Sustainable Financing Bond Framework

Benefiting local communities through delivering efficient financing for local government

Ka whiwhi painga ngā hapori mā te whakarato pūtea tōtika ki ngā kaunihera

31 March 2023

LGFA

New Zealand Local Government Funding Agency
Te Pūtea Kāwanatanga ā-rohe

Contents

1. Introduction

A commitment to assist councils and council-controlled organisations to finance projects that promote environmental and social wellbeing in New Zealand.

1.1 About LGFA

New Zealand Local Government Funding Agency Limited (**LGFA**), is a Council Controlled Organisation (**CCO**) operating under the Local Government Act 2002. The LGFA's governance structure comprises the New Zealand Government (20%) and thirty New Zealand local authorities (**Councils**) (80%), the LGFA Shareholders Council, and the LGFA Board of Directors (**Board**).

LGFA was established to raise debt on behalf of Councils on terms that are more favourable to them than if they raised the debt directly. LGFA was incorporated as a limited liability company under the Companies Act 1993 on 1 December 2011, following the enactment of the Local Government Borrowing Act 2011.

As at 30 March 2023, LGFA has been assigned AAA and AA+ local currency credit ratings respectively from S&P Global Ratings Australia Pty Limited and Fitch Australia Pty Limited.

Our purpose
Ta tatou kaupapa

Benefiting local communities through delivering efficient financing for local government.
Ka whiwhi painga ngā hapori mā te whakarato pūtea tōtika ki ngā kaunihera.

This purpose is reflected within **our values**:

Ō mātau uara

We act with integrity
E pono ana mātau

We are honest, transparent and are committed to doing what is best for our customers and our company.

We are customer focused
E arotahi ana mātau ki te kiritaki

Our customers are our council borrowers, investors, and all other organisations that we deal with. We listen to them and act in their best interests to deliver results that make a positive difference

We strive for excellence
E whakapau kaha mātau kia hiranga te mahi

We strive to excel by delivering financial products and services that are highly valued at least cost while seeking continuous improvement in everything we do.

We provide leadership
He kaiārahi mātau

We are here for our stakeholders in being strategically minded, providing resilience and executing our strategy. We embrace a high-performance culture and can be relied upon to deliver results.

We are innovative
He auaha mātau

To meet our ever-changing customer requirements, we will encourage innovation and provide a diverse range of financial products and services.

1.2 LGFA's Approach to Sustainability

The role of LGFA to support the sustainability goals of Aotearoa

LGFA recognises it has a critical role in supporting its member Councils to take action to achieve the greenhouse gas (**GHG**) emissions reduction and broader sustainability goals of Aotearoa. By incentivising decarbonisation and directing capital towards the development of environmental and social assets, LGFA can assist member Councils to do their part to accelerate the transition to an inclusive, resilient and net zero GHG emissions society in Aotearoa.

LGFA's Sustainability Commitments

LGFA's foundation objectives include the primary objective of optimising the debt financing terms and conditions for our member Councils. LGFA's other foundation objectives are to conduct our affairs in accordance with sound business practice, exhibit social and environmental responsibility by having regard to the interests of the community and to be a good employer.

The Local Government Act 2002 also places a legal imperative on Councils adopting a "sustainability approach". Consistent with this, LGFA's Sustainability Policy recognises that all four well-beings – social, cultural, economic, and environmental - must be considered and integrated when thinking about sustainability.

One of LGFA's foundation objectives outlined above and in our Statement of Intent that has direct relevance to our sustainable lending is to:

> *"Exhibit a sense of social and environmental responsibility by having regard to the interests of the community in which LGFA operates and by endeavouring to accommodate and encourage these when able to do so".*

LGFA is committed to following best practice in its focus and reporting of sustainability. From 2020, LGFA chose to prepare its annual report in accordance with the Global Reporting Initiative (GRI) Standards.

LGFA's focus on climate change

Limiting global warming to 1.5°C above pre-industrial levels is critical. As a signatory of the Paris Agreement, New Zealand has committed to reducing GHG emissions and contributing to global efforts to achieve this goal. To achieve New Zealand's national target[1] of reaching net zero long-life GHG emissions and a 24-47% reduction in gross biogenic methane emissions by 2050 (compared to 2017 levels), New Zealand established its first Emissions Reduction Plan (**NZ-ERP**) in May 2022. This is an all-of-government plan which highlights the critical role that local government plays in meeting New Zealand's GHG emissions targets, delivering nature-based solutions, mitigating the impacts of climate change, and helping communities to adapt to climate change (see extracts below).

