

Climate Change Position Statement and 2020 Action Plan



Westpac Group has long recognised that climate change is one of the most significant issues that will impact the **long-term prosperity of our economy and way of life.**

Managing this impact requires collaborative efforts to limit global warming, while also taking steps to help the economy and communities become more resilient to the expected effects.

As a major financial institution, Westpac has a fundamental role to play in this process.

Since we set out our first climate change action plan almost a decade ago, we have been helping customers and communities transition to a low carbon economy.

This climate change position statement and action plan builds on our strong track record, outlining the next phase of actions we are taking to meet our

commitment to operate a manner consistent with limiting global warming to less than two degrees Celsius above pre-industrial levels.

For us, this is about ensuring future generations can enjoy a healthy environment and prosperous economy.

Our Principles.

The core principles that guide and inform our approach are:

1.

A transition to a net zero emissions economy is required.

2.

Economic growth and emissions reductions are complementary goals.

3.

Addressing climate change creates financial opportunities.

4.

Climate-related risk is a financial risk.

5.

Transparency and disclosure matters.

Our Action Plan.

These focus areas will direct our actions. We will:

1.

Provide finance to back climate change solutions.

2.

Support businesses that manage their climate-related risks.

3.

Help individual customers respond to climate change.

4.

Improve and disclose our climate change performance.

5.

Advocate for policies that stimulate investment in climate change solutions.

Context.

Context.

The Intergovernmental Panel on Climate Change (IPCC) – the international scientific body responsible for monitoring climate change – has provided evidence that the climate is warming and that human activity is the primary cause of this increase, which is altering weather patterns globally.

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To reduce the risks and impacts of climate change, 194 countries signed the Paris Agreement, including and since ratified by Australia, committing to strengthen the global response to climate change by “holding the increase in global average temperature to well below two degrees Celsius above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5 degrees Celsius...”²

The scientific consensus sees irreversible damage and extreme weather effects taking place should global warming exceed two degrees. Meeting the commitment will require each signatory country to take action to limit greenhouse gas emissions, which will involve significant changes in the global economy.

Westpac was the first Australian bank to recognise the importance of limiting global warming to two degrees³ and that to do this global emissions need to reach net zero⁴ in the second half of this century⁵. Using our expertise, we are helping our customers and communities manage this transition and believe that effectively identifying, managing and mitigating climate change risk will have positive community and economic benefits in the future.

We apply the same rigour in managing this change as we do with any other transformational issue facing the economy. We examine the policy, legal, technology and market changes related to climate change (‘transition risks’). We also look at the financial impact of changes in climate patterns and extreme weather events (‘physical risks’).

We are transparent about how we assess and manage these impacts across our business, measuring and reporting on our climate-related metrics since 1996. We launched our first Climate Change Position Statement in 2008; this marks our third update of that statement, and we will continue to strengthen our approach as science, technology and policy develops.

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1 Fifth Assessment Report, IPCC, 2015.

2 Ibid.

3 Westpac 2013-2017 Climate Change Position Statement and Action Plan, 2013.

4 Westpac Banking Corporation 2015 Annual General Meeting Chairman's Address, 2015.

5 By 2050 for the Australian economy.

Our principles.

Our principles.

The core principles underpinning our approach are:

1.

A transition to a net zero emissions economy is required.

Net zero emissions means the greenhouse gases emitted globally must equal the emissions captured—through initiatives like adopting renewable energy and clean technologies, carbon sequestration, reducing deforestation and planting trees to create new forests. The sooner we can reach net zero emissions, the more opportunity we have of keeping climate change below the two degree ambition.⁶

The path to net zero emissions needs to be well planned and occur in an orderly fashion. For the energy sector, this means also balancing the needs of energy security, reliability and affordability.

2.

Economic growth and emissions reductions are complementary goals.

Many countries have already shown that economic growth can be achieved whilst reducing emissions. Whilst there can be an upfront cost to managing climate change, our research indicates that policies that incentivise early investment will lead to stronger economic growth over the medium and long term.⁷

We have always sought to play a constructive and responsible role in the development of an appropriate policy response for the economies we operate in. For over a decade, Westpac's preferred policy position has remained consistent: that a broad market-based price on carbon is the most effective, affordable, flexible and equitable means of achieving emissions reductions, at the least cost, across the economy.⁸

3.

Addressing climate change creates financial opportunities.

Addressing the impacts of climate change requires investment and a shift in business models. Westpac can act as a market facilitator, supporting affordable technologies and companies that will drive the transition to a more sustainable economic model.

