Sustainable Water Action Loans

Lending Programme Criteria

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LGFA

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

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About this Document

The LGFA Sustainable Water Action Loans – Lending Programme Criteria document was developed to provide an overview to Water CCOs that are LGFA borrowers on how to access LGFA Sustainable Water Action Loans.

1. Introduction

1.1 Purpose of the Eligibility Criteria

New Zealand Local Government Funding Agency Limited (**LGFA**) recognises the challenges facing the New Zealand water services sector and that LGFA, as a key funding agency for the local government sector, has an important role to play in financing the delivery of safe, reliable, and sustainable drinking water, wastewater, and stormwater services.

With this Sustainable Water Action Loans – Lending Programme Criteria document (**SWALe Criteria**), LGFA is widening its sustainable finance options for Council-Controlled Organisations (**CCOs**) that are water organisations[1] and borrowers with LGFA (**Water CCOs**) by offering them the opportunity to apply for Sustainable Water Action Loans (**SWALes**). Offering SWALes aligns to LGFA's aim of displaying leadership to the sector on sustainable lending and encouraging member councils and CCOs to make progress on sustainability issues.

The SWALes will be documented as debt securities under LGFA's Multi-issuer Deed; however, we refer to these debt securities as 'SWALes' in this SWALe Criteria.

The **Eligibility Criteria** (set out in Section 3.2 and 3.3) sets out the basis upon which a Water CCO (**Borrower**) can access SWALes.

LGFA intends to review this SWALe Criteria (including the Eligibility Criteria) at least every two years, and may update the SWALe Criteria from time to time.

1.2 Introduction to SWALes

SWALes are target-based incentive lending structures designed to incentivise the relevant Borrower to improve their contribution towards the Planetary Boundaries (as described at Section 3.2).

A SWALe rewards a Borrower through a financial incentive if that Borrower fulfills the Eligibility Criteria.

SWALes are available to all Borrowers, including those who may, or may not, have eligible projects to access Green and Social loans with LGFA (**GS Loans**)[2]. However, a Borrower that has entered into Climate Action Loans (**CALs**)[3] with LGFA may not apply for, nor enter into, SWALes.

LGFA may issue Sustainability-Linked Loans financing Bonds (**SLLBs**) and has issued, and may continue to issue Sustainable Financing Bonds[4] (**SFBs**) to help fund borrowers and for LGFA's general corporate purposes (including to refinance LGFA's existing debt). The basis on which LGFA issues such SLLBs or SFBs, including in what circumstances the net proceeds of such SLLBs or SFBs are notionally allocated to SWALes, will be set out in the SFB framework, which is available on LGFA's website, and the SLLB framework, which will be made available on request.

1.3 New Zealand Water Sector Reforms

Local Water Done Well is the current Coalition Government's plan to address New Zealand's long-standing water infrastructure challenges.

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1 For this purpose, the CCO must fall within paragraph (a) or (b) of the definition of "water organisation" under the Local Government (Water Services) Act 2025.

2 GS Loans are 'use of proceeds' loans to borrowers to fund green and / or social projects, assets and activities. LGFA's Green and Social Loan – Lending Programme Criteria as at the date of this SWALe Criteria can be found at www.lgfa.co.nz/sites/default/files/2025-09/LGFA-GS-Loan-Criteria-f.pdf.

3 CALs are loans made to borrowers by LGFA that are target-based incentive lending structures. LGFA's Climate Action Loans – Programme Criteria as at the date of this SWALe Criteria can be found at www.lgfa.co.nz/sites/default/files/2026-05/climate-action-loans---lending-programme-criteria.pdf.

4 LGFA's Sustainable Finance Bonds are issued in alignment with LGFA's Sustainable Financing Bond Framework. As at the date of this SWALe Criteria, the Sustainable Financing Bond Framework is dated 17 September 2025, and can be found at www.lgfa.co.nz/sustainability/sustainable-financing-bonds.