> ***"Councils play an important role in engaging with their communities to help with the significant behavioural shifts required to meet New Zealand's climate goals.*** *Some Councils have well-developed targets and emissions reductions plans in place and options for funding and financing. However, many do not have the capacity, capability, or funding to effectively plan for and implement the action required".*

1 The New Zealand Government has legislated domestic climate targets through the Climate Change Response (Zero-Carbon) Amendment Act 2019.

*"**Local government will need support and guidance from central government to build capacity and capability, understand their roles and responsibilities for emissions reduction and ensure they have the tools and resources needed for change, particularly in the first two emission budget periods.** Central and local government will work in partnership, alongside Māori, to align policies and deliver actions to meet New Zealand's 2050 targets".*

*"**Local Councils are land and infrastructure owners, regulators, and agencies responsible for implementing both climate and other environmental policy 'on the ground'.** Councils can prioritise nature-based solutions in the provision of infrastructure and influence the restoration and protection of indigenous vegetation and wetlands."*

As a key funding agency for the New Zealand local government sector, LGFA can facilitate the direction of capital to support member Councils to allocate financing required to achieve these GHG emissions reduction goals.

LGFA recognises the risks inherent in climate change for Councils and is committed to supporting New Zealand's transition to a climate-resilient, low-carbon society. LGFA has five strategic priorities that encompass its foundation objectives and guide the Board and management in determining LGFA's strategy, objectives and associated performance targets, including a priority relating to **Environmental and Social Responsibility**, whereby:

"LGFA recognises the risks inherent in climate change for Councils and supports New Zealand's shift to a low-carbon economy."

To further progress action to support our Statement of Intent, LGFA obtained certification as a Toitū carbonzero organisation in 2021. Toitū's world leading carbon neutral certification is supported by scientific research and international best practice. By partnering with Toitū Envirocare, LGFA has been able to accurately measure our GHG emissions and put in place strategies to manage, reduce and offset impacts in accordance with ISO 14064- 1:2006. Where LGFA is unable to eliminate future GHG emissions, these will be offset through the purchase of high-impact carbon credits. LGFA's GHG emissions inventory is available **here**.

LGFA is committed to reducing GHG emissions over time. The first target is to cut per employee GHG emissions by 30% by 2030, compared with a 2018/19 base year.

While these changes are important, LGFA acknowledges that our Scope 1 and 2 GHG emissions are very low and that most of our climate change impacts relate to those Scope 3 GHG emissions that we finance through our loans to member Councils and CCOs to build assets and infrastructure. Therefore, we have developed a sustainable loan programme to encourage and support member Councils and CCOs to develop and implement GHG emissions reductions targets and plans, as outlined further in section 1.3 below.

1.3 LGFA's Sustainable Loan Programmes

LGFA has established two sustainable loan programmes that member Councils and CCOs (**Borrowers**) can access to either (a) finance or refinance specific sustainable assets and activities, or (b) be incentivised to improve GHG emissions reductions (LGFA provides a financial incentive for both of these loans):

(a) **Green, Social and Sustainability (GSS) Lending Programme:** In October 2021, LGFA established the GSS Lending Programme to provide 'use of proceeds' loans to Borrowers to fund green, social and/or sustainability projects, assets and activities (**GSS Loans**)[2]. LGFA established the Green, Social and Sustainability Loan Criteria[3] (**GSS Loan Criteria**) which identifies 12 categories of eligible projects, comprising 9 green project categories and 3 social project categories for which GSS Loans can be provided to Borrowers.

- These eligible project categories are set out in the Eligibility Criteria in section 4.2 below.
- Sustainalytics has provided a Second Party Opinion[4] on the alignment of the GSS Loan Criteria with the Asia-Pacific Loan Market Association's (**APLMA**) Green Loan Principles (**GLP**)[5] and the Social Loan Principles (**SLP**)[6].