4.

Climate-related risk is a financial risk.

Risks associated with climate change may impact on companies' financial performance and the stability of the financial system. Westpac has long stated that climate-related risk is a financial risk. This is why we have been working with our customers and investors, and disclosing information on our approach to this issue, since 2004.⁹

5.

Transparency and disclosure matters.

Accurate, timely and relevant information about climate-related risks and opportunities is key to assessing and managing the impacts of climate change. We are transparent about how we are addressing these impacts across our business. We also work with our business customers to identify, manage and report on how they are addressing climate-related risks in their own operations.

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⁶ Fifth Assessment Report, IPCC, 2015.

⁷ Westpac Group 2016 Annual Sustainability Performance Report, 2016.

⁸ Westpac Group 2005 CDP submission, 2005.

⁹ Westpac Stakeholder Impact Report, 2004.

Our approach to environmental, social, and governance assessment of companies and projects.

Westpac has a Board-approved Risk Management Strategy that covers sustainability and reputational risks.

This strategy is underpinned by a number of key risk documents on sustainability such as our:

- Sustainability Risk Management Framework;
- Reputation Risk Management Framework;
- Environmental, Social & Governance (ESG) Credit Risk Policy; and
- Risk Appetite Statement.

When assessing a project or prospective customer, our credit officers, deal teams and sustainability specialists screen against:

- **Environmental risks**, such as water quality, waste, deforestation, and impacts on high conservation value areas. This includes screening against this position statement on climate change;
- **Social risks**, such as workplace health and safety, human capital management, and our position statement on human rights;
- **Governance risks**, such as the customer's practices on risk culture, corruption and bribery, shareholder rights, board composition, and disclosure and transparency; and
- All other Westpac position statements.

In addition, we apply the Equator Principles (EP III) to project finance transactions, project-related corporate loans, and bridge loans with a tenor of less than two years that are intended to be refinanced by Project Finance or a Project-Related Corporate Loan (where certain specific criteria are met as required by the Equator Principles).

If the identified ESG risks do not meet Westpac's risk appetite—which includes a requirement to meet the criteria outlined in our position statements—then we will not proceed with the transaction.

A person is holding a large, rectangular solar panel in front of a wooden house. The solar panel is dark blue with a grid of white lines. The person is wearing a grey t-shirt and a watch. The background shows a wooden house with a porch and green trees.

Action plan 1.

Provide finance to back
climate change solutions.

1.

Provide **finance** to back climate change solutions.

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Transition to a net zero emissions economy is reliant on the availability of cost effective low carbon solutions. In our role as a financial intermediary we act as a market facilitator and partner to existing and new customers, backing financially viable, affordable, low carbon solutions that will drive the transition to a net zero emissions economy whilst accelerating the reduction in emissions.

To address the physical risks of climate change, we also support investment in infrastructure that improves the resilience of our communities to changing weather patterns.

We will:

- Increase our target lending exposure to climate change solutions from \$6 billion to \$10 billion by 2020;
- Facilitate up to \$3 billion in climate change solutions by 2020, e.g. green bond issuance and arrangement; and
- Increase our target lending exposure to climate change solutions to \$25 billion by 2030.¹⁰

Building on the climate change scenario analysis Westpac completed in 2016, we have set our targets based on the current outlook for investment in climate change solutions that is required to remain on a credible pathway to a net zero emissions outcome by 2050.

We define climate change solutions as those technologies and practices that are consistent with the investment required to limit global warming to less than two degrees¹¹ and address its impacts.

Climate change solutions include, but are not limited to, the following activities:

- Renewable energy;
- Energy efficiency technologies;
- Green buildings;
- Low-emissions transport;
- Waste;
- Water;
- Carbon abatement and sequestration projects;
- Forestry and land rehabilitation; and
- Adaptation infrastructure.

¹⁰ This target will be updated in the next update of this strategy to reflect changes in technology, policy, climate science and investment assumptions and as our approach evolves.

¹¹ As per our scenario analysis and external sources such as the IPCC Fifth Assessment Report and Climate Bond Initiative's criteria.

Action plan 2.

Support businesses
that manage their
climate-related risks.



2.

Support businesses that **manage** their climate-related risks.

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Transition to a net zero emissions economy may pose policy, legal, technology and market risks to our customers. We believe that the most constructive role we can play is to work with customers in emissions-intensive sectors, and support them as they manage through the transition.