New Zealand has a significant water infrastructure deficit and has failed to invest at the levels required to maintain and renew pipes, treatment plants and other three waters infrastructure[5]. Significant renewals are also needed to ensure New Zealand's three waters infrastructure can accommodate future population growth, given a lot of New Zealand's infrastructure was built largely between 1930 and 1970.

It recognises the importance of local decision making and flexibility for communities and councils to determine how their water services will be delivered in the future. It will do this while ensuring a strong emphasis on meeting economic, environmental and water quality regulatory requirements.

Key components of Local Water Done Well:

- Fit-for-purpose service delivery models and financing tools.
- Ensuring water services are financially sustainable.
- Introducing greater central government oversight, economic and quality regulation.

2. Application Process

2.1 Application Form

In order to be eligible to apply for a SWALe, a Borrower must first be approved by LGFA to enter into SWALes.

The application process is started by the Borrower completing the SWALe application form, which is available from the LGFA website. Supporting material must be provided to support the Borrower's application to enter into SWALes.

2.2 Process for assessing and approving SWALes

Applications will be subject to an assessment process based upon the **Eligibility Criteria** set out in Section 3.2 and 3.3.

Applications are assessed by LGFA's Management team, before being presented to the LGFA Sustainability Committee, with a final recommendation made by the Sustainability Committee to LGFA's Chief Executive for final approval.

The Sustainability Committee is a consultative body responsible for assisting the Chief Executive on all material matters in relation to sustainability within LGFA, including making recommendations to the Chief Executive on applications in relation to SWALes (as is the case with LGFA's GS Loans and CALs).

The application process may include a request for further information from the Borrower, such as information outlined in Table A – reporting requirements at commencement of the SWALe (as applicable). Borrowers are also offered the opportunity to discuss their application directly with LGFA.

Upon receipt of all relevant information from the Borrower, the process for assessing and reviewing the Borrower's application generally takes ten working days.

2.3 SWALe confirmations

Successful applicants will be notified in writing. Where an application does not satisfy the Eligibility Criteria, the Borrower can continue to apply for funding under LGFA's standard financing terms subject to normal borrowing processes, or (where it meets the relevant criteria) continue to apply for GS Loans.

5 Three waters infrastructure refers to the integrated management of drinking water, wastewater and stormwater.

2.4 Further SWALes

Following approval of the Borrower's application, the Borrower can enter into SWALes (unless the Borrower is declassified as outlined in Section 3.6). If a Borrower has multiple SWALes, then the Key Performance Indicators (**KPIs**) and Sustainability Performance Targets (**SPTs**) (as outlined in Section 3.2 below) will be consistent across all SWALes (i.e. they are not unique for each SWALe).

3. SWALe Terms and Conditions

3.1 SWALes are for general purpose funding

Unlike GS Loans, the proceeds of the SWALes are not required to be applied to a certain project and are instead able to be used by the relevant Borrower for general purpose funding.

SWALes are for long-term borrowing by Borrowers, with a minimum maturity term of three years. SWALe proceeds can be used to refinance existing LGFA borrowing (at maturity) or for new borrowing from LGFA.

Borrowers can also apply for GS Loans for eligible projects and receive LGFA's GS Loan financial incentive for those loans. However, these GS Loans would not qualify to be included as a SWALe.

3.2 Eligibility Criteria

To qualify to apply for a SWALe, the Borrower must commit to adopting and achieving targets using a science-based approach in line with the **Planetary Boundaries**.

The Planetary Boundaries are a scientific framework that defines a "safe operating space for humanity". This framework sets out the critical global environmental limits within which we need to stay to avoid irreversible and catastrophic environmental change. In addition to climate change, it incorporates forest systems, biodiversity, water use and water pollution, synthetic waste, the ozone layer, and air pollution.

A national Planetary Accounting assessment of New Zealand's water sector was commissioned by LGFA and undertaken by the Planetary Accounting Network across drinking water supply, wastewater treatment, and capital works, to quantify the relative materiality of the planetary boundaries and establish a national benchmark of New Zealand's water sector impacts on the Planetary Boundaries.