2 GSS Loans are documented as debt securities under LGFA's Multi-Issuer Deed with Borrowers.

3 The GSS Loan Criteria may be updated from time to time. The current GSS Loan Criteria can be found at **www.lgfa.co.nz/sites/default/files/2023-03/LGFA_GSS_Lending_Programme_Criteria.pdf**

4 **www.lgfa.co.nz/sites/default/files/2023-03/LGFA_Sustainable_Financing_Bond_Framework_Second-Party_Opinion.pdf**

5 APLMA Green Loan Principles 2023.

6 APLMA Social Loan Principles 2023.

(b) **Climate Action Loans (CALs) Lending Programme:** In December 2022, LGFA established the CAL Lending Programme to provide 'target (or incentive) based' loans[7] to incentivise Borrowers to reduce their GHG emissions. LGFA established the Climate Action Loan Criteria[8] (**CAL Criteria**) which sets out the requirements for Borrowers to adopt an Emissions Reduction Plan and achieve 1.5°C science-based GHG Emissions Reduction Targets.

- These requirements are set out in the Eligibility Criteria in section 4.3 below.
- Sustainalytics has provided a Second Party Opinion[9] on the partial alignment of the CAL Criteria with the APLMA's Sustainability-Linked Loan Principles[10] (**SLLP**).

CALs and GSS Loans (together '**Sustainable Loans**') will help create alignment of LGFA's lending activities with critical sustainability outcomes to be achieved by Borrowers.

2. About this Framework

LGFA has developed this Sustainable Financing Bond Framework (**Framework**) to:

- recognise LGFA's commitment to support Borrowers to fund sustainable assets and activities, and incentivise GHG emissions reductions;
- enable LGFA to issue bonds that are notionally allocated to the Sustainable Loans on LGFA's balance sheet; and
- advance the market for sustainable finance by providing an innovative opportunity for investors to support Borrowers to achieve their sustainability aspirations.

The Framework is informed by the:

- International Capital Markets Association's (**ICMA**) Green Bond Principles (**GBP**)[11], Social Bond Principles (**SBP**)[12], and Sustainability Bond Guidelines (**SBG**)[13]; and
- APLMA's GLP, SLP and SLLP,

(together, the **Market Standards**).

The Framework follows the "proceeds-based" pillars of the Market Standards (particularly the GBP, the SBP and the SBG), and is underpinned by the GSS Loan Criteria and the CAL Criteria. However, LGFA is not claiming direct alignment with the Market Standards.

This Framework outlines the process by which LGFA intends to issue and manage sustainable financing bonds (**Sustainable Financing Bonds**) that will be notionally allocated to a pool of Sustainable Loans (such pool may comprise either GSS Loans, CALs or both) that meet the eligibility criteria set out in this Framework (**Sustainable Loan Asset Pool**).

7 CALs are documented as debt securities under LGFA's Multi-Issuer Deed with Borrowers.

8 The CAL Criteria may be updated from time to time. The current CAL Criteria can be found at **www.lgfa.co.nz/sites/default/files/2023-03/LGFA_CAL_Programme_Criteria.pdf**

9 **www.lgfa.co.nz/sites/default/files/2023-03/LGFA_Sustainable_Financing_Bond_Framework_Second-Party_Opinion.pdf**

10 APLMA Sustainability-Linked Loan Principles 2023.

11 ICMA Green Bond Principles 2021.

12 ICMA Social Bond Principles 2021.

13 ICMA Sustainability Bond Guidelines 2021.

3. Sustainability Governance

LGFA's Board has ultimate oversight of LGFA's sustainability strategy, including this Framework. Given the broad range of sustainability initiatives being undertaken by Borrowers, a LGFA Sustainability Committee (**Sustainability Committee**) has been formed to provide advice and recommendations to the LGFA Chief Executive (**CE**) and Board on sustainability issues.

The Sustainability Committee is a Board-approved Committee. It must have at least five members, of which three are LGFA employees and at least two are external appointees. The composition of the Sustainability Committee will be reviewed annually by the Board to ensure an appropriate balance of expertise, skills and experience. The Sustainability Committee meets on a bi-monthly basis with additional meetings arranged as and when required.

The purpose of the Sustainability Committee is to advise the CE and Board on sustainability issues within LGFA, including in relation to its borrowing and lending activities. This includes providing input into the governance and oversight process of the GSS Lending Programme and the CAL Lending Programme. The Sustainability Committee's key responsibilities include:

- making recommendations to the CE as to the introduction of new sustainability initiatives; and
- reviewing initiatives that meet LGFA's sustainability obligations (e.g. incorporating and updating sustainability into financial reporting).

