

LGFA Quarterly Report to Shareholders



March Quarter 2024

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A. March Quarter highlights

| March Quarter | Total | Bespoke Maturity | April 2025 | April 2026 | April 2027 | May 2028 | April 2029 | May 2030 | May 2031 | April 2033 | May 2035 | April 2037 |
|------------------------------|----------------|------------------|------------|------------|------------|----------|------------|----------|----------|------------|----------|------------|
| Bonds Issued NZ\$m | 330.0 | | | | 50.0 | 40.0 | 50.0 | 50.0 | 50.0 | 40.0 | | 50.0 |
| Term Loans to Councils NZ\$m | 1,286.3 | 322.9 | | 55.0 | 121.6 | 356.1 | 243.7 | 97.0 | 20.0 | 70.0 | | |

| 2023-24 Year to Date | Total | Bespoke Maturity | April 2025 | April 2026 | April 2027 | May 2028 | April 2029 | May 2030 | May 2031 | April 2033 | May 2035 | April 2037 |
|------------------------------|----------------|------------------|------------|------------|------------|----------|------------|----------|----------|------------|----------|------------|
| Bonds Issued NZ\$m | 1,960.0 | | 310.0 | | 250.0 | 170.0 | 210.0 | 550.0 | 175.0 | 205.0 | | 90.0 |
| Term Loans to Councils NZ\$m | 3,918.4 | 1,567.4 | 51.1 | 247.0 | 345.0 | 534.1 | 315.7 | 448.1 | 120.0 | 290.0 | | |

| AUD Bond Issuance | Total | Sep 2027 | Aug 2028 | Nov 2030 | Mar 2034 |
|---------------------------|----------------|----------|----------|----------|----------|
| March Quarter A\$m | 1,000.0 | 500.0 | | | 500.0 |
| 2023-24 Year to Date A\$m | 2,650.0 | 500.0 | 1,000.0 | 650.0 | 500.0 |

Key points and highlights for the March quarter:

- LGFA bond yields partially reversed some of the large falls in the December 2023 quarter with LGFA bond yields rising between 0.18% (2029s) and 0.25% (2037s) over the quarter. Concerns over increased bond supply, positive global economic data and stubborn inflation outcomes has prompted markets to be less optimistic on near term rate cuts by global central banks until inflation falls further from current levels.
- LGFA issued NZ\$330 million of NZD bonds during the quarter through two NZD bond tenders. We also issued two A\$500 million tranches of a 3.5-year (maturing September 2027) and 10-year (maturing March 2034) bond and we swapped the proceeds back into NZD to remove any foreign currency risk. The issues were our third offshore issuance this financial year and provides investor diversification and additional volume of issuance. The average term of NZ\$ And A\$ issuance during the quarter was 6.81 years.
- LGFA borrowing margins to swap narrowed between 1 bps and 3 bps over the quarter with the average spread to swap of all 11 LGFA bond maturities 1.3 bps tighter at 51.5 bps at 31 March 2024. LGFA spreads to NZGB widened by between 3 bps and 11 bps over the quarter with the average spread 4 bps wider at 49 bps.
- Long dated lending to councils and CCOs during the quarter of \$1.286 billion was again higher than expected. Due to the strong lending volumes in the past nine months of \$3.918 billion, we revised the FY24 forecast lending higher by \$300 million to \$5.0 billion (and LGFA bond issuance to \$5.3 billion). The average term of lending during the quarter was a short 4.66 years and the average term of lending to councils (excluding short term lending) was the shortest on record at 3.74 years as at 31 March 2024.
- We lent \$330 million of Climate Action Loans (CALs) to councils and CCOs during the quarter. Total GSS loans and CALs outstanding as at 31 March 2024 was \$2.16 billion or 10.8% of our total loan book.
- LGFA has an estimated market share of 91.5% of total council borrowing for the rolling twelve-month period to March 2024 compared to a historical average of 77% since 2012.
- Short-term lending increased over the quarter by \$9 million to a record \$635 million of short-term loans outstanding on 31 March 2024 to thirty-seven councils and CCOs.
- LGFA Net Operating Gain (unaudited management estimate) for the nine-month period to 31 March 2024 of \$6.498 million was \$2.945 million below budget, comprising total operating income at \$14.587 million (\$2.061 million below budget) and expenses at \$8.089 million (\$884k above budget). The sale of liquid assets from the Liquid Asset Portfolio has realised approximately \$2.1 million of losses into the current financial year that would have been spread over future years. The higher than budget expenses were due to the larger amount of bond issuance by LGFA and the accrual of Approved Issuer Levy (AIL) on our AUD bond issuance.
- S&P Global Ratings place fifteen councils and two CCOs on negative outlook as a result of lowering the trend in the Institutional Framework from stable to weakening. They did comment that LGFA credit rating is not affected.
- We received two global awards during the quarter – the Environmental Finance Sustainable Bond of the Year Award for a Supranational Issuer for the May 2030 Sustainable Finance Bond and the Treasury Management International (TMI) Editors Treasury for Good Award. We have also been named a finalist for two INFINZ awards – for Excellence in Treasury and Debt Market Deal of the Year.

B. LGFA bond issuance over quarter

We issued \$330 million of NZD bonds via two bond tenders (January and March) and A\$1 billion via an AUD bond syndication in March of two bonds.

The January bond tender was a soft result but expected given the mixed issuance conditions over the latter part of the 2023 calendar year. Towards the end of 2023 the LGFA bond tender results were strong one month and then weak the next and this has been the same for the New Zealand Debt Management (NZDM). Global yields were rising after the fall in yields went too far at the end of 2023 and markets were focussed on further debt issuance e.g. NZDM announced a new 30-year (2054) NZGB, and we announced a \$300 million increase in our annual funding programme to \$5 billion. The previous weeks New Zealand Government Bond tender result was the worst outcome for over a year. NZGBs had outperformed global bond markets over the previous three months and LGFA bonds had tightened on spreads to NZGBs, so LGFA bonds were unattractive on a relative value basis.

Price support was strongest for the 2028s going just below mid-market whereas the longer maturities went between 2 bps and 4 bps over mid rates. Bidding volume was mixed with an average overall bid coverage ratio of 1.97x but support was concentrated in the 2028s (3.3x) and the other three bond maturities had coverage ratios of between 1.48x to 1.66x. Successful bid ranges varied between 0.5 bps (2028s) and 8 bps (2033s). The number of successful bids varied between 3 (2028s) and 9 (2029s) for each bond offered.

The average maturity of the LGFA bonds issued at 6.49 years was longer than previous bond tenders.

