

WESTPAC BANKING CORPORATION
ABN 33 007 457 141

Net-Zero 2030 Targets and Financed Emissions

Our methodology and approach

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 **estpac** GROUP

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This paper outlines how we have established our 2030 sector targets as part of our commitment to the Net-Zero Banking Alliance (NZBA). This version deals with the targets for five sectors in our lending portfolio. It also provides information on the methodology used to estimate the financed emissions of our whole lending portfolio. We will update this paper as we develop new targets and pathways for additional sectors, and as target setting approaches and financed emissions estimation methodologies evolve.

Joining the Net-Zero Banking Alliance

Regulatory changes, technology development, and stakeholder and investor demand for action on climate change is increasing. The path to a net-zero emissions economy needs to be well planned and occur in an orderly fashion to reduce transition risks. We are supporting and participating in international, national and industry-based initiatives to progress collective action on climate change.

This is why we have joined the NZBA, an industry-led initiative, convened by the United Nations Environment Programme Finance Initiative (UNEP FI). It brings together banks from around the world that are committed to aligning their lending and investment portfolios with net-zero emissions by 2050. Success in achieving the transition of the economy to net-zero will also depend on customers and other stakeholders playing their part, and on governments following through on their commitments to support transition and meet the objectives of the Paris Agreement.



[Annual Report](#)



[Climate Change Position Statement and Action Plan](#)

[2022 Sustainability Index and Datasheet](#)

In this document a reference to 'Westpac', 'Group', 'Westpac Group', 'we', and 'our' is to Westpac Banking Corporation ABN 33 007 457 141 and its consolidated subsidiaries. Unless otherwise stated, the document applies globally, incorporating all Westpac Group brands (including Westpac, St. George, BankSA, Bank of Melbourne, RAMS and Westpac Institutional Bank), but exclude those businesses in our Specialist Businesses segment as they have either been sold (with the transaction not yet complete) or we are planning their exit. All dollar amounts are in Australian Dollars.

Any representations made in this document as to future actions by the Westpac Group, including without limitation climate change, sustainability and net-zero related forward-looking statements, targets, commitments, estimates, assumptions and metrics, are predictive in character. Whilst every effort has been made to ensure that the assumptions on which the relevant statement is based are reasonable, these statements and the implementation process and/or outcome(s) may be affected or impacted by incorrect assumptions and/or by known or unknown risks, uncertainties or events beyond the control of the Westpac Group. As a result, the ultimate outcome(s) may differ from the action(s) described in this Statement. Please refer to the full disclaimer at the back of this Statement.

Background

Westpac has a long history of action on climate change, including becoming the first Australian bank to release a Climate Change Position Statement (Position Statement) in 2008. In our latest Position Statement, released in November 2022, we committed to reduce our direct operational and financed emissions consistent with a commitment to align with a 1.5°C pathway to net-zero emissions by 2050.

The increasing urgency to limit global warming led us to elevate climate change to a key strategic priority in 2021, and to further increase our resources and focus in this important area. It is our ambition to become a net-zero, climate resilient bank.

Our net-zero commitment

In July 2022, we joined the NZBA and continued our work on reducing our financed emissions and aligning our lending portfolios with net-zero emissions by 2050, consistent with a maximum temperature rise of 1.5°C above pre-industrial levels by 2100.

In accordance with our NZBA commitment, we have set interim 2030 sector targets for five of our lending portfolios¹ in the following sectors: upstream oil and gas, thermal coal mining, power generation², cement production, and Australian commercial real estate (large customers with office properties³), within the scopes set out in this document. These targets supersede our previously stated targets and policies for those sectors⁴. Unless otherwise stated, our targets cover Westpac Group but exclude those businesses in our Specialist Businesses segment as they have either been sold (with the transaction not yet complete) or we are planning their

exit. In our target setting process we have focused on the financed emissions⁵ in our lending portfolios, given those represent our most material financed emissions based on current data and methodologies.

By signing up to NZBA, we also committed to disclose our approach to developing our 2030 sector targets, outlining the methodology used to select and develop decarbonisation pathways and define target metrics for each sector.

We acknowledge customers will follow different transition pathways depending on the nature of their sector and the characteristics of their business. In developing our 2030 interim targets, we have considered the intersecting requirements of emissions reduction, the feasibility of emerging technologies, as well as energy affordability, security and reliability.

Decarbonisation of our portfolio is unlikely to be linear and will reflect, for example, the development of net-zero enabling technologies and transition opportunities deployed by customers, improvements in data quality and further evolution of methodologies. Our lending to customers, such as increasing finance to support their transition, may mean that our financed emissions go up for a period, but decline over time as customers decarbonise.

Complexities to setting our 2030 sector targets and calculating baselines

Setting targets involves significant complexity and challenges, including data quality and availability, as well as the need to ensure decarbonisation pathways are considerate of an orderly and inclusive transition. While we aim to set our targets and calculate our baselines with regard to the best science and data currently available (as described below), this currently requires a degree of estimates and assumptions. Our targets, baselines, pathways and financed emissions estimations are likely to change as new information, methodologies, technologies and science emerge. Our approach will also evolve as we improve our gathering, analysing and reporting of data. We will continue to be transparent about changes in our approach, including outlining the complexities and challenges we encounter along the way.

We have developed our targets with support from third party expert consultants. Disclosure of our targets and progress will be subject to internal verification. Our ongoing progress reporting against these targets will also be subject to external third-party assurance. In line with UNEP FI Guidelines for Climate Target Setting for Banks (the NZBA guidelines⁶), we expect to report our financed emissions profile and progress against our 2030 sector targets as part of our annual reporting.

¹ For further information on how we have applied target setting to our lending portfolios, refer to section '2- Lending exposure to represent the support we provide customers' below.

² In our previous targets, 'power generation' was referred to as 'electricity generation'.






³ Large customers with office properties refers to discrete borrowers with office properties comprising a majority of their portfolio and with commercial TCE >\$75m, within Specialised Lending – Property Finance (investment only) and Corporate portfolios as defined under Pillar 3 reporting. This excludes construction finance.

⁴ To the extent there is any inconsistency between this document and other documents we have published or publish covering these targets, the information in this document prevails unless stated otherwise.

⁵ Financed emissions are Westpac Group's Scope 3 emissions attributable to its lending portfolios.

⁶ UN Environment Programme Finance Initiative's Guidelines for Climate Target Setting for Banks, April 2021.

Our 2030 sector targets

| Sector | 2030 ⁷ Emissions reduction target | FY21 Baseline |
|--|---|---|
|  Extractives – Upstream oil and gas | <p>23% reduction in Scope 1, 2 and 3 absolute financed emissions by 2030 (relative to 2021 baseline).</p> <p>We will only consider directly financing greenfield oil and gas projects that are in accordance with the International Energy Agency Net Zero by 2050 (IEA NZE)⁸ scenario⁹ or where necessary for national energy security¹⁰.</p> <p>We will continue to provide corporate lending where the customer has a credible transition plan¹¹ in place by 2025, and will work with customers to support their development of credible transition plans prior to 2025.</p> | 7.5 MtCO ₂ -e |
|  Extractives – Thermal coal mining | Zero lending exposure to companies with >5% of their revenue coming directly from thermal coal mining by 2030. We updated our thermal coal mining definition to align with the NZBA guidelines ¹² on the required scope of target setting for thermal coal mining. | \$216.7m lending exposure (TCE as at 30 September 2021) |
|  Power generation | Emissions intensity target of 0.10 tCO ₂ -e/MWh for Scope 1 and 2 by 2030. | 0.26 tCO ₂ -e/MWh |
|  Industrials – Cement production | Emissions intensity target of 0.57 tCO ₂ -e/tonne of cement for Scope 1 and 2 by 2030. | 0.66 tCO ₂ -e/tonne cement |
|  Australian commercial real estate (large customers with office properties¹³) | 62% reduction in Scope 1 and 2 ¹⁴ emissions intensity (kgCO ₂ e/m ² net lettable area) by 2030 (relative to a 2021 baseline). | We will report our baseline in FY23 |

7 2030 target refers to Westpac Group's financial year, i.e. targets to be achieved by 30 September 2030.

