# Westpac FY23 Climate Finance Assessment

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## Summary

- **Energy lending trends in the right direction** with renewables lending increasing 28% yoy as fossil energy exposures decreased 7% yoy.
- **Oil and gas (O&G) policy updates still do not restrict corporate finance and deal facilitation** to companies or projects known to expand the supply of fossil fuels beyond a 1.5 degree pathway – a major loophole given last year Westpac facilitated at least three off-book deals inconsistent with net zero and corporate finance comprises 73% of Westpac's lending to fossil fuels.
- **Energy investment needs to accelerate** to a ratio of 4: 1 clean energy supply to fossil fuel supply this decade (BNEF). This would require a concerted effort by Westpac to lift from the current 0.7 to 1 ratio. We note Westpac to be the only big four bank providing transparency across the fossil fuel energy value chain to enable accurate comparison with this BNEF global benchmark.
- **Thermal coal exit commitments are on track** with Westpac establishing additional interim 2025 commitments to restricting thermal coal finance, in support of its 2030 thermal coal exit date. This is accompanied by new limitations to project finance for greenfield coal-fired power stations and greenfield metallurgical coal mines.
- **It is great to see Westpac establish plans to engage with customers on their transition strategies** with a new pilot transition plan assessment framework pinned to benchmarks such as Climate Action 100+ and including decarbonisation capital allocation assessment. We look forward to reporting on this in FY2024.
- **Westpac requires credible transition plans from O&G customers by end September 2025**. However, if it recognises the imperative to decarbonise O&G scope 3 emissions, we call on it to establish stricter and earlier measures, particularly in closing the O&G policy loopholes mentioned above. FY2026 (one year later) is too late for banks to act in accordance with the science.
- **We call for Westpac to disclose its transition plan in line with the global benchmark for banks** recently established by the UK Transition Plan Taskforce, which is also a feature of Treasury's draft Sustainable Finance Strategy. Australia desperately needs big banks to leverage their institutional might into solving humanity's existential crises, and to innovate financial products that mobilise capital towards the green economy at speed and scale. It is good to see the incorporation of climate risks and opportunities into the senior management compensation evaluations.
- **Additional sector decarbonisation targets** were established within 8 of 9 carbon intensive sectors identified by the Net Zero Banking Alliance (NZBA). New targets were set for residential real estate, steel production, air transport, beef and sheep, and dairy lending. We note fast progress in setting these targets and now a commitment to operationalising. This is accompanied by the positive step to 100% renewable energy for Westpac's own use from April 2023.
- **An impact mindset to climate solutions lending** means that Westpac's disclosed climate solutions contribution is less than other banks at $2.6bn in new and incremental lending in FY23. CEF notes inconsistency across the sector on this measure and will aim to publish a comparison report early next year.
- **A new $55bn total committed exposure (TCE) commitment into climate solutions by 2030**, up $37bn from the $13bn in FY23, plus $40bn in bond facilitation, will be underpinned by a new Sustainable Finance Framework (SFF) from next year, superseding previous years' definitions of climate solutions (i.e. from the note above). The new SFF will contribute to and be informed by the Australian Sustainable Finance Institute's (ASFI) initial criteria for an Australian sustainable finance taxonomy due by the end of 2024.

## 1. Energy financing trends – see Climate Report, p.45 and Sustainability Data Sheet

Westpac continues to get the trend right, increasing renewables financing at a rate of 28% yoy while decreasing fossil fuel exposures by 7% yoy.[1] This builds on the trend CEF found in our FY22 assessment of Westpac, just as the world is on track for the hottest year on record.

Accelerated climate finance action is required to meet BloombergNEF's minimum projected 'energy supply investment ratio' of $4 clean energy to $1 fossil energy this decade,[2] where energy supply is defined as 'the infrastructure built to extract, generate and distribute energy from fossil fuels or low-carbon resources'. As 2030 approaches there will be greater scrutiny on the global banking sector's sustainable power commitments.

With a FY23 total committed exposure (TCE) of $7.2bn to fossil fuel and $4.3bn to renewables[3], Westpac's energy supply investment ratio is $0.7 in clean energy for every $1 committed to fossil-based energy supply.

This illustrates the gap between the current ratio of fossil fuels vs clean energy and the BNEF benchmark – a gap which must be closed to facilitate the accelerating energy transition and leverage Australia's opportunity to lead. It will be incumbent on banks to do business differently and innovate.

However, we do commend Westpac for being transparent in its energy value chain exposures – the only Big Four bank to do so, enabling tracking of the 4:1 ratio.

