

LGFA Quarterly Report to Shareholders

June Quarter 2022

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A. June 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	1,445	N/A	-	80	230	-	485	60	510	-	80			-
Term Loans to councils \$m	1,007.7	329.0	-	4.0	51.7	82.0	67.0	55.0	164.5	112.5	142.0	-	-	-
Term Loans to councils #	115	41	-	1	7	11	14	13	12	12	4	-	-	-

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	3,900	N/A	-	170	470	150	635	265	1,270	190	200	120	400	30
Term Loans to councils \$m	3,325.9	1,396.7	-	21.7	200.8	219.0	179.3	178.0	247.3	366.6	463.1	5	48.4	-
Term Loans to councils #	299	106		4	22	22	30	32	27	33	20	1	2	-

Key points and highlights for the June quarter:

- The LGFA bond yield curve rose and flattened over the quarter as the RBNZ tightened monetary policy through two 50 bps hikes in the OCR to 2.00%. Markets are now pricing in a further 200 bps of hikes by February 2023. 2024 bond yields rose by 68 bps to 4.04% while 2037 bond yields rose by 80 bps.
- LGFA issued a record \$1.445 billion of bonds during the quarter through one syndication and two bond tenders in what remained a difficult environment for issuance. The average term of issuance during the quarter was a shorter than normal 4.53 years compared to 6.22 years for the financial year to June 2022. Annual issuance of \$3.9 billion was also a record.
- Despite the record issuance, LGFA borrowing margins to swap were unchanged (2037s) to 9 bps tighter (2026s) as investors and banks took advantage of the recent sharp rises in interest rates. LGFA spreads to New Zealand Government Bond (NZGB) widened modestly between 1 bps and 5 bps as swaps spreads to NZGB widened.
- Long dated lending to councils during the quarter of \$1,007.7 million was the second highest quarter on record. The average term of lending at 5.72 years was shorter than the 2021-22 financial year average of 6.22 years and the 2020-21 financial year average of 6.89 years.
- LGFA has an estimated market share of 80% of total council borrowing for the rolling twelve-month period to June 2022 compared to a historical average of 75% since 2012.
- Short-term lending to councils has increased by \$93 million to \$482.5 million of short-term loans outstanding on 31 June 2022 to thirty-one councils.
- LGFA Net Operating Gain (unaudited management estimate) for the twelve-month period to 30 June 2022 was \$10.673 million which was \$648k below budget, comprising total operating income at \$480k below budget and expenses at \$169k below budget.
- We have achieved eight out of our ten performance objectives over the financial year with only our financial position that was marginally below our target.
- Waimate District Council joined as a guarantor during the quarter while Carterton District and Rangitikei District Councils moved from being non guarantors to guarantors. We currently have seventy-five councils and one CCO as members and are expecting another two councils to join in the next six months.

B. LGFA bond issuance over quarter

We issued a record \$1.445 billion of bonds via two tenders (May and June) and one syndication (April) during the quarter with the large syndication timed to coincide with the LGFA April 2022 bond maturity. Issuance conditions were challenging with rising interest rates, significant intraday volatility and subdued investor sentiment. We responded to these uncertain times by issuing bonds with a shorter duration than normal.

4 April Syndication	15 Apr 2024	15 Apr 2026	15 May 2028
Total Amount Offered (\$million)	230	425	450
Total Amount Allocated (\$million)	230	425	425
Total Amount of Bids Received (\$million)	431	470	508
Weighted Average Accepted Yield (%)	3.499	3.794	3.909
NZGB Spread at Issue (bps)	52.00	61.00	69.00
Swap Spread at Issue (bps)	8.00	29.00	42.00
Swap Spread: AA council (bps)	23	43	56
Swap Spread: AA- council (bps)	28	48	61
Swap Spread: A+ council (bps)	33	53	66
Swap Spread: Unrated council (bps)	43	63	76

The April syndicated tap of three existing LGFA bond maturities was successful with a record amount of issuance undertaken by LGFA in a single transaction and tight pricing achieved. We used the proceeds to lend to councils and increase our Liquid Asset Portfolio to match increased take up of standby facilities by councils and for future council lending.

We issued three existing LGFA bond maturities to increase the amount of each maturity on issue to help improve secondary market liquidity, to issue into where the investor and bank demand was (less than six years) and to keep any pricing cost to a minimum.

The syndication coincided with our April 2022 bond maturity but unlike previous LGFA bond maturities, there was no corresponding NZ Government Bond maturity. Offshore investor participation in the syndication at 18% overall was less than the average holding of 29.5% with banks instead taking between 47% and 60% of each issue.

The average maturity of the LGFA bonds issued was relatively short at 4.47 years but we deliberately kept the tenor short to ensure we could issue the large amount of bonds required. While we issued \$1.105 billion of LGFA bonds we on lent \$394.2 million to twenty-seven councils with an average term of 5.9 years. The larger than normal on lending was due to the refinancing of councils loans maturing in April 2022.

Tender 89 / 11 May 2022	15 Apr 2023	15 Apr 2027	15 May 2031
Total Amount Offered (\$million)	80	60	40
Total Amount Allocated (\$million)	80	60	40
Total Number of Bids Received	10	22	22
Total Amount of Bids Received (\$million)	265	325	175
Total Number of Successful Bids	2	3	10
Highest Yield Accepted (%)	3.135	4.250	4.530
Lowest Yield Accepted (%)	3.080	4.245	4.515
Highest Yield Rejected (%)	3.245	4.320	4.590
Lowest Yield Rejected (%)	3.135	4.250	4.530
Weighted Average Accepted Yield (%)	3.101	4.250	4.523
Weighted Average Rejected Yield (%)	3.185	4.272	4.538
Amount Allotted at Highest Accepted Yield as Percentage of Amount Bid at that Yield*	37.5	78.6	14.9
NZGB Spread at Issue (bps)	27.00	65.00	72.00
Swap Spread at Issue (bps)	-10.00	25.50	45.75
Swap Spread: AA council (bps)	7	43	58.25
Swap Spread: AA- council (bps)	12	48	63.25
Swap Spread: A+ council (bps)	17	53	68.25
Swap Spread: Unrated council (bps)	27	63	78.25
Coverage Ratio	3.31	5.42	4.38

The tender size of \$180 million was a good size tender following on from the \$1.105 billion syndication in April. We tendered three tranches with a high degree of confidence in the 2023s (they only had 11 months to run to maturity) and the 2027s where offshore, and domestic bank balance sheet demand was strong. Price support was very strong for all three maturities with the 2023s and 2027s issued at yields 4 bps below the prevailing market, and the 2031s 3 bps below market.

