



New Zealand Local Government Funding Agency Limited

Second-Party Opinion – Sustainable Financing Bond Framework

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 updated its sustainable financing bond (SFB) framework that sets out its lending criteria for green and social (GS) loans, climate action loans (CALs) and sustainable water action loans (SWALes). The framework is informed by, and overall partially aligned with, the market principles listed in the sidebar.

Partially Aligned

Pillar	Alignment	Key Drivers
Use of Proceeds	Partially Aligned	- LGFA will allocate proceeds to a sustainable loan pool. The allocation of proceeds to a pool of commingled use of proceeds (UoP) categories and general-purpose loans is partially aligned with the ICMA principles. - GS loans: the UoP categories describe projects with clear environmental and social benefits. - CALs: borrowers are required to measure and reduce GHG emissions in line with science-aligned reduction targets. - SWALes: borrowers are required to meet one compulsory KPI and select one other relevant KPI. KPIs are linked to the most material water sector issuers in New Zealand. - GS loans are fully aligned with the LMA, LSTA and APLMA loan principles and SWALes are fully aligned with the LMA, LSTA and APLMA Sustainability-Linked Loan (SLL) Principles; CALs are partially aligned due to the lack of financial or structural features, though we consider them to otherwise meet the relevant requirements of the principles.
Use of Proceeds – Other Information	Good	- The lookback period for SFB issuances is two years, which is in line with standard market practice for labelled bonds. - LGFA lends to local government borrowers that it expects to operate under clear mandates that exclude the financing of controversial activities.
Evaluation and Selection	Excellent	- The project evaluation and selection process is multi-layered, with a clear segregation of duties by the LGFA management's assessment, the sustainability committee's review and the chief executive's approval. - The LGFA sustainability committee includes a balance of skills and expertise, providing an additional layer of checks.
Management of Proceeds	Good	- LGFA maintains a register to monitor allocation of proceeds to the pool of eligible sustainable loan assets. Unallocated proceeds are invested in cash or sustainable instruments, which is in line with standard market practice. - LGFA monitors the eligibility of GS loans, CALs and SWALes. Loans that no longer meet the respective lending programme criteria will be declassified and removed from the asset pool.
Reporting and Transparency	Excellent	LGFA will publish an annual report with information on the allocation of proceeds, the eligibility of the sustainable loan assets, and impact indicators if available. The annual reports will be reviewed by an external third party.

Framework Type	Sustainability
Alignment	Sustainable Financing Bonds ✓ Green Bond Principles 2025 (ICMA) ✓ Social Bond Principles 2025 (ICMA) Green and Social Loans ✓ Green Loan Principles 2025 (LMA/LSTA/APLMA) ✓ Social Loan Principles 2025 (LMA/LSTA/APLMA) Climate Action Loans ✓ Sustainability-Linked Loan Principles 2025 (LMA/LSTA/APLMA) Sustainable Water Action Loans ✓ Sustainability-Linked Loan Principles 2025 (LMA/LSTA/APLMA)
Date assigned	30 September 2026
See Appendix A for definitions.	

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Relevant UN Sustainable Development Goals





Use of Proceeds Summary (GS Loans) – ICMA Categories

Green	Energy efficiency Green buildings Clean transportation Sustainable water and wastewater management Renewable energy Pollution prevention and control Environmentally sustainable management of living natural resources and land use Climate change adaptation Terrestrial and aquatic biodiversity Certified eco-efficient and/or circular economy adapted products, production technologies and processes
Social	Affordable basic infrastructure Access to essential services Affordable housing

Source: LGFA SFB framework (September 2026)

Framework Highlights

We consider LGFA's SFB framework to be informed by, and partially aligned with, the ICMA Green Bond Principles (GBP) and Social Bond Principles (SBP); and the LMA, LSTA and APLMA Green Loan Principles (GLP), Social Loan Principles (SLP) and SLL Principles (collectively referred to as the sustainable finance principles).

We deem the framework to enable positive environmental and social outcomes from New Zealand's local government sector, as it integrates environmental and social considerations into the key lending activities of LGFA.

The framework allows LGFA to issue SFBs that will be allocated to a sustainable loan pool comprising GS loans, CALs and SWALes. GS loans are UoP loans, while CALs and SWALes are loans utilising the SLL format. The loans can be accessed by LGFA's member councils, council-controlled organisations (CCOs) and water CCOs. These borrowers operate a variety of government programmes and infrastructure services.

The framework is structured around the four key components of the ICMA GBP and SBP: UoP, process for project evaluation and selection, management of proceeds, and reporting. The UoP pillar is not fully aligned with the ICMA principles as proceeds are allocated to a pool that comprises SLLs alongside GS loans, which does not fulfil the ICMA principles' requirement that proceeds are earmarked for green and/or social projects only. Nonetheless, we expect the framework to support positive environmental and social outcomes because it incentivises the local government sector to integrate sustainability considerations into its operations.

LGFA does not claim direct alignment of the framework with the sustainable finance principles. The SFBs are listed on the New Zealand Stock Exchange as "sustainable financing bonds", clearly distinguishing the SFBs label from conventional green, social, sustainability and sustainability-linked bonds.

The sustainable finance principles are designed separately for UoP and SLL issuances; therefore, we have assessed the following.

- Alignment of the framework's UoP, project selection, management of proceeds, and reporting commitments with the ICMA GBP and SBP. These are relevant given that LGFA will issue SFBs using the UoP format. Our assessment of the framework UoP is organised according to the three eligible lending programmes: GS loans, CALs and SWALes.
- Alignment of the GS loans lending programme with the LMA, LSTA and APLMA GLP and SLP. We assessed the UoP categories for GS loans in the "Use of Proceeds – Lending Programmes" section, while we assessed the alignment of the lending programme against the other pillars in the LMA, LSTA and APLMA GLP and SLP in their respective sections, namely "Use of Proceeds – Other Information", "Evaluation and Selection", "Management of Proceeds" and "Reporting and Transparency".

- Alignment of the CAL and SWALe lending programmes with the LMA, LSTA, and APLMA SLL Principles, which we assessed in the “Use of Proceeds – Lending Programmes” section.

We do not consider the ICMA Guidelines for SLLs financing Bonds to be relevant for the framework’s assessment, as the majority of LGFA’s sustainable loan pool currently consists of CALs that are partially, but not fully, aligned with the LMA, LSTA and APLMA SLL Principles.

We consider the eligibility criteria set out in LGFA’s GS loans lending programme criteria to contribute to positive environmental and social outcomes. The 10 green and three social UoP categories are aligned with the categories set out in the ICMA GBP and SBP, and the LMA, LSTA and APLMA GLP and SLP. The requirements for borrowers on project selection, management of proceeds and reporting also fulfil the requirements of the LMA, LSTA and APLMA GLP and SLP.

We consider the CAL lending programme as partially aligned with the LMA, LSTA and APLMA SLL Principles. The CAL criteria are aimed at incentivising borrowers to measure and reduce their GHG emissions in line with 1.5°C-aligned targets. We consider the KPIs, sustainability performance targets (SPTs), and reporting and verification requirements to meet the requirements of the LMA, LSTA and APLMA SLL Principles. However, the targets are not linked to a financial or structural mechanism under the loan terms, which does not meet the LMA, LSTA and APLMA SLL Principles requirements on loan characteristics.

We consider the SWALe lending programme to be fully aligned with the LMA, LSTA and APLMA SLL Principles. The programme requires all borrowers to report against two KPIs: a compulsory nitrogen and phosphorus KPI, and one of the three optional KPIs of biogenic GHG emissions, water efficiency and embodied carbon. SWALe interest rates are tied to the achievement of the SPTs and reporting requirements, in line with the LMA, LSTA and APLMA SLL Principles requirements.

The sub-section on the SWALe lending programme in the “Use of Proceeds – Lending Programmes” section provides a summary of our analysis of the lending programme. The full assessment is available in our report, “[New Zealand Local Government Funding Agency Limited - Lending Framework Assessment](#)”, published on 1 July 2026.

Borrowers may concurrently enter into GS loans and only one of the general-purpose lending programmes. In other words, borrowers cannot enter in the CAL and SWALe programmes at the same time, which supports the focus of the general-purpose loans on specific climate or water outcomes. LGFA currently issues SFBs under the framework, and may issue SLLs financing bonds in the future; in this case, it will create a separate loan pool to safeguard against double counting.

The SFB framework does not set out an overall exclusion list of controversial activities, but LGFA has clarified that the risk of financing controversial activities is low, as it expects the local council and CCO borrowers to have clear mandates that exclude financing of activities with social and environmental harm, such as fossil fuels and tobacco.

This assessment is based solely on our review of LGFA’s SFB framework and the lending criteria of the GS loans, CAL and SWALe programmes, and does not cover any transaction-specific documentation or marketing materials.

Source: Sustainable Fitch, LGFA SFB framework (September 2026), LGFA GS loans lending programme criteria 2026, LGFA CAL lending programme criteria 2026, LGFA SWALe lending programme criteria 2026

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, 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, which 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 98% of local councils' and CCOs' long-term borrowing, underscoring its central role in aggregating and intermediating local government funding needs. Its income for the financial year to end-June 2026 (FY26) was mainly interest income of around NZD1.07 billion (about USD625 million) and standby facilities fee income of NZD1.5 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 FY19. 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.

