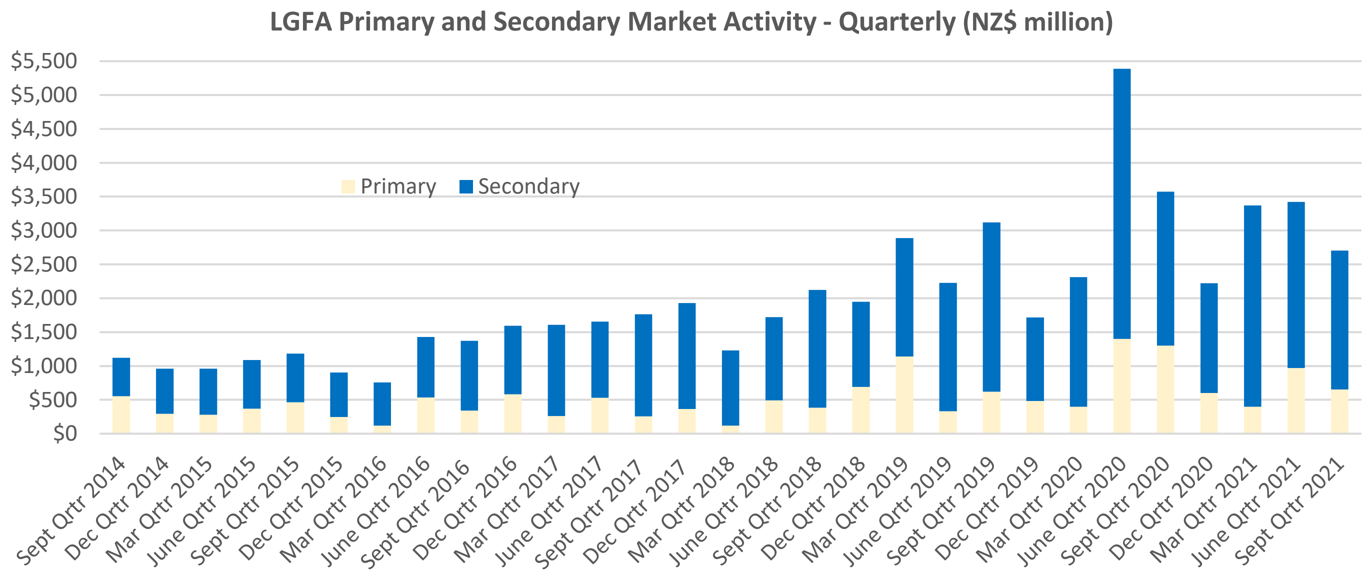


Short-term borrowing by councils with loan terms of between one month and 12 months remains well supported with $414 million outstanding as of 30 June 2021 to twenty-seven councils and CCOs. The number of councils and CCOs using this product increased by two over the quarter while the total amount outstanding increased by $127 million.

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

Activity in LGFA bonds in both the primary market (tender or syndicated issuance) and secondary market (between banks and investors) during the quarter remained buoyant despite being lower than the previous two quarters. There was $655 million of primary issuance and $2.05 billion of secondary market activity in LGFA bonds during the quarter.



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LGFA commenced issuing LGFA Bills and short dated (less than 1 year) lending to councils in late 2015. As at 30 September 2021 there were $600 million of LGFA Bills on issue. We use proceeds from LGFA bills to fund short term lending to councils and invest the balance in our liquid asset portfolio.

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

Over the past quarter we have seen support for our bond tenders in line with historical bid coverage ratios despite a larger amount of tender issuance than normal.