While we issued \$180 million of LGFA bonds, we on-lent a record \$617.5 million to nineteen councils with an average term of lending to councils at 5.2 years (62 months).

| Tender 105 – 24 January 2024 | 15 May 28 | 20 Apr 29 | 15 May 31 | 14 Apr 33 |
|---|-----------|-----------|-----------|-----------|
| Total Amount Offered (\$million) | 40 | 50 | 50 | 40 |
| Total Amount Allocated (\$million) | 40 | 50 | 50 | 40 |
| Total Number of Bids Received | 16 | 16 | 14 | 12 |
| Total Amount of Bids Received (\$million) | 133 | 83 | 79 | 59 |
| Total Number of Successful Bids | 3 | 9 | 8 | 7 |
| Highest Yield Accepted (%) | 4.920 | 5.000 | 5.235 | 5.380 |
| Lowest Yield Accepted (%) | 4.915 | 4.955 | 5.150 | 5.300 |
| Highest Yield Rejected (%) | 5.030 | 5.070 | 5.295 | 5.430 |
| Lowest Yield Rejected (%) | 4.925 | 5.000 | 5.235 | 5.385 |
| Weighted Average Accepted Yield (%) | 4.916 | 4.984 | 5.175 | 5.332 |
| Weighted Average Rejected Yield (%) | 4.961 | 5.029 | 5.260 | 5.411 |
| Amount Allotted at Highest Accepted Yield as Percentage of Amount Bid at that Yield | 100 | 83.3 | 28.6 | 100 |
| Coverage Ratio | 3.33 | 1.66 | 1.58 | 1.48 |
| NZGB Spread at Issue (bps) | 46.00 | 49.00 | 56.00 | 62.00 |
| Swap Spread at Issue (bps) | 55.00 | 62.00 | 79.00 | 82.00 |
| Swap Spread: AA council (bps) | 74 | 80 | 96 | 101 |
| Swap Spread: AA- council (bps) | 79 | 85 | 101 | 106 |
| Swap Spread: A+ council (bps) | 84 | 90 | 106 | 111 |
| Swap Spread: Unrated council (bps) | 94 | 100 | 116 | 121 |

The March bond tender was a very strong outcome as issuance conditions were positive, and we set the tender up to be well received by the market. The market was short the LGFA bond maturities that we tendered and the 2027 LGFA bond was very attractive on a spread to NZGBs. Our A\$1 billion syndicated issuance the previous week meant we could offer a smaller amount of bonds and the market realised that we have completed our funding programme for FY24 early. It was also the first time that we offered the May 2030 Sustainable Finance Bond via tender and this bond has seen very strong retail demand on the NZX. The NZDM also had a very strong result for their recent \$4 billion syndication of a new 30-year (2054) NZGB.

The tender size of \$150 million was smaller than the \$190 million historical average and we offered three bond maturities that were attractive to investors on a spread to NZGB.

Price support was strong for all three bonds with all going at mid-market or just below. Bidding volume was strong with an average overall bid coverage ratio of 3.84x and support for all three bond maturities ranging between 2.9x to 5.26x. This was the second highest coverage ratio for almost two years. The 2027 and 2037 bonds were taken out by one bidder while the 2030 bonds were shared amongst two bidders. Successful bid ranges were zero bps for each bond offered.

The average maturity of the LGFA bonds issued in the tender was a long 7.47 years compared to the 2022-23 financial year average of 5.5 years and the average for the current financial year of 7.37 years.

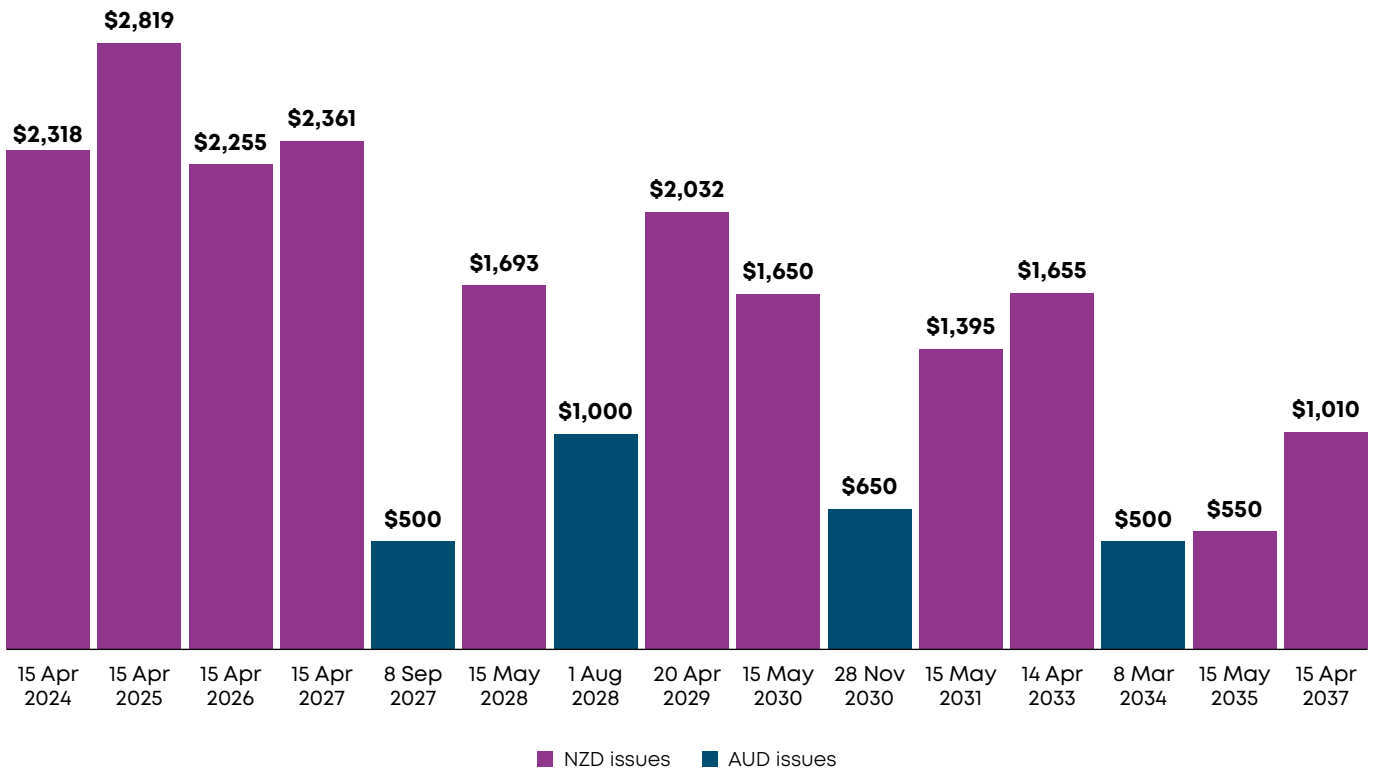
While we issued \$150 million of LGFA bonds, we on-lent a large \$515 million to twenty-one councils and CCOs. The average term of lending to councils at 5.25 years (63 months) remained relatively short on a historical basis.

| Tender 106 – 06 March 2024 | 15 Apr 27 | 15 May 30 | 15 Apr 37 |
|---|------------------|------------------|------------------|
| Total Amount Offered (\$million) | 50 | 50 | 50 |
| Total Amount Allocated (\$million) | 50 | 50 | 50 |
| Total Number of Bids Received | 12 | 12 | 15 |
| Total Amount of Bids Received (\$million) | 168 | 263 | 145.05 |
| Total Number of Successful Bids | 1 | 2 | 1 |
| Highest Yield Accepted (%) | 5.050 | 5.040 | 5.495 |
| Lowest Yield Accepted (%) | 5.050 | 5.040 | 5.495 |
| Highest Yield Rejected (%) | 5.185 | 5.170 | 5.610 |
| Lowest Yield Rejected (%) | 5.075 | 5.040 | 5.500 |
| Weighted Average Accepted Yield (%) | 5.050 | 5.040 | 5.495 |
| Weighted Average Rejected Yield (%) | 5.112 | 5.066 | 5.540 |
| Amount Allotted at Highest Accepted Yield as Percentage of Amount Bid at that Yield | 100 | 66.7 | 100 |
| Coverage Ratio | 3.36 | 5.26 | 2.90 |
| NZGB Spread at Issue (bps) | 46.00 | 50.00 | 67.50 |
| Swap Spread at Issue (bps) | 33.75 | 61.00 | 94.50 |
| Swap Spread: AA council (bps) | 53.75 | 81 | 114.5 |
| Swap Spread: AA- council (bps) | 58.75 | 86 | 119.5 |
| Swap Spread: A+ council (bps) | 63.75 | 91 | 124.5 |
| Swap Spread: Unrated council (bps) | 73.75 | 101 | 134.5 |