8 International Energy Agency's Net Zero by 2050: A Roadmap for the Global Energy Sector report, 2021.

9 The IEA NZE scenario specifies that no new (greenfield) oil and gas fields are needed beyond those projects that have already been committed (i.e. approved for development) as of 18 May 2021.

10 National energy security refers to circumstances where the Australian or New Zealand Government or regulator determines (or takes a formal public position) that supply from the asset being financed is necessary for national energy security.

11 A credible transition plan should be developed by reference to the best available science and should include Scope 1, 2 and 3 emissions and actions the company will take to achieve greenhouse gas reductions aligned with pathways to net-zero by 2050, or sooner, consistent with a maximum temperature rise of 1.5°C above pre-industrial levels by 2100.

12 The NZBA guidelines require that any client with more than 5% of their revenue coming directly from thermal coal mining shall be included in the scope of targets. Accordingly, our targets cover the production and sale of thermal coal, with adjacent sectors (including mining service providers) to be covered in other targets as appropriate. Transactional banking and rehabilitation bonds are excluded from our target.

13 Large customers with office properties refers to discrete borrowers with office properties comprising a majority of their portfolio and with commercial real estate TCE >\$75m, within Specialised Lending – Property Finance (investment only) and Corporate portfolios as defined under Pillar 3 reporting. This excludes construction finance.

14 Base building operational Scope 1 and 2 emissions. Target excludes all Scope 3 emissions (e.g. tenant emissions from electricity and appliance use, construction, embodied emissions and corporate activities).

Our approach to target setting

Our target setting approach is guided by science and prioritises some of the most carbon intensive sectors in our lending portfolio. Four general principles have guided our overall approach across all sectors:

1 Using industry guidelines

We have followed the NZBA guidelines for setting our targets. We opted for industry-specific approaches when selecting emissions reduction reference pathways, such as those developed by the IEA. We also considered global standards and tools such as those from the Science Based Targets initiative (SBTi) where relevant. For the calculation of our financed emissions, we incorporated principles from the Partnership for Carbon Accounting Financials¹⁵ (PCAF) where appropriate.

As needed, we explain where, and the reasons why, our approach differs from relevant guidance. Our approach to applying industry-accepted scenarios, tools, methodologies and principles is tailored for each sector. Details of our approach to each sector is provided in the sector target sections below.

2 Lending exposure to represent the support we provide customers

We assessed and set our 2030 sector lending targets using our Total Committed Exposure (TCE) unless otherwise noted. TCE represents the maximum amount of credit exposure that Westpac has committed to provide to a customer, both on- and off-balance sheet, including those that arise from transactional banking. For the purposes of setting 2030 sector targets, this TCE definition excludes secondary market trading or underwriting committed credit exposures.

Westpac calculates its financed emissions by attributing customers' emissions using our TCE to the customer. For our targets, this includes both on- and off-balance sheet TCE (detailed above) as it is considered a more comprehensive approach, reflecting our decisions to extend credit to customers. It also allows better long-term management of our targets as it avoids potential volatility due to customers' use of their facilities.

In this respect, we differ from current PCAF guidance, which only covers financial products that are on the balance sheet. Using PCAF's method would mean that financed emissions from products are only considered if there is outstanding finance on the financial institution's balance sheet at financial year-end. In estimating our whole of portfolio financed emissions profile, the attribution of customers emissions is based on our on-balance sheet lending exposure. Details of the methodology applied to estimate our whole of portfolio financed emissions are explained under the 'Financed emissions estimation methodology' section below.

Our targets do not cover our debt capital markets activity (i.e. facilitated emissions) as there are currently no agreed methodologies for measuring emissions associated with these activities or approaches for net-zero-aligned target setting. We will reconsider our approach on facilitated emissions as guidance and methodologies mature.

3 A sector-specific approach

Aligned with the NZBA guidelines, we are setting sector-level targets given each sector has its own, often unique, potential decarbonisation trajectories. In 2021, we estimated¹⁶ the emissions attributable to customer loans (financed emissions)¹⁷ for our Australian business, covering Scope 1 and 2 emissions from customers, to identify sectors that represent our material financed emissions based on current data and methodologies.

We segmented those sectors to focus on sub-sectors, where sufficient data is available to set reliable targets and where credible decarbonisation pathways exist.

Our current targets cover upstream oil and gas and thermal coal in the mining sector, power generation in the utilities sector, cement production in the manufacturing sector, and Australian commercial real estate (large customers with office properties).

We continue to estimate our financed emissions following the methodology outlined in the 'Financed emissions estimation methodology' section below. We report our financed emissions in our annual climate-related disclosures and will use these to guide our efforts and approach for the development of targets for other sectors in our lending portfolio, consistent with our NZBA commitment.

We have engaged, and continue to engage, with impacted customers as part of our target setting to gain a better understanding of their existing emissions profiles and transition plans. This allows us to better support and work with these customers as they develop and implement their transition plans.

4 Science-based decarbonisation scenarios

In setting our 2030 sector targets, we first defined the decarbonisation pathway that a particular sector will need to follow to achieve net-zero emissions by 2050. We used scenarios modelled by well-recognised industry and scientific organisations as benchmarks for developing these pathways.

In addition to the NZBA guidelines, we considered the following principles to select the reference scenario for each sector:

- Available – the scenario provides sufficient detail to calculate a target for the specific sector.
- Appropriate – the scenario reflects a pathway that is appropriate to the physical location of exposures. This includes global, national or regional scenarios as appropriate.
- Ambitious – the selected scenario enables us to set targets that would be ambitious and recognised as such by key stakeholders.
- Actionable – the scenario's pathway can be achieved with feasible actions.

¹⁶ This analysis was part of our FY21 financed emissions estimate reporting process. This analysis focused on our Australian business, institutional and residential mortgage portfolios. Although this analysis excluded Westpac New Zealand (WNZL) portfolios, our first series of 2030 targets includes both Australian and WNZL lending activities.

¹⁷ For details, please see https://www.westpac.com.au/content/dam/public/wbc/documents/pdf/aw/sustainability/2021_Financed-Emissions-Methodology.pdf

In line with the NZBA guidelines, the scenarios selected are “no-overshoot” or “low-overshoot”¹⁸ scenarios, which rely conservatively on negative emissions technologies¹⁹. We selected the following reference scenarios for setting our current targets:

1) IEA NZE: In 2021, the IEA published its model for the global energy system’s pathway to reaching net-zero emissions by 2050, in line with limiting global warming to 1.5°C above pre-industrial levels by 2100.

