

LGFA Half Yearly Report for period ending 31 December 2011

1. PERFORMANCE AGAINST OBJECTIVES AND PERFORMANCE TARGETS

- Although LGFA was incorporated on 1 December 2011, the Company had not commenced operations to achieve its primary and additional objectives by 31 December 2011. At this stage, there can be no meaningful reporting against LGFA's objectives and performance targets.
- LGFA commenced borrowing and lending operations on 15 February 2012. Consequently, our Commentary on Operations includes some initial reporting against the objectives and performance targets set out in the SOI.

2. COMMENTARY ON OPERATIONS FOR THE HALF YEAR

On 15 February 2012 LGFA held its inaugural bond tender. Two maturities were offered to investors; \$50 million of a 15 April 2015 bond and \$250 million of a 15 December 2017 bond. The maturity dates were set to match those offered by NZDMO, and therefore allow investors to easily compare pricing of central and local government securities in New Zealand. Volumes offered in each maturity reflected the preferences of the four councils who participated in the inaugural tender. With \$300 million of bonds being offered in total, the first tender was a relatively large one, representing 30% of our expected issuance for the calendar year. Market commentary on the outcome of the tender was generally very positive. Tender results are summarised in the following table:

Table 1: Results of LGFA Bond Tender Number 1 held on 15 February 2012.

Tender Date:	15 Feb 2012
Bids Close:	2.00pm
Results:	From 2.15pm
Settlement Date:	20 Feb 2012

LGFA Bonds Offered:	15 Apr 2015	15 Dec 2017
Coupon Rate:	6.00%	6.00%
Amount Offered:	\$50 million	\$250 million
Total Bids Submitted:	\$216 million	\$1,104 million
Total Number of Bids Submitted:	22	83
Total Successful Bids:	\$50 million	\$250 million
Total Number of Successful Bids:	5	26
Successful Range:	3.65% - 3.69%	4.33% - 4.66%
Weighted Average Successful Yield:	3.67%	4.61%
Unsuccessful Range:	3.74% - 4.13%	4.67% - 5.09%
Weighted Average Unsuccessful Yield:	3.92%	4.80%

Highlights of LGFA's inaugural bond tender were :

- \$1.32 billion of bids received from investors for \$300 million of bonds offered, resulting in an overall bid cover ratio of 4.4 times. A cover ratio in excess of 3 times is generally regarded as a strong tender result.

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- Pricing at 113 basis points (bps) over New Zealand Government Bonds (NZGBs) for the December 2017 maturity and 78 bps over NZGBs for the April 2015 maturity (a reasonably good outcome given this was a relatively large debut tender, with pricing at the lower end of market expectations).
- Pricing at 32 bps under Auckland Council for the December 2017 maturity (a very good outcome given the volume of funds raised and the fact that LGFA paid a “price discovery” premium for this first issue).
- A very tight successful bid range for the April 2015 maturity (3.65% - 3.69%, ie just 4 bps), while a much wider successful bid range for the December 2017 maturity (4.33% - 4.66% ie 33 bps) reflected the larger volume offered, the longer maturity and some very aggressive bidding from smaller accounts.
- 139 individual bids submitted, and (after aggregating bids at the same yield submitted by the same institution) a total of 105 bids officially recorded for the tender. To the best of my knowledge, both numbers exceeded the record set in NZDMO tenders since their establishment in 1988. Widespread bidding activity of this nature already suggests that LGFA is likely to be more successful than NZDMO in attracting domestic retail investor interest.

As outlined in Table 1, the result of Bond Tender Number 1 was that LGFA raised \$50 million of April 2015 bonds at a fixed weighted average yield of 3.67% and \$250 million of December 2017 bonds at a fixed weighted average yield of 4.61%.

3. UNAUDITED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2011

- These Financial Statements are attached to this report (Appendix 1).

Appendix 1

New Zealand Local Government Funding Agency Limited

Financial information

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NEW ZEALAND LOCAL GOVERNMENT FUNDING AGENCY LIMITED

Statement of Financial Position

As at 31 December 2011

in thousands

	Note	2011
Assets		
Investments	5	10,902
Total non-current assets		10,902
Cash and cash equivalents		1,102
Investments	5	9,024
Total current assets		10,126
Total assets		21,028
Equity		
Called Share Capital		25,000
Retained earnings		(3,990)
Total equity		21,010
Liabilities		
Trade and other payables	6	18
Total liabilities		18
Total equity and liabilities		21,028

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NEW ZEALAND LOCAL GOVERNMENT FUNDING AGENCY LIMITED

Statement of Comprehensive Income

For the period ended 31 December 2011

in thousands

	Note	2011
Revenue		-
Other operating income		-
Total operating income		-
Pre-establishment expenses	7	3,999
Other operating expenses		29
Total operating expenses		4,028
Operating deficit before finance income		(4,028)
Finance income		38
Finance expenses		-
Net finance income		38
(Deficit) for the period		(3,990)
Income tax (expense) / benefit		0
Total comprehensive income (deficit) for the period		(3,990)

Statement of changes in equity

For the period ended 31 December 2011

in thousands

	Note	2011
Opening balance at 1 December 2011		0
Deficit for the period		(3,990)
Total comprehensive (income) for the period		(3,990)
Share capital		25,000
Balance at 31 December 2011		21,010

Notes to the financial statements

Significant accounting policies

1) Preparation of financial information

The financial information has been prepared in accordance the accounting policies published in the audited financial statements dated 10 February 2012.

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5 Investments	Note	2011
Government Bonds 6.5% 15 April 2013		10,902
Total non-current investments		10,902
Short term deposits 7 March 2012		9,024
Total current investments		9,024
Total Investments		19,926

6 Trade and other payables	2011
Director's fees	18
	18

Director's fees payable for services rendered in December 2011.

7 Pre-establishment expenses	Note	2011
Pre-establishment expenses		1,390
Consultants completion fee		1,495
Legal fees		472
Rating agency fees		351
Directors and executive recruitment fees		109
Other		182
		3,999

The Company incurred certain pre-establishment expenses which were funded by advanced equity contributions.