Westpac Group Financed Emissions Methodology

In 2021, Westpac undertook analysis with EY to estimate scope 3 emissions attributable to key lending portfolios. The analysis used principles set out in the Partnership for Carbon Accounting Financials (PCAF)'s Global GHG Accounting and Reporting Standard[1].

Scope of Analysis

The analysis included on-balance sheet lending and lines of credit for Australian institutional and business lending and Australian residential mortgages. It excluded off-balance sheet loans and lines of credit, non-mortgage personal lending and government lending.

The analysis was based on customers' scope 1 and 2 greenhouse gas emissions which constitute Westpac's scope 3 emissions as defined under Category 15 of the GHG protocol. It used Westpac total committed exposure (TCE) for institutional and business lending and residential mortgage balances as at 31 August 2021.

Estimation approach for institutional and business lending

Customer reported emissions

Westpac identified selected customers' reported emissions, prioritising customers in emissions-intensive sectors and where Westpac had material exposures. Customer emissions data for the most recent available reporting cycle was sourced from the Australian National Greenhouse and Energy Reporting (NGER) scheme, company disclosures and financial market data providers.

The customer's emissions were attributed to Westpac as a ratio of Westpac's TCE to the customer's enterprise value[2].

This approach was used for institutional customers where publicly disclosed data was available. Around 43% of financed emissions estimated for institutional and business lending used this approach of customer reported emissions.

Other customer emissions

For the remaining customers, sector-specific emissions intensity factors were used to estimate emissions. These factors are applied to each customer according to their assigned Australian and New Zealand Standard Industrial Classification (ANZSIC) code[3]. The factors were selected based on a best fit approach[4] for each ANZSIC code and are derived from the following data sources:

- 2019 Australian National Greenhouse Accounts (NGA): sector emissions data (tCO_2e) and 2019 Australian National Accounts: Input-Output Tables published by the Australian Bureau of Statistics (ABS)
- 2011 Exiobase multi-region input-output models emissions factors

[1] PCAF (2020). The Global GHG Accounting and Reporting Standard for the Financial Industry. First Edition, 18 November 2020.
[2] Customer enterprise value is calculated as the total of debt and equity. This information was sourced from financial databases.
[3] Emissions factors were applied at the ANZSIC code class level, which is the most detailed ANZSIC level.
[4] Factors derived from National Greenhouse Accounts and Australian Bureau of Statistics data have been used as the principal source as these provide a more up-to-date representation of sector emissions intensity. Factors derived from EXIOBASE are used where these provide a more detailed breakdown of sector emissions between industry sub-sectors. A conservative approach has been adopted in selecting conversion factors to reduce the risk of under-estimating customer emissions.

- For institutional property customers, an emissions factor was calculated based on customer reported emissions. This emissions factor was then applied for all other customers where emissions data is not available.

Customer emissions were attributed to Westpac based on the ratio of Westpac's TCE to the customer's enterprise value. Customer financial data was sourced from available financial databases. Where data was not available this was estimated using sector financial ratios[5].

Estimation approach for residential mortgages lending

Aggregate household emissions were estimated using state average natural gas and electricity usage data sourced from the 2020 Australian Energy Regulator (AER) Residential Energy Consumption Benchmarks. Emissions intensity factors for natural gas and state average electricity usage were then applied to the aggregate household energy consumption. Emissions factors were sourced from the NGER Measurement Determination.

The residential mortgage emissions were attributed to Westpac as a ratio of the outstanding loan amount to the property value at origination[6]. Where individual customers had accounts with multiple securities, outstanding loan amounts were allocated according to the proportion of the value at origination for each security.

Analysis assumptions and limitations

This analysis used the following assumptions:

- Customer loans are assigned to each ANZSIC code based on their primary revenue-generating activity. As this model applied industry emissions factors based on ANZSIC codes, this method assumed that all emissions were attributed to the primary business activity.
- For the few instances where customer loans were not assigned an ANZSIC code, an uplift emissions amount was applied for these customers based on a weighted average emissions intensity of the total Westpac business lending portfolio.
- The assessment included customer scope 1 and 2 emissions. This results in 'double-counting' in the total portfolio emissions. This is because the scope 1 emissions associated with our lending to electricity generators are also accounted for in other customers' scope 2 emissions.
- This assessment is a point-in-time analysis and so did not take into account changes in exposure throughout the course of the year

As this methodology used general industry and household sector emissions factors, Westpac's activities to support customers to reduce their emissions will not be evident in the analysis outputs, particularly for sectors where the data required to calculate emissions at the customer level are yet to mature. We will look to improve our emissions estimation methodology over time and will provide updates on our progress.

[5] Financial ratios for agricultural sectors are sourced from ABARES survey data and for other sectors from IBISWorld data for Australia's top 2,000 companies.
[6] Residential mortgages property value at origination is defined as the value at the most recent refinancing of the facility.