Source: Sustainable Fitch, LGFA annual report 2026, LGFA investor update (July 2026), LGFA SFB framework (September 2026)



Use of Proceeds – Lending Programmes

Alignment: Partially Aligned

Green and Social Loans

Company Material

Sustainable Fitch's View

Eligible Green Project Categories

Energy efficiency

- This UoP covers investments that contribute to managing energy demand or energy efficiency and, in turn, lead to a reduction in energy consumption.
- Green projects must be able to demonstrate one or more of the following:
 - significant user energy cost savings and productivity improvements;
 - lower energy demand;
 - increased security and reliability of energy supply; and
 - reduced energy-related GHG emissions.
- Projects include new and refurbished buildings, energy storage, district heating, and smart grids.

- We expect projects in this UoP category to be aligned with the energy efficiency category of the ICMA GBP and the LMA, LSTA and APLMA GLP.
- The projects under this UoP cover a range of measures to improve energy efficiency in new and existing buildings. Measures include fitting of additional building insulation and replacing windows to enhance insulation, helping to reduce energy loss to the environment.
- The installation of LED lighting and of energy-efficient heat pumps directly increase output per unit of energy consumed, while smart meters and building energy management systems help to optimise energy usage.
- This category also covers projects that improve energy efficiency in electricity grids, including renewable energy dedicated storage systems and smart grid systems. These projects support more efficient electricity distribution and enhance grid reliability.
- Energy efficiency is an important decarbonisation lever in New Zealand, as most of its electricity grid is decarbonised. 85% of the electricity generation in New Zealand was powered by renewables in 2024, according to International Energy Agency data.



7
AFFORDABLE AND CLEAN
ENERGY



8
DECENT WORK AND
ECONOMIC GROWTH

Green buildings

- This UoP covers investments in buildings that meet a minimum rating under national or internationally recognised green building standards, ratings or certifications.
- In New Zealand, domestic certification schemes are managed by the New Zealand Green Building Council (NZGBC).
- The specific certification requirements for different types of buildings are set out in the GS loan criteria.
- The September 2026 version of the GS loan criteria sets out the following certification criteria.
 - For existing buildings, including leased buildings, obtain or be on track to obtaining at least one of the following:
 - 5-star NABERSNZ Energy for Offices base building or whole building rating using the latest tool version available; or
 - Green Star Performance rating, achieving minimum 12/20 points (base building) or 13/23 points (whole building) in GHG emissions credits.
 - For new or refurbished buildings, be minimally certified or verified as target at least one of the following:
 - 4-star Green Star Buildings NZ v1.0; or
 - 5-star Green Star – Design and As Built NZ v1 or v1.1.
 - In addition, LGFA expects newly constructed buildings to verify operational performance, in accordance with the NZGBC guidance on green buildings ratings for sustainable finance, at most three years after the new-built certification has been achieved.
 - For residential buildings, be minimally certified or verified as target at least one of the following:
 - 6-star Homestar v5, using the latest tool version; or
 - 8-star Homestar v4.

- We expect projects in this UoP category to be aligned with the green buildings category of the ICMA GBP and the LMA, LSTA and APLMA GLP.
- Past research by the NZGBC has highlighted the importance of improving the energy performance of both existing and new building stock to support New Zealand's emissions budgets and sector decarbonisation goals. For example, overall energy demand from the sector has increased, even though residential buildings have become more energy efficient over the years, due to an increase in housing demand.
- LGFA's GS loan criteria for green buildings reference the NZGBC's green buildings certification recommendations for debt issuances from 2027 to 2030. The NZGBC guidance on green building ratings for sustainable finance is intended to provide sector guidance for lenders and borrowers on a common standard for green buildings in New Zealand, and is regularly updated to reflect the latest green buildings certification schemes.
- The NZGBC guidance references recognised domestic certification schemes across design, as-built and operational performance, covering the relevant stages of a building's life cycle for new and existing buildings.
- We view positively that the certification schemes use scoring systems that aggregate performance across multiple environmental indicators, including energy, water and waste. However, international taxonomies typically specify minimum energy performance or emissions intensity thresholds to demonstrate a clear contribution to climate change mitigation objectives, rather than relying solely on green building certifications.
- We view positively that the newly constructed buildings certified under design or as-built schemes are required to subsequently verify operational performance. This provides an additional layer of assurance that green buildings continue



7
AFFORDABLE AND CLEAN
ENERGY



11
SUSTAINABLE CITIES AND
COMMUNITIES



13
CLIMATE ACTION



to support positive environmental outcomes expected during the design phases.

Clean transportation

- This UoP covers investments in low-carbon transport solutions, including:
 - transport modes such as hybrid or fully electric trains, tramways or ferries;
 - fully electric light vehicles or buses;
 - public walking and cycling modes, and associated infrastructure; and
 - low-carbon transport systems, technologies and infrastructure that enable, improve and increase the utilisation of low-carbon transport.
- We expect projects in this UoP category to be aligned with the clean transportation category of the ICMA GBP and the LMA, LSTA and APLMA GLP.
- We understand from LGFA that transportation assets and activities dedicated to fossil fuel transport are excluded from financing under this UoP.
- Transport accounts for about 18% of New Zealand's gross GHG emissions, with around 90% of transport emissions coming from road transport, according to New Zealand's Ministry for the Environment. New Zealand's second emissions reduction plan for 2026–2030 identifies greater uptake of electric road transport and improved access to public transport services as key decarbonisation levers for the sector.
- Therefore, the financing of zero- and low-emissions rail, and zero-emissions road transport, and their supporting infrastructure (such as charging stations and green hydrogen re-fuelling stations) supports sectoral decarbonisation roadmaps.
- We also view the financing of public transport positively, as it supports the expansion and improvement of public transport infrastructure and may reduce reliance on more carbon-intensive private transport.
- Zero- and low-emissions water transport is also eligible under this UoP. We understand from LGFA that this refers to passenger vessels such as ferries, as well as vessels used in port operations, such as electric tugboats. LGFA requires such vessels to run on electric power at least 85% of the time and to rely on fossil fuels only as back-up power.
- We view water transport dedicated to mass transit positively, as it supports the efficient movement of people. However, sustainable finance taxonomies typically apply more stringent emissions requirements or require zero-emissions performance for newly financed vessels to be aligned with the 1.5°C pathways.
- Shoreside power connections and charging points for vessels also support water transport infrastructure and green shipping corridors, contributing to sector decarbonisation.
- We positively view the financing of other zero- or low-emissions assets that reduce energy consumption and GHG emissions in the industrial or agricultural sectors, such as hybrid or fully electric cranes, diggers and compactors. Such equipment is not commonly electrified; therefore, electrified alternatives are likely to represent the best-performing options for emissions mitigation.



Sustainable water and wastewater management

- This UoP covers investments to improve the environmental and sustainability performance of water, wastewater or stormwater management. Projects may include built, engineered or nature-based assets.
- The project must improve the water management system by increasing the efficiency rate, improving resource use or showing other measurable improvements in the environment.
- They include projects that reduce water consumption, reduce water leakage, reuse or reduce wastewater at source, or provide alternative methods to treat and dispose of sewage sludge.
- They also include stormwater management projects and projects to reduce sewage overflows or pollutant discharged into the environment.
- We expect projects in this UoP category to be aligned with the sustainable water and wastewater management category of the ICMA GBP and the LMA, LSTA and APLMA GLP.
- New Zealand's water and wastewater systems are affected by ageing infrastructure, with the New Zealand water services authority estimating that at least 15% of drinking water and wastewater pipes are in poor condition.
- The water services authority also estimates that there is significant variance in water infrastructure leakage across the country, with 27% of providers reporting infrastructure leakage index levels below 2.0 and 32% reporting levels of 4.0 or above. Metering uptake is also uneven, despite research indicating that metering helps to reduce water demand and losses.
- Therefore, water infrastructure technologies and systems





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| <ul style="list-style-type: none"> • LGFA will consider nature-based solutions that achieve traditional water system objectives (eg water quality) over traditional grey infrastructure. • Investments to maintain or replace assets, facilities or equipment without any demonstrable and measurable improvement in environmental performance will not qualify for a GS loan. • This UoP covers projects with the primary objective of sustainable water or wastewater management. Projects that have this as a secondary objective, and those with other primary objectives (such as pollution prevention, energy efficiency or climate adaptation) will not be financed under this category. | <p>that support demonstrable reductions in KPIs such as water consumption and leakage rates, plug significant gaps and contribute to the efficient use of water resources.</p> <ul style="list-style-type: none"> • Technologies and systems that demonstrably reduce water consumption, leakage and other KPIs help to support more efficient use of water resources. • We positively view wastewater projects that reuse or reduce wastewater at source, as they reduce the volume of sewage entering treatment processes and sit higher in the waste management hierarchy. • We also positively view nutrient recovery from wastewater, as it can reduce pollutants in wastewater discharge while recovering materials for reuse, including in the agriculture sector where recovered nutrients may reduce the need for synthetic fertilisers. • For projects that target the renewal and upgrade of wastewater treatment plants, sustainable finance taxonomies typically reference energy-efficiency criteria rather than that the activities are focused specifically on reducing sludge volumes. • The Climate Bond Initiative taxonomy's waste management criteria include pyrolysis in wastewater treatment under the production of biochar from organic waste; this taxonomy sets out additional specifications on methane leakage detection and management in the production process, as well as requirements on the quality of the output produced. • We therefore positively view the use of alternative wastewater treatment methods to reduce sludge volumes, although to a lesser extent than projects that reduce wastewater at source or directly support nutrient recovery and reuse. • The New Zealand water services authority also indicates that operators reported at least 11,535 wastewater overflows in FY25, mainly due to limited drainage capacity during heavy rainfall and sewage blockages in urban areas. • Financing wastewater projects that reduce overflows during storms, blockages or capacity constraints helps to address these issues and limits wastewater and stormwater discharges into the environment. |
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Renewable energy