Our approach to lending to emissions-intensive sectors is grounded in principles, clear benchmarks and underwriting standards that we apply to all sectors that we bank. It is based on a thorough assessment and understanding of the industry life cycle of the particular sector.

We will:

Support customers in, or reliant on, emissions-intensive sectors that:

- Assess the financial implications of climate-related risks and opportunities in their business, including how their strategies are likely to perform under various forward-looking scenarios; and

- Demonstrate a rigorous approach to governance, strategy setting, risk management, and reporting on climate-related risks and opportunities.

Additional criteria are set out below, addressing those activities in the economy with the largest source of greenhouse emissions, those in the energy system, and those with deforestation activities in the agribusiness sector.

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Support businesses that manage their climate-related risks.

Energy System.

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Energy System

Our approach takes into consideration the energy system's entire value chain, from energy fuels to power generation. This approach enables us to assess how emissions are generated throughout the energy system.

Given their significant contribution to emissions, we have set guidelines for our coal mining and power generation financing activities.

To reach net zero emissions, it is anticipated that the share of thermal coal in the energy mix will decrease and power generation technology will continue to advance and improve.

Coal Mining.

As of 30 September 2016, 1% of total Group lending was to mining activities —with lending to coal mining being 8% of the total mining portfolio¹² (TCE).

There are two main types of coal, namely:

1. thermal coal, used for energy generation; and
2. metallurgical coal, used for steel production.

Our guidelines relate to thermal coal as presently there is no substitute for metallurgical coal in making new steel.

As an energy fuel, thermal coal currently competes with oil, natural gas, nuclear and renewables. Because of its abundance, affordability, and reliability, thermal coal currently fuels approximately 40% of total power generation globally.¹³

However, the International Energy Association's (IEA) modelling indicates that under a two degree scenario thermal coal demand will peak in the current decade and decline thereafter.¹⁴

The level of carbon emissions from energy generated by burning thermal coal is dependent on both the technology employed by the generator, and the quality of the coal used as its fuel. In this context quality is determined by its 'calorific value' or 'energy content', typically measured in kilocalories per kilogram (kCal/kg).

The use of the highest-quality coal in advanced power generation technologies enables the least emission intensive form of power generation from thermal coal. Similarly, utilities employing the more advanced generation technologies tend to use higher quality coal.

When assessing coal financing proposals, we balance a number of financial and non-financial underwriting standards including reserves, mine life, coal type, mining method, cost of production, access to infrastructure, off-take contracts, environmental impact, regulatory requirements, financial performance, quality of management, and track record. For thermal coal proposals we also consider the calorific value of the coal.

Our lending to customers in the Thermal Coal Sector¹⁵ is limited to those that have a calorific value which ranks in the top quartile globally (we define the first quartile as having a specific energy content of at least 5,700 kCal/kg Gross As Received¹⁶).

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¹² Westpac FY16 Investor Discussion Pack, p73. https://www.westpac.com.au/content/dam/public/wbc/documents/pdf/aw/ic/financial-information/FY16_final_presentation_and_idp_asx.pdf

¹³ IEA, World Energy Outlook 2016.

¹⁴ Ibid.

¹⁵ **Definition:** Thermal Coal Sector – Includes coal projects when project financed, or the average of a coal mining company's thermal coal portfolio when corporate financed, and coal handling terminals. Diversified mining companies producing a range of commodities will be subject to the same criteria where the revenue derived from thermal coal operations exceeds 30 per cent.

¹⁶ Based on the IEA Statistics publications 'Coal Information,' 2012, 'Energy Balances of Non-OECD Countries,' 2012, and our own calculations.

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Support businesses that manage their climate-related risks.

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Energy System

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However, for new thermal coal proposals we will:

- Limit lending to any new thermal coal mines or projects (including those of existing customers) to only existing coal producing basins and where the calorific value for that mine ranks in at least the top 15% globally. We define the top 15% as having a specific energy content of at least 6,300 kCal/kg Gross As Received. This value is referred to as the *Newcastle high energy coal benchmark*.

This demonstrates our commitment to playing a responsible role in supporting the transition to a net zero emissions economy.

Note that we regularly review our underwriting standards to ensure our activities are consistent with an orderly transition, as well as any technological developments.

Energy generation.

Westpac recognises that the reduction of the emission intensity of electricity networks is critical for the economy to reach net zero emissions.