## 2. Fossil fuel financing policy - FY23 updates, see Climate Report p.29

*Coal*

As of FY2023, Westpac maintains its strong stance on not providing project financing to new, expansions or extensions of thermal coal mines, as well as financing restrictions for customers who earn greater than 15% revenue from coal mining.

In a welcome move, Westpac establishes a new interim FY2025 target for reducing exposure to zero for customers where >15% of revenue comes from thermal coal.

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[1] Fossil fuel figures cover the fossil fuel energy value chain (Climate Report p.45), including O&G retailing which cannot be split out from distributors and excludes fuel retailing. Renewables exposures can be found in Electricity Generation disclosures in the Sustainability Data Sheet.

[2] The 'energy supply investment ratio' provides an indication of the minimum rate at which the global banking sector needs to finance clean energy supply compared to fossil energy to have a chance at limiting global warming temperatures to within 1.5 degrees Celsius. The ratio consists of low-carbon power supply, hydrogen infrastructure and uses, carbon capture and storage, upstream, midstream and downstream for oil, gas and coal and unabated fossil fuel power generation. In built in the modelling are IEA, NGFS, IPCC scenarios that predicate declining investment requirements for fossil fuels, and increasing in clean energy.

[3] Fossil fuel exposures are based on the fossil fuel energy value chain (inclusive of retailing exposures). Renewables exposure is based on figures found in the electricity generation exposure table. Both can be found in the Sustainability Data Sheet.

It complements the bank's FY2030 target which aims for zero corporate finance where >5% of the customer's revenue comes directly from thermal coal mining.

Further complementing this, Westpac will no longer provide project finance to new (greenfield) coal-fired power generation facilities or greenfield metallurgical coal projects.

The banks' increasing and entirely justified aversion to project finance for new coal was reflected mid last year when Whitehaven Coal, Australia's largest pure play coal producer, could not access re-financing of its $1bn debt facility from any of the major Australian banks. Progress like this has been driven by tireless grassroots campaigns to expose the catastrophic role of coal in driving climate change and to remove its social licence, as corporate social responsibility and fossil-fuel related risk management considerations increasingly shape banks' financing policies.

*Oil and gas*

In updates to its O&G financing policy, Westpac commits to restricting project and bond financing to greenfield oil and gas in alignment with the IEA's Net Zero 2050 scenario.

By ruling out 'gas processing plants', Westpac has become the first of the big four Australian banks to rule out direct finance for new LNG plants.

However, it still does not address several elephants in the room – corporate finance, LNG terminals, facilitation through arranging, advising and underwriting, and a loophole enabling continued financing where the Federal Government deems investment necessary for national energy security.

Westpac's explicit inclusion of corporate lending and bond facilitation to this sector, especially customers known to be expanding O&G supply beyond an IEA 1.5 degree pathway, is a major loophole in the banks' policy, and one that it is exercising to continue to support fossil fuels. MarketForces finds corporate finance makes up 73% of Westpac's lending to fossil fuels since the Paris Agreement.

The concern extends to the various ways the bank can facilitate finance to these companies through arranging, advising and underwriting loans. In August 2022, for example, Tiwi Islands and Larrakia Traditional Owners lodged formal complaints against all 4 big banks for arranging a $1.5bn loan to Santos related to the Barossa gas project, in what environmental lawyers are calling human rights abuses.

This is at odds with Westpac's human rights position statement which acknowledges the interrelated nature of climate change and environmental impacts on human rights. Additional loans to Woodside and the Pluto 2 LNG project were made over a nine-month period in 2022, leaving room for significant climate damage to be inflicted between now and when Westpac decides to close the loophole .

The national security energy caveat is open to excessive wriggle room, given the Federal Government's failure to align with the climate science and the Science Based Targets Initiative (SBTi), as demonstrated by its continued approval of new fossil fuel projects, even as the climate crisis escalates in real time.

## 3. Transition plan expectations - FY23 updates, see Climate Report p.31

*O&G sector*

Westpac reports it will continue to provide corporate lending and bond facilitation where the customer has a credible transition plan in place by 30 September 2025. However, in the same breath, Westpac acknowledges the challenges that still exist for the sector in establishing credible 1.5°C-aligned transition plans by 30 September 2025, particularly as  sector emissions are mostly scope 3, i.e., occurring downstream, from the use of oil and gas.

Unless something drastic changes within the next 2 years, Westpac's approach to financing O&G customers seems at odds with the banks' net zero pathway. Especially where corporate finance may go to O&G majors that are expanding fossil fuel supply beyond a 1.5 degree IEA pathway.

