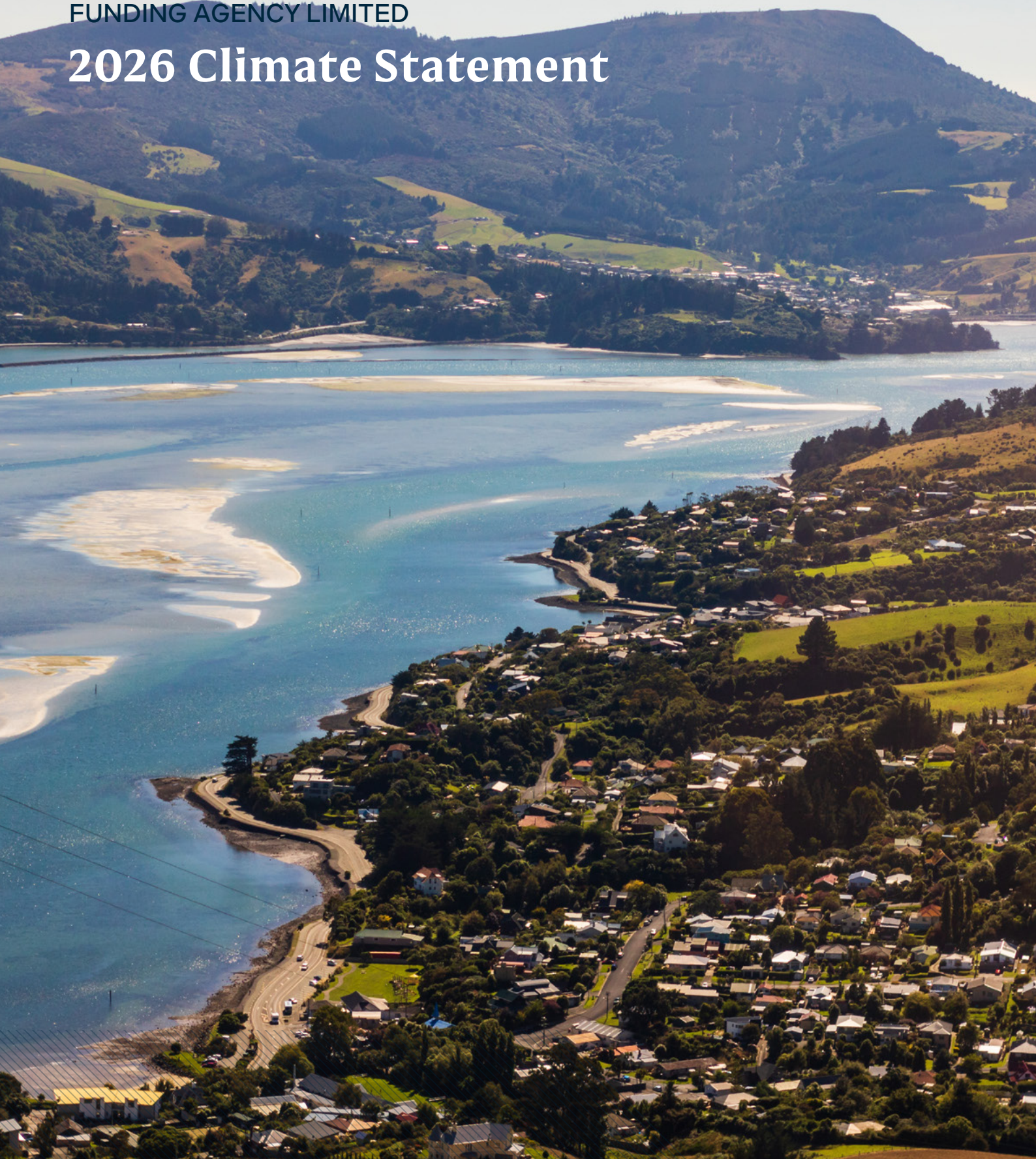


NEW ZEALAND LOCAL GOVERNMENT
FUNDING AGENCY LIMITED

2026 Climate Statement



LGFA



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

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Contents photo: Pleura Dam, Gore District Council

Introduction

New Zealand Local Government Funding Agency Limited (LGFA) is a Climate Reporting Entity under the Financial Markets Conduct Act 2013 (FMCA). This Climate Statement for the year ended 30 June 2026 has been prepared in accordance with the requirements of the FMCA and complies with Aotearoa New Zealand Climate Standards issued by the External Reporting Board in December 2022 (NZCS).

These disclosures cover the reporting period 1 July 2025 to 30 June 2026 (2025/26).

Under the FMCA, it is mandatory for climate reporting entities to produce climate statements according to the NZCS.

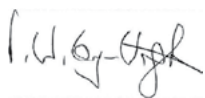
Climate Reporting Entities are required to make annual disclosures covering governance arrangements, risk management, strategies and metrics and targets for mitigating and adapting to climate change impacts.

LGFA has elected to use the following NZCS 2 adoption provisions for this report:

1. Adoption provision 2: Anticipated financial impacts.
2. Adoption provision 7: Analysis of trends.
3. Adoption provision 8: Scope 3 GHG emissions assurance.

LGFA's scope 1 and 2 emissions have been the subject of a limited assurance engagement by KPMG; however, this year we have elected not to have our scope 3 emissions, including financed emissions, assured.

Approved on behalf of the Board on 14th October 2026.



Philip Cory-Wright
Chair, LGFA Board



Paul Anderson
Chair, LGFA Audit and Risk Committee



Upgrading of the seawall at The Strand. **Tauranga City Council**

Disclaimer

This report includes current and forward-looking statements about climate change, its impacts on LGFA, and LGFA's response to it. Climate change, and its impacts on individual climate-reporting entities, is subject to significant uncertainty. The information in this report is based on estimates, judgements, assumptions and incomplete data that LGFA considers to be appropriate under current circumstances. However, LGFA cautions against placing reliance on information that is subject to significant uncertainty.

This report includes certain forward-looking information, including statements about climate-related scenarios, risks and opportunities, anticipated impacts, strategies and plans. Words such as "will", "may", "likely", "anticipate", "plan", "target" and "commit" or other similar words are used to identify forward-looking statements. The forward-looking information in this report is based on assumptions, estimates and judgements that are uncertain and likely to change over time, including as a result of factors that are outside of LGFA's control. Forward-looking statements should not be taken as guarantees of future performance, and actual results may differ materially from what is stated. For example, LGFA's actual performance against its climate-related targets, the strategies that it adopts, and the impacts of climate-related risks and opportunities may be materially different from those anticipated. New climate-related risks and/or opportunities may also eventuate. This disclaimer should be read together with the limitations and uncertainties set out in this report. LGFA does not represent that the information in this report will not change following publication of this report and gives no undertaking to update the information over time, subject to relevant legal or regulatory requirements.

This report is not an offer or recommendation to invest in, distribute or purchase financial products and the information in it does not constitute earnings guidance. Nothing in this report should be interpreted as advice, whether investment, legal, financial, tax or otherwise.

Governance

Governance body oversight

GOVERNANCE BODY RESPONSIBLE FOR OVERSIGHT OF CLIMATE-RELATED RISKS AND OPPORTUNITIES

The LGFA Board of Directors (the Board) is responsible for providing strategic direction and oversight of LGFA's activities.

The Board is committed to maintaining high standards of corporate governance and to ensuring that LGFA continues to operate in accordance with sound governance principles. It expects the highest standards of integrity and professional conduct from both directors and staff, consistent with the organisation's values and essential to protecting and enhancing LGFA's reputation.

The Board has ultimate oversight of the company's climate-related risks and opportunities and has delegated responsibility for overseeing the identification, assessment and management of climate-related risks and opportunities to the Audit and Risk Committee (ARC), which is a Committee of the Board.

THE PROCESSES AND FREQUENCY BY WHICH THE GOVERNANCE BODY IS INFORMED ABOUT CLIMATE-RELATED RISKS AND OPPORTUNITIES

The Board receives a sustainability update at each Board meeting, covering LGFA's sustainable finance programme and progress against current sustainability projects. Some updates include matters relating to LGFA's climate-related risks and opportunities.

During 2025/26, the Board met six times. The Board also met with LGFA's Sustainability Committee twice during 2025/26 to discuss key sustainability topics material to LGFA, many of which influence how we manage our climate-related risks and opportunities.

From November 2026, the sustainability team will provide the ARC with quarterly updates on LGFA's climate-related risks and opportunities.

GOVERNANCE BODY CLIMATE-RELATED SKILLS AND COMPETENCIES AVAILABLE TO PROVIDE OVERSIGHT OF CLIMATE-RELATED RISKS AND OPPORTUNITIES

In June 2025, the Board approved a sustainability and climate change training schedule for the Board. Two training sessions were delivered during 2025/26, with a third delivered in July 2026. Topics included climate risk management tools and methods, transition planning, and the interconnection between climate change and Environmental, Social, and Governance (ESG).

Some LGFA directors currently or have previously served on the boards of other organisations that are climate reporting entities. The training topics were selected to complement the Board's existing skills and support its oversight of climate-related risks and opportunities. In addition, some directors hold climate and environmental certificates, have attended climate-related training delivered by external parties, and/or are members of the Institute of Directors' Chapter Zero.

LGFA's sustainability team also supports the Board as needed, and the Board can access sustainability and climate-related advice from LGFA's Sustainability Committee on request. LGFA appoints a Board representative as Chair of the Sustainability Committee (see [page 7](#) for more information on the Sustainability Committee), who is responsible for updating the Board on the Committee's proceedings.