The national assessment showed that phosphorus and nitrogen, biogenic greenhouse gases (**GHGs**), carbon+ (CO2 and fossil based GHG emissions from operations and capital projects and water use), and water use are the most material environmental impacts within the New Zealand water sector respectively. As such, a KPI was established for each of these impact categories and ambitious associated SPTs.

All Borrowers must report against and meet two KPIs: the compulsory Nitrogen & Phosphorus KPI, and any one of the three optional KPIs: Biogenic GHG Emissions, Embodied Carbon, or Water Efficiency.

When deciding which optional KPI to choose, it is recommended that Borrowers assess which are most material to their organisation or operations and use this to inform their selection of KPIs.

Table A: KPIs, SPTs, and reporting and verification requirements.

Key Performance Indicator (KPI)	Sustainability Performance Target (SPT)	Reporting Requirements	Verification Requirements	Sustainability Performance Target Assessment Date(s)	Definitions
Compulsory KPI **Nitrogen & Phosphorus:** Reduction in Concentration of Total Nitrogen and Phosphorus per litre of wastewater discharged to the environment.	Within 5 years of each wastewater treatment plant that discharges to land and freshwater receiving environments obtaining a New Consent, the Concentration of Total Nitrogen and Phosphorus per litre of wastewater must be no greater than the most stringent of: • Wastewater Environmental Performance Standards 2025 (**WEPS**) Limits (**WEPS Limits**), OR • A percentage reduction in alignment with the Planetary Boundaries, compared to the Borrower's concentration baselines – determined by the discharge renewal consent year (see table for % improvement requirements in Appendix A). Where the wastewater treatment plant: • Achieves a Concentration of Total Nitrogen and Phosphorous per litre of wastewater discharged to the environment below WEPS Limits, AND • Can evidence the Concentration of Total Nitrogen and Phosphorous represents the Best Currently Feasible Concentrations, then the reduction targets no longer apply in relation to that wastewater treatment plant, and the requirement is to maintain the Concentration of Total Nitrogen and Phosphorous at or below this level. [This threshold may be tested / apply from either the outset of the SWALe or at Annual Review periods thereafter].	**(1) At commencement of the Borrower being approved to enter into SWALes:** Provide a list of all wastewater treatment plants that discharge to land and freshwater receiving environments and are up for consent renewal in the following 10-year period, and the expected consent renewal timing of such plants. **(2) Annually, within five months following each Sustainability Reference Period[6] until the SPT Assessment Date:** To include a progress update on performance towards the SPT. **(3) Annually, within five months following each Sustainability Reference Period, for two consecutive years from the SPT Assessment Date:** Concentration of Nitrogen and Phosphorous per litre of wastewater discharged to the environment.	The Borrower must obtain a letter from a suitably qualified third-party to confirm that the Borrower has achieved the SPT, by the Sustainability Performance Target Assessment Date.	Within 5 years of a New Consent for each wastewater treatment plant (as applicable).	**WEPS** means: New Zealand's national Wastewater Environmental Performance Standards regulations, dated 2025 (as amended from time to time) that set consistent environmental performance standards for wastewater discharges and how wastewater treatment plants are consented and operated. **WEPS Limits** means: the total concentration of Nitrogen and Phosphorous limits or performance requirements applicable to the New Consent. **New Consent** means: a resource consent for a wastewater treatment plant under the WEPs which has been approved within 18 months prior to the Borrower applying for the SWALe or from the Borrower's SWALe application. For the avoidance of doubt, this includes replacement of existing or expired consents. **Concentration of Total Nitrogen and Phosphorous** means: the concentration of Nitrogen and Phosphorous measured in alignment with the WEPS for all land and freshwater receiving environments. **Best Currently Feasible Concentrations:** Concentration of Total Nitrogen and Phosphorous that is technically viable to be achieved for the specific asset, location and operating conditions [and economically practicable]. Evidence will be required to demonstrate that further material reductions in Concentration of Total Nitrogen and Phosphorus are not reasonably achievable without disproportionate cost or adverse environmental trade-offs.