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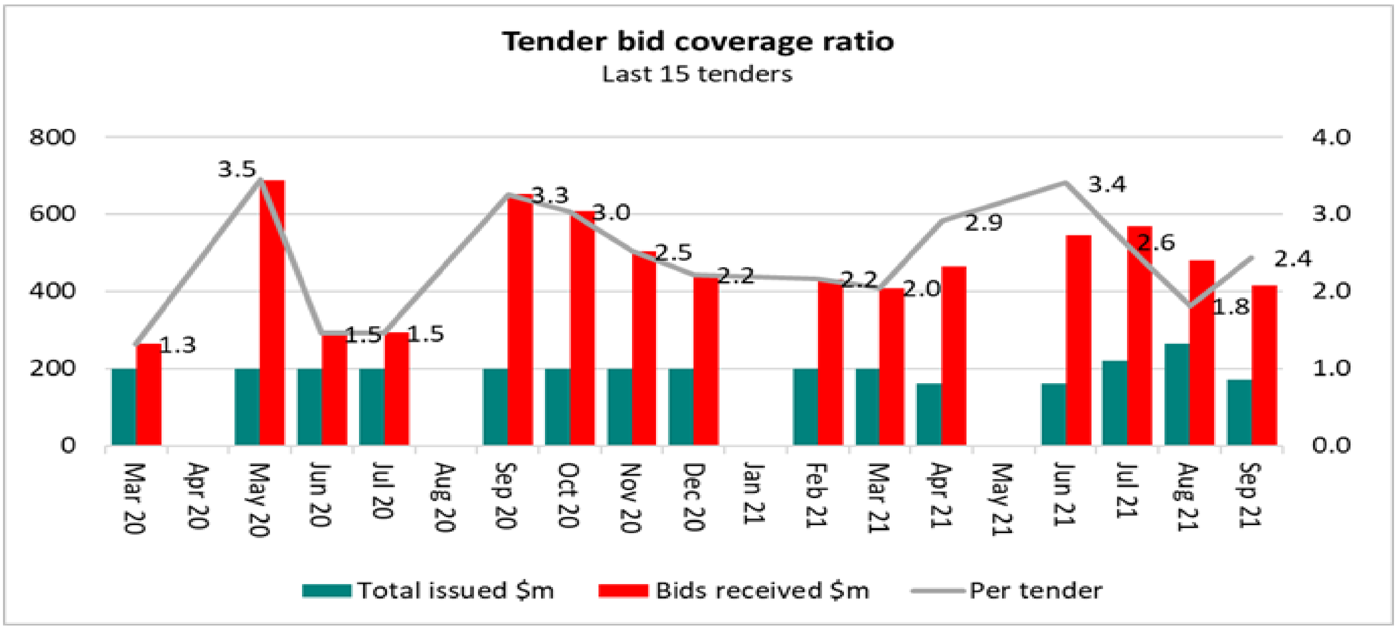