CONSIDERATION OF CLIMATE-RELATED RISKS AND OPPORTUNITIES WHEN DEVELOPING AND OVERSEEING STRATEGY

During 2025/26, we began developing our transition plan, and the Board provided feedback on the outputs of a transition planning workshop held with management. LGFA staff explored how LGFA's climate-related risks will be managed and climate-related opportunities realised during the transition to a low carbon, climate resilient

economy. The Board will approve the final transition plan. See the strategy section of this report for more information on how the Board has been involved in this process to date.

OVERSIGHT OF METRICS AND TARGETS

Metrics and targets directly related to managing our climate-related risks and opportunities will be identified as our transition plan is developed.

The Board approves and monitors progress against LGFA’s Statement of Intent, which includes sustainability objectives and performance targets.

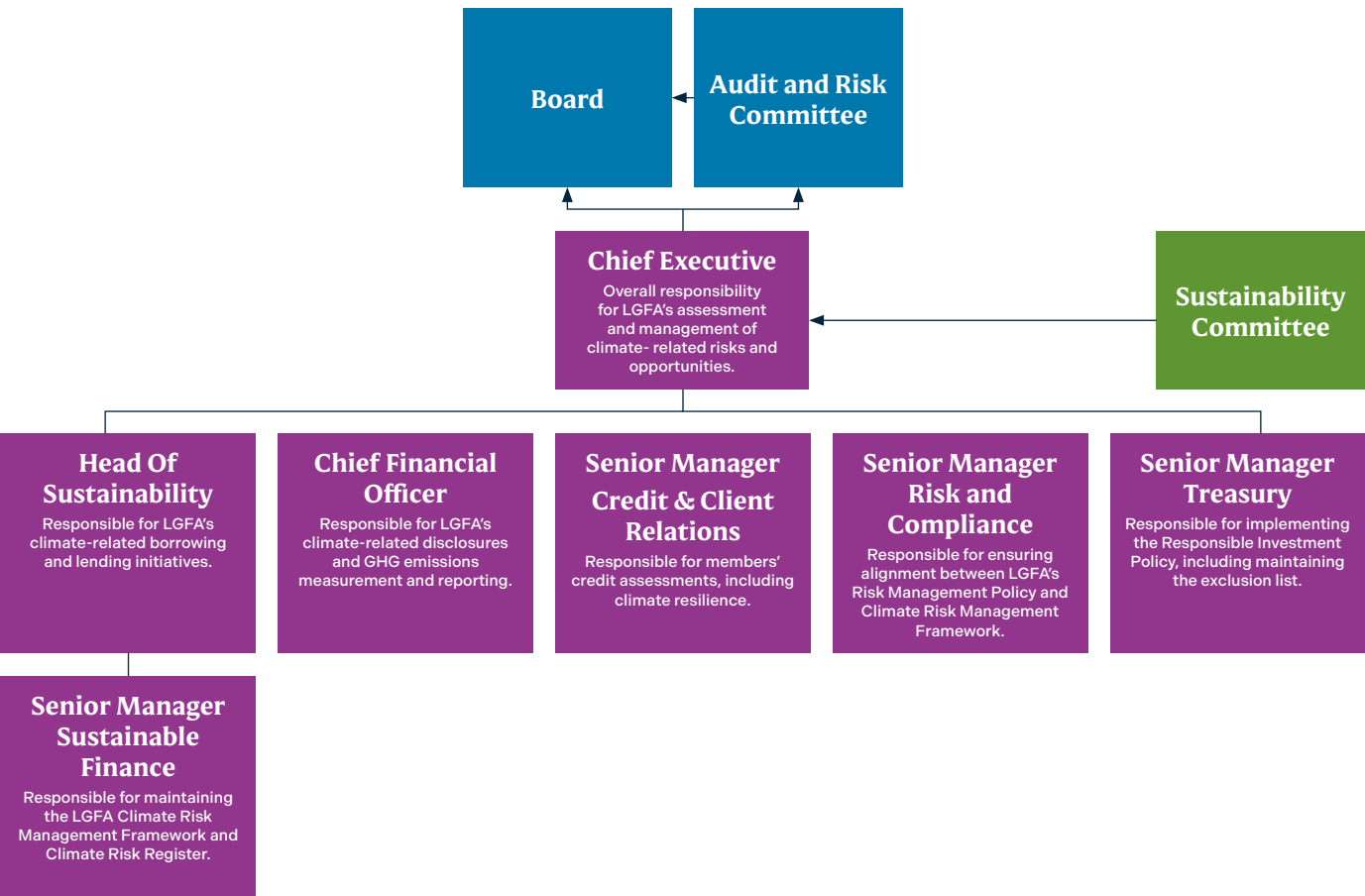
The Board also works with the Chief Executive to set annual staff Key Performance Indicators (KPIs). Progress against these KPIs is reported at each Board meeting. Staff KPIs relating to our climate-related risks and opportunities are reported in the Metrics and Targets section.

Board and management remuneration policies do not include climate-related performance metrics.

Management’s role

HOW CLIMATE-RELATED RESPONSIBILITIES ARE ASSIGNED, THE PROCESS AND FREQUENCY MANAGEMENT ENGAGE WITH THE GOVERNANCE BODY AND ORGANISATIONAL STRUCTURE

LGFA’s Chief Executive is ultimately responsible for assigning climate-related responsibilities to management. The climate-related responsibilities assigned to management-level positions are provided in the organisational structure below.



In addition to individual management responsibilities, LGFA's Sustainability Committee, established in September 2021, advises the Chief Executive on sustainability issues and opportunities within LGFA. The Committee is approved by the Board and, as at June 2026, comprised ten members: a Board representative as Committee Chair, one Board member, four LGFA employees, and four external appointees. The Committee meets every two months, or more or less frequently as required.

Management met regularly with the Board throughout the year. The Chief Executive and Chief Financial Officer attend all Board and ARC meetings, while the Senior Manager Credit and Client Relations attends all Board meetings and the Senior Manager Risk and Compliance attends all ARC meetings. Our sustainability team shares an update at each Board meeting and, from November 2026, will also provide quarterly updates to the ARC on our climate-related risks and opportunities. During 2025/26, the Board met six times and the ARC met five times. We also engage with the Board on climate-related matters whenever needed.

PROCESSES AND FREQUENCY MANAGEMENT IS INFORMED ABOUT, MAKES DECISIONS ON, AND MONITORS, CLIMATE-RELATED RISKS AND OPPORTUNITIES

As set out in LGFA's Climate Risk Management Framework, adopted in June 2026, the Chief Executive will receive an updated register of LGFA's climate-related risks at the end of each financial year.

Climate-related risks and opportunities may be discussed at weekly staff meetings. Beyond these meetings, there are no other formal processes for informing management about these matters. Given LGFA's relatively small size, management and the Chief Executive regularly engage on climate-related matters and make decisions as required.

The frequency with which management monitors climate-related risks and opportunities is set out in the table below.

Item	Responsibility	Frequency
Climate change scenarios	Senior Manager Sustainable Finance	Biennial
Scenario analysis	Senior Manager Sustainable Finance	Biennial
Climate Risk Management Framework	Senior Manager Sustainable Finance, Senior Manager Risk and Compliance	Biennial
Climate Change Risk Register	Senior Manager Sustainable Finance	Annual
The Climate Change Risk Register methodology, vulnerability and consequence scales	Senior Manager Sustainable Finance, Senior Manager Risk and Compliance	Annual
Summary Climate Change Risk Register	Senior Manager Sustainable Finance	Quarterly

In addition, we have formal processes in place for reviewing and approving applications in relation to LGFA's Climate Action Loans (CALs) and Green and Social Loans (GS Loans), which help inform management about climate-related risks and opportunities.

Current and financial impacts

Although New Zealand experienced several physical climate-related events during 2025/26, some of which directly affected LGFA's council and Council Controlled Organisation (CCO) members, these events did not result in any material direct physical, transition or financial impacts for LGFA.

Scenario analysis undertaken

SCENARIO ANALYSIS PROCESS

LGFA first undertook in-house climate change scenario analysis during the 2023/24 financial year. This analysis focused on how climate change could affect our business strategy and the implications for the two most significant stakeholder groups in our value chain: borrowers in the local government sector, and domestic and international investors in capital markets.

This approach, including the climate change scenarios, were updated in 2024/25 to identify our current climate-related risks and opportunities, which are set out on [page 12](#).

The scenario analysis delivered in 2024/25 was a standalone qualitative analysis, and no quantitative modelling was carried out. External stakeholders were not involved, except for high-level feedback from an independent Sustainability Committee member on the plausibility of the scenarios and their alignment with the underlying reference scenarios.

The **process for completing the scenario analysis in the 2024/25 financial year** is as follows¹:

Identify stakeholder involvement

A working group was established to deliver the scenario analysis process. Led by the Senior Manager Sustainable Finance, this group included LGFA's Head of Sustainability, Chief Financial Officer and Senior Manager Credit and Client Relations.

Understand current state

The working group assessed LGFA's current state, including whether any notable climate-related events had affected LGFA during the financial year. The group also considered whether any of LGFA's existing climate-related risks had materialised.

Agree on focal question

The working group defined the problem as *'What climate-related risks facing the local government sector could have a material impact on LGFA's ability to deliver efficient financing to the sector?'*, which was approved by LGFA's Chief Executive and reviewed by the Board.

Define time horizons

LGFA is exposed to a range of business and treasury-related risks through our core activities of issuing debt securities and lending to local government members. LGFA is also exposed to central government policy settings and conditions in domestic and offshore capital markets.

¹ Our scenario analysis will be updated during the 2026/27 financial year.