LGFA's management team assesses Sustainable Loans then presents them to the Sustainability Committee for a recommendation to the CE as to whether to accept each application and provide the Sustainable Loan. If approved by the CE, these loans may be advanced and can be considered for inclusion within the Sustainable Loan Asset Pool.

Before the issue of a Sustainable Financing Bond, LGFA management will review and provide to the Board a recommendation regarding the Sustainable Loan Asset Pool.

LGFA management is also responsible for:

- the reporting and external review requirements under this Framework and the CAL Criteria and GSS Loan Criteria; and
- the notional allocation of the net proceeds of Sustainable Financing Bonds to the Sustainable Loan Asset Pool.

4. Sustainable Financing Bonds

4.1 Use of Proceeds

As at the date of this Framework, LGFA intends to notionally allocate an amount equal to the net proceeds of the Sustainable Financing Bonds to one Sustainable Loan Asset Pool. In order to be included in the Sustainable Loan Asset Pool, GSS Loans must meet the eligibility criteria in Section 4.2, and CALs must meet the eligibility criteria in Section 4.3. LGFA may create additional Sustainable Loan Asset Pools in the future.

4.2 GSS Loans Eligibility Criteria

GSS Loans are loans to Borrowers for assets, projects or activities that meet the definition of Green Assets (Section 4.2.1) or Social Assets (Section 4.2.2). LGFA may provide GSS Loans for projects that provide a demonstrable reduction in energy consumption and/or GHG emissions, that strengthen the level of local adaptation to challenges posed by climate change, or that have an identified social and/or environmental objective. These projects must target requirements higher than or at least the minimum requirements in the relevant New Zealand legislation, policies or principles and must have explicit climate, environmental, social, or sustainable ambitions.

GSS Loans are provided to finance new green or social projects, and generally will not be made available to Borrowers to finance or refinance projects that were completed more than eighteen months prior to the date that the Borrower applies to LGFA for a GSS Loan. When existing GSS Loans mature, these can be refinanced within the economic lifetime of the project, but the projects will be reassessed against LGFA's most recent GSS Loan Criteria.

Additionally, to qualify as a GSS Loan, a project must achieve one or more of the following:

- promote the transition to a low-carbon society;
- lead to verifiable reductions in GHG emissions (accumulated impact where possible) or energy consumption;
- promote resilience to climate change;
- support adaptation to climate change or adaptations that are, in some other way, related to New Zealand's national energy, climate and/or environment targets;
- form part of a Borrower's systematic work on climate change, the environment and/or community and social development, and have relevant plans and strategies as their foundation; or
- provide clearly defined social benefits to the community.

4.2.1 Green Assets

The Green Assets must meet at least one of the below criteria (as further described in the **GSS Loan Criteria**).

Eligible Green Categories (GSS Loan Criteria)	Informed by the UN SDGs	Example Projects
Energy Efficiency Investments in this category are intended to manage demand for energy and/or reduce the energy requirements of projects, buildings, assets and/or activities. This may include reducing reliance on, or phasing out, the use of fossil fuel energy sources and to generally encourage more efficient use of energy.	7 AFFORDABLE AND CLEAN ENERGY 8 DECENT WORK AND ECONOMIC GROWTH	• Renovating buildings to improve their energy efficiency (e.g. LED lighting). • Replacing oil and gas boilers with electric alternatives. • Energy conservation measures such as fitting additional insulation, replacing windows, heat pumps and smart meters that optimise energy efficiency.
Green Buildings Investments in this category are intended to support the development and operation of low carbon, energy efficient or sustainably designed buildings.	11 SUSTAINABLE CITIES AND COMMUNITIES 12 RESPONSIBLE CONSUMPTION AND PRODUCTION	• Buildings meeting national or internationally recognised green building standards, ratings or certifications (e.g. minimum Green Star, Homestar and/or NABERSNZ ratings).
Clean Transportation Investments in this category are intended to create transport solutions that produce zero GHG emissions, with no fossil fuels used.	11 SUSTAINABLE CITIES AND COMMUNITIES	• Procurement of electric scooters, bicycles, and electric bicycles. • Construction of new footpaths and cycleways and supporting infrastructure. • Procurement of zero GHG emissions light or heavy vehicles, including buses, rail based public transport and maritime transport that run on electricity or green hydrogen and supporting infrastructure. • Infrastructure to support the operation of clean transportation (e.g. electric vehicle charging points, green hydrogen filling stations). • Zero GHG emissions port infrastructure.
Sustainable Water and Wastewater Management Investments in this category are intended to deliver future-oriented water, stormwater and wastewater systems that are designed to accommodate higher precipitation levels and/or droughts. Such projects may use innovative technologies to make good use of the resources contained in wastewater.	6 CLEAN WATER AND SANITATION 11 SUSTAINABLE CITIES AND COMMUNITIES 12 RESPONSIBLE CONSUMPTION AND PRODUCTION	• Investment in energy and heat recovery from water and wastewater networks. • Urban drainage systems to separate wastewater and surface runoff.

