

LGFA Quarterly Report to Shareholders



June Quarter 2023

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A. June Quarter highlights

Quarter	Total	Bespoke Maturity	April 2024	April 2025	April 2026	April 2027	May 2028	April 2029	May 2030	May 2031	April 2033	May 2035	April 2037
Bonds issued \$m	1380	n/a	50		50	60	50	110	1000	60		50	
Term Loans to councils \$m	1472.8	566.7		75.1	86.3	160.6	183.6	140.5	235.0	25.0			
Term Loans to councils #	149	49		12	14	24	25	14	10	1			

2022-23 Year	Total	Bespoke Maturity	April 2024	April 2025	April 2026	April 2027	May 2028	April 2029	May 2030	May 2031	April 2033	May 2035	April 2037
Bonds issued \$m	3553	n/a	220	730	340	260	153	360	1000	270	60	50	90
Term Loans to councils \$m	3986.1	1852.6	68.0	189.7	239.3	369.2	441.6	264.7	235.0	276.0	50.0		
Term Loans to councils #	385	156	8	30	33	55	51	36	10	5	1		

Key points and highlights for the June quarter:

- The LGFA bond yield curve rose and steepened over the June quarter as the RBNZ tightened monetary policy with a 50-bps hike in the OCR to 5.25% in early April and a further 25 bps in May. LGFA bond yields rose following offshore bond yields higher as Central Banks continued to maintain a staunch defence against inflationary pressures. 2025 LGFA bond yields rose 43 bps to 5.60% while the 2037 LGFA bond yield rose by 21 bps to 5.41%.
- LGFA issued \$1.38 billion of bonds during the quarter through one syndication of our debut Sustainable Financing Bond and two bond tenders in what was a more positive market environment. We issued \$3.553 billion of LGFA bonds over the twelve-month period to 30 June 2023. The average term of issuance during the quarter was 6.85 years and 5.50 years for the twelve-month period to 30 June 2023.
- LGFA borrowing margins to swap were mixed over the quarter with a narrowing in spreads out to the 2026 maturities (by up to 12 bps) but longer dated borrowing spreads widening by up to 3 bps (2035s). LGFA spreads to NZGB continued to tighten between 6 bps (2027s) and 26 bps (2037s).
- Long dated lending to councils during the quarter of \$1.473 billion to 58 councils was a record amount. We lent \$3.99 billion for the twelve-month period to 30 June 2023 compared to a full year SOI forecast of \$2.95 billion. The average term of lending during the quarter was 4.80 years and 5.21 years for the twelve-month period to 30 June 2023.
- LGFA has an estimated market share of 93% of total council borrowing for the rolling twelve-month period to June 2023 compared to a historical average of 76% since 2012.
- Short-term lending increased over the quarter by \$22 million to total \$555 million of short-term loans outstanding on 30 June 2023 to a record thirty-seven councils and CCOs.
- LGFA Net Operating Gain (unaudited management estimate) for the twelve-month period to 30 June 2023 of \$2.505 million was \$272k below budget, comprising total operating income at \$515k below budget and expenses at \$243k below budget.
- We achieved sixteen out of our seventeen performance objectives with the only objective missed being the Net Interest Income target.
- There were no new council or CCO members during the quarter with membership remaining at seventy-seven and three. There were no changes to the guarantor group of seventy-one councils.
- We lent a further \$99 million of Green Social and Sustainability (GSS) Loans and \$190 million of Climate Action Loans (CALs) to councils and CCOs during the quarter. Total GSS loans outstanding as at 30 June 2023 was \$294.5 million and total CALs outstanding of \$520.7 million.

B. LGFA bond issuance over quarter

We issued \$1.38 billion of bonds via two bond tenders (May and June) and one syndication in April. Issuance conditions were more positive compared to previous quarters, but we still issued short to mid curve bonds rather than long dated maturities.

The April syndication result was a great outcome with the debut issuance of our first Sustainable Finance bond that coincided with maturity of the April 2023 bond. We issued \$1.1 billion (including \$100 million of Treasury Stock) which was our equal largest single issue of bonds in the Domestic Capital Markets (alongside the 2026 bond in March 2020).

The margin was at the tight end of the initial +61 bps to +65 bps range with thirty-four investors participating with a mix of offshore and domestic investors.

We also had a record number of councils borrowing (forty councils with 90 loans) who borrowed \$686 million with an average term of 62 month (5 years). We undertook a \$20 million GSS loan to Whangarei District Council, a \$50 million GSS loan to Wellington City Council and \$25 million of CALs to Dunedin City Treasury Limited.

Syndication – 12 April 2023	15 May 2030
Total Amount Offered (\$million)	1000
Total Amount Allocated (\$million)	1000
Total Number of Bids Received	1500
Weighted Average Accepted Yield (%)	4.760
NZGB Spread at Issue (bps)	71.50
Swap Spread at Issue (bps)	61.00
Swap Spread: AA council (bps)	61
Swap Spread: AA- council (bps)	66
Swap Spread: A+ council (bps)	71
Swap Spread: Unrated council (bps)	81

The May bond tender was a solid outcome with a positive market backdrop of continued offshore investor buying of LGFA bonds, an absence of other high grade NZD issuance and a successful April LGFA bond syndication. Sentiment had also turned in the bond markets with most investors expecting the end of the Central Bank tightening cycle in the coming month.

We offered \$180 million of bonds across three bond maturities with each tranche achieving a successful outcome with good demand and pricing achieved.

Price support was very strong for the 2027s and 2029 bond maturities with weighted average yields 2 bps under prevailing mid-market while the 2031s were issued 1.5 bps above mid-rate. This was a similar outcome to the strong March bond tender result.

Bidding volume was good with a respectable overall bid coverage ratio of 2.9x with the strongest support for the 2027s and 2029s. Successful bid ranges varied between 1 bps (2027s and 2029s) and 7 bps (2031s) although the lowest bid on the 2031s was more of an outlier. The number of successful bids were four for both the 2027s and 2029s and twelve for the 2031s.

The average maturity of the LGFA bonds issued was longer than recent tenders at 5.97 years (compared to the 2022-23 financial year to date average of 5.44 years).

We issued \$180 million of LGFA bonds and on-lent \$200 million to fourteen councils with an average term of lending at 6.6 years (79 months) which was longer than normal and longer than our weighted average term of issuance. A highlight was the Climate Action Loans to Dunedin City Treasury Limited and Hutt City Council.