To reflect these exposures, the following time horizons were agreed for identifying climate-related risks and opportunities:

Short term	Present – FY28	Aligns with the three-year planning cycle for LGFA's Statement of Intent.
Medium term	FY29 – FY34	Aligns with the local government sector's long-term planning horizon.
Long term	FY35 – FY50	Aligns with international emission reduction targets under the Paris Agreement.

Update climate change scenarios

The working group reviewed LGFA's existing climate change scenarios to determine which drivers remained relevant. New driving forces were then assessed against the STEEP² categories by considering the following questions:

- What national and global driving forces could affect the local government sector?
- Which driving forces could materially affect LGFA's ability to deliver efficient financing to the sector?
- Are these driving forces expected to be influential across each time horizon?

The identified driving forces were ranked based on their level of impact and uncertainty. The driving forces that were ranked as having the greatest impact on LGFA and the most uncertain were taken forward for further assessment and reviewed for plausibility.

The final drivers were then mapped against a scenario matrix to determine the temperature outcomes and emissions pathways.

Once the scenario structures were approved by LGFA's Chief Executive, scenario narratives were drafted and presented to the Board for feedback with final approval by the Chief Executive.

Undertake scenario analysis

The working group and Chief Executive completed the scenario analysis over two workshops. The outputs of these workshops were refined into a long list of climate-related risks and opportunities that were reviewed and refined by management before being submitted to the Board for approval.

CLIMATE CHANGE SCENARIOS

While our climate change scenarios are informed by global and national reference scenarios and applied qualitatively, they involve inherent uncertainty and should be interpreted accordingly.

Our scenarios include climate drivers that reflect LGFA's operations across the local government sector and capital markets, specifically:

- Funding operations in domestic and offshore capital markets;
- Financing and lending services to councils and CCOs.

By taking a broad view, we believe our scenarios have been relevant and appropriate to identify our climate-related risks and opportunities and assess the resilience of our business model and strategy.

SCENARIO 1: NET ZERO 2050 (1.5 DEGREES CELSIUS SCENARIO)

Reference scenarios (including emissions reduction pathways)

SSP1- Taking the Green Road

NGFS- Net Zero 2050

CCC- Tailwinds

RCP- 1.9

2 STEEP: A framework for analysing external factors affecting an organisation: Social, Technological, Economic, Environmental, and Political factors.

SPANZ- 100% Smart

Key assumptions

Policy reaction: Immediate and smooth

Technology change: Fast

Carbon sequestration: Present but kept to a minimum

Physical risks: Moderate

Transition risks: Moderate

Collective action is being taken to reduce greenhouse gas emissions globally. The worst predicted impacts of climate change are prevented under this scenario, however, long-term chronic impacts from historic greenhouse gas emissions still occur.

Stringent policies are introduced by central government from 2025 and become gradually more stringent to influence the technological and behavioural changes needed to reach net zero emissions by 2050.

Central government policies require local government to support their communities to reduce emissions and coordinate managed retreats in coastal locations where rising sea levels and associated flooding and erosion cannot be prevented. Although government support is present, there is still a lot of pressure on local government to reprioritise spend towards mitigation and adaptation activities.

Despite disruption caused by an immediate policy response, the world achieves global net zero emissions around 2050.

SCENARIO 2: FRAGMENTED WORLD (2 DEGREES CELSIUS SCENARIO)

Reference scenarios (including emissions reduction pathways)

SSP2- Middle of the Road

NGFS- Fragmented world

CCC- Headwinds

RCP- 4.5 SPANZ- Kicking, Screaming

Key assumptions

Policy reaction: Delayed and fragmented

Technology change: Slow at first, then fragmented

Carbon sequestration: More reliance on carbon removals

Physical risks: High

Transition risks: High

In the fragmented world scenario, the transition to net zero is misaligned between different parts of the world. Extreme weather events become more frequent and increase in severity as 2050 approaches. Periods of drought become more frequent, and seasons become more unpredictable. Some countries have introduced policies that have spurred their transition to net zero whilst others maintain a focus on fossil-fuelled development. From 2030, New Zealand's central government introduces stringent policies and tax increases to fund mitigation and transition efforts whilst simultaneously dealing with the impacts of ongoing climate-related events that are exacerbated by a lack of action in the 2020s.

High climate-related operating costs and central government policies mean councils need to make significant rate increases, putting pressure on their rating base. Climate-related inflation ramps up from 2030, negatively impacting the cost of living and exacerbating rates affordability.

Overall, there is a delay in action globally and the acute and chronic physical impacts of climate change cannot be prevented.

SCENARIO 3: CURRENT POLICIES (3 DEGREES CELSIUS SCENARIO)

Reference scenarios (including emissions reduction pathways)

SSP3- Regional Rivalry – A Rocky Road

NGFS- Current Policies

CCC- Current Policy Reference

RCP- 7.0

SPANZ- Unspecific Pacific

Key assumptions

Policy reaction: Current policies remain

Technology change: Slow

Carbon sequestration: Remains at current levels

Physical risks: Extreme

Transition risks: Low

In a hothouse world, it is assumed that only current policies continue, resulting in physical risk, including irreversible impacts. The impacts in New Zealand are significant and globally range from significant to severe.

From now until 2050, physical risk leads to an increasing severity of acute extreme weather events, accompanied by rising sea levels. Droughts increase in severity and duration, and extreme weather events that lead to increased flooding and slips occur frequently, significantly impacting daily life for communities and businesses.

Global economic development is slow and declining in the Pacific region. Global disruption means central government is not able to support disaster recovery, leading to a significant increase in debt requirements for councils.

Emissions continue to grow out to 2050 leading to severe physical risks and irreversible changes like higher sea level rise.

The full scenario narratives can be found in [Appendix B](#).

Ōmōkihi South Library and Customer Service Hub rebuild. Christchurch City Council



Climate-related risks, opportunities and anticipated impacts

CLIMATE-RELATED RISKS AND ANTICIPATED IMPACTS

During 2025/26, we carried out an assessment of our climate-related risks to understand our most material risks. Our most material climate-related risks and opportunities, and anticipated impacts are listed below.

Risk	Risk description	Physical/ transition	Time horizon	Driver	Anticipated impacts
A reduction in LGFA security quality leads to LGFA credit downgrade.	Deteriorating local government sector finances impair LGFA security quality, increasing risk of LGFA credit downgrade.	Transition	Short-medium term	Financial	<ul style="list-style-type: none"> Negative stakeholder perceptions of LGFA Reduced investor confidence Higher lending margins
Change in member base driven by climate change impacting members differently.	<p>Changes across regions in the makeup of council constituents could alter the relative size and credit quality of LGFA members, with some members experiencing financial distress as their rateable base reduces. LGFA may not have the mechanisms in place to adapt and respond to changes in its member base.</p> <p>LGFA's co-operative model comes under pressure as some councils may be in a stronger financial position, be better prepared for climate change, or have undertaken more investment in adaptation.</p>	Transition	Medium-long term	Social	<ul style="list-style-type: none"> Increase in counterparty risk Reduction in member base
Increasing pressure from councils for LGFA to reduce lending margins in response to climate change.	Councils faced with increased pressure to fund climate-related activities may lobby for reduced lending margins. Alternative lenders may be able to capitalise through lower cost funding.	Transition	Medium term	Market	<ul style="list-style-type: none"> Decrease in market share Decrease in operating income
Increased pressure from central government on LGFA to allow councils to take on high levels of debt due to increasing climate-related costs could lead to credit rating downgrades of councils and LGFA.	As councils face increased costs associated with proactive and reactive responses to climate change, central government may put pressure on LGFA to ease financial covenants to allow councils to take on higher levels of debt, which could lead to a credit rating downgrade.	Transition	Short-medium term	Policy	<ul style="list-style-type: none"> Credit rating risk Negative stakeholder perceptions of LGFA Increase in counterparty risk
Increased counterparty credit risk due to increased spend on climate-related activities by councils.	Councils' borrowing requirements increase due to proactive mitigation and adaptation activities driven by central government policy change, increasing counterparty risk to LGFA.	Transition	Short-medium term	Policy	Increase in counterparty credit risk

Risk	Risk description	Physical/ transition	Time horizon	Driver	Anticipated impacts
Council borrowing requirements become more volatile as the impacts of climate change increase.	Council borrowing requirements become more volatile as the impacts of climate change increase, necessitating both proactive and reactive responses from councils. Increasing volatility compromises LGFA's forecasting ability and places pressure on the liquid asset portfolio's (LAP) ability to fund increased on-demand borrowing.	Physical	Medium-long term	Extreme weather events	<ul style="list-style-type: none"> Higher holding of liquid assets required Increase in funding risk
Insurance withdrawal from councils due to climate change.	Insurance companies withdraw insurance from councils due to climate change, which raises credit spreads on LGFA bonds and increases LGFA's cost of borrowing.	Transition	Medium-long term	Financial	<ul style="list-style-type: none"> Increase in financing costs Lower operating profit Reduced investor confidence Higher lending margins for members

CLIMATE-RELATED OPPORTUNITIES AND ANTICIPATED IMPACTS

Opportunity description	Physical/ transition	Time horizon	Climate driver	Anticipated impacts
Enhancing our sustainability lending products. Increased local government sector climate-related projects may lead to higher utilisation of LGFA's sustainable lending programmes.	Transition	Short-medium term	Financial	<ul style="list-style-type: none"> Improved reputation in sustainable finance Access to wider pool of investors as a larger asset pool enables more frequent issuance of LGFA Sustainable Financing Bonds (SFBs).
Expanding our sustainable finance programme. Opportunity to develop new sustainable lending products that support local government sector investments in climate solutions, enabling LGFA to issue new ESG-aligned bonds.	Transition	Short-medium term	Financial	<ul style="list-style-type: none"> New sustainable lending products enable issuance of new ESG-aligned bonds, broadening access to a wider pool of investors Positive reputational impacts
Population migration leads to increased borrowing requirements. Population migration, within New Zealand and from overseas, generates new infrastructure requirements leading to an increase in council borrowing through LGFA.	Transition	Medium-long term	Social	Increase in revenue
Climate-related products. Assisting the sector to manage its climate-related risks by considering new products such as insurance or catastrophe bonds.	Physical	Medium term	Extreme weather events	Increase in revenue

HOW CLIMATE-RELATED RISKS AND OPPORTUNITIES SERVE AS AN INPUT INTO INTERNAL CAPITAL DEPLOYMENT AND FUNDING DECISION-MAKING PROCESSES

LGFA has established three sustainable lending programmes that are available to LGFA member councils, CCOs and Water CCOs (Borrowers), and issues Sustainable Financing Bonds that are notionally allocated to these loans.

