WESTPAC NEW ZEALAND CLIMATE RISK REPORT FY22

November 2022.

OUR POSITION

Westpac New Zealand Limited (Westpac NZ[1]) is committed to transparency and action to address climate change and views climate-related risks as a financial risk. This is Westpac NZ's third annual Climate Risk Report, which sets out the bank's response to climate-related risks and opportunities.

Westpac NZ recognises climate change as a major threat to our collective wellbeing and the need for urgent action. Businesses and the financial sector have a major role to play in reducing emissions and preparing communities for the impacts of climate change. We are committed to addressing climate change, understanding the risks and helping customers and communities respond.

Westpac NZ acknowledges the need for the New Zealand economy to reach net-zero greenhouse gas emissions by 2050 and is committed to managing its business in alignment with these goals. As part of the wider Westpac Group, Westpac NZ is committed to the UN-convened Net-Zero Banking Alliance. Westpac NZ works to support customers and communities to transition to net-zero and build their climate resilience. Westpac NZ seeks to respond to the challenges of climate change in a holistic and integrated way, with short, medium and long-term targets. This includes:

- increasing lending and facilitating access to capital in the form of Sustainability-Linked Loans (SLL) and other forms of sustainable finance to support customers to reduce emissions and achieve their sustainability goals,
- facilitating the issuance of Sustainable Bonds and Green Bonds to support the financing of environmentally sound and sustainable customer projects that foster a net-zero emissions economy,
- considering environmental, social and governance (ESG) risk factors in the bank's lending,
- reducing operational emissions, and maintaining carbon neutrality,
- estimating our Scope 3 emissions and aligning our lending portfolios to a net-zero emissions pathway, that is consistent with a maximum temperature rise of 1.5°C above pre-industrial levels by 2100,
- helping advance the finance sector's response to climate change through constructive advocacy and leadership.

Westpac NZ incorporates Westpac Group's recently updated Climate Change Position Statement and Action Plan into 'Manaaki Te Ao' (Care for the Planet) climate change pillar of its 2025 Sustainability Strategy.

Westpac NZ's approach to climate-related risks focuses on the policy, regulatory, technology and market changes related to climate change (transition risks) and the impacts of changes in climate patterns and extreme weather events (physical risks).

Westpac NZ believes that relevant, accurate, comparable, and timely climate-related disclosure is important to stakeholders. This will help promote efficient capital markets and broader financial system stability. Westpac NZ supports the policy underpinning the climate disclosure legislation[2] as set out in the New Zealand Bankers' Association submission and strongly supports key elements of the disclosure standards proposed by the External Reporting Board.

This report is based on the recommendations of the Taskforce for Climate-related Financial Disclosures (TCFD) and builds on Westpac NZ's first two Climate Risk Reports. Westpac NZ intends to continue expanding the scope of our climate risk reporting and align this with NZ's emerging mandatory disclosure standards as soon as possible.

[1] In this report, 'Westpac NZ' and 'the bank', 'we' and 'our' refer to Westpac New Zealand Limited. 'Westpac Group' refers to Westpac NZ's parent, Westpac Banking Corporation (ABN 33 007 457 141) and its consolidated subsidiaries.

[2] Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act 2021.

GOVERNANCE

Westpac NZ's governance of climate-related risks involves the Westpac NZ Board, senior management and broader organisation.

Board oversight.

The Westpac NZ Board charter sets out that a key responsibility of the Board is overseeing the social, ethical and environmental impact of Westpac NZ's activities, setting standards and monitoring compliance with Westpac NZ's sustainability policies and practices. The Board also approves Westpac NZ's Sustainability Strategy and Climate-related disclosures.

The Westpac NZ Board Risk and Compliance Committee (BRCC) charter was recently updated to include oversight of the identification, assessment, management and disclosure of climate-related risks to Westpac NZ. Accordingly, BRCC oversees the identification, assessment, management and disclosure of climate-related risks and opportunities, including setting goals and targets to address climate-related issues and assessing impacts on relevant risk classes. It also reviews, approves or recommends to the Board for approval, climate-related disclosures. The Board delegates to the BRCC the review and approval of the Sustainability (ESG) Risk Management Framework[3], which includes climate-related risks, every two years. BRCC receives a quarterly risk report that includes updates on sustainability and climate-related risks.

During the Financial Year 2022 (FY22) Westpac NZ increased Directors' engagement on climate-related matters, including:

- a Board workshop dedicated to climate-related risks, hosting the Chair of the Climate Change Commission, Dr Rod Carr for a discussion on the implications of climate change for the financial sector,
- Board consideration and endorsement of Westpac Group's commitment to the UN-convened Net- Zero Banking Alliance, and
- a Board Audit Committee workshop dedicated to climate-related financial disclosures and consideration of Westpac NZ's preparation for the emerging standards.

Management's role.

The Executive Risk Committee (RISKCO) is a management committee that has delegated authority from the Westpac NZ Chief Executive to oversee material risks across the bank, including climate-related risks. RISKCO is chaired by the Westpac NZ Chief Risk Officer and attended by members of the Executive Team and senior risk representatives. RISKCO receives quarterly risk reporting that includes updates on sustainability and climate-related risks.

