LGFA Sustainable Financing Bond Framework

31 March 2023

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

Disclaimer

LGFA Overview

Sustainability at LGFA

Sustainable Financing Bond Framework

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LGFA Overview

Sustainability at LGFA

Sustainable Financing Bond Framework

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LGFA OVERVIEW

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Te Pūtea Kāwanatanga ā-rohe

Shareholders
- NZ Government largest shareholder at 20%
- 30 Councils hold 80% shareholding
- Can only sell shares to NZ Government or Councils

Governance
- Board comprising 5 Independent and 1 Non Independent Directors
- Bonds listed on NZX
- Independent Trustee
- Issue of securities under the Financial Markets Conduct Act 2013
- Audited by Audit NZ

Liquidity
- Up to NZ$1.5 billion liquidity facility from NZ Government[1]
- NZ$1.3 billion liquid assets portfolio[2]
- NZ$981 million of Treasury Stock currently available for repo

Guarantors
- 71 guarantors of LGFA
- Guarantors comprise:
  - All shareholders except the NZ Government
  - Any non shareholder who may borrow more than NZ$20 million
  - Any Council shareholder of a council-controlled organisation (**CCO**) that is approved for borrowing by LGFA
- Security granted by each of the guarantors is over their rates revenue
- Guarantors cannot exit guarantee until
  - Repaid all their, and any of its CCO's, borrowings and
  - After the longest outstanding LGFA bond to mature (currently 2037)

Borrowers
- 77 member Councils
- 3 CCOs
- Approximately 90% market share
- Councils' borrowing secured against rates revenue
- Must meet LGFA financial covenants
- Loans to Councils and CCOs of
  - NZ$533 million short term
  - NZ$15.8 billion long term

Capital structure
- NZ$25 million paid in capital
- NZ$20 million uncalled capital
- NZ$78 million retained earnings
- NZ$341 million Borrower Notes that can be converted to equity
- Current capital ratio of 2.40% with policy of 2% minimum and target of 3%

Source: LGFA, as at 30 March 2023.
1 Maximum amount under the facility available for liquidity purposes. The actual amount available will be the amount of commitment set by LGFA up to NZ$1.5 billion.
2 Excludes liquid assets held to support Council standby facilities.

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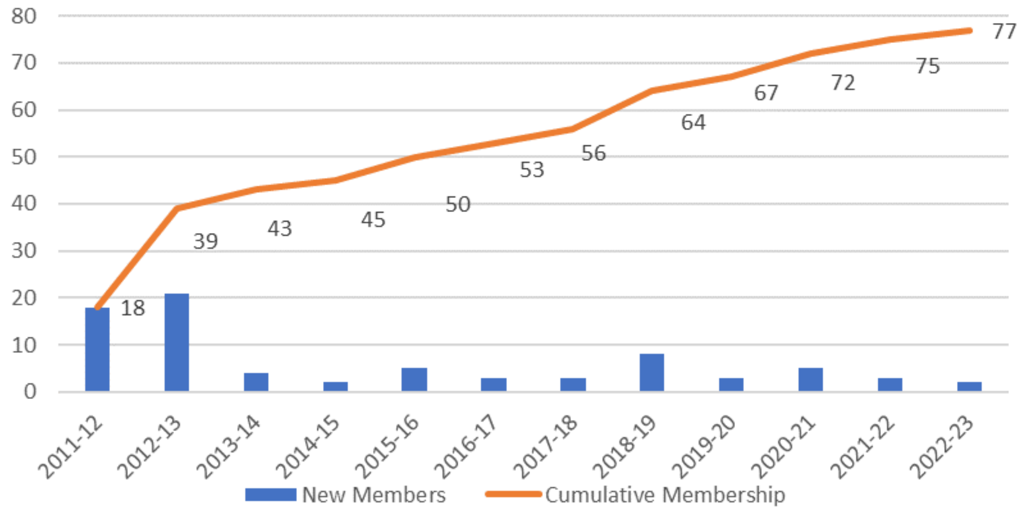
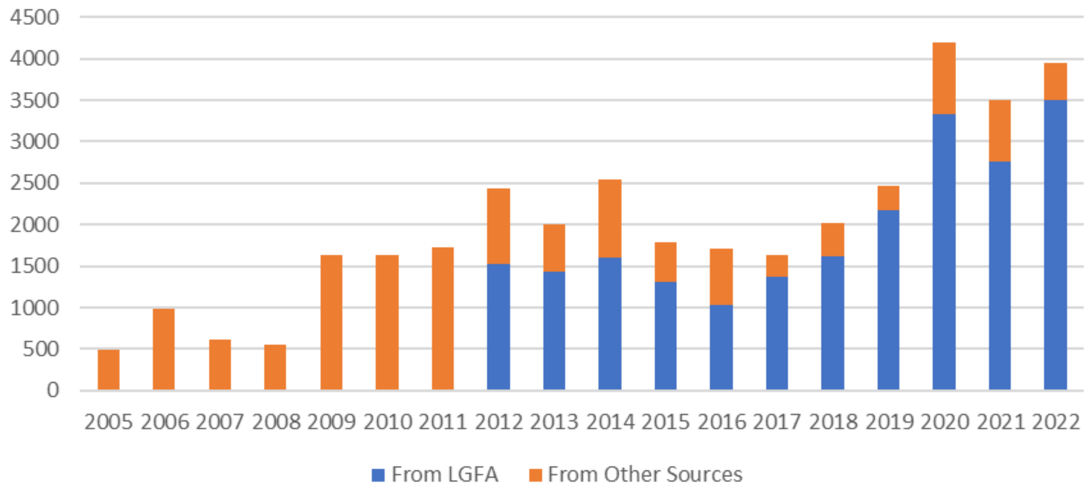
Council Membership (as at 30 March 2023)