6 Each reference to 'Sustainability Reference Period' in this SWALe Criteria means the reporting period for the Borrower, being 1 July to 30 June.

Key Performance Indicator (KPI)	Sustainability Performance Target (SPT)	Reporting Requirements	Verification Requirements	Sustainability Performance Target Assessment Date(s)	Definitions
Optional KPI **Biogenic GHG Emissions:** Improved measurement of GHG emissions produced from wastewater treatment processes and biosolids disposal.	Level 2 Measurement of Biogenic GHG Emissions has been implemented within 2 years of the Borrower being approved to enter into SWALes and maintained annually thereafter until 2040. Level 3 Measurement of Biogenic GHG Emissions has been implemented by 2040.* *A materiality threshold for wastewater treatment plants required to apply Level 3 Measurement will be confirmed once the global methodology for Level 3 Measurement has been established. In the interim, the Level 3 Measurement will be required for the Borrower's largest wastewater treatment plant until global methodology has been established.	**(1) At commencement of the Borrower being approved to enter into SWALes:** Confirmation of whether the Borrower is already measuring Biogenic GHG Emissions using Level 2 or 3 Measurement. **(2) Within 2 years of being approved to enter into SWALes, and annually within five months following each Sustainability Reference Period thereafter until 2040:** An inventory incorporating Level 2 Measurement of Biogenic GHG Emissions. **(3) By 2040:** Confirmation of the Borrower measuring Biogenic GHG Emissions using Level 3 Measurement, and an inventory incorporating Level 3 Measurement of Biogenic GHG Emissions.	The Borrower 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 to confirm process Biogenic GHG Emissions have been measured in accordance with the most current Water New Zealand Wastewater Carbon Accounting Guidelines (Water NZ Guidelines). Biogenic GHG's that are measured as part of a verified GHG inventory can be provided. The verifier (or another qualified party) must confirm that the Biogenic GHG Emissions are measured in accordance with the Water NZ Guidelines. Further verification is required if there is a material change to the GHG emission sources or methodology used for Level 2 Measurement of Biogenic GHG Emissions in any subsequent years. The letter(s) must confirm that at a minimum, the Borrower's Biogenic GHG Emissions have been measured in accordance with the most current Water NZ Guidelines for Level 2 Measurement, or Level 3 Measurement (as applicable). This includes a review of: • The completeness of the data, • GHG emissions factors for accuracy and appropriateness, and • Source data, testing for accuracy of data inputs and calculations.	For Level 2 Measurement: within 2 years of the Borrower being approved to enter into SWALes, and annually thereafter until 2040. AND For Level 3 Measurement: by 2040, with subsequent frequency to be determined once the Level 3 Measurement methodology has been established.	**Level 2 Measurement** means: GHG emissions measured in accordance with the most current Water NZ Guidelines for Level 2 measurement. Level 2 estimates emissions using plant-specific operating data e.g. influent and effluent load, sludge removal information, and general factors. **Level 3 Measurement** means: GHG emissions measured in accordance with the Water NZ Guidelines for Level 3 measurement, once developed, or an equivalent international standard / methodology. Level 3 measurement involves comprehensive on-site testing for specific emission factors. **Biogenic GHG Emissions** means: annual GHG emissions produced from wastewater treatment processes and biosolids disposal, as defined in the Water NZ Guidelines. **Water New Zealand Wastewater Carbon Accounting Guidelines** means: the document titled Carbon Accounting Guidelines for wastewater treatment: CH4 and N2O which as at the date of this SWALe Criteria can be found at www.waternz.org.nz/Article?Action=View&Article_id=2078