Our ongoing work to expand our sustainable lending offerings and advance Sustainable Financing Bonds enables LGFA to realise climate-related opportunities and support Borrowers to finance projects that help manage their own climate-related risks.

At this stage, climate-related risks and opportunities do not serve as a direct input into any other internal capital deployment or funding decision-making processes.

Anticipated financial impacts

LGFA has elected to use Adoption provision 2: Anticipated financial impacts in 2025/26 (its third year of reporting), which means that we are not required to disclose the anticipated financial impacts of climate-related risks and opportunities reasonably expected, the time horizons over which those anticipated financial impacts could reasonably be expected to occur and any explanations as to why quantitative information cannot be disclosed.

Transition plan aspects of strategy

DESCRIPTION OF BUSINESS MODEL AND STRATEGY

LGFA is a CCO operating under the Local Government Act 2002 and our activities are governed by the Local Government Borrowing Act 2011, the Local Government Act 2002, and the Companies Act 1993. LGFA is also an FMC reporting entity under the Financial Markets Conduct Act 2013.

Our primary strategic objective is to optimise the terms and conditions of the debt funding we provide to our members.

We raise debt through a range of funding programmes, including NZD retail bonds, which are listed on the NZX, and various foreign currency debt and note programmes. The proceeds from debt issuance are then on-lent to local authorities, with LGFA's obligations in respect of its securities guaranteed by participating local authorities.

LGFA shareholders comprise the New Zealand Government (20%) and 30 councils (80%). The LGFA Shareholders' Council comprises five to ten appointees from the shareholders with its primary role being to review and report performance of LGFA and the Board.

Our Statement of Intent (SOI) sets out the nature and scope of our activities, objectives, and performance targets for a three-year period.

TRANSITION PLAN ASPECTS OF STRATEGY

Over the 2025/26 financial year, we began the development of our transition plan. The working group set up to update our climate change scenarios in 2024/25 reconvened to undertake transition planning. The group workshopped how LGFA will continue to deliver on its purpose and strategy under different climate change scenarios, and what might need to change in response to the challenges that each scenario presents. Specifically, how well is LGFA set up for success in an uncertain future impacted by climate change, and what might need to change to ensure LGFA is prepared and resilient. We explored these aspects in the context of LGFA's business strategy, sustainability strategy, and climate-related risks and opportunities.

The outputs of this workshop were summarised and presented to the Board for feedback and input.

Key insights from the transition planning process include:

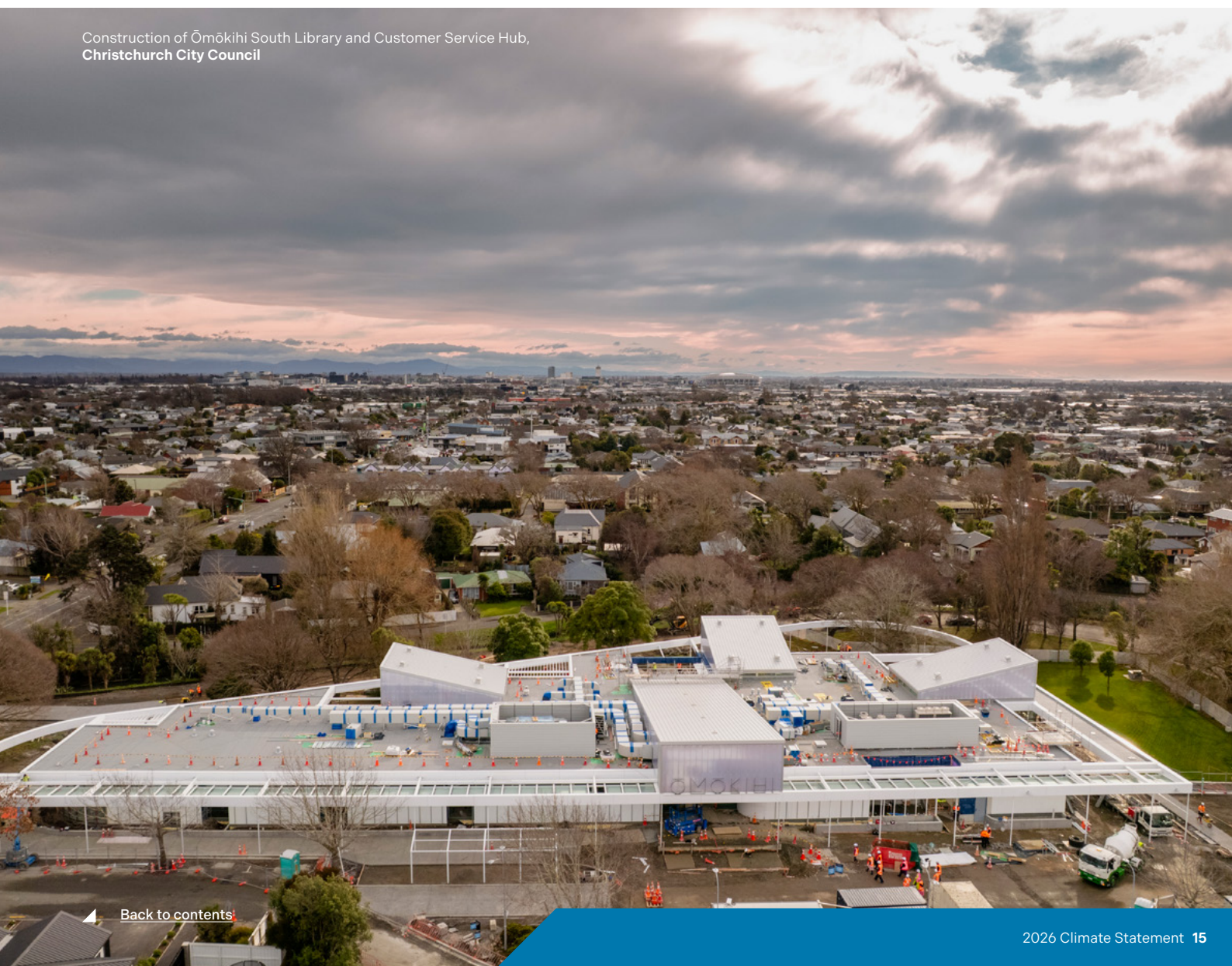
- LGFA already has a range of activities in place that support its transition toward a low emission, climate resilient future. These include its sustainable finance lending programmes, Sustainability Committee, and support for sector initiatives such as the development of the Local Government Sector Climate Change Scenarios. These activities should be maintained and continue to evolve over time.
- Improved data, effective stakeholder management, and stronger internal capability across all staff is fundamental to managing LGFA's broad range of climate-related risks.
- A range of non-climate drivers will influence LGFA's transition, so our response will need to remain dynamic and adaptable.
- Further work is required to understand how insurance retreat and climate adaptation may affect LGFA.
- LGFA's approach to reducing financed emissions will focus on education, encouraging and incentivising best practice, and lifting the viability of our sustainable lending programmes.
- The process identified a number of potential actions that may be required if specific climate-related triggers occur.

Our transition plan will be presented to the Board for approval during the 2026/27 financial year.

HOW OUR TRANSITION PLAN IS ALIGNED WITH CAPITAL DEPLOYMENT AND FUNDING DECISION-MAKING PROCESSES

LGFA's transition plan is still in development, therefore we are unable to disclose how this plan aligns with capital deployment and funding decision-making processes. This will be considered as part of our transition plan development.

Construction of Ōmōkihi South Library and Customer Service Hub,
Christchurch City Council



Risk Management

Processes for identifying, assessing and managing climate-related risks

In June 2026, LGFA’s Board approved the LGFA Climate Risk Management Framework. This framework sets out our processes for identifying, assessing and managing climate-related risks.

TOOLS AND METHODS USED

Scenario analysis remains the primary tool used to identify our climate-related risks. Key stakeholders from across LGFA have participated in the identification and assessment of our climate-related risks. Given the majority of our climate-related risks are transition risks and are crosscutting with our existing business risks, **stakeholder engagement** is one of the most important methods used in our climate risk management processes.

To date, stakeholder engagement has primarily been with internal stakeholders. With most of our risks derived from our role as a financier to the local government sector, external stakeholder engagement will be carried out during the next financial year with the primary purpose of gaining a deeper understanding of how LGFA may be directly or indirectly exposed to the local government sector’s climate-related risks and opportunities.

The method used to assess our climate-related risks has been informed by the Intergovernmental Panel on Climate Change (IPCC) conceptual risk framework, the ISO 31000 – Risk Management Guidelines (ISO31000:2018), and the Ministry for the Environment’s approach in the [National Climate Change Risk Assessment for New Zealand – Method Report 2020](#).

We have assessed our climate-related risks using a vulnerability x consequence matrix. LGFA has limited direct exposure to the physical impacts of climate change, so we have used sensitivity and adaptive capacity in the assessment of vulnerability.