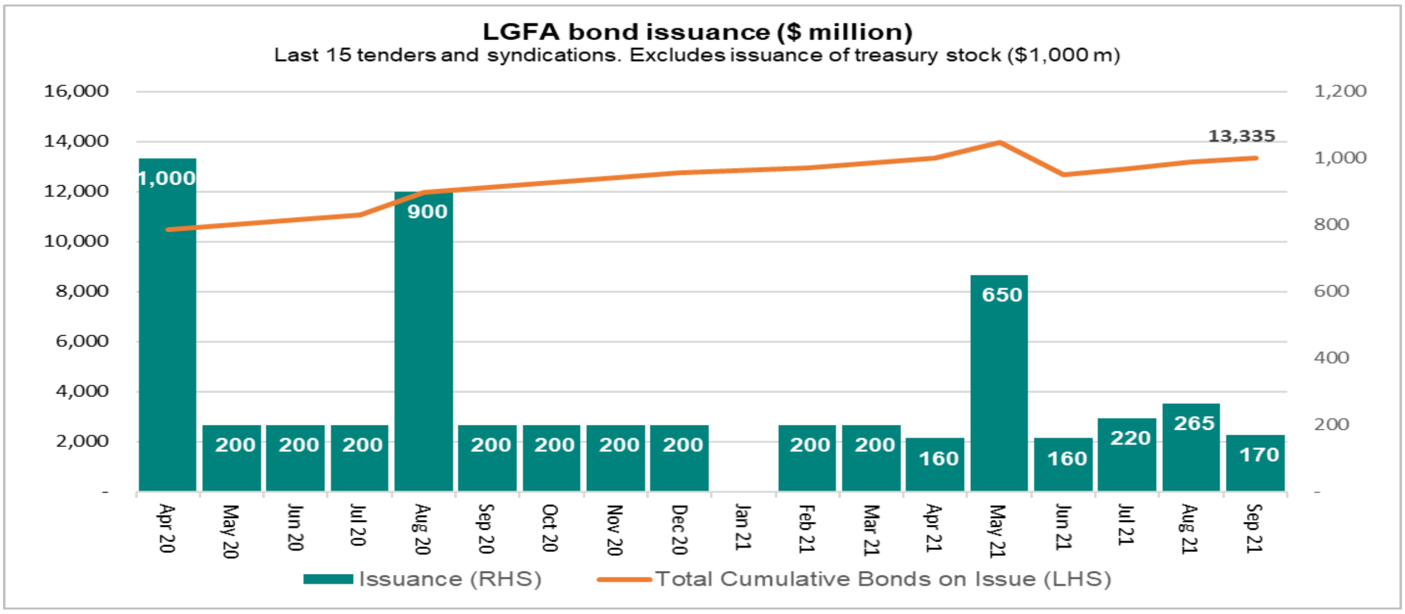

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We survey our council members each year on their satisfaction with LGFA and the latest stakeholder survey result in August 2021 was a 99% result to the question “How would you rate LGFA in adding value to your borrowing requirements?”. We also received a 98% result to the question “How satisfied are you with the pricing that LGFA has provided to your Council?” Both outcomes are slightly better than last year.

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

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

We had eighty- eight meetings with councils and CCOs over the past fifteen months to September 2021. LGFA continues to review council agendas and management reports on an ongoing basis for those councils on the LGFA borrower watch-list. We have been engaging with councils as they released their Final Long-Term Plans if we had any concerns with them.

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

The Board and management met with representatives from Central Government on the proposed Three Waters reforms and provided feedback. We organised an investor conference call for investors on the Three Waters reforms with Department of Internal Affairs, S&P Global ratings and LGFA presenting.

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

We held another successful LGFA Shareholder-Borrower Day in July with over 100 attendees.

We released an updated version of the council handbook during the quarter that sets out the borrowing process.

Additional objectives (Section 3 of SOI)

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

LGFA has an annual review process regarding our credit ratings from Standard and Poor's ("S&P") and Fitch Ratings ("Fitch") and meets with both agencies at least annually.

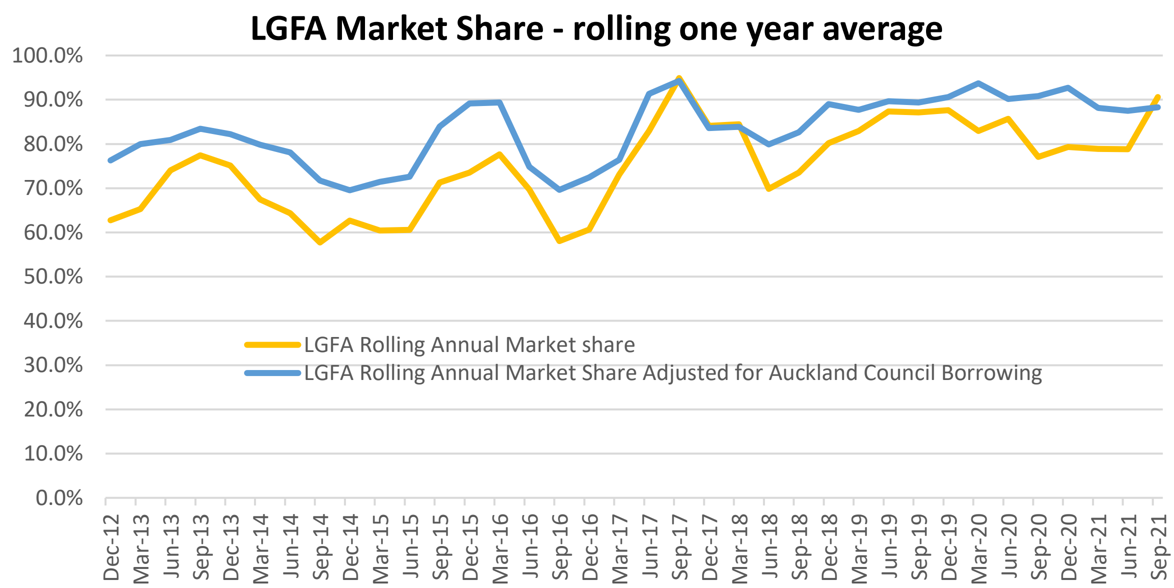
On 22 February 2021, S&P upgraded our long-term local currency credit rating to AAA and our long-term foreign currency credit rating to AA+. Both ratings are the same as the New Zealand Government.