Key Performance Indicator (KPI)	Sustainability Performance Target (SPT)	Reporting Requirements	Verification Requirements	Sustainability Performance Target Assessment Date(s)	Definitions
Optional KPI **Embodied Carbon:** Assessment of Embodied GHG Emissions in Borrower's forward Capital Works Programme.	Measure prospective Embodied GHG Emissions from the Borrower's projected Infrastructure Capital Spend Programme for at least 80% of anticipated spend in a 3-5 year period that starts one year after the Borrower being approved to enter into SWALes.	**(1) At commencement of the Borrower being approved to enter into SWALes:** Confirmation of whether the Borrower is already measuring Embodied GHG Emissions. **(2) Within five months of the Sustainability Reference Period, following the first year of being approved to enter into SWALes:** An inventory of a Borrower's prospective Embodied GHG Emissions from the Borrower's projected Infrastructure Capital Spend Programme, covering at least 80% of anticipated spend over a 3-5 year period that starts one year after being approved to enter into SWALes. **(3) Annually, within five months of each Sustainability Reference Period:** To include a progress update on whether the Borrower has achieved any Embodied GHG Emission reduction opportunities identified in the Borrowers prospective Embodied GHG Emissions Inventory. **(4) Within five months of the Sustainability Reference Period, following completion of the 3 – 5 year measurement period captured in (2):** An updated inventory for subsequent reporting periods e.g. if the first inventory covers 3 years, the second inventory will be prepared for the following 3 years. [This will be required to be provided to LGFA prior to the maturity of the existing reporting period covered in (2).]	The Borrower must obtain a letter from a suitably qualified third-party to confirm that their Embodied GHG Emissions Inventory has been estimated using a prospective life-cycle assessment (LCA) approach, consistent with the principles and framework of ISO 14040 / ISO 14044 or an equivalent standard. This requirement is repeated at each subsequent update to the Borrower's prospective Embodied GHG Emissions Inventory. The letter(s) must at a minimum confirm that Embodied GHG Emissions have been estimated using a prospective life-cycle assessment (LCA) approach, consistent with the principles and framework of ISO 14040 / ISO 14044 or an equivalent standard. This includes a review of: • The completeness of the data, • GHG emissions factors for accuracy and appropriateness, and • Source data, testing for accuracy of data inputs and calculations.	By 30 November, following the first year of the Borrower being approved to enter into SWALes. At each subsequent update to the Borrower's prospective Embodied GHG Emissions Inventory from the Borrower's projected Infrastructure Capital Spend Programme.	**Embodied GHG Emissions Inventory** means: The inventory for Embodied Carbon Emissions which is estimated using a prospective life-cycle assessment (LCA) approach, consistent with the principles and framework of ISO 14040 / ISO 14044 (or equivalent recognised lifecycle methodology such as the NZGBC embodied carbon methodology or MBIE Whole of Life Embodied Carbon Assessment Methodology adapted for water infrastructure). **NZGBC embodied carbon methodology** means: Provides a calculation method for embodied carbon and default assumptions for use in New Zealand buildings, issued by the New Zealand Green Building Council (NZGBC). **MBIE Whole of Life Embodied Carbon Assessment Methodology** means: Methodology for assessing the embodied carbon of new buildings in New Zealand, issued by Ministry of Business, Innovation and Employment (MBIE). **Infrastructure Capital Spend Programme** means: Sets out projects that a Borrower plans to deliver across a set period as included in the Borrower's Water Services Strategy. The programme may include a combination of new infrastructure projects and major upgrades across a broad range of drinking water, wastewater, and stormwater assets. For the purpose of this KPI, minor works such as maintenance, non-infrastructure projects (e.g. IT systems) and consultancy services are excluded.