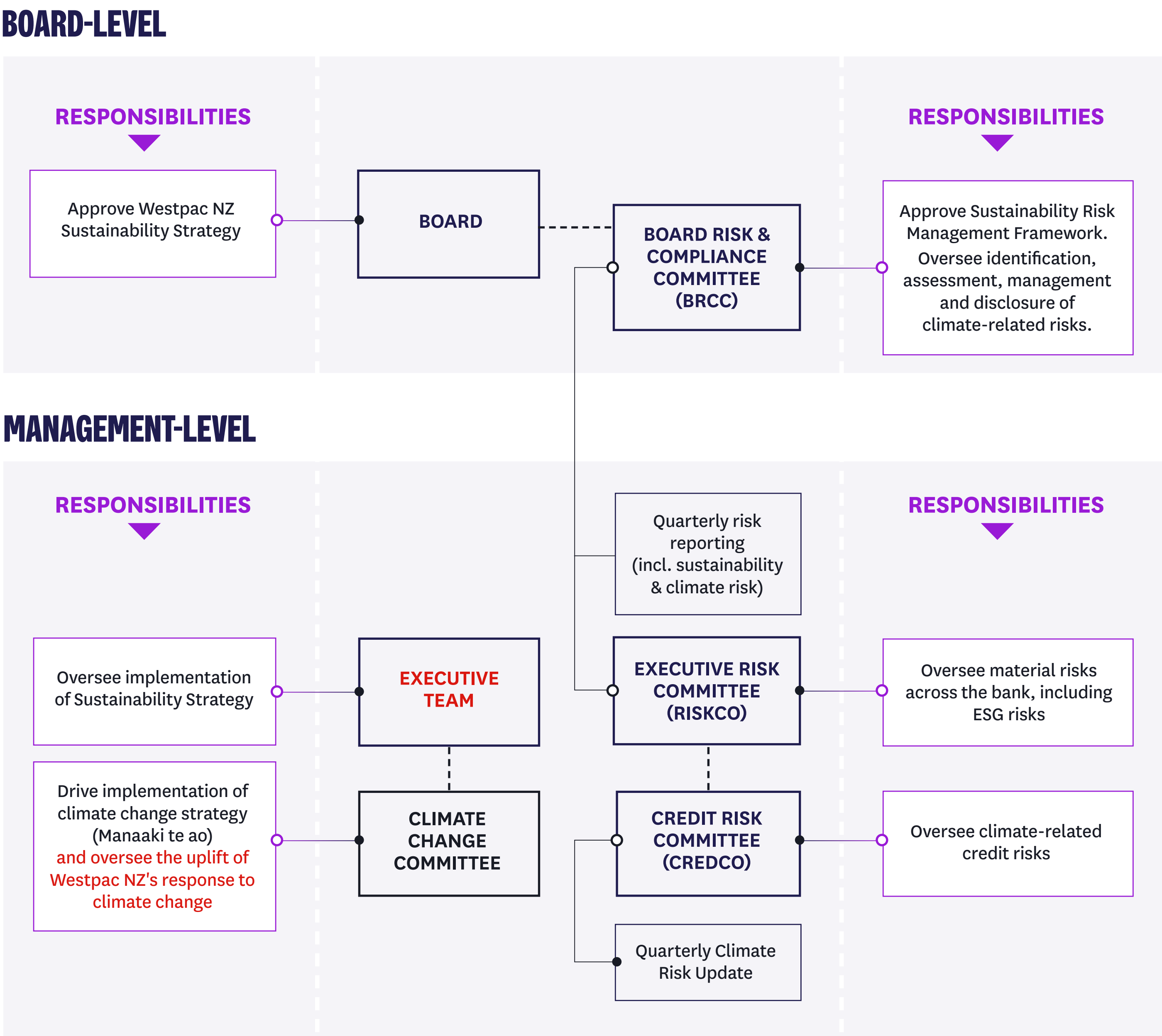
A subcommittee of RISKCO, the Credit Risk Committee (CREDCO), oversees climate-related risks that present a credit risk. CREDCO recommends enhancements to the Westpac NZ Credit Risk Management Framework, risk appetite statements and credit policies. CREDCO receives quarterly climate risk updates.

During FY22 the Westpac NZ Sustainability Steering Committee (SUSTCO) transitioned to the bank's Executive Team (ET). ET oversees the delivery of Westpac NZ's 2025 Sustainability Strategy, including the Care for the Planet / Manaaki Te Ao strategy pillar (refer Strategy section) and discusses climate-related matters.

To enhance Westpac NZ's climate governance, the Climate Change Committee (CCC) was established in 2021 as a subcommittee of SUSTCO and now reports directly to ET. The CCC is chaired by the Head of Sustainability, Strategy & External Affairs and includes a number of executives and senior management from different parts of the bank. It meets at least quarterly and oversees progress on implementation of Manaaki Te Ao, including:

- monitoring external developments,
- acting as a steering committee for the Westpac NZ's climate-related work programme, and
- providing an initial escalation point for any issues and barriers.

[3] This Framework was previously referred to as the ESG Risk Management Framework, with the name change approved as part of the most recent review.



Shows Westpac NZ’s governance structure in relation to climate risk (newly added governance elements in red)

During FY22 Westpac NZ established a dedicated work programme to ensure compliance with emerging mandatory climate-risk disclosure standards and obligations, particularly those arising from the Climate Disclosure Act and the Reserve Bank of New Zealand’s (RBNZ) proposed stress testing programme. In doing so, the Bank recognises that a significant uplift is required across all parts of the organisation to not only meet future regulatory obligations but deliver market-leading disclosures. This work programme will be overseen by the Climate Change Committee.

Westpac NZ is also a member of the Westpac Group Climate Change Financial Risk Committee, which focuses on identifying and managing climate-related financial risks across the wider Westpac Group, including the potential impact on credit exposures from climate change-related transition and physical risks.

STRATEGY

Westpac NZ integrates climate-related risks and opportunities into its wider business strategy. We are committed to becoming a net-zero, climate-resilient bank, helping New Zealand transition and adapt to the impacts of climate change.

Adapting to the effects of sea level rise

Lending to customers potentially exposed to climate-related hazards is a source of risk to Westpac NZ.

During 2020, Westpac NZ undertook a detailed scenario analysis of its exposure to coastal hazards (flooding and erosion) resulting from sea level rise.[4] The analysis identified that availability of affordable insurance and ability of the regulatory system to adapt were key risk factors. These factors determine the financial impacts on borrowers and the bank, arising from lending secured by properties deemed at heightened risk. For more detail refer westpac.co.nz/assets/About-us/legal-information-privacy/documents/2020-November-Climate-Risk-Report-Westpac-NZ.pdf

In FY22, Westpac NZ reviewed its assessment of the above key risk factors, concluding:

- While a sudden wholesale insurance withdrawal from high-risk areas appears highly unlikely Westpac NZ still expects insurance costs to increase over the next five years. Insurance withdrawal from some locations most at risk could occur in the next five years. This risk factor is unchanged.
- The National Adaptation Plan proposes to develop options for home flood insurance, including exploring options to support access and affordability of flood insurance.[5] While this may not permanently eliminate the risk of insurance retreat, a dedicated scheme could partially and temporarily mitigate some of the financial impacts and allow a more orderly adaptation pathway.
- Government signalled changes to resource management legislation have the potential to significantly improve the regulatory framework regarding adaptation, including preventing future development in locations significantly exposed to physical climate risks. This could limit risks of additional exposure from financing new developments.
- Work is commencing on the Climate Adaptation Act.[6] This legislation seeks to provide clarity around facilitation of adaptation and managed retreat and determine equitable cost-sharing mechanisms. A strong legislative framework can remove uncertainty for affected property owners and their lenders, and partially mitigate the financial impacts.

Despite the additional analysis, the wide range of possible scenarios in relation to key risk factors limits Westpac NZ's ability to accurately estimate future financial impacts at this time. Notwithstanding, Westpac NZ welcomes recent external developments in relation to insurance, adaptation and managed retreat, which have the potential to reduce financial risks for affected customers and the Bank.

The proportion of the Bank's residential mortgage lending potentially exposed to sea level rise remained stable during FY22 at 2.1%.

Impact of climate change on Agriculture.