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

2. Provide at least 80% of aggregate long-term debt funding to the Local Government sector.

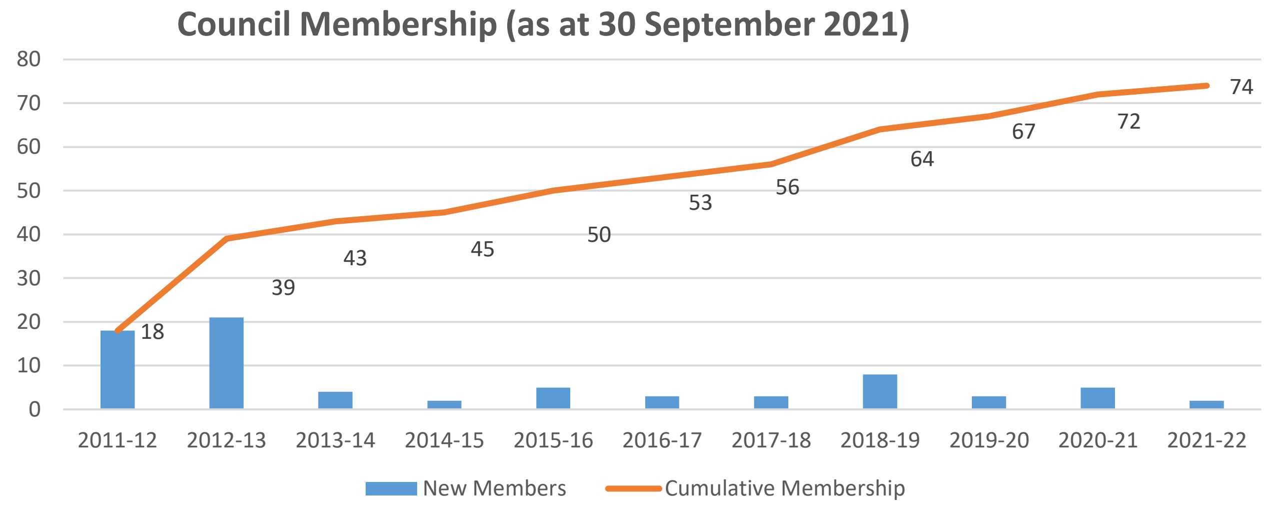
We use the PwC Local Government Debt Report as our source of market share. Our estimated market share for the rolling twelve-month period to 30 September 2021 was 90.6%. If we adjust for Auckland Council borrowing, then it reduces to 88.3%. This compares to a historical average of 75.0% and our market share remains high compared to our global peers.

Our market share was higher than normal as there was no issuance during the quarter by Auckland Council or Christchurch City Holdings or Dunedin City Treasury. Our market share will reduce when they issue bonds in their own name in the coming quarter.



As at 30 September 2021, there are seventy-four councils and one CCO as members of LGFA. Southland District and Otago Regional Councils joined as guarantors during the quarter increasing the number of guarantors to sixty-five.

Invercargill City Holdings joined as a member during the quarter and is our first CCO to join. As at 30 September 2021 they have borrowings outstanding of $85.8 million.



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

For the three-month period to 30 September 2021, Net Interest Income ("NII") was estimated by management on an unaudited basis to be $658k above budget while expenses are $74k below budget. Net Operating Gain of $3.791 million was $732k above budget.

