

# New Zealand Local Government Funding Agency Limited

## Lending Framework Assessment – Sustainable Water Action Loans Programme

New Zealand Local Government Funding Agency Limited (LGFA) is a centralised borrowing vehicle for New Zealand’s local government sector that on-lends to participating local authorities. LGFA has established a sustainable water action loan (SWALe) programme. The programme’s lending criteria are aligned with market practice, based on the LMA, LSTA and APLMA Sustainability-Linked Loan (SLL) Principles 2025.

Pillar	Key Drivers
KPI Selection	<ul style="list-style-type: none"> <li>LGFA’s KPI selection is grounded in a sector-specific national Planetary Accounting assessment, which provides a credible and independently benchmarkable basis for assessing relevance and materiality that is consistent with the LMA, LSTA and APLMA SLL Principles.</li> <li>All borrowers must report against a compulsory nitrogen and phosphorus KPI and one optional KPI selected from water efficiency, measurement of biogenic GHG emissions or measurement of embodied carbon.</li> <li>Sustainable Fitch considers the KPIs to meet the LMA, LSTA and APLMA SLL Principles’ KPI selection requirements on a collective basis, being relevant, core, externally verifiable and material to the water-sector operations. However, only the nitrogen and phosphorus, and water efficiency KPIs are quantifiable.</li> <li>The biogenic GHG emissions and embodied carbon KPIs do not in themselves deliver quantifiable environmental outcomes, although this reflects the sector’s current state of organisational and measurement maturity.</li> <li>However, taken together with the compulsory KPI, we consider loans in which one of these optional KPIs is selected to overall be aligned with the LMA, LSTA and APLMA SLL Principles’ KPI selection requirements.</li> </ul>
SPT Calibration	<ul style="list-style-type: none"> <li>We consider the sustainability performance targets (SPTs) to collectively be aligned with the SPT calibration requirements of the LMA, LSTA and APLMA SLL Principles.</li> <li>The quantifiable nitrogen and phosphorus and water efficiency SPTs are benchmarked against the science-based Planetary Boundaries, in line with the LMA, LSTA and APLMA SLL Principles’ requirement for SPTs to be ambitious and externally benchmarkable.</li> <li>The biogenic GHG emissions and embodied carbon SPTs focus on measurement improvement and baseline establishment rather than quantified reduction outcomes and, on a standalone basis, would not fully meet the LMA, LSTA and APLMA SLL Principles’ SPT calibration requirements.</li> <li>However, as foundational near-term milestones complementing the compulsory nitrogen and phosphorus reduction SPT, we deem loans selecting one optional SPT as overall aligned with the LMA, LSTA and APLMA SLL Principles’ SPT calibration requirements.</li> <li>All SPTs are accompanied by clearly defined timelines and SPT assessment dates, with LGFA’s commitment to biennial review of targets supporting continued relevance and ambition of SPTs throughout loan tenors.</li> </ul>
Loan Characteristics	<ul style="list-style-type: none"> <li>The interest rate adjustments are tied to achievement of the SPTs and reporting requirements, in line with the loan characteristics requirements of the LMA, LSTA and APLMA SLL Principles.</li> <li>A discount of 2bp applies from the outset, with a premium of up to 2bp applied when targets are missed or when reporting and/or verification requirements are breached. We consider this to limit the downside from the borrower’s perspective, as the worst-case outcome does not impose a pricing penalty above the non-discounted interest rate.</li> </ul>



Framework Type	Sustainability-Linked Loans
Alignment	✓ Market practice
Date assigned	1 July 2026
See Appendix A for definitions. See Appendix B for methodology.	

### Analysts

Jessie Gan  
+65 6576 5830  
[jessie.gan@sustainablefitch.com](mailto:jessie.gan@sustainablefitch.com)

Max Lee  
+852 2263 9842  
[max.lee@sustainablefitch.com](mailto:max.lee@sustainablefitch.com)

### Media Contact

Peter Hoflich  
+65 6796 7229  
[peter.hoflich@thefitchgroup.com](mailto:peter.hoflich@thefitchgroup.com)



	<ul style="list-style-type: none"> <li>We consider the provisions for SPT restatement following material corporate events, subject to LGFA’s agreement, as consistent with market practice under the LMA, LSTA and APLMA SLL Principles.</li> </ul>
<b>Reporting</b>	<ul style="list-style-type: none"> <li>LGFA requires annual reporting that covers quantitative KPI performance data and qualitative progress updates in years when formal measurement is not required, consistent with the LMA, LSTA and APLMA SLL Principles’ requirement for at least annual reporting.</li> <li>The KPI-specific reporting requirements are clearly defined and calibrated to the nature and measurement maturity of each KPI.</li> <li>LGFA’s formal annual review and commitment to public reporting on SPT achievement support ongoing accountability and transparency.</li> </ul>
<b>Verification</b>	<ul style="list-style-type: none"> <li>LGFA requires the KPI-specific third-party verification to be calibrated to the measurement maturity and existing regulatory infrastructure, consistent with the LMA, LSTA and APLMA SLL Principles’ requirement for independent external verification for any period relevant to SPT assessment.</li> </ul>

### Scope of Assessment

This assessment of LGFA’s SWALe lending programme does not constitute a second-party opinion for the SLLs granted by the agency. It assesses the quality of the SWALe lending criteria used by LGFA to originate eligible SLLs based on existing market practice and guidelines in terms of the process of identifying applicable KPIs, SPTs, and requirements for reporting and verification.

The assessment is informed by market principles, including the LMA, LSTA and APLMA SLL Principles 2025 as well as the corresponding Guidance on SLL Principles 2025.

This assessment should not be considered or presented as an assessment of green, social, sustainability or sustainability-linked bonds.

### Framework Highlights

We consider the criteria to originate loans under LGFA’s SWALe lending programme as aligned with market practice based on the LMA, LSTA and APLMA SLL Principles.

