

Westpac NZ Climate Risk Report.

November 2020.



Our position.

Westpac NZ¹ is committed to transparency and action across our business to address climate change. Climate-related risk is a financial risk. Westpac NZ is sharing its first Climate Risk Report to discuss its work to date and how the bank is responding.

Westpac NZ recognises climate change as one of the most significant long-term issues that will impact the wellbeing of our communities. The bank is committed to managing its business in alignment with the Paris Agreement and the need to transition to a net zero emissions economy by 2050.

Westpac NZ is committed to helping customers and communities respond. This includes:

- Setting targets for lending to climate change solutions.
- Developing financing strategies that support customers to reduce their emissions.
- Considering environmental, social and governance (ESG) risk factors, including climate-related risks, in our lending.
- Reducing emissions from our own operations, including maintaining carbon neutrality.
- Playing our part in advancing the finance sector's response to climate change.

Westpac NZ incorporates Westpac Group's **Climate Change Position Statement and 2023 Action Plan** into its local strategy. Westpac NZ's assessment of 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, in line with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations, is important to stakeholders and will help promote efficient capital markets and broader financial system stability.

The TCFD recommendations have informed this report. Westpac NZ will continue to expand the scope of reporting over time.

¹ In this report, Westpac NZ and, the bank, refer to Westpac New Zealand Limited.

Governance.

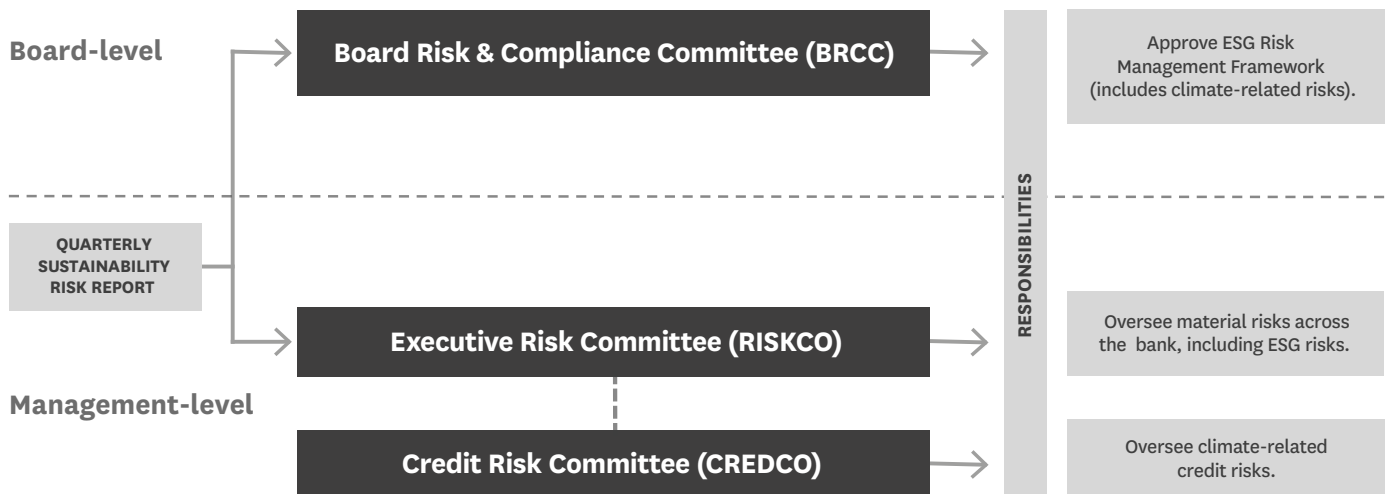
Westpac NZ’s governance of climate-related risks involves the Westpac NZ Board, senior management and broader organisation.

The Westpac NZ Board delegates to the Board Risk and Compliance Committee (BRCC) to review and approve the ESG Risk Management Framework, which includes climate-related risks, every two years.

The Executive Risk Committee (RISKCO) is a management committee that has delegated authority from the Westpac NZ Chief Executive and BRCC to oversee material risks across the bank, including ESG risks. RISKCO is chaired by the Westpac NZ Chief Risk Officer.

Both BRCC and RISKCO receive a quarterly Sustainability Risk Report that includes updates on climate-related risks.

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



Westpac NZ is represented on the Westpac Group Climate Change Risk Committee, which oversees work to identify and manage the potential impact on credit exposures of climate-related risks across the wider Westpac Group.

Strategy.

Westpac NZ takes a holistic approach to understanding the impact of climate-related risks on New Zealand, customers and the bank. This provides better insight into the drivers of risk and how to manage those.