We also recognise that the transformation of the energy generation sector will present a range of challenges to both new and existing generation assets and that a balanced approach is important to support an orderly transition across the economy.

In considering transactions in the energy generation sector, we take into account the intersecting requirements of reaching net zero emissions, affordability, energy security and reliability. We also take into account the impact of the transition on vulnerable households, regional communities and trade-exposed industries.

As the economy transitions, energy and emissions efficiency will increasingly be key determinants of an asset's risk profile.

We will:

- Actively reduce the emissions intensity of our exposure to the power generation sector over time; and
- Aim to reduce the emissions intensity of our power generation portfolio to 0.30 tCO₂e/MWh by 2020.¹⁷

In addition to the above overarching principles, we will:

- Only finance new power generation if it reduces the emissions intensity of the grid in which the generator operates; and

- Only support direct lending to an existing coal fired generation facility if:
 - The facility is required for system reliability and/or affordability, or is critical to the community in which it operates; and
 - The lending is not for the purpose of expanding the capacity or extending the life of the facility, unless there is a reduction in the emissions intensity of the facility.

In addition, Westpac continues to apply the Equator Principles¹⁸ to all project and project-related lending activities, including within the power generation sector.

¹⁷ Target is based on current policy and regulatory frameworks. Note the emissions intensity of the National Electricity Market for the year ending 30 June 2016 equates to 0.90 tCO₂e/MWh. The emissions intensity of Westpac's power generation portfolio as at 30 September 2016 was 0.38 tCO₂e/MWh.

¹⁸ The Equator Principles are a risk management framework adopted by financial institutions for determining, assessing and managing environmental and social risk in projects. In 2003, Westpac was one of 10 global founding signatories.

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Action Plan.

Support businesses that manage their climate-related risks.

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Agribusiness

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Agribusiness.

Agribusiness plays a fundamental role worldwide in feeding the global population, shaping health outcomes, driving economic growth, reducing poverty, and supporting livelihoods.


We recognise that transactions in this sector need to consider a range of environmental impacts, including reducing emissions from deforestation and land conversion.

It is for these reasons we have committed under both the Banking Environment Initiative's (BEI) Soft Commodities Compact, and the New York Declaration on Forests, to work with other organisations associated with this sector to achieve net zero deforestation by 2020.

We will:

- Support customers in the agribusiness sectors that:
 - Are committed to net zero deforestation by 2020;
 - Do not adversely impact High Conservation Value forests; and
 - Do not develop on areas of high carbon stock forest.

Further details on this as well as our broader positions on the agribusiness sector can be found in our Financing Agribusiness Position Statement.

A photograph of a person riding a bicycle in a park-like setting. The person in the foreground is wearing a patterned t-shirt, dark pants, and white sneakers, and is riding a silver bicycle. In the background, another person wearing a white helmet and a light-colored jacket is also riding a bicycle. The scene is set outdoors with trees and a building in the background under a clear sky.

Action plan 3.

Help individual customers respond to climate change.

3.

Help individual customers respond to climate change.

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Westpac is committed to helping our personal banking and investment customers to understand the impact of climate change on their lives. We recognise that climate change affects our customers, their homes and investments. We can use our experience and expertise to assist our customers to prepare and respond to the risks and opportunities they may face.

Despite the commitment to limit global warming to two degrees, climate change will still cause shifts in weather patterns and increase the frequency and severity of natural disasters.¹⁹ Communities may experience weather events that they are unfamiliar with or for which they are not prepared.

Our experience of working with customers and communities through times of natural disaster has shown that the more resilient a community is, the quicker it is able to recover. That's why we are supporting customers to understand how climate-related impacts affect their homes and assets, helping them make the right decisions to prepare for any possible outcome.

We also encourage our customers to consider how they can improve the energy and water efficiency of their homes in a way that benefits the environment, while minimising the ongoing costs of utilities, maintenance and repairs.

We are aware that both physical and transition risks from climate change may affect the performance of investment portfolios to varying degrees across companies, sectors, regions, asset classes and over time. We recognise that providing more information about these climate-related impacts can assist those who invest with us to more accurately assess these risks and opportunities.

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Help individual customers respond to climate change.