- **Sensitivity** is the degree to which a system is affected, either adversely or beneficially, by climate change. The effect may be direct (e.g., a change in crop yield in response to a change in the mean, range or variability of temperature) or indirect (e.g., damages caused by an increase in the frequency of coastal flooding due to sea level rise).
- **Adaptive capacity** is the potential or ability of a system, region, or community to adapt to the effects or impacts of climate change.

TIME HORIZONS

The time horizons used to identify and assess our climate-related risks and opportunities are:

Short term	Present – FY28	Aligns with the three-year planning cycle for LGFA’s Statement of Intent.
Medium term	FY29 – FY34	Aligns with the local government sector’s long-term planning horizon.
Long term	FY35 – FY50	Aligns with international emission reduction targets under the Paris Agreement.

VALUE CHAIN

All elements of our value chain have been included in the identification and assessment of climate-related risks and opportunities.

FREQUENCY OF ASSESSMENT

In accordance with our Climate Risk Management Framework, we will carry out scenario analysis, and complete a review of our climate change scenarios every two years. LGFA last completed scenario analysis during the 2024/25 financial year.

Our climate risk ratings will be reviewed quarterly, with a full assessment undertaken annually.

PROCESSES FOR PRIORITISING CLIMATE-RELATED RISKS RELATIVE TO OTHER TYPES OF RISKS

The Senior Manager Sustainable Finance is responsible for maintaining LGFA's Climate Risk Management Framework (CRMF), supported by the Senior Manager Risk and Compliance, who assists to ensure the CRMF remains aligned with LGFA's Risk Management Policy and Framework. This includes maintaining consistency in the consequence scales and risk register methodology used across both frameworks.

Three of our fifteen climate-related risks are standalone risks, while the remaining twelve cut across with existing business risks, with climate change acting as an exacerbating factor. Understanding and managing the interdependencies between our climate-related and business risks is therefore critical. As our climate risk management processes continue to evolve, we will explore further methods to better understand and manage these interdependencies.

How LGFA's processes for identifying, assessing, and managing climate-related risks are integrated into our overarching risk management processes

LGFA's CRMF is an extension of LGFA's Risk Management Policy and Framework. The CRMF sets out the detailed processes for identifying and managing our climate-related risks.

Similar processes are followed for reporting climate-related and business risks to the Chief Executive and Board. However, given the nature of climate-related risks, they are updated and reported to the Board less frequently than business risks. LGFA's business risk appetite also applies to climate-related risks.

Because most of our climate-related risks are cross-cutting with our business risks, they are subject to similar controls and mitigation processes. The Senior Manager Sustainable Finance is responsible for ensuring appropriate controls and mitigation processes are in place for climate-related risks. Senior management remains responsible for controls and mitigation processes that apply to our business risks and also apply to our climate-related risks. Independent review and challenge are provided by the Risk and Compliance and Internal Audit functions.

Parakiore Recreation and Sports Centre, Christchurch City Council



Metrics and Targets

Greenhouse gas emissions

LGFA's operational greenhouse gas (GHG) emissions are disclosed below. Our operational GHG emissions are not material in absolute terms but are reported for purposes of transparency.

GHG Scope (tCO ₂ e)	Base year 2018/19	2023/24	2024/25	2025/26
Scope 1	0	0	0	0
Scope 2	2.44	2.26	1.21	1.13
Scope 3 (excluding financed emissions)	135.49	40.8	54.56	69.68
1. Purchased goods and services	0.01	0.04	0.08	0.08
3. Fuel and energy related activities	0.25	0.17	0.09	0.08
5. Waste generated in operations	0.12	0.12	0.10	0.17
6. Business travel	135.11	40.47	54.28	69.35
Total direct emissions	0	0	0	0
Total indirect emissions	137.93	43.06	55.77	70.81
Total gross emissions	137.93	43.06	55.77	70.81

MEASUREMENT STANDARD, CONSOLIDATION APPROACH, EMISSION FACTORS AND GWP RATES

Our GHG emissions (excluding financed emissions) inventory has been measured in accordance with the requirements of the GHG Protocol Corporate Accounting and Reporting Standard (revised edition).

Organisational boundaries were set with reference to the methodology described in the GHG Protocol and ISO 14064-1:2018 standard. An operational control consolidation approach has been used and the business units and mandatory emission sources that LGFA has operational control over have been included in our inventory.

Emissions from paper products were calculated using an emissions factor from the UK Department for Energy Security and Net Zero- Greenhouse Gas Conversion Factors for Company Reporting workbook- 2026. All other emissions were calculated using emission factors and Global Warming Potentials (GWPs) from the Ministry for the Environment 2026 emissions calculation guide. GWPs from the IPCC's Fifth Assessment Report (AR5) have also been used as a preferred approach where available. Where applicable unit conversion methods were also applied when processing activity data.

EXCLUSIONS

We have not excluded any facilities, operations or assets from our GHG inventory. All scope 1 and 2 emission sources associated with LGFA business operations have been included. Scope 3 categories were assessed and measured based on materiality. Financed emissions are excluded from this inventory and have been measured separately.

CALCULATION METHODOLOGY

The calculation methodology used for quantifying our emissions inventory is based on the following calculation approach:

GHG Emissions = activity data x GHG emission factor

We use an external SAAS system, Generate Zero Footprint, to calculate the GHG emissions inventory.

ASSUMPTIONS, LIMITATIONS AND UNCERTAINTIES

We have assumed all supplier invoices, including travel reports, are accurate. A travel calculator, supplied by Generate Zero, has been used to calculate travel distance between departure and arrival destinations. Waste generated across LGFA's two offices is minimal and has been estimated based on observed weekly waste.

FINANCED EMISSIONS

Our financed emissions methodology is guided by the Business Loans and Unlisted Equity calculation methodology from the Partnership for Carbon Accounting Financials (PCAF) Standard A to calculate greenhouse gas emissions associated with our lending activity.

Appendix A outlines our methodology, assumptions and limitations in relation to our financed emissions.

Metric Year ended	30 June 2024	30 June 2025	30 June 2026
Absolute financed emissions (tCO ₂ e)	68,314	56,901	92,887
Portfolio emissions intensity (tCO ₂ e/ \$m lent)	4.0	2.79	4.13
PCAF Data Quality Score (weighted loan value)	1.9	1.7	1.42

We commenced accumulating GHG data in 2023/24 for the 2022/23 financial year, to enable the calculation of scope 3, Category 15 financed emissions. Data was obtained from 23 (out of 77) member councils, representing roughly 69% of total borrowings, population, adjusted revenue and total assets from LGFA's overall membership. The PCAF Data Quality Score (as outlined in the table above) was 1.9 (weighted loan value basis). The number of member councils providing data increased to 39 member councils in 2024/25 (for data as at 30 June 2024) with coverage increasing to roughly 83% and the PCAF Data Quality Score improving to 1.7. Over the past twelve months a further 16 member councils have provided GHG data, taking the total for 2025/26 to 55 member councils (data as at 30 June 2025) with coverage increasing to roughly 93% and the PCAF Data Quality Score further improving to 1.42.

Metrics

GHG EMISSIONS INTENSITY

Emissions intensity is measured on a full-time equivalent (FTE) basis, as shown below:

Emissions intensity	2018/19 (Base year)	2023/24	2024/25	2025/26
FTE – New Zealand Local Government Funding Agency (gross tCO ₂ e / FTE)	10.61	2.69	2.79	3.20

Despite an increase in LGFA's FTE count, LGFA's emission intensity has increased due to an increase in business travel.

PERCENTAGE OF ASSETS AND BUSINESS ACTIVITIES EXPOSED TO CLIMATE-RELATED RISKS AND OPPORTUNITIES

During the 12 months ending 30 June 2026, LGFA had the following liabilities specifically aligned with climate-related opportunities:

- Three Sustainable Financing Bonds with a total amount on issue being \$4.61 billion (\$3.26 billion 2024/25)

During the 12 months ending 30 June 2026, LGFA had the following assets specifically aligned with climate-related opportunities:

- \$4.68 billion under the CAL lending programme (\$3.67 billion 2024/25).
- \$614.9 million under the GS lending programme (\$454 million 2024/25)

GS loans and CALs accounted for 30% of total LGFA lending during 2025/26.

CAPITAL DEPLOYMENT, INTERNAL EMISSIONS PRICE AND REMUNERATION

Opex spend was allocated to develop our Sustainable Water Action Loan Lending Programme during 2025/26. This spend was immaterial, however, the development of this programme is material to realising our climate-related opportunity of expanding our sustainable finance programme.

We do not use an internal emissions price, and this is unchanged from 2024/25.

Management remuneration is not specifically linked to climate-related risks and opportunities. This is unchanged from 2024/25.

We track the number of members measuring their GHG emissions. As at 30 June 2026, 55 members were measuring their scope 1 and 2 GHG emissions, at a minimum. This is an increase of 16 from 39 in 2024/25.

Other than the metrics and targets outlined in this Climate Statement, we do not use any industry-based metrics or KPIs to manage our climate-related risks and opportunities.

Targets

In 2021, LGFA set a target of cutting per employee operational emissions (scopes 1 and 2, and operational scope 3) by 30% by 2030, compared with a 2018/19 base year. This is an intensity target and does not have any interim targets. While this target does not rely on offsets, LGFA does purchase offsets as part of our Toitū Net Carbon Zero certification. Performance against this target can be found on [page 19](#).

The following performance targets relating to LGFA's environmental and social responsibility are set out in our Statement of Intent (SOI) for 2025–2028. All targets were achieved during FY26, except the target relating to the number of new borrowers entering into CALs, with one CAL entered into during the year.