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

As at 31 March 2024 NZ\$19,738 million and A\$2,650 million

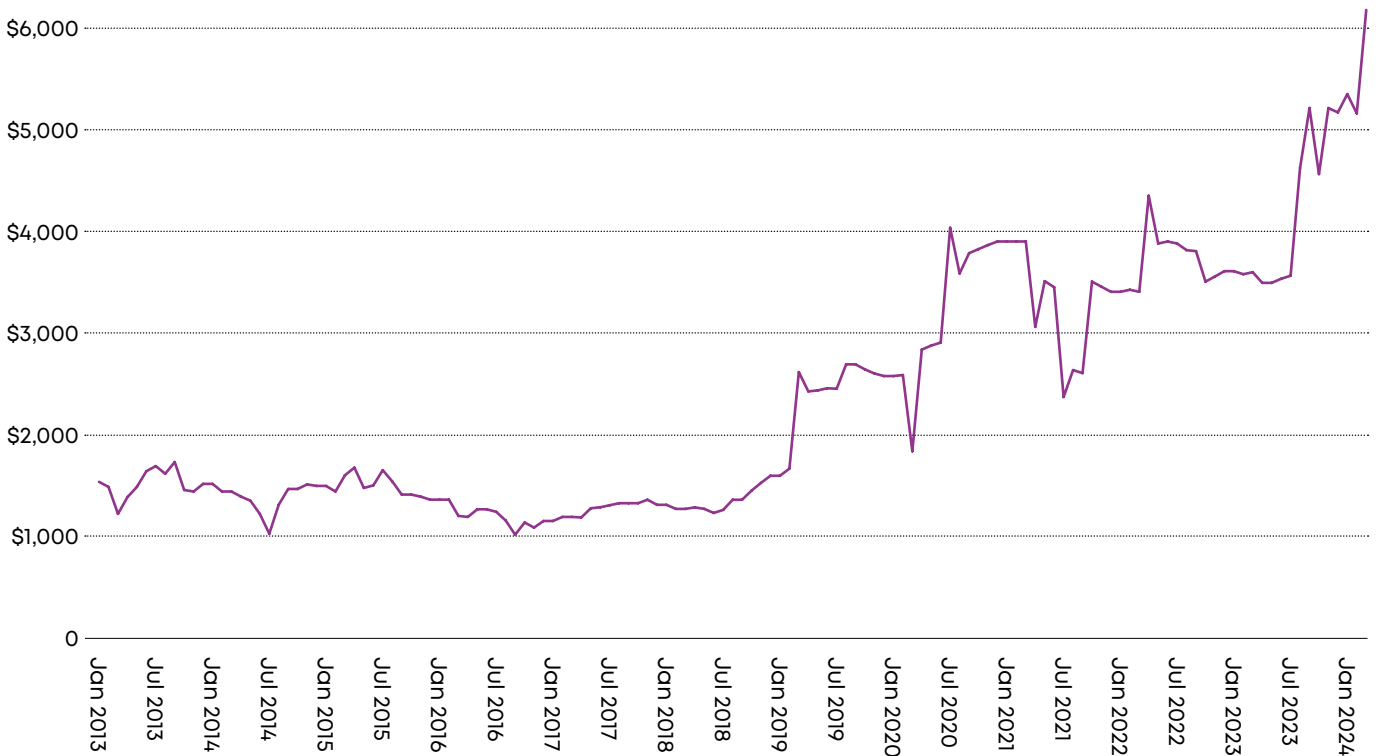
Includes NZ\$1,100 million treasury stock



We have eleven LGFA bond maturities listed on the NZX Debt market that finance our long-term lending to councils. We had NZ\$19.738 billion of NZD bonds on issue (including treasury stock) on issue as at 31 March 2024. We also had A\$2.65 billion of bonds issued under our Australian Medium Term Notes programme.

Our issuance volume on a rolling 12-month basis to March 2024 was a record NZ\$6.18 billion equivalent amount (comprising NZ\$3.34 billion of NZD issuance and A\$2.65 billion of AUD issuance).

Rolling 12 month Issuance including A\$ and NZ\$ bonds (NZ\$ millions)



C. Summary financial information (management estimates)

The following results are management estimates only.

| Financial Year (\$m) | YTD as at Q3 |
|--|---|
| Comprehensive income | For nine-month period ending 31 March 24 |
| Interest income | 889.541 |
| Interest expense | 876.080 |
| Net interest revenue | 13.461 |
| Other operating Income | 1.125 |
| Total operating income | 14.587 |
| Issuance and On-lending costs | 3.103 |
| Approved issuer levy | 1.056 |
| Operating expenses | 3.939 |
| Issuance and operating expenses | 8.089 |
| Net Profit | 6.498 |
| Financial position (\$m) | As at 31 March 2024 |
| Retained earnings + comprehensive income | 85.6 |
| Total assets | 23,214 |
| Total LG loans | 20,020 |
| Total LGFA bills (nominal) | 925 |
| Total LGFA bonds (nominal in NZD) | 22,576 |
| Total borrower notes | 431.1 |
| Total equity | 110.6 |

D. Strategic priorities. Performance against objectives and performance targets

D1. Governance, capability and business practice

| Performance target | 2023-24 Target | Performance against target as at 31 March 2024 |
|---|---|--|
| 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 |
| LGFA's total operating income for the period to 30 June 2024. | > \$20.6 million | Not Met – \$14.587 million as at 31 March 2024 |
| LGFA's total operating expenses for the period to 30 June 2024. | < \$10.0 million | Not Met – \$8.089 million as at 31 March 2024 |

There have been no policy breaches during the quarter.

Fitch Ratings affirmed our long-term domestic and foreign currency credit rating as AA+ on 20 October 2023. S&P Global Ratings (S&P) affirmed our domestic currency credit rating at AAA and foreign currency rating at AA+ on 28 February 2024. Our credit ratings remain equivalent to the New Zealand Government from both S&P and Fitch Ratings.

There has been a substantial shift by S&P regarding the New Zealand Local Government sector as they have lowered the trend within the Institutional framework for New Zealand councils from stable to weakening. The framework

remains in the top category as “extremely predictable” and “supportive.” The lowering in the trend occurred because of Central Government policy uncertainty relating to councils and the increasing debt burden of councils as debt is rising faster than revenue.

Fifteen councils and two CCOs credit ratings were placed on negative outlook and joined six councils already on negative outlook. Only four councils and one CCO now remain on stable outlook under the S&P methodology.

S&P did make the following comments regarding LGFA on a webinar:

- Our lending book can handle lower credit quality of councils.
- We have increased the diversification of financing sources.
- We have reduced our concentration of LGFA lending.
- Our profitability will improve from higher lending margins to councils if they are downgraded.

If all the councils and CCOs currently on negative outlook are downgraded, then the average credit quality of our lending book falls from AA to just above AA-.

Total operating income at \$14.587 million was 88% of target for the nine months to March 2024. It is \$2.061 million below budget due to the sale of liquid assets in the Liquid Asset Portfolio that realised a loss of \$2.1 million. We hold our liquid assets on a hold to maturity basis so if we sell them prior to maturity then there can be a realised gain or loss. While we have taken a loss in the current fiscal year it will improve profitability in future years. Expenses were above budget by \$884k due to the accrual of Approved Issuer Levy (AIL) on our AUD bond issuance (+\$891k over budget). Additional legal and NZX costs associated with higher issuance combined with the legal costs associated with establishing the Euro Commercial Paper (ECP) Programme were offset by lower consultancy and IT expenses relative to budget. Net Operating Gain of \$6.498 million was \$2.945 million under budget.