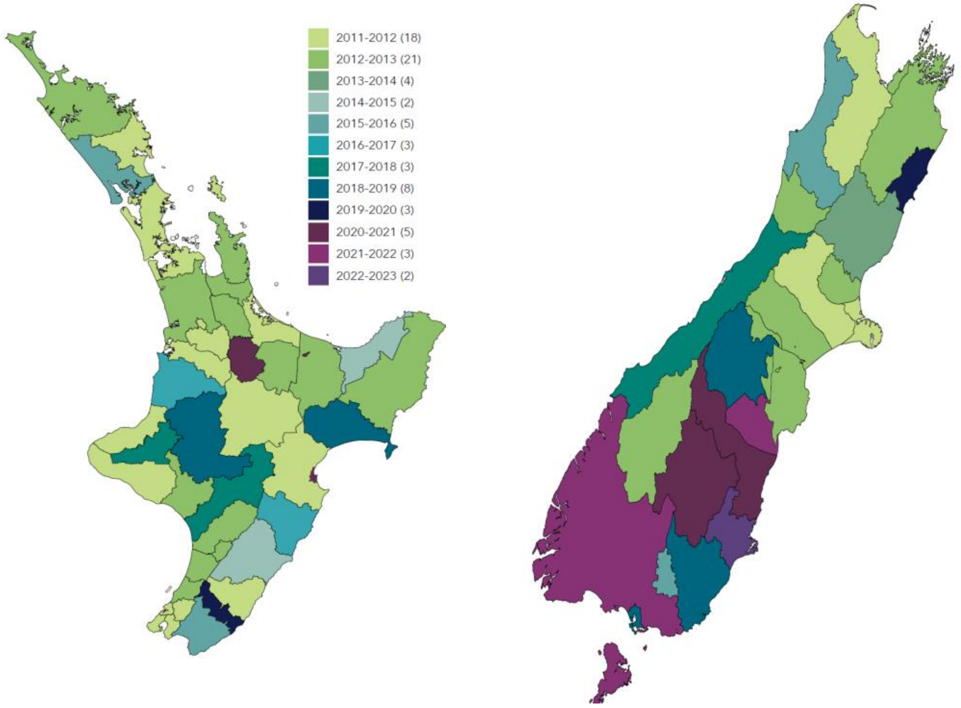


Council Borrowing (NZ$ million) – calendar year



Source: LGFA, PwC Quarterly Local Government Debt Report.

LGFA member Councils highlighted with year of joining



- Chatham Islands District Council is not currently a member.
- Some Councils (notably regional councils) may overlap on this map.
- There are three CCOs (Invercargill City Holdings Limited, Westland Holdings Limited and Dunedin City Treasury Limited) who are members.

NEW ZEALAND LOCAL GOVERNMENT SECTOR

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- 78 Local Government (**Council**) entities.
- Financial Management:
  - "A local authority should ensure prudent stewardship and the efficient and effective use of its resources in the interests of its district or region". *Local Government Act 2002 s14*.
- Balanced budget approach – rates reset annually to balance expenditure with operating income.
- Revenue certainty through rates (property taxes) providing 66% of revenue:
  - Rates not affected by level of economic activity or property market;
  - Councils have broad powers to tax (rate) properties:
    - No upper limit on rates income; and
    - Rate collection ranks ahead of all other claimants including Inland Revenue Department and mortgagees.
- No defined benefit pension liabilities or welfare obligations.
- Debt used essentially to finance new assets.
- Robust planning with extensive public consultation.
- Strong institutional framework and relationship with Central Government.

- Security can be provided to lenders by Councils:
  - Charge over rates and future rates income; and
  - all LGFA bondholders indirectly have the benefit of a Debenture Trust Deed from each guarantor Council which gives a charge over rates and future rates income. This security is shared with other Council lenders.

Range of activities undertaken by the government sector

Central Government	Mixture of Central and Local Government Funding	Local Government
Education (primary, secondary and tertiary provision)	Public transport operation (typically 53% from Central Government)	Water, wastewater and storm water
Public healthcare and hospitals	Rail infrastructure (negotiated)	Rubbish and recycling collection and disposal
Fire services	Local roads (construction, maintenance, cleaning)	Street cleaning
State highways	Public housing	Health / Sanitation Inspections
Police and corrective facilities		Building inspections
Pensions and welfare		Public facilities (parks, recreation facilities, swimming pools, sports fields)

Source: Auckland Council

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LGFA Overview

Sustainability at LGFA

Sustainable Financing Bond Framework

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

NEW ZEALAND'S CLIMATE CHANGE ACTION

New Zealand has progressively built a robust and bi-partisan policy architecture to address climate change

2002 **Climate Change Response Act** – The Act created the legal framework to enable New Zealand to meet its international obligations under the UN Framework Convention on Climate Change (UNFCCC) and the Kyoto Protocol.

2008 **Emissions Trading Scheme (ETS)** – New Zealand established a national ETS.

2016 **Paris Agreement** – Following COP 21 in Paris, New Zealand became a signatory to the Paris Agreement to contribute to global efforts to limit the increase in global average temperatures to 1.5 degrees Celsius above pre-industrial levels.

2019 **Climate Change Response (Zero Carbon) Amendment Act** – The Act legislated domestic climate targets:

- Net-zero long-life emissions by 2050; and
- 24-47% reduction in gross biogenic methane emissions by 2050 compared to 2017 levels.

2021 **Climate Change Commission (CCC)** – The CCC provided independent advice on reaching emission reduction targets.

2021 **Nationally Determined Contribution (NDC)** – The NDC was updated to reduce net emissions by 50% below 2005 gross emissions by 2030.

2022 **Emissions Reduction Plan (ERP) and National Adaptation Plan (NAP)** – The New Zealand Government set its first emissions budgets as interim targets towards the 2050 target, and published its first ERP and NAP as required by the Zero Carbon Act.

Te hau mārohi ki anamata
Towards a productive, sustainable and inclusive economy: Aotearoa New Zealand's first emissions reduction plan

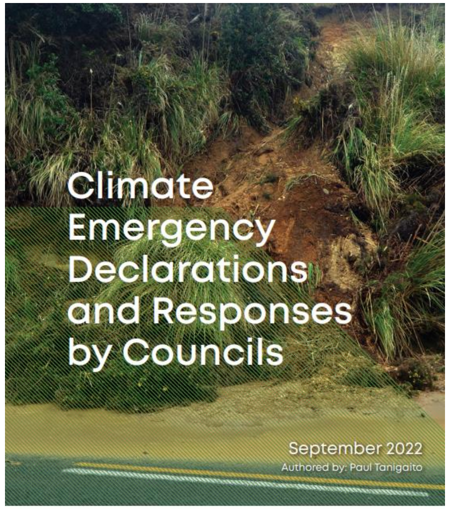
SUSTAINABILITY INTEGRATION

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

Aligned to LGFA's 2022-25 Statement of Intent to "improve sustainability outcomes within LGFA and assist the local government sector in achieving their sustainability and climate change objectives", LGFA has led a range of sustainability initiatives to support integration of sustainability into LGFA and across the local government sector

TOITŪ NET CARBON ZERO ISO 14064-1 ORGANISATION

- Reducing Operational Greenhouse Gas Emissions:
  - Achieved Toitū net carbonzero certification in June 2022.
  - Set a target to reduce gross greenhouse gas (**GHG**) emissions by at least 30% by 2030 (relative to a 2018/19 baseline).
- Improving Sustainability Governance and Oversight:
  - Appointed a Head of Sustainability in April 2021.
  - Established a Sustainability Committee including 4 nationally recognised external advisors (see slide 14).
- Collaborating with Councils and CCOs:
  - Established a Green, Social and Sustainability (**GSS**) Lending Programme for borrower Councils and CCOs and issued GSS loans to Councils and CCOs under this Programme (**GSS Loans**).
  - Established a Climate Action Loan (**CAL**) Lending Programme for borrower Councils and CCOs and issued CALs to Councils and CCOs under this Programme.
- Integrating ESG into operations:
  - Annual reporting in accordance with the Global Reporting Initiative.
  - Preparing to report in accordance with the regulatory climate-related disclosure regime.
  - Applying Responsible Investment Policy to investments in the Liquid Asset Portfolio (LAP).
- Published a review of Climate Change Emergency Declarations and Responses by Councils.