Physical risks resulting from climate change can impact farm incomes, affect livestock wellbeing and in some instances have the potential to inundate productive land.

In FY22, Westpac NZ continued its Agri-sector Climate Risk Assessment (ASCRA) in partnership with Lincoln University's Agri Economics Research Unit (AERU). AERU analysed a wide range of physical risks and identified adaption options available to farmers.

[4] That analysis looked at current and future risks out to 2050 under 1.5˚C and 4˚C climate change scenarios (Representative Concentration Pathways RCP2.6 and RCP8.5). Heightened risk is defined as annual exceedance probability of 10% or more, as well as general exposure to coastal erosion under NIWA's Coastal Sensitivity Index.

[5] This is set out as Action 5.4 in the National Adaptation Plan (page 87), with to be lead by NZ Treasury.

[6] Action 5.1 in the National Adaptation Plan (page 84) proposes legislation to support managed retreat, with work led by the Ministry for the Environment.

Table 1: Vulnerability factors and adaptation options

RISK	VULNERABILITY FACTORS	ADAPTATION OPTIONS
Drought – increasing frequency and severity	Soil type & quality, vegetation, livestock	Water collection and storage, irrigation, reduced stocking rate, supplementary feed, soil management, shade & shelter, alternative pasture species, alternative land use options.
Heat Stress – extra 5 moderate heat stress days per year after 2050 projected	Livestock breed, stock intensity	Genetic selection, animal housing, shade and shelter, diet, changing timing of operations.
Flooding (surface/river) – heavy rainfall and storms are projected to cause increased damage to farms	Soil type, topography, vegetation, stock intensity, elevation	Natural flood management, proactive planning, soil management and improved drainage, shelter, animal standoff areas.
Coastal Flooding – increases in low-lying areas from sea-level-rise		
Pests & diseases – distribution of existing and new pests projected to increase in warmer climate	Livestock breed, plant variety	Reduced stocking rate, grazing management, livestock management, improved plant varieties.

ASCRA found many co-benefits from implementing adaptation options, including positive effects on biodiversity, soil health, freshwater quality and decarbonisation. However, adapting to the physical impacts of climate change requires management capability and investment.

Westpac NZ can play an active role in supporting customers to adapt by:

- sharing insights from ASCRA by publishing key findings (Refer to Westpac NZ Agribusiness Climate Change Report for more detail);
- training our bankers to support our customers with insights, guidance and support to encourage them to invest in appropriate adaptation options; and/or
- developing funding solutions based on our Sustainable Agriculture Finance Initiative (SAFI) pilot to fund adaption initiatives.

Westpac NZ seeks to quantify its exposure to climate change related physical risks in the agricultural sector. The wide range of risks, regional differences and complex mix of vulnerability factors makes this inherently challenging. This work is ongoing.

ASCRA also identified some opportunities arising from a warmer climate change, including increased pasture growth and productivity for some crops, new crops and alternative land use. While dependent on farming system and region, some farmers may be able to diversify their activities, generate co-benefits and strengthen the resilience of their operations.

Net-Zero Banking Alliance

During FY22 Westpac Banking Corporation joined the United Nations-convened Net-Zero Banking Alliance and set interim 2030 targets for five sectors, reinforcing its commitment to the global transition to a net-zero economy by 2050. As a subsidiary of the wider banking group Westpac NZ is covered by this commitment. As such Westpac NZ will work towards reducing its operational and financed emissions, helping customers transition to net-zero emissions by 2050, in line with keeping global warming to 1.5 degrees above pre-industrial levels by 2100.

Refer to Westpac Group's Methodology document for full details of Westpac Group's initial interim targets and how they were developed.[7]

[7] Westpac's first series of 2030 targets includes both Australian and Westpac NZ lending activities for upstream oil and gas, thermal coal mining, power generation and cement production.

Decarbonising Agriculture

Agriculture is the most material sector for Westpac NZ in terms of financed emissions (refer Targets and Metrics section) and therefore a key area of focus. Developing net-zero targets for this sector is inherently difficult due to potential tensions between key considerations, including:

- reducing absolute emissions, for example through land-use change;
- safeguarding food security through optimising production from fertile land;
- acknowledging New Zealand's relative low emissions-intensity compared with other global food producers; and
- accounting for societal and other environmental factors such as freshwater quality and biodiversity.

Balancing these factors will be an important part of developing credible sector targets, and will partly depend on the provisions of the proposed farm emission pricing scheme and availability of robust emissions data.

As part of ASCRA, Westpac NZ identified a range of options to reduce greenhouse gas emissions, focusing a case study on a relatively-intensive dairy farm in Southland. Westpac NZ's research partners then modelled the impacts of different strategies on production and financial performance.

Table 2: Summary of results from the Southland relatively-intensive dairy farm case study

DECARBONISATION RESEARCH SCENARIOS	OPERATING PROFIT ($/HA)	EMISSIONS INTENSITY (CO2E/HA)
Reduce stocking rates (10-15%)	↗	↘
Reduce or remove nitrogen fertiliser	↘	↓
Combination of reduced nitrogen fertiliser and stocking rate	→	↓
No supplementary feed	↘	↓
Native forestry	↘	↘

While impacts will differ from farm to farm, the case study modelled indicates that a moderate reduction in stocking rates could boost operating profits under certain circumstances as input costs reduce and performance per cow improves through skilled animal and pasture management.

The potential for premiums for sustainably produced food and reduced liabilities under a proposed farm-level emissions pricing scheme will further incentivise decarbonisation

However, moving to lower-emissions production will likely be more challenging for farmers without the necessary pasture and stock management skills, while those able to successfully de-intensify may be able lift financial performance.

Similarly, to adaptation, Westpac NZ can play a role in increasing the capability of both our bankers and customers and to expand our sustainable finance offerings to support decarbonisation.

Building on the findings of ASCRA, Westpac NZ will continue to seek to improve its understanding of its customers' emissions profile and environmental practices and financial performance. This work is running in parallel with new sector regulation and the proposed agriculture emissions pricing scheme.

Industries exposed to climate-related risk

Westpac NZ continues to improve its understanding of the risks and opportunities for the sectors most affected by transition and physical risks.

In 2018 Westpac NZ commissioned a Climate Change Impact Report, which assessed the impact of climate change on New Zealand's economy through to 2050, and identified key sectors exposed to transition and physical risks.

The final advice to Government from the Climate Change Commission sets out transition pathways for key industry sectors. It concludes that the transition to net-zero is both achievable and affordable. While overall economic impact is expected to be moderate, some industry sectors will bear a disproportionately higher impact. The Government's recently published Emissions Reduction Plan proposes a range of policy and funding initiatives to support businesses to decarbonise, including a $650m increase to the Government's Investment in Decarbonising Industry Fund (GIDI).

