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

LGFA Quarterly Report to Shareholders

December Quarter 2021

Contents

A. December quarter highlights

Quarter	Total	Bespoke Maturity	April 2022	April 2023	April 2024	April 2025	April 2026	April 2027	May 2028	April 2029	May 2031	April 2033	May 2035	April 2037
Bonds issued $m	**1,400**	N/A	-	-	70	50	50	100	700	-	-	-	400	30
Term Loans to councils $m	**809.2**	442.1	10	10	56.1	84	88	36.5	4	45.1	25	-	8.4	-
Term Loans to councils #	**57**	24	1	1	5	4	8	3	1	5	4	-	1	-

Year to date	Total	Bespoke Maturity	April 2022	April 2023	April 2024	April 2025	April 2026	April 2027	May 2028	April 2029	May 2031	April 2033	May 2035	April 2037
Bonds issued $m	**2,055**	N/A	-	90	120	150	150	145	700	100	80	90	400	30
Term Loans to councils $m	**1642.3**	719.7	10	17.7	135.1	111	98.3	98	43	235.1	166	-	8.4	-
Term Loans to councils #	**125**	48	1	3	11	6	12	12	6	16	9	-	1	-

Key points and highlights for the December quarter:

- The LGFA bond yield curve rose and flattened over the quarter as markets reacted to the RBNZ commencing the tightening of monetary policy through increasing the OCR by 0.50 bps to 0.75%. LGFA 2024 bond yields rose 66 bps while the 2037 yields rose 32 bps.
- LGFA issued a near record $1.4 billion of bonds during the quarter through two tenders and a syndication of new May 2028 and May 2035 bonds in a testing issuance environment. The average term of issuance during the quarter was a shorter than normal 5.18 years.
- LGFA borrowing margins were mixed with spreads to swap narrower by 7 bps on maturities out to 2027 but wider by 2 bps to 12 bps on the longer dated bond maturities during the quarter. LGFA spreads to NZGB also narrowed on the front-end maturities but widened on the longer dated bonds.
- Long dated lending to councils during the quarter of $809.2 million was in line with the previous quarter but higher than the long run averages. The average term of lending at 4.88 years was very short compared to the prior financial year average of 6.65 years. We think this reflects higher interest rates and council borrowing into the expected transition date of June 2024 for the Three Waters Reform programme.
- LGFA has an estimated market share of 78.8% of total council borrowing for the rolling twelve-month period to December 2021 compared to a historical average of 75% since 2012.
- Short-term lending to councils has decreased by $30 million to $384 million of loans outstanding on 31 December 2021 to thirty councils and one CCO.
- LGFA Net Operating Gain (unaudited management estimate) for the six-month period to 31 December 2021 was $5.94 million which was $381k above budget, comprising total operating income at $293k above budget and expenses at $88k below budget.
- We have achieved or on track to achieve eight out of our ten performance objectives over the financial year with our market share and the number of council visits tracking below our target.
- There were no new council members during the quarter. We currently have seventy-four councils and one CCO as members and are expecting another two councils to join in the next six months.
- We made our first green, social and sustainable loans to Wellington City and Greater Wellington Regional Councils in December 2021 at a discounted borrowing margin.

B. LGFA bond issuance over quarter

Syndication – 13 October 2021	15 May 2028	15 May 2035
Total Amount Allocated ($million)	700	400
Weighted Average Accepted Yield (%)	2.359	2.929
NZGB Spread at Issue (bps)	49.00	57.00
Swap Spread at Issue (bps)	25.00	46.00
Swap Spread: AA council (bps)	40.5	63.7
Swap Spread: AA- council (bps)	45.5	68.7
Swap Spread: A+ council (bps)	50.5	73.7
Swap Spread: Unrated council (bps)	60.5	83.7

Given our large borrowing requirement for the 2021-22 financial year of $2.9 billion we are forecast to undertake a combination of monthly tenders of $150 million to $200 million each and then one if not two syndications per year. A syndication is a placement to investors arranged by banks and is typically for a new LGFA bond maturity and achieves a larger amount offered than in a tender. We seek to achieve a wider distribution of investors than in a tender and aim to get as much volume issued so that the new LGFA bond has sufficient liquidity in the secondary market.

We issued two new maturities via BNZ, ANZ, CBA and Westpac. The May 2028 bond filled the gap between the existing 2027 and 2029 LGFA bond maturities while the May 2035 bond is the midpoint between the 2033 and 2037 bond maturities. The May 2028 bond also reduced our council borrowing mismatch in the 2027 to 2029 part of the curve.

Offshore investors were supportive of the two issues and took 28% of the 2028s and 39% of the 2035s.

While we issued $1.1 billion of LGFA bonds we on-lent $292 million to fourteen councils with the balance of proceeds being held in our Liquid Assets Portfolio ahead of the April 2022 bond refinancing. The average term of lending to councils was 5.25 years compared to our average issuance term of 9.14 years so our issuance term continued to be longer than the term of our lending.

Tender 85 – 10 November 2021	15 Apr 2024	15 Apr 2027	15 Apr 2037
Total Amount Offered ($million)	70	50	30
Total Amount Allocated ($million)	70	50	30
Total Number of Bids Received	16	14	9
Total Amount of Bids Received ($million)	194.28	150	53
Total Number of Successful Bids	1	6	6
Highest Yield Accepted (%)	2.350	2.805	3.410
Lowest Yield Accepted (%)	2.350	2.790	3.355
Highest Yield Rejected (%)	2.410	2.865	3.470
Lowest Yield Rejected (%)	2.355	2.805	3.410
Weighted Average Accepted Yield (%)	2.350	2.798	3.388
Weighted Average Rejected Yield (%)	2.375	2.816	3.425
Amount Allotted at Highest Accepted Yield as Percentage of Amount Bid at that Yield*	100	30	20
Coverage Ratio	2.78	3.00	1.77
NZGB Spread at Issue (bps)	36.00	49.00	63.00
Swap Spread at Issue (bps)	4.90	21.00	66.00
Swap Spread: AA council (bps)	20.25	39	76.25
Swap Spread: AA- council (bps)	25.25	44	81.25
Swap Spread: A+ council (bps)	30.25	49	86.25
Swap Spread: Unrated council (bps)	40.25	59	96.25

Issuance conditions had deteriorated going into the tender as the RBNZ had commenced increasing the OCR and there had been a substantial amount of borrowing by corporates and other high-grade borrowers in the two-month period leading up to the tender.

The tender size of $150 million was the smallest amount tendered since June 2018 and we have typically tendered $200 million per tender over recent years. We tendered three tranches with a high degree of confidence in demand for the shorter dated bonds following the recent sharp rise in front end yields. Price support was strong for the 2024s (2 bps through market mid rates) and the 2027s (3 bps through mid-market rates) but the 2037s were 10 bps above mid-market rates despite tendering only $30 million.

Overall bidding volume was good at 2.65x coverage but should have been reasonable given the smaller amount on offer. The coverage ratio compared favourably to the 2.3x average for the past two year while the number of successful bids ranged between one (2024s) and six (2027s and 2037s).