Performance targets	2025-2026 target
Health and Safety	No notifiable incidents.
Maintain Toitū Carbon Zero certification	Carbon-zero certification maintained.
Meet reduction targets outlined in our carbon reduction management plan.	< 8.7 tCO ₂ e annual per person GHG emissions.
Increase our GSS lending book and Climate Action Loans	Two new GSS loans undertaken. Two new borrowers enter into CALs.
Develop a sustainable financing option for the water sector	New sustainable financing option is available to water entities.
Enhance our insight into climate-related risks through council lending	Climate change is incorporated into LGFA's credit risk assessments.
Assess required governance skills for LGFA's climate-related risks and opportunities.	Develop a director skills matrix.

As our transition plan is developed, appropriate targets will be identified to inform the management of our climate-related risks and opportunities.

Glossary

Adaptation	Adjustment in natural or human systems in response to actual or expected climatic stimuli or their effects, which moderates harm or exploits beneficial opportunities.
Climate change commission (CCC)	An independent Crown entity that advises the New Zealand Government on climate change policy within the framework of the Climate Change Response Amendment Act. The CCC developed four future scenarios, as part of its 2021 advice to the New Zealand government, on how NZ's 2050 emissions target could be met. The scenarios can be found in Chapter 12: Long-term scenarios to meet the 2050 target.
Climate resilience	The ability of a system and its component parts to anticipate, absorb, accommodate or recover from the effects of a hazardous event in a timely and efficient manner. This includes ensuring the preservation, restoration or improvement of its essential basic structures and functions.
Greenhouse gas emissions (GHG)	Gases emitted to the atmosphere which contribute to the GHG effect where more than the normal amount of atmospheric heat is retained in the atmosphere.
Mitigation	The action of reducing the severity, harm and seriousness of climate change through emissions reduction.
Net zero	A state in which greenhouse gas emissions going into the atmosphere can be absorbed and durably stored by nature and other carbon dioxide removal measures, leaving zero emissions in the atmosphere.
Network for Greening the Financial System (NGFS)	A network of central banks and financial supervisors that aims to help strengthen the global response required to meet the goals of the Paris agreement and to enhance the role of the financial system to manage risks and to mobilise mainstream finance in the context of environmentally sustainable development. The NGFS climate scenarios can be accessed via the NGFS Scenarios Portal.
Paris agreement	The Paris Agreement is a legally binding international treaty on climate change, adopted by 196 Parties at the UN Climate Change Conference (COP21) in Paris, France, on 12 December 2015. Its overarching goal is to hold "the increase in the global average temperature to well below 2°C above pre-industrial levels" and pursue efforts "to limit the temperature increase to 1.5°C above pre-industrial levels."
Reference scenario	A projection of possible future outcomes based on a certain set of climate and social parameters.
Representative Concentration Pathways (RCP)	Five standard trajectories that represent possible future socioeconomic development for global or regional societies. The relevant data source for the RCP's is the IPCC's sixth assessment report on climate change.
Shared Socioeconomic Pathways (SSP)	Five standard trajectories that represent possible future socioeconomic development for global or regional societies. The relevant data source for the SSP's is the IPCC's sixth assessment report on climate change.
Shared Policy Assumptions for New Zealand (SPANZ)	National-scale socio-economic scenarios developed for New Zealand that are nested within IPCC SSPs and RCPs. They describe potential mitigation and adaptation policies specific to New Zealand, enabling divergence of New Zealand-specific futures from assumed trends in the global SSPs.
Scope 1 GHG emissions	Direct emissions from sources owned or controlled by an entity.
Scope 2 GHG emissions	Indirect emissions from the generation of purchased energy that an entity uses.
Scope 3 GHG emissions	Other indirect emissions occurring because of the activities of an entity but generated from sources it does not own or control.
Toitū Net CarbonZero Certification	A programme verified by Toitū Envirocare that involves annual greenhouse gas emissions measurement to international standard ISO 14064-1 and a commitment to manage, reduce and offset impacts to achieve a neutral balance.

Appendix A: Financed emissions methodology

Purpose

This document outlines the methodology that LGFA has adopted to measure and report the emissions profile of our loans to members, being New Zealand local government councils and CCOs.

Modified PCAF Calculation Methodology

LGFA's methodology and calculations are based on the guidance from the Partnership for Carbon Accounting Financials (PCAF) which defines how financial institutions should account for their scope 3 category 15 Investments emissions – also known as financed emissions.

LGFA calculates financed emissions for our asset class: Loans to councils and CCOs. Loans comprise short term loans and long term loans. Long term loans comprise general lending, CALs and GS Loans. As at 30 June 2026, loans totalled \$24.130 billion.

LGFA does not calculate financed emissions for our liquid asset portfolio (LAP) as these assets are held on a short term basis to support our liquidity requirements. As at 30 June 2026, LAP assets totalled \$3.923 billion.

Cash deposits and cash equivalents and cash pledged as collateral are excluded from our financed emissions.

LGFA has determined the PCAF asset class for business loans most closely aligns with the characteristics of our loans to members:

Business loans include all on-balance sheet loans and lines of credit to businesses, nonprofits, and any other structure of organization that are not traded on a market and are for general corporate purposes, i.e., with unknown use of proceeds as defined by the GHG Protocol. [PCAF (2022). The Global GHG Accounting and Reporting Standard Part A: Financed Emissions. Second Edition].

PCAF's Global GHG Accounting and Reporting Standard includes a methodology for sub-sovereign debt. Following a review of the methodology, LGFA determined that its application would not appropriately reflect the nature of LGFA's lending exposures or the characteristics of New Zealand local government borrowers. LGFA considers that a modified business loans methodology produces a more accurate and decision-useful measure of financed emissions by attributing emissions to the underlying borrowing entities rather than relying on a territorial emissions approach. Accordingly, LGFA has elected to continue applying a modified business loans methodology for loans to members.

Te Marua Twins Lakes, Tiaki Wai Ltd

The following table outlines how LGFA has modified the PCAF Business loans asset class and calculation methodology for calculating our financed emissions for loans to members.

PCAF Option	Option 1a Verified GHG emissions data from the company	Option 1b Unverified GHG emissions data from the company	Option 3a GHG emissions per sector/ company
PCAF calculation	$\frac{\text{Outstanding Amount (c)}}{\text{Total Equity + debt (c)}} \times \text{Verified company emissions}$ <p>Where: c = borrower or investee company</p>	$\frac{\text{Outstanding Amount (c)}}{\text{Total Equity + debt (c)}} \times \text{Unverified company emissions}$ <p>Where: c = borrower or investee company</p>	$\frac{\text{Outstanding Amount (c)}}{\text{EVIC (c)}} \times \text{Revenue (c)} \times \text{GHG emissions (s) / Revenue (s)}$ <p>Where: c = borrower or investee company s = Sector</p>
LGFA calculation	$\frac{\text{Outstanding Loan Value (c)}}{\text{Total Assets (c)}} \times \text{Verified Council emissions (c)}$ <p>Where: (c) = Council</p>	$\frac{\text{Outstanding Loan Value (c)}}{\text{Total Assets (c)}} \times \text{Unverified Council emissions (c)}$ <p>Where: (c) = Council</p>	$\frac{\text{Outstanding Loan Value (c)}}{\text{Total Assets (c)}} \times \text{Council adjusted revenue (c)} \times \text{average Council intensity (tCO}_2\text{e/$ adjusted revenue) (s)}$ <p>Where: (c) = Council (s) = Sector</p>
Data match requirements	Council has disclosed GHG emissions and has undergone third-party assurance	Council has disclosed GHG emissions but has not undergone third-party assurance	
Expected Data Quality Score	1	2	4

Emission scopes covered

GHG emissions data comprises borrowers' scope 1 and scope 2 emissions. In line with PCAF methodology, borrowers' scope 3 emissions are excluded from our financed emissions calculations as these are often difficult to measure accurately and can result in inconsistent or unreliable data.

Calculation of sector-based emissions (Option 3a)

This section provides information on our methodology for councils without published emissions data.

EMISSIONS DATA

Where actual GHG emissions data is not available for a borrower, the emissions have been estimated using PCAF Methodology Option 3a.

For councils that do not disclose emissions data, an emission factor is estimated representing the average emissions profile of a typical council. This average sector-based emission factor is calculated by determining the emissions intensity (tCO₂e per \$ of adjusted revenue) across all councils with published scope 1 and 2 emissions. This average emissions intensity is applied to the revenue of councils without reported emissions to estimate their emissions.

REVENUE

For revenue, 'Adjusted Revenue' is calculated in the attribution factor of GHG emissions.

Adjusted Revenue excludes two key items from a council's revenue:

1. *Non-government capital contributions*, which include development contributions and any donations (e.g. a Trust for a community project). These are excluded as they are deemed to be non-re-occurring.
2. *Non-cash flow items*, which include vested assets, found assets, revaluation of derivatives and any revaluation of assets (including revaluation of investment property, forestry and investment portfolios). In addition, any funding revenue received from the Infrastructure Funding and Financing model cannot be included as the debt associated with this is also not included.

PCAF Data Quality Score

A PCAF score is applied to each record depending on match outcome based on the emissions data is for that borrower (i.e. option 1a, 2a, 3a).

In accordance with PCAF guidelines, a data quality score reflects the reliability of emissions data used in financed emissions calculations. LGFA report a weighted average data quality score by outstanding amount, which indicates the level of estimation or data accuracy across our portfolio.

Order of prioritisation	Type of record match	Expected Data Quality Score
1	Verified GHG emissions data from the Council	1
2	Unverified GHG emissions data from the Council	2
3	Data estimated based on average emissions intensity for those councils where emissions are known (excluding outliers)	4

Calculation methodology limitations and uncertainties

Emissions data and financial statements for councils are not readily available for the current reporting period. Where actual emissions or financial statements are not yet published, the most recent available year is used, which may not align with the financial exposure period.