Table 3: Westpac NZ's lending exposure to key industries subject to climate-related risks

INDUSTRY SECTOR[8]	CLIMATE-RELATED RISKS	POSSIBLE IMPLICATIONS FOR TRANSITION	TOTAL COMMITTED EXPOSURE
Agriculture • **Dairy** • **Sheep Beef** • **Horticulture** • **Forestry**	Mix of physical risks, e.g. drought, flooding, erosion, storms, and transition risks, e.g. consumer preferences, regulation, as well as opportunities, e.g. forestry and horticulture	Emissions reductions of methane, nitrous oxide and, to a lesser degree, carbon dioxide, require widespread adoption of best practice farm management systems. For some farms stocking numbers could reduce. Significant expansion of both exotic and native forests is required to meet New Zealand's emissions budgets. Emissions pricing from 2025 onwards provide an additional financial incentive to decarbonise.	$9,957m • $6,303m • $2,109m • $1,252m • $294m
Oil & Gas (incl. mining & production, supply & retail)	Primarily transition risk as demand for fossil fuels (oil, gas, coal) declines over the long-term	While gas plays a role in replacing coal, input in industrial processes and back-up power generation, demand will more than halve over the coming decades. The electrification of transport will phase out demand for petrol and diesel. Upstream Oil and Gas is subject to the sector target under Westpac Group's commitment to the Net-Zero Banking Alliance.[9]	$476m
Transport (incl. air, rail, road freight and port operations)	Mix of physical risks, e.g. exposed infrastructure, disruption from extreme events, and transition risks, e.g. transition to electric vehicles, hydrogen etc	Current assets can operate until the end of their economic life. Low emissions assets generally have higher upfront cost but lower running costs, making the transition a finance challenge. The electrification of the private vehicle fleet may be hampered by supply constraints while Government seeks to reduce private vehicle use through improved public transport and active transport.	$1,877m
Electricity Generation (incl. generation, transmission and distribution)	Mix of physical risks, e.g. dry years, disruption from extreme events, and transition risks, e.g. phasing out of non-renewables	New baseload generation capacity will be renewable. Current uncertainties over the future of large users (e.g. Tiwai) are a barrier to large scale investment in new generation. Power Generation is subject to the sector target under Westpac Group's commitment to the Net-Zero Banking Alliance.[10]	$2,050m

Financial risks to the bank may primarily arise through credit risk where sectors or individual customers are unable to align their strategy with a transition to net-zero by 2050. In particular:

- Some companies and sectors face higher decarbonisation costs in the medium-term.
- High emissions exporters could face additional tariffs or limited access to key markets.
- Companies unwilling to align with a net-zero transition may be exposed to emerging litigation risks.
- Companies may struggle to access capital and/or face higher costs as banks and investors are increasingly required to report and manage the emissions-intensity of their portfolios.

In general, emissions-intensive sectors face comparably higher transition risks. Westpac NZ's recent work to understand its financed emissions-profile shows significant differences in the emissions-intensity of lending across different industry-sectors, with much of Westpac NZ's financed emissions concentrated in agriculture (refer Metrics and Targets).

[8] Australian & NZ Sector Industry Code (ANZSIC) has been used as the basis for disclosing industry sectors. Westpac NZ ceased lending to the coal mining sector in 2019.

[9] The Net-Zero target for Upstream Oil & Gas requires Westpac Group's sector emissions to reduce by 23% by 2030 and covers our customers' scope 1, 2 and 3 emissions, relative to a FY21 baseline. Westpac will not support new oil and gas fields and expects customers to have credible transition plans by 2025.

[10] The Net-Zero target for Power Generation is to reduce the emissions intensity of Westpac's lending to the sector to reduce to 0.10 tCO_2e/MWh by 2030.

Scenario analysis

To assess its resilience against climate-related financial risks Westpac NZ requires the application of scenario analysis. This allows the bank to evaluate a range of future developments in relation to climate impacts and transition.

For example, our 2018 Climate Impact Report analysed different transition pathways to net-zero and their wider economic impacts. Our work on sea level rise looked at different warming scenarios over a 30-year time frame and analyses how different factors around insurance retreat and legislation could impact Westpac NZ's credit risks.

Westpac NZ is continuing work on developing climate-related scenarios for the Agricultural sector is ongoing, building on the research findings from ASCRA, and is continuing to work with other New Zealand Bankers' Association members to develop climate-related scenarios for the financial sector.

Finance opportunities for banks

The significant investment required for a transition to net-zero presents considerable opportunities to New Zealand, its businesses, communities and Westpac NZ. According to the Climate Change Commission's advice, New Zealand's transition can be achieved largely through known technologies and with much of the investments occurring in mature industry sectors, presenting potential finance opportunities for banks.

Sustainable Finance

Westpac NZ continues to take a leadership role in delivering leading sustainable finance solutions to support customers across all segments with their transition to a low-emissions society.

Climate change is a key focus for the Westpac NZ Sustainable Finance Team. This team engages with business customers and incentivises decarbonisation through both favourable sustainable loan terms and pricing, as well as enabling sustainable bond issuance. More specifically, this entails:

- Over $1bn in Sustainability-Linked Loans (SLL) on Westpac NZ's balance sheet.[11]
- In FY22 every new SLL structured by Westpac NZ included a commitment by the borrower to reduce emissions aligned with a 1.5-degree science-based trajectory and corresponding annual targets.
- Supporting customers to raise capital through the issuance of Green Bonds to support environmental activities, including green buildings, renewable energy generation and electricity transmission.
- In FY22, Westpac NZ was the Green Bond Coordinator or Green Bond Advisor for all inaugural Green Bond issuances in the New Zealand market, including for Genesis Energy, Goodman Property Trust (through its wholly owned subsidiary – GMT Bond Issuer) and Transpower.[12]
- To support our agricultural customers, in July 2022 Westpac NZ launched a pilot for a new Sustainable Agribusiness Loans with a small group of farming customers. The loan is the first of its kind to require a customer to meet all parts of the SAFI guidance, which includes practices to reduce emissions and improve long-term climate resilience.

Westpac NZ also helps its retail customers to reduce their emissions:

- To improve the energy efficiency of residential houses, Westpac NZ expanded its Westpac Warm Up Loan. This enables customers to borrow up to $40,000 interest-free for five years to make their homes warmer, drier, more sustainable and energy efficient. EV charging equipment and solar batteries can now be funded through the loan, alongside existing options for energy efficient heating, insulation, ventilation and other improvements. As at 30 September 2022, Westpac NZ had provided $41.6m across 4,767 Westpac Warm Up loans.
- In August 2022, Westpac NZ launched a personal loan for electric vehicles, electric scooters and e-bikes. The EV Loan was made available at a discounted rate of 6.99% per annum, and enables applicants to borrow up to $50,000 for up to five years.

