



Westpac Climate Change Position Statement

Financing the transition to a low carbon economy



Westpac's approach to climate change

We will work to:

1. Minimise our direct environmental footprint
2. Manage climate risks and build capacity across our business
3. Develop products and services that drive positive environmental outcomes
4. Engage employees around climate change issues and impacts
5. Communicate and advocate within the wider community

CEO statement

There is little doubt that climate change is one of the defining issues of our time.

The science is telling us that in our lifetime we are going to face sweeping climatic changes with environmental, economic, health and social impacts that will change the way we live our lives.

In many ways these changes can be for the better. A low-carbon future means a smarter, cleaner and more resource-efficient economy, and the emerging policy and market frameworks will provide plenty of incentives for the innovation required.

As a financial institution with relationships right across society, we will play a pivotal role helping our customers, employees and the broader community shift to this low-carbon economy.

Westpac has been tackling environmental issues for over 15 years, reducing our own footprint, and more recently contributing to the awareness and understanding of climate change. But there is still a long way to go and this document sets out our current thinking.

It is easy to dwell on the challenges, but we do believe that there are exciting opportunities for companies and individuals with the courage to reach out and grasp them. We look forward to your feedback and welcome any comments on what further programs, policies or products and services we should be developing to address this issue.



Gail Kelly
Chief Executive Officer

Westpac and climate change - an introduction

Westpac is one of the major financial organisations throughout Australia, New Zealand and the Pacific region and has offices in key financial centres – New York, London and throughout Asia. We provide a broad range of banking and financial services in these markets.

Sustainability is a core component of our culture and our corporate strategy - who we are, how we do business and what stakeholders can expect from us. Part of this is managing our environmental impact - and dealing with the critical issue of climate change.

The aim of this position statement is to set out:

1. Our perspective on the science, politics, economics and social impacts of climate change;
2. The role of the finance sector in the transition to a low-carbon economy; and
3. Our response so far - and our 2009 – 2012/13 action plan.

We believe that climate change will have significant economic, social and environmental impacts in the regions where we operate. This means that beyond managing our own environmental footprint, our investment, lending and development decisions must take these impacts into account. At the same time we do expect to drive shareholder value through our response.

The most significant impact we can have is to assist our customers' transition to a low carbon economy. More broadly we will play our part to drive awareness and action in the community - and here our employees can be catalysts for change.

We support emission trading and other market mechanisms as fundamental to the positive environmental outcomes required - but ultimately all parts of the economy will need to collaborate to effectively address climate change.

Our approach to date and the 2009 – 2012/13 action plan result from continuing stakeholder consultation and our involvement in all aspects of the carbon debate.

Some science

The climate has always changed due to natural variations in the Earth's orbit but the current discussion is on the effect of human activity on these patterns - and the speed at which this phenomenon is occurring.

In February 2007 the Intergovernmental Panel on Climate Change (IPCC) released its Fourth Assessment Report.¹ Its key conclusions were that:

- Global warming is 'unequivocal', and average temperatures have risen by 0.74°C in the last century - the probability that this has been caused by natural processes is less than 5%.
- World temperatures will rise by 1.1 to 6.4°C and sea levels will probably rise by 18 to 59cm over the 21st century.

This and earlier IPCC reports present the scientific consensus (we also monitor what other international and national expert bodies are saying) on human-induced climate change as well as the potential impacts - and options for mitigation and adaptation.

The logical conclusion to this firming consensus is that all businesses should at least adopt a precautionary approach and manage climate change as a potential risk. Our situation is that we accept that many of the areas where we operate will be amongst the most adversely affected - as explained below.

