CONFIDENTIAL

TREASURY REPORT

FOR

HOROWHENUA DISTRICT COUNCIL

AS AT

31 MARCH 2017

BANCORP

BANCORP TREASURY SERVICES LIMITED

AUCKLAND • WELLINGTON • CHRISTCHURCH

CONTENTS

1. MARKET ENVIRONMENT

1.1 Global Markets Overview (as at 31 March 2017)

US President Donald Trump remains at the centre of global financial market sentiment although the lack of policy detail is causing frustration. Additionally, Trump's failure to repeal former President Obama's healthcare legislation was a significant setback and brings into question his ability to follow through on some of his campaign promises and the attendant economic growth that these have been touted to provide. Central banks in most developing countries continue to maintain the status quo despite rising business and consumer confidence, increasing economic growth and a more positive inflation outlook.

US data continues to be mixed but with a positive bias, notably for consumer confidence, retail sales, manufacturing activity, employment and inflation – the latter two comprising the Federal Reserve's ("Fed") mandate. As economic data since the Fed's Open Market Committee ("FOMC") meeting in December (at which it raised the Fed Funds rate and signalled three rate rises in 2017 and two in 2018) has been consistent with Fed forecasts, the FOMC raised the target range for the Fed Funds rate by 0.25% to 0.75%-1.00% in mid March and stuck to its previous indication of another two more Fed Funds rate rises in 2017.

Fed Chair Janet Yellen said that March's Fed Funds rate rise was in response to the US economy's continued progress with regard to the labour market and inflation. However, Yellen noted that much of the Fed's future actions will depend on the Trump Administration's promised fiscal stimulus, which has since been dealt a potential blow. For now, the priority seems to be in keeping financial market expectations in line. Fed fund futures are pricing in only one more Fed rate hike this year, in September.

The benchmark US 10 year treasury bond yield touched a high of 2.63% in mid March but declined to finish the quarter at 2.38%. The fall was principally attributed to the failure of President Trump to repeal the Obamacare legislation but also in reaction to the 'developing' situation with regard to North Korea. For now, the 2.30% to 2.65% range is holding, with the risks being judged as balanced at present.

The European Central Bank ("ECB") at its meeting in March left interest rates and quantitative easing polices unchanged. The ECB was more optimistic on the outlook for the Eurozone economy which raised market expectations that the next ECB move could be a tightening in monetary policy, initially by scaling back quantitative easing. Such changes though could still be some time off. The German 10 year bund yield mirrored moves in the US 10 year Treasury bond market, climbing to a high of 0.49% in mid March, but declined to finish the quarter at 0.32%.

1.2 New Zealand Market Overview (as at 31 March 2017)

	OCR	90 day	2 year swap	3 year swap	5 year swap	7 year swap	10 year swap
31 Dec 16	1.75%	1.99%	2.50%	2.76%	3.11%	3.34%	3.54%
31 Mar 17	1.75%	2.00%	2.32%	2.56%	2.92%	3.19%	3.44%
Change	Nil	+0.01%	-0.18%	-0.20%	-0.19%	-0.15%	-0.10%