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| <ul style="list-style-type: none"> • This UoP covers investments related to renewable energy. The projects may include energy production, storage, transmission, distribution, appliances and products. • They cover the generation of energy from renewable sources such as wind, solar, geothermal, hydropower and its supporting technology or infrastructure. • Additional requirements apply for some renewables, including the following. <ul style="list-style-type: none"> – Onshore solar and wind electricity generation or solar thermal facilities, that have no more than 15% of electricity generated from non-renewable sources and average life-cycle GHG emissions from wind electricity generation will be no more than 14.4gCO₂/kWh. – The manufacture of bioenergy should have life-cycle emissions below 100gCO₂e/kWh, and this should decline to 0gCO₂e/kWh by 2050, and only second-generation biofuels are used. Environmental and social impact assessments should be undertaken and no significant controversies should be identified. – Geothermal electricity generation facilities should have direct emissions of less than 100gCO₂e/kWh. This threshold will be reduced every five years in line with a net-zero emissions 2050 trajectory. • The projects must only use non-fossil, renewable energy | <ul style="list-style-type: none"> • We expect projects in this UoP category to be aligned with the renewable energy category of the ICMA GBP and the LMA, LSTA and APLMA GLP. • New Zealand's electricity mix is already largely renewable, and the country has significant renewable energy resources. The second emissions reduction plan for 2026–2030 indicates that the energy investment pipeline is concentrated mainly in solar, onshore wind and geothermal projects. • Electrification of other sectors increases electricity demand; therefore, continued renewable energy investment will be important to maintain a low-emissions grid and support system reliability. • Renewable energy sources such as solar and wind typically have low or zero operational emissions and support the energy sector's decarbonisation objectives. We consider LGFA's 15% non-renewable generation threshold as reasonable to address reliability concerns from intermittency during low-hydro or low-wind periods, given the high share of renewables in the electricity grid. • We view positively that LGFA limits eligible bioenergy feedstock to only second-generation sources. We understand from LGFA that these feedstocks refer to residues including agriculture, forestry and household waste residues, and non-food energy crops grown in New Zealand. This reduces the |
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7
AFFORDABLE AND CLEAN
ENERGY



sources during both base and peak load periods. The use of fossil fuel-based backup may be approved for clearly defined situations, such as in local and district heating systems.

risk that biomass feedstock competes with food production, agricultural use or land availability, which is a key concern for first-generation feedstock.

- The requirement for environmental and social impact assessments provides an additional safeguard against feedstock being sourced from activities or sites with adverse environmental or social impacts.
- The life-cycle emissions criteria for electricity generated from the produced biofuels to be below 100gCO₂e/kWh and declining to 0gCO₂e/kWh by 2050 also aligns with the criteria set out in the Climate Bond Initiative taxonomy for bioenergy products.
- We view geothermal electricity generation positively, as it supports the development of domestic renewable resources. However, sustainable finance taxonomies typically assess geothermal power using life-cycle emissions rather than direct emissions alone.
- We understand from LGFA that hydropower facilities operating before 2020 will have direct emissions below 100gCO₂e/kWh, while facilities operating from 2021 onwards will meet a lower threshold of 50gCO₂e/kWh. The thresholds help to limit emissions associated with hydropower projects during operation, but it is not fully comparable with sustainable finance taxonomy approaches that employ life-cycle emission measurements.

Pollution prevention and control

- This UoP covers investments related to sustainable, energy-efficient and resource-saving waste management.
- Investments include upgrading old or building new waste management facilities for the purpose of sorting and recycling waste and enabling waste reduction or prevention.
- They must improve the waste management chain by increasing the recovery rate or by improving resource use, for example.
- Investments to maintain or replace assets, facilities or equipment without any demonstrable and measurable improvement in environmental performance will not qualify for a GS loan.

- We expect projects in this UoP category to be aligned with the pollution prevention and control category of the ICMA GBP and the LMA, LSTA and APLMA GLP.
- New Zealand's waste sector contributes to 8.5% of the country's total biogenic methane emissions and 4.5% of its total GHG emissions; these emissions are mainly attributed to the breakdown of organic matter in landfills. This highlights the importance of interventions across the waste management hierarchy in reducing the volume of waste sent to landfills, to reduce pollution.
- New Zealand's recycling rate is around 39%, indicating the scope for improving material recovery and reducing residual waste. Projects that increase sorting, recycling and recovery capacity can help to retain materials in productive use and reduce downstream environmental impacts.
- Eligible projects under LGFA's GS loan criteria address the aforementioned gaps, as they reduce waste, improve sorting and treatment, and increase recovery of secondary materials. These measures strengthen the waste management chain, reduce reliance on landfill, and support pollution prevention and control.
- We view positively that waste-to-energy incineration and new landfill construction are not eligible under this category. These activities are generally less supportive of waste prevention and material recovery than projects focused on reduction, reuse, sorting and recycling.
- We also view positively that LGFA will assess projects on a case-by-case basis and that it expects borrowers to demonstrate measurable improvements, such as higher recovery rates against an established baseline or benchmark. This supports incremental improvements in waste management performance and strengthens the environmental credibility of eligible projects.
- We understand from LGFA that projects eligible under this category will be distinguished from similar projects under the circular economy category based on the project's primary objective.





- LGFA expects projects under this category to likely be environmental services owned and operated by local councils, while circular economy projects relate more to the products, processes or technologies aligned with at least one relevant ISO circular economy certification.

Environmentally sustainable management of living natural resources and land use

- This UoP covers investments in projects focused on the sustainable management of living natural resources and land use. Living natural resources include a wide variety of plants, animals and microorganisms, and the ecosystem services that they contribute to.
- The UoP also covers investments in the regeneration of natural ecosystems, such as forest protection and environmentally sustainable forestry that includes afforestation or reforestation of non-native land permanently into indigenous forestry.
- It also covers projects that support the preservation or restoration of natural landscapes, such as those that support the management of soil and biomass for carbon sequestration, erosion control and improved soil health.
- It also covers projects that increase or protect ecosystem services, and the preservation or restoration of natural landscapes, waterways and seas.
- Projects that support the use of synthetic or chemical pesticides, herbicides or weedicides will not qualify for a GS loan.
- We expect projects in this UoP category to be aligned with the environmentally sustainable management of living natural resources and land use category of the ICMA GBP and the LMA, LSTA and APLMA GLP.
- LGFA's GS loan criteria require sustainable forestry projects, including afforestation and reforestation, to obtain and maintain certification under recognised forest management schemes, such as the Forest Stewardship Council, the Programme for the Endorsement of Forest Certification, or the Sustainable Forestry Initiative.
- We view the certification requirement positively, as these schemes typically assess legal compliance, biodiversity conservation, long-term forest management planning, soil and water protection, and post-harvest regeneration. The requirement for independent third-party audits also provides an additional layer of assurance on the credibility of forestry practices.
- We understand from LGFA that projects relating to soil and biomass management for carbon sequestration refer mainly to agroforestry or the planting of trees and shrubs. The GS loan criteria require these projects to be certified under recognised organic certification schemes, such as BioGro or AsureQuality Organic Certification.
- Organic land management practices, such as crop rotation, cover cropping and the replacement of synthetic fertilisers with organic inputs, can improve soil health and support carbon storage. These practices may also deliver co-benefits for biodiversity and ecosystem resilience.
- We also view financing for the preservation and restoration of natural landscapes positively, as these projects protect natural ecosystems, maintain ecosystem services and support biodiversity conservation.



Climate change resilience and adaptation

- This UoP covers investments intended to support the borrower and local communities to adapt to climate change and/or increase their resilience to the impacts of climate change.
- It includes adaptation and resilience projects focused on improving climate change preparedness and resilience. This can include projects that seek to moderate or avoid the likely or potential harmful effects of climate change on people, nature, economic activities and assets. The relocation of road infrastructure is not eligible.
- It also includes information support systems that enable better risk-informed decisions to prepare for and respond to climate change and climate-related disasters, such as climate observations and early warning systems.
- We expect projects in this UoP category to be aligned with the climate change adaptation category of the ICMA GBP and the LMA, LSTA and APLMA GLP.
- Decision making and funding for climate change adaptation was identified as one of four major risk domains in the New Zealand Climate Change Commission's second national climate risk assessment. This risk is relevant at both the national and local government levels, where constrained budgets and debt limits are making it increasingly harder to fund rising disaster response, recovery and long-term adaptation needs.
- Government spending on natural hazards also remains heavily weighted towards response and recovery. Since 2010, 97% of expenditure has been directed to disaster response and recovery, compared with only 3% for risk reduction and resilience.
- This indicates a significant gap in preventive investment, despite resilience measures often being more cost-effective and timelier than post-disaster recovery, particularly in areas with higher exposure to climate hazards.
- LGFA's GS loan criteria cover a broad range of eligible adaptation measures, including engineered and nature-based solutions, early warning systems, emergency preparedness measures, and the relocation of infrastructure or communities where needed to reduce climate-related risks.