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Further details on LGFA's sustainability strategy will be available later in 2023.

GLOBAL REPORTING INITIATIVE

GRI

LGFA is committed to following global sustainability reporting practices with a particular focus on stakeholders and materiality.

- LGFA adopted the Global Reporting Initiative (**GRI**) Standards in June 2020.
- LGFA is monitoring the development of global sustainability reporting standards by the International Sustainability Standards Board.
- Material issues for LGFA were updated in 2022 to reflect the increasing focus on sustainability:

Our organisation

- Culture, ethics and governance
- Transparency and disclosure
- Health, safety and wellbeing
- Diversity and inclusion
- Capability and development

Responsible finance

- Deliver efficient and cost-effective funding
- Financial performance
- Industry collaboration and engagement
- Best practice and influence

Our environment

- Green, social and sustainability lending
- Responsible investment
- Sustainable business practices

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

CLIMATE-RELATED DISCLOSURE FRAMEWORK

LGFA is on track to comply with its legislative mandated climate-related disclosures obligations

- The Financial Markets Conduct Act 2013 makes it mandatory for climate reporting entities to produce climate statements according to disclosure standards developed by the External Reporting Board (**XRB**).

- The XRB states reporting on climate change under the climate-related disclosures (**CRD**) will:
  - allow investors to make more informed decisions about the climate-related risks and opportunities facing entities and sectors into which they invest; and
  - encourage entities to think about their strategic choices in light of the risks and opportunities of climate change, including the transition to a low-emissions future.

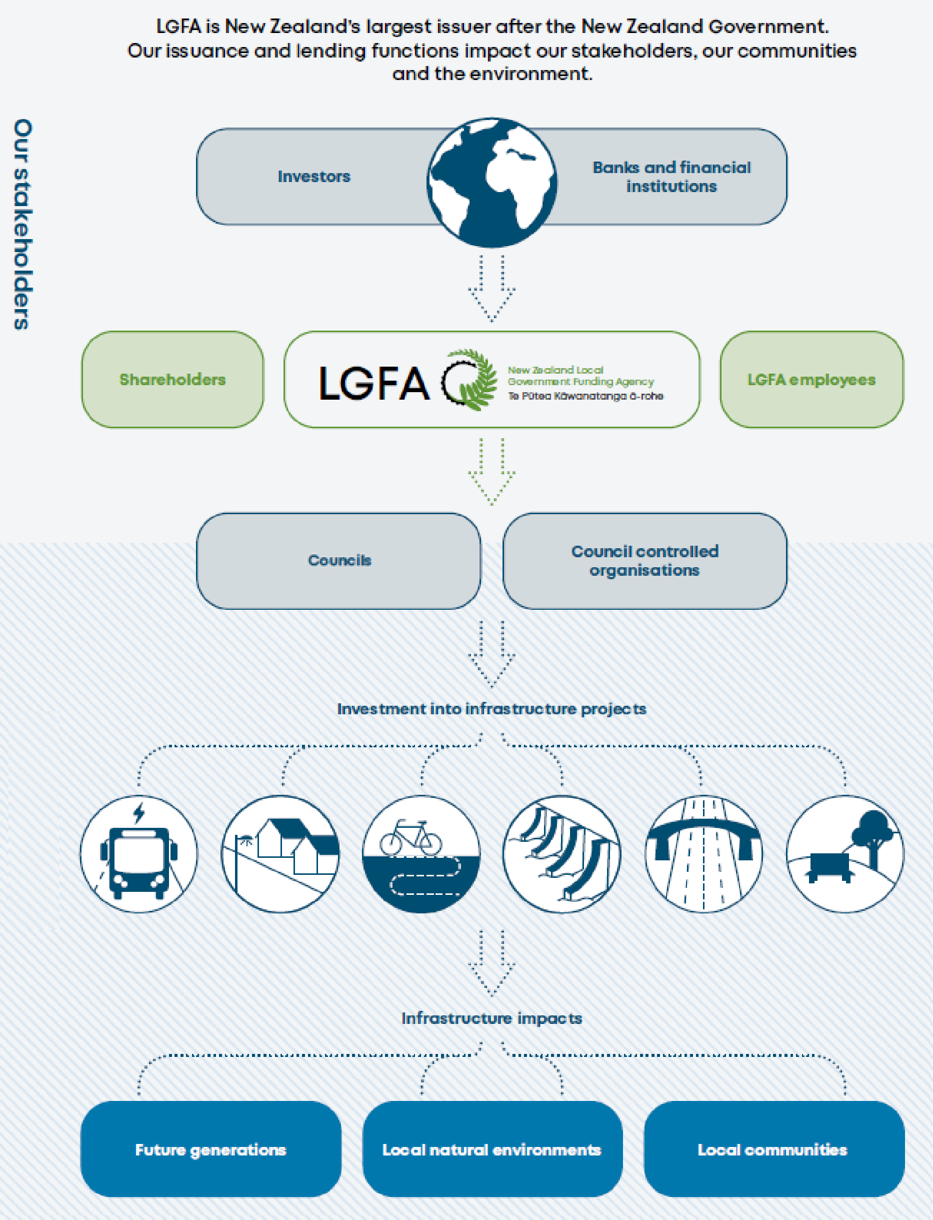
- LGFA is a currently developing its risk and reporting frameworks to meet the forthcoming climate-related disclosures developed by the XRB.

- LGFA will report in compliance with the CRD standards for the financial year commencing 1 July 2023 and will provide an update on progress towards CRD compliance and reporting in LGFA's 2023 Annual Report.

LGFA'S ROLE IN CLIMATE AMBITION AND SECTOR LEADERSHIP

LGFA has a key role to play in helping the local government sector to decarbonise

- LGFA is the predominant funder of New Zealand's local government activities and projects that impact local natural environments, local communities and future generations.
- LGFA recognises the risks inherent in climate change for both New Zealand and Councils and is committed to supporting New Zealand's shift to a low-carbon economy.
- LGFA is amplifying its engagement with Councils and CCOs to deepen awareness of GHG reduction opportunities and the role LGFA can play to incentivise greater accountability and transparency of initiatives undertaken by Councils and CCOs.
- To help achieve these goals, LGFA developed Sustainable Loans for borrower Councils and CCOs (**Borrowers**) to incentivise them to commit to greater climate change action. These loans are outlined further on slides 15-20 and comprise:
  - **GSS Loans** that assist Borrowers to fund sustainable assets (such as green buildings and public transport); and
  - **CALs** that support Borrowers to commit to climate targets and GHG emissions reduction plans.
- Sustainable Loans are documented as debt securities under LGFA's Multi-Issuer Deed with Borrowers.



