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Westpac FY2022 Full Year Results
Climate Finance Assessment

In the third in CEF's series of climate finance analyses of Australia's Big 5 banks, we review Westpac's FY2022 full year financial disclosures.

We assess against four material decarbonisation criteria for the banking sector – climate solutions financing, financed emissions reduction by sector, customer transition plan engagement, and trends in the bank's energy loanbook.

We have published analyses of ANZ (plus update) and NAB. CBA and Macquarie Group Limited are forthcoming.

Global momentum continues to build behind the US$100tn[1] energy and decarbonisation investment opportunity to 2050 with trends in policy, investor demand, corporate commitment and market opportunity moving decisively to enable it.

HSBC sets a new level of ambition for all banks committed to net-zero with an energy policy restricting the bank from forming new relationships with clients who have >10% of their total planned oil and gas capex on exploration activities. A loophole does exist in HSBC's policy to still allow them to fund the 40 trillion BOE (barrels of oil equivalent) in oil and gas already discovered since 2019. However, the new policy is a strong move in the right direction with experience telling us that, over time, policy loopholes tend to be removed as global ambition continues to grow. This was certainly the case in thermal coal, with the initial token efforts now seeing a near universal restriction on debt, equity and insurance for new coal and coal power plants, not withstanding record high war-profitability in 2022.

The Net Zero Banking Alliance (NZBA) reported over half of its members have now set 2030 science-based decarbonisation targets across their most material lending sectors, signalling that $72tn in global banking assets under the NZBA are progressing towards medium-term action on decarbonisation with accountability. Net zero commitments by Australian corporates are growing with ClimateWorks' updated Net Zero Momentum Tracker finding 66% of the ASX200's scope 1 and 2 emissions and 28% of disclosed scope 3 emissions are committed to being managed in line with a 1.5°C trajectory.

The investment opportunities are also growing as the IEA predicts global renewable capacity expansion between 2022-2027 to grow by 2,400GW, an 85% acceleration from the previous five years (almost 30% higher than forecast last year) due to global policy developments such as China's 14th Five-Year Plan, the REPowerEU plan and the US Inflation Reduction Act. Australia's renewable energy pipeline is also starting to fatten with policy developments like Victoria's new 95% renewables by 2035, and Queensland's 70% renewables by 2032, priming Australian banks for an unprecedented renewable energy investment opportunity.

[1] CEF estimate based on the global IEA World Energy Outlook required $4tn annual investment estimate

Summary and highlights:

- Westpac is establishing its own lending classifications for what constitutes as "green" and "transition" finance, in a welcome move to improve disclosure ahead of the forthcoming Australian Sustainable Finance Institute (ASFI) taxonomy
- Its $15bn, 10 year climate solutions pledge to 2030, uses a conservative definition to measure real world environmental impact, including only new lending rather than, for example, loan refinancing
- Westpac moved fast to establish five priority financed emissions reduction targets within 6 months of joining the NZBA, the 2030 targets are comparable with ANZ and NAB's
- Disclosure of progress on transition plan engagement is welcome as it forms a key pillar of the bank's climate strategy, and Westpac notes it is working towards this
- Westpac reports a decreasing coal, oil, gas balance sheet, and at the same time highlights being Australia's largest bank lender to greenfield renewable energy projects

The bottom line:

Westpac is showing leadership in mitigating greenwash through establishing lending classifications to improve disclosure on sustainable finance, emphasising on balance sheet loans in climate solutions, and getting the trend right in decreasing coal, oil and gas lending while focussing on renewable energy opportunities. Even so, there is significant room to improve ambition across all four themes, especially in pivoting capital towards climate solutions at a rate consistent with the need.

Westpac is the most piecemeal in its climate reporting compared to ANZ, NAB and CBA – consolidation of climate-relevant statements and disclosures within a single document would surely be welcomed by investors, analysts and stakeholders.

1. Climate solutions financing

Sustainable finance trends

Westpac seeks to position itself as a market leader in sustainable finance solutions, reporting 69 global sustainable finance transactions valued at $108bn in FY2022 – as a comparison, ANZ reported 127 global sustainable finance deals in FY2022 worth $155bn. Both banks count an element of facilitative financing, for example where they played an arranging role in the deal, but drilling down to the full extent of comparability between figures requires additional analysis and something CEF intends to take on next year.