New Zealand’s water sector faces significant challenges, including aging infrastructure, population growth and mounting environmental pressures. The Department of Internal Affairs has estimated that between NZD120 billion and NZD185 billion will need to be invested in New Zealand’s water infrastructure over the next 30 years.

In response, local governments are forming council-controlled organisations (CCOs) to manage water services delivery as part of the broader water-sector reforms under the Local Government (Water Services) Act 2025. LGFA established the SWALe lending programme in 2026 to expand its sustainable finance offering for eligible water CCOs in New Zealand.

The SWALe lending programme is designed as a target-based incentive lending structure for general-purpose funding, with the intention to support the borrowers’ environmental performance improvements using a science-based approach linked to the Planetary Boundaries. The SWALes have a minimum loan term of three years and may be used for refinancing at maturity or for new borrowing. Unlike green and social loans, proceeds are not directed to specific eligible projects.

The lending programme is sector specific, grounded in a national Planetary Accounting assessment for New Zealand’s water sector completed by the Planetary Accounting Network (PAN) and commissioned by LGFA. This assessment identified phosphorus and nitrogen, biogenic GHG emissions, water use, and carbon+ (GHG emissions from operations and capital projects) as the most material environmental impacts, and LGFA established the KPIs and associated SPTs to reflect these impacts accordingly.

All borrowers must report against two KPIs: a compulsory nitrogen and phosphorus KPI and one optional KPI selected from biogenic GHG emissions, water efficiency or embodied carbon, corresponding to the remaining three material impacts identified.

Overall, we deem the SWALe lending programme to stand out for its water-sector focus, science-based design and relatively detailed KPI, and reporting and verification structure. The use of external scientific references, specifically the Planetary Boundaries and Planetary Accounting framework, as the overarching benchmark is a distinctive and credible feature of the lending programme. We view positively its linkage to the most material environmental impacts identified for New Zealand's water sector, and its use of both independent verification and existing regulatory reporting mechanisms to support implementation credibility.

We acknowledge that two of the optional KPIs are currently focused on measurement improvements and implementation, instead of quantified environmental outcomes; we deem this to reflect the sector's current state of organisational and measurement maturity. Establishing baselines and improving measurement maturity are essential steps towards setting a sound sustainability strategy and monitoring its progress; however, setting targets to reduce emissions or other negative environmental impacts will be important to drive positive environmental outcomes.

We expect the SWALe lending programme to strengthen over time as the methodologies mature and data availability broadens to transition from measurement-based KPIs to outcome-based metrics.

Source: Sustainable Fitch, LGFA SWALe lending programme criteria 2026, LGFA-PAN planetary boundary KPIs for water entities report 2026, company materials

## Entity Highlights

LGFA is a centralised borrowing vehicle established in 2011 following the enactment of the Local Government Borrowing Act to provide efficient debt funding to New Zealand's local government sector. Its primary objective is to raise debt on behalf of local governments and associated entities, known as CCOs, in order to optimise funding terms and conditions. This includes facilitating access to debt capital, minimising borrowing costs and providing funding flexibility through instruments such as long-term loans and liquidity facilities.

LGFA is currently 20% owned by the New Zealand government and 80% owned by 30 council shareholders. Its governance structure includes a seven-member board appointed by the shareholders, and the LGFA Shareholders' Council that comprises appointees from both the government and council shareholders.

LGFA's strategic role as New Zealand's primary lender to local governments is reflected in its reported market share of between 80% and 90%, underscoring its central role in aggregating and intermediating local government funding needs.

Its income for the year to end-June 2025 was derived mainly from interest income of around NZD1.27 billion and standby facilities fee income of NZD1.6 million.

LGFA reports progress against its sustainability objectives in its annual report and publishes an annual climate statement in accordance with the Aotearoa New Zealand Climate Standards, which were developed in New Zealand with reference to the Task Force on Climate-related Financial Disclosures framework. The report includes a detailed emissions inventory covering operating emissions and financed emissions, which we expect to constitute the largest component of a financial institution's carbon inventory.

LGFA incorporates sustainability considerations into its own operations and governance through formal targets, reporting processes and oversight arrangements that support the implementation of its sustainability objectives. Governance of sustainability matters is supported by its sustainability committee that was established in 2021, which advises its chief executive on sustainability issues across LGFA's operations, borrowing and lending activities.

LGFA has committed to reducing its operational carbon footprint by 30% by 2030 on a per employee basis, measured across Scopes 1 and 2 emissions and operational Scope 3 emissions relative to the baseline for the year to end-June 2019.

Beyond its own operations, LGFA incorporates sustainability considerations into its lending activities to support the local government sector in achieving sustainability objectives in their communities. The SWALe lending programme criteria are intended to build on LGFA's earlier green and social loan and climate action loan lending programme criteria to further broaden the range of sustainable finance options available to its borrowers and provide a sustainable lending product specifically for water CCOs.

Climate action loans are SLLs that require the borrowers' GHG reduction targets to be aligned with science-based 1.5°C pathways. The green use of proceeds (UoP) loans cover various green project categories such as green buildings, energy efficiency, sustainable water and wastewater management, and climate change resilience and adaptation, while the social UoP loans finance affordable or social housing, affordable basic infrastructure, and access to essential services.

As of end-March 2026, the sustainability asset pool (comprising green and social loans, and climate action loans, but excluding SWALes) accounted for around NZD4.86 billion of eligible assets, representing 20% of LGFA's total loan portfolio. Climate action loans made up 87% of the sustainability asset pool, with green loans making up 12% and social loans making up 1%.

LGFA is an active issuer of sustainable financing instruments. As of the time of analysis, it had issued three sustainable financing bonds to finance UoP loans and SLLs that meet the relevant green and social loan or climate action loan lending programme criteria. LGFA may also issue SLLs financing bonds or sustainable financing bonds to finance SWALes that meet the relevant SWALe lending programme criteria.