[11] Including SLL's for Pāmu, Genesis Energy, Contact Energy, The Warehouse Group, Spark, Christchurch International Airport Limited, Metlifecare, Kathmandu, Auckland Council, and Turners & Growers and, Summerset.

[12] Westpac NZ supported these issuers as Sole Green Bond Coordinator.

Innovation grant to help decarbonisation

In August 2022 the Westpac NZ Government Innovation Fund (Innovation Fund) awarded $1.075 million to four projects aimed at decarbonising Aotearoa.

Grants were allocated to innovators that are working towards:

- creating dairy-identical proteins through fermentation using microbes,
- an ambitious seagrass restoration project,
- supporting the next generation of climate innovators to create change in schools, and
- rolling out of a globally recognised sustainability performance standard for infrastructure projects in Aotearoa.

The Innovation Fund is funded by Westpac NZ and governed via an Investment Board made up of Westpac and Government representatives. It runs two themed intakes per year, and applicants are invited to apply for funding to help them work towards solving key issues and challenges.

Advocacy and stakeholder engagement

During FY22 Westpac continued to promote climate action by participating in a number of consultation processes, including:

- the Government's Emissions Reduction Plan,
- the National Adaptation Plan, and
- the climate-related disclosure standards developed by the External Reporting Board (XRB).

Where possible, Westpac NZ undertook these engagements through the Climate Change working group of the New Zealand Bankers' Association.

Westpac NZ continues to be an active member of the Sustainable Business Network, the Sustainable Business Council and is a signatory of the recently updated Climate Leaders' Coalition Statement of Intent.

Westpac NZ is a founding member of the Aotearoa Circle, a voluntary initiative bringing together leaders from the public and private sectors to investigate the state of our natural resources, and to commit to priority actions that will halt and reverse their decline. Westpac NZ remains an active member of Toitū Tahua, the Centre for Sustainable Finance, which seeks to implement the Sustainable Finance Forum's 2030 roadmap for a sustainable financial system.

RISK MANAGEMENT

Managing risk is central to Westpac NZ's business. The bank manages climate-related risks similar to other financial risks. The bank's approach is evolving as it deepens its understanding of these risks.

Westpac NZ's Sustainability Risk Management Framework (Framework) sets out the overall approach to climate risk, defining roles and responsibilities in accordance with Westpac's Three Lines of Defence standard. This Framework is reviewed annually and has evolved to meet Westpac NZ's changing needs and expectations.

Westpac NZ's exposure to climate-related financial risks is primarily through credit risk relating to lending to individuals and businesses. Westpac NZ is cognisant of a broader range of climate-related risks, such as litigation, regulation and reputation risks, which may impact the Bank.

Management of physical risks

Based on a high-level risk screen of its lending portfolio, Westpac NZ has identified risks to the built environment and productive land as most relevant. This broadly aligns with the focus areas articulated by the Reserve Bank of New Zealand and reflects Westpac NZ's lending portfolio in terms of total amounts outstanding and tenure of these loans.

Incorporating the findings from Westpac NZ's physical climate risk scenario analysis into existing risk management frameworks is ongoing and includes:

- Exploring ways to integrate climate-related risks into residential mortgage lending,
- Enhancing climate-risk related sections in ESG Credit Risk Policy, and
- Deepening the understanding of climate risks in the agricultural sector, including available options for farmers to adapt to climate change.

Many key risk factors are outside Westpac NZ's immediate control. These include the risks of insurance cost and availability, and regulatory settings relating to climate change adaptation, discussed above. Westpac NZ acknowledges that physical climate risk factors such as sea level rise and erosion, river/surface flooding, drought or cyclones pose potentially significant risks.

Management of transition risks

Climate-related risks are considered as part of relevant industry sector reviews. These reviews assess specific risks in these industries and determine Westpac NZ's underwriting standards.

In line with Westpac NZ's ESG Credit Policy, business lending applications over $1 million are subject to an assessment of ESG risks. This explicitly includes climate-related risks. Identified ESG risks are evaluated and mitigants considered. Transactions with high residual ESG risks are escalated to senior management for consideration. In addition to customer credit assessment, Westpac NZ also manages climate-related risks at a portfolio-level.

Westpac NZ's ESG approach recognises that due to increasing regulatory and consumer pressure, emissions-intensive sectors will need to align their long-term strategy and capital investment to a net-zero emissions economy. Customers will need capital to make this transition. There are financial risks arising from lending to customers unable to undertake this transition.

Stress Testing

In response to evolving regulatory expectations and to enhance our understanding of climate-related credit risks, Westpac NZ is developing capabilities to undertake climate-related stress testing. During FY22 Westpac NZ voluntarily contributed towards Westpac Group's submission to the Climate Vulnerability Assessment undertaken by the Australian Prudential Regulatory Authority (APRA).

Westpac NZ continues its open dialogue with the Reserve Bank of New Zealand as part of its supervisory engagement and stress testing activities.

METRICS AND TARGETS

Westpac NZ's key metrics track its progress in supporting customers' transition toward a net-zero emissions economy.

Support for climate change solutions

Lending to Climate Change Solutions (Total Committed Exposure)[13] – $1.83bn

To drive capital flows towards sustainable business models, assets, and outcomes, Westpac NZ set an ambitious target in 2020 to enable $10bn in sustainable finance by 2025.[14] This target activates our people to align to our mission and our sustainability purpose. It covers a range of sustainable finance instruments including lending towards:

- Sustainable Loans; including Green Loans (which incorporate Climate Change Solutions), Social Loans and Sustainability-Linked Loans[15]; and
- Facilitation of Sustainable Bonds; including Green Bonds, Sustainability Bonds and Sustainability-Linked Bonds.

All sustainable finance will meet the eligibility criteria established in the internationally agreed sustainable finance principles published by the International Capital Markets Association and the Asia-Pacific Loan Markets Association. Westpac NZs' $10bn target is a total commitment, representing the cumulative flow of capital that will support New Zealand in becoming a thriving, inclusive, net-zero economy.

As at 30 September 2022, Westpac NZ had enabled $7.31bn in sustainable finance, comprising $4.86bn of Sustainable Lending and $2.45bn of Sustainable Bonds.