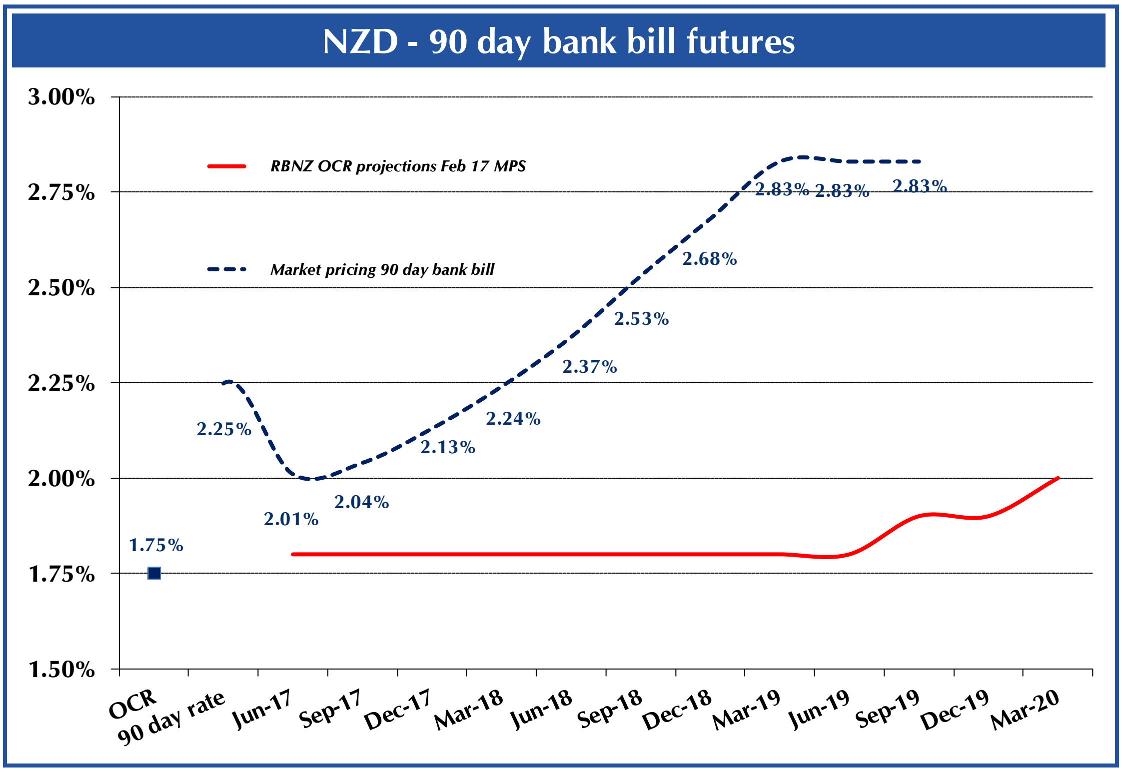
New Zealand data continues to show solid economic performance even though the latest GDP result underwhelmed. GDP rose 0.4% over the December quarter, down from 0.8% in September. As a result of the lower December quarter GDP growth, year on year GDP growth was 2.7% over the December year, from 3.3% in September.

A big driver for New Zealand economic growth in recent years has been strong immigration. New Zealand recorded another record year of migration in February with 71,330 net arrivals, beating January's previous record. In addition to strong inward migration, a record number of overseas visitors arrived in New Zealand in the February year.

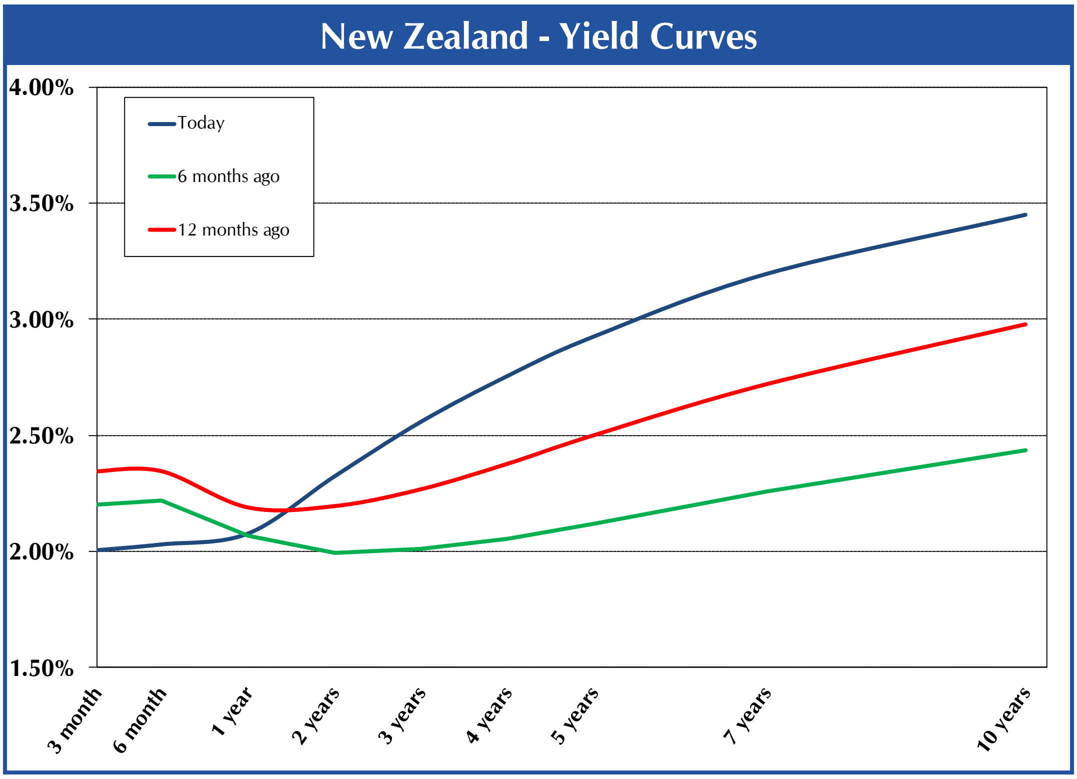
Dairy prices fluctuated over the quarter. Overall the GlobaDairyTrade Index declined 4.5% during the quarter, while Whole Milk Powder prices fell by 11.2%.Despite the fall, Fonterra is forecasting a farmgate payout of NZD6.00/kgMS for the 2016/2017 season.