Source: Sustainable Fitch, LGFA annual report 2025, LGFA annual impact report 2025, LGFA allocation report (March 2026), company website

## KPI Selection

Company Material	Sustainable Fitch's View
<ul style="list-style-type: none"> <li>• LGFA's SWALe lending programme is structured around four environmental KPIs determined using a science-based approach in line with the Planetary Boundaries:               <ul style="list-style-type: none"> <li>– compulsory nitrogen and phosphorus KPI; and</li> <li>– one of three optional KPIs selected from biogenic GHG emissions, embodied carbon or water efficiency.</li> </ul> </li> <li>• All borrowers must report against and meet the compulsory KPI and one additional optional KPI.</li> <li>• The KPI selection process was developed by PAN with LGFA through a two-phase methodology:               <ul style="list-style-type: none"> <li>– first, stakeholder workshops with water sector entities to understand what environmental data are currently, or will be, captured by new water CCOs; and</li> <li>– second, a national Planetary Accounting assessment to quantify the relative materiality of environmental impacts across New Zealand's water sector.</li> </ul> </li> <li>• To organise the range of environmental indicators, PAN employed the drivers, pressures, states, impacts and responses framework. Pressure metrics were recommended on the basis of their direct linkage to the water-sector activities, ensuring materiality and minimising lag time between action and measurable environmental consequence.</li> <li>• The Planetary Accounting assessment identified phosphorus, nitrogen, biogenic GHG emissions, water use and carbon+ as the most material environmental impacts within New Zealand's water sector. As such, LGFA established four KPIs for its SWALe lending programme.               <ul style="list-style-type: none"> <li>– The nitrogen and phosphorus KPI measures reductions in total nitrogen and phosphorus concentration per litre of wastewater discharged from wastewater treatment.</li> <li>– The biogenic GHG emissions KPI focuses on improved measurement of GHGs, such as methane and nitrous oxide, from wastewater treatment and biosolids disposal.</li> <li>– The embodied carbon KPI focuses on the measurement of GHG emissions from the borrowers' projected infrastructure capital spend programme, which sets out projects that the borrowers plan to deliver across a set period as included in the borrowers' water services strategy.</li> <li>– The water efficiency KPI measures the reductions in gross water consumption across the network, including losses.</li> </ul> </li> <li>• The relative materiality of the environmental footprints may vary by the water CCOs, based on the operations, assets and local environmental context. The nitrogen and phosphorus KPI is compulsory for all borrowers, and LGFA recommends that the water CCOs assess which of the remaining footprints are most material to their operations when selecting the additional KPI.</li> <li>• The KPIs and SPTs are consistent across all SWALes entered into by a single borrower and are not unique to each individual loan. This ensures a coherent and consistent sustainability reporting framework across a borrower's full portfolio of SWALes.</li> </ul>	<ul style="list-style-type: none"> <li>• We consider LGFA's KPIs to meet the LMA, LSTA and APLMA SLL Principles' requirements on a collective basis, being relevant, core, externally verifiable and material to the water-sector operation.</li> <li>• Additionally, the compulsory nitrogen and phosphorus KPI and the optional water-efficiency KPI are quantifiable and able to be benchmarked against credible external references such as the Planetary Boundaries, aligning with market best practice.</li> <li>• However, the biogenic GHG emissions and embodied carbon optional KPIs are currently measurement based. They are externally verifiable and referenced against credible external standards, but do not in themselves deliver quantifiable environmental outcomes, unlike outcome-based KPI types such as a reduction in emissions.</li> <li>• As standalone KPIs, we do not consider these optional KPIs to fully fulfil the LMA, LSTA and APLMA SLL Principles' requirements for KPIs, as they are not defined to measure progress in environmental performance in quantifiable terms. However, we acknowledge that they could be further developed into outcome-based KPIs over time.</li> <li>• We consider these optional KPIs to act as foundational complements to the compulsory nitrogen and phosphorus KPI, supporting the establishment of robust future reduction pathways. Taken together with the compulsory KPI, we consider loans in which one of these optional KPIs is selected to be overall aligned with the KPI selection requirements of the LMA, LSTA and APLMA SLL Principles.</li> <li>• We view positively that LGFA's KPI selection process is based on a structured analytical approach specific to the sector, through stakeholder workshops and a quantitative national Planetary Accounting assessment.</li> <li>• The selection of KPIs is also grounded in sector materiality, with a materiality assessment for the water sector determining the final KPIs and the compulsory versus optional structure.</li> <li>• This structure appropriately reflects the heterogeneity of individual water CCO's operations, assets, sustainability strategies and local environmental contexts. By requiring borrowers to report on nitrogen and phosphorus, which is the highest-materiality KPI across the sector, while allowing borrower-level flexibility in selecting one additional KPI, the lending programme balances sector consistency with operational relevance.</li> <li>• LGFA confirmed with us that its management and sustainability committee, which includes sustainability and water sector expertise, will review and ensure that the optional KPI chosen in each transaction is relevant and material for the specific borrower, and reflect each individual borrower's context, planned capital programme and strategic priorities.</li> <li>• The use of external scientific references, specifically the Planetary Boundaries and Planetary Accounting framework, as the overarching benchmark is a distinctive and credible feature of the lending programme.</li> <li>• The Planetary Boundaries provide a globally recognised, science-based framework defining the safe operating space for humanity, offering a transparent and independently verifiable basis for KPI benchmarking that aligns with the LMA, LSTA and APLMA SLL Principles' requirement for KPIs to be externally benchmarkable.</li> <li>• Each KPI is accompanied by a clear definition and calculation methodology, referencing established standards or reporting frameworks. We positively view that doing so supports consistent measurement across borrowers and enables external verification.</li> <li>• These references include:               <ul style="list-style-type: none"> <li>– Wastewater Environmental Performance Standards (WEPS) 2025 for the nitrogen and phosphorus KPI;</li> <li>– Water New Zealand wastewater carbon accounting guidelines for the biogenic GHG emissions KPI;</li> </ul> </li> </ul>