Overall bidding volume was very strong at 4.3x coverage and this was the highest ratio since November 2017 and was very favourable compared to the 2.3x average for the past two years. The successful bid tails ranged between 0.5 bps (2027s) out to 4.5 bp (2023s) and the number of successful bids ranged between two (2023s) and ten (2031s).

The average maturity of the LGFA bonds was a short 4.06 years compared to the average for the financial year to date of 6.30 years with the short tenor due to the 2023 issuance.

While we issued \$180 million of LGFA bonds we on-lent a modest \$100.5 million to nine councils with an average term of lending to councils at 6 years (73 months) which was in line with recent borrowing by councils.

Tender 90 / 8 June 2022	15 Apr 2025	15 May 2028	15 May 2031
Total Amount Offered (\$million)	60	60	40
Total Amount Allocated (\$million)	60	60	40
Total Number of Bids Received	13	24	27
Total Amount of Bids Received (\$million)	140	215	179
Total Number of Successful Bids	5	12	9
Highest Yield Accepted (%)	4.090	4.350	4.480
Lowest Yield Accepted (%)	4.080	4.310	4.460
Highest Yield Rejected (%)	4.140	4.395	4.550
Lowest Yield Rejected (%)	4.090	4.350	4.480
Weighted Average Accepted Yield (%)	4.088	4.339	4.475
Weighted Average Rejected Yield (%)	4.105	4.366	4.503
Amount Allotted at Highest Accepted Yield as Percentage of Amount Bid at that Yield*	60	30.5	38.5
NZGB Spread at Issue (bps)	62.00	71.00	75.00
Swap Spread at Issue (bps)	7.75	31.25	41.50
Swap Spread: AA council (bps)	22.25	44.25	53
Swap Spread: AA- council (bps)	27.25	49.25	58
Swap Spread: A+ council (bps)	32.25	54.25	63
Swap Spread: Unrated council (bps)	42.25	64.25	73
Coverage Ratio	2.33	3.58	4.48

The tender outcome was a positive surprise with exceptionally strong demand and a pleasing pricing result for our ninth (and last) tender of the financial year. A combination of higher yields, wider spreads to swap and NZGB and competition amongst the banks drove a strong outcome.

We issued a mix of 2025s, 2028s and 2031s (for the second consecutive month) so was a mixed bag of tenors on slightly lower issuance volumes than normal. Pricing achieved was 2 bps to 3 bps below prevailing market mids rates and volume bid was also strong (but noting the smaller amount tendered). Overall bidding volume was also strong at 3.3x coverage and was favourable compared to the 2.3x average for the past two years.

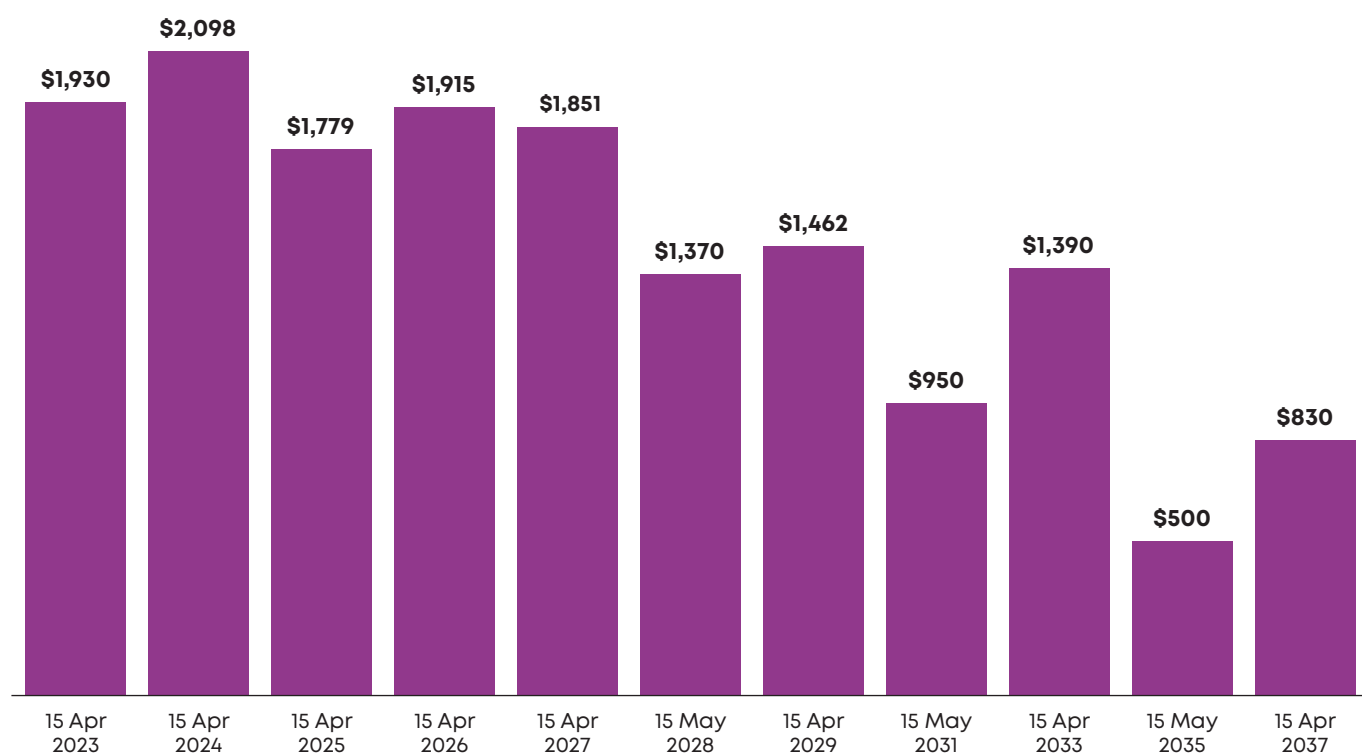
The successful bid ranges were between 1 bps (2025s) out to 4 bp (2025s) and the number of successful bids ranged between five (2025s) and twelve (2028s). The average maturity of the LGFA bonds issued was a short 5.53 years but we wanted to keep both the tenor short and volumes low given the underlying market volatility and sentiment changing daily.

While we issued \$160 million of LGFA bonds we on-lent a larger than normal \$263.5 million to sixteen councils with an average term of lending at 6.8 years (82 months).