Tender 98 – 10 May 2023	15 Apr 2027	20 Apr 2029	15 May 2031
Total Amount Offered (\$million)	60	60	60
Total Amount Allocated (\$million)	60	60	60
Total Number of Bids Received	14	13	20
Total Amount of Bids Received (\$million)	200	195	130
Total Number of Successful Bids	4	4	12
Highest Yield Accepted (%)	4.695	4.715	4.890
Lowest Yield Accepted (%)	4.685	4.705	4.820
Highest Yield Rejected (%)	4.770	4.810	4.940
Lowest Yield Rejected (%)	4.695	4.715	4.890
Weighted Average Accepted Yield (%)	4.693	4.712	4.862
Weighted Average Rejected Yield (%)	4.727	4.747	4.911
Amount Allotted at Highest Accepted Yield as Percentage of Amount Bid at that Yield*	57.1	57.1	40
Coverage Ratio	3.33	3.25	2.17
NZGB Spread at Issue (bps)	54.00	59.00	73.00
Swap Spread at Issue (bps)	25.00	47.00	61.00
Swap Spread: AA council (bps)	46	66	77.75
Swap Spread: AA- council (bps)	51	71	82.75
Swap Spread: A+ council (bps)	56	76	87.75
Swap Spread: Unrated council (bps)	66	86	97.75

The June bond tender was another good outcome with each of the four tranches of bonds totalling \$200 million achieving good demand and pricing.

Price support was very strong for the 2026, 2028s and 2029 bond maturities with weighted average yields at or just below prevailing mid-market while the 2035s were issued 2.5 bps above mid-rate. This was a similar outcome to the strong March and May bond tender results, and we were pleased with the 2035 outcome given they are long dated.

Bidding volume was good with a respectable overall bid coverage ratio of 3.0 x with the strongest support for the 2029s (4.0x) and the 2026s (3.25x). Successful bid ranges varied between 1 bps (2026s) and 6 bps (2035s). The number of successful bids were between four (2026s) and eleven (2035s).

The average maturity of the LGFA bonds issued was longer than recent tenders at 6.4 years (compared to the 2022-23 financial year average of 5.58 years).

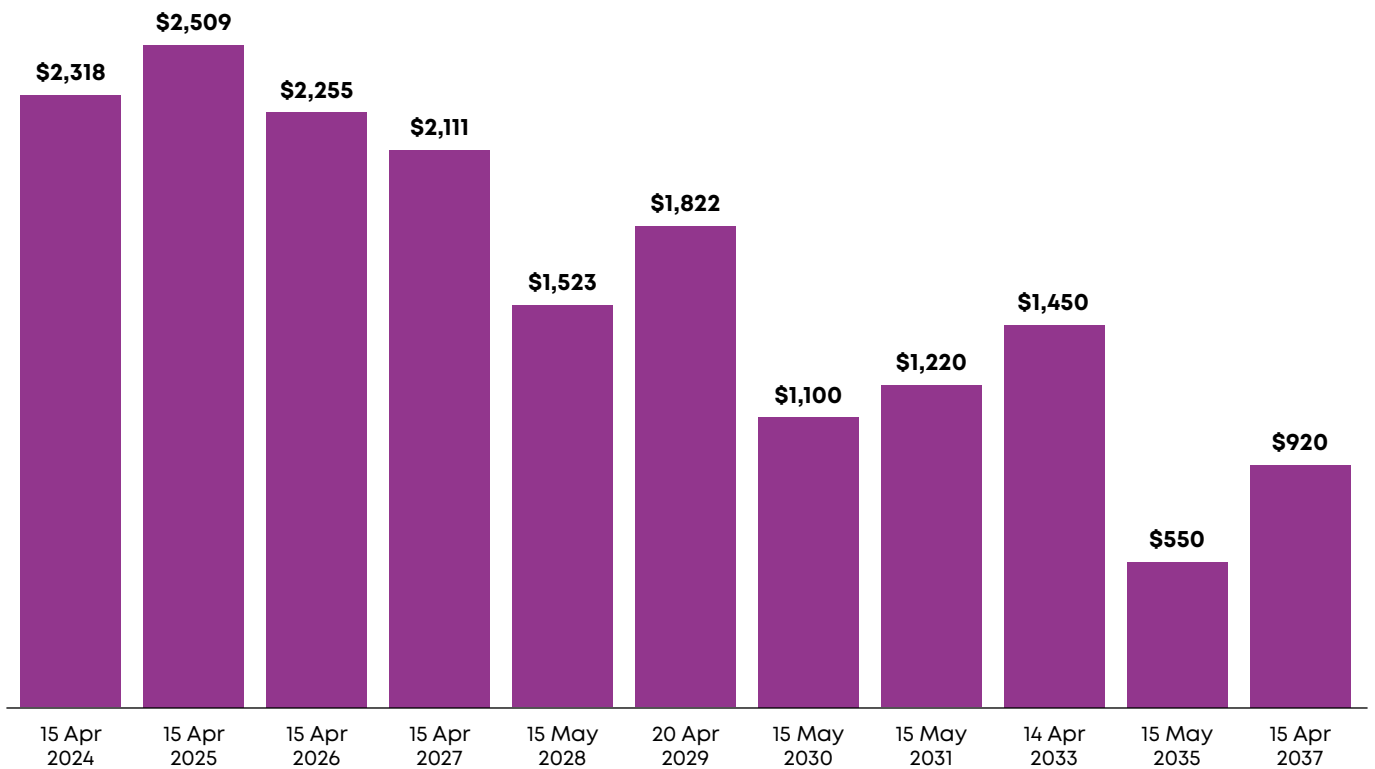
While we issued \$200 million of LGFA bonds, we on-lent \$282 million to fifteen councils with an average term of lending at 5.6 years (67 months) in line with recent averages.

Tender 99 – 07 June 2023	15 Apr 2026	15 May 2028	20 Apr 2029	15 May 2035
Total Amount Offered (\$million)	50	50	50	50
Total Amount Allocated (\$million)	50	50	50	50
Total Number of Bids Received	11	15	17	17
Total Amount of Bids Received (\$million)	162.5	145	200	94.05
Total Number of Successful Bids	4	7	6	11
Highest Yield Accepted (%)	5.020	4.910	4.920	5.265
Lowest Yield Accepted (%)	5.010	4.880	4.910	5.205
Highest Yield Rejected (%)	5.560	4.985	5.035	5.355
Lowest Yield Rejected (%)	5.020	4.910	4.920	5.265
Weighted Average Accepted Yield (%)	5.018	4.897	4.917	5.225
Weighted Average Rejected Yield (%)	5.038	4.936	4.945	5.304
Amount Allotted at Highest Accepted Yield as Percentage of Amount Bid at that Yield*	43.8	50	53.8	19
Coverage Ratio	3.25	2.90	4.00	1.88
NZGB Spread at Issue (bps)	51.00	55.00	57.00	71.00
Swap Spread at Issue (bps)	8.00	39.50	48.50	83.50
Swap Spread: AA council (bps)	29.5	59.5	68.5	103.5
Swap Spread: AA- council (bps)	34.5	64.5	73.5	108.5
Swap Spread: A+ council (bps)	39.5	69.5	78.5	113.5
Swap Spread: Unrated council (bps)	49.5	79.5	88.5	123.5

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

As at 30 June 2023 NZ\$ 17,778 million

Includes NZ\$1,100 million treasury stock



We have eleven LGFA bond maturities listed on the NZX Debt market that finance our long-term lending to councils. We had \$17.778 billion of bonds on issue (including treasury stock) on issue as at 30 June 2023.