The Reserve Bank of New Zealand ("RBNZ") held the Official Cash Rate ("OCR") at 1.75% in its March *OCR Review* and reiterated its neutral policy stance, after earlier saying the risks were evenly balanced for future OCR movements, with the balance for *"the global outlook to be downside"* and the domestic economy showing some upside potential.

The comments in the *OCR Review* align with the RBNZ's February *Monetary Policy Statement* and suggest that markets had got a bit aggressive by pricing in the chance of an OCR hike this year. But there is still a disparity between the RBNZ and the markets as to future monetary policy action, as illustrated in the first graph on the following page which shows the RBNZ's latest forecast (red line) for the OCR and the futures markets pricing for the 90 day bank bill rate (blue line).



Medium and longer term swap rates have followed the moves in offshore bond markets (principally the US). The five and ten year swap rates reached quarterly highs of 3.09% and 3.65% respectively in mid March and ended the quarter at 2.92% and 3.44% respectively. At present, the downside looks slightly more vulnerable than the upside for longer term swap rates. The chart below shows the changing shape of the New Zealand yield curve over the past year.

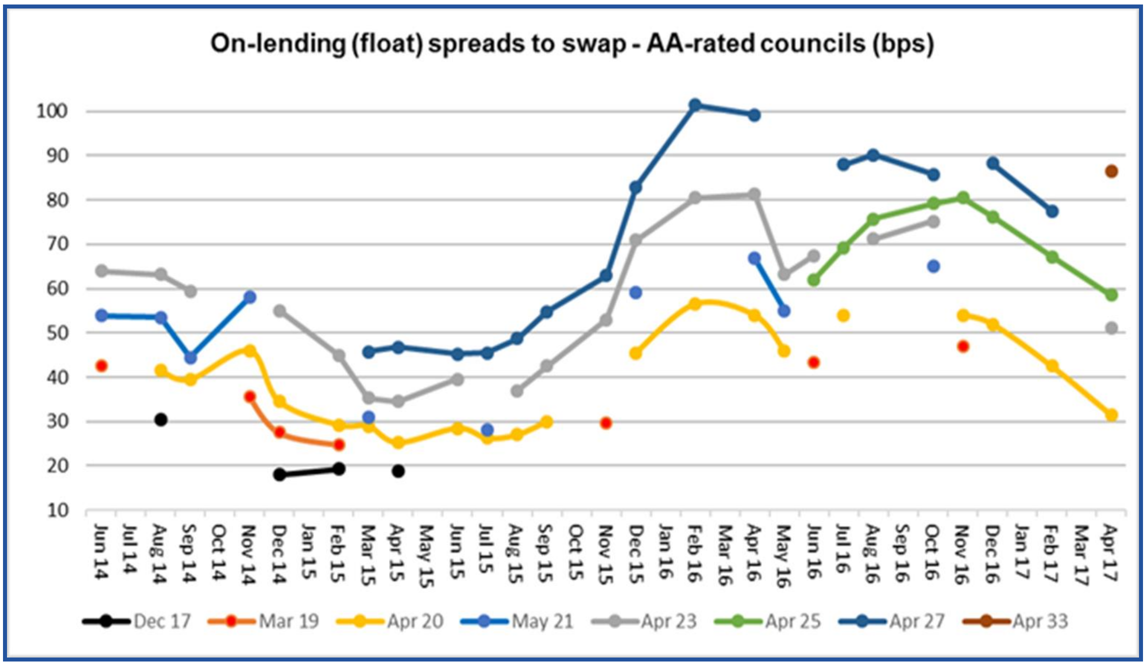


1.3 Local Authority Sector

The most recent Local Government Funding Agency ("LGFA") tender was held on 5 April. While this occurred just after the end of the quarter, we are including its details to provide the most up to date information. A total of $660 million of bids were received, equating to a bid to issuance ratio of 3.75. Details of the tender were as follows:

