

Shareholders' Council

Quarterly Monitoring Report

Q4 Review
to
30 June 2015

SUMMARY
Two successful bond tenders totalling \$370m were undertaken during the June quarter. This volume was in line with the average quarterly issuance of \$379m. Both April 2023 and 2027 maturities totalled 76% of the quarter issuance.
Lending to Councils for the year ended 30 June 2015 was \$1,443m.
LGFA is the 2 nd largest issuer of NZD securities after the NZ Government.
Offshore holdings of LGFA bonds continue to increase now at 28.5%. This supports to reduce borrowing margins.
The Shareholders' Council are comfortable with LGFA performance.

ISSUES AND RISKS
The 1 st LGFA bond matured on 15 April 2015 and associated council borrowings were refinanced. The next bond maturity is December 2017.
Implementation of the SunGard Quantum Treasury system was successfully completed by 30 June 2015.
There have been no events of review for any borrowing councils.
There are no breaches to the Treasury or Foundation policies during the quarter ended 30 June 2015.

KEY PERFORMANCE INDICATORS						
MEASURE		Full Year	Q1	Q2	Q3	Q4
		30 Jun 14	30 Sep 14	31 Dec 14	31 Mar 15	30 Jun 15
Average cost of funds relative to NZ Government Stock.	Target %	<0.50	<0.50	<0.50	<0.50	<0.50
	Actual %	0.81 ✗	0.75 ✗	0.69 ✗	0.65 ✗	0.63 ✗
Average margin over COF	Target %	≤0.25	≤0.15	≤0.15	≤0.15	≤0.15
	Actual %	0.16 ✓	0.12 ✓	0.11 ✓	0.11 ✓	0.11 ✓
*Estimated interest cost savings (%)	Target %	≥0.30	≥0.30	≥0.30	≥0.30	≥0.30
	Actual %	0.24 ✗	0.16 ✗	0.15 ✗	0.18 ✗	0.17 ✗
Annualised issuance and operating expenses	Target \$m	<3.2	<4.7	<4.7	<4.7	<4.7
	Actual \$m	3.2 ✓	4.7 ✓	4.7 ✓	4.7 ✓	4.6 ✓
Lending to participating councils	Target \$m	3,445	3,927	4,177	4,427	4,484
	Actual \$m	3,742 ✓	4,250 ✓	4,518 ✓	4,761 ✓	4,975 ✓

*For AA rated borrowers based on March 2019 maturity. This provides the most reliable market information as a basis for calculations.

The KPI measures over which the LGFA has a high degree of control are average margin charged to councils and operating expenses. The average margin charged to councils has met the KPI and operating expenses are in line full year forecast.

The KPI measures which the LGFA has limited influence over were not achieved during the quarter.

- Margins over NZGS improved during the quarter as compared to both last year and last quarter. As council borrowers are requesting longer dated funding so the margins relative to NZGS are likely remain at the higher end. The average margin improved to 0.63% during the June quarter as compared to 0.79% June 2014 quarter; and.
- This is an aspirational target and expected to improve once LGFA commences issuing short-term debt.

Council borrowers continue to favour long dated funding from LGFA. To-date \$79m of non-standard bespoke funding has been provided to councils.

The Shareholders' Council are comfortable with all the KPI levels. Further details are provided on pages 3 and 4.

ACTIVITIES

Bond tenders (nos. 28 and 29) totalling \$370m were issued during the quarter. 76% of these tenders were for April 2023 and April 2027 maturities.