Key Performance Indicator (KPI)	Sustainability Performance Target (SPT)	Reporting Requirements	Verification Requirements	Sustainability Performance Target Assessment Date(s)	Definitions
Optional KPI **Water Efficiency** Reduction in Gross Water Consumption per capita across the network (including withdrawals and losses).	At least 7% reduction in Gross Water Consumption per capita achieved across the network (includes withdrawals and losses) per 5-year period from Baseline Gross Water Consumption per capita. Where a Borrower achieves a Gross Water Consumption of 190 litres per person per day, the reduction targets no longer apply, and the Borrower is required to maintain Gross Water Consumption at or below this level. [This threshold may be tested / apply from either the Borrower being approved to enter into SWALes or at annual review periods thereafter].	**(1) At commencement of the Borrower being approved to enter into SWALes:** Baseline Gross Water Consumption per capita. **(2) Annually, within five months of each Sustainability Reference Period:** Gross Water Consumption per capita for each Sustainable Reporting Period.	The Borrower must provide evidence that it has submitted to Taumata Arowai[7], Gross Water Consumption per capita data, every year, for the 5-year measurement period relevant for the Sustainability Performance Target Assessment Date. This includes evidence of receipt by Taumata Arowai. Gross Water Consumption Data must meet a minimum Data Confidence Level of 4 or above.	At 5-year intervals following the Borrower being approved to enter into SWALes programme (or annually once a Borrower achieves Gross Water Consumption of 190 litres per person).	**Gross Water Consumption** means: water abstracted for household use, commercial use, and water losses, measured annually in accordance with the Taumata Arowai Network Environmental Performance Measures and Guide 2025. As at the date of this SWALe Criteria, the relevant Taumata Arowai reporting metrics and reference codes set out in the Network Environmental Performance Measures and Guide 2025 are: • Water supplied to the drinking water network (D-EH4), and • Total population served by the drinking water network (D-EH3). **Baseline Gross Water Consumption per capita** means: the average Gross Water Consumption per capita for the three-year period immediately prior to the Borrower being approved to enter into SWALes. **Data Confidence Level** means: how robust, traceable and auditable the data reported into Taumata Arowai is, based on the processes and systems a Borrower uses to collect such data. As at the date of this SWALe Criteria, the relevant Data Confidence Level of 4 or above, is defined in the Taumata Arowai Network Environmental Performance Measures and Guide 2025, as "reliable / verified" or "highly reliable / audited".

7 The Water Services Authority – Taumata Arowai is a Crown entity that serves as the national water regulator in New Zealand.

3.3 Eligibility Criteria (following initial approval of the Borrower's eligibility to enter into SWALes)

(1) Annual Reporting

Within five months following each Sustainability Reference Period (i.e. by 30 November each year), the Borrower is to report to LGFA with the following information (**Annual Reporting**) to support the **Annual Review** (see Section 3.4):

- Reporting Requirements for the Borrower's core and optional KPIs / SPTs (if applicable), as set out in Table A (column 3).
- A progress update on performance towards achieving the SPTs if measurement is not required for the given Sustainability Reference Period.
- Verification Requirements for the Borrower's core and optional KPIs / SPTs (if applicable), as set out in Table A (column 4).

At any time, the Borrower may be required to provide additional information that LGFA requires to undertake a review of (among other things) the SWALes, the Borrower's compliance with the Eligibility Criteria and the requirements in Table A.

(2) Independent Verification

The Borrower is required to meet the Verification Requirements for the Borrower's chosen KPIs / SPTs as set out in Table A (column 4).

(3) Restatements and Amendments to the SPTs

Future events, not directly related to a Borrower's sustainability performance, could result in the recalculation or measurement of a SPT by a Borrower.

Future events may include, but are not limited to, mergers and acquisitions, divestitures, and disposal of assets, etc. Following such an event, to ensure the KPIs and SPTs are still relevant, LGFA acknowledges that the SPT may be restated or amended.

Any changes in the SPT proposed by a Borrower will need to be agreed with LGFA.

3.4 Annual Review

LGFA will complete an Annual Review to confirm whether the Borrower:

(a) Continues to qualify and meet the Eligibility Criteria and the requirements in Table A;

(b) Has achieved / is on track to achieve its SPTs, according to the SPT Assessment Date(s) agreed during the application process; and

(c) Has met Borrower-specific conditions for the SWALes, set by LGFA, where applicable.

3.5 Financial characteristics

A SWALe incentivises a Borrower through a financial incentive, being a SWALe Discount or SWALe Premium, as outlined below.