Table 4: Westpac NZ Sustainable Finance Targets

SUSTAINABLE FINANCE INSTRUMENT	FY25 TARGET	OVERALL PROGRESS TOWARDS OUR TARGET (AT FY22)
Sustainable Bonds		
Facilitation of Sustainable Bonds	$4.00bn	$2.45bn
Total Sustainable Bonds	**$4.00bn**	**$2.45bn**
Sustainable Lending		
Sustainability-Linked Loans	Undisclosed	$1.03bn
Climate Change Solutions	$5.00bn	$2.97bn
Healthy, Affordable and Social Housing Lending[16]	$0.70bn	$0.68bn
Other Social and Environmental Lending	Undisclosed	$0.19bn
Total Sustainable Lending	**$6.00bn**	**$4.86bn**
TOTAL	**$10.00bn**	**$7.31bn**

[13] The term "Climate Change Solutions" includes lending to projects, assets or activities that are considered consistent with the investment required to achieve the goals of the Paris Agreement and address the impacts of climate change. This includes (but is not limited to) lending to the categories of energy efficiency, green buildings, renewable energy, low carbon transport, waste, forestry, that align to the Green Loan Principles.

[14] This Westpac NZ target is a cumulative target which comprises (a) $5bn for lending to Climate Change Solutions, $700m lending for healthy, affordable and social housing, and other environmental, social and Sustainability-linked lending (building on Westpac NZ's FY20 exposure) and (b) facilitation of Sustainable Bonds (for customers and Westpac NZ treasury) by Westpac Banking Corporation (acting through its New Zealand Branch) from 1 October 2020 to 30 September 2025. All lending will meet the eligibility criteria set out in the international sustainable finance principles. Our targets are a total commitment, measuring the cumulative flow of capital to support New Zealand becoming a net-zero emissions economy and – due to different operating environment and market practices – may differ from the definition(s) applied by the wider Westpac Group.

[15] Sustainability-Linked Loans incentivise the borrower's achievement of ambitious, predetermined sustainability objectives. The borrowing costs under the facility are adjusted up or down depending on the borrower's performance against predetermined sustainability targets. Sustainability-Linked Loans must align with the Sustainability-Linked Loan Principles.

[16] Social Lending includes loans extended for healthy, affordable and social housing.

Supporting consumers to transition

To support our retail customers to reduce their personal footprint, Westpac NZ expanded its Warm Up home loan offering.

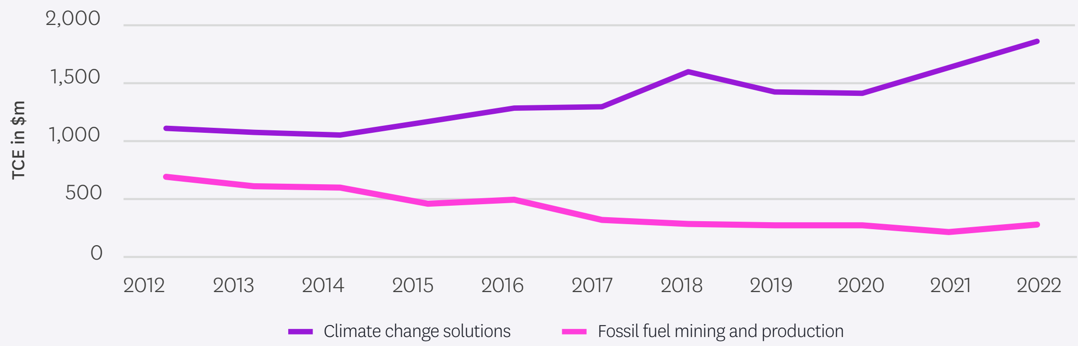
PRODUCT	TARGET	LENDING PROVIDED AS AT FY22
Warm Up Home Loan[17]	$100m	$41.6m

Fossil fuel extraction

Lending to fossil fuel mining and production (Total Committed Exposure) – $271m[18]

Westpac NZ is committed to supporting the transition towards a net-zero emissions economy and is working with its customers to develop finance structures that align with this objective. For example, Westpac NZ is supporting a customer in the upstream oil & gas sector with the development of a credible transition plan in line with Westpac Group's commitments under the Net-Zero Banking Alliance.

Climate change solutions vs. Fossil fuel mining and production



Shows TCE at the end of full and half year reporting periods (excludes any lending repaid prior to the end of the respective reporting period)

The Westpac NZ Risk Appetite Dashboard, which is reported to RISKCO and BRCC, now contains a climate risk metric (climate change solutions lending vs. fossil fuel ratio), tracking the shift in Westpac NZ's lending portfolio towards climate change solutions lending. Work will continue to enhance climate-related risk appetite metrics as data around the bank's full value chain emissions improves.

Direct operational footprint

Table 5: Operational emissions[19]

	2022	2021	2020
Scope 1[20]	988.26 tCO_2e	1,315.32 tCO_2e	1,419.92 tCO_2e
Scope 2	1,615.14 tCO_2e	1,730.23 tCO_2e	1,763.88 tCO_2e
Scope 3[21]	Mandatory: 740.46 tCO_2e Additional: 1,314.24[22] tCO_2e	Mandatory: 995.56 tCO_2e Additional: 919.02 tCO_2e	Mandatory: 1,827.75 tCO_2e Additional: 1,002.50 tCO_2e
Total	4,658.12 tCO_2e	4,960.13 tCO_2e	6,014.05 tCO_2e

[17] Westpac Warm Up is and interest-free loan of up to $40,000 for five years. It is available to Westpac NZ home loan customers to finance insulation, heat pumps, double glazing, ventilation, wood burners, solar power systems and batteries, as well as electric vehicle chargers on residential properties.