Expected changes in our region

Australia

- drought, heatwaves and severe weather events become more frequent
- severe weather events cause widespread damage to populated coastal areas
- increased spread of tropical diseases as temperatures rise²
- changing weather patterns impact agriculture and tourism
- economy exposed due to dependency on coal and other mineral exports

New Zealand

- 1.5 – 2.0°C temperature increases predicted for most of the country
- significant rainfall variations across different regions
- sea level rises; increase in extreme weather events; and coastal erosion and flooding
- potential shifts in agricultural production

Pacific

- sea level rises impact low-lying communities
- reduced rainfall, soil erosion and increased salination of coastal plains
- migration of traditional and commercial fishing grounds and coral bleaching
- erratic crop production cycles and earlier cyclone seasons³
- increased cyclonic conditions impact local populations

The policy landscape

Policy and regulatory responses to climate change are rapidly firming at the international, regional and domestic levels. These cover emission limits, market mechanisms and energy efficiency programs. The introduction of market mechanisms - primarily emissions trading – is especially significant. These will shape the transition to a low carbon economy and in particular put a price on carbon emissions. Understanding these initiatives is critical because they are driving whole new markets and products and services - as well as how we will consider and price risk.

The United Nations (UN) and the Kyoto Protocol

The 1992 UN Framework Convention on Climate Change (UNFCCC) and its accompanying Kyoto Protocol is the only formally recognised process for governments to negotiate and agree on greenhouse gas reductions. The Kyoto Protocol sets out specific and legally-binding targets to limit or reduce emissions over an initial compliance period from 2008-2012.

Targets range from an 8% reduction for the EU as a whole, to an allowed 10% increase for Iceland. Australia negotiated an allowed increase of 8% above 1990 levels, whilst New Zealand committed to reducing its average net emissions of greenhouse gases to 1990 levels or to take responsibility for the difference. The net result of all of this should be a global reduction in greenhouse gas emissions of around 5% compared to 1990 levels.

The Protocol also created three market mechanisms to facilitate net emissions reductions - the Clean Development Mechanism, Joint Implementation projects and government to government emissions trading.⁴ Attention has now turned to the design of the post-2012 framework, to be agreed at the December 2009 meeting in Copenhagen.

Australia

Australia's ratification of the Kyoto Protocol in December 2007 kick-started the development of regulation covering emission reduction targets, emissions reporting, an emissions trading scheme and investment in clean technology and renewable energy.

The Australian Government has committed to a 60% reduction in emissions compared with 2000 by 2050, and is currently modelling a shorter term target, using the current Garnaut Review⁵, amongst other studies.

The National Greenhouse and Energy Reporting (NGER) framework is a significant development. As of 1 July 2008 corporations exceeding emissions thresholds must measure and report greenhouse gas emissions, energy consumption and energy production,⁶ with reporting starting in the 2009 fiscal year.

The next significant development will be Australia's emission trading mechanism, the Carbon Pollution Reduction Scheme (CPRS), which is scheduled to see emissions trading commence in 2010⁷.

In terms of renewable energy policy, in 2007 the Government announced a renewable energy target of 20% by 2020, increasing the Mandatory Renewable Energy Target (MRET) to 45,000 GWh of electricity per year.⁸ However the MRET will subsequently be phased out from 2020 to 2030 as emission trading matures.

New Zealand

New Zealand has effectively committed to become the world's first carbon neutral country⁹ and has introduced a range of measures to meet its Kyoto Commitments¹⁰.

The proposed New Zealand Emissions Trading Scheme (NZ ETS) will have the broadest sector and greenhouse gas coverage of any emissions trading scheme operating. All six greenhouse gases specified under the Kyoto protocol will be captured and the scheme will apply to all industry sectors. The NZ ETS will be phased in over a number of years, and compliance requirements commenced 1 January 2008.

The NZ Energy Strategy was released in October 2007 and includes a target of 90% renewable energy generation by 2025, and a preference for all new energy generation to be renewable. Part of this is a ten year restriction on new fossil-fuelled thermal generation unless required to secure New Zealand's electricity supply.

The Pacific

Many Pacific nations are signatories to Kyoto – including the Cook Islands, Fiji, Samoa, Kiribati, Tonga, Vanuatu, Tuvalu and Papua New Guinea (PNG).