(1) SWALe Financial Incentive – SWALe Discount

Upon LGFA confirming that the Borrower is approved to enter into SWALes, LGFA will approve the associated financial incentive (**SWALe Discount**) for any SWALes made to the Borrower. This will apply for the duration of the SWALe, including through declassification and / or SWALe Premium Events (outlined below), until the SWALe maturity date.

(2) SWALe Financial Incentive – SWALe Premium

The SWALe Discount will apply from the outset of the SWALe. However, a SWALe Premium will also apply if:

- the Borrower or LGFA determines that the Borrower:

- fails to meet either, or both, of its core and optional SPTs set out in the Eligibility Criteria on the SPT Assessment Date(s); or
- fails to comply with the Annual Reporting and / or Verification Requirements (outlined in Sections 3.3(1) and 3.3(2)) and this is not remedied within 30 days of notification that the requirements have not been met or such other timeframe as agreed between LGFA and the Borrower; or

- the Borrower notifies LGFA (in writing) that it wishes to declassify itself and its SWALes following a change to the SWALe Criteria (as outlined in Section 3.7).

Each of the above, being a '**SWALe Premium Event**'. The SWALe Premium is intended to reduce or neutralise the SWALe Discount. It will be calculated as follows:

- Where the SWALe Premium applies due to the Borrower failing to meet one or both of its core and optional SPTs, the SWALe Premium will be equal to half of the SWALe Discount per SPT not achieved. For example, if the SWALe Discount is 2 basis points (0.02%), the SWALe Premium would be 1 basis point (0.01%) per SPT that is not achieved.
- Where the Borrower fails to comply with the Annual Reporting and / or Verification Requirements, or notifies LGFA (in writing) that it wishes to declassify itself and its SWALes following a change to SWALe Criteria, the SWALe Premium will be equal to the full SWALe Discount (e.g. if the SWALe Discount is 2 basis points (0.02%), the SWALe Premium will also be 2 basis points).

The SWALe Premium will be applied from the start of the next interest period following notification of, or LGFA becoming aware of, the SWALe Premium Event, and is payable on each interest payment date until the earlier of:

- the date on which the Borrower reports it has achieved both of its core and optional SPTs in subsequent Annual Reporting;
- the date on which the Borrower complies with the Annual Reporting and Verification Requirements (as applicable); or
- the SWALe maturity date.

3.6 Declassification of a SWALe

A Borrower can be declassified in the circumstances set out in this section. If a Borrower is declassified, all of that Borrower's SWALes are also declassified.

(1) Triggers for declassification

Declassification of a Borrower will be triggered if the Borrower or LGFA determines that the Borrower:

- for three consecutive years, fails to meet *both* its core and optional SPTs set out in the Eligibility Criteria on the SPT Assessment Date(s); or
- fails to comply with the Annual Reporting and / or Verification Requirements (outlined in Sections 3.3(1) and 3.3(2)) and this is not remedied within 30 days of notification that the requirements have not been met or such other timeframe as agreed between LGFA and the Borrower.

The Borrower must promptly notify LGFA (in writing), or LGFA can also determine (at its sole discretion) in an Annual Review or through other means, if the Borrower cannot meet the Annual Reporting or Verification Requirements or has failed to achieve both its core and optional SPTs and not remedied this within the three years following non-achievement, and requires declassification.

In each of these circumstances, LGFA must confirm (in writing) to the Borrower that declassification has occurred or will occur and the effective date of the declassification.

(2) Timing of declassification

Following a declassification event set out in 3.6(1), the Borrower's SWALes will be declassified on the effective date notified by LGFA (which may be immediately).