- We view positively the requirement for borrowers to complete a climate risk assessment before applying for a GS loan. This supports the identification of relevant hazards, links project design to specific resilience outcomes, and improves transparency around expected adaptation benefits.
- We understand from LGFA that community relocation projects are required to include safeguards to avoid adverse outcomes, including meaningful engagement with affected communities, voluntary relocation, and measures to reduce financial impacts on those affected.

Terrestrial and aquatic biodiversity restoration, conservation and enhancement

- This UoP covers investments intended to prevent loss or degradation of ocean biodiversity, mangrove forests and coastal wetlands; to prevent habitat loss and degradation; and to prevent unsustainable harvesting of species.
- Projects targeting biodiversity are, for example, focused on safeguarding and/or developing protected terrestrial and marine areas and systems, on forest conservation, or on reducing emissions from deforestation and forest degradation.
- We expect projects in this UoP category to be aligned with the terrestrial and aquatic biodiversity category of the ICMA GBP and the LMA, LSTA and APLMA GLP.
- LGFA's GS loan criteria cover a broad range of activities that support biodiversity conservation, including measures to avoid, remedy or mitigate adverse impacts on natural ecosystems; protect areas with significant indigenous flora and fauna; prevent habitat loss and degradation; and restore terrestrial and aquatic ecosystems.
- LGFA requires eligible projects to support the National Policy Statement for Indigenous Biodiversity and the regional biodiversity plans. This helps to ensure that the projects are coherently implemented by local council borrowers and are aligned with wider national and regional goals in protecting, maintaining and restoring indigenous biodiversity.
- We view positively the conservation activities that aim to improve the condition of terrestrial, freshwater and marine habitats, ecosystems and species. These projects can support ecosystem recovery and provide wider environmental co-benefits, including improved ecosystem resilience, carbon storage and reduced environmental degradation.
- We also view positively the expectation that biodiversity projects include baseline analysis of core habitats, vegetation and species to be protected. This establishes a clear starting point for monitoring conservation outcomes. Environmental and ecological impact assessments further help to identify project-related risks, such as habitat disturbance or unintended impacts on other species, enabling mitigation measures to be incorporated into project design.
- LGFA's GS loan criteria clarify that only projects with biodiversity conservation as their primary objective will be financed under this category. We understand from LGFA that it assesses projects on a case-by-case basis and categorised them under the most relevant UoP category, which helps to reduce overlap with other environmental categories.



Circular economy adapted products, production technologies, processes and business models

- This UoP covers investments in circular economy adapted products, production technologies, processes and business models. This includes the design and introduction of reusable, recyclable and refurbished materials, components and products; circular tools and services; or certified eco-efficient products.
- This category applies to projects, products or assets that support a circular economy, and achieve one or more of the five circular economy outcomes of repair, reuse, refurbish, remanufacture and recycle.
- LGFA expects borrowers to include measures that demonstrate the impact of the project, and to align their approaches to the relevant ISO standards for circular economy business models or performance assessment.
- Refurbished and remanufactured products should meet generally accepted international standards and retain a substantial proportion of the original components, materials
- We expect projects in this UoP category to be aligned with the circular economy category of the ICMA GBP and the LMA, LSTA and APLMA GLP.
- Projects to promote circular systems across industries support efficient resource use and reduce waste generation.
- The GS loan criteria require projects to achieve at least one of five circular economy outcomes of repair, reuse, refurbishment, remanufacturing or recycling. We view these outcomes positively as they focus on retaining the value of products, components and materials for longer, rather than relying on linear models of production.
- Repair, reuse and refurbishment are higher-order circular economy activities as they extend product lifetimes with limited reprocessing and can reduce demand for new products and associated raw material inputs.
- Remanufacturing also supports circularity by restoring products or components to a usable condition after the end





or parts. Projects associated with energy recovery, including waste-to-energy, do not qualify.	of life, while retaining a substantial share of the original materials or parts. - These activities are included in sustainable finance taxonomies that recognise the circular economy as an environmental objective, although these taxonomies typically include more detailed technical criteria, such as requirements on product durability, repairability and material recovery rates. - We understand from LGFA that projects eligible under this category will be distinguished from similar projects under the pollution prevention category based on the project's primary objective. - LGFA expects projects under this category to be products, processes or technologies aligned with at least one relevant ISO circular economy certification, while projects under the pollution prevention category relate more to environmental services owned and operated by local councils.
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Eligible Social Project Categories

Affordable basic infrastructure

- This UoP covers investments intended to support projects, assets or programmes that enable affordable access to basic infrastructure in the relevant region, and will also benefit economic development and human well-being. - The projects must be able to clearly demonstrate an improvement to affordable access to basic infrastructure. - The UoP also includes telecommunications, clean drinking water, energy and transport infrastructure. Road infrastructure is excluded from financing. - The UoP also includes investments that improve water supply infrastructure and facilities to improve the quality of the supplied drinking water to achieve current national drinking water standards.	- We expect projects in this UoP category to be aligned with the affordable basic infrastructure category of the ICMA SBP and the LMA, LSTA and APLMA SLP. - We understand from LGFA that projects under this category may benefit either the general population or specific target populations, depending on the scope of each project as defined by the local council borrower applicants for GS loans. LGFA expects applicants to define how the target populations are supported, if identified. - We view the financing of basic infrastructure positively, as it can improve living standards for local communities and provide the foundation for a range of sustainable development outcomes. - Investments in basic telecommunications infrastructure, such as internet access, fibre networks and mobile connectivity, can help to improve digital inclusion and support economic participation, and contribute to SDG 9 (industry, innovation and infrastructure). - Investments in clean drinking water infrastructure that align with recognised national and international water quality standards can expand access to safe, reliable and affordable drinking water. Investments in sanitation infrastructure can also improve public health outcomes and reduce environmental risks. These projects support SDG 6 (clean water and sanitation). - Investments in energy infrastructure can improve access to reliable and affordable energy, and enable households, businesses and public services to operate effectively. These projects support SDG 7 (affordable and clean energy). - We positively view investments in transportation infrastructure, particularly those that improve connectivity to remote areas or promote access to public transportation for disadvantaged groups, as they support mobility, access to services and economic participation, contributing to SDG 11.
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Access to essential services

- This UoP covers investments intended to support projects, assets or programmes that enable accessibility to services that are deemed essential to the relevant region, with a focus on education and vocational training services, employment generation, and public health. - The projects must be able to clearly demonstrate an improvement to access health services, education and vocational training services. This may include improved access for minority groups, including minority groups based	- We expect projects in this UoP category to be aligned with the access to essential services category of the ICMA SBP and the LMA, LSTA and APLMA SLP. - We understand from LGFA that projects under this category may benefit either the general population or specific target populations, depending on the scope of each project as defined by the local council borrower applicants for GS loans. LGFA expects applicants to define how the target populations are supported, if identified.
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on gender, race or ethnicity, sexual orientation or religion, or that are mentally challenged or new migrants.	- We view the financing of essential services positively, as it can improve access to services that are important for human health and well-being, economic participation, and social resilience in local communities. - Investments in education infrastructure and programmes can improve access to learning opportunities and support human capital development, contributing to SDG 4 (quality education). We also view investments in vocational training as positive and contributing to SDG 4, as they support lifelong learning and skills development beyond formal schooling. - Investments in employment generation initiatives, such as innovation and enterprise hubs, can create employment opportunities and provide spaces for businesses, entrepreneurs and community organisations to connect, collaborate and develop. These projects contribute to SDG 8 (decent work and economic growth). - Investments in public healthcare infrastructure and programmes can improve access to affordable healthcare services, strengthen public health outcomes and support broader progress towards universal healthcare, contributing to SDG 3 (good health and well-being).	 4 QUALITY EDUCATION  8 DECENT WORK AND ECONOMIC GROWTH
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Affordable or social housing

- This UoP covers the activities that maintain or expand access to affordable or social housing. The project must clearly demonstrate an improvement to affordable housing offerings. - Affordable housing is housing for low- to moderate-income and asset households and priced so that the household is able to meet its housing and other essential basic living costs. This equates to low- to middle-income households spending no more than 30% of their gross income on rent or mortgage costs and other essential household costs. - Social housing is short- or long-term housing that is provided by the government, a regional or local council, or a not-for-profit organisation. It is aimed at aiding low socioeconomic individuals or those with particular needs, who may have difficulty purchasing their own house.	- We expect projects in this UoP category to be aligned with the affordable housing category of the ICMA SBP and the LMA, LSTA and APLMA SLP. - We view the financing of affordable and social housing positively, as it can improve housing affordability and expand access to stable and secure homes for low- to moderate-income households and socioeconomically disadvantaged groups. These projects also support broader access to housing and financial security, contributing to SDGs 1 (no poverty), 10 (reduced inequalities) and 11. - We understand from LGFA that affordable housing mainly targets low-to-moderate income households requiring support to access private housing. Social housing is government-subsidised housing provided to those with acute housing needs, such as assessed by the Ministry of Social Development as being in severe need of housing support and placed on the housing register. - We understand from LGFA the criteria for mortgage or rent expenditures to not exceed 30% of gross income applies to both affordable and social housing. Households purchasing affordable housing may also be eligible for accommodation support, with the level of support varying by location and household size. These affordability measures help to ensure that housing remains accessible to low- to moderate-income households.	 1 NO POVERTY  10 REDUCED INEQUALITIES  11 SUSTAINABLE CITIES AND COMMUNITIES
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Climate Action Loans