## KPI Selection

Company Material	Sustainable Fitch's View
	<ul style="list-style-type: none"> <li>– ISO 14040 or 14044 for the embodied carbon KPI; and</li> <li>– the national water services authority Taumata Arowai's Network Environmental Performance Measures and Guide 2025 for the water efficiency KPI.</li> </ul> <ul style="list-style-type: none"> <li>• The selected KPIs are exclusively environmental in nature, reflecting the primary sustainability challenges the water sector is facing. The LMA, LSTA and APLMA SLL Principles also include social and governance related KPI examples; we consider the environmental focus here to be appropriate, given the significant pressures the water-sector operations place on freshwater systems and natural resources in New Zealand.</li> </ul>
Source: LGFA SWALe lending programme criteria 2026, LGFA-PAN planetary boundary KPIs for water entities report 2026, company materials	Source: Sustainable Fitch

## SPT Calibration

Company Material	Sustainable Fitch's View
<ul style="list-style-type: none"> <li>• The SPTs were established using a combination of top-down science-based approaches and bottom-up local considerations.</li> <li>• Top-down methodologies include: <ul style="list-style-type: none"> <li>– an equal per capita share allocation, assigning New Zealand a share of the global safe operating space proportional to its population; and</li> <li>– an absolute contraction methodology, defining year-on-year reduction pathways aligned with the Planetary Boundaries thresholds to be achieved by 2050.</li> </ul> </li> <li>• Bottom-up considerations include local environmental constraints, regulatory and consent conditions, current technological feasibility, and transition timelines.</li> <li>• The SPTs were set at the most ambitious threshold from these approaches, within feasibility and transition constraints. Near-term targets are designed to require meaningful acceleration beyond business-as-usual trajectories, while remaining technically and practically achievable given the sector's current starting position. They function as milestones to increase the robustness of data measurement and support the achievement of long-term, science-based targets.</li> <li>• For the nitrogen and phosphorus KPI, the SPT requires concentrations per litre of discharge from wastewater treatment plants to be no higher than the stricter of either the WEPS 2025 limits or a percentage reduction from the borrower's baseline, to be achieved within five years of new consent. The required percentage reduction increases with later consent renewal years, meaning borrowers renewing consent in later years are expected to achieve larger reductions.</li> <li>• Reduction targets may be waived for high-performing borrowers already exceeding the WEPS standards and demonstrating best currently feasible concentrations. The reduction targets no longer apply when both conditions are met, and the requirement is to maintain performance at or below that level.</li> <li>• For the biogenic GHG emissions KPI, the SPT requires implementation of Level 2 measurement within two years of entering the SWALe lending programme and annually thereafter until 2040, and facility-level Level 3 measurement by 2040, in accordance with the most current Water New Zealand wastewater carbon accounting guidelines and future guidance for Level 3 measurement.</li> <li>• For the embodied carbon KPI, the preliminary SPT is to measure prospective emissions from the borrower's projected infrastructure capital spend programme for at least 80% of anticipated spend over a period of between three and five years, commencing one year after entering the SWALe lending programme.</li> <li>• The baseline should be estimated using a prospective life-cycle assessment approach consistent with ISO 14040 or 14044, or an equivalent recognised methodology, and the assessment should be</li> </ul>	<ul style="list-style-type: none"> <li>• We consider the SPTs to collectively be aligned with the SPT calibration requirements of the LMA, LSTA and APLMA SLL Principles.</li> <li>• We view positively that the SPT calibration combines top-down, Planetary Boundaries-aligned science-based pathways with bottom-up assessments of local regulatory requirements, technical feasibility and transition timelines.</li> <li>• The use of Planetary Boundaries-aligned reduction pathways as the primary external benchmark provides a credible, science-based and transparent basis for target setting that is consistent with the LMA, LSTA and APLMA SLL Principles' requirement for SPTs to be externally benchmarkable and to represent meaningful improvements relative to a reference point.</li> <li>• The nitrogen and phosphorus SPT applies a dual-benchmark structure, requiring the stricter of the WEPS 2025 regulatory standards or a science-based percentage reduction trajectory. This ensures targets are at minimum compliant with regulatory requirements while driving performance materially beyond business-as-usual.</li> <li>• We view this approach positively and consider it aligned with market practice under the LMA, LSTA and APLMA SLL Principles, which state that only meeting regulatory requirements is insufficient as an SPT objective.</li> <li>• The escalating nitrogen and phosphorus reduction requirements introduce a clear and progressive ambition trajectory. Each borrower's target is fixed at the point of entry based on its consent renewal year, meaning borrowers whose consents are renewed later face more ambitious targets. We view this positively, as it ensures the programme reflects the growing urgency of reducing nutrient pollution in New Zealand's already stressed freshwater systems over time.</li> <li>• LGFA has confirmed that, once enrolled in the programme, borrowers will be required to meet the nitrogen and phosphorus SPT for all of their wastewater treatment plants upon any consent renewal, irrespective of whether this occurs within a specific SWALe term.</li> <li>• LGFA expects that the scale and timing of planned wastewater treatment plant renewals mean all borrowers will have at least one qualifying consent renewal coinciding with a SWALe.</li> <li>• LGFA has explained that the best currently feasible concentrations clause for this KPI is intended to: <ul style="list-style-type: none"> <li>– enable continued SWALe eligibility for genuinely high-performing plants;</li> <li>– preserve improvement obligations on worse-performing plants for borrowers with multiple consent renewals;</li> <li>– sustain performance incentives throughout the SWALe tenor; and</li> <li>– provide operational continuity where technology advancement does not keep pace with the global transition pathway.</li> </ul> </li> </ul>