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

As at 30 June 2022 NZ\$ 16,075 million

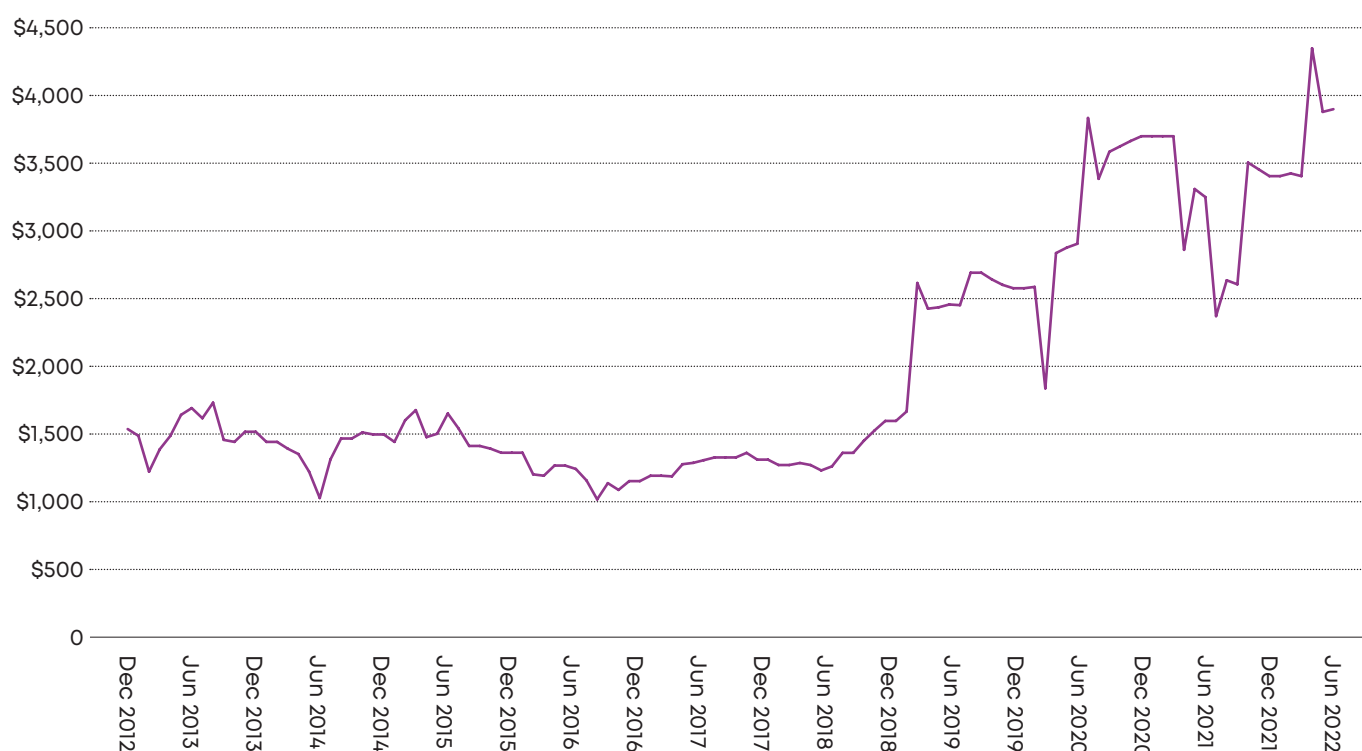
Includes NZ\$1,100 million treasury stock



In addition to the retail bonds listed on the NZX, LGFA has NZ\$130 million of wholesale floating rate notes on issue.

Our issuance volume on a rolling 12-month basis to June 2022 of \$3.9 billion was just below the record of \$4.35 billion set during the quarter for the 12-month period to April 2022 (which included the May 2021 syndication as well as the April 2022 syndication).

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) – cumulative	YTD as at Q1	YTD as at Q2	YTD as at Q3	Full Year to 30 June 2022
Comprehensive income	30 Sep 2021	31 Dec 2021	31 Mar 2022	30 Jun 2022
Interest income	88.98	185.89	285.91	393.51
Interest expense	83.83	176.71	272.26	375.99
Net interest revenue	5.15	9.18	13.65	17.52
Other operating Income	0.26	0.53	0.79	1.09
Total operating income	5.41	9.70	14.44	18.61
Issuance and On-lending costs	0.58	1.31	1.90	2.83
Approved issuer levy	Nil	0.33	0.33	0.70
Operating expenses	1.05	2.14	3.16	4.40
Issuance and operating expenses	1.62	3.77	5.39	7.93
Net Profit	3.79	5.94	9.05	10.67
Financial position (\$m) – as at	30 Sep 2021	31 Dec 2021	31 Mar 2022	30 Jun 2022
Retained earnings + comprehensive income	72.68	74.82	77.94	79.5
Total assets (nominal)	14,635.29	15,854.9	16,441.3	16,227.0
Total LG loans (nominal)	12,960.37	13,496.1	13,825.0	14,019.8
Total LGFA bills (nominal)	600	535.0	533.0	565
Total LGFA bonds (nominal)	13,465.00	14,865.0	15,265.0	14,975
Total borrower notes (nominal)	233.8	250.0	260.6	271.1
Total equity	97.68	99.8	102.9	104.5

D. Key performance indicators (Section 5 of SOI)

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

We met eight out of our ten performance targets with our operating income and expenses the only objectives that we did not meet. The rise in interest rates and volatile market conditions have impacted net interest income relating to the large amount of liquid assets that we hold. The COVID-related lockdowns have impacted our ability to travel and while we did not meet with every council, we did undertake seventy-seven meetings with 66 council and CCO visits during the twelve-month period to June 2022. The remaining council visits were concluded in July.

Measure		Q1 Sep 2021	Q2 Dec 2021	Q3 Mar 2022	Q4 Jun 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 ✓	\$14.4 m ✗	\$18.6 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	\$7.16 m
	Actual (\$)	\$1.6 m ✓	\$3.4 m ✓	\$5.06 m ✓	\$7.23 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 ✓	\$13.8 b ✓	\$14.02 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 (%)	100% ✓	100% ✓	100% ✓	100% ✓
Achieve 80% market share of all council borrowing in New Zealand	Target (%)	>80%	>80%	>80%	>80%
	Rolling annual average				
	Actual (%)	91% ✓	79% ✗	79% ✗	80% ✓
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 74 over one year Financial Position + Headroom Review completed in December Quarter			
	Actual	77 visits to 66 individual council and CCO visits over past 12 months with the remaining 8 councils visits completed during July ✓			
No breaches of Treasury Policy, any regulatory or legislative requirements including H&S	Target	Nil	Nil	Nil	Nil
	Actual	Nil ✓	Nil ✓	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% ✓	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+ ✓	AAA/AA+ ✓	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 adjusts its borrowing margin from time to time for council and CCO lending. The borrowing margin comprises a base lending margin and a credit margin. The base lending 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.

On 1 July 2021 LGFA reduced the base lending margin by 5 bps to 15 bps but subsequently increased the margin back to 20 bps effective 1 July 2022.

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.