D2. Optimising financing services for local government

| Performance target | 2023-24 Target | Performance against target as at 31 March 2024 |
|---|--------------------------|--|
| Share of aggregate long-term debt funding to the Local Government sector. | > 80% | Met – 91.5% as at 31 March 2024 |
| Total lending to Participating Borrowers. | > \$17,870 million | On track to meet – \$19,898 million as at 31 March 2024 |
| 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 – 99% satisfaction score in August 2023 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 |

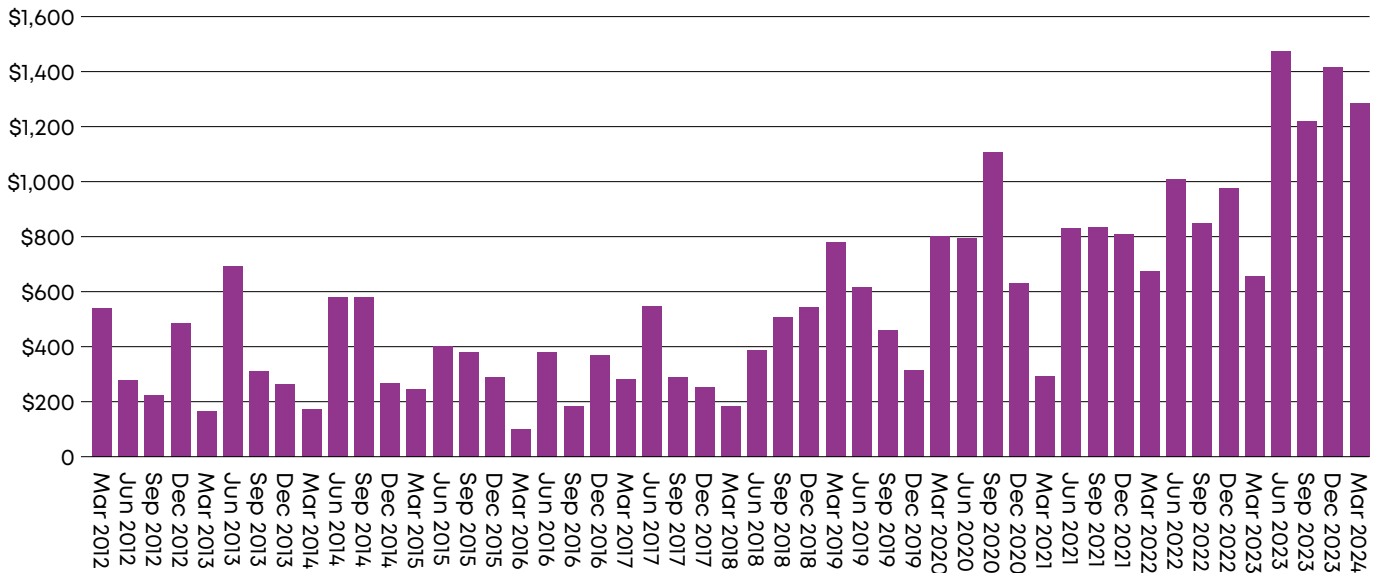
Objectives:

- 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 \$1.286 billion to forty councils and CCOs during the March quarter with Auckland Council, Hamilton City, Christchurch City and Greater Wellington Regional being the largest council borrowers. Our only CCO long term lending during the quarter was to Dunedin City Holdings. Long term lending to sixty-three councils and CCOs for the nine-month period of \$3.92 billion has exceeded our full year SOI forecast of \$3.9 billion, and we revised upwards our estimate for full year council and CCO borrowing to \$5.0 billion.

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



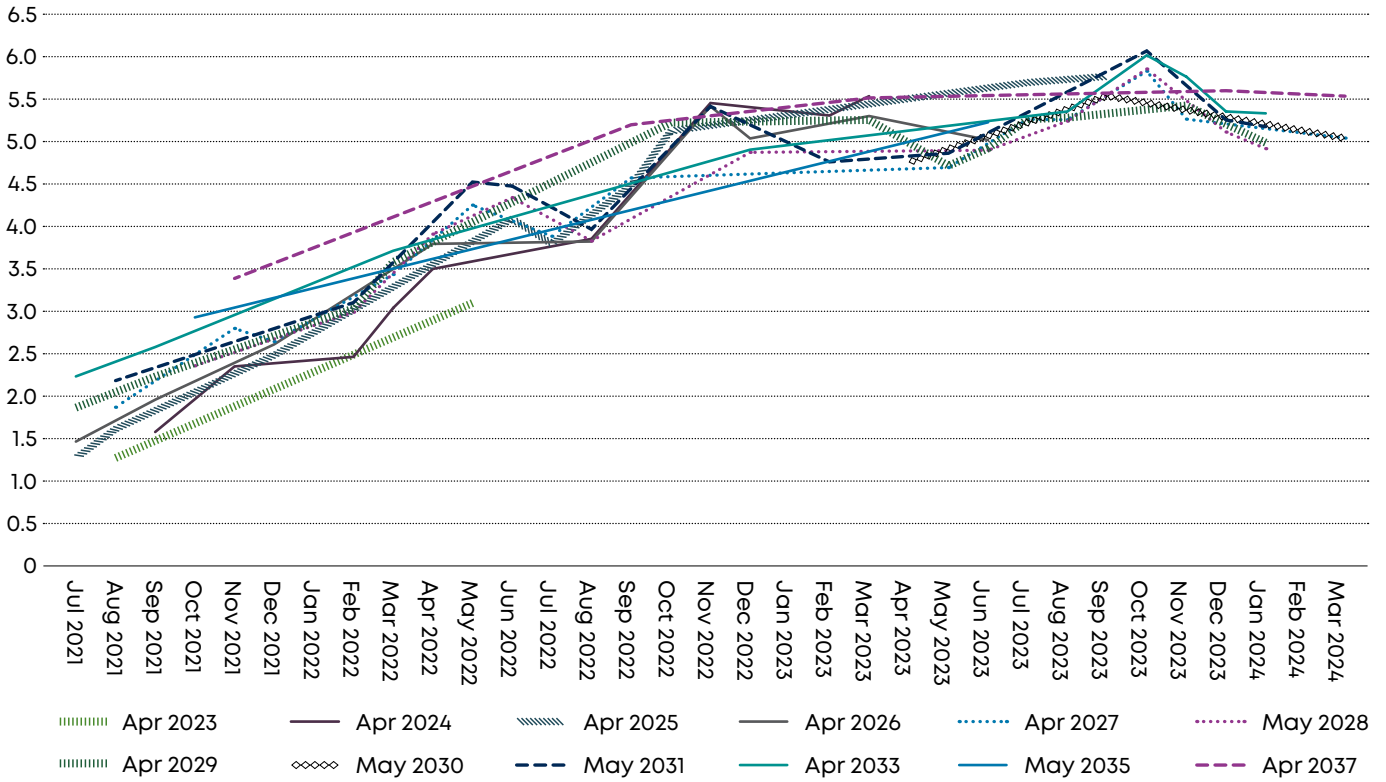
Our borrowing margins relative to other high-grade issuers in the New Zealand capital markets are similar despite our larger issuance programme. Our borrowing spreads are similar to Kainga Ora despite them no longer borrowing in their own name but funding through the NZDM. This reduction in supply has been beneficial to their borrowing spread while our increased issuance has led to a widening in our borrowing spread.