Eligible Green Categories (GSS Loan Criteria)	Informed by the UN SDGs	Example Projects
Renewable Energy Investments in this category are intended to utilise the energy potential of the sun, the wind, the ground, the sea, biomaterials and other renewable energy carriers, thereby to replace energy produced from fossil fuels and other energy sources that produce GHG emissions.	3 GOOD HEALTH AND WELL-BEING 7 AFFORDABLE AND CLEAN ENERGY 8 DECENT WORK AND ECONOMIC GROWTH 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE 12 RESPONSIBLE CONSUMPTION AND PRODUCTION	• Renewable energy production (e.g. bioenergy, geothermal energy, solar energy, wind energy, etc). • Renewable energy storage, transmission and supporting infrastructure.
Pollution Prevention and Control Investments in this category are intended to ensure sustainable, energy efficient and resource-saving waste management.	3 GOOD HEALTH AND WELL-BEING 11 SUSTAINABLE CITIES AND COMMUNITIES 12 RESPONSIBLE CONSUMPTION AND PRODUCTION	• Upgrading or developing new facilities to support sorting and/or recycling of waste.
Environmentally Sustainable Management of Living Natural Resources and Land Use Investments in this category are intended to ensure sustainable land or water use.	11 SUSTAINABLE CITIES AND COMMUNITIES 12 RESPONSIBLE CONSUMPTION AND PRODUCTION 14 LIFE BELOW WATER 15 LIFE ON LAND	• Environmentally sustainable forestry. • Preservation and restoration of the water quality of waterways and seas. • Preservation and restoration of natural landscapes.
Climate Change Adaptation Investments in this category are intended to ensure local communities are adapting to climate change.	13 CLIMATE ACTION	• Facilities and installations to manage urban runoff, floods, landslides, avalanches, rising sea levels, etc. • Information support systems, such as climate observations and early warning systems.
Terrestrial and Aquatic Biodiversity Conservation Investments in this category are intended to prevent loss or degradation of ocean biodiversity, coral reefs, mangrove forests, coastal wetlands, habitat loss and degradation, as well as preventing unsustainable harvesting of species, climate change and pollution. This may include investments to improve plant management strategies or management of invasive species.	6 CLEAN WATER AND SANITATION 14 LIFE BELOW WATER 15 LIFE ON LAND	• Conservation activities to prevent habitat loss and degradation. • Protection measures to avoid, remedy or mitigate the adverse effects of activities, substances and introduced species on the functioning of natural ecosystems. • Plant management strategies and indigenous vegetation and fauna protection.

4.2.2 Social Assets

The Social Assets must meet at least one of the below criteria (as further described in the **GSS Loan Criteria**).

Social Assets aim to address a specific social issue and seek to achieve positive social outcomes primarily for the defined target population(s). The definition of target population can vary depending on local contexts and that, in some cases, such target population(s) may also be served by addressing the general public.

Eligible Social Categories (GSS Loan Criteria)	Informed by the UN SDGs	Example Projects
Affordable Basic Infrastructure Investments in this category are intended to support projects, assets or programmes that enable affordable and equitable access to basic infrastructure in the relevant region, that will also benefit economic development and human wellbeing.	6 CLEAN WATER AND SANITATION 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE 11 SUSTAINABLE CITIES AND COMMUNITIES	• Activities that improve or expand access to adequate drinking water, sewer and sanitation systems. • Activities that expand access to sustainable transportation or basic communication infrastructure.
Access to Essential Services Investments in this category are intended to support projects, assets or programmes that enable accessibility to services that are deemed essential to the relevant region.	1 NO POVERTY 3 GOOD HEALTH AND WELL-BEING 4 QUALITY EDUCATION 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE 10 REDUCED INEQUALITIES	• Acquisition and development of childcare and tertiary educational and vocational training services-including infrastructure, programmes, and services - which are broadly accessible to the whole public. • Activities that enhance access to and the inclusion of minority groups in education.
Social and Affordable housing Investments in this category are intended to support projects, assets and programmes that enable the construction, retrofit and/or operation of low-cost and social housing.	1 NO POVERTY 11 SUSTAINABLE CITIES AND COMMUNITIES	• Social housing: Construction and/or provision of registered social housing facilities. • Affordable housing: The construction and/or provision of housing at significantly lower cost than market and/or that supports owners or tenants to overcome barriers to access housing.