Our issuance volume on a rolling 12-month basis to June 2023 was a larger than normal \$3.5 billion but below the record \$3.9 billion in the year to June 2022.

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 Q4
Comprehensive income	30 June 2023
Interest income	763,600
Interest expense	753,308
Net interest revenue	10,293
Other operating Income	1,349
Total operating income	11,642
Issuance and On-lending costs	3,593
Approved issuer levy	0,561
Operating expenses	4,984
Issuance and operating expenses	9,138
Net Profit	2,505
Financial position (\$m) – as at	30 June 2023
Retained earnings + comprehensive income	80,847
Total assets	18,174
Total LG loans	16,313
Total LGFA bills (nominal)	792
Total LGFA bonds (nominal)	16,678
Total borrower notes	360,348
Total equity	105,496

D. Strategic priorities. Performance against objectives and performance targets

D1. Governance, capability and business practice

Performance target	2022-23 Target	Performance against target
Comply with the Shareholder Foundation Polices and the Board-approved Treasury Policy at all times.	No breaches	Met – No breaches
Maintain LGFA's credit rating equal to the New Zealand Government's sovereign rating where both entities are rated by the same Rating Agency.	LGFA credit ratings equivalent to NZ Sovereign.	Met – Fitch Ratings upgraded LGFA Foreign Currency Rating to AA+ on 16 Sept 2022
LGFA's total operating income for the period to 30 June 2023.	> \$12.2 million	Not Met – \$11.6 million as at 30 June 2023
LGFA's total operating expenses for the period to 30 June 2023.	< \$9.4 million	Met – \$9.1 million as at 30 June 2023

There have been no policy breaches during the year, the credit rating was maintained in line with the New Zealand Government, and operating expenses were below budget. Total operating income was less than budget due to the rise in yields necessitating larger holdings of LAP and collateral payments.

Fitch Ratings upgraded our long-term foreign currency credit rating to AA+ on 16 September 2022. S&P Global Ratings affirmed our domestic currency credit rating at AAA in March 2023. Our ratings remain equivalent to the New Zealand Government for both S&P Global Ratings and Fitch Ratings.

D2. Optimising financing services for local government

Performance target	2022-23 Target	Performance against target
Share of aggregate long-term debt funding to the Local Government sector.	> 80%	Met – 93.3% as at 30 June 2023
Total lending to Participating Borrowers.	> \$15,004 million	Met – \$16,206 million as at 30 June 2023
Conduct an annual survey of Participating Borrowers who borrow from LGFA as to the value added by LGFA to the borrowing activities.	> 85% satisfaction score	Met – 100% satisfaction score in Aug 2022 Stakeholder Survey
Successfully refinance existing loans to councils and LGFA bond maturities as they fall due.	100%	Met
Meet all lending requests from Participating Borrowers, where those requests meet LGFA operational and covenant requirements.	100%	Met

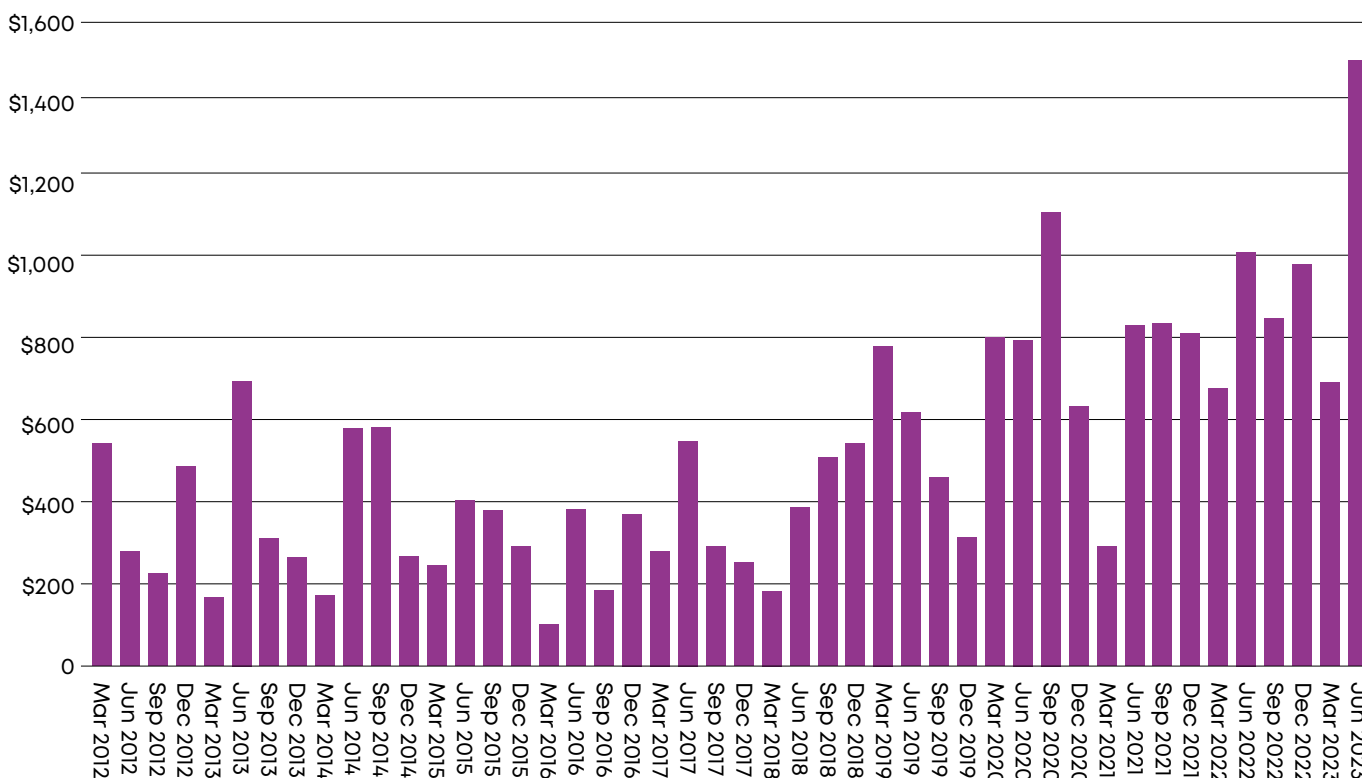
Objectives:

- Provide interest cost savings relative to alternative sources of financing.
- Offer flexible short and long-term lending products that meet the borrowing requirements for borrowers.
- Deliver operational best practice and efficiency for lending services.
- Ensure certainty of access to debt markets, subject always to operating in accordance with sound business practice.