Sea level rise.

Lending potentially exposed to coastal hazards resulting from sea level rise, including flooding or erosion is a source of climate-related risk for Westpac NZ. The availability of affordable insurance and ability of the regulatory system to adapt are key risk factors.

During 2020, Westpac NZ undertook a scenario analysis of its exposure to coastal hazards (flooding and erosion) resulting from sea level rise. The 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).

Westpac NZ focused on coastal hazards because the available hazard data is more robust compared to other relevant physical hazards such as river flooding, drought, cyclone risk or wildfire.

Based on data provided by the National Institute of Water & Atmospheric Research – Taihoro Nukurangi (NIWA), Westpac NZ identified that 2.3% of its residential mortgage portfolio, 2.1% of its commercial mortgage portfolio and 2.9% of its agricultural mortgage portfolio are potentially subject to heightened risk from these hazards. 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. The data indicated that over two thirds of those properties are at heightened flood risk already.

In the next five years, property owners may face insurance premium increases, higher excesses, or exclusions of some hazards. In some cases, property owners may be unable to renew insurance.

Higher premiums may impact customers' ability to service debt, while inability to adequately insure properties could lower their value. This could create a credit risk to Westpac NZ. The extent is dependent on:

- How any changes to the cost and availability of insurance are implemented.
- How the regulatory system adapts in response to the emerging physical risks from climate change.

In relation to the bank's commercial property and agricultural lending portfolios the potential credit risks are lessened by the terms of lending in these sectors, i.e. lower loan-to-value ratios, shorter loan terms and the different nature of property use.

The wide range of possible scenarios in relation to these risk factors limit Westpac NZ's ability to accurately estimate future financial impacts at this time.

Industries exposed to climate-related risk.

We have gained a broad 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. More work is required to understand the exact level of risk in these sectors.

Table 1: Westpac NZ's lending exposure to key industries subject to climate-related risks.

INDUSTRY SECTOR	CLIMATE-RELATED RISKS	TOTAL COMMITTED EXPOSURE (TCE)
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.	\$10.17b - \$6.59b - \$2.02b - \$1.24b - \$0.32b
Oil & Gas – Mining & Production – Supply & Retail (e.g. petrol stations)	Primarily transition risk as demand declines over the long-term.	\$0.44b - \$0.28b - \$0.16b
Transport	Mix of physical risks, e.g. exposed infrastructure, disruption from extreme events, and transition risks, e.g. transition to electric vehicles, hydrogen etc.	\$2.05b
Electricity Generation	Mix of physical risks, e.g. dry years, disruption from extreme events, and transition risks, e.g. phasing out of non-renewables.	\$2.08b

The Australian and New Zealand Standard Industrial Classification (ANZSIC) has been used as the basis for disclosing industry sectors.

Agriculture faces a particularly complex mix of physical and transition risks, while also offering significant opportunities, such as premium products for environmentally conscious consumers, or expanding the forestry sector. Westpac NZ will undertake further analysis to build on our understanding of the sector's climate-related risks and opportunities.

Strategic Response.

Westpac NZ is committed to helping New Zealand respond to climate-related risks.

Driving Westpac NZ's strategic response to climate-related risks are our commitments to:

- Continue analysis of climate-related risks, focussing on high risk sectors and a wider range of physical risks.
- Incorporate climate-related risk considerations into industry sector strategies, underwriting standards, and assessment processes.
- Address information imbalances about climate-related risks by improving the quality and accessibility of relevant information for customers and stakeholders.
- Support efforts to enhance New Zealand's regulatory environment in relation to resource management, provision of natural hazard information and adaptation.
- Support mandatory climate-related financial disclosure to provide Westpac NZ with better information on its borrowers' exposure to climate-related risks.

Westpac NZ ceased lending to coal mining in 2020. Westpac NZ has no plans to recommence financing this sector.

WNZL's Sustainability Strategy.

Taking Action on Climate Change / Manaaki te ao is one of three pillars of Westpac NZ's Sustainability Strategy.

The strategy outlines Westpac NZ's approach to tackling climate change and monitors progress against agreed targets. Refer **2020 Sustainability Report**.