4.3 Climate Action Loans Eligibility Criteria

CALs are target-based incentive lending, designed to incentivise Borrowers to act on climate change and reduce GHG emissions. A CAL rewards a Borrower through a margin discount when they adopt an Emissions Reduction Plan (**ERP**) (as defined in Section 3.2.1 of the CAL Criteria) and the ERP sets out specific Emissions Reduction Targets (as detailed in Section 3.2.2 of the CAL Criteria). Both the ERP and Emissions Reduction Targets relate to a Borrower's Scope 1 and Scope 2 GHG emissions at the Borrower level.

For a Borrower to meet the CAL Criteria, it must satisfy the following (as further outlined in section 3.2 of the CAL Criteria):

1. **Submit an Emissions Reduction Plan (at the outset of the loan)**
2. **Report annual progress against the Emission Reduction Target**
3. **Annual Reporting and Verification**
4. **LGFA Annual Surveillance, with more detailed Review undertaken every three years**

Before entering a CAL, the Borrower must provide a GHG emissions inventory and ERP (which can be included in a transition plan) that sets out the Borrower's intended pathway to reduce its Scope 1 and Scope 2 GHG emissions in line with a science-based trajectory (i.e., to support limiting global warming to no greater than 1.5°C above pre-industrial levels) and net zero by 2050.

The ERP must include annual targets (for Scope 1 and Scope 2 GHG emissions), covering short term periods and medium-term targets, that ultimately supports the Borrower to achieve its long-term goal of net zero by 2050 (or sooner) and an alignment to the science-based trajectory.

A Borrower must also demonstrate plans to incorporate Scope 3 GHG emissions in its GHG emissions inventory within 24 months of its CAL application date (if not already captured).

A Borrower must also obtain external verification (by a credible provider) of its GHG emissions inventory to verify its report is in alignment with the guidelines outlined in the CAL Criteria and must provide that external verification to LGFA annually by 30 November.

4.4 Project Evaluation and Selection

The following factors will be considered by LGFA management when determining whether a GSS Loan or a CAL is to be included within the Sustainable Loan Asset Pool:

- alignment to LGFA's sustainability strategy;
- conformance with the GSS Loan Criteria or CAL Criteria (as set out in sections 4.2.1, 4.2.2 and 4.3);
- LGFA's own professional judgement, discretion and sustainability knowledge; and
- assessment of any potential negative social and/or environmental impacts from the GSS Loans and mitigants to these impacts.

The Sustainable Loan Asset Pool may be replenished if underlying GSS Loans or CALs are repaid (including on maturity), non-eligible GSS Loans or CALs are removed, or additional GSS Loans or CALs are identified and funded. In addition, non-eligible CALs which were removed from the Sustainable Loan Asset Pool (for example, due to declassification under the CAL Criteria) may be reinstated into the Sustainable Loan Asset Pool if they are, at any time, subsequently eligible for inclusion. LGFA will ensure financing that meets both the GSS Loan Criteria and CAL Criteria is not double counted within the Sustainable Loan Asset Pool.

LGFA is the arbiter of asset proposals and substitution determinations if a GSS Loan or CAL is repaid, or a non-eligible project is removed. LGFA management will have oversight of the notional allocation of net proceeds from Sustainable Financing Bonds against GSS Loans and CALs.

4.5 Management of Proceeds

The net proceeds of the Sustainable Financing Bonds will be allocated to LGFA's general pool of funds for financing Borrowers and LGFA's general corporate purposes (including to refinance its existing debt).

LGFA intends to notionally allocate an amount equal to the net proceeds of the Sustainable Financing Bonds to Sustainable Loans within two years of the issue date of the relevant Sustainable Financing Bonds.

In addition, when notionally allocating the amount equal to the net proceeds from a Sustainable Financing Bond to Sustainable Loans, LGFA will only include Sustainable Loans in the Sustainable Loan Asset Pool that were advanced in the two years before the issue date of relevant Sustainable Financing Bonds.