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

| 31 March 2024 | Comparison to other high-grade issuers – secondary market spread to swap (bps) | | | | | | | | | | | | |
|----------------------------------|--|------|------|------|------|------|------|------|------|------|------|------|--|
| | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2033 | 2034 | 2035 | 2037 | |
| LGFA (AAA) | 6 | 16 | 23 | 35 | 45 | 52 | 60 | 71 | 77 | 81 | 85 | 93 | |
| Kainga Ora (AAA) | | 15 | 22 | 33 | 46 | | 61 | | | | 88 | | |
| Asian Development Bank (AAA) | 6 | 8 | 12 | 21 | 31 | | | 52 | | | | | |
| IADB (AAA) | 9 | 11 | 19 | 24 | 38 | | 48 | | | | | | |
| International Finance Corp (AAA) | 7 | 9 | 15 | 26 | 32 | 43 | | | | | | | |
| KBN (AAA) | 11 | 15 | 21 | 28 | | | 56 | | | | | | |
| Rentenbank (AAA) | 8 | 11 | | 25 | | 36 | | | | | | | |
| World Bank (AAA) | | 8 | 11 | 23 | 29 | | 46 | | | | | | |
| Nordic Investment Bank (AAA) | | 10 | | | | 34 | 43 | | | | | | |
| ASB (AA-) | 18 | | 43 | 61 | | | | | | | | | |
| ANZ (AA-) | | | | | 72 | | | | | | | | |
| BNZ (AA-) | | 27 | 45 | 61 | 76 | | | | | | | | |
| Westpac Bank (AA-) | 18 | 28 | 45 | 59 | | | | | | | | | |
| SSA Average | 8 | 10 | 16 | 25 | 33 | 38 | 48 | 52 | | | | | |
| Bank Average | 18 | 28 | 44 | 60 | 74 | | | | | | | | |

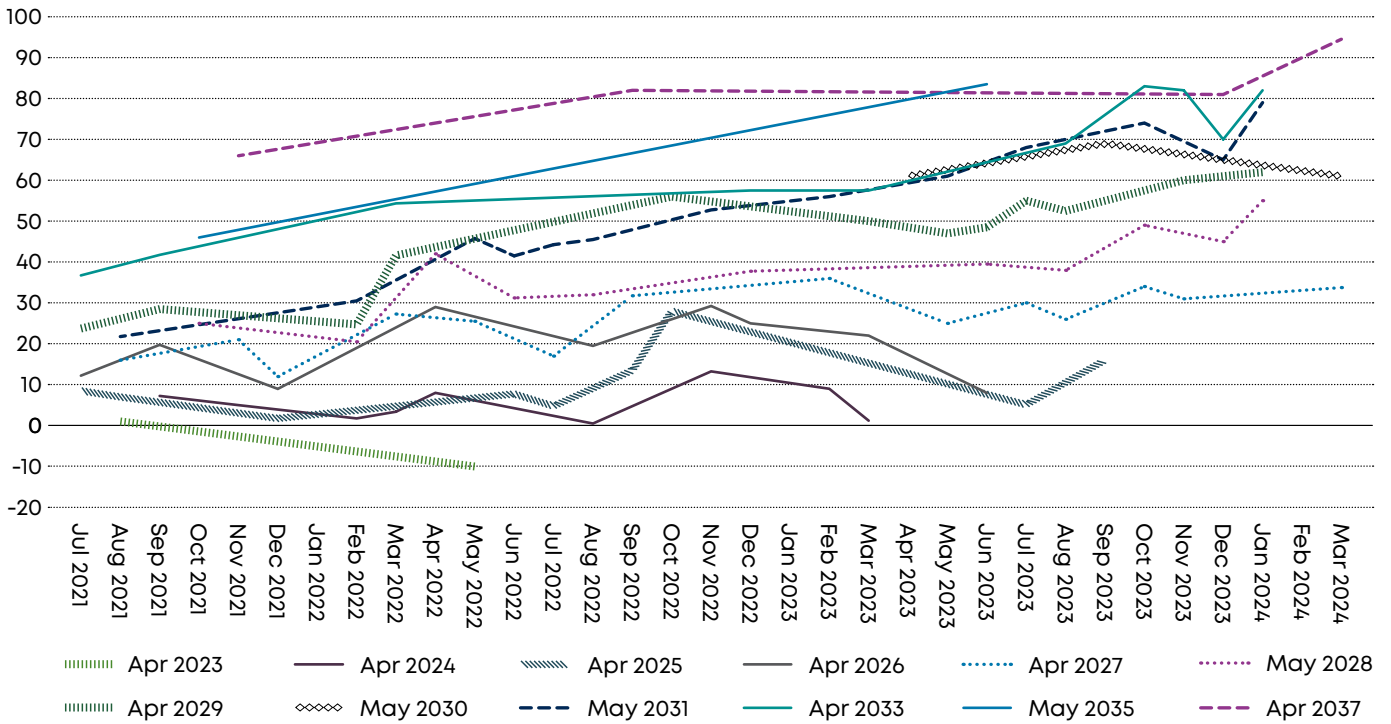
LGFA Bond Issuance Yields (%)

Last 30 tenders



Spread to swap

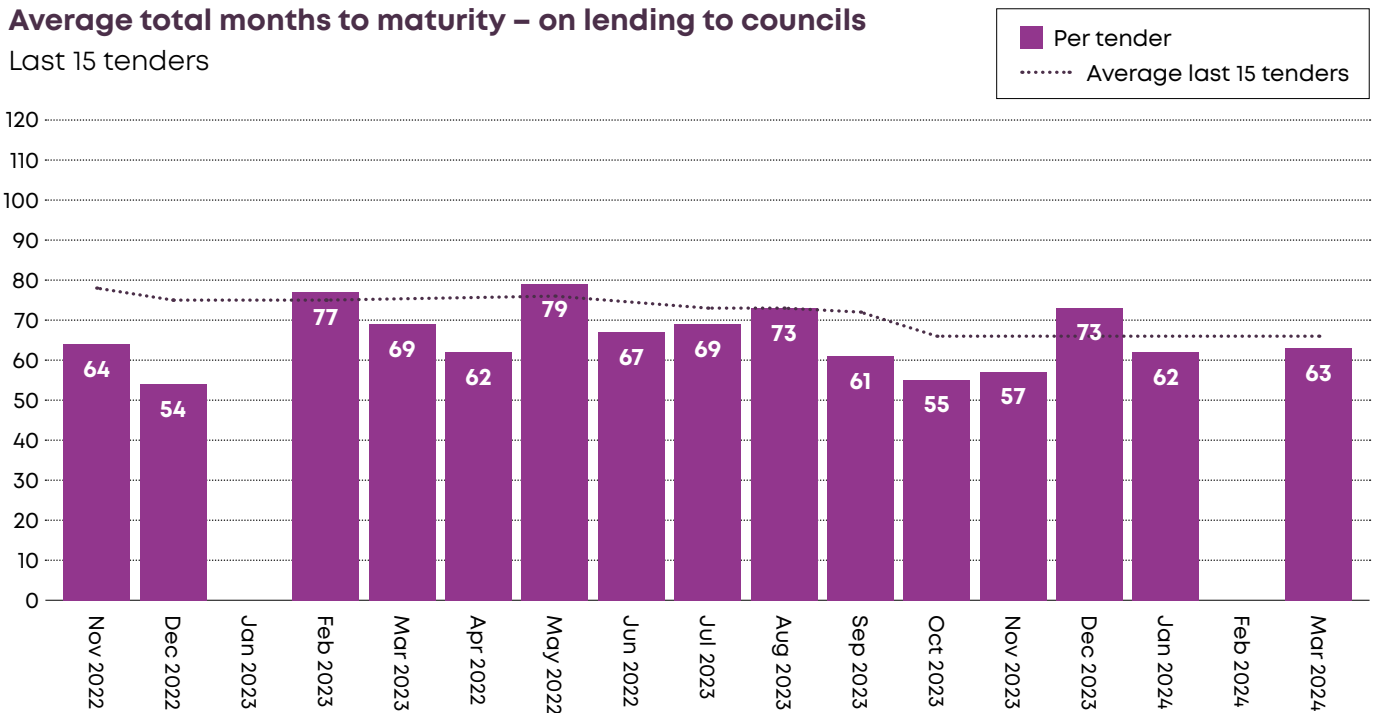
Last 30 tenders



The average borrowing term (excluding short-dated borrowing) for the March quarter by council members was 4.66 years and 4.99 years for the nine-months to 31 March 2024. This remains shorter than the 5.21 years for the year to June 2023.