LGFA provides short term loans (less than one year maturity), long term loans (between one year and April 2037), Green Social and Sustainable (GSS) Loans, Climate Action Loans (CALs) and standby facilities to councils and CCOs. Long term loans, GSS loans and CALs can be on a floating or fixed rate basis.

We have lent \$1.473 billion to fifty-eight councils during the June quarter with Tauranga City and Auckland Council being the largest borrowers. Long term lending to councils for the twelve-month period to 30 June 2023 of \$3.986 billion was a \$1 billion above the SOI forecast of \$2.95 billion of council borrowing for the 2022-23 financial year.

Council Borrowing from LGFA – quarterly (NZ\$ million)



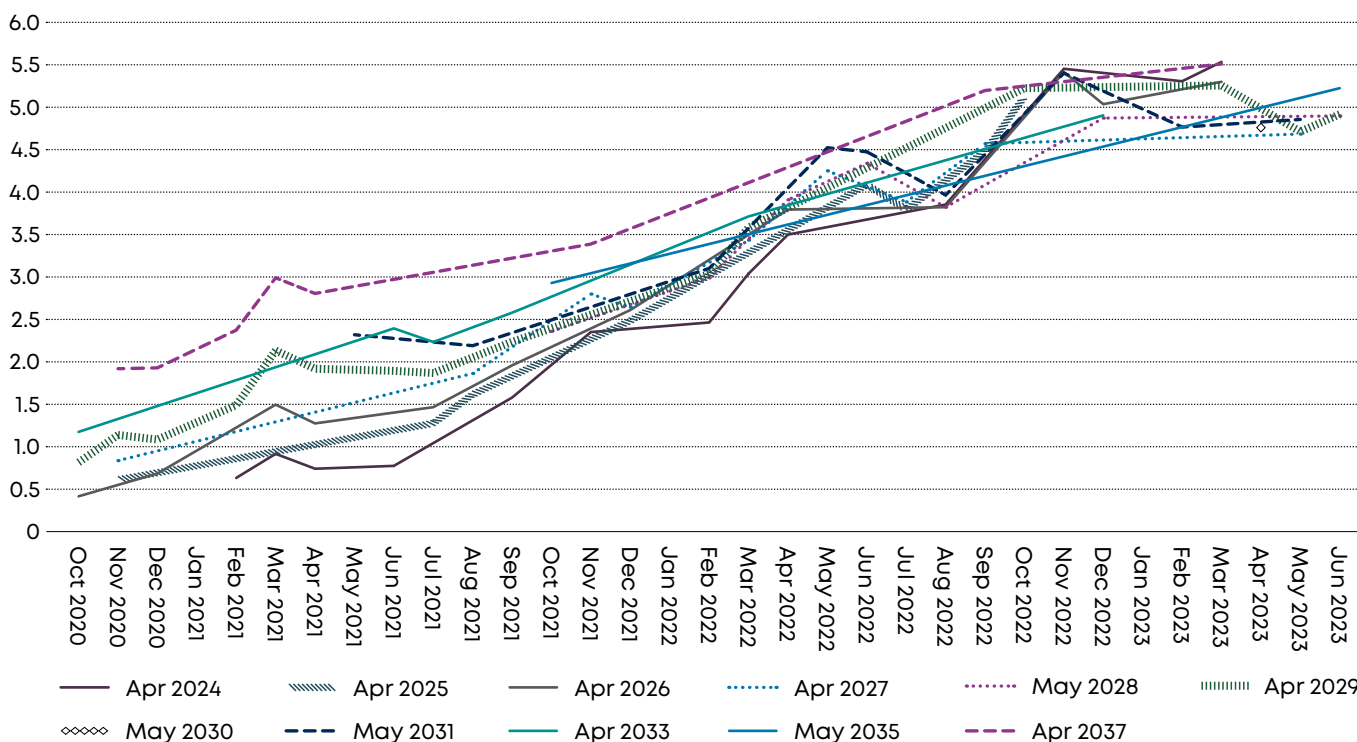
Our borrowing margins are similar to other high-grade issuers in the New Zealand capital markets despite our larger issuance programme. Our borrowing spreads are higher than Kainga Ora as they are no longer borrowing in their own name but funding through the NZ Treasury. This reduction in supply has been beneficial to their borrowing spread.

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

30 Jun 2023	Comparison to other high-grade issuers – secondary market spread to swap (bps)											
	2024	2025	2026	2027	2028	2029	2030	2031	2033	2035	2037	
LGFA (AAA)	2	5	11	29	43	53	58	65	72	84	88	
Kainga Ora (AAA)		3	9	21	32		48			66		
Asian Development Bank (AAA)	5	8	10	27	31			49				
IADB (AAA)	9	10	20	27	38		46					
International Finance Corp (AAA)	9	10	18	29		42						
KBN (AAA)	11	15		30			48					
Rentenbank (AAA)	8	11		27		40						
World Bank (AAA)	6	7	14	28	31		44					
Nordic Investment Bank (AAA)		11					43					
ANZ (AA-)	17				70							
ASB (AA-)	25		45	65								
BNZ (AA-)	25	30	46	63	76							
Westpac Bank (AA-)	24	32	43	60								
SSA Average	8	10	16	28	33	41	45	49				
Bank Average	23	31	45	63	73							