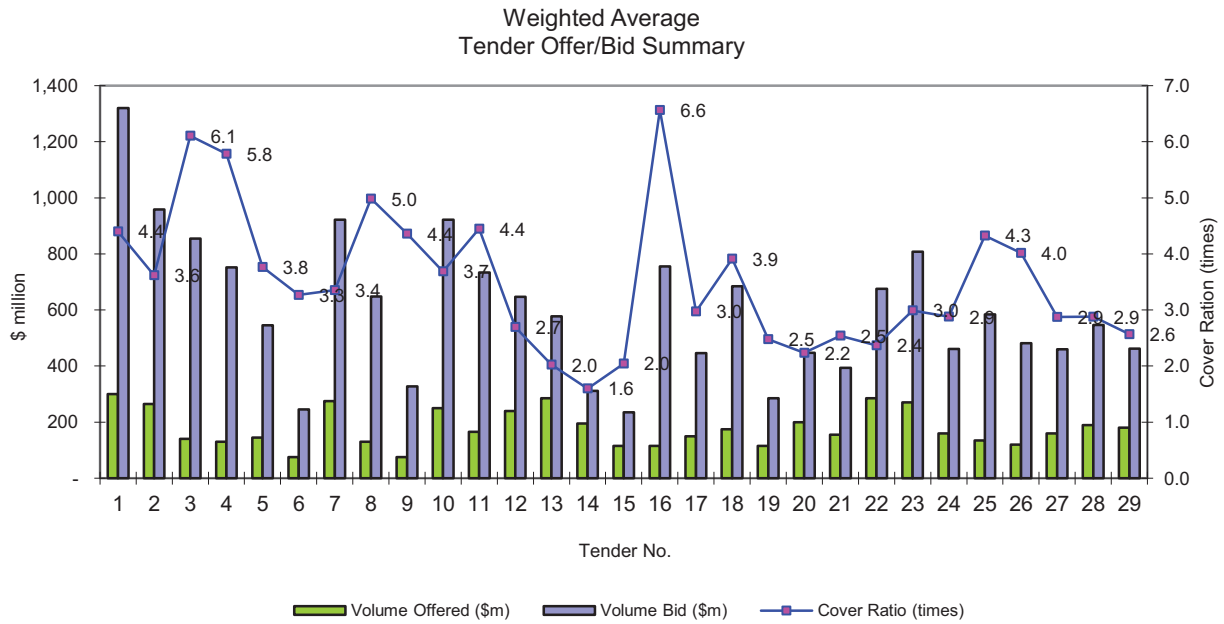
Continued offshore investor demand is supporting the issuance of longer dated bonds.

OUTLOOK

Over the last six months there has been improvement in margins for LGFA bonds trading in the secondary market.

Offshore investor base continue to increase, now estimated at 28.5% and this is supporting the margin contraction for LGFA Bonds.