 <p>01.</p> <p>Manaaki te ao. Care for the planet.</p> <p>Our aspiration: We want to lead Aotearoa's transition to a resilient, zero-carbon economy for the benefit of all Kiwis.</p> <ul style="list-style-type: none">– Reduce our own carbon footprint.– Help Aotearoa take action on climate change.	 <p>02.</p> <p>Manaaki te tāngata. Care for people.</p> <p>Our aspiration: We want to help create thriving local communities and a workforce and society where everyone feels valued.</p> <ul style="list-style-type: none">– Thriving communities.– Inclusive workforce.– Responsible supply chain.	 <p>03.</p> <p>E tipu te pūtea ora. Grow financial wellbeing.</p> <p>Our aspiration: We want all kiwis to be financially secure and independent, enabling them to reach their full potential.</p> <ul style="list-style-type: none">– Grow financial capability.– Grow financial independence.
--	--	--

Risk management.

Managing risk is central to Westpac NZ's business.

Westpac NZ manages climate-related risks within its overarching risk management framework.

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

Management of physical risks.

Based on a high-level risk screen of its lending portfolio, Westpac NZ identified risks to the built environment and productive land as most relevant.

Incorporating the findings from Westpac NZ's physical climate risk scenario analysis into existing risk management frameworks is ongoing. Westpac NZ is committed to further enhancing its risk management approach to effectively mitigate, control, or reduce climate-related risks.

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 other physical climate risks such as river/surface flooding, drought or cyclones pose potentially significant risks.

Westpac NZ is actively exploring opportunities to address key risk factors (refer Strategy section) and how best to assess these risks based on available data and research.

Management of transition risks.

Climate-related risks are considered as part of relevant industry sector reviews, in line with Westpac NZ's Credit Risk Management Framework. 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. Where ESG risks are identified, these are analysed and mitigants are considered. Transactions with high residual ESG risks are escalated to senior management for consideration.

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 low-emissions economy. Customers will need capital to make this transition. There are risks relating to customers unable to undertake this transition, but opportunities for Westpac NZ to support customers who can, through sustainable finance structures.

Metrics and targets.

Our key metrics demonstrate progress supporting the transition to a net zero emissions economy.

1. Reduce our own carbon footprint.

Measure, reduce and report our footprint and encourage our customers, suppliers and employees to do the same.

2. Help Aotearoa take action on climate change.

Build in climate change risk and opportunity into our lending and investment decisions, and help our customers, suppliers and employees take action on climate change.

TARGETS

PROGRESS

1. Reduce our operational emissions by 30% by 2025 (2019 baseline). ¹	19% reduction
2. Provide \$2 billion in lending to business customers for climate change solutions by 30 September 2020.	\$1.6b

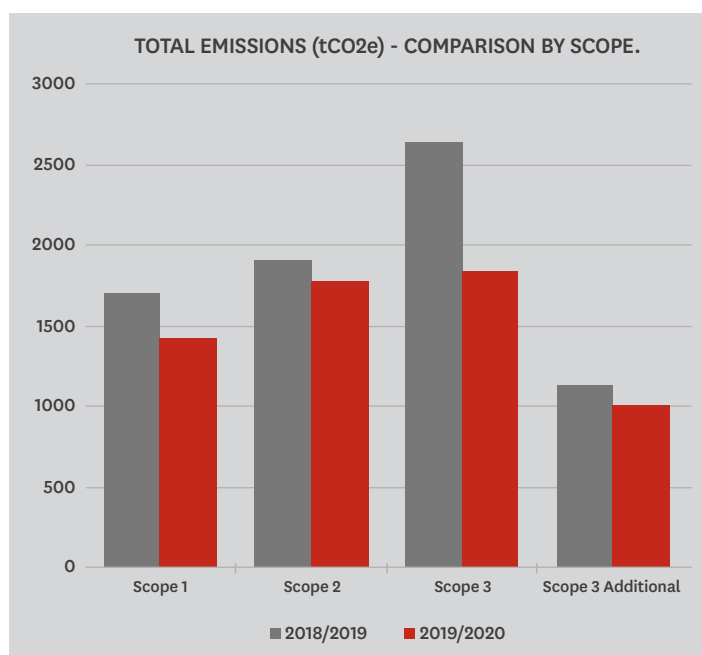
Support for climate solutions.

Total committed exposure (TCE) to climate change solutions is \$1.6 billion, against a 2020 target of \$2 billion. Climate change solutions are infrastructure or technologies that lower emissions, such as green buildings, public or low carbon transport and renewable energy. This target will be updated as part of Westpac NZ's revised 2025 Sustainability Strategy.

Direct footprint.