*Other sectors*

A pilot net-zero transition plan framework[4] is being applied to Westpac's other high emitting customers, especially those that fall within its NZBA sector targets. The framework is informed by Climate Action 100+ and the Transition Pathway Initiative and will explicitly assess decarbonisation capital allocation alongside other important measures such as credible short and long term emissions reduction commitments and Board experience on climate change.

We note the timing aligns with federally mandated climate-related financial disclosures to commence, for Australia's largest companies including Westpac, from 1 July 2024, a key element of Treasury's Sustainable Finance Strategy.

*The bank's transition plan*

In line with best practice transition plan disclosure for banks published this week by the UK Transition Plan Taskforce (UK TPT), we expect Westpac to work towards providing additional transparency on how it is supporting a 1.5°C aligned, whole-of-economy transformation through its products and services, as well as systems levers like policy advocacy.

## 4. Sector decarbonisation targets - FY23 updates, Climate Report p.25-31

Westpac reports a 3% reduction in financed emissions on FY22, with 48% of the bank's financed emissions now committed under the Net Zero Banking Alliance (NZBA).

Targets have now been set in eight of the nine identified NZBA carbon intensive sectors, with new targets for its residential real estate, steel production, air transport, beef and sheep, and dairy lending portfolios.

[4] See the pilot framework on Climate Report, p.31

We note fast progress in this area and a commitment to operationalising these targets in the coming year. Additional targets for road transport, metallurgical coal and aluminium would complete the full scope of sectors under the NZBA.

We review progress in six sectors below.

*Oil and gas targets*

While Westpac is tracking well against its upstream O&G target set last year of a 23% reduction by 2030, it is still concerning that this will result in an absolute emissions measurement of 5.8 Mt $CO_2$-e, which is more than NAB's proposed 2030 target at 3.2 Mt $CO_2$-e (a bank more highly exposed to the O&G sector). CEF will aim to investigate this further in due course.

Of note, is the fact that O&G refining TCE increased 39% yoy (from $338m to $471m). This could indicate the need for big banks to be emphasising efforts towards emission reduction across the O&G value chain, especially midstream, and providing transparency into plans and anomalies from a climate science-aligned pathway.

*Metallurgical coal*

Westpac is also starting to decarbonise its metallurgical coal book, with a revised position in FY23 that now restricts project finance for new metallurgical coal mines. Accompanying this is a 2030 sector target to decarbonise steel production to 1.42 tonne CO2-e/tonne of steel (scope 1 and 2), backed by a commitment to supporting the development of alternative products and processes in low emissions steel making. Westpac has stated up front that, to protect customer confidentiality, it will not be disclosing a baseline or progress against its limited customer sample size.

*Power generation*

We acknowledge Westpac's strong 0.10 tCO2-e/MWh power generation emissions 2030 target (-55% vs FY2022). This needs to be backed in by additional Federal and State Government investment and incentives such as reforming fossil fuel subsidies and taxes, enforcing polluter-pays, direct industry support, and tax incentives, all with requirements to build out domestic capacity including the Australian clean energy workforce and sovereign capability. CEF estimates electrifying everything and electricity decarbonisation is at least $300-400bn new investment potential by 2050 for Australia.

*Residential buildings*

Westpac commits to a 56% emissions intensity reduction by 2030 for residential buildings, against a 2021 baseline, just shy of CBA's 60% Australian benchmark established earlier this year. As CEF's article on greening Australia's $10tn housing stock explains, most of this target will be achieved by leveraging existing momentum towards decarbonising the grid.

*Commercial buildings*

A 59% emissions intensity reduction commitment by 2030 on commercial buildings, established by Westpac in FY22, was the first target set by a big bank to decarbonise this sector, which accounts for around 25% of overall electricity use and 10% of total carbon emissions in Australia. The decarbonisation target is backed in by $6.3bn TCE worth of green commercial assets that are NABERS 5-Star rating and above (see Sustainability Data Sheet).

*Air transport*

Westpac sets a new 60% target for reducing the emissions intensity of air transport (aviation) by 2030. We note Westpac's relatively high transition risk, potentially high growth constraints, and a 7.9% share of committed financing that is exposed due to weak credit quality under this sector.

## 5. Climate solutions lending – FY23 updates, see Sustainability Data Sheet

Under its climate solutions lending target, this year, the bank allocated $2.6bn in new lending to climate change solutions in FY23 bringing the total to over $6.5bn in new lending since 2020 (average $2.2bn per year).