LGFA will maintain a register (**Sustainable Loan Register**) of the Sustainable Loan Asset Pool that outlines (among other things) the following:

- the current value of the GSS Loans included within the Sustainable Loan Asset Pool, which is based on the principal amount of the relevant loan advanced to the Borrower;
- the current value of CALs included within the Sustainable Loan Asset Pool, which is based on the principal amount of the relevant loan advanced to the Borrower;
- the notional allocation of net proceeds from the Sustainable Financing Bonds against the GSS Loans and CALs included in the Sustainable Loan Asset Pool; and
- disclosure of any unallocated net proceeds from the Sustainable Financing Bonds.

The Sustainable Loan Register will be managed by LGFA's management.

Pending allocation, any unallocated net proceeds will be temporarily invested in:

- cash and money market securities, GSS bonds issued by other entities, local government and/or central government debt. All investments (other than cash) must have a minimum credit rating of A+ by Standard & Poor's Global Ratings or corresponding credit rating by another rating agency approved by LGFA; or
- investment instruments that do not include GHG emissions intensive projects which are inconsistent with the delivery of a low carbon and climate resilient economy.

LGFA will service its debt obligations under Sustainable Financing Bonds out of its general cash flows and not specifically from revenues generated by Sustainable Loans alone.

4.6 Disclosure and Reporting

LGFA recognises the importance investors place on transparency and disclosure relating to Sustainable Financing Bonds and will make the following information available on its website:

Item	Frequency
Framework	Upon establishment of this Framework (and when the Framework is amended (at LGFA's discretion), as soon as practical after those changes are made).
Pre-Issuance External Review	Prior to the first issue of a Sustainable Financing Bond.
Annual Update Report	Annually (at or about the same time as LGFA's annual report is published) for so long as there are outstanding Sustainable Financing Bonds. LGFA intends to disclose Annual Update Reports in line with the Market Standards that include the following information: • **Allocation Reporting:** A list and description of the Sustainable Loans that the net proceeds from the Sustainable Financing Bonds are notionally allocated to. • **Eligibility Reporting:** Confirmation that the Sustainable Loans meet the relevant eligibility requirements included in this Framework, including information on the characteristics and sustainability performance of the Sustainable Loans. • **Impact Reporting:** LGFA will endeavour to provide qualitative and/or quantitative reporting (as determined by LGFA) of the environmental and/or social impacts of the Sustainable Loans included within the Sustainable Loan Asset Pool. Impact reporting indicators will be subject to availability of information and confidentiality requirements.
Annual External Review	Annually (at or about the same time as LGFA's annual report is published) for all outstanding Sustainable Financing Bonds.

4.7 External Review

Prior to the first issue of a Sustainable Financing Bond: LGFA engaged Sustainalytics to provide a Second Party Opinion on the Framework, which is available at **www.lgfa.co.nz/sites/default/files/2023-03/LGFA_Sustainable_Financing_Bond_Framework_Second-Party_Opinion.pdf**.

Following the first issue of a Sustainable Financing Bond: LGFA intends to engage Sustainalytics or another appropriately qualified external reviewer to carry out an annual review of each Annual Update Report, including that:

- the Sustainable Loans in the Sustainable Loan Register meet the CAL Criteria and the GSS Loan Criteria and comply with the Framework; and
- the impact reporting metrics have been fairly and accurately represented (if applicable).

5. Important Notice

LGFA intends to manage Sustainable Financing Bonds in accordance with this Framework. However, this Framework does not form part of the contractual terms of any Sustainable Financing Bond.

If LGFA fails to comply with this Framework, or the Sustainable Financing Bonds cease to have "sustainable financing" status:

- this does not constitute an event of default, event of review, or any other breach in relation to any Sustainable Financing Bond; and
- there is no requirement for LGFA to repay the Sustainable Financing Bonds as a result of this non-compliance and neither investors nor LGFA have any right to early repayment as a result of this non-compliance.

This means there is no legal obligation on LGFA to allocate the net proceeds in the manner or by the time described in the Framework or to comply with the Framework or the Market Standards on an ongoing basis. As a result, the bond may cease to be labelled as sustainable or "sustainable financing". LGFA will disclose if a Sustainable Financing Bond ceases to be labelled as sustainable or "sustainable financing" in its Annual Update Report.