SUSTAINABILITY COMMITTEE AND GOVERNANCE

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LGFA has established a Sustainability Committee to advise on sustainability issues including sustainable lending to Borrowers

- LGFA established a Sustainability Committee in 2021 to assist LGFA to achieve its sustainability objectives in alignment with best practice.
- The Sustainability Committee's purpose is to advise the Chief Executive and Board on sustainability issues within LGFA, across its operating, borrowing and lending activities. This includes providing input on the GSS Loan and CAL lending programmes.
- The Sustainability Committee reviews applications for GSS Loans and CALs (together, **Sustainable Loans**).
- The Sustainability Committee is chaired by LGFA's Head of Sustainability and currently comprises three employees and four independent members.
- The Sustainability Committee comprises:
  - LGFA Head of Sustainability;
  - LGFA Chief Financial Officer;
  - LGFA Senior Manager Credit and Client Relations; and
  - the four independent members pictured to the right.
- The four independent members each have deep climate and sustainability experience and were selected by LGFA to provide expert insights into LGFA's sustainability work programme.


Alison Howard


Chris Thurston


David Woods


Erica Miles

INTRODUCTION TO GSS LOANS

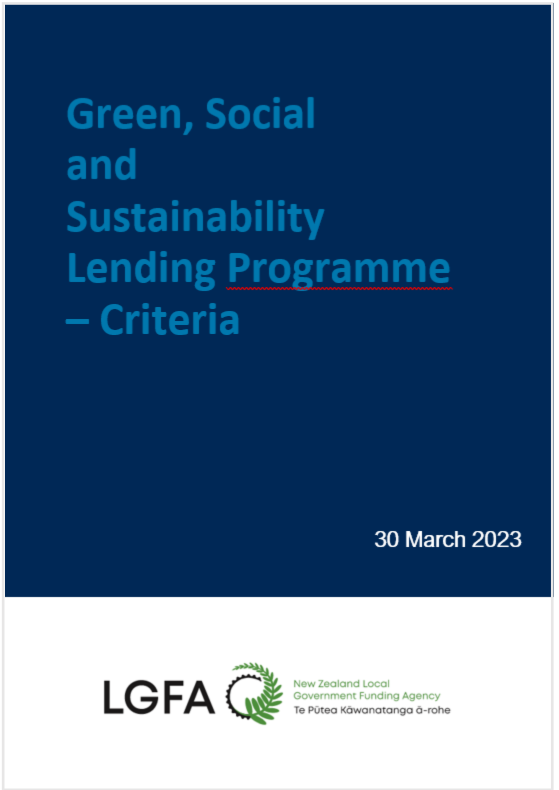
LGFA lends funds to Borrowers at a discounted margin to enable them to undertake green, social and/or sustainability (GSS) projects

- GSS Loans are "proceeds-based" loans to Borrowers for assets, projects or activities that meet the GSS Loan Criteria published by LGFA (**GSS Loan Criteria**). Projects can qualify under 9 Green Loan categories and/or 3 Social Loan categories (see slide 16).

- All Borrowers are eligible for GSS Loans.

- LGFA may provide GSS Loans for projects that:
  - provide a demonstrable reduction in energy consumption and/or GHG emissions;
  - strengthen the level of local adaptation to challenges posed by climate change; or
  - have an identified social objective.

- To be eligible for GSS Loans, projects must:
  - target requirements higher than or at least the minimum requirements in the relevant New Zealand legislation, policies or principles; and
  - have explicit climate, environmental, social, or sustainable ambitions.


Green, Social and Sustainability Lending Programme – Criteria

30 March 2023

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ALIGNMENT OF GSS LOAN CRITERIA WITH MARKET STANDARDS

The GSS Loan Criteria is aligned to the Green Loan Principles and the Social Loan Principles

- The green project categories in the GSS Loan Criteria that address environmental objectives and challenges are:

  1: Energy Efficiency
  2: Green Buildings
  3: Clean Transportation
  4: Sustainable Water & Wastewater Management
  5: Renewable Energy
  6: Pollution Prevention & Control
  7: Environmentally Sustainable Management of Living Natural Resources and Land Use
  8: Climate Change Adaptation
  9: Terrestrial and Aquatic Biodiversity Conservation

- The social project categories in the GSS Loan Criteria that address social objectives for target populations are:

  1: Affordable Basic Infrastructure
  2: Access to Essential Services
  3: Social and Affordable Housing

- Morningstar Sustainalytics, a global independent ESG and corporate governance research, ratings and analytics firm that supports investors around the world (**Sustainalytics**) has verified that the GSS Loan Criteria is aligned to the Green Loan Principles 2023 and the Social Loan Principles 2023 (see slide 28).

GSS LOANS WITH COUNCILS

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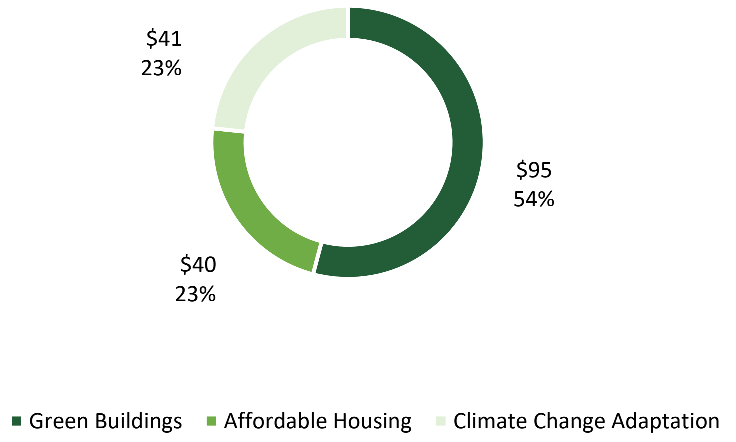
Te Pūtea Kāwanatanga ā-rohe

LGFA has approved* NZ$562 million of GSS Loans, of which NZ$175.5 million has been advanced to Councils to date

Date Sustainable Loan approved*	Borrower	Project	Sustainable Loan Type	Sustainable Asset or Activity	Approved* Amount (NZ$ millions)	Principal Amount advanced to date (NZ$ millions)
14 Oct 2021	Wellington City Council	Takina - Wellington Convention and Exhibition Centre	Green Loan	Green Building	180	50
2 Dec 2021	Greater Wellington Regional Council	River Link - new flood diversion system and elevation of dam crest and road	Green Loan	Climate Change Adaptation	227	41
28 Jun 2022	Hutt City Council	NZGBC 5 star Greenstar rated swimming pool	Green Loan	Green Building	41	25
19 Aug 2022	Whangārei District Council	Whangārei Civic Centre	Green Loan	Green Building	59	20
17 Nov 2022	Christchurch City Council		Social Loan	Low-cost community housing	55	39.5
Total	**5 Borrowers**				**562**	**175.5**

Principal Amount of GSS Loans advanced to date by Sustainable Loan Type (NZ$ millions)



Source: LGFA, as at 30 March 2023.
* Where a GSS Loan is "approved", LGFA is not committed to provide those funds. Rather, LGFA has indicated to the relevant Borrower that, subject to satisfaction of conditions precedent, LGFA intends to advance the relevant amount as GSS Loan(s) when the Borrower makes a request under LGFA's Multi-Issuer Deed.