## SPT Calibration

Company Material	Sustainable Fitch's View
<p>subject to independent review or validation. Updated measurements are required for each subsequent reporting period of between three and five years.</p> <ul style="list-style-type: none"> <li>For the water efficiency KPI, the baseline is a three-year average of gross water consumption per person prior to entering the SWALe lending programme. The SPT requires a 7% reduction from the baseline every five-year period, with subsequent five-year targets calculated from the prior target level. The reduction targets no longer apply when a borrower achieves a daily gross water consumption of 190 litres per person, and the borrower is required to maintain the gross water consumption at or below this level.</li> <li>PAN recommends that the SPTs be reviewed every two years to support continued alignment with evolving science and continued ambition as the sector maturity grows.</li> </ul>	<ul style="list-style-type: none"> <li>We consider this to help ensure that residual ambition is preserved across a borrower's portfolio. Nonetheless, the waiver for high-performing plants, such as the maintenance-only obligation for plants that have achieved best currently feasible concentrations, may limit the overall ambition of the SPT because no further reduction target would apply to those plants.</li> <li>We positively view that the biennial review of the SPTs provides a mechanism to reassess these thresholds as technology and operational practices evolve.</li> <li>LGFA has also confirmed that waiver eligibility requires qualified independent third-party verification with a comprehensive assessment scope, providing a robust, auditable and independently validated basis.</li> <li>For the biogenic GHG emissions and embodied carbon KPIs, the near-term SPTs are focused primarily on improved measurement or baseline establishment objectives rather than quantified reduction outcomes. LGFA explained that this reflects the sector's current state of measurement maturity and data limitations.</li> <li>According to the LGFA-PAN 2026 planetary boundary KPIs for water entities report, the majority of water facilities across New Zealand currently use Level 1 emissions reporting, which has insufficient granularity to inform mitigation strategies.</li> <li>Level 1 reporting is population based or uses default average data. Level 2 estimates emissions using plant-specific operating data eg influent and effluent load, sludge removal information and general factors. Level 3 is the most accurate, involving comprehensive on-site testing for specific emission factors.</li> <li>Measuring and reporting carbon emissions from capital works also remains an uncommon practice among water entities; only two of the 13 councils consulted by LGFA and PAN had completed carbon assessments for capital works projects.</li> <li>In this context, we recognise that these SPTs go beyond usual market practice; however, we generally consider outcome-based targets to be more closely aligned with the LMA, LSTA and APLMA SLL Principles' expectation of ambitious and measurable performance improvement.</li> <li>On a standalone basis, SPTs aimed at establishing measurement capability or developing a baseline would not clearly meet the LMA, LSTA and APLMA SLL Principles' target-setting requirements, as they do not in themselves constitute a quantifiable improvement in environmental performance.</li> <li>However, we acknowledge that these measurement-based SPTs are intended as foundational near-term milestones for future quantitative reduction targets that sit alongside the outcome-based SPT for nitrogen and phosphorus reduction, and that they support the CCOs' broader contribution to the Planetary Boundaries.</li> <li>As such, we consider these measurement-based SPTs to be complementary to the compulsory nitrogen and phosphorus reduction SPT. Taken together with the compulsory SPT, we consider loans in which one of these optional SPTs is selected to be overall aligned with the LMA, LSTA and APLMA SLL Principles' SPT calibration requirements.</li> <li>LGFA has confirmed that, at the time of assessment, it does not expect the sector to be ready for quantitative biogenic GHG emissions reduction targets, citing the presently low uptake of Levels 2 and 3 measurements across the sector, limited organisational maturity of newly established CCOs that are still building internal capability and operational systems as part of the water-sector reform, and the limited availability of proven emissions reduction actions.</li> <li>LGFA has committed to reviewing the ambition of the biogenic GHG emissions KPI at the next biennial review and has indicated that a transition period of up to two years would be provided for existing borrowers if quantitative targets are ultimately introduced.</li> </ul>

## SPT Calibration

### Company Material

### Sustainable Fitch's View

- The biogenic GHG emissions KPI's materiality threshold for wastewater treatment plants required to apply Level 3 biogenic GHG emissions measurement has not yet been confirmed, pending the development of the global methodology.
- In the interim, the requirement for facility-level Level 3 measurement by 2040 applies to the borrower's largest wastewater treatment plant only. The final determination of the materiality threshold will be an important factor in assessing the robustness of this KPI's coverage across a borrower's operations.
- Nonetheless, we view positively that the underlying methodology for the embodied carbon target includes methodological requirements based on recognised life-cycle assessment standards, and that the biogenic GHG emissions measurement is tied to the Water New Zealand guidance.
- There is also a commitment to independent review or validation for both KPIs. This strengthens the robustness and credibility of the SPT calibration and subsequent performance assessment.
- Regarding the water efficiency KPI, the primary SPT of at least a 7% reduction in gross water consumption per person across the network for every five-year period from a defined baseline is a measurable and ambitious target aligned with the Planetary Boundaries. We view positively the progressive periodic structure that introduces a trajectory of continuous improvement rather than a one-off change.
- The daily maintenance threshold of 190 litres per person provides a defined performance floor beyond which further reduction targets no longer apply. LGFA has confirmed that no water entity in New Zealand currently meets this threshold, and that it represents a highly ambitious achievement.
- This threshold is also relatively ambitious in the global context. PAN's analysis underpinning this lending programme cites the daily global best practice in water efficiency for developed nations at about 128 litres per person.
- The daily individual developed country consumption varies considerably, which has been estimated at between 120 and 145 litres per person in countries such as Germany and the UK, between 170 and 200 litres per person in Australia, and considerably higher in Canada. These figures generally reflect household consumption only.
- In contrast, the SPT measures gross water consumption across the entire drinking water network, encompassing household use, commercial use and network losses, representing a broader scope. In this context, we consider the SPT itself to be credibly ambitious beyond a business-as-usual trajectory.
- We consider it appropriate that this threshold be reviewed as part of the biennial criteria review to reflect evolving sector benchmarks, technology improvements and changing conditions.
- The LMA, LSTA and APLMA SLL Principles require SPTs to be assessed against clearly defined and documented baselines where applicable. The nitrogen and phosphorus and the water efficiency KPIs both have well-defined baselines, referencing current discharge concentrations and average per person consumption levels, respectively.
- For the biogenic GHG emissions and embodied carbon KPIs, no discrete quantitative baselines exist at the programme's inception, as the SPTs are themselves designed to establish measurement capability and baselines. We acknowledge that the current absence of, or limited, measurement could itself serve as a reference point, consistent with the LMA, LSTA and APLMA SLL Principles' recommendation for a verified baseline or reference point.
- We view positively that all SPTs across the programme meet the LMA, LSTA and APLMA SLL Principles' recommendation to include clearly defined timelines and target observation or assessment dates, with each KPI having at least one defined SPT assessment date.