2) Commonwealth Scientific and Industrial Research Organisation (CSIRO)/ClimateWorks Australia Hydrogen Superpower: The Hydrogen Superpower is one of four multi-sectoral scenarios included in CSIRO/ClimateWorks Australia’s 2021 modelling report²⁰. This scenario maps out emissions reductions in the Australian economy to 2050 in line with a 1.5°C global warming. The scenario modelling provides sector-level emissions trajectories that represent energy efficiencies, electrification and fuel switching required for Australia to achieve net-zero by 2050 or sooner. The Hydrogen Superpower scenario reflects strong decarbonisation resulting from breakthroughs in the cost of hydrogen production, and a substantial growth of both domestic and export industries.

3) SBTi Cement Target Setting Guidance²¹: In 2022, the SBTi published draft guidance on target setting in the cement sector and developed an accompanying target calculation tool. SBTi’s tool is based on a 1.5°C-aligned decarbonisation pathway for the sector. The SBTi guidance leverages IEA NZE as the reference scenario. In consultation with IEA, SBTi also developed a Scope 2 emissions reduction pathway specific to the cement sector.

Details of how we leveraged these reference scenarios to develop our sector portfolio pathways and targets, including key scenario assumptions and any areas of divergence, are provided in the sector target sections of this document.

| Sector | Reference scenario for target setting |
|---|--|
| Extractives - Upstream oil and gas | IEA NZE, complemented with CSIRO/ClimateWorks Australia Hydrogen Superpower Scenario |
| Extractives - Thermal coal mining | Our commitment has been informed by the NZBA guidelines |
| Power generation | CSIRO/ClimateWorks Australia Hydrogen Superpower Scenario |
| Industrials - Cement production | SBTi Cement Target Setting Guidance - Sectoral Decarbonisation Approach (SDA) |
| Australian commercial real estate (large customers with office properties) | IEA NZE |

Other considerations

Our methodologies for setting our current targets do not currently include use of carbon offsets for our financed emissions, but we appreciate that carbon offsets and other evolving technologies and practices are likely to play a role to supplement decarbonisation in line with climate science. We will review the use of carbon offsets for these and future targets as appropriate and as guidance on the role of carbon offsets evolves.

Where financial data used to calculate targets, baselines and progress is denominated in a foreign currency, this is converted into an Australian Dollar equivalent, using a static exchange rate for the end of the period.

While we have sought to set our targets with regards to the best available data, we acknowledge that limitations remain, such as availability of public emissions reporting at a detailed customer level. We have therefore made assumptions and estimated, where required, to allow us to develop decarbonisation pathways that best reflect the composition of our portfolios and the challenges and opportunities faced by customers. We will continue to work with customers and industry stakeholders to address these data limitations and enhance our understanding of available information.

Our targets and approach have undergone internal review and approval, including by the Board and the ESG and Reputation (ESGR) Committee, which is an executive level committee and is chaired by our CEO. As best available science and industry standards evolve and data quality improves, we will update our methodology and target setting approach to continue to align targets and commitments with a 1.5°C pathway. We will continue to monitor, review and revise our targets as required, or at least every five years, in accordance with the NZBA guidelines.

¹⁸ The Intergovernmental Panel on Climate Change, (IPCC) classifies scenarios as “no or limited temperature overshoot” if temperatures exceed 1.5°C by less than 0.1°C but return to less than 1.5°C in 2100.

¹⁹ The IPCC (2018): “Global Warming of 1.5°C. An IPCC Special Report on the impacts of global warming of 1.5°C above pre-industrial levels and related global greenhouse gas emission pathways, in the context of strengthening the global response to the threat of climate change, sustainable development, and efforts to eradicate poverty” notes that practices or technologies that remove CO₂ from the atmosphere are often described as achieving ‘negative emissions’, i.e. negative emissions technologies. The scenarios we selected for our target setting assume limited deployment of these technologies.

²⁰ Reedman, L.J., Chew, M.S., Gordon, J., Sue, W., Brinsmead, T.S., Hayward, J.A. and Havas, L. 2021. Multi-sector energy modelling, CSIRO, Australia.

²¹ Cement Science Based Target Setting Guidance | Draft for public consultation, Science-based Targets initiative, March 2022.

Upstream oil and gas

Target: Reduce absolute financed emissions by 23% for upstream oil and gas²² by 2030 from 2021. This includes Scope 1, 2 and 3 emissions.

We have updated our upstream oil and gas position to support this target. Our position provides:

- we will only consider directly financing greenfield oil and gas projects that are in accordance with the IEA NZE scenario²³ or where necessary for national energy security²⁴;
- we will continue to provide corporate lending where the customer has a credible transition plan²⁵ in place by 2025; and
- we will work with customers to support their development of credible transition plans prior to 2025.

Our direct lending position reflects the IEA NZE scenario's position on new oil and gas fields, with provision for our social obligation to support lending where necessary for national energy security. The IEA NZE position on no new oil and gas fields is more difficult to apply to a general corporate lending context, where funding is not tied to use of proceeds for a particular project. We have taken a balanced approach

to this challenge and to other important issues, such as supporting an orderly and inclusive transition, by requiring all upstream oil and gas corporate borrowers to have credible transition plans in place by 2025.

Absolute emissions reductions targets are most appropriate when assuming a decrease in fossil fuel demand and incentivise reallocation of exposure which in turn supports an orderly and inclusive transition.

Boundary definition

For the oil and gas sector, we focused on emissions from customers in the upstream part of the sector's value chain. This includes exploration, extraction and drilling companies. We also include integrated oil and gas companies (that have upstream activities), and Liquefied Natural Gas (LNG) producers. This includes Scope 1, 2 and 3²⁶ emissions.

The scope of the target does not include midstream (e.g. processing, storing and transportation of crude oil) and downstream (e.g. refining and distribution) companies.

Our boundary definition covers a significant portion of emissions across the sector in our lending portfolio. Focusing on the areas with the most material carbon impacts will be key to supporting transition in the sector.

Scenario selection and assumptions

Our emissions reduction target has been developed by reference to the IEA NZE and CSIRO/ClimateWorks Australia 1.5°C-aligned reference scenarios.

Key assumptions of the IEA NZE and CSIRO/ClimateWorks Australia Hydrogen Superpower reference scenarios include:

- The decarbonisation trajectory of oil demand in the IEA NZE means no exploration for new resources is required and, other than fields already committed as at 18 May 2021, no new oil fields are needed.
- No new natural gas fields are needed in the IEA NZE beyond those already committed as at 18 May 2021.
- Once fields under development start production, all upstream investment in the IEA NZE is to support operations in existing fields.
- Innovation is key to developing new clean energy technologies and advancing existing ones. Almost 50% of the emissions reductions needed in 2050 in the IEA NZE depend on technologies that are at the prototype or demonstration stage, i.e. are not yet available on the market.
- In the CSIRO/ClimateWorks Australia Hydrogen Superpower scenario, a weaker push to electrify heavy industry leads to higher demand for natural gas into the 2030s, at which point a large amount of gas use begins to switch to hydrogen.

²² Upstream oil and gas includes exploration, extraction and drilling companies, integrated oil and gas companies as it relates to upstream activities, and LNG producers. The scope of the target does not include midstream (e.g. processing, storing and transportation of crude oil) and downstream (e.g. refining and distribution) companies.

²³ The IEA NZE scenario specifies that no new (greenfield) oil and gas fields are needed beyond those projects that have already been committed (i.e. approved for development) as of 18 May 2021.

²⁴ National energy security refers to circumstances where the Australian or New Zealand Government or regulator determines (or takes a formal public position) that supply from the asset being financed is necessary for national energy security.