The average maturity of the LGFA bonds issued was 6.0 years compared to the average for the previous 2020-21 financial year of 8.67 years and this financial year to date of 7.84 years (including the syndication of 2028s and 2035s)

We issued $150 million of LGFA bonds and on-lent $170.6 million to nine councils. The average term of lending to councils was an incredibly short 3 years. This was the shortest average loan term of any tender since we commenced tendering with the next shortest term of 4.4 years in November 2013 and an average lending term across the past 85 tenders of 7.2 years. This probably reflects that some councils are borrowing to 2024 to align with the expected transition date for three water assets.

Tender 86 – 15 December 2021	15 Apr 2025	15 Apr 2026	15 Apr 2027
Total Amount Offered ($million)	50	50	50
Total Amount Allocated ($million)	50	50	50
Total Number of Bids Received	12	15	14
Total Amount of Bids Received ($million)	154.788	111.38	190
Total Number of Successful Bids	2	5	2
Highest Yield Accepted (%)	2.485	2.615	2.645
Lowest Yield Accepted (%)	2.480	2.595	2.640
Highest Yield Rejected (%)	2.550	2.665	2.710
Lowest Yield Rejected (%)	2.495	2.615	2.650
Weighted Average Accepted Yield (%)	2.483	2.610	2.643
Weighted Average Rejected Yield (%)	2.507	2.632	2.656
Amount Allotted at Highest Accepted Yield as Percentage of Amount Bid at that Yield*	100	63.6	100
Coverage Ratio	3.10	2.23	3.80
NZGB Spread at Issue (bps)	37.00	41.50	47.00
Swap Spread at Issue (bps)	2.00	9.00	12.00
Swap Spread: AA council (bps)	17	24	28.5
Swap Spread: AA- council (bps)	22	29	33.5
Swap Spread: A+ council (bps)	27	34	38.5
Swap Spread: Unrated council (bps)	37	44	48.5

This was a strong tender result to finish the calendar year with tighter spreads, high coverage ratio and improved pricing relative to previous tenders.

We issued a smaller tender size of $150 million across tranches of 2025s, 2026s and 2027s and expected strong demand for all three tranches given the shorter dated maturity profile, recent offshore buying of these maturities that had left the trader market short and attractive running yield. Price support was strong for all maturities with yields between 3 bps (2026s) and 5 bps (2025s) below prevailing market mid rates at the time of the tender.

Issuance spreads on an implied basis to NZGB and swap compared to the November tender tightened by 8 bps and outright yields were approximately 15 bps lower so on all metrics a much-improved outcome. The number of successful bids ranged between two (2025s and 2027s) and five (2026s).

The average maturity of the LGFA bonds issued was a very short 4.33 years compared to the average for this financial year to date of 7.66 years (including the syndication of 2028s and 2035s). We deliberately kept issuance volume light and tenor short to avoid a failed tender.

While we issued $150 million of LGFA bonds we on-lent $213.8 million to ten councils. The average term of lending to councils was twice that of loans made in the November tender at 6.42 years.

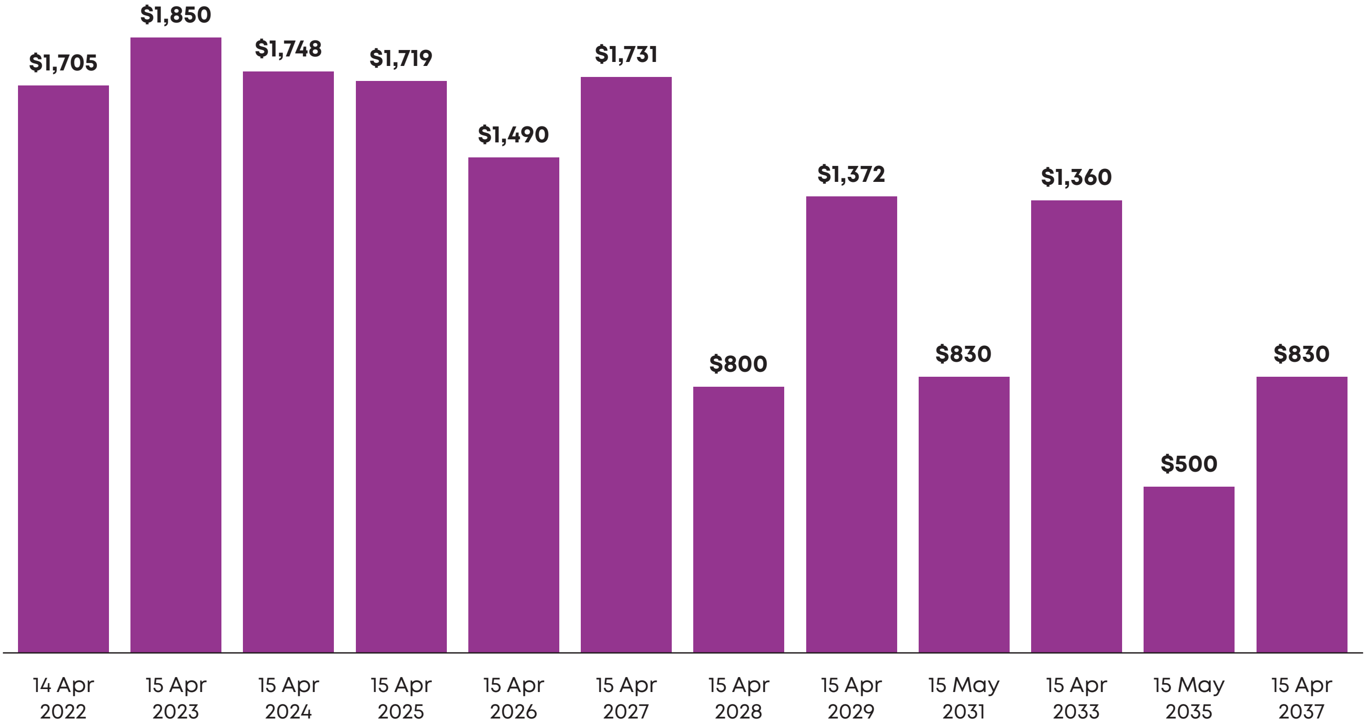
Of note was the first two Green Social and Sustainable loans were made to Wellington City Council and Greater Wellington Regional Councils with proceeds from the tender.