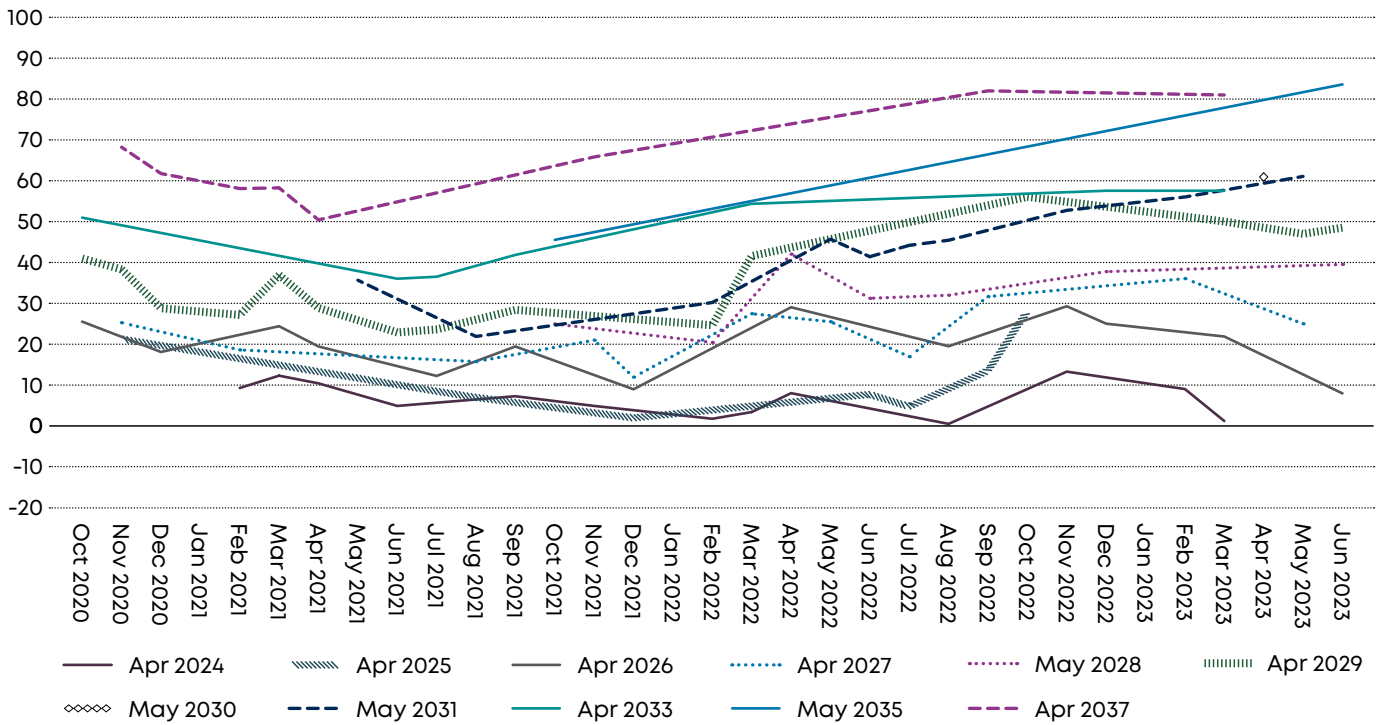
LGFA Bond Issuance Yields (%)

Last 30 tenders



Spread to swap

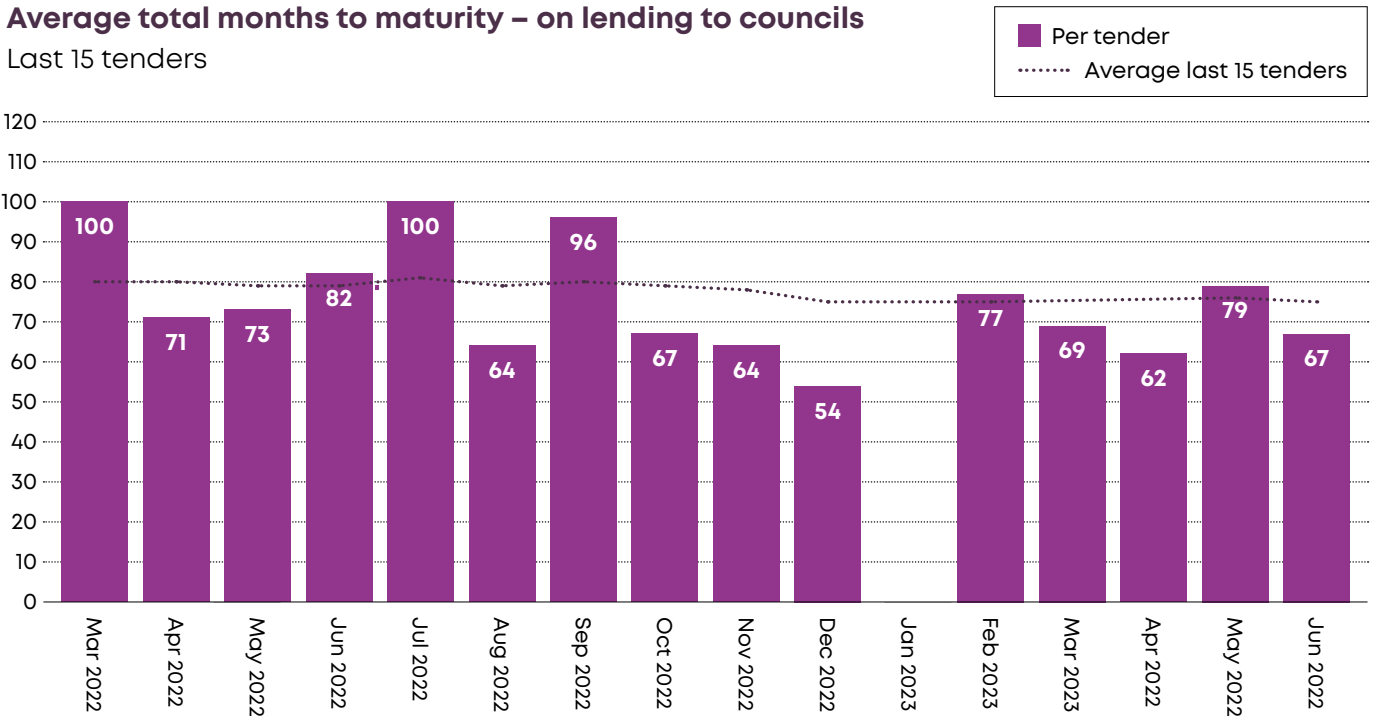
Last 30 tenders



The average borrowing term (excluding short-dated borrowing) for the June quarter by council members was 4.8 years and 5.21 years for the twelve-months to 30 June 2023. This is shorter than the 6.22 years for the year to June 2022.