²⁵ A credible transition plan should be developed by reference to the best available science and should include Scope 1, 2 and 3 emissions and actions the company will take to achieve greenhouse gas reductions aligned with pathways to net-zero by 2050, or sooner, consistent with a maximum temperature rise of 1.5°C above pre-industrial levels by 2100.

²⁶ Includes emissions from combustion of sold goods. As we refine the methodologies used to set targets and account for our financed emissions, we will revise definitions accordingly.

- In the CSIRO/ClimateWorks Australia Hydrogen Superpower scenario, electrification of road transport (and to a lesser extent rail and aviation) accelerates the decline in the overall level of fuel use. This acceleration occurs in the mid-2030s as electric vehicles dominate new vehicle sales.
- Carbon pricing is introduced across all regions.

Setting our target

To arrive at the target we assessed the absolute emissions reductions required for our portfolio to align with a net-zero by 2050 pathway. Customer Scope 1, 2 and 3 emissions were projected to 2030 using emissions drivers representative of our sector-level portfolio emissions profile. Calculations were based on the IEA NZE Australian LNG exports and supply in the Organisation for Economic Co-operation and Development (OECD) economies. This was subsequently augmented by overlaying data from the CSIRO/ClimateWorks Australia Hydrogen Superpower scenario to calculate total Australian oil and gas demand.

Our target was finally calculated as the average emissions reduction across the emissions drivers, weighted on financed emissions composition of our sector portfolio.

Emissions drivers in our oil and gas portfolio

| | SCOPE 1 EMISSIONS | SCOPE 2 EMISSIONS | SCOPE 3 EMISSIONS |
|-------------------------------------|---|--|--|
| Australia LNG exports | Carbon intensity of LNG terminals using a global average | Australia electricity generation intensity | Australia LNG exports use of sold products |
| Australia oil and gas demand | Carbon intensity of oil and gas extraction using a global average | Australia electricity generation intensity | Australian oil and gas production use of sold products |
| OECD oil and gas supply | OECD carbon intensity of oil and gas extraction | OECD electricity generation intensity | OECD oil and gas production use of sold products |

Our approach to calculating our target metric and baseline

To calculate the absolute financed emissions for the sector, each customer's emissions are attributed to Westpac using our TCE to the customer relative to the enterprise value of the customer. Individual customers' Scope 1, 2 and 3 emissions are sourced in the first instance from customer-reported data. Where customer-level data is not available, production data is sourced from customers' public disclosures. An emissions intensity factor is then used to estimate customer emissions. For customers where customer-specific emissions or production data is not available, we estimated customer emissions by applying sector-level emissions intensity factors to customer financial information.

Thermal coal mining

Target: Zero lending exposure to companies with >5% of their revenue coming directly from thermal coal mining by 2030. We updated our thermal coal mining definition to align with the NZBA guidelines²⁷ on the required scope of target setting for thermal coal mining.

Our boundary definition for the thermal coal mining target covers a significant portion of emissions across the sector. Transactional banking and rehabilitation bonds are excluded from our target. Focusing on the areas with the most material carbon impacts will be key to driving transition in the sector. In accordance with our NZBA commitment, in future years we will look to review other areas of our portfolio, including adjacent sectors, prioritising emissions-intensive areas, where data and methodologies allow.

In our 2020 Position Statement, we committed to supporting thermal coal mining customers²⁸ transition in line with a commitment to reduce our exposure to zero by 2030. Consistent with the NZBA guidelines, we have updated our position to define thermal coal mining customers as companies with more than 5% of their revenue coming directly from thermal coal mining.

We will seek to continue to work with customers affected by this revised revenue threshold to meet our new 2030 target.

Our approach to calculating our target metric and baseline

Thermal coal exposures are defined as TCE of any customer with revenue greater than 5% from thermal coal mining. The revenue threshold relates only to customers who own the coal reserves (via a mining lease) and produce revenue from the sale of those reserves at prevailing coal prices (as opposed to contractors, for example).

Annually, we calculate the percentage of revenue coming directly from thermal coal mining by assessing customers' full-year audited financial reports, based on a rolling average of the prior three years of revenues. Where customers do not itemise revenue from thermal coal mining in their financial statements, we multiply the given customer's total attributable thermal coal production (i.e. across mines owned by that customer) by the average benchmark thermal coal price recorded for that year to estimate the revenue generated by thermal coal production.

²⁷ The NZBA guidelines require that any client with more than 5% of their revenue coming directly from thermal coal mining shall be included in the scope of targets. Accordingly, our targets cover the production and sale of thermal coal, with adjacent sectors (including mining service providers) to be covered in other targets as appropriate. Transactional banking and rehabilitation bonds are excluded from our target.

²⁸ Our 2020 commitment on thermal coal lending covered subsidiaries of existing customers, with thermal coal mining customers defined as those generating more than 25% of revenues from thermal coal, or in the case of a stand-alone mine, more than 35% of volumes from thermal coal mining. This definition of thermal coal customers has been updated to reflect consistency with the NZBA guidelines.

Power generation

Target: Emissions intensity target of 0.10 tCO₂-e/MWh for Scope 1 and 2 by 2030.

The latest Intergovernmental Panel on Climate Change report on mitigation of climate change²⁹ notes energy systems in a net-zero by 2050 scenario will rely on widespread electrification of the energy system including end uses for transport, industry and buildings. This also means electricity generation will need to achieve net-zero emissions.

We have a track record in supporting renewable energy projects and we have actively managed the emissions intensity of our exposure to the electricity generation sector. In 2020, we set a target of reducing the emissions intensity of our electricity generation exposure to 0.23 tCO₂-e/MWh by 2025 and 0.18 tCO₂-e/MWh by 2030. We have replaced these targets with our new power generation target of 0.10 tCO₂-e/MWh by 2030 consistent with our increased ambition on climate action and reflecting advancements in renewable energy technologies.

Boundary definition

Our sector portfolio is diverse, with customers active across several aspects of the electricity value chain. The target includes the Scope 1 and 2 emissions of electricity generators³⁰. The target excludes electricity transmission/distribution companies and Scope 3 emissions of electricity generators. The target covers a majority of value chain emissions and is consistent with current industry practice.

²⁹ IPCC Climate Change 2022 Mitigation of Climate Change, Summary for Policy makers.

³⁰ Includes customers with >10% revenue coming from power generation or >5% revenues from thermal coal electricity generation. In Australia, this applies to customers under ANZSIC (1993) code 3610 with National Greenhouse and Energy Reporting (NGER) scheme designated generation facilities and have >10% revenue coming from power generation.

³¹ The average emissions intensity applied to wind and solar generation projects is the average of all generation facilities for which 'Primary fuel' under NGER is wind or solar respectively.

Scenario selection and assumptions

The emissions attributable to our power generation portfolio are heavily weighted towards Australian customers. The CSIRO/ClimateWorks Australia Hydrogen Superpower scenario, which is specific to the Australian context, was selected as the reference scenario.

The scenario determines the most efficient manner of achieving the economy-wide decarbonisation required to meet a 1.5°C carbon budget. This means that instead of focusing on setting a pathway for power generation alone, the reference scenario also considers the sector's role in supporting decarbonisation of the wider economy, for example with electric transport, thus phasing transition of power generation accordingly.