Comparison to other high-grade issuers – secondary market spread to swap (bps)

30 Jun 2022	Comparison to other high-grade issuers – secondary market spread to swap (bps)											
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2033	2035	2037
LGFA (AAA)	-10	-1	5	16	19	28	33	37	40	49	62	70
Kainga Ora (AAA)	-2		9	17	24	27		38			64	
Asian Development Bank (AAA)	0	4	11	18	22	29			43			
IADB (AAA)	3	11	17	20	23	38						
International Finance Corp (AAA)	7	9	15	18	23							
KBN (AAA)	7	14	20		29			52				
Rentenbank (AAA)	4	7	17		21		34					
World Bank (AAA)	0	5	11	19	23	28		39				
Nordic Investment Bank (AAA)	2		17									
ANZ (AA-)	39	45										
BNZ (AA-)	30	51	58	80	91							
Westpac Bank (AA-)	28	51	60	74	88							
SSA Average	3	8	15	19	24	32	31	46	43			
Bank Average	32	49	59	77	90							

During the quarter LGFA issued across six bond maturities from 2023 to 2031 to capture as much investor demand as possible in the short to mid part of the yield curve and to reduce our overall funding cost. There was greater demand for the shorter maturities as investors were defensive in a rising interest rate environment and it was difficult to issue bonds beyond 2029 e.g. we issued \$1.365 billion of bonds with a maturity of 2028 or shorter and only \$80 million of 2031 bonds.

Standby facilities outstanding to councils and CCOs increased by \$140 million over the quarter to \$662 million outstanding as at 30 June 2022 to twelve councils. We are expecting one additional council to enter into this product over the next six months.

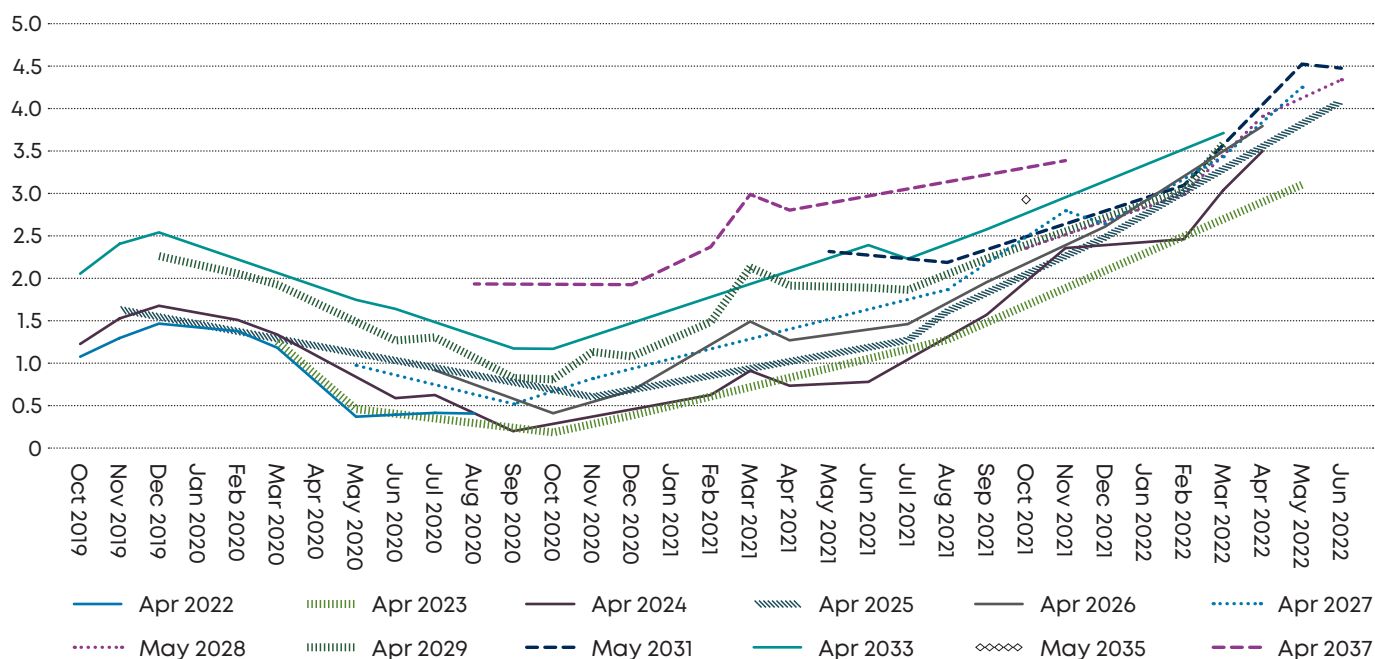
The LGFA bond yield curve moved in line with global bond markets with yields rising and the curve steepening over the quarter. Front end yields (2024s) rose by 68 bps to 4.04% (or 306 bps since June 2021) while long dated yields (2037s) rose by 80 bps to 4.85% (or by 213 bps since June 2021). The front end of the curve rose as the RBNZ continued to increase the OCR by 50 bps in both April and May as inflationary pressures surged on both supply side and demand side pressures. The RBNZ is ahead of global central banks in tightening monetary policy and financial markets are currently pricing in further increases in the OCR from the current 2% to a peak of 3.8% in February 2023.

LGFA borrowing margins to swap narrowed by 3 bps to 9 bps except the 2037s where spreads were unchanged over the quarter. This was a positive outcome given the record amount of issuance undertaken over the quarter and was in part due to the strong bank and investor interest in our short to mid dated bond maturities. LGFA spread performance to New Zealand Government Bonds (NZGB) was less positive with spreads widening between 1 bps and 5 bps. This was primarily driven by swap spreads to NZGB widening on corporate and mortgage book fixed rate paying in the swaps market and the announced inclusion of NZGBs in the FTSE Russell World Government Bond Index from November 2022.

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) influenced LGFA demand and pricing. These borrowers are our peer issuers in the NZD market and have the most influence on our pricing. The June quarter period was reasonably quiet for Kauri bond issuance with only two issues totalling \$1.15 billion. This compares to the March quarter where there was \$2.8 billion of issuance and \$3 billion of issuance in the June 2021 quarter.