Company Material	Sustainable Fitch's View
KPI 1: Gross absolute Scopes 1 and 2 emissions - To qualify for a CAL, LGFA requires the borrowers to have a GHG emissions inventory for the base year and the current year. Emissions inventories must be prepared in accordance with the GHG Protocol or ISO 14064 standard, and the borrower should minimally obtain limited assurance of the inventories from a third-party verifier. - After LGFA approves the borrower as a CAL borrower, the borrower must submit annual GHG emission inventories and the third-party assurance report to LGFA to maintain eligibility. - Scope 1 emissions include direct emissions, and Scope 2 emissions include indirect emissions from purchased energy.	- We consider the KPI to be aligned with the selection of KPIs component of the LMA, LSTA and APLMA SLL Principles. - We consider the KPI to be core, relevant and material to borrowers from the local government sector. Measuring operational emissions enables borrowers to understand and better manage their environmental impacts. - Borrowers may own and operate buildings, ports, transport systems, water networks and other public infrastructure. Actions by local governments to address borrowers' direct emissions profile can have an important signalling effect for the wider community, even when the borrowers do not directly undertake activities with significant emissions. - We view positively that the KPI is measured using recognised external standards. This supports methodological robustness and consistency.



	- The requirement to maintain both base- and current-year inventories supports transparency and enables performance monitoring over time. - Borrowers are required to obtain annual independent third-party assurance of emissions inventories. We consider this to strengthen the reliability and credibility of reported emissions data.
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KPI 2: Gross absolute Scope 3 emissions

- LGFA requires borrowers to broaden their GHG emissions inventory to capture Scope 3 emissions across the full value chain within two years of entering the CAL programme, if Scope 3 emissions are not already measured. - Scope 3 emissions are defined as indirect emissions resulting from activities that occur from sources not owned or controlled by the borrower. - Value-chain emissions include relevant activities, relationships and investments, such as associates and joint ventures. - LGFA expects Scope 3 emissions to be monitored and reported using the same inventory framework applied to organisational emissions.	- We consider the KPI to be aligned with the selection of KPIs component of the LMA, LSTA and APLMA SLL Principles. - The KPI addresses Scope 3 emissions across the borrower's full value chain, which may represent a significant share of local government bodies' overall emissions, depending on the borrower's activities. - In particular, the Scope 3 categories of emissions from purchased goods and services, capital goods and infrastructure, investments and financed emissions, and waste generated in operations are generally the most material for local government entities. We therefore consider this KPI to fulfil the LMA, LSTA and APLMA SLL Principles requirements of being relevant, core and material. - Requiring borrowers to broaden their GHG emissions inventory to include Scope 3 emissions, if they have not already done so, supports a more comprehensive assessment of borrowers' climate-related performance over time. - The use of the GHG Protocol and/or ISO 14064 standard provides assurance that Scope 3 emissions accounting will follow recognised global standards. - We view the two-year grace period to expand the GHG emissions inventory to include Scope 3 emissions as appropriate, given the challenges of collecting Scope 3 emissions data.
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Performance Targets

SPT 1: Gross absolute Scopes 1 and 2 emissions reduction targets

- LGFA requires borrowers to establish science-aligned gross absolute short-, medium- and long-term emissions reduction targets (ERTs) for Scopes 1 and 2 emissions. - Scopes 1 and 2 ERTs should include at least a 42% reduction by 2030 from 2020 levels or an equivalent short-term target, and achievement of net zero by 2050 or sooner. - Science-aligned targets are defined as being 1.5°C aligned and targeting net zero by 2050 or sooner. - LGFA requires borrowers to maintain an approved emissions reduction plan (ERP) setting out the actions, timeframes and expected emissions reductions to achieve the ERTs.	- We consider the SPT to be aligned with the calibration of SPTs component of the LMA, LSTA and APLMA SLL Principles. - We view positively that the CAL lending criteria require science-aligned ERTs, which LGFA defines as being 1.5°C aligned and targeting net-zero emissions by 2050 or sooner. The lending criteria stipulate short-, medium- and long-term ERTs, which we consider as market best practice in setting out a clear pathway towards the long-term net-zero objective. - We consider the target of a minimum 42% reduction by 2030 and net-zero emissions by 2050 or sooner, from 2020 levels, to be ambitious. The 42% reduction is based on the Science Based Targets initiative's Absolute Contraction Approach, which stipulates a minimum annual 4.2% reduction rate. - LGFA requires borrowers to report annual progress against Scopes 1 and 2 ERTs relative to base-year performance, which supports transparency on the borrowers' performance and adherence to the CAL lending criteria. - The CAL lending criteria require borrowers to have an ERP that sets out their strategy to achieve the targets. We view positively that ERPs must minimally receive approval from the borrowers' senior leadership, which supports oversight and accountability of the ERPs.
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SPT 2: Scope 3 emissions reduction targets

- LGFA requires borrowers to adopt science-aligned Scope 3 ERTs across the full value chain within two years of entering the CAL programme, if such targets are not already in place. - Scope 3 ERTs should include a short-term target to 2030 and achievement of net-zero emissions by 2050 or sooner. - LGFA requires borrowers to expand their ERPs to include actions to reduce Scope 3 emissions, within one year of adopting Scope 3 ERTs.	- We consider the SPT to be aligned with the calibration of SPTs component of the LMA, LSTA and APLMA SLL Principles. - We view positively that the CAL lending criteria require the eventual inclusion of Scope 3 emissions within science-aligned ERTs to reach net-zero emissions by 2050 or sooner. - We view positively that short- and long-term Scope 3 emissions targets are required, as it supports clarity on the intended pathway to net zero. - The CAL lending criteria do not stipulate a minimum level of reduction required for Scope 3 emissions. We understand from LGFA that engagement targets may also be accepted as short-term targets for Scope 3 emissions, as long as they are aligned with a long-term target to achieve net zero by 2050. We consider this flexibility to be appropriate given that borrowers will have different profiles of overall and Scope 3 emissions. - We view the requirement to set Scope 3 ERTs to be ambitious, as it addresses emissions reductions across the full scope of the borrowers' emissions, which is not currently a common practice in the local government sector.
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	- Borrowers will report progress against Scope 3 ERTs relative to the baseline once Scope 3 emissions inventories and targets are established. - The CAL lending criteria require borrowers to include actions to reduce Scope 3 emissions in their ERPs within one year from when the borrower adopts a Scope 3 ERT. This supports transparency on the borrowers' intended approach to reduce Scope 3 emissions. - We view the two-year grace period to adopt a Scope 3 ERT as appropriate, given the challenges of collecting Scope 3 emissions data with which to set a target.
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Loan Characteristics

- Borrowers that satisfy the CAL eligibility criteria may access CALs at a discounted margin relative to standard LGFA lending facilities. - To remain eligible for CALs, LGFA requires borrowers to maintain compliance with the CAL criteria, including emissions inventories, ERTs and ERP requirements. - LGFA reviews borrower performance annually based on the CAL criteria and supporting documentation. - Failure to maintain compliance with the CAL criteria may affect a borrower's eligibility to access future CAL facilities. - Upon declassification, the CAL is treated as a standard loan with the CAL discount continuing to apply until maturity; the borrower is publicly named on LGFA's website as a declassified borrower and is ineligible for new CALs until the eligibility criteria are met again. Declassification does not trigger an event of default. - Following mergers, acquisitions, divestitures or asset disposals, borrowers may restate their base year and ERTs. Any restatement must be independently verified and agreed with LGFA. Any changes in the ERTs will need to be reflected in the updated ERP.	- The CAL criteria do not fulfil the loan characteristics pillar of the LMA, LSTA and APLMA SLL Principles, which requires the loan's financial and/or structural characteristics to vary depending on whether the KPIs reach the selected predefined SPTs. - Eligible CAL borrowers do receive the incentive of an upfront margin discount; however, the financial characteristics of existing CALs do not vary based on the achievement or non-achievement of SPTs. - We understand from LGFA that the current financial incentive offered under the CAL programme is a 2bp margin discount. - We acknowledge that there is a direct non-financial consequence to non-achievement of SPTs. LGFA may declassify borrowers that no longer satisfy the eligibility criteria. In addition, LGFA will review the progress against their ERTs, and may declassify borrowers that fail to demonstrate progress towards the targets over three consecutive years. - Declassification does not affect the margin discount applied to existing CALs (with the loans reverting to LGFA standard lending rates on maturity), but declassified borrowers will be ineligible to apply for or enter into new CALs until they are able to once more meet the eligibility criteria. - We view positively that the framework includes formal restatement provisions for the base year and SPTs following material organisational changes, and that any recalculation must be independently verified and agreed with LGFA. This helps to ensure that the targets remain relevant in the event of any organisational changes to the borrower.
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Reporting