Average total months to maturity – on lending to councils

Last 15 tenders

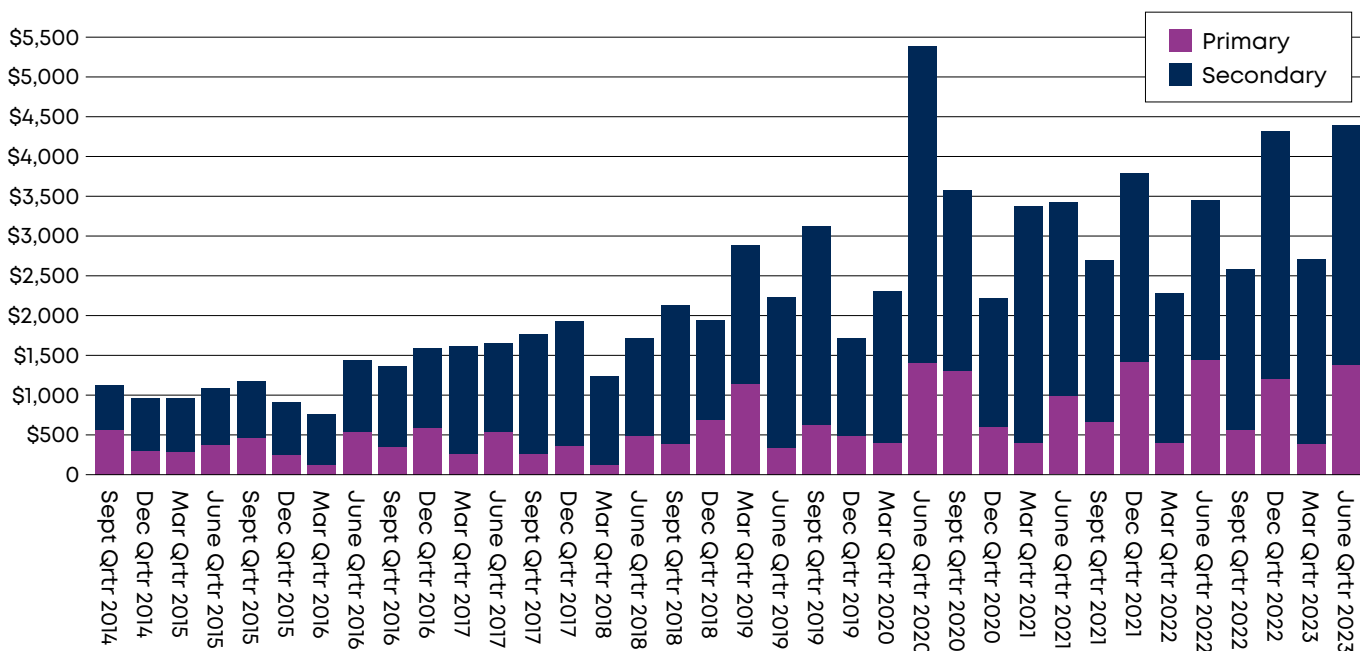


Short-term borrowing by councils and CCOs with loan terms of between one month and 12 months remains well supported with \$555 million outstanding as of 30 June 2023 to thirty-seven councils and CCOs. The number of councils and CCOs using this product increased by seven over the quarter while the total amount outstanding increased by \$22 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) was strong during the June quarter on a seasonal basis with combined activity of \$4.39 billion. This was the second highest on record after the June 2020 quarter. Primary issuance (bond tenders and syndication) was \$1.38 billion and there was secondary market turnover of \$3.01 billion during the quarter.

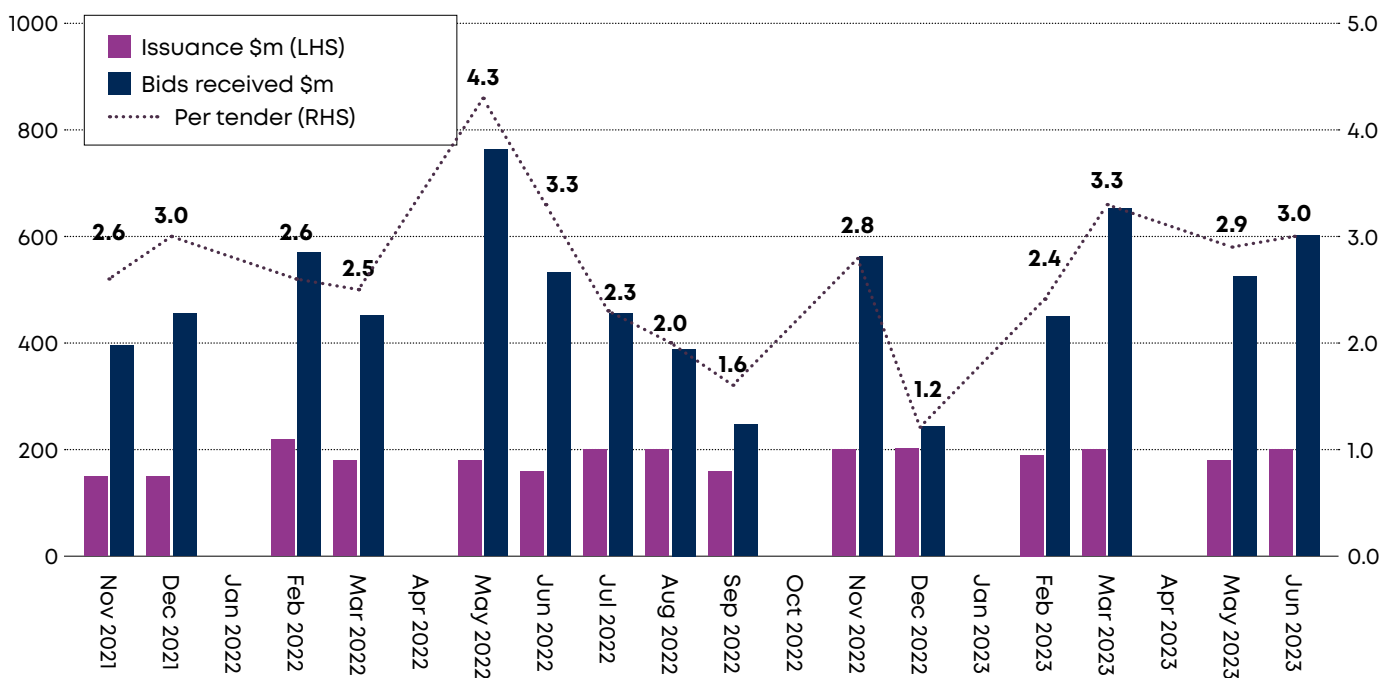
LGFA Primary and Secondary Market Activity – Quarterly (NZ\$ million)



LGFA commenced issuing LGFA Bills and short dated (less than 1 year) lending to councils in late 2015. As at 30 June 2023 there were \$792 million of LGFA Bills on issue which is a record high. We use proceeds from LGFA bills to fund short term lending to councils and hold the balance for liquidity purposes in our liquid asset portfolio.