In these nations the policy focus has been on research, capacity building and adaptation. This reflects their vulnerability to the shorter term impacts of climate change. For example the Cook Islands has partnered with various universities to assess its vulnerability and adaptation options. In PNG communities are already relocating from some of the smaller islands to the mainland. In the Republic of Kiribati, one of the lowest lying island areas, a National Adaptation Program of Action sets out the urgent response required.¹¹

The economics of climate change

Pivotal research has looked at the economic costs of action or inaction on climate change and the impact of specific policy responses including investment in clean innovation. The UK Government's 2006 Stern Review¹² advocates early action, modelled to limit the economic cost to around 1% of GDP a year - failure to act could result in costs of between 5% and 20% of GDP.

The case for early action was reinforced by local research in the same year by the Australian Business Roundtable on Climate Change, comprising six large businesses including Westpac, together with the Australian Conservation Foundation¹³. The research found that achieving a 60% reduction in greenhouse gas emissions from year 2000 levels by 2050 is possible while maintaining strong economic growth.

The next significant development will come with the Garnaut Review's¹⁴ analysis of policy options to reduce emissions.

The social and human rights impact of climate change

The economic impacts of climate change will not be evenly distributed either between or within economies. Of particular concern are the social justice implications for disadvantaged groups, for example low income and Indigenous communities. The necessary structural reforms, the introduction of a carbon price, and the physical impacts will all have an effect.¹⁵

Climate change also has several unique social and human rights implications for Indigenous communities. These can be understood as both cultural impacts and the direct environmental impacts of climate change.

Aboriginal Australians, Torres Strait Islanders and the Pacific populations are especially vulnerable both in terms of direct environmental and cultural impacts. Many of these communities are in low-lying or coastal tropical areas particularly vulnerable to the expected storm surges and floods. Similarly in New Zealand many areas of Maori land are steep and vulnerable to storms and erosion. In addition the impact on all these Indigenous communities is compounded because their cultures are intrinsically linked to the land and to choices around land management.¹⁶

These communities will be further impacted by policy decisions around the future direction of tourism, and especially on land use – here there are opportunities for land-based and forestry carbon sequestration for both Indigenous Land Councils and the Maori holdings of pastoral farmland and forests.¹⁷

Climate change and the finance sector

The finance sector is exposed to new climate change-related risks via its investment and lending activity across the economy, any part of which may be affected by:

1. Physical risk - the direct impacts of increasing weather volatility and changing climatic conditions;
2. Regulatory risk - the impact of government intervention at the global, regional, national or local level via legislation and market mechanisms specifically; and
3. Market and reputational risk - shifting consumer expectations and the ability of business to respond.

All of these risks can impact investment value or future earnings. Financial institutions must understand these risks within their customer and investment base, model the specific effects on key sectors such as agriculture and tourism, and be prepared both for shifting industry dynamics which affect the market value of assets and unpredictable impacts on global markets.

On the other hand there are opportunities - which include the emergence of emissions trading, the financing of clean technologies and new infrastructure, and consumer products which promote positive environmental outcomes.

What is Westpac doing?

Our action on climate change is part of a broader commitment to environmental management which has accelerated since the early 1990s.

Our overall approach has been to:

- Reduce our direct environmental impact
- Identify emerging risks and opportunities
- Anticipate likely changes in trade and regulatory frameworks and contribute to policy development
- Drive awareness in the broader community

Key achievements include:

- | | |
|---------------------|--|
| Policy & Governance | <ul style="list-style-type: none"> ■ Formal environmental commitments within a set of Business Principles and environmental policy. ■ A stakeholder-led governance structure for environmental management with stakeholder councils in both Australia and New Zealand and Board-level stewardship via a dedicated committee. ■ Quarterly data gathering and external environmental reporting since 2001. |
| Advocacy | <ul style="list-style-type: none"> ■ Founding membership of the United Nations Environment Program Finance Initiative, Equator Principles and the Greenhouse Challenge Plus and early membership of the UN Global Compact and the UNGC CEO Water Mandate. ■ Contributing to policy development through the Australian Business Roundtable on Climate Change and Australian Business & Climate Group, the Australian Agricultural Alliance on Climate Change and internally the Water and Carbon Forum within our institutional bank. |
| Action | <ul style="list-style-type: none"> ■ Reducing direct emissions by over 40% since 1996. ■ Environmental products and services including green home loans, Australia's first best of sector SRI fund, and eco housing developments. ■ Trading in the European Union Emission Trading Scheme and Australia's first trade under the Kyoto Protocol and Carbon Pollution Reduction Scheme. ■ Scrutinising the environmental performance of suppliers through a sustainable supply chain management system since 2002. |
| Recognition | <ul style="list-style-type: none"> ■ Global sector leadership in the Dow Jones Sustainability Index from 2002–2006 and equal highest score in 2007/08, AGO Greenhouse leader award, and the only bank globally to achieve a Climate Disclosure Leadership Index score of 100 and an Innovest Carbon Beta Rating of AAA in 2007. |

Reducing our direct impacts

The majority of our carbon footprint arises from our Australian operations and as a function of electricity consumption. New head office facilities in Sydney and Auckland are central to our energy efficiency. We continue to pursue low energy and low emission options for Internet Technology and Telecommunications (IT&T) the car fleet and paper.

Figure 1. Westpac emissions by country

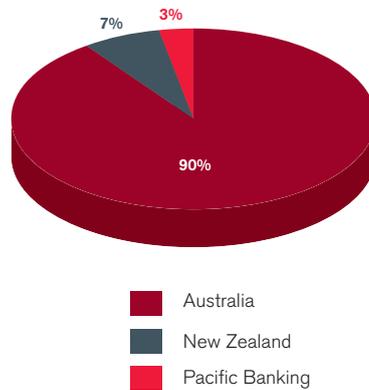
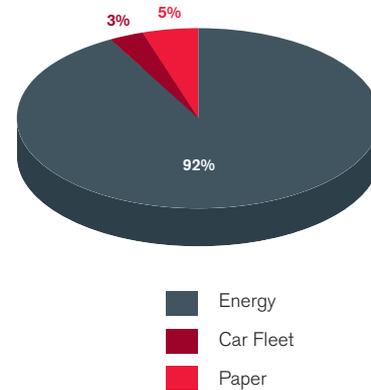


Figure 2. Westpac emissions by source



Source: 2007 Stakeholder Impact Report

Climate change governance

Westpac's CEO has overall responsibility for the Group's environmental policies and performance with Board oversight via the Board Sustainability Committee. This includes specifically monitoring management's strategic and operational response to climate change.

Operational responsibilities are set out in Westpac's ISO14001-based Environmental Management System (EMS.) The Environmental Co-ordinator who manages Group-wide policy development and reporting is supported by the Group Property Sustainability Forum, responsible for direct environmental impacts, and the Westpac Institutional Bank Carbon and Water Forum. All performance data is independently audited.

We report on emissions for Australia, New Zealand and Pacific Banking, including BT Financial Group and Hastings Funds Management. We report total emissions to the Australian Greenhouse Office and additional performance ratios via the annual Stakeholder Impact Report. We also report on our waste management and recycling performance. As well as ensuring compliance with the NGER regime our current focus is on expanded reporting of indirect emissions.

Contributing to policy development

In 1992 Westpac was a founding signatory to the United Nations Environment Program Finance Initiative (UNEP FI). More recently in 2006 along with five other corporates and the Australian Conservation Foundation we formed the Australian Business Roundtable on Climate Change which commissioned significant research on the economic impact of climate change.¹⁸ A year later we formed a further group of nine companies - the Australian Business and Climate Group - which commissioned further research into the barriers to the rapid development and deployment of low and zero emission technology.¹⁹

We are a founding member of the Agricultural Alliance on Climate Change (AACC)²⁰ which is working with the CSIRO to see how rural communities can benefit from and mitigate the effects of climate by harvesting clean energy and farming carbon.