Key assumptions of the CSIRO/ClimateWorks Australia Hydrogen Superpower reference scenario include:

- To 2030, there will be a high uptake of electrification and energy efficiency improvements, with a rapid increase in the capacity of renewable energy technologies.
- Coal power capacity is expected to be reduced significantly by 2030 and phased out from the energy system by 2035.
- From 2030, low-cost and abundant renewable energy strengthens Australia's green hydrogen production, enabling it to capture export opportunities.
- Accelerated growth in renewable energy capacity will be required to enable transition of energy sources away from fossil fuels.

Setting our target

The emissions intensity of the Australian National Electricity Market (NEM) in the CSIRO/ClimateWorks Australia Hydrogen Superpower scenario was selected as the 2030 target. This target was derived from the reference scenario as the total CO₂e of electricity grid emissions per MWh of power generation for the NEM. This results in a calculated emissions intensity for the power generation sector as 0.10 tCO₂-e/MWh by 2030.

In line with industry practice for setting targets in the power generation sector, we selected an emissions intensity target (i.e. emissions relative to power generated) because it provides flexibility for low and zero emissions technology deployment by customers. This is important given this sector will unlock decarbonisation opportunities for other sectors.

Our approach to calculating our target metric and baseline

Our portfolio power generation intensity is calculated as the weighted average emissions intensity for power generation customers, weighted using the relative TCE for each of these customers. The emissions intensity of a power generation customer is calculated as the Scope 1 and 2 emissions (tCO₂-e) of its electricity generation, divided by electricity generation output (MWh).

For Australian customers, we use data as reported under the National Greenhouse and Energy Reporting (NGER) scheme, excluding batteries. An average emissions intensity³¹ is applied to wind and solar generation projects where data is not yet available under NGER or the NGER-calculated intensity for the project is more than twice the industry average, as is often the case where the project was in construction for all or part of the reporting period.

For international and Westpac New Zealand customers, data is sourced from customer reporting.

Cement production

Target: Emissions intensity target of 0.57 tCO₂-e/tonne of cement for Scope 1 and 2 by 2030.

Boundary definition

The cement production sector is a large energy user and carbon emitter. One of the major components of cement is clinker. Clinker production is also the most emissions-intensive step in cement production. The majority of clinker-related emissions are generated through a chemical reaction (i.e. calcination) that occurs as part of clinker production. Given their nature, clinker production emissions are harder to abate as they cannot be reduced by changing fuel or increasing energy efficiency. According to the Cement Industry Federation³², in Australia, 60% of total emissions are process-related emissions from the production of clinker.

Our target covers customers that produce clinker in-house. The target has been set for customers' Scope 1 and 2 emissions in relation to the production of cement. It covers emissions generated from calcination in clinker production as well as fuel combustion and electricity consumption associated with the cement production process.

The value chain boundary for the cement target spans from receipt of clinker feedstocks (limestone and clay) by the production facility, through to storage of the finished cement. We included the preparation of components for processing, the clinker production and subsequent milling and blending into cement. We excluded emissions from the production of purchased clinker. Our target boundary also excludes transportation and delivery of the materials

to the production facility and the distribution and use of produced cement in manufacturing of other building materials (e.g. concrete).

In line with the NZBA guidelines, we will review our cement production target to include customers' Scope 3 emissions from 2024 where methodologies and data allow. Scope 3 emissions include emissions from the production of purchased clinker.

Scenario selection and assumptions

In March 2022, SBTi published its draft guidance on target setting in the cement sector, where they worked with the IEA to refine the emissions profile of the cement industry, specifically on the Scope 2 emissions reduction requirements for cement production.

Key assumptions of the SBTi reference scenario include:

- To 2030, emissions reductions for the IEA NZE cement sector pathway are within conventional technologies. The key decarbonisation levers are substitution of clinker for alternative lower emissions materials, energy efficiency gains and fuel switching.
- Emissions reduction in the built environment will be achieved through building material efficiency improvements, e.g. through recycling concrete or designing buildings to require less concrete. This in turn restricts growth in cement demand.
- The IEA NZE assumes that by 2030, 9% of global cement production is equipped with innovative technologies, such as carbon capture usage and storage.

- It is assumed that the general trend in electricity consumption for cement manufacturing is in line with electricity consumption for all heavy industries. However, the Scope 2 emissions global pathway for cement is adjusted to reflect comparatively slower growth of cement demand.

Setting our target

The SBTi recommends a Sectoral Decarbonisation Approach (SDA) for setting targets in the cement sector. This approach compares a base year physical intensity metric with the IEA NZE cement sector pathway. The target is calculated using a convergence approach, where the physical intensity pathway converges with the sector average intensity by 2050.

Using the SBTi calculator and the most recent available industry baseline emissions intensity, 0.77 tCO₂-e/tonne cement³³ for target setting, the given pathway reaches a 2030 emissions intensity target of 0.57 tCO₂-e/tonne cement.

Our approach to calculating our target metric and baseline

Our sector-portfolio cement production intensity is calculated as the weighted average production emissions intensity of customers, weighted based on the attribution of Westpac's absolute financed emissions of each customer. Customers in scope are determined using the relevant Australian and New Zealand Standard Industrial Classification (ANZSIC) codes, with a decision tree overlay to only include customers which produce both clinker and cement in-house. We use absolute Scope 1 and 2 cement production emissions and emissions intensity data as reported by customers.

³² Cement Industry Federation, Australian Cement Report 2020.

³³ 0.77 tCO₂-e/tonne cement was the average emissions intensity of Australian cement produced from clinker on site in 2018-19. Cement Industry Federation, Australian Cement Report, August 2020.

Australian commercial real estate (large customers with office properties)

Target: 62% reduction in Scope 1 and 2³⁴ emissions intensity (kgCO₂e/m² net lettable area³⁵) by 2030 from 2021, for Australian large customers with office properties.³⁶

Boundary definition

Our target setting for commercial real estate is deliberately focused on a segment of our sector portfolio in the initial phase. We have set the target boundary based on availability of reliable emissions data across our commercial real estate lending portfolio such that a 2030 target with credible basis could be established. As we continue to address data limitations, we will review the commercial real estate exposures in scope, expand coverage and adjust our target as necessary.

Analysis of our current commercial real estate portfolio showed that our largest customers presented the most reliable data at the building level. Our Australian commercial real estate (large customers with office properties) target applies to discrete borrowers with office properties comprising a majority of their portfolio and with commercial real estate TCE greater than \$75 million within Specialised Lending - Property Finance (investment only) and Corporate portfolios, as defined under Pillar 3 reporting. This excludes construction finance.

We further narrowed our boundary to Australian office-purposed buildings, given these presented the best data availability for individual buildings. The National Australian Built Environment Rating System (NABERS) ratings were used as the primary source of data for each building's emissions profile and net lettable area (NLA) in our portfolio. The NABERS dataset is extensive across the Australian office sector, however has lower coverage for other real estate subsectors (e.g. retail, industrial, residential) and for New Zealand assets.

In line with NZBA guidelines, our target currently covers customers' operational Scope 1 and 2 emissions, i.e. base building emissions for the office-purposed buildings within the target boundary. Base building operational emissions include emissions from the combustion of fossil fuels and electricity consumption for central services such as heating and cooling systems, lifts and communal space lighting.

We have also excluded the electricity and fossil fuel consumption of building tenants, as these represent our customers' Scope 3 emissions. Availability of reliable tenant data for the whole building is limited in Australia due to the varying regulatory rules of energy metering across different jurisdictions. In line with the NZBA guidelines, we will continue our work to address data challenges and review our target to include customers' Scope 3 emissions from 2024 where regulations, methodologies and data allow.