Photo: Tākina, the Wellington Convention and Exhibition Centre, Wellington City Council

LGFA NZX-listed bonds on issue (NZ$ million, face value)

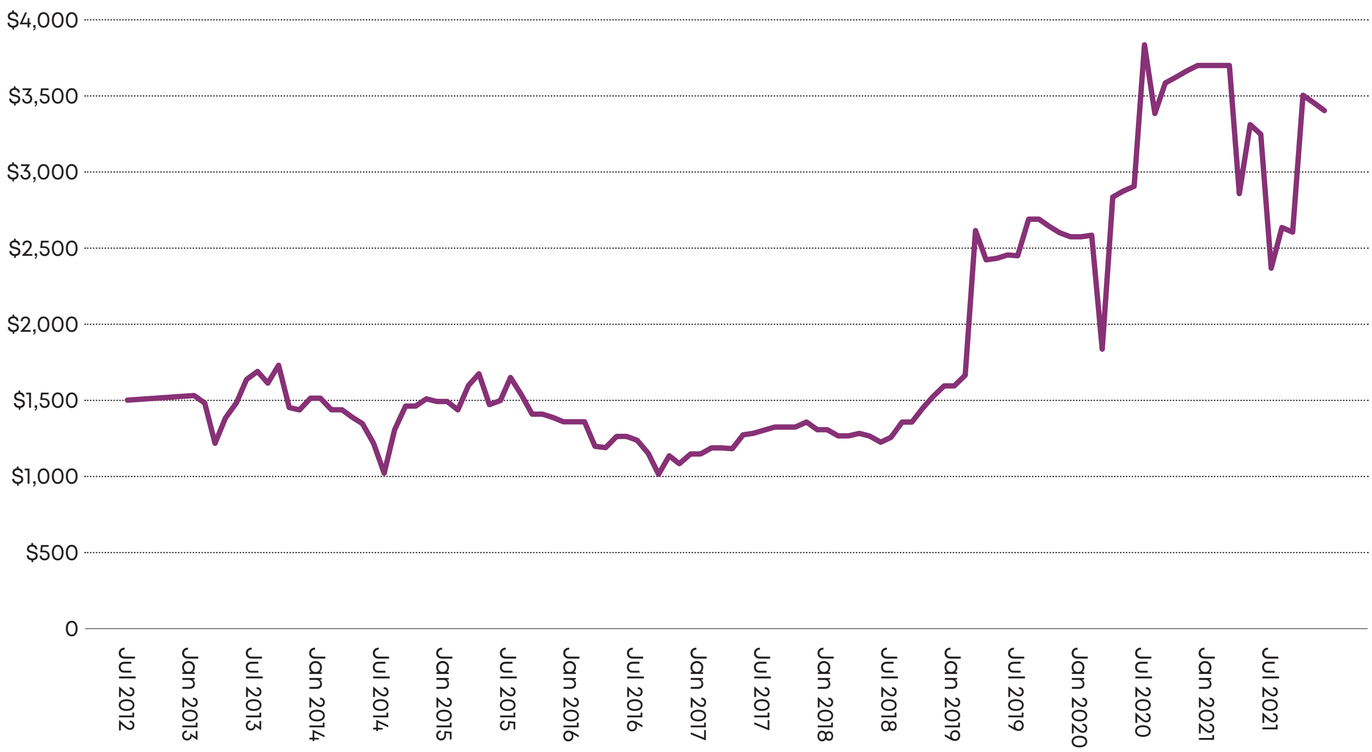
As at 31 December 2021: NZ$ 15,935 million

Includes NZ$1,200 million treasury stock



Our issuance volume on a rolling 12-month basis of $3.405 billion is just below the record $3.7 billion in the year to December 2020. The large May 2028 and May 2035 syndications has led to a recovery from the $2.37 billion low in the rolling annual volume in the year to July 2021.

Rolling 12 month Issuance ($ millions)



C. Summary financial information (provisional and unaudited)

The following results are management estimates only and are unaudited.

Financial Year ($m)	YTD as at Q1	YTD as at Q2
Comprehensive income	**30 Sep 2021**	**31 Dec 2021**
Interest income	88.98	185.89
Interest expense	83.83	176.71
Net interest revenue	**5.15**	**9.18**
Other operating Income	0.26	0.53
Total operating income	**5.41**	**9.70**
Issuance and On-lending costs	0.58	1.31
Approved issuer levy	Nil	0.33
Operating expenses	1.05	2.14
Issuance and operating expenses	**1.62**	**3.77**
Net Profit	**3.79**	**5.94**

Financial position ($m)	30 Sep 2021	31 Dec 2021
Retained earnings + comprehensive income	72.68	74.82
Total assets (nominal)	14,635.29	15,854.9
Total LG loans (nominal)	12,960.37	13,496.1
Total LGFA bills (nominal)	600	535.0
Total LGFA bonds (nominal)	13,465.00	14,865.0
Total borrower notes (nominal)	233.8	250.0
Total equity	97.68	99.8

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 eight out of our ten performance targets with our council visit and market share targets the only objectives 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 December 2021, many will roll off by June 2022 if we are unable to travel.

Measure		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	$9.4 m	$14.8 m	$19.1 m
	Actual ($)	$5.2 m ✓	$9.7 m ✓		
Annual issuance and operating expenses (excluding AIL) will be less than $7.2 million	Target ($)	$1.7 m	$3.5 m	$5.3 m	$7.2 m
	Actual ($)	$1.6 m ✓	$3.4 m ✓		
Total nominal lending (short and long term) to participating councils to be at least $13.294 billion	Target ($)	$12.6 b	$13.2 b	$13.8 b	$13.29 b
	Actual ($)	$12.96 b ✓	$13.5 b ✓		
Conduct an annual survey of councils and achieve 85% satisfaction score as to the value added by LGFA to council borrowing activities	Target ($)	August 2021 survey outcome 99.2%			
	Actual (%)	✓	✓		
Meet all lending requests from PLAs	Target (%)	100%	100%	100%	100%
	Actual (%)	✓	✓		
Achieve 80% market share of all council borrowing in New Zealand	Target (%) Rolling annual average	>80%	>80%	>80%	>80%
	Actual (%)	91% ✓	78.8% ✗		
Review each PLA financial position, its headroom under LGFA policies and arrange to meet each PLA at least annually	Council visits to total 74 over year Financial Position + Headroom Review completed in Dec Quarter				
	Not on track to meet due to COVID related travel disruption with 63 council and CCO visits over 2021 ✗				
No breaches of Treasury Policy, any regulatory or legislative requirements including H&S	Target	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	AAA/AA+			
	Actual	AAA/AA+ ✓			

E. Performance against SOI objectives

We have two primary and eight secondary objectives outlined in our Statement of Intent (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. There is a negative impact on Net Operating Income from a lower base lending margin but we are comfortable with the current levels of profitability.

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.

31 Dec 2021	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)	-4	-1	-1	3	10	13	23	25	28	31	42	51	59
Kainga Ora (AAA)		5		11	16		25		33			47	
Asian Development Bank (AAA)		1	2	7	13		23			33			
IADB (AAA)		0	1	10	15		27						
International Finance Corp (AAA)		1	5	10	14	18							
KBN (AAA)		3	8	14					39				
Rentenbank (AAA)	0	1	6	12									
World Bank (AAA)	2	1	1	8	12	18	23		33				
Nordic Investment Bank (AAA)		1		10									
ANZ (AA-)		25	31										
BNZ (AA-)		17		39	55								
Westpac Bank (AA-)	11	23	40	43	53								
SSA Average	1	1	4	10	14	18	24	31	36	33			
Bank Average	11	22	36	41	54								

During the quarter LGFA issued across seven bond maturities from 2024 to 2037 to capture as much investor demand as possible in the short to mid dated part of the yield curve. We successfully launched by syndication, two new bond maturities of May 2028 and May 2035 to plug the gap between existing LGFA bond maturities.

Standby facilities outstanding to councils and CCOs were $522 million as at 31 December 2021 and there was no change in this amount over the quarter.