Assumptions and limitations in the source data used are detailed in the data sources table below.

Consolidation Approach

As a financial institution, LGFA does not exercise operational control over its members or the assets financed. Therefore, emissions from these activities are not included in LGFA's scope 1 or 2 emissions. In line with the GHG Protocol and PCAF guidance, LGFA reports these emissions under scope 3, Category 15 (Investments), which captures the greenhouse gas emissions associated with its lending and investment activities.

When reporting scope 3, Category 15 emissions using PCAF, LGFA attributes emissions from borrowers based on their operational control, which aligns with the GHG Protocol's consolidation approach and ensures consistency in how financed emissions are measured and reported. This requirement allows for consistent reporting of financed emissions under the GHG Protocol Standard category of scope 3, Category 15.

Attribution factor

The attribution factor defines the proportion of total emissions that is allocated to LGFA.

LGFA has adopted a modified attribution factor due to the unavailability of council asset values at the time of loan origination. Instead, the current total asset value of each council is used, as it is the only data available at the time of reporting. The attribution factor is calculated as follows:

General Lending

Attribution factor = Outstanding Loan Value / Total Assets

Timing of applying data and cutoff

Reporting Entities should aim to report emissions as close to the reporting period as possible. There are limitations, however, including:

- Entities own loans portfolios having not reported their emissions in the most recent year
- The reporting entity's cycle may not overlap with client Councils

Council emissions data was prioritised in the following order:

1. Verified or unverified reported emissions for the immediate year prior to reporting
2. Verified or unverified reported emissions for two-years prior to reporting
3. Verified or unverified reported emissions dating back as far as 2019

Procured financials should ideally be from the same year as the reported emissions. However, in some cases Revenue for the current financial year is not yet available. Where revenue does not yet exist for the current reporting year, but emissions do exist, the revenue value from the prior reported year is used. The impact of this is that the ratio of emissions to financials may shift significantly if a Council has seen significant growth or decline in their total revenue.

Data sources

Outstanding Loan Amount	Description	<ul style="list-style-type: none">• The outstanding loan value excludes undrawn amounts.• Council Controlled Organisations (CCO's) have been aggregated into a master council as loan data for these councils is only available in a combined view.
	Source	LGFA
	Units	NZ\$
	References	N/A
	Assumptions & Uncertainties	None.

Total Assets	Description	Total assets per entity balance sheet
	Source	Council/CCO financial statements
	Units	NZ\$
	References	N/A
	Assumptions & Uncertainties	<ul style="list-style-type: none">• Total assets were used instead of Total Equity + Debt as the closest available alternative• Total assets for the current reporting are not always available, therefore the most recent published total asset is used instead. This results in a timing misalignment between the activities of the reporting period and the calculated emissions.

Adjusted Revenue	Description	Revenue excluding non-government capital contributions and any non-cash flow items.
	Source	Council/CCO financial statements
	Units	NZ\$
	References	N/A
	Assumptions & Uncertainties	<ul style="list-style-type: none"> • Council revenue for the current reporting is not always available, therefore the most recent published reported revenue is used instead. This results in a timing misalignment between the activities of the reporting period and the calculated emissions. • Any funding revenue received from the Infrastructure Funding and Financing model is excluded as the associated debt is separate to LGFA financing.

Verified / Unverified Council emissions	Description	Total scope 1 and 2 emissions reported by the Council
	Source	Client sources from Councils and provides these fields
	Units	tCO ₂ e
	References	N/A
	Assumptions & Uncertainties	<ul style="list-style-type: none"> • Only scope 1 & 2 emissions data is included in the PCAF calculation methodology Option 1a, and Option 1b. • Location-based emissions are prioritised for scope 2 over market-based emissions. However, market-based are used if it is the only data available. • Verified emissions have been used without additional review on the assurance level associated with the GHG inventory. While the data may be verified, it may not guarantee a high quality of data and may only be to a limited level of assurance • Unverified emissions have not been independently reviewed which increases the chances of data errors and uncertainty in the dataset. • Council emissions data is based on the most recent report available at the time of LGFA reporting. The climate reporting periods may not align between council emissions data and LGFA disclosure reporting timeline. • Reported financed emissions exclude removals as they are not currently funded by LGFA. This approach also aligns with PCAF methodology. • The emissions data used are measured using a combination of ISO 14064-1 and the GHG Protocol Standard.

GHG emissions per sector	Description	Sector-based emission factor derived by calculating the emissions intensity (tCO ₂ e/\$ adjusted revenue) of each council that had measured their actual scope 1 and 2 emissions.
	Source	Calculated
	Units	tCO ₂ e
	References	N/A
	Assumptions & Uncertainties	<ul style="list-style-type: none"> • There are significant assumptions and uncertainty associated with the sector-based emission factor used. The limitations of this factor may include, but not be limited to, a bias towards larger Councils with a certain scale, assets, carbon-intensity and revenue. There is significant uncertainty in applying this average factor to individual Councils. • There will be significant differences in activities and therefore scope 1 emissions between Councils (landfills, WWTP etc), particularly between city and regional Councils. These have not been separated. • The low sample size of councils with reported scope 1 & 2 emissions could cause skews in average values. • The consolidation approach (e.g. operational control or equity share) is not distinguished when calculating this factor.



Appendix B: Climate change scenario narratives

Scenario 1: Net Zero 2050 (1.5 degrees Celsius scenario)

Collective action is being taken to reduce greenhouse gas emissions globally. The worst predicted impacts of climate change are prevented under this scenario, however, long-term chronic impacts from historic greenhouse gas emissions still occur. A coordinated global effort is factored into trade deals with countries putting high expectations on others to meet ambitious climate goals.

Stringent policies are introduced by central government from 2025 and become gradually more stringent to influence the technological and behavioural changes needed to reach net zero emissions by 2050. The main driver for emission reductions globally is a shift to cheaper renewable energy options. The carbon price is increased significantly to incentivise the transition away from carbon-intensive production, which leads to higher prices in fossil-fuel-intensive and high-carbon industries, resulting in a negative short-term impact on New Zealand's economic growth. Climate-related inflation is present due to immediate policy action put in place by central government. Immediate action results in long-term cost savings for New Zealand, and prices level out as the country moves closer to the middle of the century.

Central government incentives put an emphasis on technological advancement, low carbon transport solutions and waste minimisation. The government also invests in education and health to help ease the human impact of the transition to net zero, meaning more people have the skills to support a low carbon economy. As a result of government interventions, consumption is oriented toward low material growth and lower resource and energy intensity by 2050.

Central government policies require local government to support their communities to reduce emissions and coordinate managed retreats in coastal locations where rising sea levels and associated flooding and erosion cannot be prevented. As part of adaptation efforts, councils prioritise land use for green spaces and protecting natural resources, and purchase large areas of land exposed to flooding, to support carbon sequestration efforts. Central government and councils work together to ensure urban growth is centred around low carbon, resilient developments that enhance blue and green spaces. Although government support is present, there is still a lot of pressure on local government to reprioritise spend towards mitigation and adaptation activities.

Investors view New Zealand's response positively, but the level of investment required at a national and regional level to transition to net zero makes investors cautious.

Globally, investor appetite for ESG aligned financial products has increased significantly and the demand is met by New Zealand issuers who are investing in the transition to net zero. With increasing investor appetite comes more stringent ESG disclosure requirements and reporting standards which puts pressure on issuers. As investors focus shifts to ESG products, divestment away from fossil fuels has a disruptive impact on financial markets leading to stranded assets.

Despite the disruption from immediate policy action, the world achieves global net zero emissions around 2050.

Scenario 2: Fragmented world (2 degrees Celsius scenario)

In the fragmented world scenario, the transition to net zero is misaligned between different parts of the world. Extreme weather events become more frequent and increase in severity as 2050 approaches. Periods of drought become more frequent, and seasons become more unpredictable.

Policy and technology change is delayed and fragmented between New Zealand and the rest of the world. Some countries have introduced policies that have spurred their transition to net zero, while others maintain a focus on fossil-fuelled development. By 2030, countries that have focused on fossil-fuel development shift to net zero-aligned policies after experiencing five years of significant climate-related events and associated disruption. These countries are exposed to more severe transition risks, slowing economic growth as a higher carbon price reduces competitiveness in export markets.

From 2030, New Zealand's central government introduces stringent policies and tax increases to fund mitigation and transition efforts whilst simultaneously dealing with the impacts of ongoing climate-related events that are exacerbated by a lack of action in the 2020s.

Due to a delayed start, central government cannot provide funding at the level needed to transition to net zero.

Councils rely heavily on their role in land-use planning to enable and promote low-carbon and climate-resilient growth.

High climate-related operating costs and central government policies mean councils need to make significant rate increases, putting pressure on their rating base. Climate-related inflation ramps up from 2030, negatively impacting the cost of living and exacerbating rates affordability. For those regions that are most exposed to climate change, a combination of climate-related disruption and rate increases forces people to move elsewhere, resulting in councils being more reliant on debt to fund operations.

An increase in climate-related physical events in the 2030s leads to a decline in insurance coverage for some parts of the local government sector that are most exposed to climate change. By 2050, an increase in severe storm events combined with sea-level rise has left vulnerable coastal areas uninhabitable or uninsurable, leading to a drop in rating units captured by affected councils.