Our target covers financing for the purchase, refinance and general business loans to customers. We have excluded exposures associated with construction and renovation of commercial real estate assets, given emissions associated with these activities are typically considered Scope 3 emissions.

Scenario selection and assumptions

Our emissions reduction target has been developed by reference to the IEA NZE. The IEA NZE provides a 1.5°C aligned decarbonisation reference scenario for the buildings sector at a global level.

Key assumptions of the IEA NZE reference scenario include:

- Electrification and energy efficiency are the two main drivers of decarbonisation of the buildings sector. That transformation relies primarily on technologies already available, including improved design envelopes for new and existing buildings, heat pumps and energy-efficient equipment and appliances.
- Increasing electrification of space heating and water heating.
- Rapid shifts to zero-carbon-ready technologies enable the share of fossil fuels in energy demand in the buildings sector to fall significantly.
- By 2030, around 20% of the existing building stock worldwide will be retrofitted and all new buildings comply with zero-carbon-ready building standards.

³⁴ Base building operational Scope 1 and 2 emissions. Target excludes all Scope 3 emissions (e.g. tenant emissions from electricity and appliance use, construction, embodied emissions and corporate activities).

³⁵ Floor space is defined as NLA, as this is the definition aligned with NABERS. NLA is measured according to the Measurement Standard for Rated Area, the standard used for determining the NLA of premises to be rated within NABERS, as set out in the Property Council of Australia (PCA) March 1997 Method of Measurement.

³⁶ Large customers with office properties refers to discrete borrowers with office properties comprising a majority of their portfolio and with commercial real estate TCE >\$75m, within Specialised Lending - Property Finance (investment only) and Corporate portfolios as defined under Pillar 3 reporting. This excludes construction finance.

We recognise the IEA NZE decarbonisation pathway is not specific to the Australian market, but as per the NZBA guidelines, this was considered the best available 1.5°C aligned reference scenario.

We will continue to monitor developments and review our target and assumptions as new scenarios emerge and mature that may be considered more appropriate for our portfolio. For example, in October 2022, the Carbon Risk Real Estate Monitor (CRREM) released draft guidance for consultation, on pathways for the operational decarbonisation of real estate holdings. We will review our target once the consultation is completed and pathways are finalised and integrated into SBTi tools and guidance.

Setting our target

In line with industry practice for setting targets, we selected an emissions intensity target (i.e. emissions relative to net lettable area) because it enables us to expand the coverage and revise the baseline of our target to include other property segments and emissions, while remaining relevant to the buildings currently in scope.

The IEA NZE scenario identifies a number of variables that are expected to contribute to a decarbonisation pathway in the commercial real estate sector, such as the pace of electrification of building equipment and central services, decarbonisation of the grid, and expected energy demand. We calculated the target as a 62% reduction in emissions intensity (kgCO₂e/m² net lettable area) by 2030 from a 2021 baseline, based on the decarbonisation pathway laid out in the IEA NZE scenario.

Our Australian commercial real estate sector portfolio intensity will be calculated as the real estate emissions intensity of customers' buildings weighted using the relative TCE for each of these customers.

Financed emissions estimation methodology

This section provides information on the methodological approach to estimate our financed emissions at the whole of portfolio level.

In 2022, we increased the boundary applied to estimate our financed emissions to include both Australian and New Zealand customers in our whole of portfolio financed emissions analysis and excluded those businesses in our Specialist Businesses segment as they have either been sold (with the transaction not yet complete) or we are planning their exit. In 2022, we also refreshed our methodology to reflect improvements in data collection and work to continue to align our methodologies with the principles of PCAF where appropriate. We highlight any material deviations below, where relevant.

There are also differences between the estimation methodology applied for the whole of lending portfolio financed emissions analysis, and our approach to calculating our 2030 sector target metrics and baselines. For example, the whole of lending portfolio financed emissions analysis used on-balance sheet exposure only whereas our 2030 sector target metrics and baseline also include off-balance sheet exposure. Details of our target setting approach and target metric calculation can be found in the 'Our approach to target setting' and each individual target sector section above.

In estimating our financed emissions, we seek to use the best available data, although in some cases the use of estimates and assumptions is unavoidable. The quality of the data we have used varies across our lending portfolio reflecting sector or asset-specific data limitations in the availability and quality of greenhouse gas emissions and financial data resulting in the extensive use of proxy data. This limitation has resulted in PCAF establishing a data quality score to assist in understanding the source of data which we have applied in calculating the average data quality score (Scope 1 and 2 emissions) which is weighted based on customer exposures. As data availability and calculation methodologies evolve, we will review our approach to seek to further improve the data scoring and reliability of our financed emissions reporting.

Boundary and scope

We incorporated asset class definition and scope based on principles from PCAF as outlined below:

- 1. Business loans:** consists of on-balance sheet TCE, representing the committed proportion of direct lending to businesses, committed proportion of secondary market trading and underwriting risk. This includes revolving credit facilities, overdraft facilities, and business lending to the property sector³⁷ where this does not meet the definition of secured commercial real estate lending below. Due to data limitations, we also applied the PCAF business loans methodology to project finance, although PCAF recommends institutions apply the Project Finance methodology with known use of proceeds.
- 2. Residential mortgages:** consists of drawn balance for the purchase and refinance of residential property.
- 3. Secured commercial real estate loans:** consists of secured loans for the purchase and refinance of commercial real estate. The property should be used for commercial purposes such as retail, offices or industrial. From FY22, where lending to the property sector³⁷ does not meet this definition, the business loans methodology is applied. In FY21, all lending to the property sector applied the business loans methodology.

Non-mortgage personal lending and government lending is not included in the scope of our analysis due to limited emissions data availability and a lack of industry standard methodologies.

³⁷ Property sector includes ANZSIC (1993) codes 7712 to 7718.

Our approach to attributing financed emissions

Consistent with PCAF principles, we attribute a portion of customer emissions to our lending portfolio based on the proportional share of lending (on-balance sheet TCE). Scope 1 and 2 greenhouse gas emissions of customers are attributed for all customers within the whole portfolio financed emissions boundary.

In line with our NZBA commitment and our 2030 sector targets, we also attributed customer Scope 3 emissions for customers within mining (including oil and gas extraction) and downstream sectors within manufacturing³⁸. We have not attributed customer Scope 3 emissions for all sectors identified through the NACE³⁹ codes outlined by PCAF, given data availability and methodology limitations. We aim to expand attribution of customer Scope 3 to additional sectors consistent with PCAF guidelines and where data and methodologies allow.

For our institutional and business lending we determined an attribution factor as the ratio of the customer on-balance sheet TCE to the customer's enterprise value, defined as total equity plus debt. This deviates from the PCAF guidelines for listed entities, where PCAF recommends the use of market capitalisation plus debt, rather than total equity plus debt. Where no customer-specific financial data is available, sector ratios were applied in accordance with the approach described in the section 'Estimation of customer emissions for business lending'.

For Australian residential mortgages, we used aggregated loan data by state and property type or property size (m²), where available. We followed a similar approach for our New Zealand residential mortgages, except aggregation was done at the level of North and South Island. We attributed emissions to Westpac by dividing outstanding loan balance by the property value at loan origination.