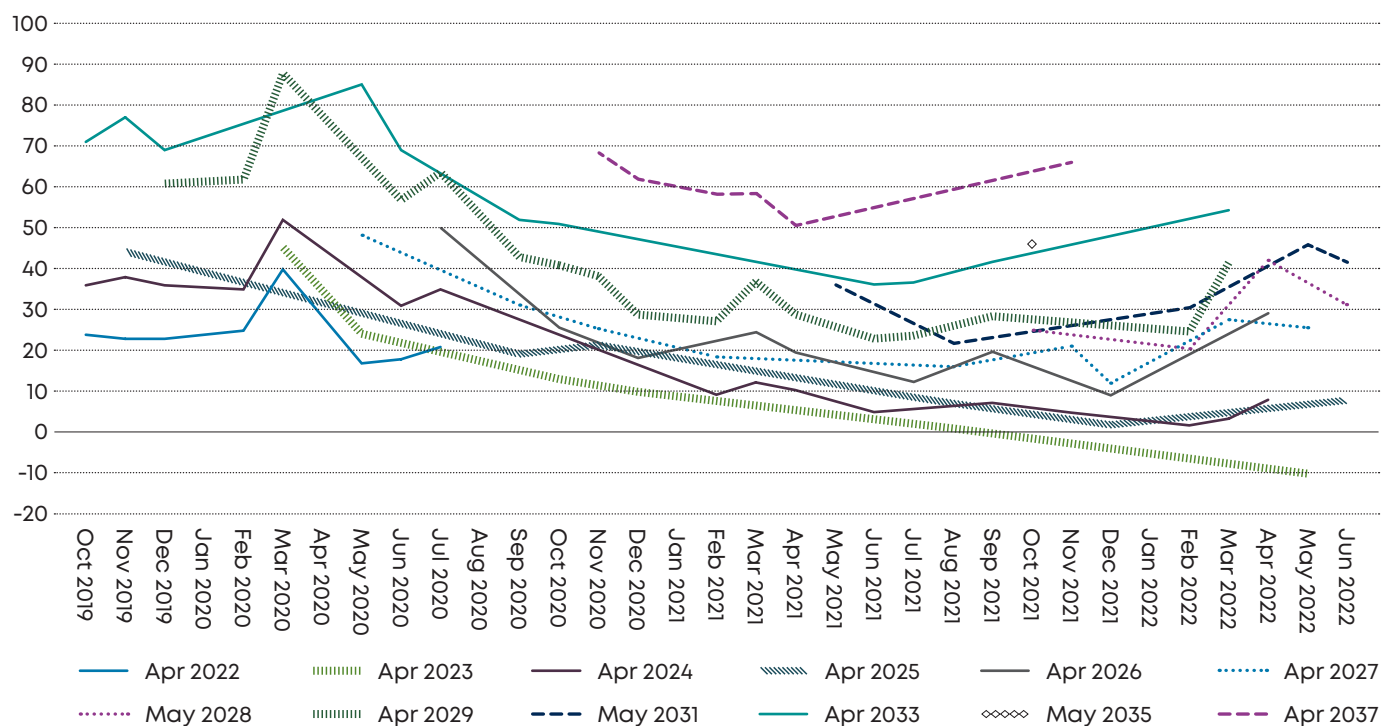
LGFA Bond Issuance Yields (%)

Last 30 tenders



Spread to swap

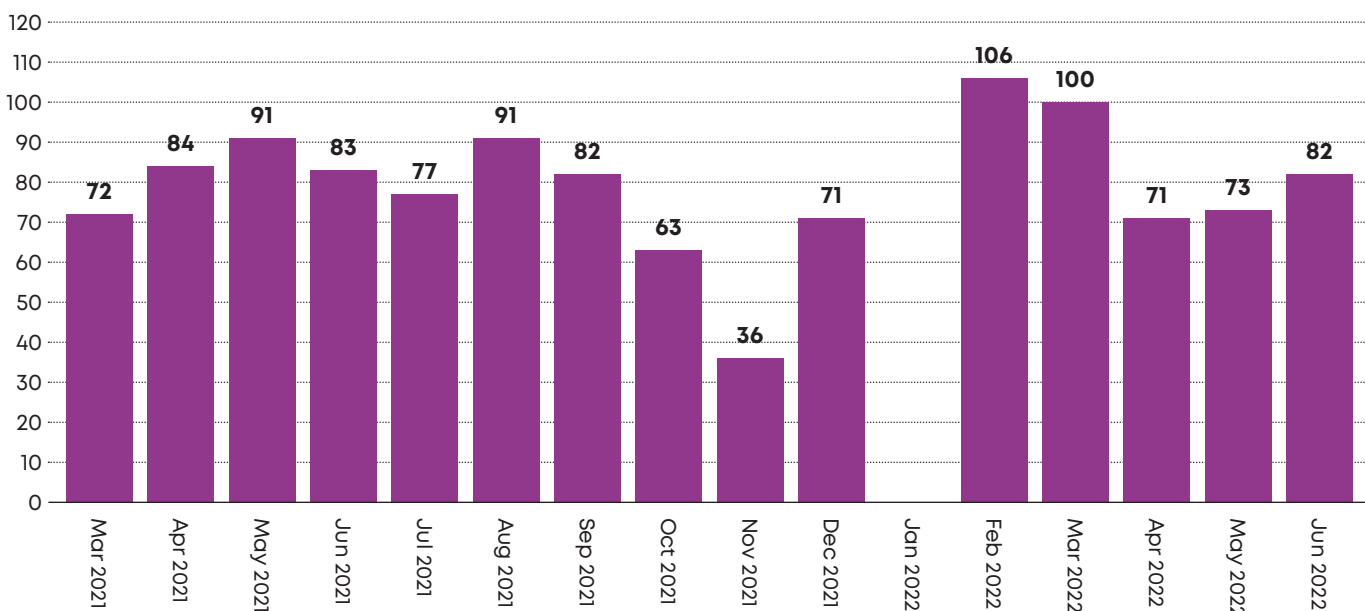
Last 30 tenders



The average borrowing term (excluding short-dated borrowing) for the June quarter by council members was a shorter than normal 5.72 years compared to the average term of 6.22 years for the year to June 2022 and 6.89 years for the year to June 2021. The shortening trend is due to the recent sharp rise in interest rates and councils borrowing for terms to coincide with the proposed July 2024 transition date for the Three Waters Reform Programme.