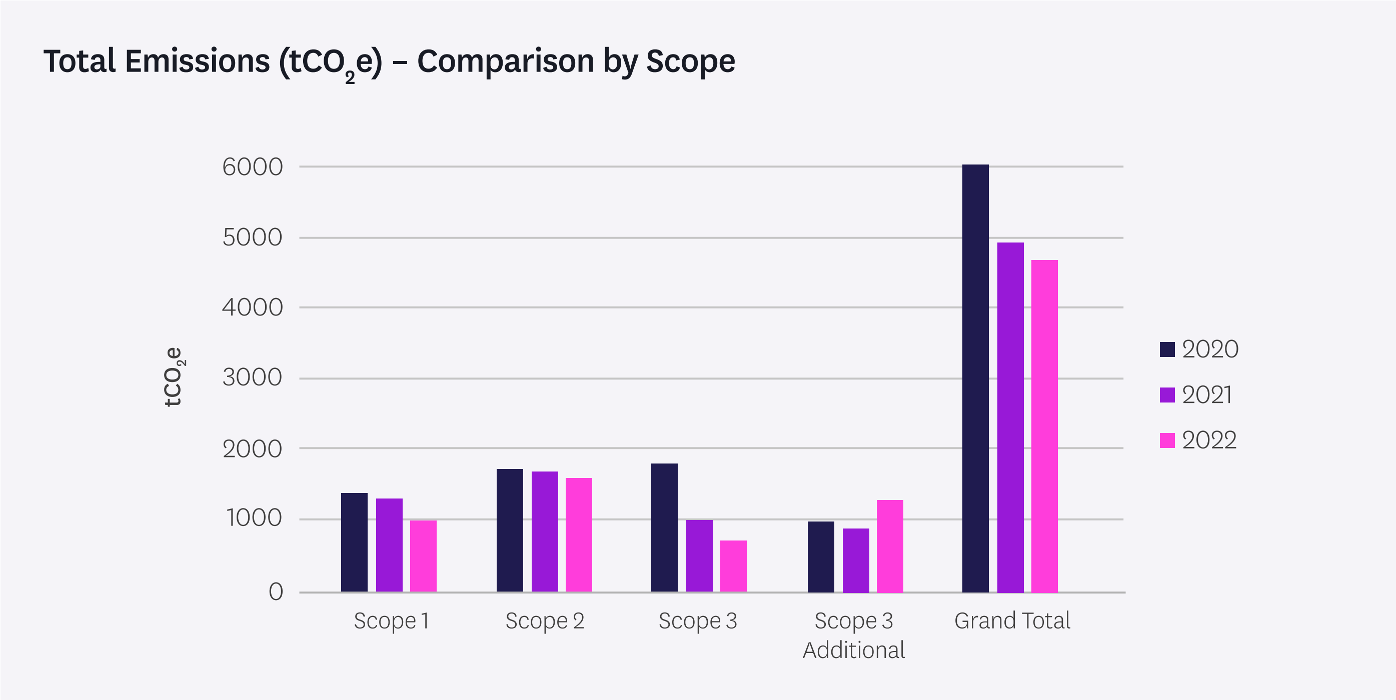
[18] Lending to fossil fuel mining and production increased during FY22 as a result of financing a gas-fired back-up power generator. Sufficient back-up generation is required to support the growth of renewable generation (e.g. wind and solar), which can be intermittent. As the borrowing entities main activity is fossil fuel extraction (gas), the additional lending now falls under that classification.

[19] Operational emissions relate to all Westpac Group entities operating in New Zealand, including BTNZ, Westpac Life and WBC Branch.

[20] Westpac NZ measures and reports its annual emissions for the twelve months ending 30 June ('environmental year').

[21] Scope 3 Emissions excludes Financed Emissions, the supply chain emissions are defined as Scope 3 mandatory, which are Scope 3 supply chain emissions sources which are required to be measured under the Toitū net carbonzero certification programme, and Scope 3 additional which are Scope 3 supply chain emissions sources beyond the programme minimum requirements which we measure.

[22] In 2022, Scope 3 additional was expanded to include two new emissions sources, one of which was working from home emissions.



As a Toitū net carbonzero certified organisation, Westpac NZ is committed to reducing its operational carbon emissions by 30% by 2025 (vs. 2019) and offset our residual operational emissions with New Zealand Native Forestry Credits. As part of this target, Westpac NZ has a goal to convert 100% of its vehicle fleet to electric or plug in hybrids by 2025. Westpac NZ has reduced its operational carbon emissions by 17% in the year to 30 June 2022 and 45% against its base year 2019 respectively.

Westpac NZ has reduced in emissions from each Scope in 2022, with the expansion of Scope 3 supply chain emissions sources causing the increase in the graph above. These reductions are largely due to the continued COVID-19 restrictions impacting operations throughout the year. The lockdowns resulted in reduced branch opening house and employees working from home, which caused a decrease in Westpac NZ's electricity consumption. Westpac NZ has responded to this change by expanding Scope 3 Additional category to include working from home emissions. COVID-19 restrictions also resulted in reduced business travel, which continues to be suppressed as a result of Covid-19 restrictions. We anticipate business travel will increase now that restrictions have eased.

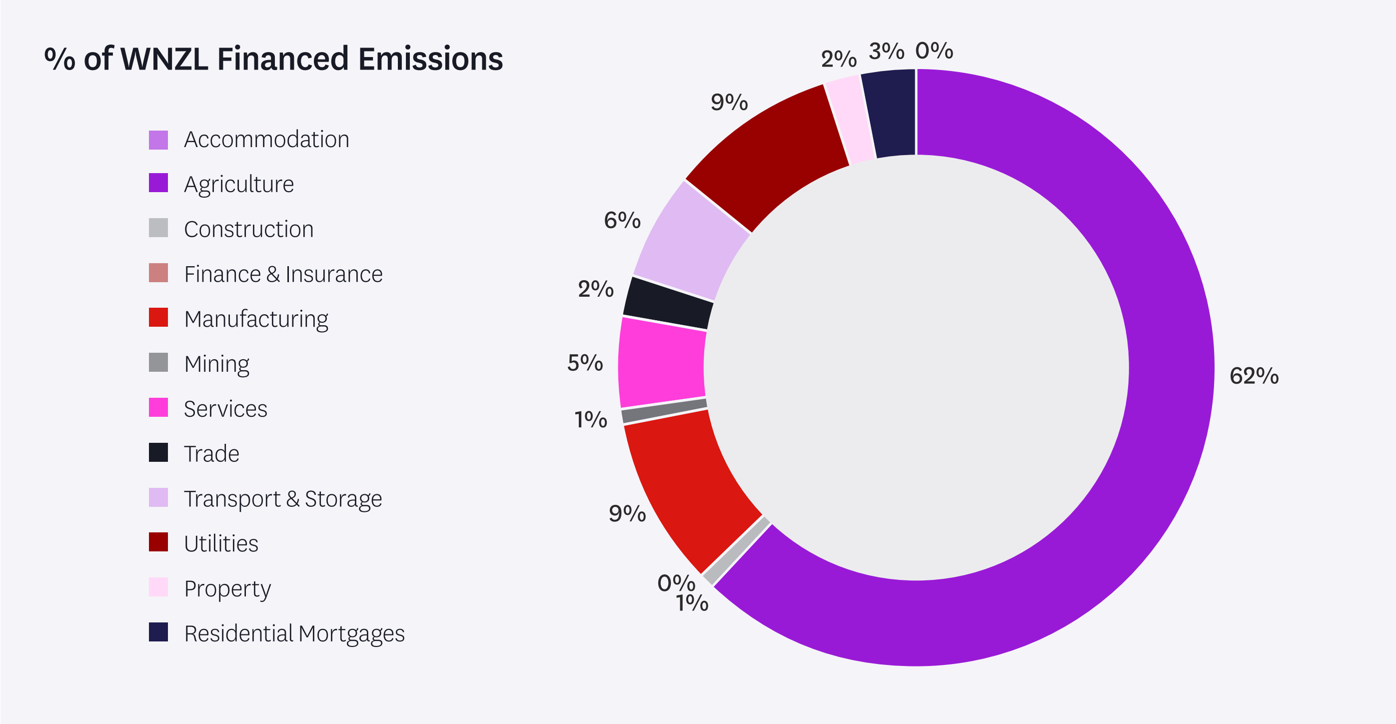
Westpac NZ has continued to transition its fleet to 100% electric or plug in hybrids. There has been a decrease in its fleet emissions due to fleet transition progress and reduced business travel. There has been a corresponding increase in electricity consumption from vehicle charging.