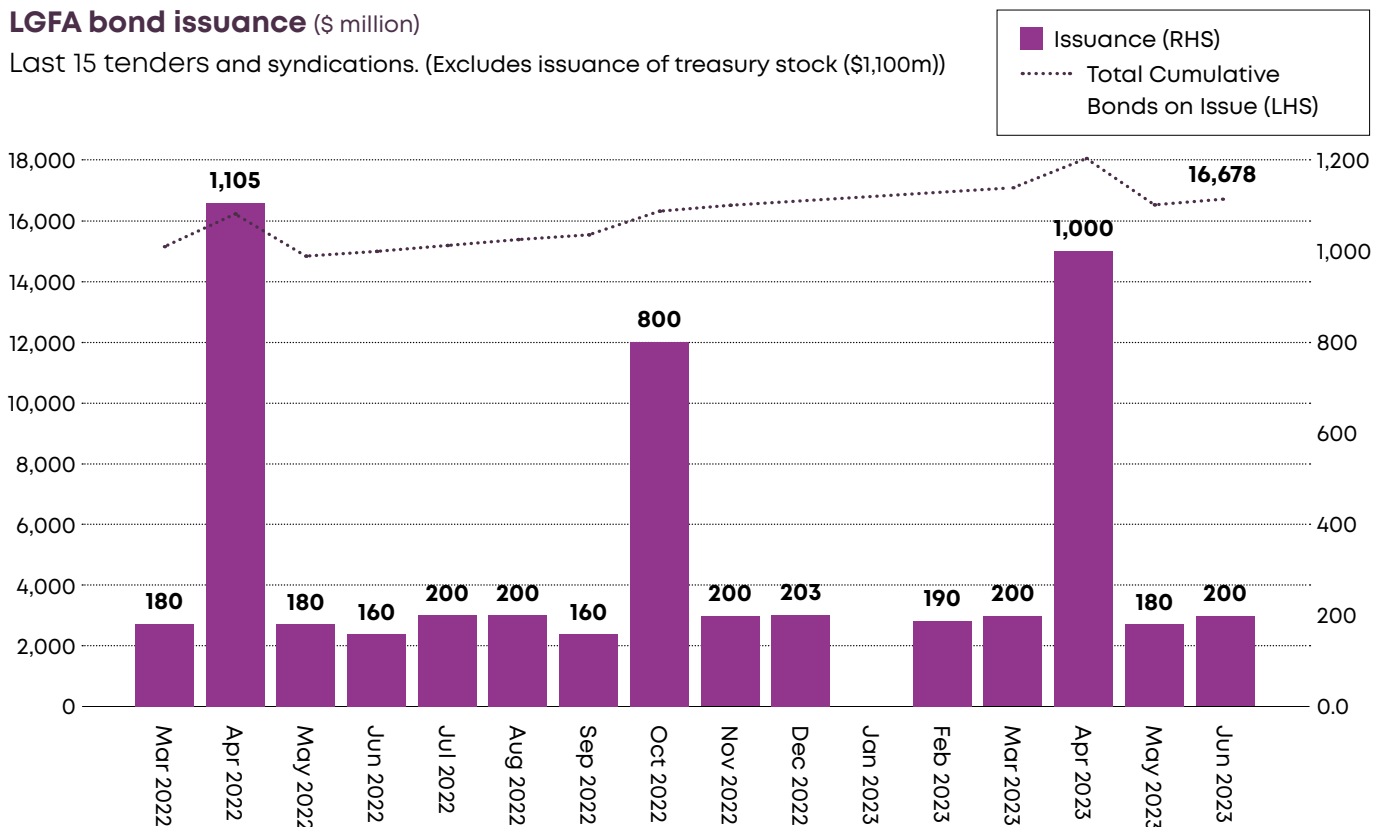
Tender bid coverage ratio

Last 15 tenders



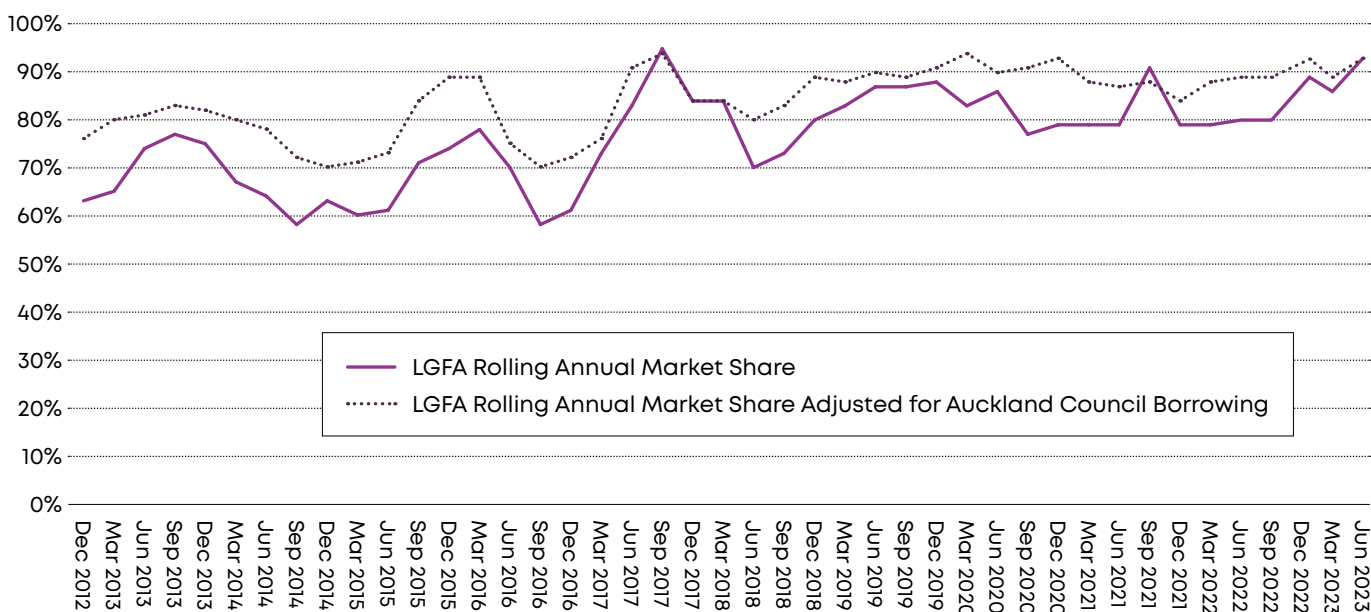
LGFA bond issuance (\$ million)

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



LGFA documented an Australian Medium-Term Notes Programme in November 2017 and updated the Programme in March 2020 and July 2023. We have been engaging with banks and investors in June-July 2023 as to whether we would issue AUD bonds.

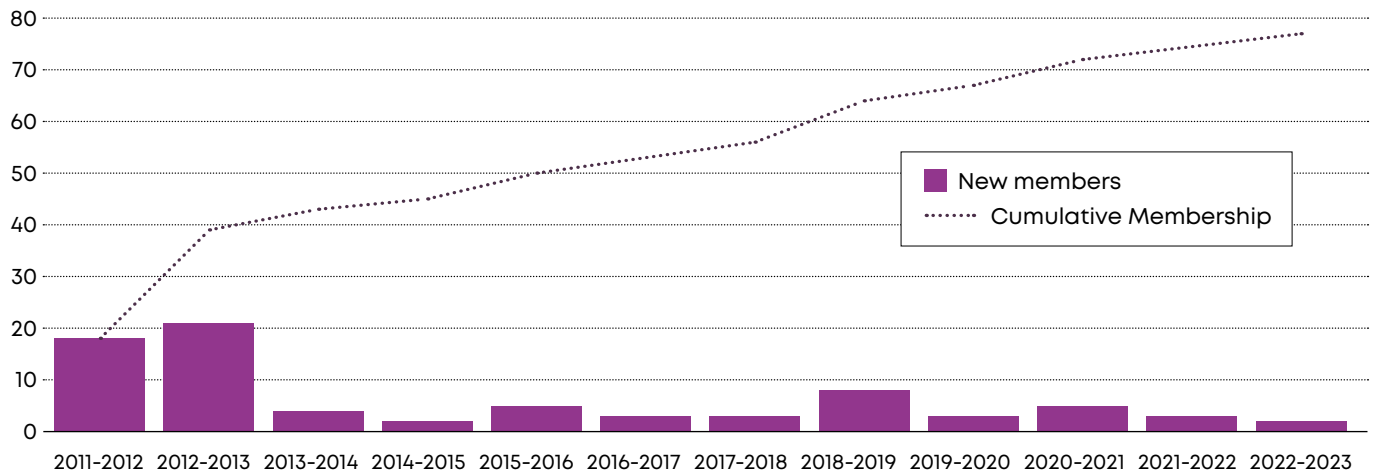
LGFA Market Share – rolling one year average