INTRODUCTION TO CLIMATE ACTION LOANS

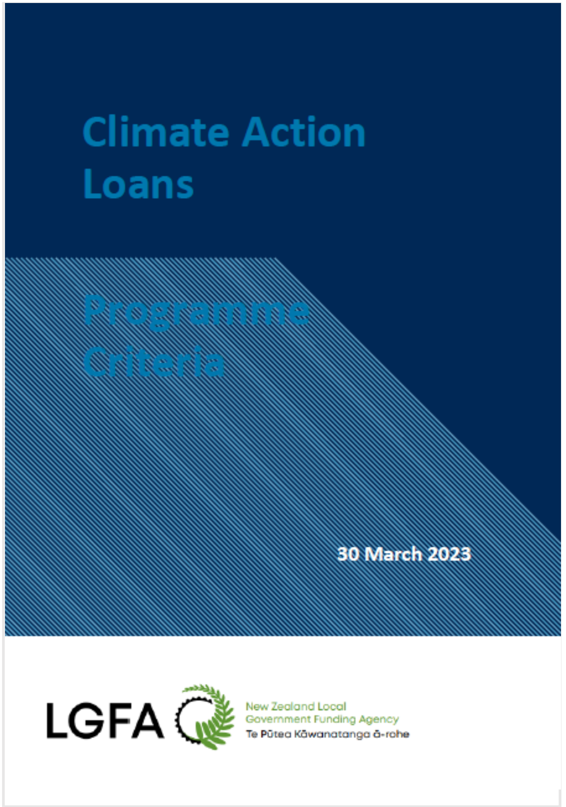
LGFA lends funds to Borrowers at a discounted loan margin when they commit to address GHG emissions aligned to science-based trajectory

- CALs are “general purposes” loans with a pricing incentive for Borrowers to act on climate change and reduce GHG emissions in accordance with the requirements of the CAL Criteria published by LGFA (**CAL Criteria**).

- All Borrowers are eligible for CALs, including those who may not have any eligible projects to access GSS Loans.

- To qualify for a CAL, a Borrower must have the following in place:
  - An Emission Reduction Plan (**ERP**) which includes:
    - a Borrower’s intended pathway to reduce its Scope 1 and Scope 2 GHG emissions in line with the science-based trajectory (i.e. to support limiting global warming to no greater than 1.5 degrees Celsius above pre-industrial levels) and net zero by 2050; and
    - annual GHG targets (for Scope 1 and Scope 2 GHG emissions) covering short-term periods and medium-term targets that ultimately support the Borrower to achieve its long-term goal of alignment to the science-based trajectory and net zero by 2050 (or sooner).
  - Borrowers must obtain annual external verification (by a credible provider) of their GHG emissions inventory.

- There is no penalty if a Borrower misses its emissions reduction target or fails to report as required under the CAL Criteria. However, LGFA will “declassify” the CAL which means (a) LGFA will remove the Borrower’s name from the list of CAL borrowers on LGFA’s website, and (b) LGFA will name the Borrower on LGFA’s website as a Borrower which has had its CAL declassified as a result of non-compliance with the CAL Criteria. The CAL will remain declassified until the CAL Criteria is met.



ALIGNMENT OF CAL CRITERIA WITH MARKET STANDARDS

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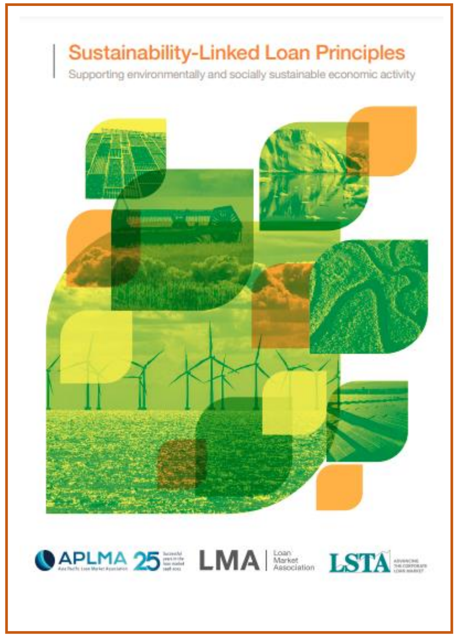
The CAL Criteria partially aligns to the Sustainability-Linked Loan Principles

- Sustainalytics has reviewed the CAL Criteria (see slide 28) and reached the following conclusions.
- The sustainability Key Performance Indicator (**KPI**) and Sustainability Performance Target (**SPT**) that both form the basis of CALs are both in line with the Sustainability-Linked Loan Principles 2023 (**SLLP**):
  - The KPI that forms the basis of the CAL Criteria is *absolute gross Scope 1 and Scope 2 GHG emissions* (measured in tCO_2e).
    - The CAL Criteria is programmatic in that it covers a range of Borrowers.
    - Despite this programmatic approach, the KPI is considered material for all Borrowers.
  - The SPT in the CAL Criteria is the *reduction in absolute gross Scope 1 and Scope 2 GHG emissions in line with a 1.5°C science-based scenario*.
    - The target aligns with New Zealand’s sustainability strategy.
    - The target is considered highly ambitious given that it is expected to align with the science-based targets to reduce GHG emissions, to help limit global warming to 1.5°C and support the achievement of net zero emissions by 2050 in New Zealand.
- The CAL Criteria is in line with four of the five core components of the SLLP:
  - The one component in the CAL Criteria that does not align with the SLLP is the pricing and margin adjustment (Component 3 of the SLLP).
  - This is because a penalty for failure to meet the CAL requirements is declassification of the CAL, not a pricing penalty. A pricing penalty cannot be linked within the same term of the CAL due to the potential impact on LGFA’s financial statements under current accounting standards. Accordingly, the CAL Criteria does not fully align with the SLLP for this reason.



CALS WITH COUNCILS

LGFA has advanced NZ$255.7 million in CALs to Councils to date

Borrower	Maturity Date Range of CALs	Principal Amount advanced to date (NZ$ millions)
Auckland Council	May 2031	200
Hutt City Council	October 2026 to October 2028	55.7
Total		**255.7**

The CALs for Auckland Council and Hutt City Council were approved on 30 March 2023.