Financed emissions

Westpac NZ recognises the emissions of the businesses it lends to, or 'financed emissions', as a key tool to manage transition risk in its lending portfolio. As part of expanding the capture, management and reporting of Scope 3 emissions Westpac NZ engaged an external consultant to help estimate its financed emissions. Where possible, the methodology we have used is aligned to the Principles of Carbon Accounting Financials (PCAF)[23], with any material deviations outlined in the Group's Net-Zero 2030 Targets – Our methodology and approach.

In 2022 Westpac NZ aligned its methodology with the wider Westpac Group and calculated its financed emissions using a mix of available customer information, publicly available information and sector-specific estimates.

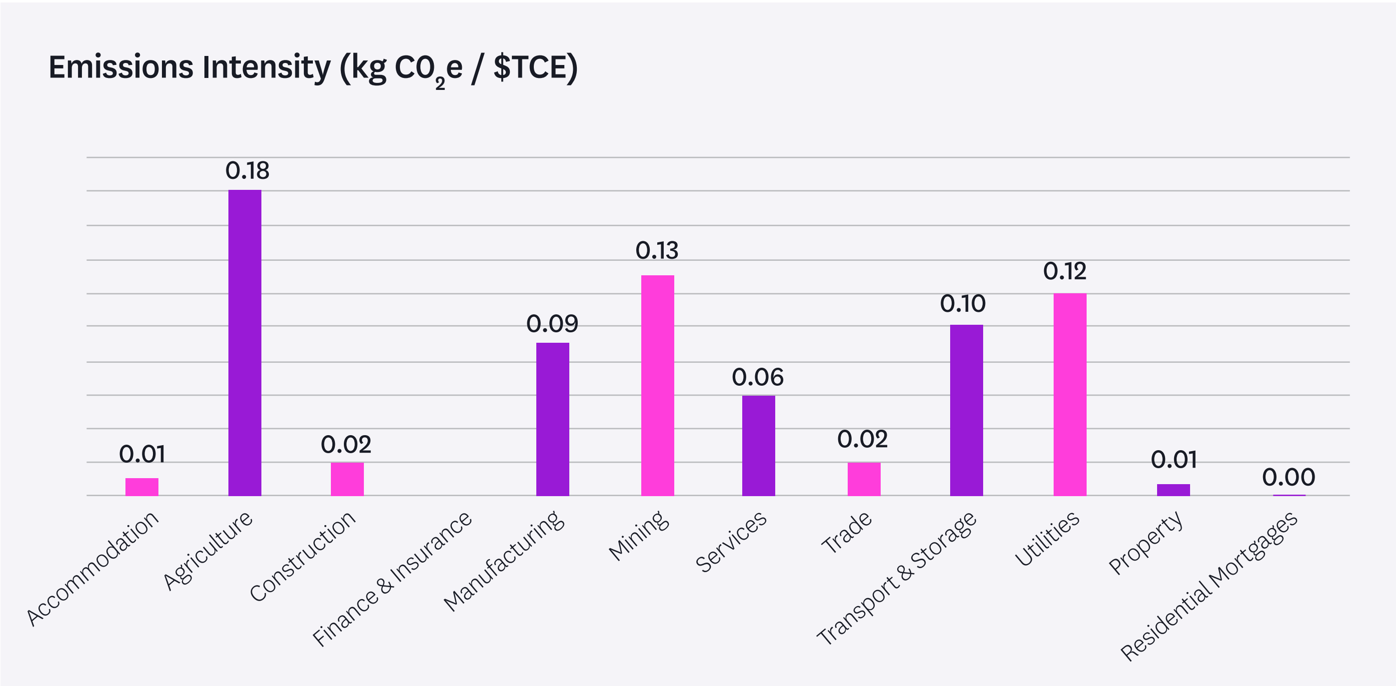
[23] PCAF: Enabling financial institutions to assess greenhouse gas emissions | PCAF (carbonaccountingfinancials.com)



Shows FY22 Financed Emissions[24] (Customers' Scope 1 & 2 only) for key sectors as a percentage of Westpac NZ's absolute Financed Emissions.

The analysis estimates that:

- agricultural lending accounts for approximately 62% of Westpac NZ's financed emissions,
- emissions from Westpac NZ's lending to residential mortgage accounts are very small in proportion to total lending, and
- Sheep & Beef and Dairy are the most emissions-intensive sectors by dollar of lending.



These findings are reflective of the high proportion of:

- agricultural emissions in New Zealand's greenhouse gas profile, and
- renewable electricity generation within New Zealand's energy mix.

[24] Westpac NZ's FY22 Financed Emissions is as at 31 August 2022.

The Data Quality Score is calculated using the PCAF methodology at a scale from 1 (highest) to 5 (lowest) data quality.[25] Westpac NZ's Data Quality Score business lending is 4.52. This reflects a high level of reliance on sector-specific estimates. For more detail on Westpac's Financed Emissions methodology refer Net-Zero 2030 Targets – Our methodology and approach.

In FY22, Westpac NZ also included the estimate of customers' Scope 3 emissions in the mining sector (including oil and gas extraction) and fertiliser manufacturing.

Westpac NZ's work on Financed Emissions is ongoing and seeks to lift data quality and accuracy by improving its systems and processes. This will not only support Westpac NZ's ability to meet emerging regulatory expectations (e.g. mandatory climate risk disclosure) but also help it to support customers' transition to net-zero.

Climate change portfolio resilience

The table below shows the proportion of lending secured by properties exposed to a heightened natural coastal hazard risk from sea level rise under a 4 degrees Celsius warming scenario.[26]

SEGMENT	APPROXIMATE SHARE OF SECTOR PORTFOLIO			COMMENT
	FY22	FY21	FY20	
Residential mortgages	2.1%	2.3%	2.3%	Westpac NZ's exposure has remained relatively stable and reflective of a well-diversified portfolio.
Commercial property lending	2.1%	2.2%	2.1%	
Agricultural lending	3.4%	3.4%	2.9%	

As Westpac NZ's approach to climate-related risks matures, its suite of metrics and targets will expand.

[25] Westpac NZ is not a member of PCAF but adopts aspects of the approach to promote transparency on the emissions intensity of its lending.
[26] Intergovernmental Panel for Climate Change (IPCC), Representative Concentration Pathway (RCP) 8.5.

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Westpac New Zealand Limited.