Average total months to maturity – on lending to councils

Last 15 tenders

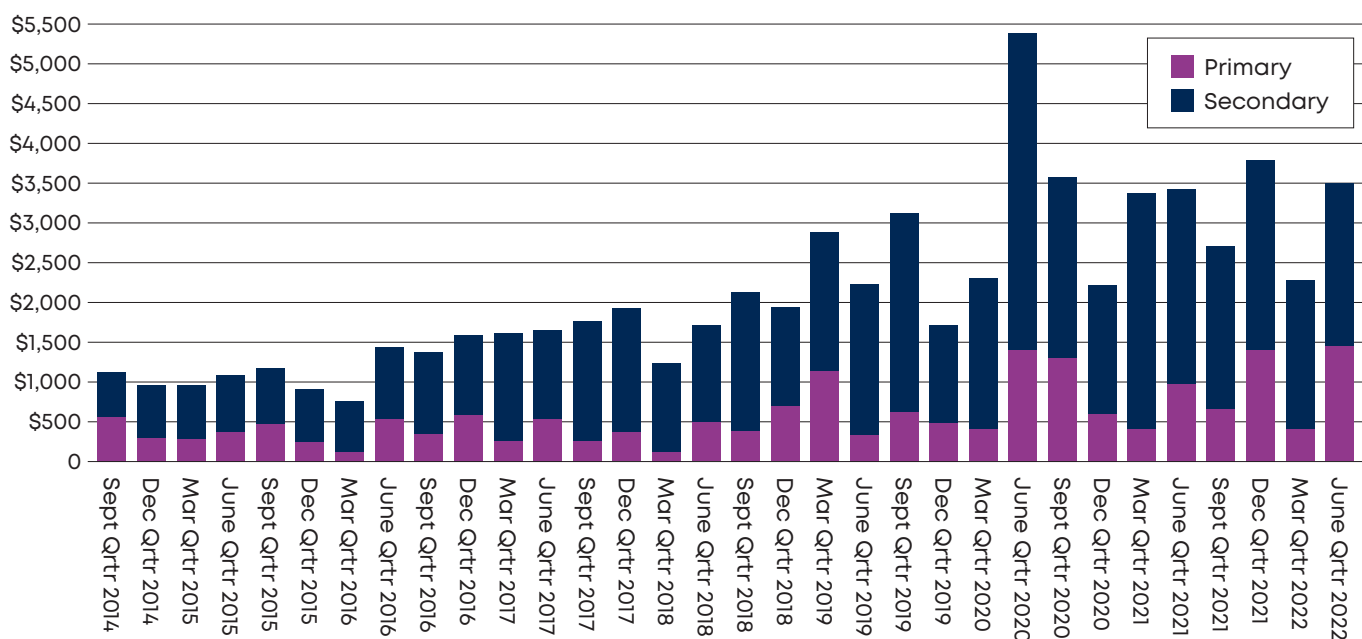


Short-term borrowing by councils and CCOs with loan terms of between one month and 12 months remains well supported with \$482.5 million outstanding as of 30 June 2022 to a record thirty-one councils. The number of councils and CCOs using this product increased by three over the quarter while the total amount outstanding increased by \$93 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) increased during the quarter despite the volatile market conditions. We issued a record \$1.455 billion of bonds and secondary market turnover of \$2.01 billion during the quarter was also strong.

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



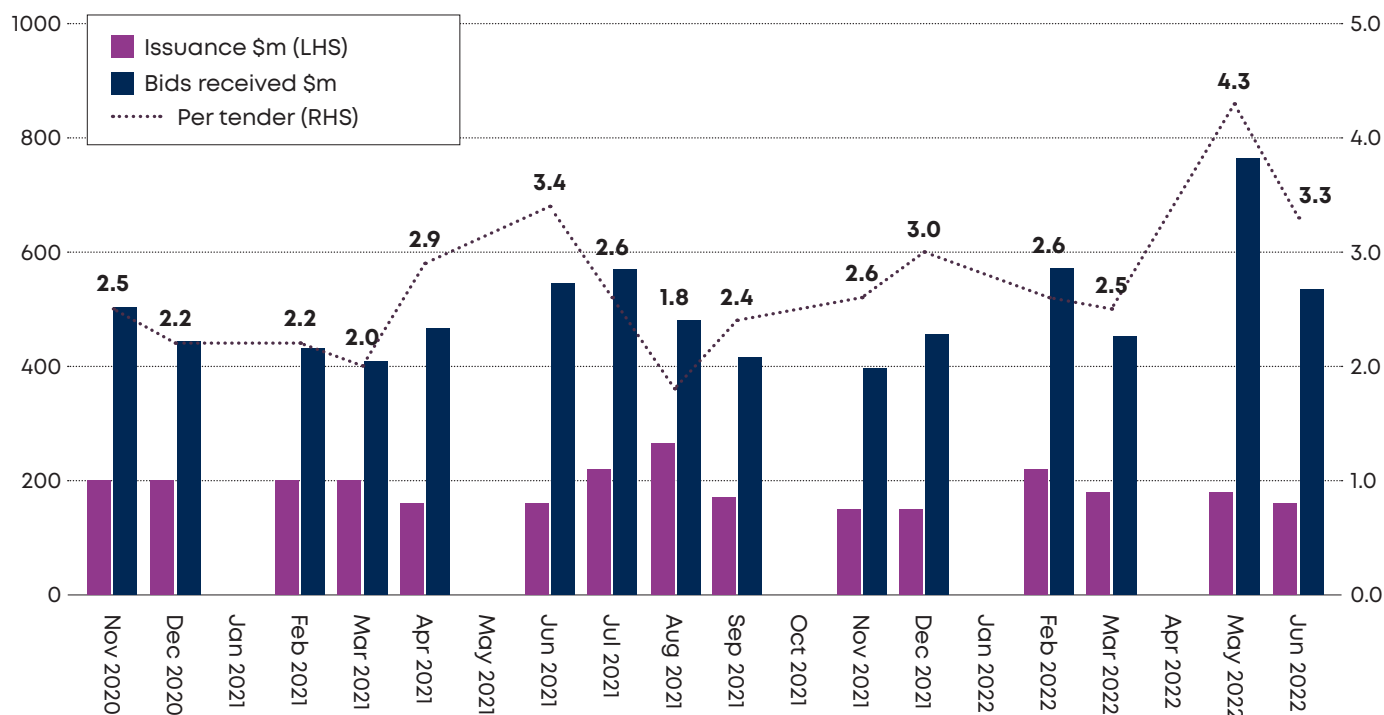
LGFA commenced issuing LGFA Bills and short dated (less than 1 year) lending to councils in late 2015. As at 30 June 2022 there were \$565 million of LGFA Bills on issue and the amount on issue has been relatively constant between \$500 million and \$600 million for the past eighteen months. We use proceeds 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 good support for our bond tenders with strong bidding, tight spreads and solid bid coverage ratios. However we have deliberately skewed issuance towards the shorter dated bond maturities where there is strong investor and bank demand.