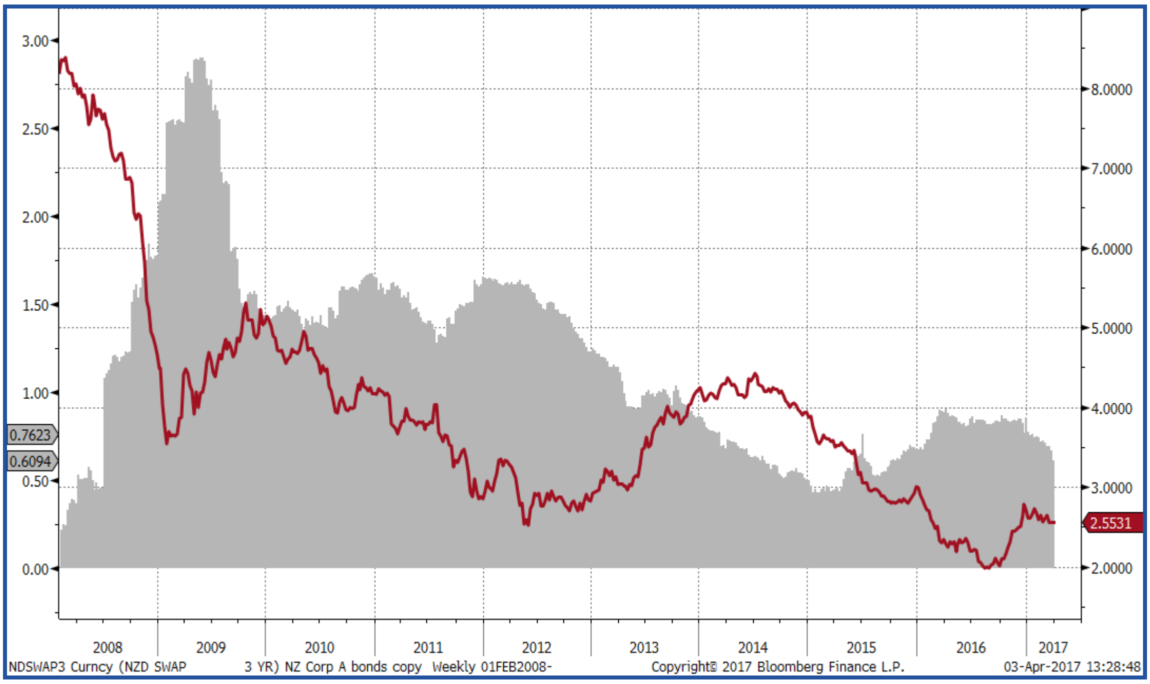
- 15 April 2020 maturity - $30 million issued at a margin of 41.5 basis points over swap for an 'A+' rated borrower.
- 15 April 2023 maturity - $20 million issued at a margin of 61.0 basis points over swap for an 'A+' rated borrower.
- 15 April 2025 maturity - $50 million issued at a margin of 68.5 basis points over swap for an 'A+' rated borrower
- 14 April 2033 maturity - $75 million issued at a margin of 96.5 basis points over swap for an 'A+' rated borrower.

The 5 April tender was very successful, both in terms of the investor demand and the issue margins with the latter declining sharply from the last tender. It was also the first time that the April 2033 maturity has been issued and was very well supported by the participating investors. The chart below depicts the swap spreads for an 'AA' rated borrower for the varying LGFA maturity dates going back to June 2014 and shows the sharp decline in spreads that has occurred since November 2016.



1.4 Credit Spreads

The chart below shows credit spreads for the S&P/NZX Corporate 'A' Grade Bond index (the grey shaded area) and the three year swap rate (red line) dating back to 2008. At the end of March 2017, the average credit spread of the index was 61 basis points compared to 83 basis points at the end of December 2016.