We continue to participate in the Carbon Disclosure Project, and were the only bank globally to achieve a 100 point, AAA rating in the 2007 Climate Disclosure Leadership Index.

We are also a signatory to various international declarations on climate change including the UNEP FI 'Declaration on Climate Change by the Financial Services Sector' and the UN Global Compact Leaders' Statement 'Caring for Climate: The Business Leadership Platform'.

The scale and complexity of climate change combining environmental, social and economic dimensions requires an effective public policy response. Our view is that we strongly support a national emissions trading scheme with appropriate international linkages and protections as the policy cornerstone to drive emissions reductions and maintain economic competitiveness.

However we do not believe this alone can deliver the required reductions without complementary policies:

1. A long-term aspirational goal and a short term binding target.
2. A practical strategy to develop and deploy low-emission technology.
3. Awareness raising across the community to manage demand and bring about behavioural change.
4. Adaptation strategies for impacted communities, natural habitats and industry sectors.

Capacity building with customers and the market

The most significant role we can play tackling climate change is to assist our broad customer base transition and adapt to a low carbon environment.

Consumers increasingly expect the companies they deal with to have a position on climate change and to translate this into meaningful action on their behalf - most obviously by managing the emissions from their products and services.

In corporate lending and via Hastings Funds Management we are actively pursuing the finance of energy efficiency, waste management, new technology innovation and renewable energy.

Our carbon trading experience started with Renewable Energy Certificates in Australia in 2002, the EU ETS in 2006 and the first Australian trade under the Carbon Pollution Reduction Scheme in 2008.

Moving to a low carbon economy means a fundamental transformation in our energy infrastructure. However commercialising new technology to the scale required takes time, and secondly the significant greenhouse gas reductions can only be achieved through a diversified suite of energy and technological solutions.

Over the medium term fossil fuel energy generation will continue to play a major role in the economies where we operate and will also be required to meet global energy demand.

Westpac is committed to contributing to the development of clean technology, energy efficiency and renewable energy sources - but we will continue to support clients in the fossil fuel based energy sector for the immediate term, working with them to identify the emerging carbon risks as well as the opportunities to reduce their carbon intensity and improve environmental outcomes.

Moving ahead – the action plan for 2009 – 2012/13

As a financial services provider linked into the whole community, we believe that our ability to bring about positive change is limited only by our imagination - but the scale of the challenge ahead requires a collaborative approach, working across all areas of our business.

The firming regulatory environment provides the basis for a new five-year action plan developed through stakeholder dialogue, our 2009 – 2012/13 Strategic Roadmap on Climate Change.

Building on our strong performance in reducing our own footprint the framework will see us further engage with our customers on climate change and increase our focus on emissions along the value chain.

Managing climate risks and building capacity across the business

- Implement an Environment, Social and Governance (ESG) risk framework which explicitly incorporates climate change as a key consideration.
- Commission research to examine carbon exposure and risks embedded within investment and lending across the bank.
- Ensure consideration of climate and related environmental risks is embedded within ongoing sectoral, country and company analysis.
- Provide tailored climate change and carbon risk training to key personnel across the Group and embed awareness of climate impacts in Board and executive leadership training and development.

Developing products and services that drive positive environmental outcomes

- Identify product and service opportunities which support positive environmental outcomes within retail banking, institutional banking, wealth management and funds management.
- Engage with carbon intensive and high risk customers and clients to manage specific climate impacts and opportunities within impacted sectors.
- Actively participate in emerging carbon trading markets (including opportunities relating to the creation of viable carbon sinks and the trading of the resulting credits).
- Communicate research and risk management advice to customers and clients in impacted sectors.