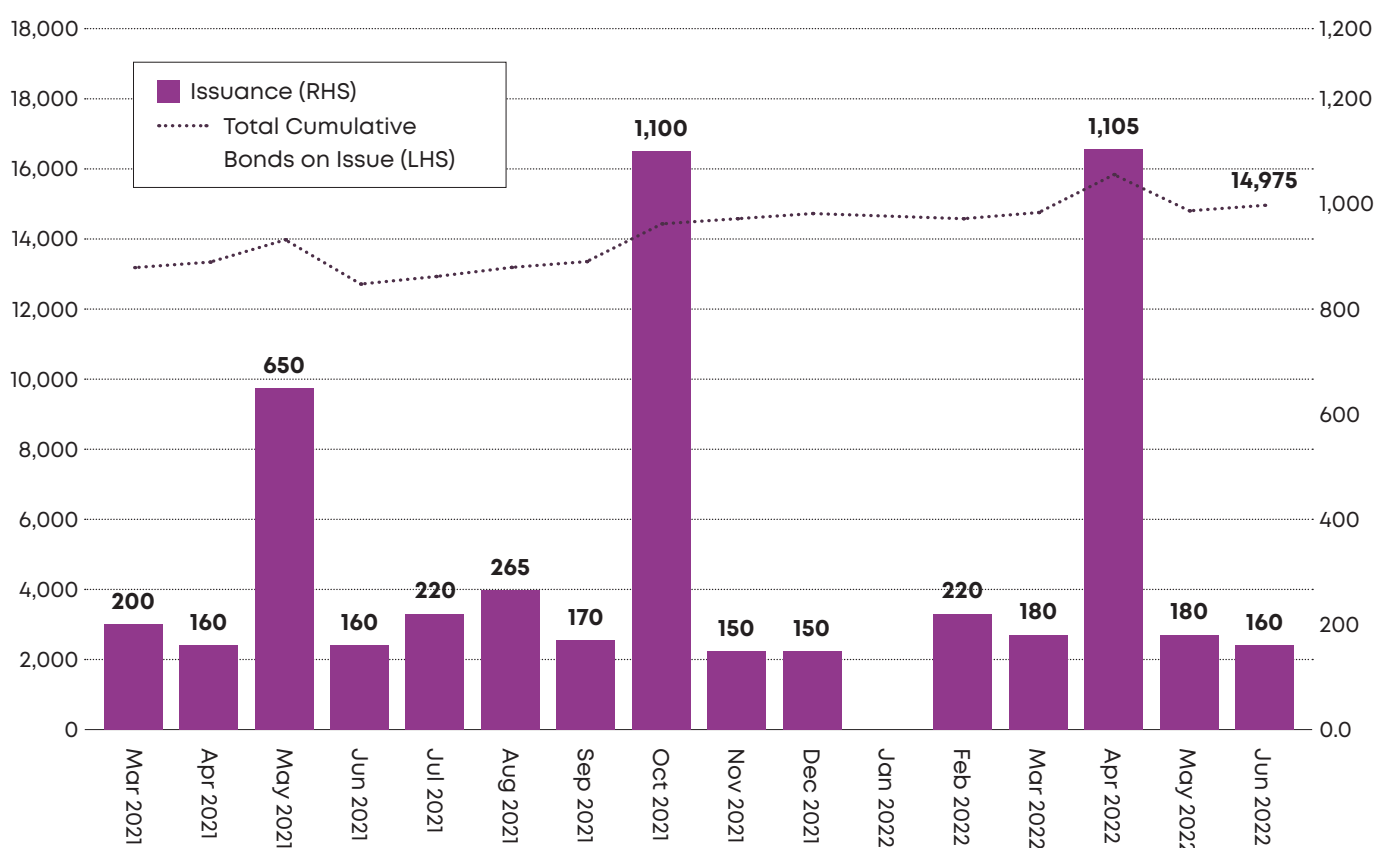
Tender bid coverage ratio

Last 15 tenders



LGFA bond issuance (\$ million)

Last 15 tenders and syndications. (Excludes issuance of treasury stock (\$1,100m))



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 undertook seventy- seven meetings with sixty-six councils and CCOs over the twelve-month period to 30 June 2022. LGFA continues to review council agendas and management reports on an ongoing basis for those councils on the LGFA borrower watch-list.

All councils and CCO borrowers provided compliance certificates for LGFA covenants and no council has requested that they be measured on a group basis.

We continue to have dialogue with Central Government on the proposed Three Waters reforms and provided feedback regarding financing of the proposed entities during and beyond the transition period. We are waiting for clarification from Central Government as to the role that LGFA could play, if any in providing financing.

In June we appointed Anita Furniss of Auckland Council as our inaugural Future Director. The LGFA Future Directors Programme offers a council or CCO staff member the opportunity to work alongside the LGFA board for an 18-month period starting in July 2022.

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).

LGFA for the second consecutive year was the headline sponsor for the LGFA-Taituara Local Government Excellence Awards. We have supported these awards for the past eight years to recognise the work undertaken by Taituara in promoting excellence across the sector and to highlight what councils are doing within their communities. The winner of the Supreme Award for 2022 was the **Te Hiku o te Ika Revitalisation Project**, a highly successful collaboration between **Far North District Council**, the Kaitiaki Business Association, the five iwi of Far North's Te Hiku region and the wider community.

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.

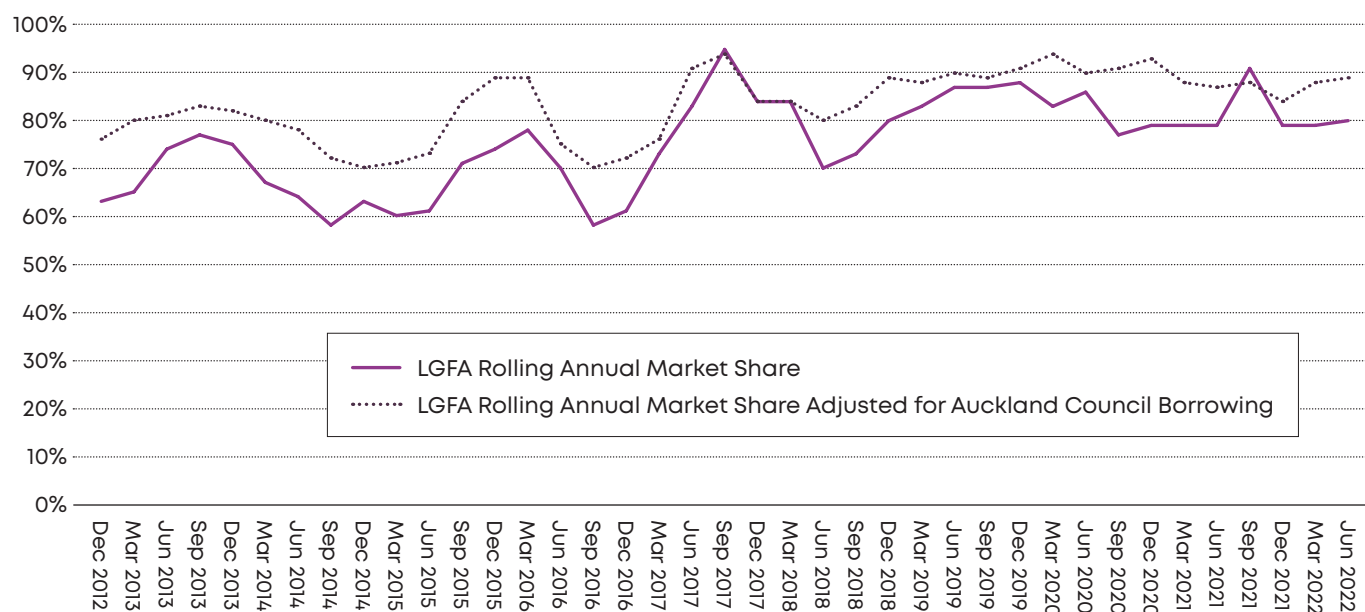
On 2 March 2022, S&P affirmed our long-term local currency credit rating of AAA and our long-term foreign currency credit rating of AA+. Both ratings are the same as the New Zealand Government.