2. FUNDING PROFILE

As at 31 March 2017, Horowhenua District Council ("HDC") had $71.0 million of external debt, comprising a combination of Commercial Paper ("CP"), Fixed Rate Bonds and FRNs, some of which have been sourced from the LGFA. Details of HDC's debt are as follows:

HOROWHENUA DISTRICT COUNCIL BONDS

- $4.0 million issued in May 2012, maturing on 23 May 2017, at a margin of 140 basis points over swap, equating to a rate of 4.39%.
- $2.0 million issued in November 2011, maturing on 15 November 2018, at a margin of 150 basis points over swap, equating to a rate of 5.59%.

LGFA

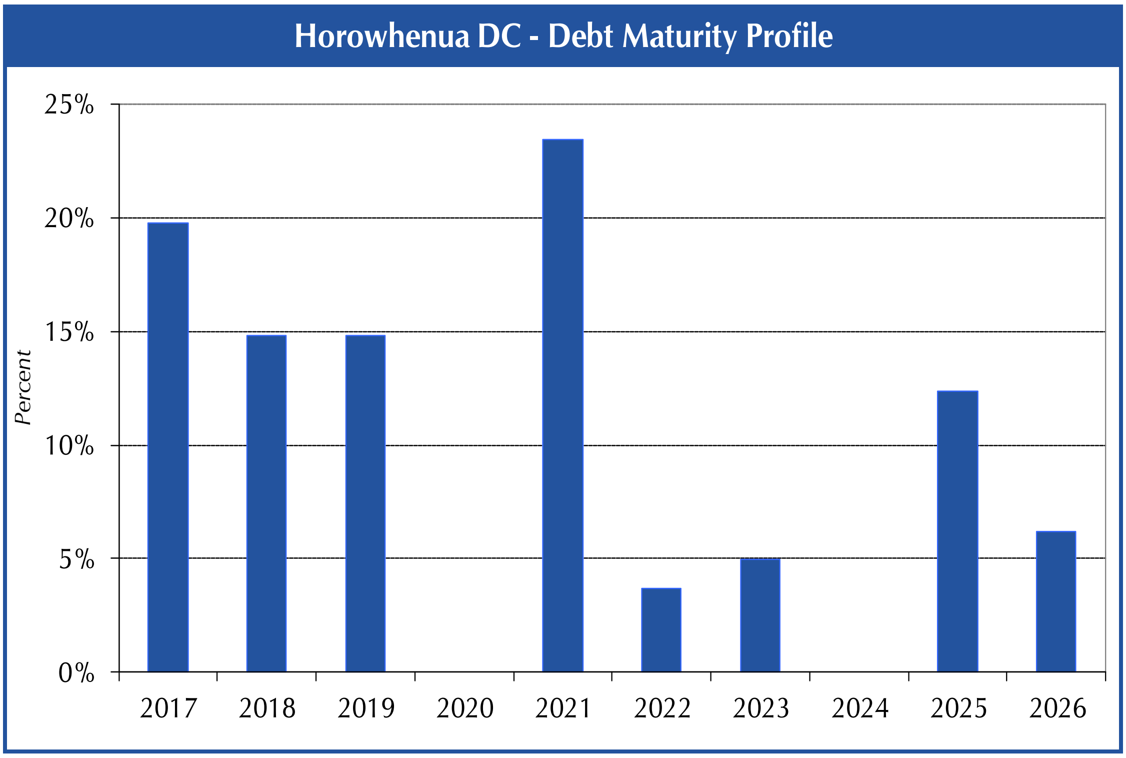
- $10.0 million CP issued in December 2016, maturing on 12 June 2017 at a margin of 8 basis points equating to an all up rate of 2.175%.
- $2.0 million FRN issued in February 2013, maturing 15 December 2017, at a margin of 88 basis points.
- $4.0 million fixed rate bond issued in December 2012, maturing 15 March 2019, at a margin of 113 basis points over swap, equating to a rate of 4.45%.
- $3.0 million FRN issued in May 2013, maturing 15 March 2019, at a margin of 77 basis points.
- $5.0 million fixed rate bond issued in February 2013, maturing 15 March 2019, at a margin of 92 basis points over swap, equating to a rate of 4.71%.
- $4.0 million FRN issued in May 2013 maturing 15 May 2021, at a margin of 84 basis points.
- $5.0 million fixed rate bond issued in May 2013 maturing 15 May 2021, at a margin of 79 basis points over swap, equating to a rate of 4.56%.
- $5.0 million fixed rate bond issued in September 2013 maturing 15 May 2021, at a margin of 109 basis points over swap, equating to a rate of 5.99%.
- $5.0 million fixed rate bond issued in December 2013 maturing 15 May 2021, at a margin of 87 basis points over swap, equating to a rate of 5.85%.
- $3.0 million FRN issued in May 2015 maturing 18 May 2022, at a margin of 42.5 basis points.
- $4.0 million fixed rate bond issued in November 2014 maturing 15 April 2023, at a margin of 81 basis points over swap, equating to a rate of 5.13%.
- $3.0 million fixed rate bond issued in March 2017 maturing 15 April 2025 at a margin of 77 over swap, equating to a yield of 4.20%.