- LGFA requires borrowers to report annually to it within five months following each sustainability reference period. - Reporting includes an assured GHG emissions inventory, performance against ERTs, confirmation of whether ERTs have been achieved or remain on track to be achieved, and progress against key ERP actions. - LGFA conducts an annual review to assess continued compliance with the eligibility criteria and progress against ERTs and commitments.	- The reporting requirements for borrowers under the CAL lending criteria fulfil the reporting requirements of the LMA, LSTA and APLMA SLL Principles. - We view the CAL reporting commitments positively, as borrowers are required to report the cumulative percentage of emissions reductions achieved and progress on ERP actions on an annual basis. This provides ongoing transparency on actions being taken to achieve emissions reductions and the extent of progress towards the targets. - Borrowers consent to LGFA disclosing information relating to their ERPs, GHG emissions inventories, ERTs and achievement of ERTs through LGFA's reporting. This supports transparency at both the borrower and lending programme levels.
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Verification

- LGFA requires borrowers to obtain independent third-party assurance of their GHG emissions inventories for each sustainability reference period. - Borrowers must provide the third-party assurance report to LGFA annually by 30 November. - Any recalculation of the base year must be independently verified by an external assurance provider.	- The verification commitments under the CAL lending criteria are aligned with the verification component of the LMA, LSTA and APLMA SLL Principles. - LGFA requires borrowers to obtain independent third-party assurance of their GHG emissions inventories on an annual basis, which we consider to be market best practice that supports confidence in the quality of data reported. - The CAL lending criteria stipulate that the level of assurance needs to be minimally a limited assurance, which involves testing of analytical procedures and data sampling to ascertain the data are free of material misstatement. We consider this to support the robustness of emissions data, which is the key metric underpinning CAL.
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Sustainable Water Action Loans

Company Material	Sustainable Fitch
KPI Selection	
- LGFA's SWALE lending programme is structured around four environmental KPIs determined using a science-based approach in line with the Planetary Boundaries: - compulsory nitrogen and phosphorus KPI; and - one of three optional KPIs selected from biogenic GHG emissions, embodied carbon or water efficiency.	- 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. - 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.



- All borrowers must report against and meet the compulsory KPI and one additional optional KPI.
- The KPI selection process was developed by Planetary Accounting Network (PAN) with LGFA through a two-phase methodology:
 - first, stakeholder workshops with water sector entities to understand what environmental data are currently, or will be, captured by new water CCOs; and
 - second, a national Planetary Accounting assessment to quantify the relative materiality of environmental impacts across New Zealand's water sector.
- 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.
- 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.
 - The nitrogen and phosphorus KPI measures reductions in total nitrogen and phosphorus concentration per litre of wastewater discharged from wastewater treatment.
 - The biogenic GHG emissions KPI focuses on improved measurement of GHGs, such as methane and nitrous oxide, from wastewater treatment and biosolids disposal.
 - 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.
 - The water efficiency KPI measures the reductions in gross water consumption across the network, including losses.
- The relative materiality of the environmental footprints may vary for each water CCO, based on their 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.
- 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.
- 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.
- As standalone KPIs, we do not consider these optional KPIs to fully fulfil the LMA, LSTA and APLA 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.
- 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.
- 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.
- 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.
- The framework appropriately combines sector consistency with borrower-level flexibility by requiring the highest-materiality KPI from all borrowers, while allowing one additional KPI to reflect borrower-specific context.
- We also view positively that the relevance and materiality of the optional KPI selected for each transaction will be reviewed by LGFA's management and sustainability committee. The use of external scientific and technical references, including the Planetary Boundaries and established reporting and accounting standards, supports transparent benchmarking, consistent measurement and external verification.
- We consider the environmental focus of the KPIs to be appropriate, given the significant pressures the water-sector operations place on freshwater systems and natural resources in New Zealand.

SPT Calibration

- The SPTs were established using a combination of top-down science-based approaches and bottom-up local considerations.
- Top-down methodologies include:
 - an equal per capita share allocation, assigning New Zealand a share of the global safe operating space proportional to its population; and
 - an absolute contraction methodology, defining year-on-year reduction pathways aligned with the Planetary Boundaries thresholds to be achieved by 2050.
- We consider the SPTs to be collectively aligned with the SPT calibration requirements of the LMA, LSTA and APLMA SLL Principles.
- 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.
- 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.
- The nitrogen and phosphorus SPT applies a dual-benchmark structure, requiring the



- Bottom-up considerations include local environmental constraints, regulatory and consent conditions, current technological feasibility, and transition timelines.
 - 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.
 - 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 Wastewater Environmental Performance Standards (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.
 - 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.
 - For the biogenic GHG emissions KPI, the SPT requires implementation of Level 2 measurement (involving estimating emissions using plant-specific operating data) within two years of entering the SWALe lending programme and annually thereafter until 2040, and facility-level Level 3 measurement (involving comprehensive on-site testing for specific emissions factors) by 2040, in accordance with the most current Water New Zealand wastewater carbon accounting guidelines and future guidance for Level 3 measurement.
 - 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.
 - The baseline should be estimated using a prospective life-cycle assessment approach consistent with ISO 14040 or ISO 14044, or an equivalent recognised methodology, and the assessment should be subject to independent review or validation. Updated measurements are required for each subsequent reporting period of between three and five years.
 - 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.
 - 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.
- 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.
- 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.
 - The biogenic GHG emissions and embodied carbon optional SPTs are currently focused 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.
 - On a standalone basis, these optional SPTs would not fully meet the LMA, LSTA and APLMA SLL Principles' expectation for ambitious and measurable environmental improvement. However, we acknowledge that these SPTs are intended as foundational near-term milestones for future quantitative reduction targets that complement an outcome-based SPT.
 - Taken together with the compulsory nitrogen and phosphorus SPT, we consider loans including one of these optional SPTs to be aligned overall with the LMA, LSTA and APLMA SLL Principles' SPT calibration requirements.
 - The framework commitment to undertake independent review or validation for both KPIs strengthens the robustness and credibility of the SPT calibration and subsequent performance assessment.
 - For 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. Its progressive periodic structure supports continuous improvement rather than a one-off change.
 - 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 water efficiency KPIs both have well-defined baselines. For the biogenic GHG emissions and embodied carbon KPIs, 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 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.
 - LGFA's intention to review the SPTs every two years, or as the Planetary Boundaries framework evolves, supports continued ambition and helps to address the risk of the SPTs becoming outdated over longer tenors.



Loan Characteristics

- 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.
- 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.
- LGFA confirmed the SWALe discount would be applied uniformly across all borrowers.
- 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.
- 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.
- 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.
- 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.
- 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.
- LGFA aims to review and update, as required, the SWALe lending criteria at a 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.
- 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.
- The SWALe premium, set at half the SWALe discount for each missed SPT, provides a proportionate financial consequence tied to sustainability performance. The premium escalates to the full SWALe discount when the reporting or verification requirements are breached. This strengthens accountability and is consistent with the LMA, LSTA and APLMA SLL Principles' emphasis on robust reporting and verification.
- 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.
- The SWALe discount applies from the outset, regardless of future SPT achievement, so 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.
- The declassification mechanism helps to 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.
- The provision allowing for SPT restatement or amendment following material corporate events is consistent with standard market practice under the LMA, LSTA and APLMA SLL Principles, which require SPTs to remain relevant and material throughout the life of the loan.

Reporting

- 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.
- Annual reporting must include:
 - reporting against the borrower's chosen KPIs or SPTs as set out in the SWALe lending criteria;
 - a progress update on performance towards achieving the SPTs in years when measurement is not required; and
 - applicable verification requirements for the borrower's chosen KPIs or SPTs.
- The KPI-specific reporting requirements are set out in the SWALe lending criteria and vary according to the nature of the KPI.
- 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.
- We view positively that reporting requirements include both quantitative KPI performance data and qualitative progress updates where formal measurement is not required, supporting ongoing monitoring over the loan tenor.
- The KPI-specific reporting timelines are clearly defined and tailored to the nature and measurement maturity of each KPI.
- LGFA's formal annual review process to confirm continued eligibility, SPT progress and compliance with borrower-specific conditions, helps to ensure the alignment of the SWALes with the lending criteria throughout the loan tenors.
- LGFA has also committed to publicly report on borrower-level SPT achievement or progress, and on changes in SWALes that are outstanding and declassifications, in line with the LMA, LSTA and APLMA SLL Principles' requirements for accountability and transparency.