KEY TRENDS



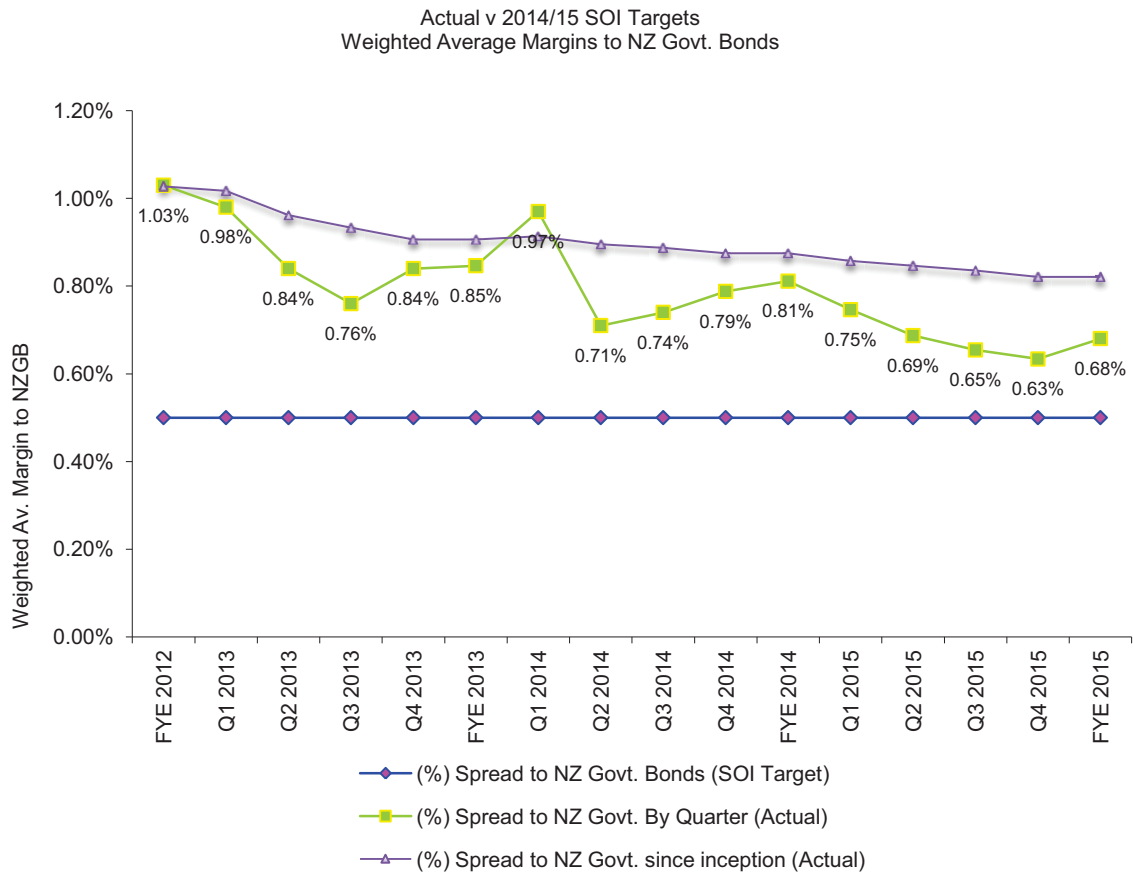
This is not a KPI.

Two tenders were undertaken during the quarter totalling \$370m and of which \$280m were for April 2023 and 2027 maturities. These tenders were successful with an average bid to cover ratio of 2.73 (previous quarter 3.36).

Maturities December 2017, March 2019, May 2021 and April 2023 bonds have now reached optimal liquidity target of \$1b.

To-date LGFA has received \$17.5b of tenders over the 29 tenders at an average cover ratio of 3.36 times.