LGFA is working with a further 7 Borrowers on their CAL applications with a potential aggregate borrowing of NZ$1.1 billion in the next six months.

Source: LGFA, as at 30 March 2023.

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LGFA Overview

Sustainability at LGFA

Sustainable Financing Bond Framework

OVERVIEW OF SUSTAINABLE FINANCING BOND FRAMEWORK

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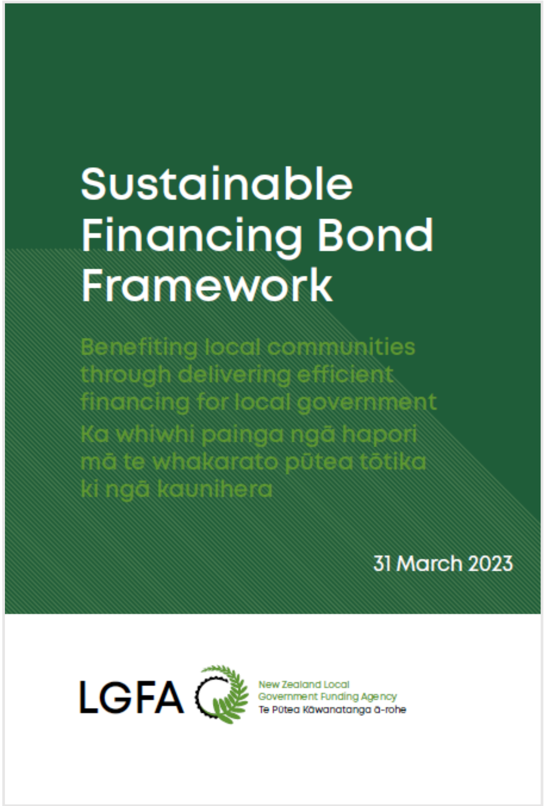
LGFA has developed an innovative Sustainable Financing Bond Framework

- LGFA has developed the 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:
  - International Capital Markets Association's (**ICMA**) Green Bond Principles (**GBP**), Social Bond Principles (**SBP**), and Sustainability Bond Guidelines (**SBG**); and
  - Asia-Pacific Loan Market Association's (**APLMA**) Green Loan Principles (**GLP**), Social Loan Principles (**SLP**), and Sustainability-Linked Loan Principles (**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.

  Important note: LGFA is not claiming direct alignment with the Market Standards. Any bonds that LGFA may choose to issue under the Framework will not be Green, Social or Sustainability Bonds*, and nor will they be Sustainability-Linked Bonds**.
- Sustainalytics has provided a Second Party Opinion on the Framework (see slide 27 for more details).



* Given the nature of the Sustainable Loan Asset Pool, which comprises both GSS Loans and CALs together in the same pool, Sustainable Financing Bonds do not meet the "Use of proceeds" requirement under the GBP or the SBP.
** This is because the bonds will not include sustainability targets for LGFA or have variable coupons or redemptions.

STRUCTURE OF SUSTAINABLE FINANCING BOND PROGRAMME

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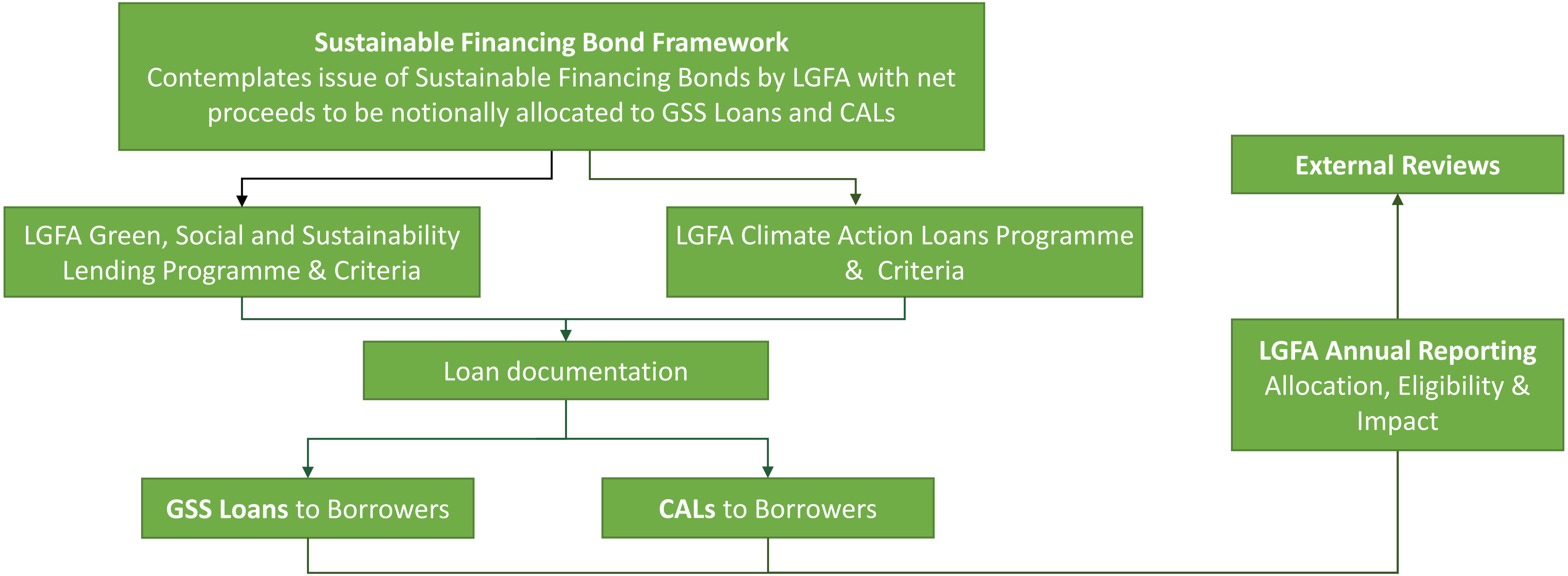
LGFA has set up a transparent and integrated documentation hierarchy for the Sustainable Financing Bond Programme

- Information provided by the Borrowers will inform annual reporting on any Sustainable Financing Bonds, which will then be reviewed by a selected external reviewer as to the extent of alignment with the GSS Loan Criteria, the CAL Criteria and the Framework.