Westpac notes growing momentum and opportunity in this space, reporting that 91% of investors and 85% of issuers in the Asia Pacific have either begun to decarbonise or have plans to decarbonise. Westpac Group's CEO Peter King backs this up by saying "we see further opportunities to invest in the transition and are increasing the capability of our people to respond."

Australia's first and second sustainability-linked bonds (SLB) to Wesfarmers and Woolworths respectively were issued by Westpac this FY2022 – we note a climate dimension to each SLB with the inclusion of a carbon emission reduction measure.

Westpac will be releasing its own lending classifications for "green" and "transition" finance in a welcome move to improve disclosure ahead of converging with ASFI's taxonomy, designed to provide a set of common definitions to credibly and transparently define sustainable investments, which won't be finalised till 2024.

Climate change solutions funding

Scope – Westpac's $15bn pledge over 10 years, FY2021 to FY2030 inclusive, is dedicated wholly towards environmental activities, specifically "climate change solutions", and only covers lending, not arranging, advisory, underwriting or otherwise facilitative financing – a tighter definition than ANZ and NAB. Its definition of "climate solutions" appears to be on par with other banks' "environmental" finance pledge, covering activities which reduce carbon emissions. We look forward to significantly enhanced pledge in FY2023.

On the whole, we understand Westpac may be taking a more conservative approach to measure and reflect the real environmental impact of lending than its counterparts by, for example, counting only new lending and not loan refinances. It is unclear whether other banking majors are including loan refinancing under their climate pledge.

Progress – Westpac tracks a modest 4% growth in climate lending between FY2021 and FY2022, at an actual value of $1.9bn and $2bn respectively. We would expect this number to increase YoY reflective of greater investment opportunity and the $600bn decarbonisation opportunity that Anothony Miller, WIB CEO, quotes – the current pledge represents a very unambitious 2.5% of the stated opportunity. Unlocking the Australian major banks' trillion dollar balance sheets will be key to a decarbonised economy. The intent to move in the right direction is there, with Westpac stating it will increase financing for the climate transition and extend its product suite to support customers as they manage their climate risks.

Westpac, unlike the other majors, also discloses its total committed exposure (TCE)[2] against its climate asset classes – currently a cumulative TCE of $10.8bn, which measures direct and indirect customer financing. Greater consistency across the sector in climate asset class definitions plus the requirement for banks to disclose exposure in these areas would provide a basis to begin to assess whether capital is pivoting in line with a banks' fiduciary duty to take on ESG lending plus manage risk-return outcomes.

Contradictory financing – Westpac's FY2022 facilitative emissions footprint is in the realm of $6bn worth of oil and gas supply expansion – three times its $2bn climate solutions funding

[2] Total committed exposure (TCE) reflects the amount a bank has committed to provide vs Exposure at Default (EAD) which is a point in time snapshot of drawn loans – for more context see finding 6 of ShareAction's NZBA report (Oct 2022)

in the same year, highly destructive given the IEA's very clear statement that climate chaos is certain if new oil and gas mega-projects go ahead. And markets are moving: we note the important decision by Glencore –Australia's largest coal miner – in December 2022 to walk away from its 15Mtpa Valeria thermal coal mine proposal in Queensland on the grounds of capital risks rising for fossil fuels (possibly also as a critique of having to share war-profits under the new progressive coal royalty system).

2. Financed emissions reduction by sector

Westpac joined the NZBA in July 2022, the last of the five big Australian banks to do so. It has already made fast progress in target setting against five priority decarbonisation sectors, two more than CBA (which will be the focus of CEF's next comprehensive analysis).

Financed emissions comparability is another area requiring a deep dive analysis, but to begin with it's useful to use the '2030 absolute target' as a measure for comparability across banks. Using this measure, CEF finds Westpac to be within a similar range to ANZ and NAB's targets across thermal coal and upstream oil and gas, and Westpac leads on power generation (see Table 1).

We are expecting CBA and Westpac to take the lead in target setting and actions on building codes and NatHERS ratings for residential mortgages given they are number 1 and 2 respectively in Australian residential mortgage market share.