Engaging employees around climate change issues and impacts

- Continue to raise awareness across our employee base of climate change issues and how they can engage in identifying means to address climate issues.
- Support employees to develop localised responses to emerging issues within their teams and local communities.
- Provide access to training, research and information on Westpac's position and the steps being taken to respond to climate change.

Communication and advocacy in the community

- Continue to communicate our position and engage with policy-makers, customers, suppliers, financial markets and the wider community to further advance our understanding of potential impacts and issues.
- Actively engage in ongoing policy dialogue aimed at formulating national, regional and international policy and industry responses to climate change.
- Continue to engage with stakeholders and report on progress against this and related Westpac initiatives.

Minimising our direct environmental footprint

- Reduce direct emissions by a further 30% by the end of the 2012/13 financial year through energy, resource and operational efficiency initiatives.
- Increase accredited GreenPower purchase.
- Work with customers, partners and suppliers to minimise emissions throughout the value chain.
- Utilise savings from environmental efficiency initiatives for the purchase of GreenPower and offsets.

More information?

Further details on each area along with our evolving overall action and performance will be communicated through our sustainability reporting and the website at: www.westpac.com.au/corporateresponsibility

To provide feedback

Feedback on our approach and suggestions for additional programs, policies or products and services should be sent to corporateresponsibility@westpac.com.au

Endnotes

1. <http://www.ipcc.ch/>
2. Preston, B and Jones, R (2006). Climate Change Impacts on Australia and the Benefits of Early Action to Reduce Global Greenhouse Gas Emissions. A consultancy report for the Australian Business Roundtable on Climate Change. CSIRO. February 2006.
<http://www.csiro.au/resources/pfbg.html>
3. Mimura, N., L. Nurse, R.F. McLean, J. Agard, L. Briguglio, P. Lefale, R. Payet and G. Sem, 2007: Small islands. Climate Change 2007: Impacts, Adaptation and Vulnerability. Contribution of Working Group II to the Fourth Assessment Report of the Intergovernmental Panel on Climate Change, M.L. Parry, O.F. Canziani, J.P. Palutikof, P.J. van der Linden and C.E. Hanson, Eds., Cambridge University Press, Cambridge, UK, 687-716.
<http://www.ipcc.ch/ipccreports/ar4-wg2.htm>
4. For details, see: http://unfccc.int/kyoto_protocol/mechanisms/items/1673.php for more information.
5. www.garnautreview.org.au
6. <http://www.greenhouse.gov.au/reporting/index.html>
7. <http://www.greenhouse.gov.au/emissionstrading/index.html>
8. <http://www.climatechange.gov.au/renewabletarget/index.html>
9. The government strategy includes targets to be carbon neutral in the electricity sector by 2025, carbon neutral in the stationary energy sector by 2030, carbon neutral in the transport sector by 2040, carbon neutral in the total energy sector by 2040.
10. <http://www.climatechange.govt.nz>
11. http://unfccc.int/essential_background/library/items/3599.php?rec=j&prire=2432
12. www.hm-treasury.gov.uk/independent_reviews/stern_review_economics_climate_change
13. The Roundtable commissioned CSIRO to determine climate impacts on Australia, and the Allen Consulting Group to model the economic effects of producing a 60% reduction on year 2000 emissions by 2050, for its report The Business Case for Early Action. All three reports are available at www.businessroundtable.com.au
14. http://www.garnautreview.org.au/domino/Web_Notes/Garnaut/garnautweb.nsf
15. Energy & Equity, ACF, ACROSS, Choice, www.choice.com.au/climatechange
16. Background Paper: Human Rights and Climate Change, HREOC, www.humanrights.gov.au
17. <http://www.maf.govt.nz/climatechange/about/1-4-maori.htm>
18. www.businessroundtable.com.au
19. The full report is available at www.businessandclimate.com
20. www.climateinstitute.org.au/index.php?option=com_content&task=blogcategory&id=40&Itemid=51