- $7.0 million FRN issued in May 2015 maturing 19 May 2025, at a margin of 49 basis points.
- $5.0 million fixed rate bond issued in July 2016 maturing in 15 July 2026 at a margin of 84 basis points over swap equating to a rate of 3.37%.

During the March quarter, a fixed rate bond for $3.0 million which was at a rate of 5.05% matured. This was replaced with another fixed rate bond for $3.0 million maturing on 15 April 2025 which was issued at a margin of 77 basis points equating to a yield of 4.20%.

As at 31 March 2017, HDC had no drawings under its BNZ facility.

HDC's current debt maturity profile is depicted in the graph below. It indicates a good spread of maturities between 2017 and 2026 and, as such, complies with Section 4.6 of the Liability Management Policy ("LMP") that governs HDC's funding risk management activities. Included in the funding profile is the $10.0 million Committed Cash Advance Facility with BNZ that matures in October 2018.



3. DEBT AND HEDGING PROFILE

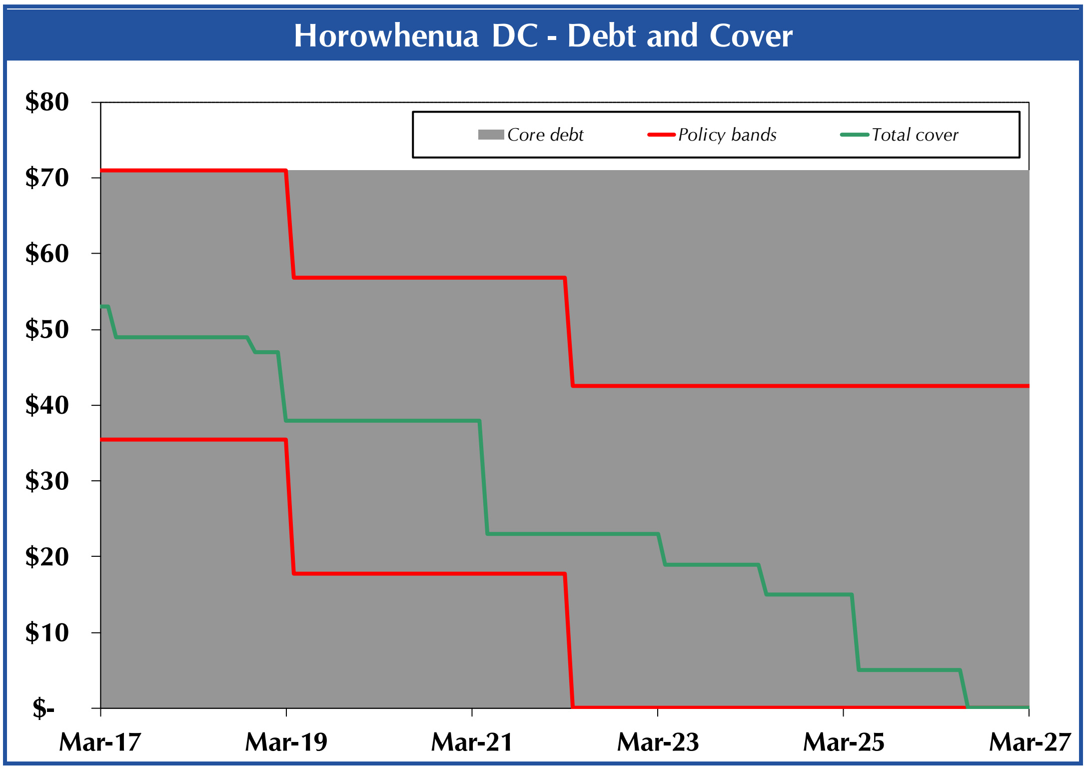
As at 31 March 2017, HDC had $71.0 million of external debt (as detailed in the previous section) and two interest rate swaps, as follows:

- $4.0 million, commenced 18 February 2013, maturing 18 May 2024, at 4.015%.
- $7.0 million, commenced 18 May 2015, maturing 18 May 2025, at 4.75%.