(3) Consequences of declassification

Where a declassification (or loss of 'SWALe' label) occurs,

- the SWALe will be treated as a standard loan instead of a SWALe;
- the Borrower must not make any further announcement, disclosure or communication that refers to the LGFA loan as a SWALe;
- the SWALe Discount and SWALe Premium will continue to apply to the declassified SWALe until its maturity date. The SWALe Discount and / or SWALe Premium will not apply to any new loans;
- LGFA will remove the Borrower's name from the list of SWALe Borrowers on LGFA's website;
- LGFA will name the Borrower on LGFA's website as a borrower which has had its SWALes declassified; and
- the Borrower will be ineligible to apply for or enter into new SWALes until LGFA is satisfied (in its sole discretion) that the Borrower again meets the Eligibility Criteria.

Declassification will not trigger any event of default or review in respect of the SWALe.

3.7 Changes in the SWALe Criteria

LGFA retains the right to change or reset this SWALe Criteria (e.g., where sustainable finance market standards or conventions change) and the terms of an existing SWALe may change as a consequence. In these circumstances, the Borrower can opt to continue to hold SWALes under the changed SWALe Criteria and changed terms of the SWALe, or notify LGFA (in writing) that it wishes to declassify itself and its SWALes.

3.8 Changes in SWALe financial incentive

LGFA retains the right to change the amount of the SWALe Discount that it offers for a new SWALe at any time. This will affect the amount of the SWALe Premium calculated as described in section 3.5.

3.9 LGFA's reporting on SWALes

By entering into a SWALe, the Borrower agrees to the information provided about the SWALe (and any information derived from such information) being used in LGFA's reporting. This may include details of a Borrower's approach to achieving the KPIs / SPTs, size of the SWALe, SPTs selected for the SWALe and the Borrower's achievement of its SPTs.

By entering into a SWALe, the Borrower will allow LGFA to publish details of any SWALe, changes in the value of SWALes outstanding, and any declassification of SWALes.

4. SWALe Criteria: Alignment to Sustainable Finance Market Principles

LGFA's approach to developing SWALes has been undertaken with alignment to the Sustainability-Linked Loan Principles[8] (**SLLPs**) and with reference to the Guidelines for Sustainability-Linked Loans financing Bonds[9] (**SLLBGs**). LGFA has obtained an external review verifying alignment to these market standards[10].

The SLLPs and SLLBGs are voluntary sustainable finance guidelines developed by the Loan Markets Association (**LMA**), Asia Pacific Loan Market Association (**APLMA**), Loan Syndications & Trading Association (**LSTA**) and International Capital Market Association (**ICMA**).

The SLLPs form the basis of establishing the SWALe Criteria. The five core components of the SLLP used to set the SWALe Criteria are:

8 As at the date of this SWALe Criteria, the APLMA, LMA and LSTA Sustainability-Linked Loan Principles (2025).

9 As at the date of this SWALe Criteria, the ICMA Guidelines for Sustainability-Linked Loans financing Bonds (2024, including June 2025 Annex on FAQ).

10 Sustainable Fitch provided this external review on 1 July 2026.

- Selection of predefined key performance indicators;
- Calibration of predefined sustainability performance targets;
- Loan Characteristics;
- Reporting; and
- Verification.

5. Appendix A - Percentage Reduction from baseline for Nitrogen and Phosphorus Concentrations in Wastewater Discharge

Renewal Consent Year	Improvement on Nitrogen	Improvement on Phosphorus
2026	33%	20%
2027	35%	22%
2028	38%	24%
2029	41%	26%
2030	44%	28%
2031	47%	29%
2032	50%	31%
2033	53%	33%
2034	56%	35%
2035	59%	37%

Contact us

If you require assistance, or have any questions or comments, please contact the LGFA's Sustainability team who will be able to assist you.

Nick Howell
Head of Sustainability
Ph: +64 21 227 3738
Email: nick.howell@lgfa.co.nz

Helen Mahoney
Senior Manager Sustainable Finance
Ph: +64 21 220 2015
Email: helen.mahoney@lgfa.co.nz

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

Auckland Level 7, The Shortland Centre, 55 Shortland Street
Wellington Level 8, Grant Thornton House, 215 Lambton Quay
PO Box 5704, Lambton Quay, Wellington 6145
+64 4 974 6530 **www.lgfa.co.nz**