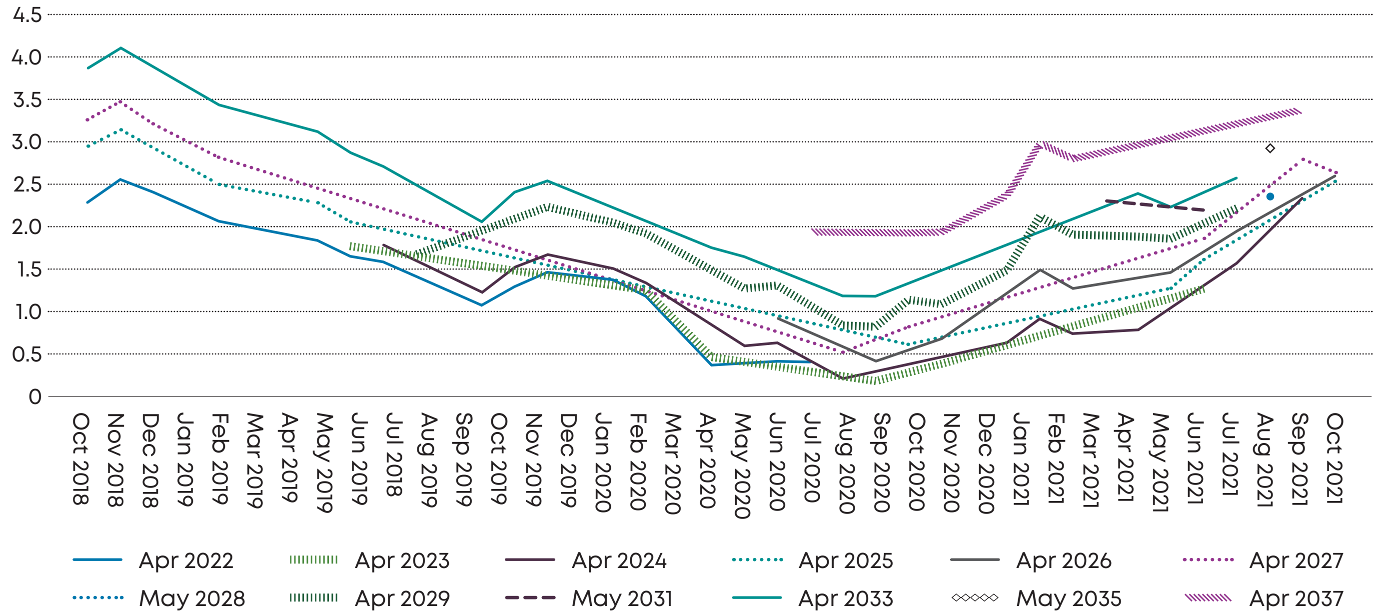
The LGFA bond yield curve rose and flattened for the second consecutive quarter. Front end yields (2024s) rose by 66 bps while long dated yields (2037s) rose by 32 bps. The front end of the curve rose aggressively as the RBNZ commenced increasing the OCR by 25 bps in both October and November as the 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 future rate hikes by central banks. Over the past six months the 2024 LGFA bond yield has risen 1.27% (to 2.25%) while the 2037 LGFA bond yield has risen 0.53% (to 3.25%).

LGFA borrowing margins to swap were mixed with spreads on the 2023 through 2027 maturities narrowing by 6 bps to 7 bps but the spread to swap on the longer dated maturities (2029s to 2037s) widening by 2 bps to 12 bps over the quarter. Our large amount of issuance over the quarter contributed to the long end underperformance while strong offshore demand for short to mid dated LGFA bonds supported front end spreads. LGFA spread performance to NZGB was varied with a 9 bps tightening on the 2024s and a 11 bps widening on the 2031s. This was driven by the offshore investor support for front end LGFA bonds and a strong fiscal performance by the NZ Government assisting NZGB demand in the back end of the curve.

We closely monitor the Kauri market for ongoing supply and price action as 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 reasonably quiet for Kauri bond issuance with only two issues totalling $1.575 billion. However the issuance was dominated by the World Bank issuing $1.5 billion of a five-year (November 2026) bond. This was a record for a single-issue tranche by an issuer other than the New Zealand Government.

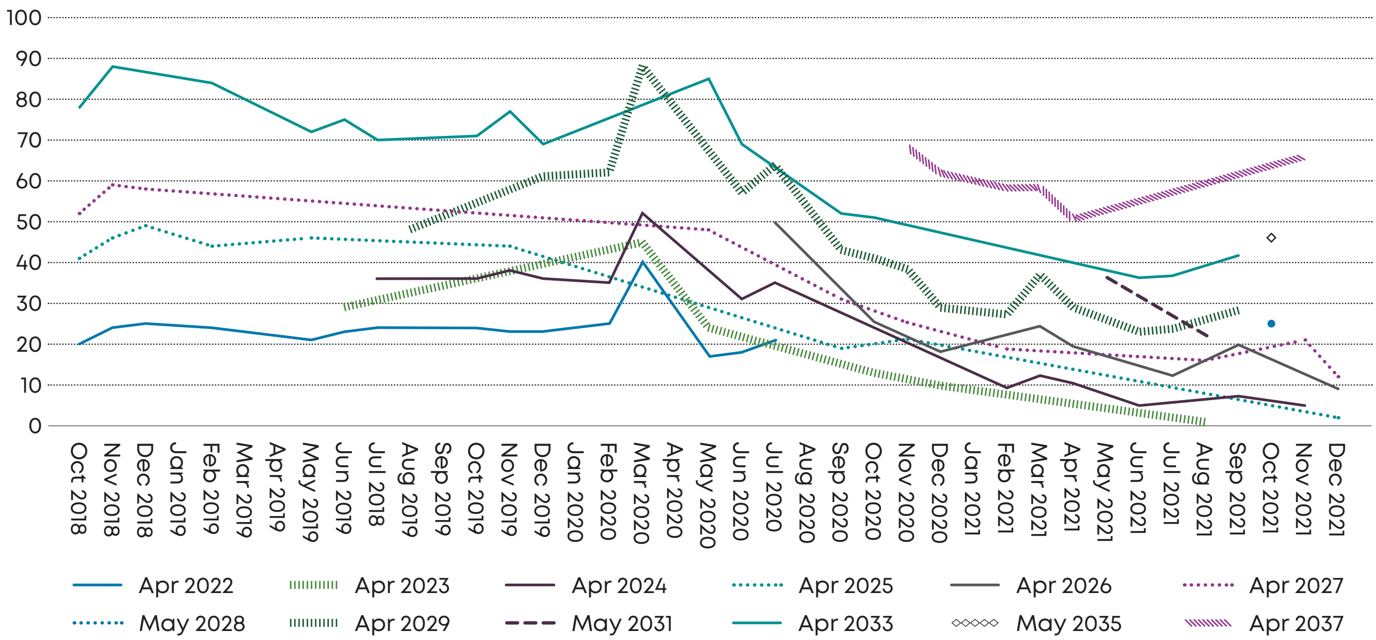
LGFA Bond Issuance Yields (%)

Last 30 tenders



Spread to swap)