Included in the NII is the unrealised mark to market movement in fixed rate swaps that are not designated effective for hedge accounting purposes. We have used these swaps to reduce exposure to fixed rate loans made outside of the normal tender process and to reduce mismatches between borrowing and on-lending terms in our balance sheet. The unrealised loss increases as interest rates fall but turns to a profit if interest rates rise. Due to a rise in interest rates since June 2021, the year-to-date revaluation is a profit of $556k.

Expenses for the three-month period forecast by management and on an unaudited basis were $1.626 million which is $74k below budget. This variance is the consequence of:

- Issuance and on-lending costs (excluding AIL) at $581k were $77k below budget. A lower NZ Government Liquidity Facility fee, legal expenses and registry fees relative to budget was offset by slightly higher NZX fees.
- Operating costs at $1.045 million was $3k above budget due to higher IT costs offset by lower consultancy fees and personnel costs relative to budget.
- There were no Approved Issuer Levy (AIL) payments made during the quarter as there were no coupon payments during the quarter. We pay AIL on behalf of offshore investors at the time of semi-annual coupon payment for a small number of LGFA bond maturities and offshore investor holdings are slightly below our SOI forecasts.

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

See Section D on page 8 of this report.

For the first quarter of the financial year ended 30 June 2022 we are on track to achieve nine out of the ten performance targets.

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

LGFA has a Health and Safety staff committee and reporting on Health and Safety issues are made to the LGFA board on a regular basis by the Risk and Compliance Manager. There were no Health and Safety incidents during the quarter.
Both the Auckland and Wellington based staff were working from home during the lockdown period and we have adopted safety protocols to keep our staff safe during COVID upon returning to the offices.

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

There were no compliance breaches during the three-month period ending 30 September 2021.

7. Assist the local government sector with significant matters such as COVID -19 response and the proposed Three Waters Reform Programme.

Over the 2020 and 2021 calendar years, LGFA has

- Made changes to the Foundation Policy covenants to provide short term relief from a temporary reduction in revenue and allows councils to coinvest alongside central Government in infrastructure projects in response to COVID-19.
- Been contributing expertise to the Ratepayer Financing Scheme project that if successful could offer temporary financial relief to ratepayers via rates postponement.
- Introduced a new lending Standby Facility product that will provide greater certainty of access to emergency funding for councils at a lower cost than going to the traditional bank provider. This has been well supported by councils with $522 million of standbys written with nine councils.
- Extended the longest dated lending maturity for councils from 2033 to 2037 to enable councils to be better match assets with liabilities and to benefit from record lows in interest rates and borrowings spreads.

During the September quarter, LGFA responded to a request from the Shareholders Council to outline its views on the proposed Three Waters Reform. The Shareholders Council distributed this response to all council members.

8. Improve sustainability outcomes within LGFA and assist the local government sector in achieving their sustainability and climate change objectives.

Over the 2021 calendar year, LGFA has

- Appointed a Head of Sustainability
- Achieved Carbon zero certification form Toitu Envirocare
- Established a Sustainability committee comprising
  - Three LGFA staff members and
  - Four external members - Alison Howard, Chris Thurston, David Woods and Erica Miles
- While outside of this quarter reporting period, it is important to note that In October LGFA launched a Green, Social and Sustainable Lending Programme for council and CCO members. Projects that meet one of the sixteen green or social lending categories will now be eligible for a discounted loan margin.

F. Investor relations

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

Over the three-month period to 30 September 2021 we issued $655 million of LGFA bonds. The change in holdings amongst our investor groups during the quarter was

- Offshore investor holdings decreased by $188 million (and increased by $377 million from 30 September 2020) and holdings are estimated to be $3.30 billion on 30 September 2021.
- Domestic bank holdings increased by $443 million (and up $3 million from 30 September 2020), and holdings are estimated to be $4.16 billion on 30 September 2021.
- Domestic investor (retail and institutional) holdings increased by $79 million (and up $720 million from 30 September 2020), and holdings are estimated to be $4.30 billion as of 30 September 2021.
- The Reserve Bank of New Zealand (RBNZ) holdings were unchanged over the quarter and totalled $1.69 billion as of 30 September 2021.