Average total months to maturity – on lending to councils

Last 15 tenders

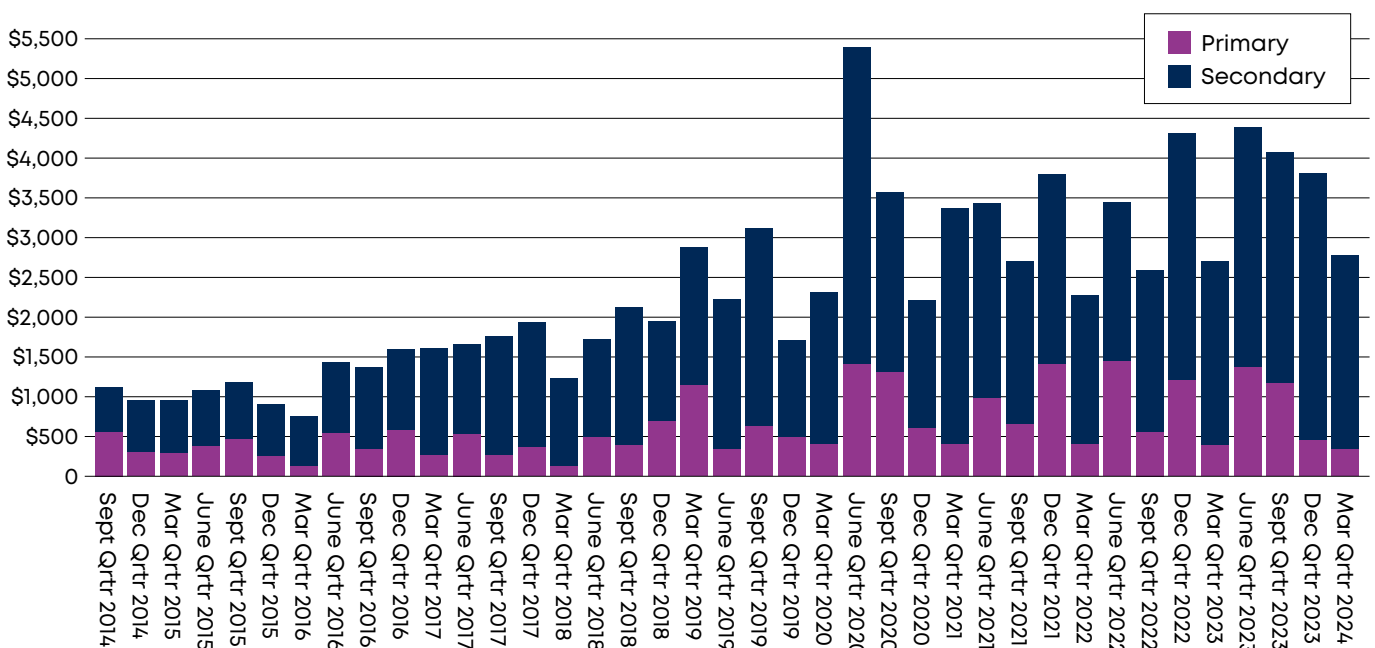


Short-term borrowing by councils and CCOs with loan terms of between one month and 12 months remains well supported with \$635 million outstanding as of 31 March 2024 to thirty-seven councils and CCOs. The number of councils and CCOs using this product increased by one over the quarter while the total amount outstanding increased by \$9 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.

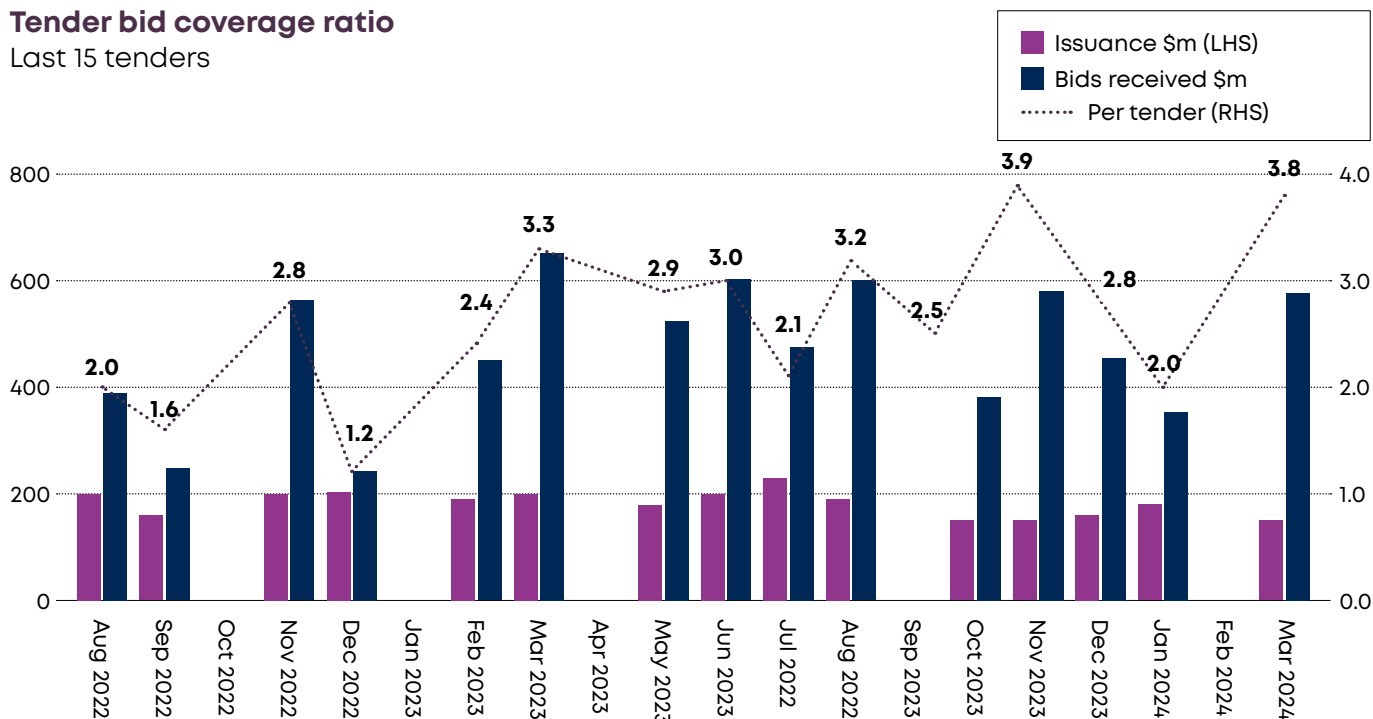
Activity in LGFA NZD bonds in both the primary market (tender or syndicated issuance) and secondary market (between banks and investors) was subdued during the March quarter but this is typically a quiet period. Combined activity of \$2.7 billion for the March 2024 quarter was the same as the March 2023 quarter but lower than the \$3.8 billion in the December 2023 quarter. Primary issuance (bond tenders and syndication) was \$330 million and there was secondary market turnover of \$2.4 billion during the quarter.