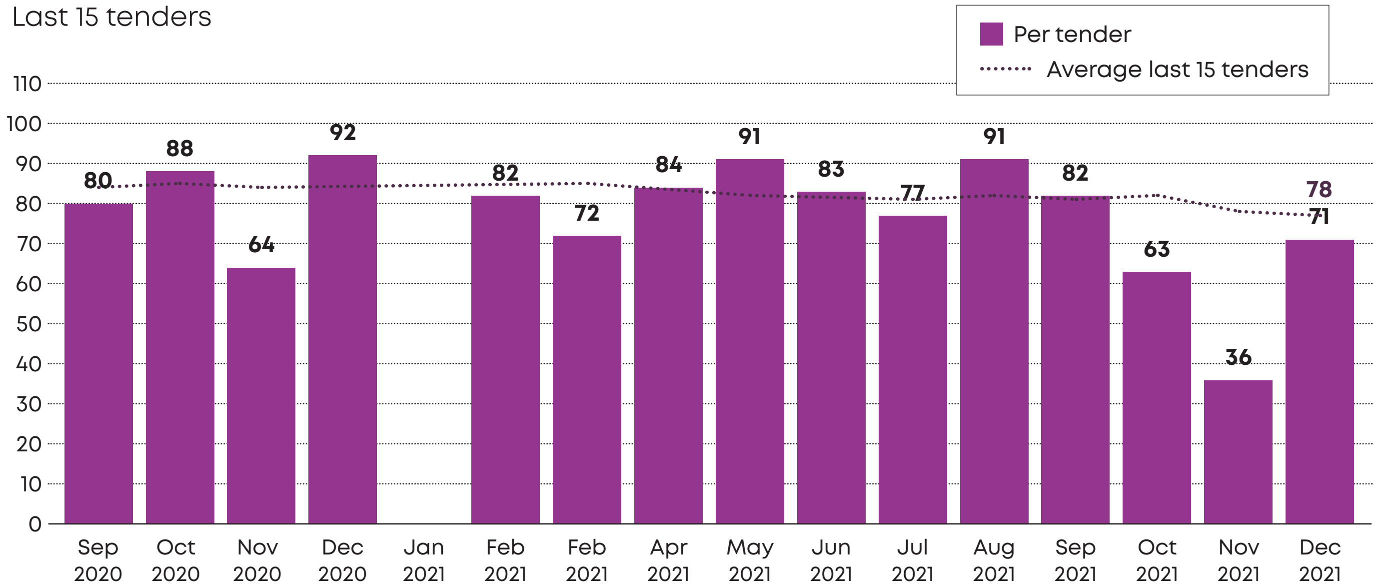
Last 30 tenders



The average borrowing term (excluding short-dated borrowing) for the December quarter by council members was a very short 4.88 years compared to the average term of 6.89 years for council borrowing for the year to June 2021. For the six-month period to 31 December 2021 the average term of borrowing was 5.78 years and we think this general shortening is due to the recent sharp rise in interest rates and councils borrowing for terms to coincide with the June 2024 expected transition date for the Three Waters Reform Programme.

Average total months to maturity – on lending to councils

Last 15 tenders

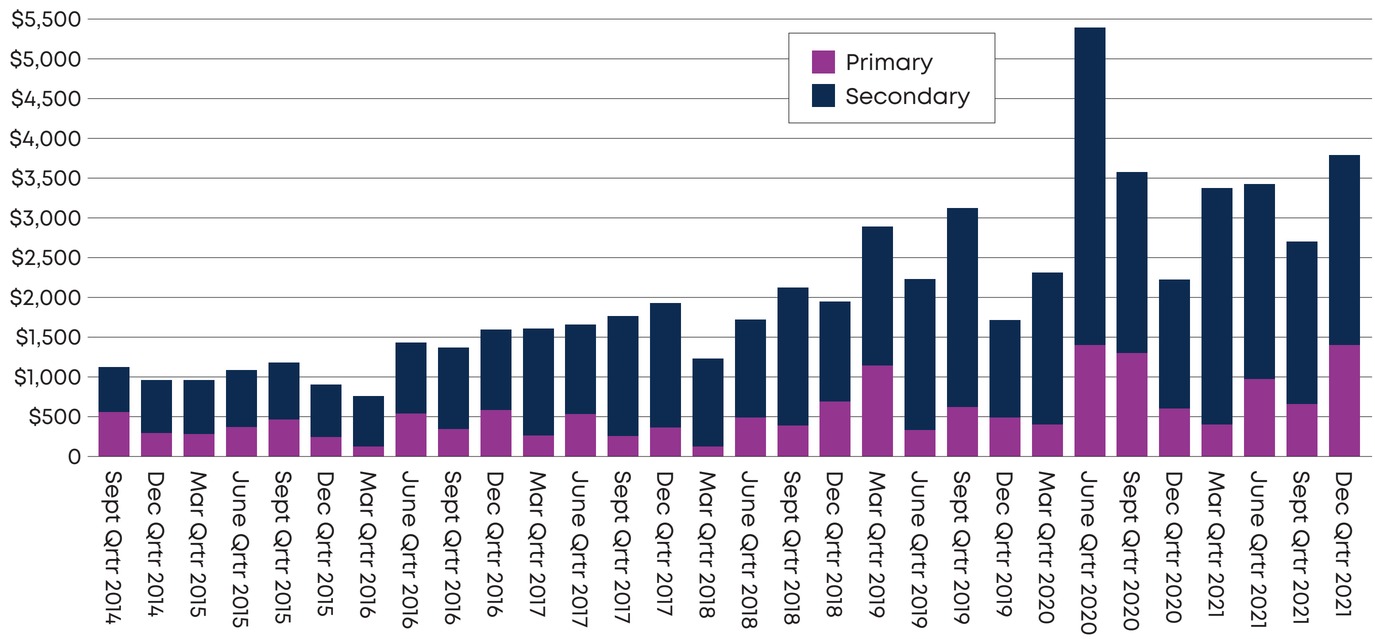


Short-term borrowing by councils with loan terms of between one month and 12 months remains well supported with $384 million outstanding as of 31 December 2021 to thirty-one councils and CCOs. The number of councils and CCOs using this product increased by four over the quarter while the total amount outstanding decreased by $30 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 through 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. There was a record equalling $1.4 billion of primary issuance and third largest quarterly secondary market turnover of $2.4 billion in LGFA bonds during the quarter. Total activity was second highest on record after the June 2020 quarter.