## SPT Calibration

Company Material	Sustainable Fitch's View
	<ul style="list-style-type: none"> <li>The timing of SPT assessment varies across the KPIs, reflecting the differing implementation timelines and measurement maturity of each metric. As individual loan tenors vary across borrowers and transactions, we are unable to assess at this stage whether the SPT performance will be observed at a sufficiently meaningful point during the tenor for the sustainability-linked feature to be effective.</li> <li>We view positively that LGFA intends to review the SPTs every two years, or as the Planetary Boundaries framework evolves. In our view, this supports continued ambition and helps address the risk of the SPTs becoming outdated over longer tenors.</li> </ul>
Source: LGFA SWALe lending programme criteria 2026, LGFA-PAN planetary boundary KPIs for water entities report 2026, company materials	Source: Sustainable Fitch

## Loan Characteristics

Company Material	Sustainable Fitch's View
<ul style="list-style-type: none"> <li>The SWALe's financial incentive structure directly links loan economics to SPT performance. A SWALe discount, which is 2bp at the time of assessment, on the interest rate applies from the outset of the SWALe.</li> <li>A SWALe premium is triggered when a borrower fails to meet either or both of its core and optional SPTs on the SPT assessment date(s) or fails to comply with the annual reporting and/or verification requirements, and does not remedy the failure within 30 days of notification.</li> <li>LGFA confirmed the SWALe discount would be applied uniformly across all borrowers.</li> <li>The SWALe premium equals half of the SWALe discount for each SPT not achieved. Where reporting or verification requirements are breached, the SWALe premium equals the full SWALe discount. The premium is payable until the SPT is achieved, compliance is restored, or the SWALe has matured.</li> <li>Declassification of SWALes is triggered when a borrower fails to meet both its core and optional SPTs for three consecutive years, or fails to comply with annual reporting and/or verification requirements within the required timeframe.</li> <li>The borrower must promptly notify LGFA in writing if it cannot meet the annual reporting or verification requirements, or if it has failed to achieve both its core and optional SPTs without remediation within three years following non-achievement.</li> <li>Upon declassification, the SWALe is treated as a standard loan with the SWALe discount and SWALe premium continuing to apply until maturity; the borrower is publicly named on LGFA's website as a declassified borrower and is ineligible for new SWALes until the eligibility criteria are again met. Declassification does not trigger an event of default.</li> <li>The SPTs may be restated or amended following future events not directly related to a borrower's sustainability performance, including mergers and acquisitions, divestitures, and disposal of assets. Any proposed changes to an SPT must be agreed with LGFA to ensure the KPIs and SPTs remain relevant following such events.</li> <li>LGFA aims to review and update, as required, the SWALe lending criteria at a formally confirmed minimum frequency of at least every two years, or when sustainable finance market standards or conventions change. When the criteria are updated, borrowers may either continue under the changed criteria or notify LGFA of their intention to declassify their SWALes.</li> </ul>	<ul style="list-style-type: none"> <li>We view positively that LGFA has established a financial incentive mechanism with direct economic consequences linked to predefined SPT performance, consistent with the LMA, LSTA and APLMA SLL Principles' requirement that loan financial characteristics vary based on whether the SPTs are achieved.</li> <li>The SWALe premium of half the SWALe discount for each missed SPT provides a proportionate financial consequence tied to sustainability performance.</li> <li>The escalation of the SWALe premium to the full SWALe discount when reporting or verification requirements are breached further strengthens accountability and is consistent with the LMA, LSTA and APLMA SLL Principles' emphasis on robust reporting and verification.</li> <li>LGFA confirmed that the SWALe premium is currently capped at a maximum of 2bp, applicable even when both SPTs are missed and reporting or verification requirements are concurrently breached.</li> <li>The SWALe discount applies from the outset regardless of future SPT achievement; therefore, we consider the mechanism to have limited downside from the borrower's perspective, as it does not impose a pricing penalty above the non-discounted interest rate.</li> <li>The declassification mechanism helps preserve the integrity of the SWALes. However, the three-year consecutive failure requirement applies to both SPTs simultaneously, which means a borrower consistently failing to achieve only one SPT would incur a SWALe premium but would not trigger declassification, while continuing to benefit from an interest rate discount of 1bp at the time of assessment.</li> <li>The provision for SPT restatement or amendment following material corporate events is consistent with market practice under the LMA, LSTA and APLMA SLL Principles, which require SPTs to remain relevant and material throughout the life of the loan.</li> <li>We view positively that any proposed changes must be agreed with LGFA, providing a governance safeguard against misalignment with the programme's lending criteria.</li> <li>We consider the SWALe lending programme's loan characteristics to be aligned with the loan characteristics requirements of the LMA, LSTA and APLMA SLL Principles.</li> </ul>
Source: LGFA SWALe lending programme criteria 2026, LGFA-PAN planetary boundary KPIs for water entities report 2026, company materials	Source: Sustainable Fitch