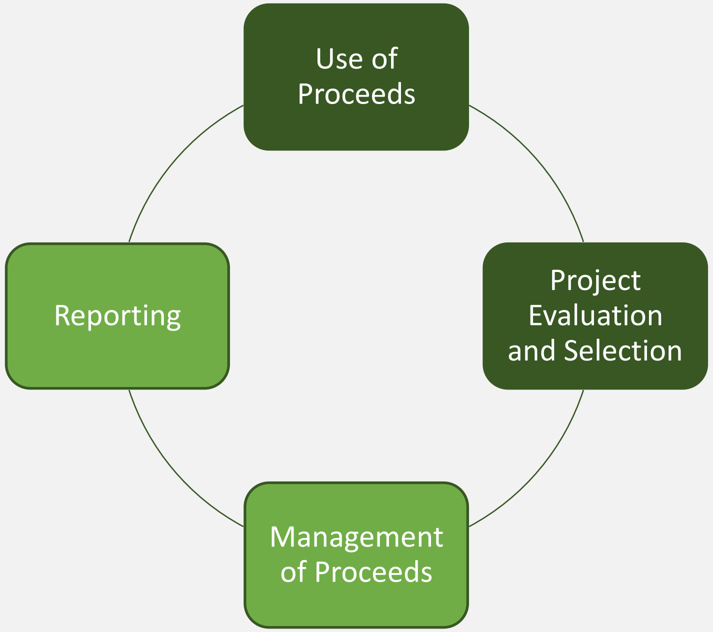
USE OF PROCEEDS AND PROJECT EVALUTION

The Framework follows the "proceeds-based" pillars of the Market Standards

- Use of Proceeds:
  - For any Sustainable Financing Bonds that LGFA may choose to issue under the Framework, LGFA intends to notionally allocate an amount equal to the net proceeds of such bonds to a pool of Sustainable Loans (comprising GSS Loans, CALs or both) that meet the eligibility criteria for each of those loan types set out in the Framework (**Sustainable Loan Asset Pool**).
  - The eligibility criteria for GSS Loans is also informed by applicable United Nations Sustainable Development Goals.

- Project Evaluation and Selection:
  - LGFA will determine the GSS Loans and CALs to be included in the Sustainable Loan Asset Pool for any Sustainable Financing Bond to be issued.
  - 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.
  - LGFA will ensure loans that meet both the GSS Loan Criteria and the CAL Criteria are not "double-counted" within the Sustainable Loan Asset Pool.
  - To help ensure integrity and further adherence to a proceeds-based structure, only the principal amounts of the applicable Sustainable Loans advanced to Borrowers will be eligible for inclusion in the Sustainable Loan Asset Pool.

The four "proceeds-based" pillars of global Sustainable Finance Market Standards



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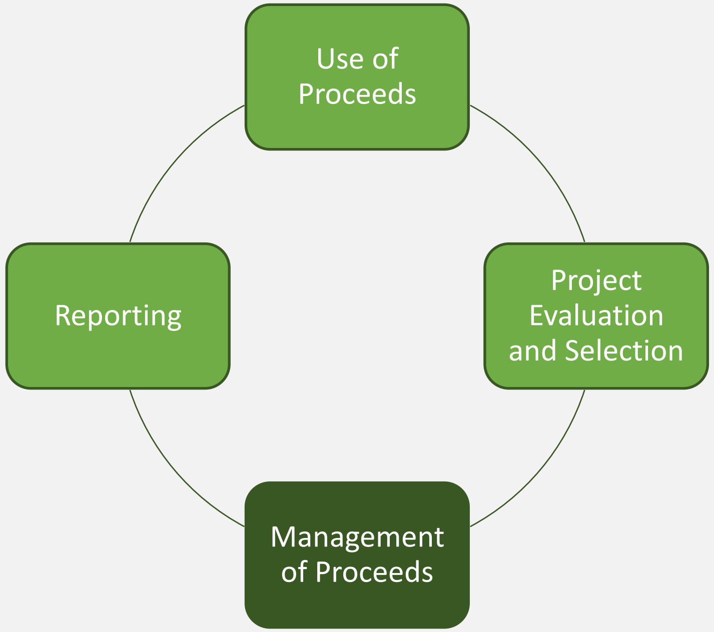
Te Pūtea Kāwanatanga ā-rohe

Managing the net proceeds from Sustainable Financing Bonds

- The net proceeds of any 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.
- 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:
  - the current value of the GSS Loans and CALs included in the Sustainable Loan Asset Pool (based on the principal amount of the relevant loans advanced to the Borrower);
  - the notional allocation of net proceeds from the Sustainable Financing Bonds against the Sustainable Loan Asset Pool; and
  - disclosure of any unallocated net proceeds from the Sustainable Financing Bonds.
- Pending allocation, any unallocated net proceeds will be temporarily invested in cash, rated securities, or investments that do not include GHG emissions intensive projects which are inconsistent with the delivery of a low carbon and climate resilient economy.

The four "proceeds-based" pillars of global Sustainable Finance Market Standards

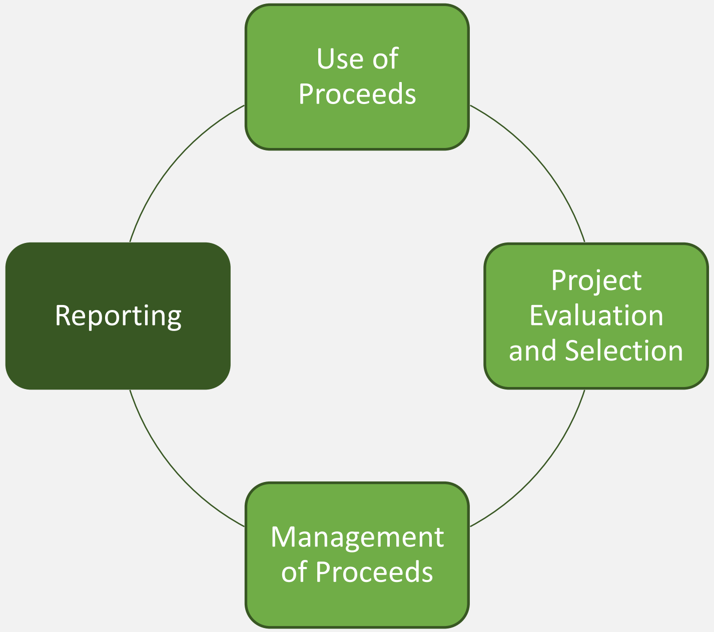


REPORTING

LGFA recognises the importance investors place on transparency and disclosure and will report in accordance with the Framework

- Where any Sustainable Financing Bonds are outstanding, LGFA will prepare and publish an Annual Update Report that includes the following information:
  - **Allocation Reporting**: A list and description of the Sustainable Loans to which the net proceeds from the Sustainable Financing Bonds are notionally allocated.
  - **Eligibility Reporting**: Confirmation that the Sustainable Loans meet the relevant eligibility requirements included in the 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. This reporting will be subject to availability of information and confidentiality requirements.
- LGFA will publish all external annual reviews of its Annual Update Reports.