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



Tender bid coverage ratio

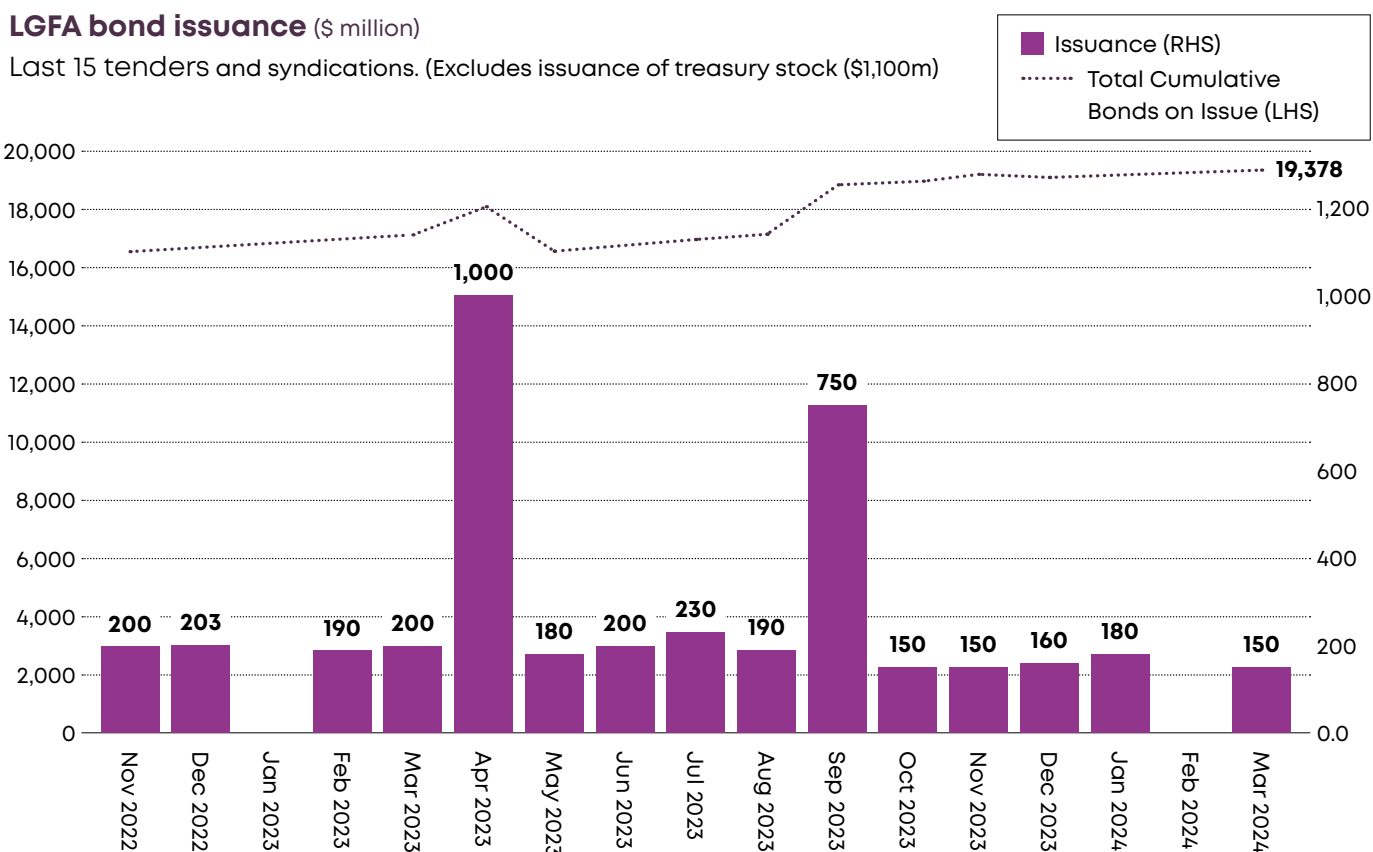
Last 15 tenders



LGFA commenced issuing LGFA Bills and short dated (less than 1 year) lending to councils in late 2015. As at 31 March 2024 there were \$925 million of LGFA Bills on issue which has increased by \$59 million over the quarter. 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.

LGFA bond issuance (\$ million)

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



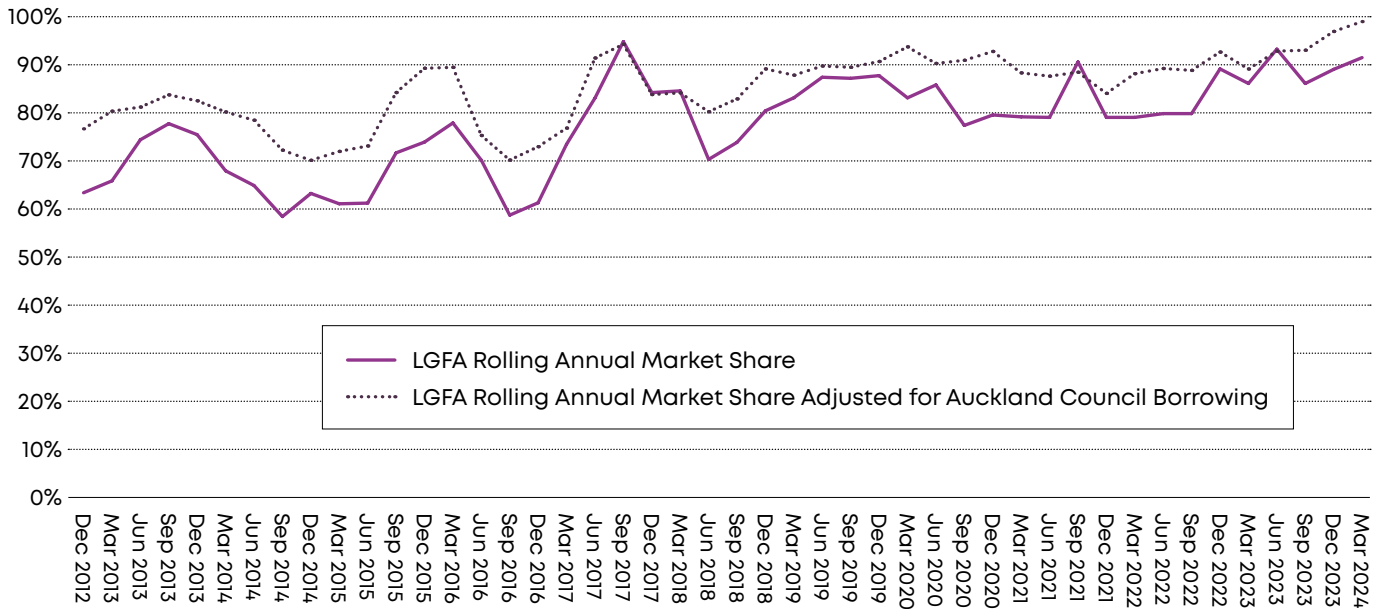
LGFA documented an Australian Medium-Term Notes Programme in November 2017 and updated the Programme in March 2020 and July 2023. We have successfully established a yield curve in AUD, having issued this year to date A\$2.65 billion of bonds comprising A\$1 billion of a 5-year bond in August 2023, A\$650 million of a 7-year bond in November 2023 and two A\$500 million tranches of a 3.5 year and 10 year bond in February 2024. The AUD issuance helps diversify our funding base away from a reliance upon NZD funding at a slightly higher cost.