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



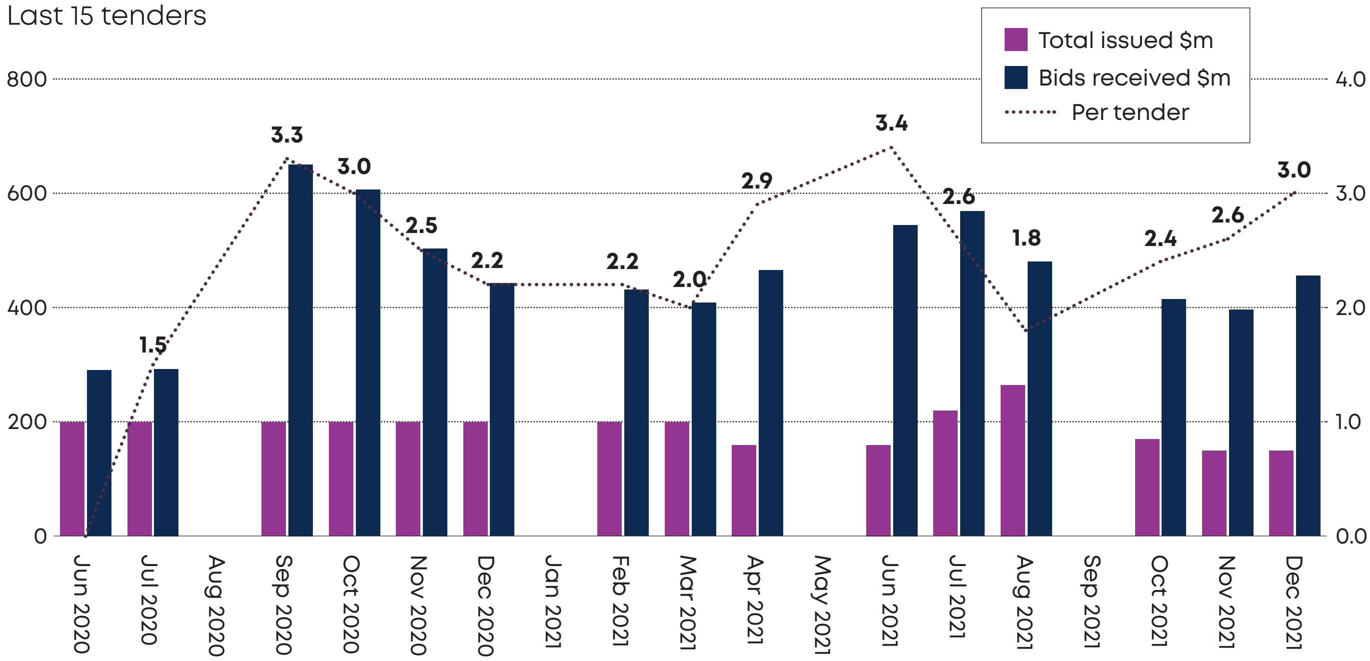
LGFA commenced issuing LGFA Bills and short dated (less than 1 year) lending to councils in late 2015. As at 31 December 2021 there were $535 million of LGFA Bills on issue. We use proceeds from LGFA bills to fund short term lending to councils and invest the balance in our liquid asset portfolio.

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 issuance than normal.

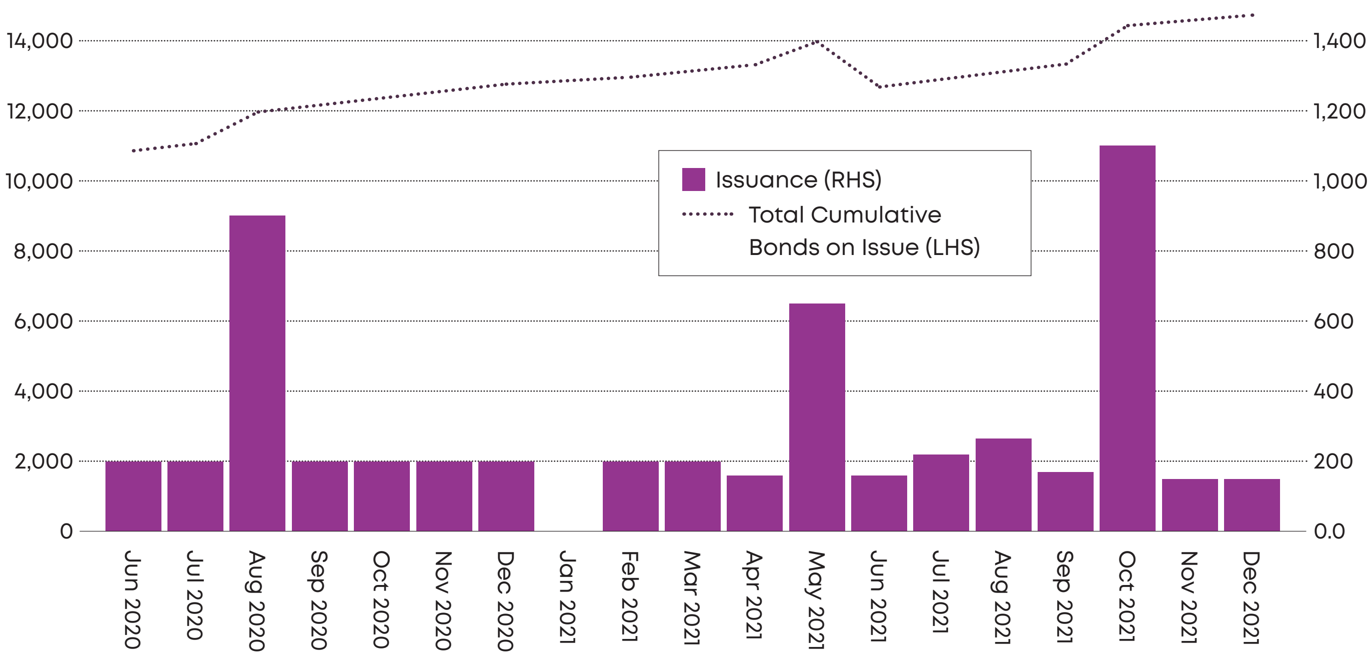
Tender bid coverage ratio

Last 15 tenders



LGFA bond issuance ($ million)

Last 15 tenders and syndications. Excludes issuance of treasury stock ($1,200m)



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 seventy-five meetings with sixty-three councils and CCOs over the past twelve months to December 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 and publish their 2020-21 Annual Reports if we had any concerns with them.

No council has requested that they be measured on a group basis.

We met with representatives from Central Government on the proposed Three Waters reforms and provided feedback regarding financing of the proposed entities.

We sponsored the Taituara Funding and Rating Forum and presented on “Financial Risks in the Local Government Environment” to a forum of Council Audit and Risk Committee Chairs organised by OAG.

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).

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 S&P Global Ratings (“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.