## Reporting

Company Material	Sustainable Fitch's View
<ul style="list-style-type: none"> <li>LGFA requires the borrowers to submit annual reporting by 30 November every year to support LGFA's annual review, which is within five months following each annual sustainability reference period from 1 July to 30 June.</li> <li>Annual reporting must include:               <ul style="list-style-type: none"> <li>reporting against the borrower's chosen KPIs or SPTs as set out in the SWALe lending criteria;</li> <li>a progress update on performance towards achieving the SPTs in years when measurement is not required; and</li> <li>applicable verification requirements for the borrower's chosen KPIs or SPTs.</li> </ul> </li> <li>The KPI-specific reporting requirements are set out in the SWALe lending criteria and vary according to the nature of the KPI.               <ul style="list-style-type: none"> <li>Nitrogen and phosphorus KPI: borrowers must provide a list of all wastewater treatment plants due for consent renewal within the following 10-year period and the expected timing of such renewals at commencement, annual progress updates until the SPT assessment date, and annual reporting of concentration of total nitrogen and phosphorus per litre of wastewater discharged for two consecutive years from the SPT assessment date.</li> <li>Biogenic GHG emissions KPI: borrowers must confirm at commencement whether Level 2 measurement is already in place, provide a Level 2 inventory within two years of entering the programme and annually thereafter until 2040, and confirm Level 3 measurement with a Level 3 inventory by 2040.</li> <li>Embodied carbon KPI: borrowers must confirm at commencement whether they are already measuring embodied emissions, provide an initial prospective inventory within five months following the first year of entering the programme, provide annual progress updates on achievement of any embodied GHG emission reduction opportunities identified in the prospective inventory, and provide updated inventories for subsequent projected capital spend periods.</li> <li>Water efficiency KPI: borrowers must report baseline gross water consumption per person at commencement and annual gross water consumption per person within five months of each sustainability reference period.</li> </ul> </li> <li>By entering into a SWALe, borrowers agree that LGFA may use and publish information relating to the SWALe in its own reporting, including details of the borrower's KPIs, SPTs, achievement against the SPTs, changes in SWALes outstanding, and any declassification.</li> </ul>	<ul style="list-style-type: none"> <li>LGFA's requirement for borrowers to submit annual reporting meets the LMA, LSTA and APLMA SLL Principles' requirement for borrowers to provide up-to-date information enabling the lender to monitor KPI performance and the continued relevance and ambitiousness of SPTs on at least an annual basis.</li> <li>We view positively that reporting requirements include both quantitative KPI performance data and qualitative progress updates towards SPTs in years when formal measurement is not required. This ensures continuous monitoring of performance trajectory throughout the loan life and reduces the risk of performance only becoming visible at the SPT assessment date.</li> <li>The KPI-specific reporting timelines in the SWALe lending criteria are clearly defined and calibrated to the nature and measurement maturity of each KPI.</li> <li>For example, the progressive reporting structure for biogenic GHG emissions KPI (distinguishing between commencement confirmation, annual Level 2 reporting, and transition to Level 3 by 2040) is transparent and practical, reflecting the sector's evolving measurement capability while maintaining a clear forward trajectory.</li> <li>We deem it positive that LGFA conducts a formal annual review following each reporting cycle, confirming continued eligibility, SPT progress, and compliance with borrower-specific conditions; this lender oversight mechanism helps ensure that the SWALes are aligned with the lending criteria throughout the loan tenors.</li> <li>We also view positively LGFA's commitment to publicly report on the SWALes, including borrower-level achievement and/or progress towards the SPTs, changes in SWALes outstanding, and declassifications on its website; this is in line with the LMA, LSTA and APLMA SLL Principles in terms of accountability and transparency.</li> <li>LGFA has confirmed that borrowers are not required to publicly disclose their own annual reporting or verification letters.</li> <li>We consider the SWALe lending programme's reporting requirements to be aligned with the reporting requirements of the LMA, LSTA and APLMA SLL Principles.</li> </ul>
Source: LGFA SWALe lending programme criteria 2026, LGFA-PAN planetary boundary KPIs for water entities report 2026, company materials	Source: Sustainable Fitch

## Verification

Company Material	Sustainable Fitch's View
<ul style="list-style-type: none"> <li>The borrowers are required to meet the verification requirements for their chosen KPIs as set out in the SWALe lending criteria.</li> <li>Verification requirements are KPI-specific, calibrated to the measurement maturity and existing regulatory reporting infrastructure associated with each KPI.               <ul style="list-style-type: none"> <li>Nitrogen and phosphorus KPI: borrowers must obtain a letter from a suitably qualified third party confirming that the borrower has achieved the SPT by the SPT assessment date.</li> <li>Biogenic GHG emissions KPI: borrowers must obtain a letter from a suitably qualified third party for the first year of Level 2 measurement and the first year of Level 3 measurement, confirming that process biogenic GHG emissions have been measured in accordance with the most current Water New Zealand wastewater carbon accounting guidelines. Further verification is required where</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>LGFA requires independent third-party verification, where relevant, to assess achievement of the applicable SPTs and any resulting adjustment to the loan's financial characteristics; this meets the LMA, LSTA and APLMA SLL Principles' requirement for independent and external verification for any date or period relevant to assessing SPT performance.</li> <li>Verification timing and frequency vary by KPI and are generally linked to the relevant assessment date or reporting period. An exception applies to the water efficiency KPI, where LGFA relies on regulatory reporting rather than separate third-party verification.</li> <li>We view positively that verification requirements are calibrated to the nature and measurement maturity of each KPI, rather than applying a uniform approach across the programme. This ensures verification</li> </ul>