Our successful issuance in AUD has reopened the market for other New Zealand issuers to borrow in that market.

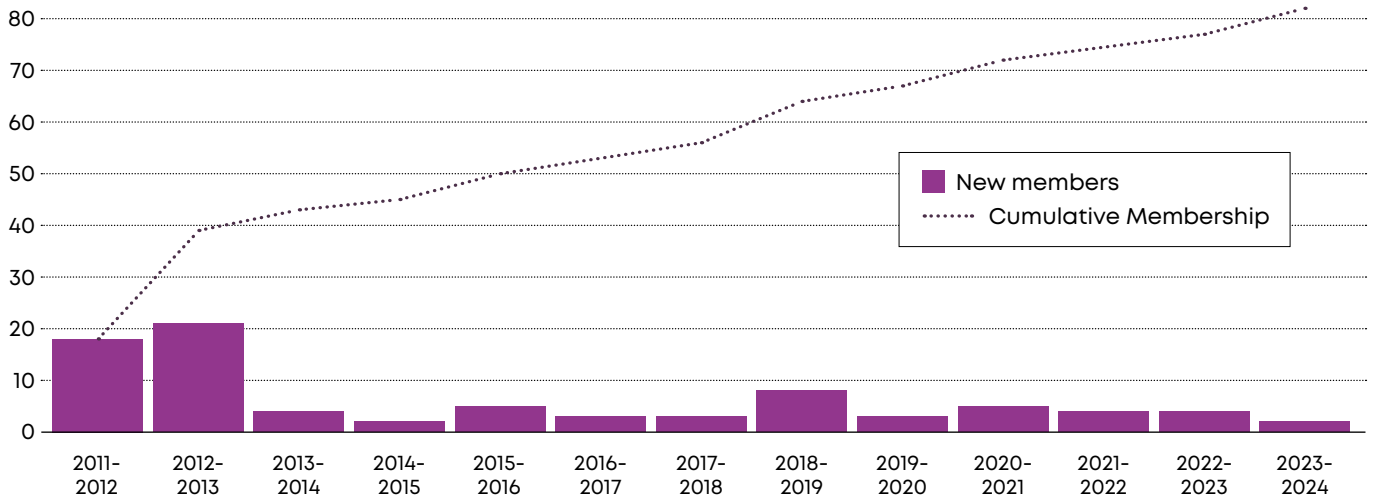
Council membership and market share

We use our own data and the PwC Local Government Debt Report to estimate our market share of council borrowing. Our estimated market share for the rolling twelve-month period to 31 March 2024 was 91.5%. If we adjust for Auckland Council borrowing from both LGFA and from the market in its own name, then our market share increases to a record high of 98.8% (as Auckland Council borrowed through LGFA and in its own name during the quarter). Our market share compares favourably to our historical average of 77.0% and our market share remains high compared to our global peers.

LGFA Market Share – rolling one year average



Council and CCO Membership (as at 31 March 2024)



As at 31 March 2024, there are seventy-seven councils and five CCO as members of LGFA. There were no new council or CCO members during the quarter. We are unlikely to add the last remaining council Chatham Islands District Council but expect a further CCO to join in the coming year. The number of guarantors is unchanged at seventy-two.

Our CCO lending comprises \$485.9 million of loans to four CCOs. The amount of CCO loans outstanding has increased by \$28 million over the quarter and comprises 2.4% of total loans outstanding.

- Invercargill City Holdings Limited joined as a member in July 2021 and has borrowings outstanding of \$96.9 million as at 31 March 2024 (an increase of \$8.5 million over the quarter).
- Westland Holdings Limited joined as a member in November 2022 and has borrowings outstanding of \$6.0 million as at 31 March 2024 (a decrease of \$0.35 million over the quarter).

- Dunedin City Treasury Limited joined as a member in November 2022 and has borrowings outstanding of \$270 million as at 31 March 2024 (an increase of \$20 million over the quarter).
- Infrastructure Holdings Limited joined as a member in September 2023 and has borrowings outstanding of \$113 million as at 31 March 2024 (unchanged over the quarter).

Whanganui District Council Holdings has yet to borrow from LGFA.

D3. Environmental and social responsibility

| Performance target | 2023-24 Target | Performance against target as at 31 March 2024 |
|--|--|--|
| 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 and Climate Action Loans | Two new GSS loans and three new borrowers enter CALs | Expect to partially meet |
| 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.

We have not approved any further projects as eligible for GSS Loans during the quarter. There were also no loan drawdowns to finance pre-approved projects under our Green, Social and Sustainability Lending Programme. This takes the total number of GSS loans approved to six with a combined value of \$572 million and there has been \$377.2 million in loans undertaken as at 31 March 2024. Eligible council or CCO projects will receive a discounted loan margin. 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/green-social-sustainability-loans)

We had three councils (Auckland Council, Dunedin City Treasury and Hutt City Council) approved as our first borrowers under the Climate Action Loans (CALs) Programme during the March 2023 quarter and Kapiti District Council during the December 2023 quarter. Wellington City Council was approved during the March 2024 quarter, and we have \$1.7847 billion of CALs to the five councils as at 31 March 2024 which was an increase of \$330 million over the quarter. 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/climate-action-loans)

The total amount of sustainable loans (comprising GSS and CALs) is \$2.16 billion or 10.8% of the total LGFA lending book.

D4. Effective management of loans

| Performance target | 2023-24 Target | Performance against target as at 31 March 2024 |
|---|----------------|--|
| 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.
- Ensure a smooth transition of water related loans if the Affordable Water Reforms progresses over the forecast period.

We undertook meetings with twenty-one councils and CCOs during the March 2024 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 2023 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 the Affordable Waters Reforms.
- Maintain productive relationships with central government representatives.
- Support councils and CCOs in the development of reporting disclosures of the impacts of sector activity on climate change.

During the quarter we have had meetings with Treasury, DIA, Crown Infrastructure Partners, Infrastructure Commission, and the Technical Advisory Group regarding council finances and the water reform programme. We have met with the Minister of Local Government and continue to offer our assistance with the implementation of the Local Water Done Well (LWDW) programme.

We were a contributing sponsor of the Taituara Strategic Finance Forum, and we also provided the quarterly LGFA Business Update for councils by webinar.

LGFA continues to assist as required, the Ratepayer Assistance Scheme (RAS) project managed by a group of councils with advice from Cameron Partners. If successful, the RAS 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 control over timelines.

E. Investor relations

Managing relations with our investor base is especially important as the amount of LGFA bonds on issue continues to grow and we require investors and banks to support our ongoing tender issuance. Our mix of investors is well balanced across the various groups of LGFA bond holders.

During the quarter we met with Japanese investors who are one of our largest investor groups by country. Over the three month period we issued NZ\$330 million of LGFA bonds. The change in holdings amongst our investor groups during the quarter was:

- Offshore investor holdings decreased by NZ\$294 million to be NZ\$6.45 billion on 31 March 2024 (34.2% of bonds on issue).
- Domestic bank holdings increased by \$6 million to be NZ\$5.46 billion on 31 March 2024 (29.0%).
- Domestic investor (retail and institutional) holdings increased by NZ\$99 million to be \$5.78 billion on 31 March 2024 (30.7%).
- The Reserve Bank of New Zealand (RBNZ) holdings were unchanged at NZ\$1.2 billion as of 31 March 2024 (6.2%).

When you combine the A\$ issuance with the NZ\$ issuance held by offshore investors, they hold the equivalent of NZ\$9.3 billion or 42.8% of our bonds on issue.

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