With New Zealand being one of the late movers, investors have a negative perception of the country, leading to an increase in risk premiums. With investors from early-mover countries looking to align their portfolios with ESG investments, more stringent ESG disclosure and reporting requirements are placed on issuers from late-moving countries. Although New Zealand issuers ramp up climate-related investments from the 2030s and are able to meet investor demand for ESG-aligned products, investors are more cautious and access to offshore capital markets is more costly and inefficient.

Overall, there is a delay in action globally and the acute and chronic physical impacts of climate change cannot be prevented.

Scenario 3: Current policies (3 degrees Celsius scenario)

In a hothouse world, it is assumed that only current policies are continued, resulting in severe physical risk including irreversible impacts. The impacts in New Zealand are significant and globally range from significant to severe.

From now until 2050, physical risk leads to an increasing severity of acute extreme weather events, which is accompanied by rising sea levels. Droughts increase in severity and duration, and extreme weather events that lead to increased flooding and slips, occur frequently, significantly impacting daily life for communities and businesses.

Global economic development is slow and declining in the Pacific region. Where consumption is high, it is material-intensive, which only contributes to worsening environmental degradation. The impacts of climate change have disrupted global food supply chains, leading to a global trade breakdown. Global disruption means central government is not able to support disaster recovery, leading to a significant increase in debt requirements for councils.

A continuation of existing central government policies with the same level of ambition means there are some low-emission alternatives and technology adoption, but these are limited and lose momentum towards 2050. New Zealand's focus on economic growth, albeit slow, at the expense of the natural environment, and a resource management system that has not kept up with the changing climate, has put pressure on New Zealand's natural resources and food systems. Central government investments in education and health decline over time, and inequalities persist or worsen, resulting in skills shortages and socioeconomic challenges, making councils' capacity to respond to climate-related events more challenging.

Many low-lying developing countries are inundated by sea level rise, with New Zealand experiencing an influx of climate refugees from other Pacific Islands, putting pressure on council infrastructure. Rising sea levels combined with coastal erosion that is exacerbated by extreme weather events results in many coastal areas constantly inundated. Coastal communities who can afford to, are forced to retreat inland and councils are left to continue providing services to those who remain.

An increase in acute climate events that lead to significant damage causes disruption to council services and infrastructure projects as capital is redirected towards responding to climate events. Proactive adaptation is not possible for most councils. The most impacted regions see many people displaced or voluntarily move to other regions due to continued disruption to their lives, leading to a material reduction in rating units captured for some councils. Some insurance premiums increase at first and then become unavailable in many parts of New Zealand. For those councils who aren't at risk of default, the borrowing requirements increase significantly putting pressure on lenders.

Capital markets become increasingly costly to access due to economic and geopolitical instability.

Emissions continue to grow out to 2050 leading to severe physical risks and irreversible changes like higher sea level rise.

INDEPENDENT LIMITED ASSURANCE REPORT TO THE SHAREHOLDER OF NEW ZEALAND LOCAL GOVERNMENT FUNDING AGENCY'S GHG EMISSIONS DISCLOSED IN ITS CLIMATE STATEMENT FOR THE YEAR ENDED 30 JUNE 2026

Under section 461ZH(3) of the Financial Markets Conduct Act 2013, the Auditor-General is the assurance practitioner of New Zealand Local Government Funding Agency Limited (the Company). The Auditor-General has appointed me, David Gates, using the staff and resources of KPMG New Zealand ("KPMG"), to carry out a limited assurance engagement, on his behalf, on the greenhouse gas (GHG) emissions information disclosed in the Company's Climate Statement (GHG disclosures) and additional disclosures (as described in "scope of the engagement" section below), for the year ended 30 June 2026.

Conclusion

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that the Company's GHG disclosures within the scope of our limited assurance engagement for the year ended 30 June 2026, are not fairly presented and prepared, in all material respects, in accordance with Aotearoa New Zealand Climate Standards, issued by the External Reporting Board.

Scope of the engagement

The GHG disclosures below are within the scope of our limited assurance engagement:

- The gross emissions, in metric tonnes of carbon dioxide equivalent, classified as Scope 1 and Scope 2 (location-based), on page 18.
- The statement describing the standard that the GHG emissions have been measured in accordance with, the Greenhouse Gas Protocol Corporate Accounting and Reporting Standard (revised edition), on page 18, to the extent this pertains to Scope 1 and Scope 2 (location-based) GHG emissions.
- The statement on the consolidation approach used to consolidate GHG emissions on page 18, to the extent this pertains to Scope 1 and Scope 2 (location-based) GHG emissions.
- The sources (or references to sources, where applicable) of Scope 1 and 2 (location-based) emission factors and the global warming potential rates used, on page 18.
- The summary of specific exclusions of Scope 1 and Scope 2 (location-based), emissions sources, including facilities, operations or assets with a justification for their exclusion, on page 18.
- The description of the methods and assumptions used (including the rationale for doing so, where applicable) to calculate or estimate Scope 1 and Scope 2 (location-based) GHG emissions, and the limitations of those methods, on pages 18.
- The description of any uncertainties relevant to the Company's quantification of its Scope 1 and Scope 2 (location-based) GHG emissions, including the effects of these uncertainties on GHG disclosures, on pages 19.

Other matter(s)

The comparative information for the 2018/19 GHG disclosures on page 18, has not been subject to assurance. As such, it is not covered by our assurance conclusion.

The 2023/2024 GHG disclosures on pages 18 was assured by Toitū Envirocare Limited in the firm's own capacity. Toitū Envirocare Limited expressed an unmodified report dated 3 September 2024

The 2024/2025 comparative information for the GHG disclosures on pages 18 was assured by KPMG on behalf of the Auditor-General.

The Board of Directors' responsibilities

Subparts 2 to 4 of Part 7A of the Financial Markets Conduct Act 2013 set out requirements for a climate reporting entity in preparing a climate statement, which includes proper record keeping, compliance with the climate-related disclosure framework and subjecting it to assurance.

The Aotearoa New Zealand Climate Standards have been issued by the External Reporting Board as the framework that applies for preparing and presenting a climate statement. The Board of Directors of the Company is therefore responsible for preparing and fairly presenting a climate statement for the year ended 30 June 2026, in accordance with those standards.

The Board of Directors is also responsible for the design, implementation, and maintenance of internal control relevant to preparing the climate statement that is free from material misstatement, whether due to fraud or error.

Our responsibilities

Section 461ZH of the Financial Markets Conduct Act 2013, requires the GHG disclosures included in the Company's Climate Statement to be the subject of an assurance engagement.

Aotearoa New Zealand Climate Standard 1 *Climate-related disclosures*, paragraph 25 requires such an assurance engagement at a minimum to be a limited assurance engagement, and paragraph 26 specifies the scope of the assurance engagement on GHG disclosures.

To meet this responsibility, we planned and performed procedures (as summarised below), to provide limited assurance in accordance with New Zealand Standard on Assurance Engagements 1 *Assurance Engagements over Greenhouse Gas Emissions Disclosures*, and International Standard on Assurance Engagements (New Zealand) 3410 *Assurance Engagements on Greenhouse Gas Statements*, issued by the New Zealand Auditing and Assurance Standards Board.

Summary of work performed

The procedures we performed were based on our professional judgement and included enquiries, observation of processes performed, inspection of documents, analytical procedures, evaluating the appropriateness of quantification methods and reporting policies, and agreeing or reconciling with underlying records.

Given the circumstances of the engagement, in performing the procedures listed above on the GHG disclosures and additional disclosures:

Mandatory Assurance

- We obtained, through enquiries, an understanding of the Company's control environment, processes and information systems relevant to the preparation of the Scope 1 and Scope 2 (location-based) disclosures. We did not evaluate the design of particular control activities or obtain evidence about their implementation.
- We performed analytical procedures on particular emission categories by comparing the expected GHG emissions to recorded GHG emissions and made inquiries of management to obtain explanations for any significant differences we identified.
- We have agreed a selection of emissions data to relevant underlying source documents.
- We evaluated the appropriateness of the emission factors applied.
- We evaluated the overall presentation and disclosure of the Scope 1 and Scope 2 (location-based) disclosures.

Inherent limitations

As outlined on page 4, GHG quantification is subject to inherent uncertainty because of incomplete scientific knowledge used to determine emissions factors and the values needed to combine emissions of different gases.

Other information

The Climate Statement contains information other than the GHG disclosures and the assurance report thereon. The Board of Directors is responsible for the other information.

Our assurance engagement does not extend to any other information included, or referred to, in the Climate

Statement, and therefore, no conclusion is expressed thereon. We read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the GHG disclosures, or our knowledge obtained in the assurance engagement, or otherwise appears to be materially misstated.

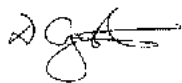
Where such an inconsistency or misstatement is identified, we are required to discuss it with the Board of Directors and take appropriate action under the circumstances, to resolve the matter. There are no inconsistencies or misstatements to report.

Independence and quality management

We complied with the Auditor-General's independence and other ethical requirements, which incorporate Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* (PES 1) as applicable for audits of public interest entities issued by the New Zealand Auditing and Assurance Standards Board. PES 1 is founded on the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. These principles for example, do not permit us to be involved in the preparation of the current year's GHG information and additional disclosures as doing so would compromise our independence.

We have also complied with the Auditor-General's quality management requirements, which incorporate the requirements of Professional and Ethical Standard 3 *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements* (PES 3) and Professional and Ethical Standard 4 *Engagement Quality Reviews* (PES 4) issued by the New Zealand Auditing and Assurance Standards Board. PES 3 requires our firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements. PES 4 deals with an engagement quality reviewer's appointment, eligibility, and responsibilities.

Other than our work in carrying out all legally required audit and assurance engagements, we have no relationship with, or interests in, the Company.



David Gates

KPMG

On behalf of the Auditor-General

Wellington, New Zealand

14 October 2026