Table 1: Comparative assessment on 2030 emissions reduction targets

	ANZ	NAB	Westpac
Thermal coal			
2030 target	Exit thermal coal by 2030	100%	Exit thermal coal by 2030
Emissions measurement		Absolute emissions	
Baseline		FY2021 / 5.1 MtCO2-e	FY2021 / $216m TCE
Oil and gas			
2030 absolute target	11.1 Mt CO2-e	3.2 Mt CO2-e	5.8 Mt CO2-e
2030 reduction target	26%	21%	23%
Emissions measurement	Absolute emissions	Absolute emissions	Absolute emissions
Baseline year / measurement	FY2020 / 15 Mt CO2-e	FY2021 / 4.1 MtCO2-e	FY2021 / 7.5 MtCO2-e
Power generation			
2030 absolute target	0.12 tCO2-e/MWh	0.14 tCO2-e/MWh	0.10 tCO2-e/MWh
2030 target	50%	32%	62%
Emissions measurement	Emissions intensity	Emissions intensity	Emissions intensity
Baseline year / measurement	FY2020 0.237 tCO2-e/MWh	FY2021 0.2 tCO2-e/MWh	FY2021 0.26 tCO2-e/MWh

3. Customer transition plan engagement

Westpac doesn't currently disclose their progress on customer transition plan engagement, although it forms a key pillar of their strategy for becoming a net zero and climate-resilient bank.

What do we know about Westpac's customer engagement strategy:

- Westpac's ambition is to become the "transition of partner of choice" and customer engagement has begun.

- For institutional customers, Westpac is:
    - Providing guidance on **climate strategy** and **decarbonisation plans**
    - Offering **financial products** to meet sustainability goals, and
    - Building its **internal capability** and **evolving its products and services** to meet emerging needs

- Engagement is commencing with agribusinesses on climate change impacts on farm productivity and the role of adaptation measures to improve climate resilience

CEF assessment and commentary:

1. All transition plan engagement must aim for credible, **science-based targets (SBT) and a 1.5°C pathway with strong interim actions** towards decarbonisation

2. We know emissions reduction amongst **high-emitting Australian corporates** is key to achieving the Paris Agreement, and we want specific transparency over this customer segment ensuring engagement and lending is aligned with a science-based decarbonisation pathway

3. Westpac must be accountable for disclosing 'how' they facilitate transition plan progress by **providing transparency over assessment/rating frameworks**, particularly for customers/projects with greenfield fossil fuel developments, given the stranded asset lock-in and carbon budget blowout – we would expect this involve a dimension of measuring the pivot of capex towards climate solutions

Disclosure of transition plan progress will ensure Westpac's corporate stewardship can be held to scrutiny during this critically important decade for decarbonisation. Given that customer engagement aims to reduce financed emissions, transparency on how Westpac's engagement traces back to sectoral emissions reduction under its NZBA commitments would also be welcome.

4. Energy loanbook trends

Westpac is the only bank providing transparency over the full energy value chain components, inclusive of transport – something we would expect to see the all big 5 banks do more of as investor pressure for comprehensive climate risk disclosures grows.

Westpac's combined thermal coal, oil and gas exposure[3] dropped 11% YoY, a downward trend neither ANZ nor NAB can claim. At the same time its renewable energy exposure disappointingly dropped 5% YoY, even as Westpac still reports being the "largest bank lender to greenfield renewable energy projects in Australia over the past five years."

We acknowledge the domestic renewables sector's investability has been eroded by the energy policy chaos of the previous Federal government, raising investment risks and undermining investment opportunity. With the new cooperation of Federal and State governments and the official federal target of 82% renewables by 2030, we would expect a material acceleration in investment activity from all major banks as capitals inflows accelerate, evidenced in the last two months alone by the $4bn acquisition of CWP Renewables by Squadron Energy, the multibillion dollar private investment into development of the largest windfarm in the Southern Hemisphere, the new $7.8bn NSW-Federal government grid investment, and the Brookfield bid for Origin Energy.

Notably, Westpac reports nil lending into explorative oil and gas activities – an excellent statistic that should absolutely be standard practice in Australian banking given that new fossil expansion is not the answer to energy price hyperinflation, and incompatible with holding warming to the 1.5 degree Paris threshold.

Westpac reference list FY2022

1. CEO's Report
2. Annual Report
3. Investor Discussion Pack and Presentation
4. Sustainability Supplement
5. Climate Change and Environmental Issues, webpage
6. Climate Change Position Statement and Action Plan
7. Sustainability Index and Data Sheet, excel download
8. Net-Zero 2030 Targets and Financed Emissions
9. Partners in innovative sustainable finance solutions, webpage
10. Sustainable finance hits fast forward, webpage and pdf

[3] Combination of oil and gas extraction and exploration, thermal coal mining, and electricity generation.