Section 4.3 of the LMP details the Fixed Rate Hedging Percentages as in the table below:

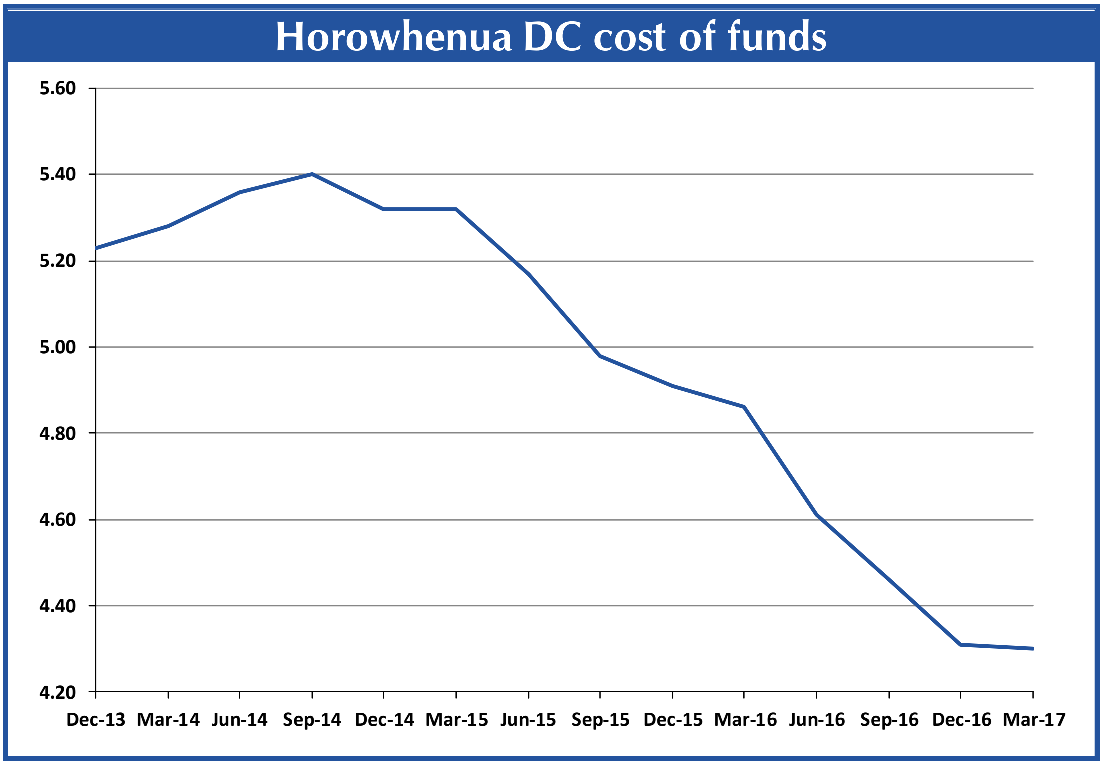
Fixed Rate Hedging Percentages		
	Minimum Fixed Rate Amount	Maximum Fixed Rate Amount
0–2 years	50%	100%
2–5 years	25%	80%
5-10 years	0%	60%

The debt and hedging profile incorporating these parameters is depicted in the graph below. Included in the fixed rate hedging percentages are the fixed rate bonds and the interest rate swaps.



The graph indicates that, as at 31 March 2017, HDC was compliant with the fixed rate hedging percentages contained in the LMP.

HDC's cost of funds (inclusive of the bank line fee) as at 31 March 2017 was 4.30%, down from 4.31% at the end of the December 2017 quarter. The cost of funds is depicted in the graph below.



4. POLICY COMPLIANCE (AS AT 31 MARCH 2017)

	Yes/No
Have all transactions been entered into compliance with policy?	√
Are the fixed rate hedging percentages within policy control limits?	√
Is HDC maintaining liquidity within policy control limits?	√
Are all counterparty exposures within policy control limits?	√
Is HDC compliant with the financial covenants contained in the LMP	√