– 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. – 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. – 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. – 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. • 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 of the SPTs, changes in SWALes outstanding and any declassification.	• The ICMA Guidelines for Sustainability-Linked Loans financing Bonds 2024 require that loans with both a green or social and sustainability-linked component, if included as eligible green or social assets for a green, social or sustainability bond, must not also be counted as eligible SLL assets. • The framework aligns with this requirement by clarifying that, where overlap with other asset pools could occur, loans would be allocated to only one eligible asset pool at a time. This applies both where a borrower's financing meets the criteria for SWALes and other sustainable loan products, and where SWALes could otherwise be eligible for funding through both sustainability-linked loans financing bonds and SFBs. • We consider the SWALE lending programme's reporting requirements to be aligned with the reporting requirements of the LMA, LSTA and APLMA SLL Principles.
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Verification

• The borrowers are required to meet the verification requirements for their chosen KPIs as set out in the SWALE lending criteria. • Verification requirements are KPI specific, calibrated to the measurement maturity and existing regulatory reporting infrastructure associated with each KPI. – 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. – 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 there is a material change to GHG emissions sources or methodology used for Level 2 measurement in subsequent years. – 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.	• 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. • Verification timing and frequency vary by KPI and are generally tied to the relevant assessment date or reporting period. We view this tailored approach positively, as it reflects the nature and measurement maturity of each KPI while keeping verification requirements proportionate and practical. • An exception applies to the water efficiency KPI, for which LGFA relies on regulatory reporting under the Taumata Arowai Network Environmental Performance Measures and Guide 2025, rather than separate third-party verification. • The LMA, LSTA 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. • However, LGFA has confirmed that there is no explicit statutory requirement for independent verification or assurance of data submitted to Taumata Arowai. • To address this, borrowers using the water efficiency KPI must ensure reported water consumption data meet a minimum Data Confidence Level 4 or above, which requires at least an occasional verification or audit. We consider this to be adequate to align with the LMA, LSTA and APLMA SLL Principles' verification requirements.
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- 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 periods, and include evidence of receipt by the regulator.
- 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.

Source: LGFA SFB framework (September 2026), LGFA GS loans lending programme criteria 2026, LGFA CAL lending programme criteria 2026, LGFA SWALe lending programme criteria 2026, LGFA-PAN planetary boundary KPIs for water entities report 2026

Source: Sustainable Fitch



Use of Proceeds – Other Information

Company Material

- 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 SFBs.
- LGFA may update the framework, the GS loan criteria, the CAL criteria and the SWALe criteria from time to time.
 - In the event the GS loan criteria are updated, borrowers can continue to hold a GS loan under the GS loan criteria that the project was originally approved against, including any new GS loans in respect of that project.
 - In the event that the CAL criteria are updated, borrowers can opt to continue to hold CALs under the updated CAL criteria or notify LGFA that they wish to declassify their CALs. If a declassification occurs, each CAL will be treated as a standard loan instead of a CAL.
 - In the event that the SWALe criteria are updated, borrowers can opt to continue to hold SWALes under the updated SWALe criteria or notify LGFA that they wish to declassify their SWALes. If a declassification occurs, each SWALe will be treated as a standard loan instead of a SWALe.

Source: LGFA SFB framework (September 2026), LGFA GS loans lending programme criteria 2026, LGFA CAL lending programme criteria 2026, LGFA SWALe lending programme criteria 2026

Alignment: Good

Sustainable Fitch's View

- GS loans
 - LGFA has not committed to a pre-defined share of new financing in the GS loan criteria; at the time of our analysis, all GS loans approved represented financing for new projects.
 - For any refinancing, LGFA applies a lookback period of 18 months at the eligible projects level, which we consider to be in line with standard market practice.
 - We generally view new financing to have higher additionality. The GS loans primarily finance public sector programmes and long-term infrastructure projects, which we view to have a positive level of additionality because they typically span long timeframes and benefit a large number of beneficiaries over time.
- SFBs
 - The lookback period for SFB issuances is 24 months. We consider this to be in line with standard market practice for labelled bonds.
 - We understand from LGFA that it expects its borrowers, comprising local councils, CCOs and water CCOs, to operate under clear mandates that exclude potentially controversial activities, such as fossil fuel production and tobacco. As such, we consider the risks of proceeds being used towards controversial activities as low.
 - We understand from LGFA that climate risk factors are integrated into its annual credit risk assessment process for all borrowers. In 2026, LGFA sought to understand factors such as the potential climate risks and opportunities, the associated financial impact on the borrowers, and the borrowers' insurance coverage for climate-related hazards.
 - LGFA expects borrowers of CALs and SWALes to align with the latest prevailing CAL and SWALe criteria, as borrowers must update their commitments to remain eligible for these loans.
 - GS loans may be grandfathered under the GS loan criteria against which the relevant project was originally approved. We view this approach as reasonable, as it supports continued relevance and ambition for CALs and SWALes in line with LGFA's latest requirements, while providing continuity for GS loans without requiring re-assessment against the updated criteria.

Source: Sustainable Fitch

Evaluation and Selection

Company Material

- The applications for GS loans and the eligibility to apply for CALs and SWALes will be subject to an assessment process based upon the GS loan criteria, CAL criteria and SWALe criteria.
- LGFA's management assesses applications and presents them to the sustainability committee for reviewing whether the application meets the relevant GS loan criteria, CAL criteria or SWALe criteria. Subject to the application meeting the relevant criteria, the committee will make a recommendation to LGFA's chief executive accordingly.
- The sustainability committee is a board-approved committee and must have at least six members, including a representative of the board as committee chair, three LGFA employees and at least two external appointees.
- The board reviews the committee's composition annually to ensure an appropriate balance of expertise, skills and experience.
- The application is then assessed by LGFA's chief executive for approval.

Alignment: Excellent

Sustainable Fitch's View

- GS loans
 - We consider LGFA's evaluation and selection requirements for GS loan borrowers to be aligned with the requirements of the LMA, LSTA and APLMA GLP and SLP.
 - Our analysis of the process and evaluation of GS loans in the sustainable assets pool is covered in the SFBs section below, as LGFA adopts a consistent approval process to include eligible loans in its sustainable loan asset pool.
- SFBs
 - We consider the SFBs' evaluation and selection process to be aligned with the requirements of the ICMA GBP and SBP.
 - The project evaluation and selection process is multi-layered, with a clear segregation of duties and three layers of approval from LGFA's management, sustainability committee and chief executive.
 - The sustainability committee comprises a balance of skills and expertise, which provides a layer of checks and balances to help ensure the positive outcomes of the raised proceeds.



Evaluation and Selection

Alignment: Excellent

Company Material

Sustainable Fitch's View

- Since November 2024, the committee has been chaired by a member of LGFA's board of directors and includes the head of sustainability, the chief financial officer, and members from the credit and sustainability functions.

Source: LGFA SFB framework (September 2026), LGFA GS loans lending programme criteria 2026, LGFA CAL lending programme criteria 2026, LGFA SWALe lending programme criteria 2026

Source: Sustainable Fitch

Management of Proceeds

Alignment: Good

Company Material

Sustainable Fitch's View

- Pending allocation, any unallocated net proceeds will be temporarily invested in cash and money market securities; green, social and/or sustainability bonds issued by other entities; local government and/or central government debt; or investment instruments that do not include GHG emissions-intensive projects that are inconsistent with the delivery of a low-carbon and climate-resilient economy.
- The sustainable loan asset pool may be replenished if the underlying GS loans, CALs or SWALes are repaid, have matured or become non-eligible.
- In addition, non-eligible CALs and SWALes that are removed from the sustainable loan asset pool (for example, due to declassification under the CAL or SWALe criteria) may be reinstated if they subsequently fulfil the eligibility criteria for inclusion.
- LGFA will ensure financing that meets the GS loan criteria, CAL criteria and SWALe criteria is not double counted within the sustainable loan asset pool.

- GS loans
 - We consider LGFA's management of proceeds requirements for GS loan borrowers to be aligned with the requirements of the LMA, LSTA and APLMA GLP and SLP.
 - LGFA requires the borrower to track the allocation of proceeds in an appropriate manner, such as through a dedicated account or earmarking. This is in line with standard market practices for labelled loans.
 - LGFA also requires the borrower to monitor the allocation of loan proceeds and maintain the eligibility of financed projects, which is important to ensure that proceeds are not used to finance ineligible projects.
- SFBs
 - We consider the SFBs' management of proceeds to be aligned with the requirements of the ICMA GBP and SBP.
 - The allocation of proceeds from SFB issuances is virtually tracked against the sustainable loan asset pool. LGFA maintains a single sustainable loan register to monitor the current value of eligible sustainable loan assets, including GS loans, CALs and SWALes.
 - We view the tracking of UoP loans and SLLs in the same register as an appropriate approach to monitor proceeds allocation, though we observe that this is not standard market practice because labelled bond proceeds are typically allocated to only UoP loans or SLLs, and not both.
 - Unallocated proceeds are invested in cash or sustainable instruments, which is in line with standard market practice for labelled bonds.
 - LGFA monitors the eligibility of GS loans, CALs and SWALes, and all three lending programmes require borrowers to submit annual reporting.
 - Loans that no longer meet their respective lending programme criteria will be declassified and removed from the sustainable loan asset pool. We view this to be in line with best practice for labelled bonds.