KEY TRENDS



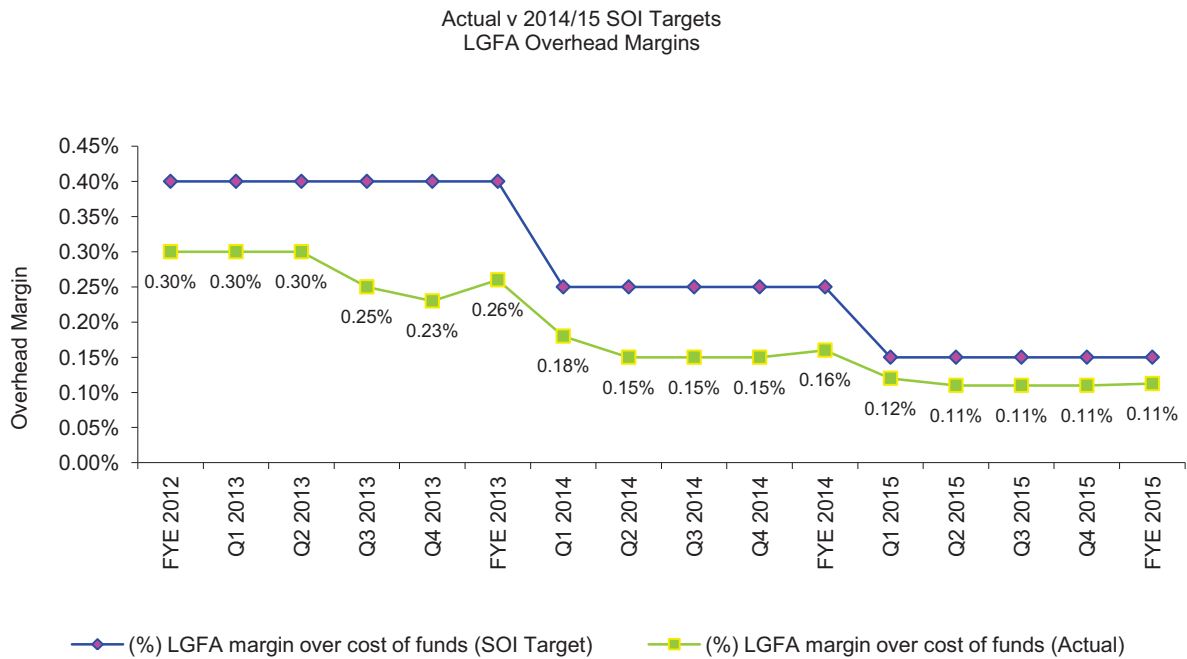
KPI not achieved ✘

Reducing the LGFA's weighted average margin to NZGB is challenging while most of the debt issuance has been for a term greater than 5 years. There has been significant improvement towards this KPI over the last 4 quarters. On a quarterly basis margin relative to NZGB has improved from 0.79% at June 2014 to 0.63% June 2015.

The Shareholders' Council note that LGFA has made good progress over the last six months with this challenging measure. It is expected that improvement will be made on this as Councils' borrowing requirements for short-term debt increase.

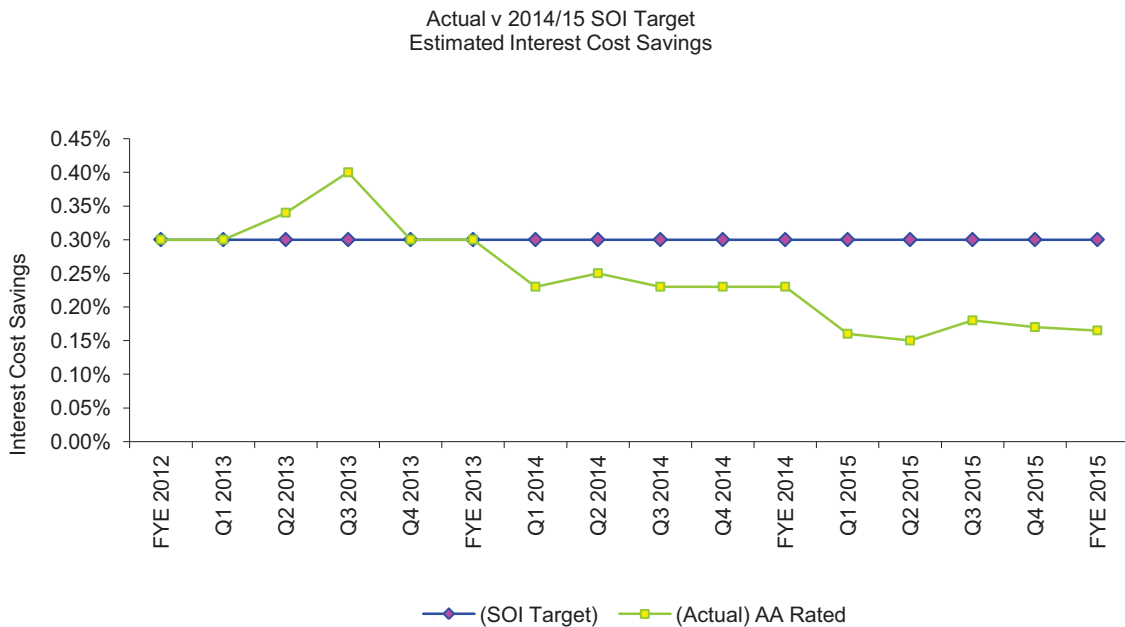
During the quarter average issuance margins against NZGB improved and Swap bench mark rates remained the same as compared March levels. The weighted average margin relative to NZGB for all tenders is 0.82% (previous quarter at 0.84%). The relevant measure for assessing performance is the quarterly margin relative to NZGB for the current year rather than all tender since the establishment of LGFA. This measure is included as a KPI for the 2015/16 SOI.