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 30 June 2022 was 80%. If we adjust for Auckland Council borrowing of \$500 million over the past year in the domestic market, then our market share increases to 89.1%. This compares to a historical average of 75% and our market share remains high compared to our global peers.

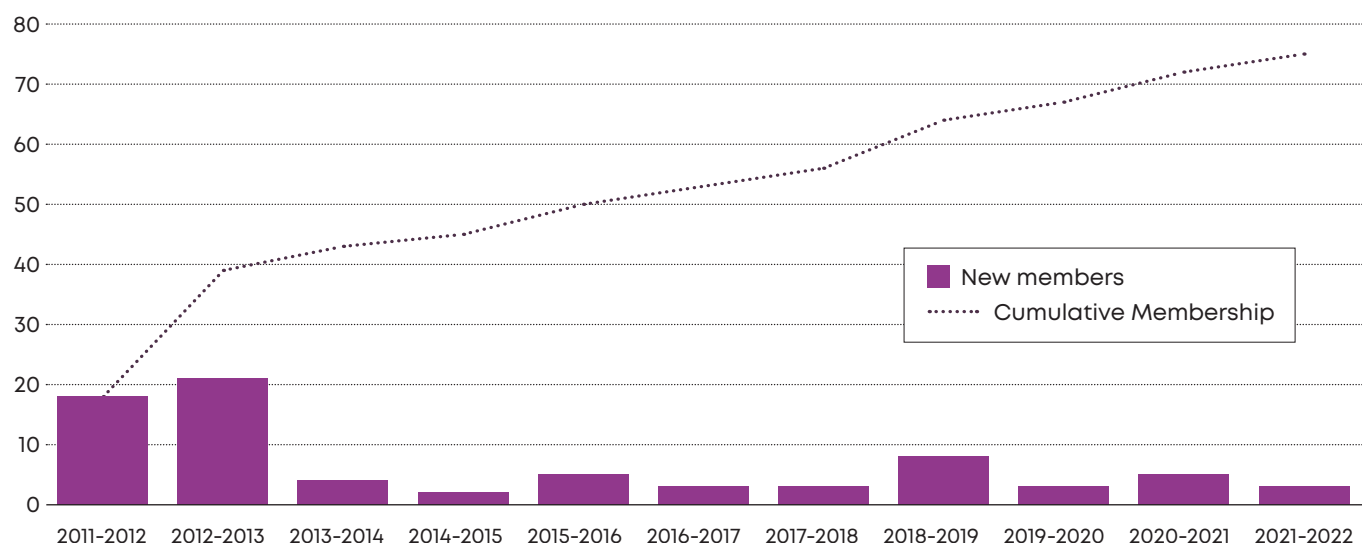
LGFA Market Share – rolling one year average



As at 30 June 2022, there are seventy-five councils and one CCO as members of LGFA. Waimate District Council joined as a guarantor during the quarter. Rangitikei District and Carterton District Councils moved from being non-guarantors to guarantors during the quarter and the number of guarantors is now sixty-eight.

Invercargill City Holdings joined as a member in July 2021. As at 30 June 2022 they have borrowings outstanding of \$90.5 million.

Council Membership (as at 30 June 2022)



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 twelve-month period to 30 June 2022, Net Interest Income ("NII") was estimated by management on an unaudited basis to be \$569k under budget while expenses are \$169k below budget. Net Operating Gain of \$10.673 million was \$648k below 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 \$2.3 million.

Expenses for the twelve-month period forecast by management and on an unaudited basis were \$7.933 million which is \$169k below budget. This variance is the consequence of:

- Issuance and on-lending costs (excluding AIL) at \$2.83 million were \$92k above budget. Higher NZX and legal fees due to the additional amount of bond issuance were the primary contributors to budget being exceeded.
- Operating costs at \$4.40 million were \$14k above budget due to higher personnel and legal costs offset by lower travel costs relative to budget.
- Approved Issuer Levy (AIL) payments of \$701k were \$63k above budget. We pay AIL on behalf of offshore investors at the time of semi-annual coupon payment for a small number of LGFA bond maturities. Offshore investor holdings have increased over the past year above what we projected.

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

See Section D on page 8 of this report.

For the financial year ended 30 June 2022 we achieved 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 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 Policies and the Board-approved Treasury Policy at all times.

There were no compliance breaches during the three-month period ending 30 June 2022.

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

Over the 2021-22 financial 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.
- Offer the Standby Facility product to 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 \$662 million of standbys written with twelve 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 2021-22 financial year, LGFA has

- Established a Sustainability Committee that advises the board and management 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. 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. To date we have lent \$50 million for the project.
 - GWRC have borrowed to finance the council's flood protection work on the RiverLink project in the Hutt Valley. To date we have lent \$13 million for the project.
- Paul Matthews, an Intern from Massey University researched the councils that had declared a climate change emergency and what the implications were for additional related capex and borrowing. Paul has finished the report and we will publish it shortly.

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 June 2022 we issued \$1.445 billion of LGFA bonds and there were \$1.505 billion of April 2022 LGFA bonds that matured. The changes in holdings among our investor groups during the quarter was

- Offshore investor holdings decreased by \$466 million (but increased by \$1.3 billion from 30 June 2021) with holdings estimated to be \$4.45 billion on 30 June 2022.
- Domestic bank holdings increased by \$377.7 million (and up \$153 million from 30 June 2021), with holdings estimated to be \$3.87 billion on 30 June 2022.
- Domestic investor (retail and institutional) holdings increased by \$37 million (and up \$1.04 million from 30 June 2021), with holdings estimated to be \$5.26 billion as of 30 June 2022.
- The Reserve Bank of New Zealand (RBNZ) holdings reduced by \$260 million over the quarter as their April 2022 LGFA bond holding matured and totalled \$1.43 billion as of 30 June 2022.

LGFA Bond Holdings by Investor Group