Council membership and market share

We use our own data and the PwC Local Government Debt Report to estimate our market share. Our estimated market share for the rolling twelve-month period to 30 June 2023 was 93%. Our market share compares favourably to our historical average of 76.5% and our market share remains high compared to our global peers.

Council Membership (as at 30 June 2023)



As at 30 June 2023, there are seventy-seven councils and three CCO as members of LGFA. We are unlikely to add the last remaining council Chatham Islands District Council but expect a further three CCOs to join in the coming year. The number of guarantors is also unchanged at seventy-one.

Our CCO lending as at 30 June 2023 comprises \$222.7 million of loans to three CCOs.

- Invercargill City Holdings Limited joined as a member in July 2021 and has borrowings outstanding of \$90.7 million as at 30 June 2023 (a decrease of \$0.8 million over the quarter).
- Westland Holdings Limited joined as a member in November 2022 and has borrowings outstanding of \$7.1 million as at 30 June 2023 (an increase of \$1.7 million over the quarter).
- Dunedin City Treasury Limited joined as a member in November 2022 and has borrowings outstanding of \$125 million as at 30 June 2023 (an increase of \$50 million over the quarter).

D3. Environmental and social responsibility

Performance target	2022-23 Target	Performance against target
Comply with the Health and Safety at Work Act 2015	No breaches	Met
Maintain Toitū Carbon Zero certification	Carbon-zero certification maintained.	Met
Meet reduction targets outlined in our carbon reduction management plan.	Reduction targets met.	Met Carbon Reduction Plan established
Increase our GSS Lending Book	Two new participating borrowers enter GSS loans	Met Whangarei District Council and Christchurch City Council.
Ensure Annual Report is prepared in compliance with applicable GRI Standards	100%	Met
Meet all mandatory climate reporting standards	100%	Met

Objectives:

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

During the quarter, we lent \$99 million to finance pre-approved projects to Christchurch City, Whangarei District, Wellington City and Hutt City Councils under our Green, Social and Sustainability Lending Programme. This takes the total number of GSS loans approved to five with a combined value of \$562 million and there has been \$294.5 million in loans undertaken as at 30 June 2023. For further information on GSS loans see our website [Green, Social & Sustainability Loans | New Zealand Local Government Funding Agency \(lgfa.co.nz\)](https://www.lgfa.co.nz)

We approved Auckland Council, Dunedin City Treasury and Hutt City Council as our first group of borrowers under the Climate Action Loans (CALs) Programme during the March quarter and had \$520.7 million of CALs to the three councils as at 30 June 2023. Eligible councils will receive a discounted loan margin if they have in place a GHG Emission Reduction Plan and are meeting their emission reduction targets. The advantage of CALs is that unlike GSS loans, they do not have to be project specific. For further information on CALs see our website [Climate Action Loans | New Zealand Local Government Funding Agency \(lgfa.co.nz\)](https://www.lgfa.co.nz)

D4. Effective management of loans

Performance target	2022-23 Target	Performance against target
Review each participating borrower's financial position under LGFA policies.	100%	Met
Arrange to meet each Participating Borrower at least annually, including meeting with elected officials as required, or if requested.	100%	Met

Objectives:

- 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 meet each participating borrower annually, including meeting with elected officials as required, or if requested.

We undertook meetings with thirty-five councils and CCOs during the June quarter. LGFA continues to review council agendas and management reports on an ongoing basis for those councils on the LGFA borrower watch-list.

We have received compliance certificates for LGFA covenants from all our council and CCO members who had debt outstanding as at June 2022 and no council has requested that they be measured on a group basis.

D5. Industry leadership and engagement

Objectives

- 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.
- Assist the local government sector with significant matters such as COVID -19 response and the proposed Three Waters Reform Programme.
- Support councils and CCOs in the development of reporting disclosures of the impacts of sector activity on climate change.

We held an LGFA Update webinar during the quarter for our council and CCO stakeholders and a economic and market update. We will continue to do this on a quarterly basis.

Throughout the quarter we have had meetings with Treasury, the National Transition Unit at DIA and their advisers regarding Three Waters Reform. We are actively working with them on issues relating how to debt being transitioned from 1 July 2024 and how the WSEs access borrowing through a variety of sources following transition. Central Government in April 2023 announced a delay to the start of the renamed Affordable Waters Programme with the transition period occurring between 1 July 2024 and 1 July 2026.

LGFA has provided input into the Ratepayer Financing Scheme (RFS) project managed by a group of councils with advice from Cameron Partners. If successful, the RFS could offer temporary financial relief to ratepayers via rates postponement. LGFA is not contributing financially to this project but providing intellectual capital and assistance.

We continue to try to progress two initiatives to reduce compliance and documentation requirements for councils when they borrow from LGFA. These relate to a universal stock security certificate and for councils to allow delegation of a CEO certificate for borrowing. We are however reliant upon other organisations to work through these changes for us and do not have much control over timelines.

E. Investor relations

Managing relations with our investor base is especially 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. Offshore investor holdings are now at a record high.

Over the three-month period to 30 June 2023, we issued \$1.38 billion of LGFA bonds and \$1.83 billion of April 2023 LGFA bonds matured. The change in holdings amongst our investor groups during the quarter was:

- Offshore investor holdings increased by \$524 million to be \$6.2 billion on 30 June 2023 (36.8% of bonds on issue).
- Domestic bank holdings decreased by \$360 million to be \$4.2 billion on 30 June 2023 (25.1%).
- Domestic investor (retail and institutional) holdings decreased by \$337 million to be \$5.2 billion on 30 June 2023 (31.0%).
- The Reserve Bank of New Zealand (RBNZ) holdings decreased by \$255 million to be \$1.2 billion as of 30 June 2023 (7.0%).

LGFA Bond Holdings by Investor Group (% and \$ billions)