While this is substantially lower than the reported figures for climate solutions lending of the other big banks, we note significant differences in methodology of reporting are likely driving the disparity. CEF will aim to investigate and publish more on this over the coming months.

FY23 climate solutions TCE is $13bn, increasing marginally (2%) on last year, and still only representing a fraction (1%) of the bank's overall assets. This predominantly comprises green commercial buildings ($6.3bn and 48% of TCE), and renewable energy ($4.5bn and 35% TCE).

The decarbonisation target is backed in by $6.3bn TCE worth of green commercial assets that are NABERS 5-Star rating and above.

From next year, Westpac's new Sustainable Finance Framework (SFF)[5] will supersede its climate solutions disclosures as its new framework for green, transition, social and sustainability financing. The framework is backed by a new commitment to $55bn in lending, i.e. total committed exposure (TCE), building on the existing $13bn TCE in climate solutions, plus $40bn in bond facilitation by 2030.

By switching to measure TCE, i.e. the stock, rather than new and incremental lending, i.e. the flow, Westpac is intentionally stepping towards measuring current and real "impact". This intention is supported by its stringent inclusion criteria which do not, for example, include things like debt

[5] Westpac's SFF will contribute to and be informed by progress on the Australian Sustainable Finance Institute (ASFI)'s initial set of criteria for an Australian sustainable finance taxonomy due by the end of 2024. CEF will aim to independently assess draft criteria and the transition methodology put forth by ASFI in coming months to mitigate the risk of vested interests corrupting the outcome.

re-finances. It is unclear the extent to which other banks do include re-finances – a comparative task which CEF will aim to undertake in early 2024.

However, to solve the multiple crises humanity faces, private capital needs to pivot into solutions at a much faster rate this decade, eventually aligning the entire financial system with sustainability criteria per the ASFI roadmap.

Westpac executive Anthony Miller also acknowledges that, in future, it is likely that all finance would meet sustainability criteria, and the rapidly growing category of sustainable finance may disappear within about five years due to this trend.

*Residential buildings*

Financing towards green homes is something that Westpac will begin tracking next year under the new SFF. The criteria specify construction, acquisition or refurbishment of assets to a minimum level of at least the regulatory requirement of 7 Star energy NatHERS rating, indicating Westpac really is aiming for the highest mark of impact. This is a stronger stance than CBA who have chosen to include a lower benchmark of 6 Star NatHERS rating which, in practical terms, is a significant step down in the energy performance of a new home relative to a 7-star requirement as mandated by changes to the 2022 National Construction Code.

As noted previously, we want to see Westpac, with its 21% mortgage market share, the second largest in Australia, show leadership and double down on financing the electrification of Australian homes. Financial service innovations that incentivise mortgage holders to green their homes have already begun. For example Bank Australia's EcoPause green finance arrangement allows customers to pause their home loans for three months to afford eligible energy efficiency upgrades, such as rooftop solar which help to decarbonise the grid as well as homes.

*Adaptation infrastructure*

A new adaptation infrastructure category accounts for $635m TCE under Westpac's climate solutions lending. This is defined as infrastructure that increases the resilience of existing infrastructure (e.g. bridges and rail) to the physical impacts of climate change – sure to become an important asset class as the likelihood of the Australian mainland being exposed to temperatures of up to 50°C increases.

*Road transport*

Westpac has started to decarbonise road transport with 575 discounted car loans written in FY23 for electric and hybrid vehicles, and a commitment to decarbonising its own fleet by 2030.

Low carbon transport accounts for $7.6bn TCE in FY23, but this includes rail, freight, aviation, EVs/hybrids, bicycles and more. It would be in the public interest for Westpac to disclose electric and hybrid vehicles exposures on their own to provide transparency on how much impact its car loan product is having, as an example.

A 2030 NZBA target to decarbonise road transport would complement Westpac's financing efforts in this area. Passenger cars and light commercial vehicles alone contribute 60% of Australia's transport emissions and over 10% of the nation's total emissions, and given the speed of global transformation to EVs is well underway, Westpac should aim to provide leadership.

### Source list

Link to Westpac's 2023 Annual Reporting Suite found here, as well as individual links below:

- Annual Report
- Climate Report
- Full Year Results and Investor Discussion Pack
- Sustainability Index and Data Sheet
- Pricewaterhouse Coopers Independent Assurance Report
- Sustainable Finance Framework
- Climate Change Position Statement and Action Plan
- Human Rights Position Statement and Action Plan
- Natural Capital Position Statement

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