Source: LGFA SFB framework (September 2026), LGFA GS loans lending programme criteria 2026, LGFA CAL lending programme criteria 2026, LGFA SWALe lending programme criteria 2026

Source: Sustainable Fitch

Reporting and Transparency

Alignment: Excellent

Company Material

Sustainable Fitch's View

- LGFA intends to prepare 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 SFBs are notionally allocated to.
 - Eligibility reporting: confirmation that the sustainable loans meet the relevant eligibility requirements included in the framework,

- GS loans
 - We consider LGFA's reporting requirements for GS loan borrowers to be aligned with the requirements of the LMA, LSTA and APLMA GLP and SLP.
 - LGFA requires borrowers to annually report on the allocation of proceeds to the eligible projects, and any relevant information on the use of unallocated proceeds. It also requires borrowers to report



Reporting and Transparency

Alignment: Excellent

Company Material

- including information on the characteristics and sustainability performance of the sustainable loans.
- Impact reporting: LGFA will endeavour to provide qualitative and/or quantitative reporting 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.
- LGFA will publish monthly information on the allocation of SFB proceeds as long as there are SFBs outstanding.
- LGFA will publish an external review report for all outstanding SFBs. The review will confirm the sustainable loans in the sustainable loan register meet the CAL criteria, the SWALe criteria and the GS loan criteria, and comply with the framework; and the impact reporting metrics have been fairly and accurately represented.

Sustainable Fitch's View

- on material developments to the allocations, such as if the projects are sold or disposed of, within 30 business days. We view the frequency and granularity of the allocation reporting to be in line with market best practice for labelled loans.
- LGFA also requires borrowers to report on the projects' impacts. This may be based on quantitative or qualitative indicators.
 - LGFA has published an indicative list of impact indicators in the GS loan criteria that reference the ICMA Handbook – Harmonised Framework for Impact Reporting for both GS loan types. We view positively that LGFA has referenced measurable indicators from the ICMA handbooks, as it is market best practice to provide impact reporting on a quantitative basis.
- SFBs
- We consider the SFBs' reporting practices to be aligned with the requirements of the ICMA GBP and SBP.
 - LGFA will provide monthly allocation reporting for the sustainable loan asset pool across the full SFB portfolio, including loan-level allocation information. This high reporting frequency gives investors timely visibility on proceeds allocation and exceeds standard market practice for labelled bonds.
 - LGFA also provides impact reporting for loans in the sustainable loan asset pool, subject to information availability and confidentiality requirements. LGFA's reporting practice is to publish impact reporting on a case-study basis for each GS loan, with a mix of qualitative and quantitative impact indicators. We consider the reporting to support visibility on impacts of its lending programmes.
 - LGFA has also reported on the eligible CAL borrowers in the past annual impact reports. The local councils' ERTs and ERPs are clearly reported, illustrating whether the CAL borrowers have met the target-setting requirements in the CAL loan criteria. We expect similar reporting to be provided for SWALes that are added into the sustainable loan asset pool.
 - In the event of declassification of any SWALe or CAL borrowers, this information will be published on LGFA's website and reported in the monthly and annual report updates.
 - We view positively that the annual reports, including allocation and impact information for GS loans, and the eligibility criteria for CALs and SWALes will be externally verified each year. This provides an additional layer of checks over reported information and is aligned with market best practice for labelled bonds.

Source: LGFA SFB framework (September 2026), LGFA GS loans lending programme criteria 2026, LGFA CAL lending programme criteria 2026, LGFA SWALe lending programme criteria 2026

Source: Sustainable Fitch



Relevant UN Sustainable Development Goals

- **1.4:** By 2030, ensure that all men and women, in particular the poor and the vulnerable, have equal rights to economic resources, as well as access to basic services, ownership and control over land and other forms of property, inheritance, natural resources, appropriate new technology and financial services, including microfinance.
- **1.5:** By 2030, build the resilience of the poor and those in vulnerable situations and reduce their exposure and vulnerability to climate-related extreme events and other economic, social and environmental shocks and disasters.



1
NO POVERTY

- **2.4:** By 2030, ensure sustainable food production systems and implement resilient agricultural practices that increase productivity and production, that help maintain ecosystems, that strengthen capacity for adaptation to climate change, extreme weather, drought, flooding and other disasters and that progressively improve land and soil quality.



2
ZERO HUNGER

- **3.8:** Achieve universal health coverage, including financial risk protection, access to quality essential health-care services and access to safe, effective, quality and affordable essential medicines and vaccines for all.



3
GOOD HEALTH AND WELL-BEING

- **4.2:** By 2030, ensure that all girls and boys have access to quality early childhood development, care and pre-primary education so that they are ready for primary education.
- **4.3:** By 2030, ensure equal access for all women and men to affordable and quality technical, vocational and tertiary education, including university.
- **4.4:** By 2030, substantially increase the number of youth and adults who have relevant skills, including technical and vocational skills, for employment, decent jobs and entrepreneurship.
- **4.5:** By 2030, eliminate gender disparities in education and ensure equal access to all levels of education and vocational training for the vulnerable, including persons with disabilities, indigenous peoples and children in vulnerable situations.



4
QUALITY EDUCATION

- **6.1:** By 2030, achieve universal and equitable access to safe and affordable drinking water for all.
- **6.2:** By 2030, achieve access to adequate and equitable sanitation and hygiene for all and end open defecation, paying special attention to the needs of women and girls and those in vulnerable situations.
- **6.3:** By 2030, improve water quality by reducing pollution, eliminating dumping and minimising release of hazardous chemicals and materials, halving the proportion of untreated wastewater and substantially increasing recycling and safe reuse globally.
- **6.4:** By 2030, substantially increase water-use efficiency across all sectors and ensure sustainable withdrawals and supply of freshwater to address water scarcity and substantially reduce the number of people suffering from water scarcity.



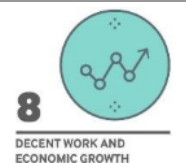
6
CLEAN WATER AND
SANITATION

- **7.1:** By 2030, ensure universal access to affordable, reliable and modern energy services.
- **7.2:** By 2030, increase substantially the share of renewable energy in the global energy mix.
- **7.3:** By 2030, double the global rate of improvement in energy efficiency.



7
AFFORDABLE AND CLEAN
ENERGY

- **8.3:** Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalisation and growth of micro-, small- and medium-sized enterprises, including through access to financial services.
- **8.4:** Improve progressively, through 2030, global resource efficiency in consumption and production and endeavour to decouple economic growth from environmental degradation, in accordance with the 10-Year Framework of Programmes on Sustainable Consumption and Production, with developed countries taking the lead.
- **8.5:** By 2030, achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value.



8
DECENT WORK AND
ECONOMIC GROWTH

Relevant UN Sustainable Development Goals

- **9.c:** Significantly increase access to information and communications technology and strive to provide universal and affordable access to the Internet in least developed countries by 2020.



- **10.2:** By 2030, empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status.



- **11.1:** By 2030, ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums.
- **11.2:** By 2030, provide access to safe, affordable, accessible and sustainable transport systems for all, improving road safety, notably by expanding public transport, with special attention to the needs of those in vulnerable situations, women, children, persons with disabilities and older persons.
- **11.3:** By 2030, enhance inclusive and sustainable urbanisation and capacity for participatory, integrated and sustainable human settlement planning and management in all countries.
- **11.6:** By 2030, reduce the adverse per capita environmental impact of cities, including by paying special attention to air quality and municipal and other waste management.



- **12.2:** By 2030, achieve the sustainable management and efficient use of natural resources.
- **12.4:** By 2020, achieve the environmentally sound management of chemicals and all wastes throughout their life cycle, in accordance with agreed international frameworks, and significantly reduce their release to air, water and soil in order to minimise their adverse impacts on human health and the environment.
- **12.5:** By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse.



- **13.1:** Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries.
- **13.2:** Integrate climate change measures into national policies, strategies and planning.



- **14.2:** By 2020, sustainably manage and protect marine and coastal ecosystems to avoid significant adverse impacts, including by strengthening their resilience, and take action for their restoration in order to achieve healthy and productive oceans.
- **14.5:** By 2020, conserve at least 10 per cent of coastal and marine areas, consistent with national and international law and based on the best available scientific information.



- **15.1:** By 2020, ensure the conservation, restoration and sustainable use of terrestrial and inland freshwater ecosystems and their services, in particular forests, wetlands, mountains and drylands, in line with obligations under international agreements.
- **15.2:** By 2020, promote the implementation of sustainable management of all types of forests, halt deforestation, restore degraded forests and substantially increase afforestation and reforestation globally.
- **15.5:** Take urgent and significant action to reduce the degradation of natural habitats, halt the loss of biodiversity and, by 2020, protect and prevent the extinction of threatened species.



Source: Sustainable Fitch, UN

Appendix A: Definitions

Term	Definition
Debt types	
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 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 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 ICMA Sustainability Bond Guidelines or other principles, guidelines, taxonomies.
Sustainability-linked	Financial and/or structural features are linked to the achievement of pre-defined sustainability objectives. Such features may be aligned with 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).
Transition	Proceeds will be used for transition projects and/or transition related activities as identified in the instrument documents. The instrument may be aligned with ICMA Climate Transition Bond Guidelines or other principles, guidelines or taxonomies.
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.
Standards	
ICMA	International Capital Market Association. In the Second-Party Opinion we refer to alignment with ICMA's Bond Principles: 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). In the Second-Party Opinion we refer to alignment with Sustainable Finance Loan Principles: 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, EC Platform on Sustainable Finance



SOLICITATION STATUS

The Second-Party Opinion was solicited and assigned or maintained by Sustainable Fitch at the request of the entity.

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