6. Continuous Improvement

LGFA will monitor how the Market Standards and global sustainable finance markets continue to develop and adapt its approach to sustainable finance as relevant. As a consequence, LGFA may update this Framework, the GSS Loan Criteria and the CAL Criteria from time to time at its discretion.

7. Further Information

More information on LGFA's approach to sustainability can be found at lgfa.co.nz/sustainability or in our annual reports.

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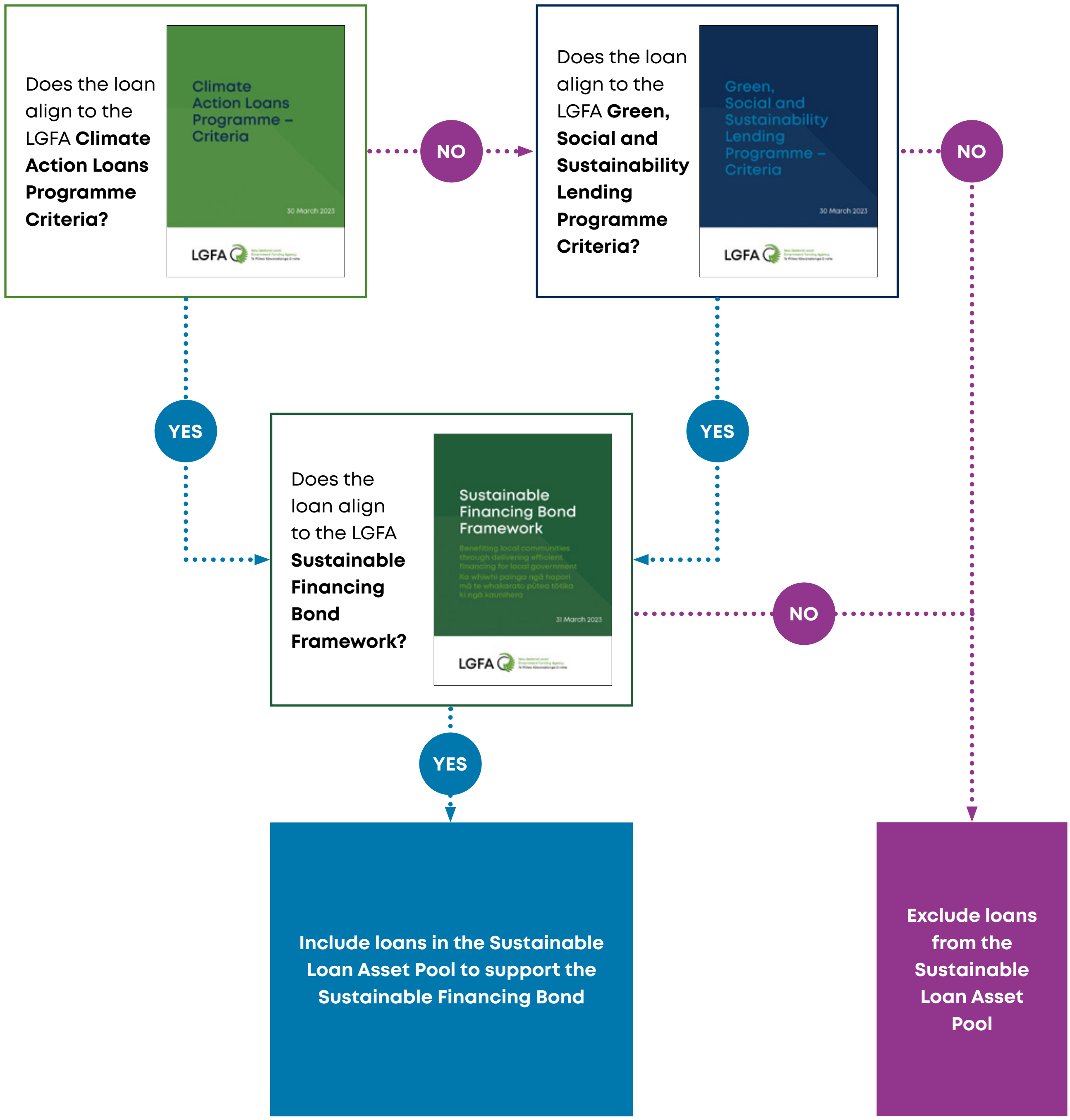
Appendix: Sustainable Financing Bond Overview



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