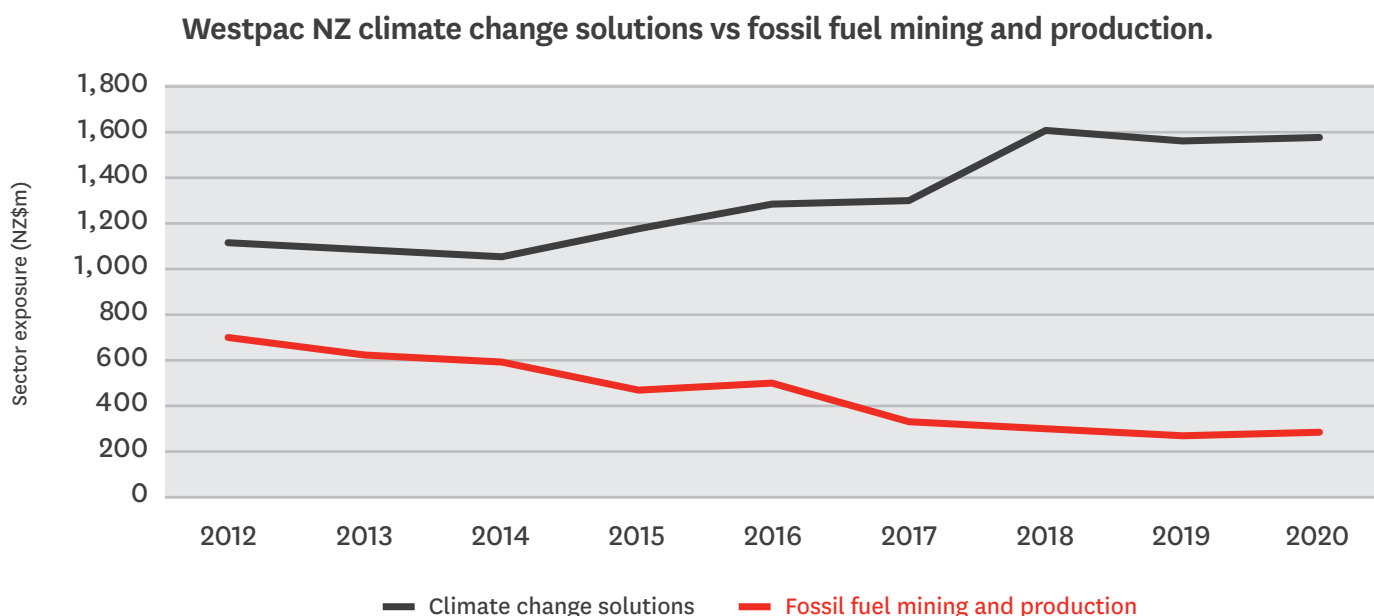
Scope 1	1,419.92 tCO ₂ e
Scope 2	1,763.88 tCO ₂ e
Scope 3	Mandatory: 1,827.75 tCO ₂ e Additional: 1,002.50 tCO ₂ e
TOTAL	6,014.05 tCO ₂ e

As a Toitū carbonzero certified bank, Westpac NZ is committed to reducing its operational carbon emissions by a further 30% by 2025 (vs. 2019), to align with the Paris agreement. 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 19% in the year to 30 June 2020.



Fossil fuel extraction.

Lending to fossil fuel mining and production (TCE) - \$282m.



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

Climate change portfolio resilience.

Approximate proportion of portfolio secured by properties exposed to heightened risks from sea level rise (coastal flooding and erosion).

SEGMENT	APPROXIMATE SHARE OF SECTOR PORTFOLIO
Residential mortgages	2.3%
Commercial property lending	2.1%
Agricultural lending	2.9%

This document represents Westpac NZ's firm-level approach to climate-related risks. Disclosure statements relating to individual products offered by Westpac NZ are excluded. Westpac's local fund management business (BTNZ) and life insurance (Westpac Life) are outside the scope of this document.

The content of this document is intended for information purposes only and is not intended to reflect any recommendation or financial advice. We make no warranty or representation, express or implied, regarding the accuracy of any information or statement contained in this document. We recommend you seek independent advice before acting or relying on any of the information in this document. All opinions, statements and analysis expressed are based on information current at the time of writing from sources which Westpac believes to be authentic and reliable. Westpac issues no invitation to anyone to rely on this material. The information contained in this document does not constitute an offer, a solicitation of an offer, or an inducement to subscribe for, purchase or sell any financial instrument or to enter a legally binding contract. The information in the document is subject to change without notice and neither Westpac nor its related entities is under any obligation to update the information or correct any inaccuracy which may become apparent at a later date. Where the document contains information about future trends or forecasts, whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties.