Secured commercial real estate loan amounts were aggregated at financial year-end for all outstanding loans. To determine the emissions attribution factor, we divided outstanding loan balance by the latest property value at most recent valuation. We deviate from PCAF in that we do not use property value at origination, given current valuation is more representative.

Where financial data used in our financed emissions estimations is denominated in a foreign currency, this is converted into an Australian Dollar equivalent, using a static exchange rate for the end of the period.

³⁸ Scope 3 analysis consist of the following ANZSIC codes within Mining (1101, 1102, 1200, 1311, 1312, 1313, 1314, 1315, 1316, 1317, 1319, 1411, 1419 and 1420), and Manufacturing (2510, 2520, 2531, 2532 and 2721).

³⁹ NACE is the abbreviation for the Statistical Classification of Economic Activities in the European Community. PCAF indicates that NACE categories 05-09, 19 and 20 should be disclosed.

Estimation of customer emissions for business lending

We followed different approaches to estimate customer emissions depending on data availability. For our institutional and business lending portfolio (excluding secured commercial real estate lending), we sought to follow PCAF's data hierarchy in selecting the estimation approach, which assigns a data quality score representing the level of uncertainty inherent in the data. We have developed sector-level average factors, seeking to apply principles of PCAF's data hierarchy.

⁴⁰ Data is sourced from customers' public disclosures, the Australian NGER or external financial market data provider as available and appropriate.

⁴¹ Factors derived from National Greenhouse Accounts and Australian Bureau of Statistics data have been used as the principal source for Australian customers as these provide a more up-to-date representation of sector emissions intensity. Where this approach does not provide sufficient granularity for selected industry sub-sectors, we utilise factors from EXIOBASE 2011 environmentally extended input-output tables. We have not adjusted the EXIOBASE Australian factors for inflation or changes in Australia's emissions profile during the intervening period, on the basis this does not result in a material change in our financed emissions estimates. For our New Zealand customers, we utilised a similar approach, drawing on sector-level emissions data from the Ministry of Environment, and economic data from Stats NZ.

⁴² Emissions factors were applied at the ANZSIC (1993) code class level, which is the most detailed ANZSIC level.

⁴³ Sector financial ratios are calculated on a normalised basis using financial information from the previous five years. Financial ratios for agricultural sectors are sourced from the Australian Bureau of Agricultural and Resource Economics (ABARES) survey data. Financial ratios for other sectors (excluding agriculture) are based on IBISWorld data for Australia's top 2,000 companies. Due to the limitations in available financial information an average of FY22 and FY21 financial ratios has been used in our calculations as the financial ratios for both FY21 (re-baseline) and FY22 as this is considered most representative.

| PCAF DATA QUALITY SCORE | APPROACH | APPLICATION |
|-------------------------|---|---|
| 1 | Customer-specific emissions data, which has been verified by a third-party auditor ⁴⁰ | We have applied this approach to institutional banking customers in Australia and New Zealand where customer-specific emissions data is available. |
| 2 | Customer-specific emissions data, but not confirmed to have been verified by a third-party auditor ⁴⁰ | We have applied this approach to institutional banking customers in Australia and New Zealand where customer-specific emissions data is available. |
| 3 | Estimation based on activity data: production data is sourced from customers' public disclosures and multiplied by sector level emissions intensity factors sourced from the Australian National Greenhouse Accounts, and the New Zealand Ministry for the Environment. We also used reference factors sourced from publicly available Life Cycle Assessment databases and industry publications to determine downstream emissions for non-energy commodities. | We applied this approach to Scope 3 emissions of institutional banking customers in Australia and New Zealand within the mining (including oil and gas extraction) and manufacturing (downstream) sectors described above where no customer-specific reported data was available. |
| 4 | Estimation based on economic intensity, where customer financial data is available: customer revenue data is multiplied by a sector-level economic emissions intensity factor ⁴¹ (tCO ₂ -e per AUD\$ of revenue) based on an ANZSIC classification ⁴² . | Applied to customers across institutional and business banking in Australia and New Zealand where customer-specific emissions data is not available but financial data is available. |
| 5 | For Scope 1 and 2 emissions, estimation based on economic intensity, where customer financial data is not available: customer revenue is first estimated based on sector financial ratios ⁴³ , which is then multiplied by a sector-level economic emissions intensity factor (tCO ₂ -e per AUD\$ of revenue) based on a 'sector best-fit approach' ANZSIC classification. For Scope 3 emissions, estimation based on activity data: Where no production data for a customer is available the customer exposure is multiplied by a sector level attribution factor (tCO ₂ -e per \$ of exposure) based on a 'sector best-fit approach' ANZSIC classification. | Applied to customers across institutional and business in Australia and New Zealand where customer-specific emissions and financial data is not available. |

Estimation of customer emissions for residential mortgages and secured commercial real estate lending

Estimating emissions for the residential and commercial real estate sectors in our lending portfolio is challenging given the lack of publicly available property-level emissions and energy data. This resulted in being able to achieve a maximum PCAF data quality score of 3.

| PCAF DATA QUALITY SCORE | APPROACH | APPLICATION |
|-------------------------|---|--|
| 3 | Estimation based on floor area and energy labels: an average energy consumption factor per m ² is applied based on the NABERS data to estimate total energy consumption. This is then used to estimate emissions based on the estimated energy mix and relevant location-based emission factors for the location of the property ⁴⁴ . | We have applied this approach to commercial real estate exposures within the institutional bank where floor area and NABERS rating data is available. |
| 4 | Estimation based on floor area and statistical data: an average energy consumption factor ⁴⁵ per m ² is applied to estimate total energy consumption. This is then used to estimate emissions based on the estimated energy mix and relevant location-based emission factors for the location of the property ⁴⁴ . | We have applied this approach to commercial real estate exposures and residential mortgages where floor area is available. |
| 5 | For commercial real estate: floor area (m ²) is estimated based on the value of the property utilising publicly available industry research. The average energy consumption factor ⁴⁵ per m ² is applied to estimate total energy consumption. This is then used to estimate emissions based on the estimated energy mix and relevant location-based emission factors for the location of the property ⁴⁴ . For residential mortgages, property type and the location of the property is used to estimate total energy consumption. This is then used to estimate emissions based on the estimated energy mix and relevant location-based emission factors for the location of the property ⁴⁴ . | We have applied this approach to commercial real estate exposures and residential mortgages where only exposure and property values are known and available. |

⁴⁴ Factors derived from National Greenhouse Accounts and Australian Bureau of Statistics data (Australia), and Ministry for the Environment, Stats NZ and census data (New Zealand).

⁴⁵ Average energy consumption factors are estimated based on 2020 state average natural gas and electricity usage data for residential energy consumption estimates were sourced from the 2020 Australian Energy Regulator (AER) Residential Energy Consumption Benchmarks for residential mortgages. For New Zealand, a Building Research Association of New Zealand (BRANZ) 2006 Study report SR155 Energy use in New Zealand households: Report on the year 10 analysis for the Household Energy end-Use Project (HEEP). For commercial real estate the energy usage and floor space information is sourced from NABERS.

Limitations of our approach

Examples of specific limitations in the calculation and interpretation of our financed emissions are outlined below. We seek to continue addressing known data limitations and review our methodologies accordingly.

1. Timing of the publication of emissions and financial data:

Financed emissions reporting relies on the application of whole-of-year emissions and activity data to point-in-time exposure and enterprise value data. There may be a lag in customer emissions reporting, which may not fully align with the period for company financial reporting, or the balance date for the exposure data used in our financed emissions reporting. Therefore, sector financial ratios for each year are calculated on a normalised basis using financial information from the previous five years.