The four "proceeds-based" pillars of global Sustainable Finance Market Standards



EXTERNAL REVIEW OF THE FRAMEWORK

LGFA recognises the heightened transparency that independent external reviews of sustainable finance structures can provide, and has obtained an external review on the Framework

- Sustainalytics has reviewed the Framework and prepared a Second Party Opinion* (**SPO**).

- In the SPO, Sustainalytics sets out a detailed analysis and concludes that:
  - the components of the Framework are **credible**;
  - the Framework is expected to **advance LGFA's and New Zealand's sustainability objectives** and generate positive environmental and social impact;
  - the Framework, as based on the **proceeds-based pillars** of the general market standards for sustainable finance, is overall in alignment with the **impact and transparency** principles, which underpin the sustainable finance market; and
  - any Sustainable Financing Bonds issued under the Framework will fund **overall impactful social and environmental** Sustainable Loan pools of GSS Loans and CALs.

* A copy of the SPO Is available on LGFA's website at: https://www.lgfa.co.nz/sites/default/files/2023-03/LGFA_Sustainable_Financing_Bond_Framework_Second-Party_Opinion.pdf.

EXTERNAL REVIEW OF THE GSS LOAN CRITERIA AND THE CAL CRITERIA

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The scope of the external review also included assessing the GSS Loan Criteria in accordance with the Market Standards and market practice

- Sustainalytics reviewed the GSS Loan Criteria.
- In its SPO*, Sustainalytics concluded that:
  - the GSS Loan Criteria is **credible and impactful**;
  - the GSS Loan Criteria **aligns** with the Green Loan Principles 2023, and the Social Loan Principles 2023;
  - the eligible categories for the use of proceeds **align** with those recognised by the Green Loan Principles 2023, and the Social Loan Principles 2023;
  - the 18-month look-back period for existing projects is **in line with market practice**; and
  - the eligible categories that will **deliver overall positive environmental and social impacts**.

The scope of the external review also included assessing the CAL Criteria in accordance with the Market Standards and market practice

- Sustainalytics reviewed the CAL Criteria.
- In its SPO*, Sustainalytics concluded that:
  - the CAL Criteria is **partially aligned** with the intent of the Sustainability-Linked Loan Principles 2023**;
  - the KPI and SPT to be used by the Borrowers are **expected to be in line with the SLLP**;
  - the requirement of CAL borrowers to annually verify or assure the SPT for the KPI, is in line with the SLLP on verification;
  - the strength of the KPI ("*absolute gross Scope 1 and Scope 2 GHG emissions*") for the CALs as it relates to Councils and CCOs is "***Strong***" and "***Adequate***" respectively; and
  - the SPT in the CALs ("*reduction in absolute gross Scope 1 and Scope 2 GHG emissions in line with a 1.5°C science-based scenario*") is "***Highly Ambitious***".

* A copy of the SPO Is available on LGFA's website at: https://www.lgfa.co.nz/sites/default/files/2023-03/LGFA_Sustainable_Financing_Bond_Framework_Second-Party_Opinion.pdf.

** Sustainalytics considers the CAL (pricing and margin adjustment) characteristics set out in the CAL Criteria are technically not aligned with the SLLP's loan characteristics component as a penalty cannot be linked within the same CAL term due to existing accounting standards.

Questions

WEBSITE AND CONTACTS

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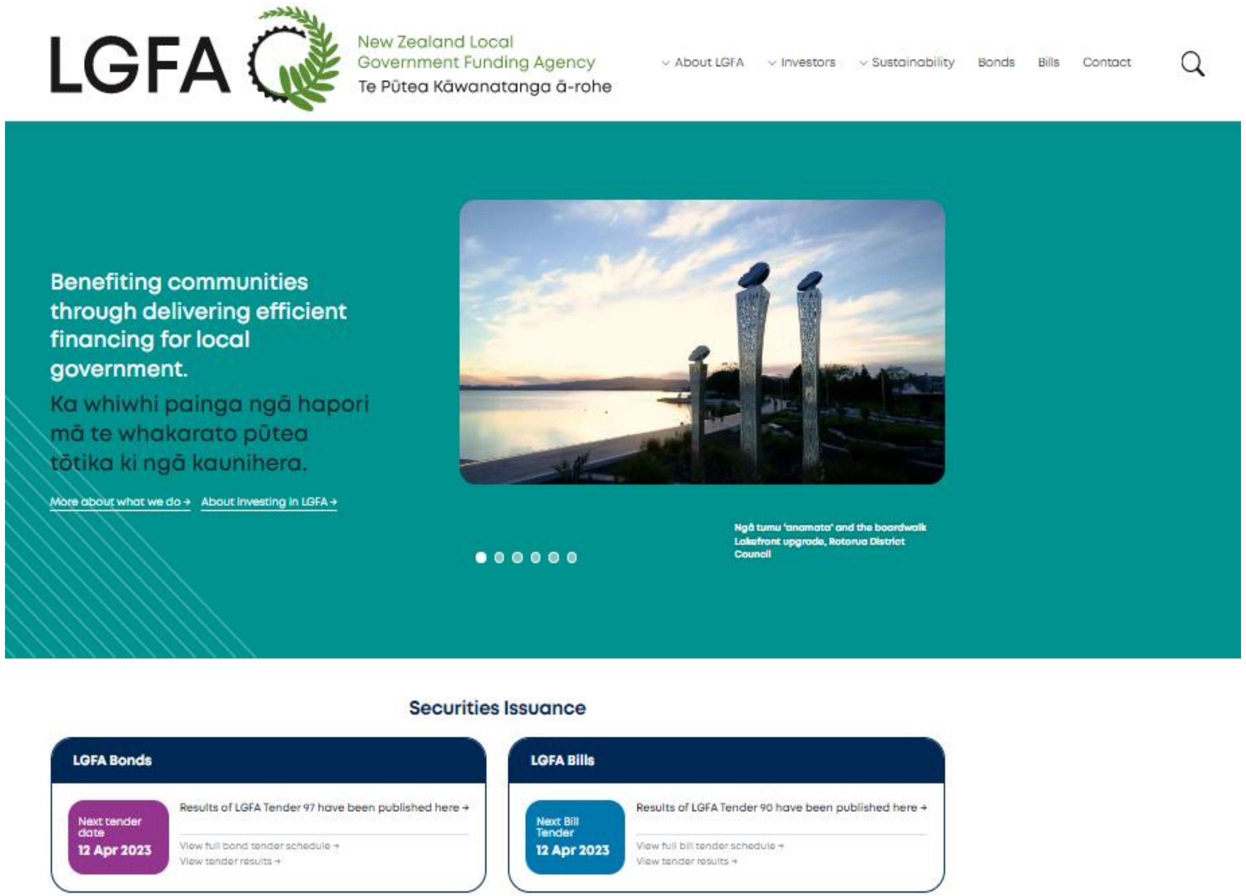

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