## Verification

Company Material	Sustainable Fitch's View
<p>there is a material change to GHG emissions sources or methodology used for Level 2 measurement in subsequent years.</p> <ul style="list-style-type: none"> <li>– Embodied carbon KPI: borrowers must obtain a letter from a suitably qualified third party confirming that the embodied emissions inventory has been estimated using a prospective life-cycle assessment approach consistent with ISO 14040 or ISO 14044, or an equivalent standard. This verification requirement applies to the initial inventory and each subsequent update.</li> <li>– Water efficiency KPI: borrowers must provide evidence at each five-year SPT assessment date, that they have submitted gross water consumption per person data to Taumata Arowai on an annual basis for each year of the relevant five-year measurement period that includes evidence of receipt by the regulator.               <ul style="list-style-type: none"> <li>◆ Additionally, borrowers must ensure that the gross water consumption data meet a minimum Data Confidence Level 4 or above, as defined in the Taumata Arowai Network Environmental Performance Measures and Guide 2025. Where a borrower achieves a daily gross water consumption of 190 litres per person, verification is required annually rather than at five-year intervals.</li> </ul> </li> </ul>	<p>obligations are proportionate and practical while maintaining the integrity of the sustainability performance assessment.</p> <ul style="list-style-type: none"> <li>• For the water efficiency KPI, the borrower is required to report its gross water consumption in accordance with the Taumata Arowai Network Environmental Performance Measures and Guide 2025. LGFA does not require additional third-party verification on the basis that the regulatory framework provides sufficient measurement robustness.</li> <li>• The LMA, LGFA and APLMA SLL Principles state that information that has already been verified as part of a borrower's annual reporting or regulatory submission will not need to be verified again.</li> <li>• However, LGFA has confirmed that there is no explicit statutory requirement for independent verification or assurance of data submitted to Taumata Arowai, and that any certificate of accuracy is permissive rather than mandatory. Hence, LGFA requires borrowers selecting the water efficiency KPI to ensure that the water consumption data meet a minimum Data Confidence Level 4 or above, as defined in the Taumata Arowai Network Environmental Performance Measures and Guide 2025.</li> <li>• This threshold requires that data be verified or audited at least on an occasional basis, providing a minimum level of independent oversight. We consider this to be adequate to align with the LMA, LGFA and APLMA SLL Principles' verification requirements.</li> <li>• We consider the SWALe lending programme's verification requirements to be aligned with the verification requirements of the LMA, LGFA and APLMA SLL Principles.</li> </ul>
<p>Source: LGFA SWALe lending programme criteria 2026, LGFA-PAN planetary boundary KPIs for water entities report 2026, company materials</p>	<p>Source: Sustainable Fitch</p>

## Appendix A: Definitions

Term	Definition
<b>Debt types</b>	
Green	Proceeds will be used for green projects and/or environmental-related activities as identified in the instrument documents. The instrument may be aligned with the ICMA Green Bond Principles or other principles, guidelines or taxonomies.
Social	Proceeds will be used for social projects and/or social-related activities as identified in the instrument documents. The instrument may be aligned with the ICMA Social Bond Principles or other principles, guidelines or taxonomies.
Sustainability	Proceeds will be used for a mix of green and social projects and/or environmental and social-related activities as identified in the instrument documents. The instrument may be aligned with the ICMA Sustainability Bond Guidelines or other principles, guidelines or taxonomies.
Sustainability-Linked	Financial and/or structural features are linked to the achievement of pre-defined sustainability objectives. Such features may be aligned with the ICMA Sustainability-Linked Bond Principles or other principles, guidelines or taxonomies. The instrument is often referred to as an SLB (sustainability-linked bond) or SLL (sustainability-linked loan).
Conventional	Proceeds are not destined for any green, social or sustainability project or activity, and the financial or structural features are not linked to any sustainability objective.
Other	Any other type of financing instrument or a combination of the above instruments.
<b>Standards</b>	
ICMA	International Capital Market Association. A series of principles and guidelines for green, social, sustainability and sustainability-linked bonds.
LMA, LSTA and APLMA	Loan Market Association (LMA), Loan Syndications and Trading Association (LSTA) and Asia Pacific Loan Market Association (APLMA). A series of principles and guidelines for green, social and sustainability-linked loans.
EU Green Bond Standard	A set of voluntary standards created by the EU to “enhance the effectiveness, transparency, accountability, comparability and credibility of the green bond market”.
Source: Sustainable Fitch, ICMA, UN, EU Technical Expert Group	

## Appendix B: Assessment Methodology

### Analytical Process

Sustainable Fitch’s analysis considers all available relevant information such as lending framework, origination and credit policies, due diligence questionnaires and ESG policies. The reports transparently display the sources of information we analysed for each pillar and provide a commentary on the sub-factors we analysed. Our ratings and opinions analysts working on an assessment will also engage directly with the issuer to acquire any additional relevant information not already in the public domain.

An important part of the analysis is the assessment of the lending framework. In addition to the coherence with the LMA, LSTA and APLMA and the ICMA principles and guidelines, the analysis may also refer to major taxonomies (eg the EU taxonomy for environmental aspects, and the UN Sustainable Development Goals for social aspects).

Once the analyst has completed the analysis, with commentary for the related opinions, it is submitted to the approval committee, which reviews it for accuracy and consistency. Based on issuer preference and mandate, we can monitor an assessment (annually or more frequently, if new information becomes available) or on a point-in-time basis.

### Scale and Definitions

ESG Framework	
Aligned	Sustainable finance framework and/or debt instrument structure is aligned with market practice, and informed by core international principles and guidelines. Practices inherent to the structure meet the minimum standards in terms of rigour and transparency commonly followed by the market.
Not Aligned	Sustainable finance framework and/or debt instrument structure is not aligned with market practice, and not informed by relevant core international principles and guidelines. Practices inherent to the structure fall short of standard market practice.

Source: Sustainable Fitch

## SOLICITATION STATUS

The Lending Framework Assessment was solicited and assigned or maintained by Sustainable Fitch at the request of the entity.

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