Financial ratios for agricultural sectors are sourced from the Australian Bureau of Agricultural and Resource Economics (ABARES) survey data. Financial ratios for other sectors (excluding agriculture) are based on IBISWorld data for Australia's top 2,000 companies. Due to the limitations in available financial information an average of FY22 and FY21 financial ratios has been used in our calculations as the financial ratios for both FY21 (re-baseline) and FY22 as this is considered most representative.

2. Allocation of sector-specific emissions intensity factors:

When estimating customer emissions based on sector-level economic intensity emissions factors, we rely on ANZSIC codes for allocating customers to a specific sector. Where diversified customers are allocated to a specific ANZSIC sector, the estimated emissions may not be reflective of the actual business activities and therefore be under- or overstated. Factors derived from National Greenhouse Accounts and Australian Bureau of Statistics data have been used as the principal source for Australian customers as these provide a more up-to-date representation of sector emissions intensity. Where this approach does not provide sufficient granularity for selected industry sub-sectors, we utilise factors from EXIOBASE 2011 environmentally extended input-output tables. We have not adjusted the EXIOBASE Australian factors for inflation or changes in Australia's emissions profile during the intervening period, on the basis this does not result in a material change in our financed emissions estimates.

Whilst we have made best endeavours, where possible, to adjust factors on the basis of more recent databases (e.g., total Australian emissions from the National Greenhouse Accounts), some sector-level factors may not be reflective of current financial flows within the Australian economy. For our New Zealand customers, we utilise a similar approach, drawing on sector-level emissions data from the Ministry of Environment, and economic data from Stats NZ.

3. Allocation of emissions across different parts of customers' corporate hierarchy:

Where companies report emissions data, this is most typically available at the parent level through corporate sustainability reporting. We have used these within our emissions calculations as our default approach, to reflect the best available data. In some instances, we lend to customers that may be more, or less, emissions-intensive than the parent company for which emissions are reported. In these instances, the use of parent-level corporate emissions may not be fully representative of the emissions associated with our lending activity. Therefore, subsidiary specific emissions data or sector estimates are applied.

Looking ahead

In line with NZBA guidelines, we continue work to operationalise our targets and to finalise their integration into our internal processes.

We disclosed our first transition plan in our Climate Change Position Statement and Action Plan, released in November 2022, which outlines our high-level plan to meet our targets. This is within 12 months of setting our first targets in July 2022 and we will continue to update our transition plan as we set new targets, review existing ones and continue working with customers. We will track the absolute financed emissions and emissions intensity, as appropriate, of our sector portfolios and disclose our progress against our 2030 targets as part of our regular reporting process. We will seek to further improve our methodologies for tracking progress against our 2030 sector targets and for estimating our financed emissions.

Consistent with the NZBA guidelines, and where data and methodologies allow, we also aim to develop targets for other sectors in our financing activities that have high emissions or emissions intensity, expanding the coverage of our targets.

Important information

The information in this document is not intended that it be relied upon as advice to investors or potential investors, who should be seeking independent professional advice depending on their specific investment objectives, financial situation or particular needs. The material contained in this document may include information, including, without limitation, methodologies, modelling, scenarios, reports, benchmarks, standards, tools, metrics and data, derived from publicly available or government or industry sources that have not been independently verified. No representation or warranty is made as to the accuracy, completeness or reliability of the information.

This document contains statements that constitute “forward-looking statements” within the meaning of Section 21E of the US Securities Exchange Act of 1934. Forward-looking statements are statements about matters that are not historical facts. Forward-looking statements and metrics appear in a number of places in this document and include statements regarding our current intent, belief or expectations with respect to our business and operations, macro and micro economic and market conditions, results of operations and financial condition, capital adequacy and risk management, including without limitation, climate change, net-zero, climate resilience, natural capital, financed emissions, emissions intensity and other sustainability related statements, commitments and targets, projections, scenarios, pathways, risk and opportunity assessments, forecasts and metrics, indicative drivers, estimated emissions and other proxy data. Forward-looking statements may also be made by members of Westpac’s management or board (verbally or in writing) in connection with this document. Such statements are subject to the same limitations, uncertainties, assumptions and disclaimers in this document.

We use words such as ‘will’, ‘may’, ‘expect’, ‘indicative’, ‘intend’, ‘seek’, ‘would’, ‘should’, ‘could’, ‘continue’, ‘anticipate’, ‘believe’, ‘probability’, ‘risk’, ‘aim’, ‘target’, ‘plan’, ‘estimate’, ‘outlook’, ‘forecast’, ‘goal’, ‘guidance’, ‘ambition’, ‘assumption’, ‘projection’, or other similar words that convey the prospective nature of events or outcomes and generally indicate forward-looking statements. These forward-looking statements reflect our current best estimates, judgements, assumptions and views as at the date of this document with respect to future events and are subject to change, certain known and unknown risks and uncertainties and assumptions and other factors which are, in many instances, beyond the control of Westpac, its officers, employees, agents and advisors, and have been made based upon management’s current expectations, understandings or beliefs concerning future developments and their potential effect upon us. In particular, the science, data, metrics, methodologies, standards, guidance and reporting relating to climate and sustainability are rapidly evolving and maturing, including variations in approaches and common standards in estimating and calculating emissions and uncertainties around future climate- and sustainability-related policy and legislation. There are inherent limits in the current scientific understanding of climate change and its impacts. There can be no assurance that future developments or performance will be in accordance with our expectations or that the effect of future developments on us will be those anticipated. There is a risk that the best estimates, judgements, assumptions, views, models, scenarios, projections used may subsequently turn out to be incorrect. Actual results, performance, conditions, circumstances or the ability to meet commitments and targets could differ materially from those we expect or are expressed or implied in such statements. There are usually differences between forecast and actual results because events and actual circumstances frequently do not occur as forecast and their differences may be material. Factors that may impact on the forward-looking statements made include, but are not limited to, those described in this document and in the section titled ‘Risk factors’ in Westpac’s 2022 Annual Report available at www.westpac.com.au. Westpac will continue to review and develop our approach to ESG as this subject area matures. Investors should not place undue reliance on forward-looking statements and statements of expectation, including targets, particularly in light of the current economic climate and the significant global volatility. These statements are not guarantees or predictions of future performance and Westpac gives no representation, warranty or assurance (including as to the quality, accuracy or completeness of this document), nor guarantee that the occurrence of the events expressed or implied in any forward-looking statement will occur. When relying on forward-looking statements to make decisions with respect to us, investors and others should carefully consider such factors and other uncertainties and events, and the judgments and data presented in this document are not a substitute for investors and other readers’ own independent judgements and analysis. Investors and others should also exercise independent judgement, with the advice of professional advisers as necessary, regarding the risks and consequences of any matter contained in this document. Except as required by law, we assume no obligation to update any forward-looking statements contained in this document, whether as a result of new information, future events or otherwise, after the date of this document.

Acknowledgement of Country and Traditional Owners

Westpac acknowledges the First Peoples of Australia and recognises their ongoing role as Traditional Owners of the land and waters of this country. We acknowledge Westpac's Aboriginal and Torres Strait Islander employees, partners, and stakeholders, and pay our respects to their Elders, both past and present.

Contact

For questions and comments, please contact Westpac Group Sustainability:

sustainability@westpac.com.au

westpac.com.au/sustainability