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We will:

- Help our customers make their homes more climate-resilient, improve energy efficiency and reduce their environmental impact by:
 - Providing information to assist home owners identify how they can make improvements to their home; and
 - Working with our bankers to ensure customers access the right products and services to help fund any improvements they wish to undertake.
- Support our customers to get back on their feet after experiencing a natural disaster event by:
 - Providing disaster relief packages to customers and communities affected by natural disasters, when the events occur; and
 - Providing disaster recovery grants to community groups and small businesses 6–12 months after an event, to help the economic recovery in impacted regions.
- Give our customers the information they need to understand how they can make climate change conscious investments by:
 - Disclosing the carbon intensity of investment portfolios available through BT Financial Group (BTFG), and continuing to evolve our climate change disclosures;
 - Providing environmental, social and governance (ESG) information on our investment platform, BT Panorama, to help investors and advisers assess the ESG risks in their portfolios; and
 - Continuing to expand information available to our investment customers to help them understand, assess and manage ESG risks in their portfolio.
- Continue to advocate for more research and investment into helping communities adapt and become resilient to climate-related impacts. This includes the work we support through the Australian Business Roundtable on Disaster Resilience and Safer Communities, which focuses on natural disaster resilience and recovery in Australia.

Action plan 4.

Improve and disclose
our climate change
performance.



4.

Improve and disclose our climate change performance.

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Relevant, accurate, comparable and timely information on where climate-related impacts exist across the economy will help enhance understanding of climate-related risk in investment decisions and promote broader financial system stability.

Westpac has long committed to being transparent about how we measure and manage climate-related risks and opportunities across our own business. We believe this information is relevant for shareholders and other stakeholders in assessing the long-term value of our company.

This includes using a science-based approach to setting the direct emissions²⁰ reduction targets for our own operations, ensuring that we reduce our emissions in line with the trajectory of reductions required to meet a net zero emissions economy.

We will:

- Disclose our approach to addressing climate-related impacts in Westpac's governance, strategy, risk management, and reporting processes;
- Advocate for clear, comparable and material climate disclosures in our own industry and in other carbon-exposed sectors, including working with international agencies including United Nations Environment Initiative Finance Program (UNEP FI) and the Financial Stability Board's Taskforce on Climate-related Financial Disclosures (FSB TCFD) and our peers both domestically and internationally;
- Continue to refine and improve the metrics we disclose in relation to our lending and investment to carbon-related sectors; and
- Demonstrate best practice in our own emissions management through:
 - Setting a science-based target²¹ to reduce our emissions by:
 - (a.) 9% by 2020;
 - (b.) 34% by 2030; and
 - Offsetting any remaining carbon emissions and maintaining carbon neutrality across our business for the life of this strategy.

²⁰ Includes emissions we generate ourselves (scope 1) as well as the emissions from the electricity we purchase (scope 2) across all our operations, including our branch network, offices and data centres.

²¹ Our targets have been prepared using scope 1 and scope 2 methodologies endorsed by the Science Based Targets Initiative (SBTI). We are working towards the development of a robust method for setting Scope 3 targets for financial institutions with the SBTI, and will look to use this to develop Scope 3 emissions targets in the future.

Action plan 5.

Advocate for policies that stimulate investment in climate change solutions.



5.

Advocate for policies that stimulate investment in climate change solutions.

We know that the policy response to climate change, both globally and domestically, will influence the speed of the transition, the industries that will be impacted and ultimately the economic outcome.

For well over a decade, Westpac has been an active participant in the development of an appropriate policy response for Australia and New Zealand, and during this time Westpac's preferred policy position has remained consistent, comprising four core pillars.

1. An effective policy response to climate-related issues requires a suite of complementary policies.
2. These policies need to be capable of achieving the Nationally Determined Contributions (NDCs) that represent each country's committed global reductions targets in the short and medium term and give consideration to the long-term target of reducing emissions to net zero in the second half of the 21st century.
3. Policies should consider:
 - (a.) Strategies to develop and deploy low-emissions technology that are able to deliver a clear framework and provide certainty over a timeline sufficient to match investment horizons which are, by nature, long-term; and
 - (b.) Strategies to increase resilience and promote adaptation for impacted communities, companies and sectors.
4. A broad market-based price on carbon is the most effective, affordable, flexible and equitable means of achieving emissions reductions at the least cost across the economy.

We will:

- Continue to provide information and insight from our experience to help drive policy outcomes aligned to net zero emissions and support an effective global response;
- Work with peer organisations, industry groups and non-government organisations to collaborate and share information; and
- Continue to advocate for a broad market-based price on carbon, as the most effective, affordable, flexible and equitable means of achieving emissions reductions, at the least cost, across the economy.

For questions and comments please contact Westpac Group Sustainability.

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www.westpac.com.au/sustainability