KEY TRENDS



KPI achieved ✓

Base lending margins to councils range from 0.07% for April 2015 to 0.15% for April 2027 maturities.



KPI not achieved ✗

The estimated annual interest cost savings did not achieve the target of at least 0.30% during March quarter. Even though the target is showing as not been met LGFA is achieving significant saving to the sector.

The calculation methodology for this KPI was appropriate at the time LGFA was setup and the initial start-up phase. Auckland City and Dunedin City are the only significant issuers other than LGFA in the sector and they have also achieved pricing benefits as a result of LGFA existence. The calculation methodology uses these two councils as a comparator to determine the level of savings for one maturity (March 2019), the methodology calculation does not reflect true savings position. The true savings position is better reflected by the change in the secondary market trading in LGFA Bonds as compared to NZGB. Over the last 12 months the margins have improved from 0.84% to 0.54%.

This KPI is not included in the SOI 2015/16 and LGFA will provide year on year interest savings analysis to Council borrowers.

SUMMARY FINANCIALS

FINANCIAL PERFORMANCE (\$000)	Q4	YTD Target	Variance	SOI
YEAR TO DATE (YTD)	30 Jun 15	30 Jun 15	30 Jun 15	FYE 2015
Interest income	222,782	153,395	69,387	153,395
Interest expense	(208,909)	(141,428)	(67,481)	(141,428)
NET INTEREST INCOME	13,873	11,967	1,906	11,967
Issuance & on-lending costs	(2,507)	(1,475)	(1,032)	(1,475)
Operating expenses	(2,102)	(3,195)	1,093	(3,195)
Other income (expense)	0	0	0	0
TOTAL OPERATING EXPENSES	(4,609)	(4,670)	61	(4,670)
TOTAL COMPEREHENSIVE INCOME	9,264	7,297	1,967	7,297
Dividend	(1,763)	(1,750)	(13)	(1,750)

FINANCIAL POSITION (\$000)	Q4	YTD Target	Variance	SOI
YEAR TO DATE (YTD)	30 Jun 15	30 Jun 15	30 Jun 15	FYE 2015
Cash, liquid investments & securities	107,949	66,300	41,649	66,300
Loans to local government	5,031,942	4,484,000	547,942	4,484,000
Derivatives in gain	270,503	n/a	270,503	n/a
Other	0	0	0	0
TOTAL FINANCIAL ASSETS	5,410,394	4,550,300	860,094	4,550,300
Fixed & other non-financial assets	1,392	n/a	1,392	n/a
TOTAL ASSETS	5,411,786	4,550,300	861,486	4,550,300
Payables, accrued expenses & other	677	9,426	(8,749)	9,426
Bonds	5,274,319	4,435,000	839,319	4,435,000
Borrower Notes	85,119	71,744	13,375	71,744
Derivatives in loss	15,324	n/a	15,324	n/a
TOTAL FINANCIAL LIABILITIES	5,375,439	4,516,170	859,269	4,516,170
TOTAL EQUITY	36,347	34,130	2,217	34,130

Net interest income is higher by \$1.9m as a result increased lending to councils by \$548m as compared to the SOI target. The issuance and on-lending costs have increased as a result of Approved Issuer Levy payments relating to non-resident bond holder interest payments and this is offset by lower operating expenses largely from lower costs on the Treasury System Project.

Retained earnings grew by a further \$1.97m during the quarter and places LGFA in a strong financial position.