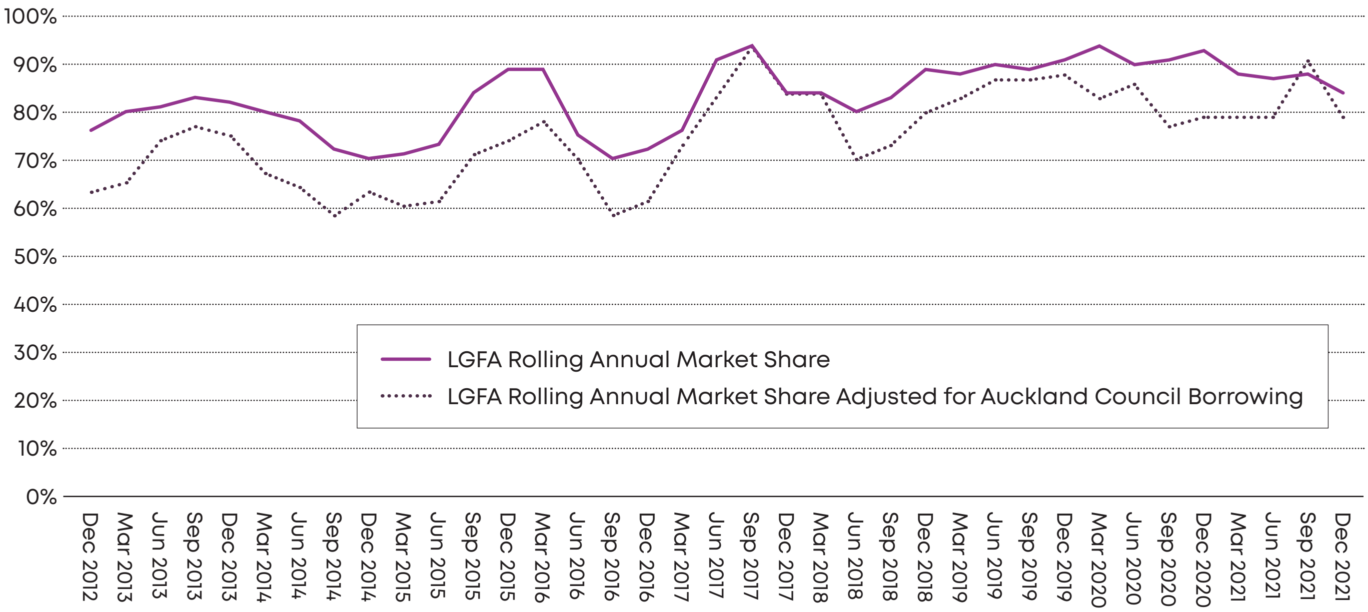
   On 1 November 2021 Fitch affirmed both our local currency credit rating of AA+ (stable) and foreign currency credit rating of AA (positive outlook.

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 31 December 2021 was 78.8%. If we adjust for Auckland Council borrowing, then it increases to 83.8%. This compares to a historical average of 75.0% and our market share remains high compared to our global peers.

   Our market share has reduced over the past quarter as there was issuance during the December quarter by Auckland Council, Christchurch City Holdings and Dunedin City Treasury of $550 million. The councils did not borrow in their own name during the prior quarter.

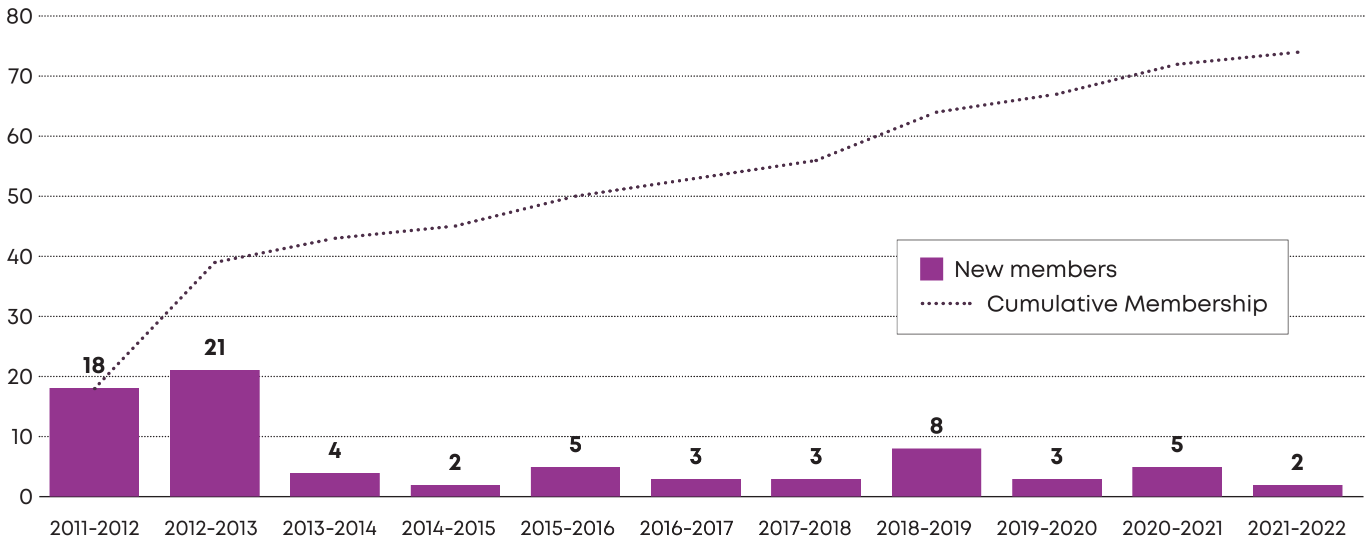
LGFA Market Share – rolling one year average



As at 31 December 2021, there are seventy-four councils and one CCO as members of LGFA. There were no new council or CCO members during the quarter and the number of guarantors was unchanged at sixty-five.

Invercargill City Holdings joined as a member in July 2021. As at 31 December 2021 they have borrowings outstanding of $90.3 million.

Council membership (as at 31 December 2021)



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

   For the six-month period to 31 December 2021, Net Interest Income ("NII") was estimated by management on an unaudited basis to be $267k above budget while expenses are $88k below budget. Net Operating Gain of $5.935 million was $381k 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 $1.03 million.

Expenses for the six-month period forecast by management and on an unaudited basis were $3.77 million which is $88k below budget. This variance is the consequence of:

- Issuance and on-lending costs (excluding AIL) at $1.309 million were $46k below budget. A lower NZ Government Liquidity Facility fee was offset by higher legal expenses and NZX fees due to the additional amount of bond issuance.
- Operating costs at $2.135 million was $48k below budget due to lower operating overhead, travel and IT costs offset by higher personnel costs relative to budget.
- Approved Issuer Levy (AIL) payments of $325k were in line with our budget of $319k for the period. We pay AIL on behalf of offshore investors at the time of semi-annual coupon payment for a small number of LGFA bond maturities.

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

   See Section D on page 8 of this report.

   For the first half period of the financial year ended 30 June 2022 we are on track to achieve eight 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 at times during the lockdown period and we have adopted safety protocols to keep our staff safe during COVID upon returning to the offices. All staff, directors and visitors are required to be double vaccinated before entering LGFA 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 31 December 2021.

