

Westpac: When Saving the Planet also Means Saving Money



Most Kiwi businesses these days are on board with the need to act on environmental and social issues, but turning that talk into action is still a challenge. Even with the best of intentions, other priorities can get in the way of taking meaningful steps to fight climate change and preserve our natural surroundings while also looking after our communities.

But what if taking action meant boosting your bottom line as well? That's the principle of Sustainability-Linked Loans (SLLs), an innovative form of business lending that directly links an organisation's sustainability performance with its interest rate. Already well-established overseas, they're increasingly catching on here.

“Sustainability-Linked Loans are a great way we can work together with businesses, combining our strength as a lender with their power to deliver projects and initiatives that benefit our environment and our communities,” says Westpac NZ Head of Sustainable Finance Joanna Silver.

“We expect this type of lending to keep rising in popularity as more businesses look to show they're serious about their sustainability commitments to stakeholders and the public.”



Discounts for doing the right thing

SLLs differ from regular loans in one fundamental way – their interest rate varies depending on the borrowers' sustainability performance. If they meet or exceed rigorous sustainability targets set and verified by an independent third party, the borrower gets a discount on the agreed rate. If they fail to meet those sustainability targets, they pay a higher rate, and therefore their loan costs them more.

"The size of the discount or penalty will vary from loan to loan. But it is meaningful and given the size of these loans, you're looking at meaningful savings over the life of the loan for doing the right thing, or material costs for not doing so. So, borrowers have skin in the game.

"These sustainability targets are agreed by Westpac and the borrower, then independently and rigorously assessed by highly-respected third parties like assurance providers. We insist on material and ambitious targets tailored to each borrower – they have to go well beyond business as usual and show the borrower is taking a comprehensive and holistic view to improving its practices across the board on really important issues for the business and its stakeholders."

Westpac signed its first SLL in late 2019, a \$50m deal with Contact Energy. It was the first New Zealand bank to set up a dedicated locally-based Sustainable Finance team and ramped up activity in late 2021 with a string of SLL deals totalling over \$2 billion including with Spark, Christchurch Airport, Genesis Energy, The Warehouse Group and Metlifecare.

Ms Silver is especially proud of another recent deal with Pāmu (also known as Landcorp, the large government-owned farming business); the largest SLL in the agricultural sector and the first involving a state-owned enterprise.

"We think this was New Zealand's most comprehensive SLL to date. Not only was it the first in the agricultural sector to include a 1.5-degree Science-Based emissions reduction target, but it also included really far-reaching incentives around on-farm sustainability performance and improving employee wellbeing."



A new standard for on-farm sustainability

Pāmu's wellbeing targets include a 26% reduction in injuries by 2024 and providing mental health training for 100% of all Farm Managers, plus more than double the current amount of mental health training for farm staff.

Pāmu's Head of Communications, Simon King, says the commitment is part of a journey of constant improvement in the stewardship of its nationwide portfolio of more than 100 farms.

"We work hard to farm in a way that enhances and enriches the natural environment and land we farm, and both sustainability and innovation are key to ensuring 'future fit' farming systems," Mr King says.

"It provides a real incentive for the business to continue to build on the farm performance plans we already have in place across our farm network and provides stretch goals across the perspectives of sustainability, environmental, people and animal welfare."

Ms Silver is pleased to see Pāmu helping our rural communities look after their wellbeing.

"This deal touches on all the things that are important to us: helping our customers succeed, while looking after the environment, themselves, and their communities."

The future of SLLs

As well as steadily reducing its own carbon footprint, Westpac is on track to meet its goal of facilitating \$10b in sustainable finance by 2025 in the form of \$6b of sustainable lending to customers for things like renewable energy and low carbon transport, and a further \$4b in sustainable bonds. Ms Silver expects SLLs to become the industry standard in coming years.

"It's about doing the right thing for the business and for our customers," she explains.

“From grassroots to big business, New Zealanders are becoming increasingly vocal about the need for organisations to take action on issues that matter to them. Preserving the environment and improving the wellbeing of our communities are top of that list.

“Our goal is to continue to increase funding material investment in clean energy, low emissions transport, green buildings, water infrastructure, waste reduction, land use, conservation and climate change adaptation. Aligning financial flows with low-emission, resilient development pathways is now more critical than ever to set Aotearoa up for a prosperous future.

“We’re pleased to be working together with big businesses to help make that happen.”



About Westpac

Westpac prides itself on being a leader in sustainable business practices. For us, this means tackling the long-term challenges facing our customers, our business and the country as a whole and helping develop solutions that contribute to a stronger New Zealand. This involves acknowledging our impact on society and the environment, and being accountable to our customers, employees and investors. Oversight for our Sustainable Business Strategy is provided by a Steering Committee comprising Westpac New Zealand Limited's Executive Team and our Chief Economist.

About SBC

SBC is a member organisation that connects businesses, partners, and sectors to create impact that no single business could achieve alone. We work with executives and sustainability professionals to maximise their positive impact for shareholders, communities and the environment. We hold our members to account by asking them to fulfil member commitments. We deliver impact by championing our members to be at the leading-edge of sustainability and inspire other businesses to take action.