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

   Over the 2021 calendar year, LGFA has

   - 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.
   - 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

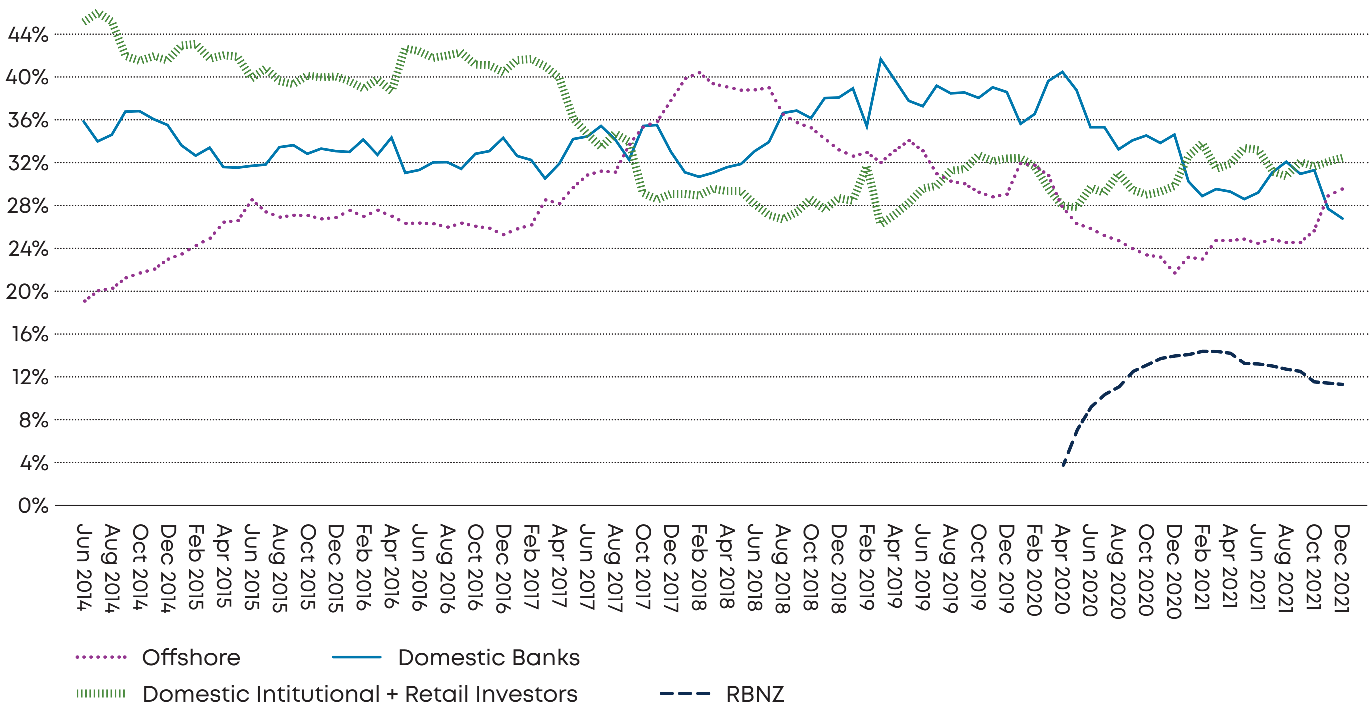
   - Appointed a Head of Sustainability
   - Achieved Carbon zero certification from Toitu Envirocare
   - Established a Sustainability committee comprising
     - Three LGFA staff members and
     - Four external members – Alison Howard, Chris Thurston, David Woods and Erica Miles
   - In October 2021 we 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. During the quarter, Wellington City (WCC) and Greater Wellington Regional (GWRC) Councils have borrowed under this programme
     - WCC have borrowed to finance the construction of the Takina, the Wellington Convention and Exhibition Centre.
     - GWRC have borrowed to finance the council's flood protection work on the RiverLink project in the Hutt Valley.
   - We are more than willing to work with other councils to identify eligable projects for the programme.

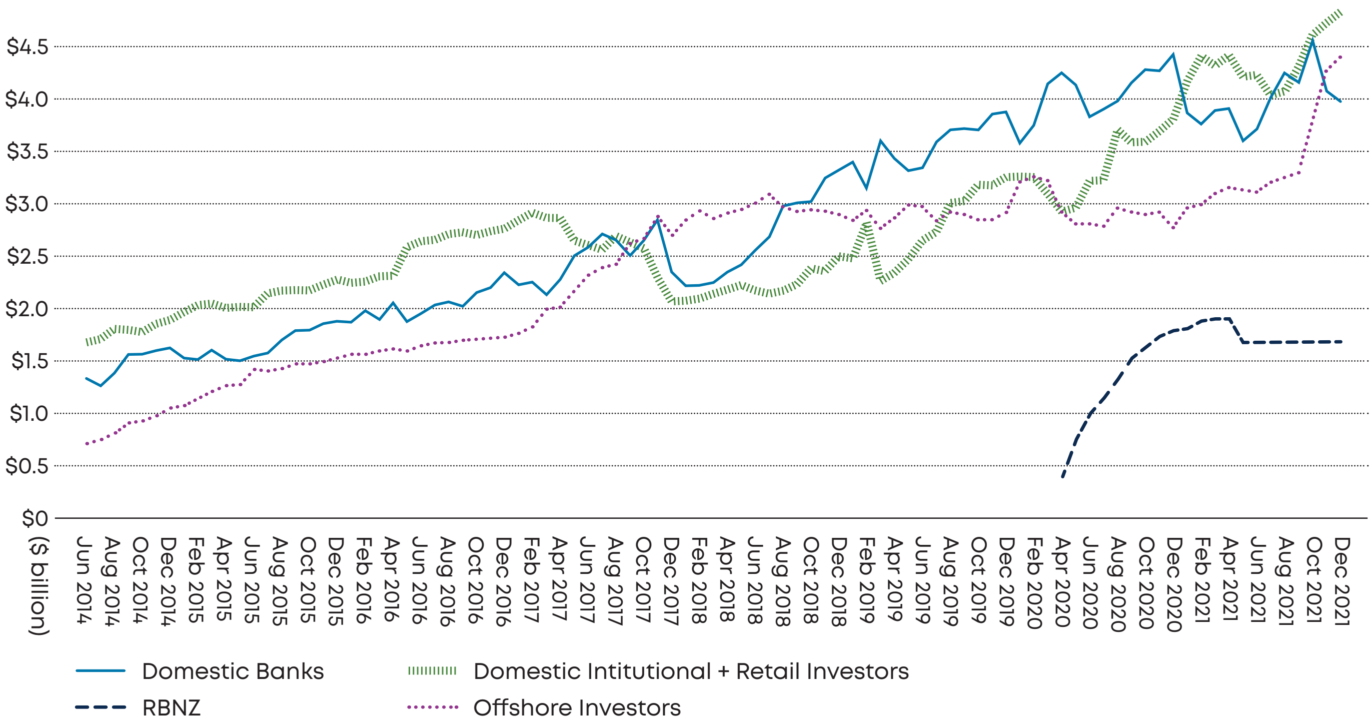
F. Investor relations

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

Over the three-month period to 31 December 2021 we issued $1.4 billion of LGFA bonds. The change in holdings amongst our investor groups during the quarter was

- Offshore investor holdings increased by $1.1 billion (and increased by $1.64 billion from 31 December 2020) with holdings estimated to be $4.41 billion on 31 December 2021.
- Domestic bank holdings decreased by $179 million (and down $446 million from 31 December 2020), with holdings estimated to be $3.98 billion on 31 December 2021.
- Domestic investor (retail and institutional) holdings increased by $522 million (and up $1.02 billion from 31 December 2020), with holdings estimated to be $4.83 billion as of 31 December 2021.
- The Reserve Bank of New Zealand (RBNZ) holdings were unchanged over the quarter and totalled $1.69 billion as of 31 December 2021.





Riverlink Project (image is indicitive), Greater Wellington Regional Council